

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011

S **SMITH, LAMBRIGHT & ASSOCIATES, P.C.** **A**
I **CERTIFIED PUBLIC ACCOUNTANTS**
L **Athens, Texas 75751** **R**

**CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2011**

CITY OF ATHENS, TEXAS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2011

Table of Contents

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-2
	MANAGEMENT'S DISCUSSION AND ANALYSIS	3-11
	FINANCIAL SECTION	
	Basic Financial Statements:	
1	Statement of Net Assets	12
2	Statement of Activities	13
3	Balance Sheet - Governmental Funds	14
4	Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	15
5	Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	16
6	Reconciliation in Fund Balance of Governmental Funds to the Statement of Activities	17
7	Statement of Net Assets - Proprietary Fund	18
8	Statement of Revenues and Changes in Fund Net Assets - Proprietary Fund	19
9	Statement of Cash Flows - Proprietary Fund	20
	Notes to the General Purpose Financial Statements	21-38
	REQUIRED SUPPLEMENTAL INFORMATION	
A	Combining Balance Sheet - Nonmajor Governmental Funds	39
B	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	40
C	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	41
D	Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund	42
E	Schedule of Funding Progress (Unaudited)	43

	<u>Page</u>
OTHER INDEPENDENT AUDITOR'S REPORT SECTION	
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	44-45

Table

STATISTICAL SECTION		
1	Tax Levies and Tax Collections - Last Ten Fiscal Years	46
2	Schedule of General Obligation Bonds and Interest Requirements	47
3	Schedule of Certificates of Obligation and Interest Requirements	48
4	Schedule of Certificates of Obligation and Interest Requirements	49
5	Miscellaneous Statistical Data and Other Information	50

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

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

Cheri E. Kirkland, CPA

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

UNQUALIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Athens, Texas (the "City"), as of and for the year ended September 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 06, 2012 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The statistical section, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Respectfully submitted,

A handwritten signature in black ink that reads "Smith, Lambright & Associates, P.C." The signature is written in a cursive, flowing style.

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

June 06, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ATHENS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management for the City of Athens, we offer readers of the City of Athens financial statements this narrative overview and analysis of the financial activities of the City of Athens for the fiscal year ended September 30, 2011. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 12. 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, 2011 by \$21,357,594. Of this amount, unrestricted net assets of \$4,910,166 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net assets increased by \$386,842. Of this amount \$162,211 was associated with governmental and \$219,631 with business type activities.
- As of the close of the current fiscal year, the City of Athens governmental funds reported combined ending fund balances of \$4,230,167. This was a increase of \$524,861 in comparison with the prior year.
- Sales taxes increased with a 2.74% increase above prior years' actual. Actual receipts were above budget projections by approximately 1.63%.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$2,638,238. Of this amount the City Council has currently restricted \$800,000 or 9.93% of total General Fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2010 tax rolls decreased by \$1,088,340(.17%) compared to the prior tax year (2009).
- Property tax rate was increased to .552076/\$100 from .518512/\$100.
- The City implemented a new 5-year water and sewer rate plan effective with the December 2008 billing cycle. The rate plan was adopted by City Council after a utility rate study by the City's rate consultants.

ATHENS CITY HALL

508 East Tyler St. • Athens, Texas 75751 • 903-675-5131 • FAX 903-675-7562

Overview of the Financial Statements

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

Government-wide financial statements

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Athens include general government, public safety, parks and recreation, culture, community services, community development and other charges. The business type activities include Water and Sewer Operations.

The government-wide financial statements can be found on pages 12 through 13 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains 14 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Charges in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the other eleven funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 14 through 17 of this report.

Proprietary Funds

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

The basic proprietary fund financial statements can be found on pages 18 through 20 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 21 through 39 of this report.

Other Information

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

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2011, the City's assets exceeded its liabilities by \$21,357,594. The largest portion of the City's net assets (70%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Athens Net Assets

	Governmental Activities		Business-type Activities		Total	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 4,895,108	\$4,313,454	\$ 3,239,785	\$ 3,142,791	\$ 8,134,893	\$ 7,456,245
Capital assets	7,895,672	8,426,142	15,091,474	15,382,672	22,987,146	23,808,814
Total assets	12,790,780	12,739,596	18,331,259	18,525,463	31,122,039	31,265,059
Long-term liabilities outstanding	3,495,841	3,666,387	5,368,115	5,664,977	8,863,956	9,331,364
Other liabilities	681,203	626,684	219,286	336,259	900,489	962,943
Total liabilities	4,177,044	4,293,071	5,587,401	6,001,236	9,764,445	10,294,307
Net assets:						
Invested in capital assets, net of related debt	5,236,400	5,596,027	9,766,474	9,722,673	15,002,874	15,318,700
Restricted	174,168	38,992	1,270,386	1,652,778	1,444,554	1,691,770
Unrestricted	3,203,168	2,811,506	1,706,998	1,148,776	4,910,166	3,960,282
Total net assets	\$ 8,613,736	\$ 8,446,525	\$12,743,858	\$12,524,227	\$21,357,594	\$20,970,752

An additional portion of net assets (6.8%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$4,910,166) may be used to meet the government's ongoing obligations to citizens and creditors.

The following chart shows the revenue and expenses of the total primary government.

City of Athens Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
REVENUES						
Program revenues:						
Charges for services	\$ 342,263	\$ 374,103	\$ 4,650,343	\$ 4,053,053	\$ 4,992,606	\$ 4,427,156
Operating grants and contributions	260,396	300,770		221,181	260,396	521,951
Capital grants and contributions		0			0	0
Total Program Revenues	602,659	674,873	4,650,343	4,274,234	5,253,002	4,949,107
General revenues:						
Taxes:						
Sales and use taxes	3,623,517	3,546,556			3,623,517	3,546,556
Property taxes	3,494,875	3,266,827			3,494,875	3,266,827
Franchise taxes	819,949	809,610			819,949	809,610
Unrestricted investment income	66,057	116,353	54,668	100,184	120,725	216,537
Donated Capital Assets					0	0
Miscellaneous	72	61,166		2,050,126	72	2,111,292
Premium on Bonds Sold			558	558	558	558
Gain(Loss) on sale of capital assets	(1,367)	(12,127)	(853)		(2,220)	(12,127)
Total General Revenue	8,003,103	7,788,385	54,373	2,150,868	8,057,476	9,939,253
Total Revenue	8,605,762	8,463,258	4,704,716	6,425,102	13,310,478	14,888,360
EXPENSES						
General	\$ 1,473,682	\$ 1,403,767			\$ 1,473,682	\$ 1,403,767
Public Safety:						0
Police	2,674,676	2,656,851			2,674,676	2,656,851
Fire	2,290,116	2,205,596			2,290,116	2,205,596
Other	377,820	376,622			377,820	376,622
Public Services					0	0
Highways, Streets and Airport	1,174,676	1,215,116			1,174,676	1,215,116
Health	322,562	331,128			322,562	331,128
Culture and Recreation	645,251	711,277			645,251	711,277
Conservation and Development		221,386			0	221,386
Interest on long-term debt	129,768	141,676			129,768	141,676
Water Utilities			3,835,085	3,677,573	3,835,085	3,677,573
Total Expense	9,088,551	9,263,419	3,835,085	3,677,573	12,923,636	12,940,992
Increase in net assets before transfers	(482,789)	(800,161)	869,631	2,747,529	386,842	1,947,368
Transfers	650,000	650,000	(650,000)	(650,000)	0	0
Change in net assets	167,211	(150,161)	219,631	2,097,529	386,842	1,947,368
Net assets October 1	8,446,525	8,596,685	12,524,227	10,426,699	20,970,752	19,023,384
Net assets September 30	\$ 8,613,736	\$ 8,446,524	\$ 12,743,858	\$ 12,524,228	\$ 21,357,594	\$ 20,970,752

Governmental Activities. Governmental activities increased the City's net assets by \$167,211 accounting for (43.2) percent of the total increase in net assets. Excess of revenue over expenditures, increases in receivables and lower debt offset the decrease in capital assets. Debt payment schedules and assets useful lives may differ slightly creating differences in the increases in accumulated depreciation and reductions in the related debt.

Business-type activities. Business type activities increased the City's net assets by \$219,631 accounting for 56.8 percent of the total increase in the government's net assets. The increase was mostly due to decreases in debt and increases in cash and receivable balances.

Financial Analysis of the Governments' Funds

Governmental Funds

The focus of the City of Athens governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City of Athens Governmental funds reported combined ending fund balances of \$4,230,167. Approximately 62% of this amount (\$2,638,238) constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2011, unassigned fund balance of the General Fund was \$2,638,238, while total fund balance reached \$3,646,349.

The General Fund's fund balance increased during the current fiscal year \$340,396. Key factors in this decrease are as follows:

- Actual expenditures below actual revenue received.
- Excess sales tax revenue above budget.

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

The Debt Service Fund's fund balance increased by \$15,206 due to variations in revenue from property tax collections over debt payments and receivables and allowance adjustments.

The Capital Projects Fund's fund balance increased by \$72. The increase was due to interest earnings on proceeds from donated cash held for future capital projects. Projects are determined based on specific donation restrictions and purposes.

Proprietary Funds

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

Total net assets of the Water and Sewer Fund at the end of the year amounted to \$12,743,858. This was an increase of \$219,631. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was increased by \$89,819 (net) from the original budget to the final budget (an increase of 1.07%). These increases can be summarized as follows:

- \$15,679 Allocation of Prior Year Reserve to Original Budget.
- \$13,940 for vehicle purchase in Public Health and Safety.
- \$60,200 for Dump Truck purchase in Street Dept. Originally budgeted in prior year.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities at September 30, 2010 amounts to \$22,987,145 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, easements, equipment, computer hardware, vehicles, capitalized software, as well as infrastructure assets such as roads, sidewalks, water and sewer lines, water and wastewater treatment facilities. The total decrease in the City's investment in capital assets for the current fiscal year was \$641,668 (2.7%) net of accumulated depreciation.

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

- \$13,611 for purchase of 2012 Ford Focus for Public Health and Safety Department.
- \$60,186 for 2011 Ford Dump Truck for Streets Department.
- \$14,695 for a Radio Repeater for Fire Department.
- 8,441 for a Thermal Imaging Camera for the Fire Department.
- \$241,807 for 7 Police Vehicles, (6 on Lease Purchase Contract).
- \$12,175 for a Police Dispatch Console.
- \$94,357 in Water and Wastewater vehicles and equipment.
- \$1,158,881 in completed Water and Wastewater infrastructure from 2004 bonds.
- \$32,694 in annual Water and Wastewater infrastructure upgrades and replacements.
- \$118,907 for a 2011 F750 XL Sewer Cleaning Truck for Line Maintenance Department.

Additional information on the City's capital assets can be found in note 3 on pages 29 and 30 of this report.

Long-term Debt

At the end of the current fiscal year, the City had \$8,863,956 in outstanding debt consisting of certificates of obligation, capital leases, compensated absences payable and post employment benefits. Additional information on the City's long term debt can be found in note 6 on pages 31 through 34.

Outstanding Debt at September 30, 2011

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 2,180,000		\$ 2,180,000
Certificates of Obligation		\$ 5,325,000	5,325,000
Notes Payable			0
Capital Leases Payable	453,912		453,912
Compensated Absences Payable	861,929	43,115	905,044
Post Employment Benefits			0
Total	<u>\$ 3,495,841</u>	<u>\$ 5,368,115</u>	<u>\$ 8,863,956</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values increase with the taxable valuations in 2011 increasing by (\$2,312,787). The property tax rate for 2012 was set at .600387 per \$100 valuation.
- Sales tax revenue increased slightly above the previous year. Sales tax revenue were above the prior year by \$53,697 and above budget by \$48,993 in 2010. The 2011 budget anticipates a small increase in sales tax revenue over the prior year. (\$3,466,020)
- Prices on the 2004 bond projects have dropped significantly as the price of oil dropped and the economy went into recession. Better prices have been received as projects are bid and the savings have compensated for cost over runs on the initial projects. This may allow for all projects to be completed that were anticipated when bonds were sold.
- A five-year utility rate plan is passed to help cover costs for water and sewer services. The first phase of the plan raised rates approximately 8% beginning with the December 2008 billing.

Requests for Information

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

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 3,216,859	\$ 1,405,448	\$ 4,622,307	\$ 1,172,466
Investments	14,821	8,794	23,615	754,757
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	179,412		179,412	1,112,401
Accounts	944,558	688,239	1,632,797	
Due from other governments	130,042	27,623	157,665	
Internal balances	384,577	(384,577)	0	
Inventories	5,111	223,772	228,883	
Prepaid items	3,000	100	3,100	234,480
Restricted assets:				
Cash	16,728	1,270,386	1,287,114	
Investments			0	
Capital assets:				
Work in progress	9,100	327	9,427	
Land	2,152,329	152,200	2,304,529	214,925
Buildings	8,254,981	799,441	9,054,422	1,594,635
Improvements other than buildings	6,863,667	23,407,564	30,271,231	74,699
Machinery and equipment	5,578,804	1,348,465	6,927,269	
Amortizable assets	104,679	237,832	342,511	
Accumulated depreciation	(14,963,209)	(10,703,702)	(10,703,702)	
Accumulated amortization	(104,679)	(150,653)	(150,653)	
Total Assets	27,753,989	18,331,259	46,189,927	5,158,363
Liabilities				
Accounts payable	574,854	17,713	592,567	53,075
Wages and salaries payable	86,988		86,988	
Accrued interest	16,261	42,853	59,114	
Deposits	3,100	151,471	154,571	
Deferred revenue		7,249	7,249	
Noncurrent liabilities:				
Due within one year	462,672	355,000	817,672	45,284
Due in more than one year	3,033,169	5,013,115	8,046,284	432,162
Total Liabilities	4,177,044	5,587,401	9,764,445	530,521
Net Assets				
Invested in capital assets, net of related debt	5,236,400	9,766,474	15,002,874	1,406,813
Restricted for:				
Debt service	53,220		53,220	
Capital projects	120,948	1,270,386	1,391,334	
Unrestricted	3,203,168	1,706,998	4,910,166	3,221,029
Total Net Assets	\$ 8,613,736	\$ 12,743,858	\$ 21,357,594	\$ 4,627,842

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net (Expenses) Revenue and Changes in Net Assets			
Government Activities	Business-type Activities	Total	Component Unit AEDC
\$ (1,337,551)	\$	\$ (1,337,551)	\$
(2,437,716)		(2,437,716)	
(2,237,978)		(2,237,978)	
(284,832)		(284,832)	
(1,090,234)		(1,090,234)	
(322,562)		(322,562)	
(645,251)		(645,251)	
		0	
(129,768)		(129,768)	
(8,485,892)	0	(8,485,892)	0
	815,258	815,258	(530,150)
\$ (8,485,892)	\$ 815,258	\$ (7,670,634)	\$ (530,150)
\$	\$	\$	\$
\$ 3,494,875	\$	\$ 3,494,875	\$
3,623,517		3,623,517	1,116,303
819,949		819,949	
66,057	54,668	120,725	6,512
72		72	399,227
	558	558	
(1,367)	(853)	(2,220)	
650,000	(650,000)	0	
		0	
8,653,103	(595,627)	8,057,476	1,522,042
167,211	219,631	386,842	991,892
8,446,525	12,524,227	20,970,752	3,635,950
\$ 8,613,736	\$ 12,743,858	\$ 21,357,594	\$ 4,627,842

CITY OF ATHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 2,663,300	\$ 20,461	\$ 120,948	\$ 428,879	\$ 3,233,588
Investments - Current	14,821				14,821
Taxes Receivable (net of allow. for uncoll.)	146,652	32,759			179,411
Receivables (net of allowable for uncoll.)	938,523			6,034	944,557
Due from Other Governments				130,042	130,042
Intergovernmental Receivable	384,578				384,578
Due from Other Funds	153,205				153,205
Inventories	5,111				5,111
Prepaid Items	3,000				3,000
Total Assets	<u>\$ 4,309,190</u>	<u>\$ 53,220</u>	<u>\$ 120,948</u>	<u>\$ 564,955</u>	<u>\$ 5,048,313</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 574,854	\$	\$	\$	\$ 574,854
Wages and Salaries Payable	86,987				86,987
Due to Other Funds				153,205	153,205
Deposits Payable	1,000			2,100	3,100
Deferred Revenues					0
Other Current Liabilities					0
Total Liabilities	<u>\$ 662,841</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 155,305</u>	<u>\$ 818,146</u>
Fund Balances:					
Nonspendable Fund Balance:					
Inventories and Prepaid Items	8,111				8,111
Restricted Fund Balance:					
Capital Acquisition			120,948	153,182	274,130
Retirement of Long-term Debt		53,220			53,220
Other Restricted Funds				110,442	110,442
Committed Fund Balance:					
Emergency Reserve	800,000				800,000
Capital Acquisition	200,000				200,000
Assigned Fund Balance:					
Other Assigned Fund Balance				146,026	146,026
Unassigned Fund Balance	<u>2,638,238</u>				<u>2,638,238</u>
Total Fund Balances	<u>3,646,349</u>	<u>53,220</u>	<u>120,948</u>	<u>409,650</u>	<u>4,230,167</u>
Total Liabilities and Fund Balances	<u>\$ 4,309,190</u>	<u>\$ 53,220</u>	<u>\$ 120,948</u>	<u>\$ 564,955</u>	<u>\$ 5,048,313</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO STATEMENT OF NET ASSETS
 SEPTEMBER 30, 2011

Total Fund Balance - Total Governmental Funds	\$ 4,230,167
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	7,895,672
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(16,262)
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet.	
Due within one year	(462,672)
Due in more than one year	<u>(3,033,169)</u>
Net assets of governmental activities	<u>\$ 8,613,736</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 2,879,722	\$ 553,523	\$	\$	\$ 3,433,245
General Sales and Use	3,373,778			249,740	3,623,518
Franchise	819,949				819,949
Penalty and Interest	51,480	10,150			61,630
Licenses and Permits	25,877				25,877
Intergovernmental Revenues and Grants	54,703			192,222	246,925
Charges for Services	37,048			2,595	39,643
Fines	200,399			3,941	204,340
Investment Income	55,366	3,749	1,997	4,944	66,056
Rents and Royalties	1,156			41,247	42,403
Contributions & Donations from Private Sources	9,600			8,365	17,965
Other Revenue	1,756			25,512	27,268
Total Revenues	7,510,834	567,422	1,997	528,566	8,608,819
EXPENDITURES:					
Current:					
General Government	1,190,396	66		72,276	1,262,738
Public Safety:					
Police	2,500,854			60,551	2,561,405
Fire	2,130,714			57,473	2,188,187
Other	368,981				368,981
Public Works:					
Highways, Streets and Airport	754,248		1,925	9,795	765,968
Health	321,441				321,441
Conservation and Development					0
Culture and Recreation	459,914			138,898	598,812
Debt Service:					
Principal		422,021			422,021
Interest		129,768			129,768
Fiscal Agent Fees		361			361
Capital Outlay:					
Capital Outlay	324,489			15,605	340,094
Total Expenditures	8,051,037	552,216	1,925	354,598	8,959,776
Excess (Deficiency) of Revenues Over (Under) Expenditures	(540,203)	15,206	72	173,968	(350,957)
OTHER FINANCING SOURCES (USES):					
Non-Current Loans	225,818				225,818
Transfers In	655,600			819	656,419
Transfers Out (Use)	(819)			(5,600)	(6,419)
Total Other Financing Sources (Uses)	880,599	0	0	(4,781)	875,818
Net Change in Fund Balances	340,396	15,206	72	169,187	524,861
Fund Balance - October 1 (Beginning)	3,305,953	38,014	120,876	240,463	3,705,306
Fund Balance - September 30 (Ending)	\$ 3,646,349	\$ 53,220	\$ 120,948	\$ 409,650	\$ 4,230,167

The accompanying notes are an integral part of this statement.

CITY OF ATHENS, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

Net change in fund balances - total governmental funds	\$	524,861
--	----	---------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Governmental funds report capital outlay as expenditures. However, in the government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.

340,094

Depreciation expense on capital assets is reported in the government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not expenditure in governmental funds.

(890,892)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

194,515

Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.

Loss of Sale of Capital Assets
 Special Items

(1,367)

Change in Net Assets of Governmental Activities	\$	<u>167,211</u>
---	----	----------------

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2011

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 1,405,448
Investments - Current	8,794
Accounts Receivable - Net of Uncollectible Allowance	688,239
Intergovernmental Receivables	27,623
Inventories	223,772
Prepaid Items	100
Restricted Assets:	
Cash and Cash Equivalents	1,270,386
Total Current Assets	<u>3,624,362</u>
Non-Current Assets:	
Capital Assets:	
Work in Progress	327
Land Purchase and Improvements	152,200
Buildings	799,441
Improvement Other Than Buildings	23,407,564
Machinery and Equipment	1,348,465
Amortizable Assets	237,832
Accumulated Depreciation	(10,703,702)
Accumulated Amortization	(150,653)
Total Non-Current Assets	<u>15,091,474</u>
Total Assets	<u>18,715,836</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	17,713
Accrued Interest Payable	42,853
Internal Balances	384,577
Certificates of Obligation Payable	355,000
Post Employment Benefits Payable	
Deferred Revenue	7,249
Deposits	151,471
Total Current Liabilities	<u>958,863</u>
Non-Current Liabilities	
Compensated Absences Payable	43,115
Certificates of Obligation Payable	4,970,000
Total Non-Current Liabilities	<u>5,013,115</u>
Total Liabilities	<u>5,971,978</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	9,766,474
Restricted for Construction	1,270,386
Unrestricted Net Assets	1,706,998
Total Net Assets	<u>\$ 12,743,858</u>

See accompanying notes to basic financial statements.

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

OPERATING REVENUES	
Charges for Water Services	\$ 2,521,642
Charges for Waste Water Services	1,959,926
Fees	183,489
Other Revenue	<u>(14,714)</u>
	4,650,343
Total Operating Revenues	
	<u>4,650,343</u>
OPERATING EXPENSES:	
Personnel Services	1,478,720
Supplies	480,140
Contractual Services	881,207
Depreciation	722,523
Bad Debt Expense	<u>35,231</u>
	3,597,821
Total Operating Expenses	
	<u>3,597,821</u>
Operating Income	
	<u>1,052,522</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	
Investment Earnings	54,668
Interest Expense - Non-Operating	(236,383)
Fiscal Agent Fees	(881)
Premium on Bonds Sold	558
Loss on Sale of Fixed Assets	<u>(853)</u>
	(182,891)
Total Non-Operating Revenue (Expenses)	
	<u>(182,891)</u>
Income Before Transfers	
	869,631
Transfers Out	
	<u>(650,000)</u>
Change in Net Assets	
	219,631
Total Net Assets - October 1 (Beginning)	
	<u>12,524,227</u>
Total Net Assets - September 20 (Ending)	
	<u>\$ 12,743,858</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2011

<u>Cash Flows From Operating Activities:</u>	
Cash Received From User Charges	\$ 4,590,301
Other Operating Revenues (uses)	5,833
Other Payments	(20,547)
Cash Payments to Employees for Services	(1,475,131)
Cash Payments to Suppliers	(1,400,604)
Net Cash Provided by Operating Activities	<u>1,699,852</u>
<u>Cash Flows from non-Capital Financing Activities:</u>	
Operating Transfers Out	<u>(650,000)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Acquisition of Capital Assets	(432,178)
Interest Paid on Bonds	(236,383)
Retirement of Bonds	(335,000)
Grants	0
Fiscal Agent Fees	(881)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,004,442)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>54,668</u>
Net Increase (Decrease) in Cash and Cash Equivalents	100,078
Cash and Cash Equivalents at Beginning of the Year	<u>2,584,550</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 2,684,628</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 1,052,522
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	722,523
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(47,216)
Decrease (Increase) in Inventories	(69,074)
Decrease (Increase) in Prepaid Items	0
Increase (Decrease) in Accounts Payable	(89,558)
Increase (Decrease) in Internal Balances	119,375
Increase (Decrease) in Deposits	7,691
Increase (Decrease) in Post-Employment Benefits Payable	(4,977)
Increase (Decrease) in Compensated Absences	<u>8,566</u>
Net Cash Provided by Operating Activities	<u>\$ 1,699,852</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

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

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

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

DISCRETELY PRESENTED COMPONENT UNIT:

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

Excluded from the reporting entity:

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

CITY OF ATHENS HOUSING AUTHORITY - This is the Section 8 Housing Assistance Payments Program. This entity receives federal grant funds and administers a housing/rent subsidy program inside the city limits of Athens. This entity is subject to the City's control and oversight through the City Council and City Administrator's office, but is audited as a separate program based upon an understanding with the federal funding agency (HUD). This entity operates on a calendar year basis and has been audited in prior years by other auditors without being combined with the City of Athens. Consequently, an audit of this entity was not included in the Request for Proposal for performing the September 30, 2011 audit of the City.

B. Basis of Presentation

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

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

Fund Financial Statements:

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

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

General Fund -

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

Debt Service Fund -

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

Capital Projects Fund -

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

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

Water and Sewer Fund -

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

C. Measurement Focus/Basis of Accounting

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

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

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

D. Budgetary Control

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

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

Amendments can be made to the budget during the fiscal year. Although there are no legal requirements of allowing actual expenditures to exceed budget appropriations, the City charter seems to imply such limitation.

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

E. Cash and Investments

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

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

F. Prepaid Items

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

G. Inventories

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

H. Restricted Assets

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

I. Interfund Receivables and Payables

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

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

J. Transactions Between Funds

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

The City allocates to the Proprietary funds an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2011, the City allocated \$650,000 as a transfer for such services.

K. Capital Assets

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

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

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

L. Compensated Absences

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

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

N. Net Assets

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

2. DEPOSITS AND INVESTMENTS

The Public funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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

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

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

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2010-2011 the City's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the City and held by the City's agent.

The largest, combined balances of cash, savings and time deposit accounts amounted to \$7,932,789 and occurred on February 15, 2011. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$8,179,483. The total amount of FDIC coverage at the time of the highest combined balance was \$750,000.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

CASH DEPOSITS

At September 30, 2011, the amount of the City's cash balance accounts was \$5,895,164. The cash balance in interest bearing accounts was \$5,895,164.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

INVESTMENTS

The City's investments at September 30, 2011, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 5,895,164	\$ 5,895,164	.083
Certificates of Deposit			
TexPool	<u>37,553</u>	<u>37,553</u>	1.00004
Total Investments	<u>\$ 5,932,717</u>	<u>\$ 5,932,717</u>	

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	Balance 10/01/10	Additions	Retirements	Adjustments	Balance 9/30/2011
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2,152,329	\$	\$	\$	\$ 2,152,329
Construction in progress	0	9,100			9,100
Total capital assets not being depreciated	<u>2,152,329</u>	<u>9,100</u>	<u>0</u>	<u>0</u>	<u>2,161,429</u>
Capital asset being depreciated:					
Buildings	8,254,981				8,254,981
Equipment	5,319,289	352,689	(3,000)	14,505	5,683,483
Improvements	2,057,133				2,057,133
Infrastructure	4,806,533			1	4,806,534
Total capital assets being depreciated	<u>20,437,936</u>	<u>352,689</u>	<u>(3,000)</u>	<u>14,506</u>	<u>20,802,131</u>
Less: accumulated depreciation for:					
Buildings	(6,816,815)	(257,051)			(7,073,866)
Equipment	(4,248,398)	(267,773)	1,633	(14,506)	(4,529,044)
Improvements	(1,069,153)	(125,725)			(1,194,878)
Infrastructure	(2,029,758)	(240,343)			(2,270,101)
Total accumulated depreciation	<u>\$(14,164,124)</u>	<u>\$(890,892)</u>	<u>\$ 1,633</u>	<u>\$ (14,506)</u>	<u>\$(15,067,889)</u>
Total capital assets being depreciated, net	<u>6,273,812</u>	<u>(538,203)</u>	<u>(1,367)</u>	<u>0</u>	<u>5,734,242</u>
Governmental activities capital assets, net	<u>\$ 8,426,141</u>	<u>\$(529,103)</u>	<u>\$ (1,367)</u>	<u>\$ 0</u>	<u>\$ 7,895,671</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152,200	\$	\$	\$	\$ 152,200
Construction in progress	878,631	280,577		(1,158,881)	327
Total capital assets not being depreciated	<u>1,030,831</u>	<u>280,577</u>	<u>0</u>	<u>(1,158,881)</u>	<u>152,527</u>
Capital assets being depreciated:					
Buildings	799,441				799,441
Equipment	1,268,598	118,907	(24,534)	(14,506)	1,348,465
Amortizable assets	237,832				237,832
Improvements	1,454				1,454
Infrastructure	22,214,536	32,693		1,158,881	23,406,110
Total capital asset being depreciated	<u>24,521,861</u>	<u>151,600</u>	<u>(24,534)</u>	<u>1,144,375</u>	<u>25,793,302</u>
Less: accumulated depreciation for:					
Buildings	(678,027)	(11,059)		1	(689,085)
Equipment	(979,818)	(79,512)	23,681	14,506	(1,021,143)
Amortizable assets	(130,291)	(20,362)			(150,653)
Improvements	(1,454)				(1,454)
Infrastructure	(8,380,430)	(611,590)			(8,992,020)
Total accumulated depreciation	<u>(10,170,020)</u>	<u>(722,523)</u>	<u>23,681</u>	<u>14,507</u>	<u>(10,854,355)</u>
Total capital assets being depreciated, net	<u>14,351,841</u>	<u>(570,923)</u>	<u>(853)</u>	<u>1,158,882</u>	<u>14,938,947</u>
Business-type activities capital assets, net	<u>\$ 15,382,672</u>	<u>\$(290,346)</u>	<u>\$ (853)</u>	<u>\$ 1</u>	<u>\$ 15,091,474</u>

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

Governmental activities:	
General government and administration	\$ 504,757
Public safety	223,738
Public services	114,924
Culture and recreation	46,478
Health	995
	<u> </u>
Total depreciation expense-Governmental activities	<u>\$ 890,892</u>
Business-type activities:	
Water and sewer	<u>\$ 722,523</u>

4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2011, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Community Improvement	\$ 4,573
General	Airport	498
General	Law Enforcement	21,695
General	Energy Grant	62,920
General	Domestic Preparedness	<u>63,519</u>
Total		<u>\$ 153,205</u>

5. Operating Leases

The City has entered into operating lease agreements for equipment. Commitments under the agreements provide for future rental payments as of September 30, 2011 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2012	\$ 10,630
2013	8,792
2014	4,201
2015	1,531
2016	<u>1,276</u>
Total	<u>\$ 26,430</u>

Rental expenditures in 2010-2011 were \$10,926.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

6. Long-term Debt

A. Capital Leases Payable

The City has entered into lease agreements as lessee for the acquisition of police vehicles, an excavator and a fire engine pumper. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 3.62%, 4.415% and 2.589%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2011:

	<u>Balance 10/01/10</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/11</u>
Hydraulic Excavator	107,256		45,174	62,082
Fire Engine Pumper	237,859		25,273	212,586
Police Vehicles		<u>225,818</u>	<u>46,574</u>	<u>179,244</u>
Totals	<u>\$ 345,115</u>	<u>\$ 225,818</u>	<u>\$ 117,021</u>	<u>\$ 453,912</u>

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

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2012	\$ 142,672	\$ 14,321	\$ 156,993
2013	121,030	9,744	130,774
2014	60,625	6,746	67,371
2015	30,247	5,213	35,460
2016	31,637	3,823	35,460
2017	33,090	2,370	35,460
2018	<u>34,611</u>	<u>849</u>	<u>35,460</u>
Total	<u>\$ 453,912</u>	<u>\$ 43,066</u>	<u>\$ 496,978</u>

B. Long-term Debt - Notes Payable

As of September 30, 2011 the City had no notes payable.

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

C. General Obligation Bonds Payable

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

The following is a summary of changes in long-term debt for the general obligation bonds for the year ended September 30, 2011:

	<u>Balance</u> <u>10/01/10</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/11</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 2,485,000	\$	\$ 305,000	\$ 2,180,000
Totals	<u>\$ 2,485,000</u>	<u>\$ 0</u>	<u>\$ 305,000</u>	<u>\$ 2,180,000</u>

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

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2012	\$ 320,000	\$ 98,100	\$ 418,100
2013	335,000	83,700	418,700
2014	355,000	68,625	423,625
2015	370,000	52,650	422,650
2016	390,000	36,000	426,000
2017	<u>410,000</u>	<u>18,450</u>	<u>428,450</u>
Total	<u>\$ 2,180,000</u>	<u>\$ 357,525</u>	<u>\$ 2,537,525</u>

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

D. Revenue Bonds Payable

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

As of September 30, 2011 the City had no revenue bonds outstanding.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

E. Prior year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements of the City of Athens. As of September 30, 2011, none of the revenue bonds and none of general obligation bonds considered defeased are still outstanding.

F. Certificates of Obligation

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

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

The following is a summary of changes in long term debt for the Certificates of Obligation for the year ended September 30, 2011:

	<u>Balance</u> 10/01/10	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> 9/30/11
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1,405,000	\$	\$ 105,000	\$ 1,300,000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	4,255,000		230,000	4,025,000
	<u>\$ 5,660,000</u>	<u>\$ 0</u>	<u>\$ 335,000</u>	<u>\$ 5,325,000</u>

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

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
2012	\$ 355,000	\$ 225,488	\$ 580,488
2013	370,000	210,137	580,137
2014	385,000	194,138	579,138
2015	405,000	177,487	582,487
2016	430,000	161,288	591,288
2017 - 2021	2,250,000	520,613	2,770,613
2022 - 2024	<u>1,130,000</u>	<u>97,949</u>	<u>1,227,949</u>
Total	<u>\$ 5,325,000</u>	<u>\$ 1,587,100</u>	<u>\$ 6,912,100</u>

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

G. Changes in Long-term Liabilities

Long-term liabilities activity for the year ended September 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	\$ 2,485,000	\$ _____	\$ 305,000	\$ 2,180,000	\$ 320,000
Notes Payable:					
Administrative Office	_____	_____	_____	0	_____
Capital Leases Payable:					
Vehicles and Equipment	345,115	225,818	117,021	453,912	142,672
Compensated Absences	833,850	28,079	_____	861,929	_____
Post Employment Benefits	2,422	_____	2,422	0	_____
Total Governmental Activities Long-term Liabilities	<u>\$ 3,666,387</u>	<u>\$ 253,897</u>	<u>\$ 424,443</u>	<u>\$ 3,495,841</u>	<u>\$ 462,672</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	\$ 5,660,000	\$ _____	\$ 335,000	\$ 5,325,000	\$ 355,000
Compensated Absences	34,549	8,566	_____	43,115	_____
Post Employment Benefits	4,977	_____	4,977	0	_____
Total Business Type Activities Long-term Liabilities	<u>5,699,526</u>	<u>\$ 8,566</u>	<u>\$ 339,977</u>	<u>\$ 5,368,115</u>	<u>\$ 355,000</u>

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

7. OTHER INFORMATION

A. Risk Management

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

B. Segment Information - Enterprise Funds

The City maintains one enterprise fund. The City accounts for the provision of basic utility service to all citizens through its Water and Sewer fund. Selected segment information for the year ended September 30, 2011 is as follows:

Operating Revenues	\$ 4,650,343
Depreciation Expense	722,523
Operating Income	1,052,522
Operating Transfers (Out)	(650,000)
Change in Net Assets	219,631
Fixed Asset Additions	432,177
Net Working Capital (Deficiency)	2,665,499
Total Assets	18,715,836
Total Net Assets	12,743,858
Certificates of Obligation Payable	4,970,000

C. Pension Benefits Plan

Plan Description

The City provides pension benefits for all of its eligible employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS.

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

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

	Plan Year 2010	Plan Year 2011
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Contributions:

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

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

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Annual Contribution Made	Percentage of APC Contributed	Cumulative Net Pension Obligation/ (Asset)
2009	1,101,208	873,908	79%	227,300
2010	1,270,509	945,468	74%	552,342
2011	1,241,969	967,264	78%	827,047

CITY OF ATHENS, TEXAS
 NOTES TO BASIC FINANCIAL STATEMENTS
 FOR THE YEAR ENDED SEPTEMBER 30, 2011

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

ACTUARIAL INFORMATION:			
Actuarial Valuation Date	12/31/08	12/31/09	12/31/10 Restructured Projected Unit Credit
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll 29.0 years Closed Period	Level percent of payroll 28.1 years Closed Period	Level percent of payroll 27.1 years Closed Period
GASB 25 Equivalent Single Amortization Period	Closed Period	Closed Period	Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	Amortized Cost	10-year Smoothed Market	10-year Smoothed Market
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.5%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	2.1%	2.1%	2.1%

The funded status as of December 31, 2010, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL(UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2010	\$14,388,418	\$23,371,056	61.6%	\$8,982,638	\$5,658,430	158.7%

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability of benefits.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2011

9. EXPENDITURES OF FEDERAL AND STATE AWARDS

A "Single Audit" of Federal Grant Awards under Circular A-133 was not required for the fiscal year ended September 30, 2011.

A "Single Audit" of State of Texas Grant Award Programs was not required by the State of Texas Single Audit Circular for the fiscal year ended September 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT A

Domestic Preparedness Grant	Airport Grant Funds	Special Donations Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$ 153	\$	\$ 82,111	\$ 11,603	\$ 16,728	\$ 428,879
63,366					6,034
					130,042
<u>\$ 63,519</u>	<u>\$ 0</u>	<u>\$ 82,111</u>	<u>\$ 11,603</u>	<u>\$ 16,728</u>	<u>\$ 564,955</u>
\$ 63,519	\$	\$	\$	\$	\$ 153,205
					2,100
<u>\$ 63,519</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 155,305</u>
					153,182
		82,111	11,603	16,728	110,442
					146,026
0	0	82,111	11,603	16,728	409,650
<u>\$ 63,519</u>	<u>\$ 0</u>	<u>\$ 82,111</u>	<u>\$ 11,603</u>	<u>\$ 16,728</u>	<u>\$ 564,955</u>

Domestic Preparedness Grant	Airport Grants Fund	Special Donations Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$ 92,988	\$	\$	\$	\$	\$ 249,740
					192,222
			3,941		2,595
		1,249	152	144	3,941
					4,944
					41,247
				8,361	8,365
		20,512			25,512
<u>92,988</u>	<u>0</u>	<u>21,761</u>	<u>4,093</u>	<u>8,505</u>	<u>528,566</u>
			4,586		72,276
38,550		306			60,551
38,981		7,972			57,473
					9,795
					138,898
<u>15,605</u>					<u>15,605</u>
<u>93,136</u>	<u>0</u>	<u>8,278</u>	<u>4,586</u>	<u>0</u>	<u>354,598</u>
<u>(148)</u>	<u>0</u>	<u>13,483</u>	<u>(493)</u>	<u>8,505</u>	<u>173,968</u>
148		(5,600)			819
		(5,600)			(5,600)
<u>148</u>	<u>0</u>	<u>(5,600)</u>	<u>0</u>	<u>0</u>	<u>(4,781)</u>
0	0	7,883	(493)	8,505	169,187
0	0	74,228	12,096	8,223	240,463
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 82,111</u>	<u>\$ 11,603</u>	<u>\$ 16,728</u>	<u>\$ 409,650</u>

CITY OF ATHENS, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 2,974,557	\$ 2,974,557	\$ 2,879,722	\$ (94,835)
General Sales and Use	3,323,000	3,323,000	3,373,778	50,778
Franchise	901,000	901,000	819,949	(81,051)
Penalty and Interest	27,000	27,000	51,480	24,480
Licenses and Permits	42,830	42,830	25,877	(16,953)
Intergovernmental Revenues and Grants	43,500	43,500	54,703	11,203
Charges for Services	31,000	31,000	37,048	6,048
Fines	225,500	225,500	200,399	(25,101)
Investment Income	100,000	100,000	55,366	(44,634)
Rents and Royalties	1,000	1,000	1,156	156
Contributions & Donations from Private Sources	0	0	9,600	9,600
Other Revenue	20,030	20,030	1,756	(18,274)
Total Revenues	<u>7,689,417</u>	<u>7,689,417</u>	<u>7,510,834</u>	<u>(178,583)</u>
EXPENDITURES:				
Current:				
General Government	1,289,402	1,289,402	1,190,396	99,006
Public Safety:				
Police	2,739,410	2,739,410	2,500,854	238,556
Fire	2,195,991	2,195,991	2,130,714	65,277
Other	398,755	398,755	368,981	29,774
Public Works:				
Highways, Streets and Airport	837,606	837,606	754,248	83,358
Health	374,342	374,342	321,441	52,901
Culture and Recreation	488,552	488,552	459,914	28,638
Capital Outlay:				
Capital Outlay	110,778	110,778	324,489	(213,711)
Total Expenditures	<u>8,434,836</u>	<u>8,434,836</u>	<u>8,051,037</u>	<u>383,799</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	(745,419)	(745,419)	(540,203)	205,216
OTHER FINANCING SOURCES (USES):				
Note Proceeds	0	0	225,818	225,818
Transfers In	655,600	655,600	655,600	0
Transfers Out (Use)	0	0	(819)	(819)
Total Other Financing Sources (Uses)	<u>655,600</u>	<u>655,600</u>	<u>880,599</u>	<u>224,999</u>
Net Change in Fund Balances	(89,819)	(89,819)	340,396	430,215
Fund Balance - October 1 (Beginning)	<u>3,305,953</u>	<u>3,305,953</u>	<u>3,305,953</u>	
Fund Balance - September 30 (Ending)	<u>\$ 3,216,134</u>	<u>\$ 3,216,134</u>	<u>\$ 3,646,349</u>	<u>\$ 430,215</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 573,954	\$ 573,954	\$ 553,523	\$ 20,431
Penalty and Interest	3,000	3,000	10,150	(7,150)
Investment Income	4,500	4,500	3,749	751
Total Revenues	581,454	581,454	567,422	14,032
EXPENDITURES:				
General Government:			66	
Debt Service:				
Principal	445,607	445,607	422,021	23,586
Interest	135,147	135,147	129,768	5,379
Fiscal Agent Fees	700	700	361	339
Total Expenditures	581,454	581,454	552,216	29,304
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	15,206	(15,272)
OTHER FINANCING SOURCES (USES)				
Transfers In				
Net Change in fund Balances	0	0	15,206	(15,272)
Fund Balance - October 01 (Beginning)	38,014	38,014	38,014	0
Fund Balance - September 30 (Ending)	<u>\$ 38,014</u>	<u>\$ 38,014</u>	<u>\$ 53,220</u>	<u>\$ (15,272)</u>

See accompanying notes to the basic financial statements.

Required Supplementary Information*Texas Municipal Retirement System**Schedule of Funding Progress:**(Unaudited)*

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2007	\$9,692,705	\$17,866,771	54.2	\$8,174,066	\$4,865,428	168.
12/31/2008	\$8,299,107	\$16,899,752	49.1	\$8,600,645	\$5,237,599	164.2
12/31/2009	\$8,935,739	\$18,097,863	49.4	\$9,162,124	\$5,528,094	165.7
12/31/2010	\$14,388,418	\$23,371,056	61.6	\$8,982,638	\$5,658,430	158.7

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

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

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

Cheri E. Kirkland, CPA

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

INDEPENDENT AUDITOR'S REPORT

**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**

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

We have audited the financial statements of The City of Athens, Texas as of and for the year ended September 30, 2011, and have issued our report thereon dated June 06, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered The City of Athens, Texas' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information and use of the City Council, management, federal and state awarding agencies, and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Respectfully submitted,



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

June 06, 2011

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2011
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2011</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
2001	\$ 1,281,536	\$ 1,278,986	100
2002	1,527,754	1,525,171	100
2003	1,658,588	1,654,730	100
2004	1,747,353	1,743,118	100
2005	2,278,403	2,270,784	100
2006	2,469,898	2,460,289	100
2007	2,622,686	2,612,564	100
2008	2,946,236	2,926,612	99
2009	3,263,140	3,236,208	99
2010	3,483,041	3,389,663	97
	<u>\$ 23,278,635</u>	<u>\$ 23,098,125</u>	

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

CITY OF ATHENS, TEXAS
 SCHEDULE OF GENERAL OBLIGATION BONDS
 AND INTEREST REQUIREMENTS
 BONDS OUTSTANDING AT SEPTEMBER 30, 2011

Series 1998 General Obligation Improvement and Refunding Bonds				
Original Bond Issue \$5,060,000				
<u>Requirements for Fiscal Year Ended</u>	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
9-30-12	4.50%	\$ 320,000	\$ 98,100	\$ 418,100
9-30-13	4.50%	335,000	83,700	418,700
9-30-14	4.50%	355,000	68,625	423,625
9-30-15	4.50%	370,000	52,650	422,650
9-30-16	4.50%	390,000	36,000	426,000
9-30-17	4.50%	<u>410,000</u>	<u>18,450</u>	<u>428,450</u>
TOTAL		<u>\$ 2,180,000</u>	<u>\$ 357,525</u>	<u>\$ 2,537,525</u>

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

CITY OF ATHENS, TEXAS
 SCHEDULE OF CERTIFICATES OF OBLIGATION
 AND INTEREST REQUIREMENTS
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2011

<u>Requirements for Fiscal Year Ended</u>	<u>Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000</u>			
	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
9-30-12	5.00%	\$ 115,000	\$ 65,000	\$ 180,000
9-30-13	5.00%	120,000	59,250	179,250
9-30-14	5.00%	125,000	53,250	178,250
9-30-15	5.00%	135,000	47,000	182,000
9-30-16	5.00%	145,000	40,250	185,250
9-30-17	5.00%	150,000	33,000	183,000
9-30-18	5.00%	160,000	25,500	185,500
9-30-19	5.00%	170,000	17,500	187,500
9-30-20	5.00%	<u>180,000</u>	<u>9,000</u>	<u>189,000</u>
TOTAL		<u>\$ 1,300,000</u>	<u>\$ 349,750</u>	<u>\$ 1,649,750</u>

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

TABLE 4

CITY OF ATHENS, TEXAS
 SCHEDULE OF CERTIFICATES OF OBLIGATION
 AND INTEREST REQUIREMENTS
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2011

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004			
	Annual Rate	Principal	Interest	Total Requirements
9-30-12	4.00%	\$ 240,000	\$ 160,488	\$ 400,488
9-30-13	4.00%	250,000	150,887	400,887
9-30-14	4.00%	260,000	140,888	400,888
9-30-15	3.50%	270,000	130,487	400,487
9-30-16	3.65%	285,000	121,038	406,038
9-30-17	3.75%	295,000	110,635	405,635
9-30-18	3.85%	305,000	99,573	404,573
9-30-19	3.95%	315,000	87,830	402,830
9-30-20	4.00%	330,000	75,387	405,387
9-30-21	4.10%	345,000	62,188	407,188
9-30-22	4.20%	360,000	48,042	408,042
9-30-23	4.25%	375,000	32,922	407,922
9-30-24	4.30%	395,000	16,985	411,985
TOTAL		<u>\$ 4,025,000</u>	<u>\$ 1,237,350</u>	<u>\$ 5,262,350</u>

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

TABLE 5

CITY OF ATHENS, TEXAS
 MISCELLANEOUS STATISTICAL DATA AND OTHER INFORMATION
 SEPTEMBER 30, 2011
 UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Randy Daniel, Mayor Aubrey Jones, Jr., Jerry Don Vaught, Elaine Jenkins, Carol Barton	
Other Officials	City Administrator - Pam Burton Assistant City Administrator & Director of Finance/Technology -David Hopkins, CPA Assistant City Administrator & City Secretary - Pam Watson Director of Public Works/Utilities - Glen Herriage Chief of Police - Michael Hill Fire Chief - John McQueary Director of Planning and Development - Gary Crecelius Director of Human Resources - Haven Cox City Judge - Jack Holland City Attorney - Conner Bateman	
City Area	19.3 Square Miles	
Miles of Streets	Paved	100
	Graded	2
Fire Protection	Number of Stations	2
	Number of Employees	27
Police Protection	Number of Stations	1
	Number of Policemen	34
Education	Community College	1
	High School	1
	Middle School	2
	Elementary School	4
Hospital	East Texas Medical Center - Athens	
Number of City Employees	122	
Population	<u>Years</u>	<u>Federal Census</u>
	1920	3 176
	1930	4 342
	1940	4 765
	1950	5 194
	1960	7 086
	1970	9 553
	1980	10 197
	1990	10 818
	2000	11 297
	2010	12 710

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

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

Cheri E. Kirkland, CPA

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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

Members of the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City for the year ended September 30, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, when applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 31, 2011. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

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

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

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

Difficulties Encountered in Performing the Audit

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

Audit Differences and Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

General Audit Comments, Findings or Issues

None

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

Respectfully submitted,



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

June 06, 2012

