

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
Athens, Texas 75751

**CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2012

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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, 2012, 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, 2012, 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

April 12, 2013

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, 2012. 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, 2012 by \$22,011,517. Of this amount, unrestricted net assets of \$5,310,475 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net assets increased by \$653,923. Of this amount \$405,571 was associated with governmental and \$248,352 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 \$4,735,532. This was a increase of \$504,415 in comparison with the prior year.
- Sales taxes increased with a 5.33% increase above prior years' actual. Actual receipts were above budget projections by approximately 1.77%.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$3,070,617. Of this amount the City Council has currently restricted \$800,000 or 8.63% of total General Fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2011 tax rolls increased by \$2,312,787 (.36%) compared to the prior tax year (2010).
- Property tax rate was increased to .600387/\$100 from .552076/\$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.

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 10 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 seven 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, 2012, the City's assets exceeded its liabilities by \$22,011,517. The largest portion of the City's net assets (68%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Athens Net Assets

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 5,440,566	\$ 4,895,108	\$ 3,405,536	\$ 3,239,785	\$ 8,846,102	\$ 8,134,893
Capital assets	8,234,155	7,895,672	14,850,495	15,091,474	23,084,650	22,987,146
Total assets	13,674,721	12,790,780	18,256,031	18,331,259	31,930,752	31,122,039
Long-term liabilities outstanding	3,936,505	3,495,841	5,014,089	5,368,115	8,950,594	8,863,956
Other liabilities	718,909	681,203	249,732	219,286	968,641	900,489
Total liabilities	4,655,414	4,177,044	5,263,821	5,587,401	9,919,235	9,764,445
Net assets:						
Invested in capital assets, net of related debt	5,162,916	5,236,400	9,880,495	9,766,474	15,043,411	15,002,874
Restricted	656,618	174,168	1,001,013	1,270,386	1,657,631	1,444,554
Unrestricted	3,199,773	3,203,168	2,110,702	1,706,998	5,310,475	4,910,166
Total net assets	\$ 9,019,307	\$ 8,613,736	\$12,992,210	\$12,743,858	\$22,011,517	\$21,357,594

An additional portion of net assets (7.5%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$5,310,475) 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	
	2012	2011	2012	2011	2012	2011
REVENUES						
Program revenues:						
Charges for services	\$ 402,502	\$ 342,263	\$ 4,967,935	\$ 4,650,343	\$ 5,370,437	\$ 4,992,606
Operating grants and contributions	136,617	260,396			136,617	260,396
Capital grants and contributions					0	0
Total Program Revenues	<u>539,119</u>	<u>602,659</u>	<u>4,967,935</u>	<u>4,650,343</u>	<u>5,507,054</u>	<u>5,253,002</u>
General revenues:						
Taxes:						
Sales and use taxes	3,757,192	3,623,517			3,757,192	3,623,517
Property taxes	3,836,445	3,494,875			3,836,445	3,494,875
Franchise taxes	877,535	819,949			877,535	819,949
Unrestricted investment income	15,395	66,057	8,885	54,668	24,280	120,725
Donated Capital Assets					0	0
Miscellaneous	46,901	72			46,901	72
Premium on Bonds Sold			558	558	558	558
Gain(Loss) on sale of capital assets	(534)	(1,367)	(6,314)	(853)	(6,848)	(2,220)
Total General Revenue	<u>8,532,934</u>	<u>8,003,103</u>	<u>3,129</u>	<u>54,373</u>	<u>8,536,063</u>	<u>8,057,476</u>
Total Revenue	<u>9,072,053</u>	<u>8,605,762</u>	<u>4,971,064</u>	<u>4,704,716</u>	<u>14,043,117</u>	<u>13,310,478</u>
EXPENSES						
General	\$ 1,389,537	\$ 1,473,682			\$ 1,389,537	\$ 1,473,682
Public Safety:						0
Police	2,706,843	2,674,676			2,706,843	2,674,676
Fire	2,400,821	2,290,116			2,400,821	2,290,116
Other	373,264	377,820			373,264	377,820
Public Services					0	0
Highways, Streets and Airport	1,365,934	1,174,676			1,365,934	1,174,676
Health	352,389	322,562			352,389	322,562
Culture and Recreation	615,273	645,251			615,273	645,251
Conservation and Development					0	0
Interest on long-term debt	112,421	129,768			112,421	129,768
Water Utilities			4,072,712	3,835,085	4,072,712	3,835,085
Total Expense	<u>9,316,482</u>	<u>9,088,551</u>	<u>4,072,712</u>	<u>3,835,085</u>	<u>13,389,194</u>	<u>12,923,636</u>
Increase in net assets before transfers	(244,429)	(482,789)	898,352	869,631	653,923	386,842
Transfers	650,000	650,000	(650,000)	(650,000)	0	0
Change in net assets	405,571	167,211	248,352	219,631	653,923	386,842
Net assets October 1	8,613,736	8,446,525	12,743,858	12,524,227	21,357,594	20,970,752
Net assets September 30	<u>\$ 9,019,307</u>	<u>\$ 8,613,736</u>	<u>\$ 12,992,210</u>	<u>\$ 12,743,858</u>	<u>\$ 22,011,517</u>	<u>\$ 21,357,594</u>

Governmental Activities. Governmental activities increased the City's net assets by \$405,571 accounting for (62.02) 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 \$248,352 accounting for 37.98 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 \$4,735,532. Approximately 64% of this amount (\$3,070,617) constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2012, unassigned fund balance of the General Fund was \$3,070,617, while total fund balance reached \$4,078,914.

The General Fund's fund balance increased during the current fiscal year \$431,615. 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 decreased by \$29,663 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 \$388. 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 \$12,992,210. This was an increase of \$248,352. 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 \$71,457 (net) from the original budget to the final budget (an increase of .7%). These increases in revenue and (expenses) can be summarized as follows:

- \$10,217 reimbursement from AMWA for Election Equipment
- \$900,000 Capital Lease Proceeds for Purchase of Spartan Ladder Truck.
- (\$900,000) Purchase of Spartan Ladder Truck.
- (\$10,174) For Purchase of iPads
- (\$31,500) For Bunker Gear for Fire Department
- (\$40,000) For Additional Legal Fees in Human Resources Department.

\$145,004 was allocated from prior years reserves as a part of the original budget as approved by the City Council.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities at September 30, 2012 amounts to \$23,084,650 (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 \$240,979 (1.6%) net of accumulated depreciation.

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

- \$18,621 for purchase of Election Equipment in City Secretary Department.
- \$28,962 for BAUER SCBA Compressor in Fire Department.
- \$900,000 for 2012 Spartan ERV Ladder Truck in Fire Department.
- \$11,692 for JPS Voter with 4 Module Assemblies in Police Department.
- \$133,084 for Automated Weather Observation System at Athens Municipal Airport
- \$9,167 for Gator Cam 3 Seer Inspection Camera.
- \$437,655 for Water and Wastewater Line Improvements.
- \$13,325 for Automated Radio Read Meter Reading Equipment.
- \$5,250 For Automated Meter Reading Software

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 \$8,950,594 in outstanding debt consisting of general obligation bonds, certificates of obligation, capital leases, compensated absences payable and post employment benefits. Additional information on the City's long term debt can be found in note 6 on pages 31 through 34.

Outstanding Debt at September 30, 2012

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 1,860,000		\$ 1,860,000
Certificates of Obligation		\$ 4,970,000	4,970,000
Notes Payable			0
Capital Leases Payable	1,211,239		1,211,239
Compensated Absences Payable	852,932	44,089	897,021
Post Employment Benefits	12,334		12,334
Total	<u>\$ 3,936,505</u>	<u>\$ 5,014,089</u>	<u>\$ 8,950,594</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values increase with the taxable valuations in 2012 increasing by (\$6,419,622). The property tax rate for 2013 was set at .630387 per \$100 valuation.
- Sales tax revenue increased slightly above the previous year. Sales tax revenue were above the prior year by \$178,374 and above budget by \$61,346 in 2011. The 2012 budget anticipates no increase in sales tax revenue over the prior year. (\$3,466,020)
- Prices on the 2004 bond projects dropped significantly as the price of oil dropped and the economy went into recession. Better prices were received as projects were bid and the savings has compensated for cost over runs on the initial projects. All scheduled have been completed that were anticipated when bonds were sold. The City is now planning future projects to expend the remaining bond proceeds as well as interest earnings above any arbitrage payments.
- 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, 2012

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 3,251,663	\$ 1,271,691	\$ 4,523,354	\$ 691,289
Investments	10,881	8,805	19,686	804,158
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	216,951		216,951	
Accounts	974,721	619,905	1,594,626	2,024,098
Due from other governments	1,375	391,412	392,787	
Internal balances	335,569	(335,569)	0	
Inventories	5,298	174,765	180,063	
Prepaid items	3,000	100	3,100	
Restricted assets:				
Cash	637,151	1,260,475	1,897,626	
Investments	3,957	13,952	17,909	
Capital assets:				
Work in progress		327	327	
Land	2,152,329	152,200	2,304,529	319,276
Buildings	8,254,981	799,441	9,054,422	1,877,758
Improvements other than buildings	6,863,667	23,845,220	30,708,887	177,432
Machinery and equipment	6,397,478	1,280,424	7,677,902	49,613
Amortizable assets	93,403	243,082	336,485	
Accumulated depreciation	(15,434,300)	(11,298,921)	(26,733,221)	(512,473)
Accumulated amortization	(93,403)	(171,278)	(264,681)	
Total Assets	13,674,721	18,256,031	31,930,752	5,431,151
Liabilities				
Accounts payable	574,011	43,491	617,502	130,716
Wages and salaries payable	112,595		112,595	
Accrued interest	13,874	39,824	53,698	
Payable to other governments	15,289		15,289	
Deposits	3,140	159,725	162,865	
Deferred revenue		6,692	6,692	
Noncurrent liabilities:				
Due within one year	335,000	370,000	705,000	46,327
Due in more than one year	3,601,505	4,644,089	8,245,594	385,879
Total Liabilities	4,655,414	5,263,821	9,919,235	562,922
Net Assets				
Invested in capital assets, net of related debt	5,162,916	9,880,495	15,043,411	1,479,399
Restricted for:				
Debt service	23,557		23,557	
Capital projects	121,336	1,001,013	1,122,349	
Other special purposes	511,725		511,725	
Unrestricted	3,199,773	2,110,702	5,310,475	3,388,830
Total Net Assets	\$ 9,019,307	\$ 12,992,210	\$ 22,011,517	\$ 4,868,229

See accompanying notes to the financial statements.

Program Activities	Expenses	Program Revenues	
		Fees, Fines & Charges for Services	Operating Grants and Contributions
Government Activities			
General Government	\$ (1,389,537)	\$ 84,281	\$ 9,160
Police	(2,706,843)	233,337	4,611
Fire Protection	(2,400,821)		21,658
Other Public Safety	(373,264)		
Highways Streets and Airport	(1,365,934)	84,884	101,188
Health	(352,389)		
Culture and Recreation	(615,273)		
Interest on Long-term Debt	(112,421)		
Total Government Activities	(9,316,482)	402,502	136,617
Business-type Activities			
Utility Fund	(4,072,712)	4,967,935	
Total Primary Government	<u>\$ (13,389,194)</u>	<u>\$ 5,370,437</u>	<u>\$ 136,617</u>
Component Unit:			
Athens Economic Development Corporation	<u>\$ (790,635)</u>	<u>\$ 51,680</u>	<u>\$</u>

General Revenue

Taxes:

 Property

 Sales

 Franchise

Investment Earnings

Miscellaneous

Premium on Bonds Sold

Gain (Loss) on Sale of Capital Assets

Transfers

Other

Total General Revenues, Transfers and Other

Changes in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012

Net (Expenses) Revenue and Changes in Net Assets			
Government Activities	Business-type Activities	Total	Component Unit AEDC
\$ (1,296,096)	\$	\$ (1,296,096)	\$
(2,468,895)		(2,468,895)	
(2,379,163)		(2,379,163)	
(373,264)		(373,264)	
(1,179,862)		(1,179,862)	
(352,389)		(352,389)	
(615,273)		(615,273)	
(112,421)		(112,421)	
<u>(8,777,363)</u>	<u>0</u>	<u>(8,777,363)</u>	<u>0</u>
		0	
<u>\$ (8,777,363)</u>	<u>\$ 0</u>	<u>\$ (8,777,363)</u>	<u>\$ 0</u>
<u>\$</u>	<u>\$ 895,223</u>	<u>\$ 895,223</u>	<u>\$ (738,955)</u>
\$ 3,836,445	\$	\$ 3,836,445	\$
3,757,192		3,757,192	1,185,876
877,535		877,535	
15,395	8,885	24,280	4,666
46,901		46,901	
	558	558	
(534)	(6,314)	(6,848)	
650,000	(650,000)	0	
<u>9,182,934</u>	<u>(646,871)</u>	<u>8,536,063</u>	<u>1,190,542</u>
405,571	248,352	653,923	451,587
8,613,736	12,743,858	21,357,594	4,627,842
<u>\$ 9,019,307</u>	<u>\$ 12,992,210</u>	<u>\$ 22,011,517</u>	<u>\$ 5,079,429</u>

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

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,251,663	\$ 43	\$ 121,336	\$ 515,772	\$ 3,888,814
Investments - Current	14,839				14,839
Taxes Receivable (net of allow. for uncoll.)	180,933	36,019			216,952
Receivables (net of allowable for uncoll.)	973,981			740	974,721
Due from Other Governments				1,375	1,375
Intergovernmental Receivable	335,569				335,569
Due from Other Funds	16,567			101,188	117,755
Inventories	5,297				5,297
Prepaid Items	3,000				3,000
Total Assets	<u>\$ 4,781,849</u>	<u>\$ 36,062</u>	<u>\$ 121,336</u>	<u>\$ 619,075</u>	<u>\$ 5,558,322</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 589,300	\$	\$	\$	\$ 589,300
Wages and Salaries Payable	112,595				112,595
Due to Other Funds		12,505		105,250	117,755
Deposits Payable	1,040			2,100	3,140
Total Liabilities	<u>\$ 702,935</u>	<u>\$ 12,505</u>	<u>\$ 0</u>	<u>\$ 107,350</u>	<u>\$ 822,790</u>
Fund Balances:					
Non-spendable Fund Balance:					
Inventories and Prepaid Items	8,297				8,297
Restricted Fund Balance:					
Capital Acquisition			121,336	256,989	378,325
Retirement of Long-term Debt		23,557			23,557
Other Restricted Funds				103,979	103,979
Committed Fund Balance:					
Emergency Reserve	800,000				800,000
Capital Acquisition	200,000				200,000
Assigned Fund Balance:					
Other Assigned Fund Balance				150,757	150,757
Unassigned Fund Balance	<u>3,070,617</u>				<u>3,070,617</u>
Total Fund Balances	<u>4,078,914</u>	<u>23,557</u>	<u>121,336</u>	<u>511,725</u>	<u>4,735,532</u>
Total Liabilities and Fund Balances	<u>\$ 4,781,849</u>	<u>\$ 36,062</u>	<u>\$ 121,336</u>	<u>\$ 619,075</u>	<u>\$ 5,558,322</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, 2012

Total Fund Balance - Total Governmental Funds	\$ 4,735,532
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.	8,234,154
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.	(13,874)
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	(335,000)
Due in more than one year	<u>(3,601,505)</u>
Net assets of governmental activities	<u>\$ 9,019,307</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, 2012

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 3,244,057	\$ 536,617	\$	\$	\$ 3,780,674
General Sales and Use	3,546,920			210,272	3,757,192
Franchise	877,535				877,535
Penalty and Interest	47,305	8,466			55,771
Licenses and Permits	49,348				49,348
Intergovernmental Revenues and Grants	42,425			103,781	146,206
Charges for Services	39,615			2,345	41,960
Fines	229,478			4,333	233,811
Investment Income	12,729	769	388	1,512	15,398
Rents and Royalties	1,060			46,322	47,382
Contributions & Donations from Private Sources	9,160			2,018	11,178
Other Revenue	46,901			9,233	56,134
Total Revenues	8,146,533	545,852	388	379,816	9,072,589
EXPENDITURES:					
Current:					
General Government	1,299,614	101		4,769	1,304,484
Public Safety:					
Police	2,602,731			1,235	2,603,966
Fire	2,282,036			16,371	2,298,407
Other	371,150				371,150
Public Works:					
Highways, Streets and Airport	947,986			12,533	960,519
Health	349,453				349,453
Conservation and Development					0
Culture and Recreation	464,364			107,156	571,520
Debt Service:					
Principal		462,672			462,672
Interest		112,421			112,421
Fiscal Agent Fees		321			321
Capital Outlay:					
Capital Outlay	947,584			135,677	1,083,261
Total Expenditures	9,264,918	575,515	0	277,741	10,118,174
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,118,385)	(29,663)	388	102,075	(1,045,585)
OTHER FINANCING SOURCES (USES):					
Non-Current Loans	900,000				900,000
Transfers In	650,000			34,646	684,646
Transfers Out (Use)				(34,646)	(34,646)
Total Other Financing Sources (Uses)	1,550,000	0	0	0	1,550,000
Net Change in Fund Balances	431,615	(29,663)	388	102,075	504,415
Fund Balance - October 1 (Beginning)	3,646,349	53,220	120,948	409,650	4,230,167
Fund Balance - September 30 (Ending)	\$ 4,077,964	\$ 23,557	\$ 121,336	\$ 511,725	\$ 4,734,582

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, 2012

Net change in fund balances - total governmental funds	\$	504,415
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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.		1,083,261
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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.		(744,243)
--	--	-----------

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.		(437,328)
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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		(534)
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Change in Net Assets of Governmental Activities	\$	405,571
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See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2012

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,271,691
Investments - Current	8,805
Accounts Receivable - Net of Uncollectible Allowance	619,905
Intergovernmental Receivables	391,412
Inventories	174,765
Prepaid Items	100

Restricted Assets:

Cash and Cash Equivalents	<u>1,274,427</u>
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Total Current Assets	<u>3,741,105</u>
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Non-Current Assets:

Capital Assets:

Work in Progress	327
Land Purchase and Improvements	152,200
Buildings	799,441
Improvement Other Than Buildings	23,845,220
Machinery and Equipment	1,280,424
Amortizable Assets	243,082
Accumulated Depreciation	(11,298,921)
Accumulated Amortization	<u>(171,278)</u>

Total Non-Current Assets	<u>14,850,495</u>
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Total Assets	<u>18,591,600</u>
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LIABILITIES

Current Liabilities:

Accounts Payable	43,491
Accrued Interest Payable	39,824
Internal Balances	335,569
Certificates of Obligation Payable	370,000
Deferred Revenue	6,692
Deposits	<u>159,725</u>

Total Current Liabilities	<u>955,301</u>
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Non-Current Liabilities

Compensated Absences Payable	44,089
Certificates of Obligation Payable	<u>4,600,000</u>

Total Non-Current Liabilities	<u>4,644,089</u>
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Total Liabilities	<u>5,599,390</u>
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NET ASSETS

Investments in Capital Assets, Net of Debt	9,836,406
Restricted for Construction	1,001,013
Unrestricted Net Assets	<u>2,154,791</u>

Total Net Assets	<u>\$ 12,992,210</u>
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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, 2012

OPERATING REVENUES	
Charges for Water Services	\$ 2,784,557
Charges for Waste Water Services	1,951,161
Fees	195,457
Other Revenue	<u>36,760</u>
 Total Operating Revenues	 <u>4,967,935</u>
OPERATING EXPENSES:	
Personnel Services	1,586,753
Supplies	655,464
Contractual Services	852,117
Depreciation	700,062
Bad Debt Expense	<u>54,998</u>
 Total Operating Expenses	 <u>3,849,394</u>
 Operating Income	 <u>1,118,541</u>
NON-OPERATING REVENUES (EXPENSES):	
Investment Earnings	8,884
Interest Expense - Non-Operating	(222,459)
Fiscal Agent Fees	(858)
Premium on Bonds Sold	558
Loss on Sale of Fixed Assets	<u>(6,314)</u>
 Total Non-Operating Revenue (Expenses)	 <u>(220,189)</u>
 Income Before Transfers	 898,352
Transfers Out	<u>(650,000)</u>
 Change in Net Assets	 248,352
Total Net Assets - October 1 (Beginning)	<u>12,743,858</u>
Total Net Assets - September 20 (Ending)	<u><u>\$ 12,992,210</u></u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2012

<u>Cash Flows From Operating Activities:</u>	
Cash Received From User Charges	\$ 4,588,976
Other Operating Revenues (uses)	36,760
Cash Payments to Employees for Services	(1,585,779)
Cash Payments to Suppliers	(1,481,803)
Net Cash Provided by Operating Activities	<u>1,558,154</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	(465,397)
Interest Paid on Bonds	(225,488)
Retirement of Bonds	(355,000)
Fiscal Agent Fees	(858)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1,046,743)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>8,884</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(129,705)
Cash and Cash Equivalents at Beginning of the Year	<u>2,684,628</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 2,554,923</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 1,118,541
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	700,062
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(295,455)
Decrease (Increase) in Inventories	49,007
Increase (Decrease) in Accounts Payable	25,778
Increase (Decrease) in Internal Balances	(49,007)
Increase (Decrease) in Deposits	8,254
Increase (Decrease) in Compensated Absences	<u>974</u>
Net Cash Provided by Operating Activities	<u>\$ 1,558,154</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012

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, 2012 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, 2012

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, 2012

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, 2012

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, 2012, 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, 2012

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.

O. Fund Balance

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

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

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

P. Fund Balance

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

<u>Fund Balance</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Nonspendable:					
Inventories & Prepaid	\$ 8,297	\$	\$	\$	\$ 8,297
Total Non-spendable	<u>8,297</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8,297</u>
Restricted:					
Debt Service		23,557			23,557
Capital Projects			121,336	256,989	378,325
Other				103,979	103,979
Total Restricted	<u>0</u>	<u>23,557</u>	<u>121,336</u>	<u>360,968</u>	<u>505,861</u>
Committed:					
Emergency	800,000				800,000
Capital Items	<u>200,000</u>				<u>200,000</u>
Total Committed	<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>
Assigned:					
Other				150,757	150,757
Total Assigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>150,757</u>	<u>150,757</u>
Unassigned	<u>3,070,617</u>				<u>3,070,617</u>
Total Fund Balances	<u>\$ 4,078,914</u>	<u>\$ 23,557</u>	<u>\$ 121,336</u>	<u>\$ 511,725</u>	<u>\$ 4,735,532</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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 2011-2012 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 \$8,806,404 and occurred on February 14, 2012. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$9,633,439. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

- 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, 2012, the amount of the City's cash balance accounts was \$6,419,891. The cash balance in interest bearing accounts was \$6,419,891.

INVESTMENTS

The City's investments at September 30, 2012, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 6,419,891	\$ 6,419,891	.0833
TexPool	<u>37,576</u>	<u>37,578</u>	1.00007
Total Investments	<u>\$ 6,457,467</u>	<u>\$ 6,457,469</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, 2012

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

	Balance 10/01/11	Additions	Retirements	Adjustments	Balance 9/30/2012
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2,152,329	\$	\$	\$	\$ 2,152,329
Construction in progress	9,100			(9,100)	0
Total capital assets not being depreciated	<u>2,161,429</u>	<u>0</u>	<u>0</u>	<u>(9,100)</u>	<u>2,152,329</u>
Capital asset being depreciated:					
Buildings	8,254,981				8,254,981
Equipment	5,683,483	1,092,361	(284,963)		6,490,881
Improvements	2,057,133				2,057,133
Infrastructure	4,806,534				4,806,534
Total capital assets being depreciated	<u>20,802,131</u>	<u>1,092,361</u>	<u>(284,963)</u>	<u>0</u>	<u>21,609,529</u>
Less: accumulated depreciation for:					
Buildings	(7,073,866)	(129,964)			(7,203,830)
Equipment	(4,529,044)	(248,210)	284,428		(4,492,826)
Improvements	(1,194,878)	(125,726)			(1,320,604)
Infrastructure	(2,270,101)	(240,343)			(2,510,444)
Total accumulated depreciation	<u>\$(15,067,889)</u>	<u>\$ (744,243)</u>	<u>\$ 284,428</u>	<u>\$ 0</u>	<u>\$(15,527,704)</u>
Total capital assets being depreciated, net	<u>5,734,242</u>	<u>348,118</u>	<u>(535)</u>	<u>0</u>	<u>6,081,825</u>
Governmental activities capital assets, net	<u>\$ 7,895,671</u>	<u>\$ 348,118</u>	<u>\$ (535)</u>	<u>\$ (9,100)</u>	<u>\$ 8,234,154</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152,200	\$	\$	\$	\$ 152,200
Construction in progress	327				327
Total capital assets not being depreciated	<u>152,527</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>152,527</u>
Capital assets being depreciated:					
Buildings	799,441				799,441
Equipment	1,348,465	22,492	(90,533)		1,280,424
Amortizable assets	237,832	5,250			243,082
Improvements	1,454				1,454
Infrastructure	23,406,110	437,655		1	23,843,766
Total capital asset being depreciated	<u>25,793,302</u>	<u>465,397</u>	<u>(90,533)</u>	<u>1</u>	<u>26,168,167</u>
Less: accumulated depreciation for:					
Buildings	(689,085)	(10,810)			(699,895)
Equipment	(1,021,143)	(69,762)	84,219	(1)	(1,006,887)
Amortizable assets	(150,653)	(20,625)			(171,278)
Improvements	(1,454)				(1,454)
Infrastructure	(8,992,020)	(598,865)			(9,590,885)
Total accumulated depreciation	<u>(10,854,355)</u>	<u>(700,062)</u>	<u>84,219</u>	<u>(1)</u>	<u>(11,470,199)</u>
Total capital assets being depreciated, net	<u>14,938,947</u>	<u>(234,665)</u>	<u>(6,314)</u>	<u>0</u>	<u>14,697,968</u>
Business-type activities capital assets, net	<u>\$ 15,091,474</u>	<u>\$ (234,665)</u>	<u>\$ (6,314)</u>	<u>\$ 0</u>	<u>\$ 14,850,495</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

Governmental activities:	
General government and administration	\$ 375,008
Public safety	205,707
Public services	116,965
Culture and recreation	43,753
Health	2,810
Total depreciation expense-Governmental activities	<u>\$ 744,243</u>
Business-type activities:	
Water and sewer	<u>\$ 700,062</u>

4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2012, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	12,505
General	Community Improvement	\$ 2,471
General	Airport	1,130
General	Special Donations	300
General	Municipal Court Technology	162
Airport	Airport Grant	<u>101,188</u>
Total		<u>\$ 117,756</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, 2012 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2013	\$ 8,792
2014	4,201
2015	1,531
2016	<u>1,276</u>
Total	<u>\$ 15,800</u>

Rental expenditures in 2011-2012 were \$10,630.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, fire engine pumper and a fire truck. 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, 2012:

	Balance 10/01/11	Issued	Retired	Balance 9/30/12
Hydraulic Excavator	\$ 62,082	\$	\$ 43,420	\$ 18,662
Fire Engine Pumper	212,586		26,434	186,152
Police Vehicles	179,244		72,819	106,425
Fire Truck		900,000		900,000
	<u>\$ 453,912</u>	<u>\$ 900,000</u>	<u>\$ 142,673</u>	<u>\$ 1,211,239</u>

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

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
2013	\$ 201,131	\$ 30,845	\$ 231,976
2014	143,455	25,016	168,471
2015	115,033	21,527	136,560
2016	118,424	18,135	136,559
2017	121,927	14,633	136,560
2018-2022	<u>511,269</u>	<u>29,692</u>	<u>540,961</u>
Total	<u>\$ 1,211,239</u>	<u>\$ 139,848</u>	<u>\$ 1,351,087</u>

B. Long-term Debt - Notes Payable

As of September 30, 2012 the City had no notes payable.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012:

	<u>Balance 10/01/11</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/12</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 2,180,000	\$	\$ 320,000	\$ 1,860,000
Totals	<u>\$ 2,180,000</u>	<u>\$ 0</u>	<u>\$ 320,000</u>	<u>\$ 1,860,000</u>

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

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
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>\$ 1,860,000</u>	<u>\$ 259,425</u>	<u>\$ 2,119,425</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, 2012 the City had no revenue bonds outstanding.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012, 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, 2012:

	Balance 10/01/11	Issued	Retired	Balance 9/30/12
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1,300,000	\$	\$ 115,000	\$ 1,185,000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	4,025,000		240,000	3,785,000
	<u>\$ 5,325,000</u>	<u>\$ 0</u>	<u>\$ 355,000</u>	<u>\$ 4,970,000</u>

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

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
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	445,000	143,635	588,635
2018 - 2022	2,165,000	425,020	2,590,020
2023 - 2024	<u>770,000</u>	<u>49,907</u>	<u>819,907</u>
Total	<u>\$ 4,970,000</u>	<u>\$ 1,361,612</u>	<u>\$ 6,331,612</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, 2012

G. Changes in Long-term Liabilities

Long-term liabilities activity for the year ended September 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	<u>\$ 2,180,000</u>	<u>\$</u>	<u>\$ 320,000</u>	<u>\$ 1,860,000</u>	<u>\$ 335,000</u>
Capital Leases Payable:					
Vehicles and Equipment	<u>453,912</u>	<u>900,000</u>	<u>142,673</u>	<u>1,211,239</u>	<u>201,131</u>
Compensated Absences	<u>861,929</u>		<u>8,997</u>	<u>852,932</u>	
Post Employment Benefits		<u>12,334</u>		<u>12,334</u>	
Total Governmental Activities Long-term Liabilities	<u>\$ 3,495,841</u>	<u>\$ 912,334</u>	<u>\$ 471,670</u>	<u>\$ 3,936,505</u>	<u>\$ 536,131</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	<u>\$ 5,325,000</u>	<u>\$</u>	<u>\$ 355,000</u>	<u>\$ 4,970,000</u>	<u>\$ 370,000</u>
Compensated Absences	<u>43,115</u>	<u>974</u>		<u>44,089</u>	
Post Employment Benefits				<u>0</u>	
Total Business Type Activities Long-term Liabilities	<u>\$ 5,368,115</u>	<u>\$ 974</u>	<u>\$ 355,000</u>	<u>\$ 5,014,089</u>	<u>\$ 370,000</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

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, 2012 is as follows:

Operating Revenues	\$ 4,967,935
Depreciation Expense	700,062
Operating Income	1,118,541
Operating Transfers (Out)	(650,000)
Change in Net Assets	248,352
Fixed Asset Additions	465,397
Net Working Capital (Deficiency)	1,881,377
Total Assets	18,256,031
Total Net Assets	12,992,210
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, 2012

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 2011	Plan Year 2012
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2.1 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)
2010	1,270,509	945,468	74%	552,342
2011	1,241,969	967,264	78%	827,047
2012	1,297,549	1,104,643	85%	1,019,952

CITY OF ATHENS, TEXAS
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FOR THE YEAR ENDED SEPTEMBER 30, 2012

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

Actuarial Valuation Date	12/31/09	12/31/10	12/31/11
Actuarial Cost Method	Projected Unit Credit	Restructured Projected Unit Credit	Restructured Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	28.1 years Closed Period	27.1 years Closed Period	26.2 Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothing Method	10-year Smoothing Method	10-year Smoothing Method
Actuarial Assumptions:			
Investment Rate of Return*	7.5%	7.0%	7.15%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	2.1%	2.1%	2.1%

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2012

The funded status as of December 31, 2011, 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)
12/31/2011	\$16,085,459	\$25,395,397	63.3%	\$9,309,938	\$5,707,949	163.1%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future.

Actuarial calculations are based on the benefits provided under the terms of the substantive plan in effect at the time of each valuation, and reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. The schedule of funding progress, presented as 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, 2012

D. Life Insurance Benefits Plan

Plan Description

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

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

Contributions

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

The City's contributions to the TMRS SDBF for the year ended 2011, 2010, and 2009 were \$1,690, \$1,756 and \$1,640, respectively, which equaled the required contributions each year.

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

<u>Plan/ Calendar Year</u>	<u>Annual Required Contribution (Rate)</u>	<u>Actual Contribution Made (Rate)</u>	<u>Percentage of ARC Contributed</u>
2009	0.03%	0.03%	100.0%
2010	0.03%	0.03%	100.0%
2011	0.03%	0.03%	100.0%

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, 2012.

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, 2012.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT A

<u>Municipal Court Technology Fund</u>	<u>Local Forfeited Cash</u>	<u>Total Nonmajor Governmental Funds</u>
\$ 11,355	\$ 17,802	\$ 515,772
		740
	1,375	1,375
		<u>101,188</u>
<u>\$ 11,355</u>	<u>\$ 19,177</u>	<u>\$ 619,075</u>
\$ 162	\$	\$ 105,250
		<u>2,100</u>
<u>\$ 162</u>	<u>\$ 0</u>	<u>\$ 107,350</u>
		256,989
11,193	17,802	103,979
		<u>150,757</u>
<u>11,193</u>	<u>17,802</u>	<u>511,725</u>
<u>\$ 11,355</u>	<u>\$ 17,802</u>	<u>\$ 619,075</u>

EXHIBIT B

Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$	\$	\$
		210,272
		103,781
		2,345
4,333		4,333
26	56	1,512
		46,322
	2,018	2,018
		9,233
<u>4,359</u>	<u>2,074</u>	<u>379,816</u>
4,769		4,769
		1,235
		16,371
		12,533
		107,156
		135,677
<u>4,769</u>	<u>0</u>	<u>277,741</u>
(410)	2,074	102,075
		34,646
		(34,646)
<u>0</u>	<u>0</u>	<u>0</u>
(410)	2,074	102,075
<u>11,603</u>	<u>16,728</u>	<u>409,650</u>
<u>\$ 11,193</u>	<u>\$ 18,802</u>	<u>\$ 511,725</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, 2012

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 3,318,880	\$ 3,318,880	\$ 3,244,057	\$ (74,823)
General Sales and Use	3,490,020	3,490,020	3,546,920	56,900
Franchise	864,000	864,000	877,535	13,535
Penalty and Interest	45,000	45,000	47,305	2,305
Licenses and Permits	34,810	34,810	49,348	14,538
Intergovernmental Revenues and Grants	43,500	43,500	42,425	(1,075)
Charges for Services	32,000	32,000	39,615	7,615
Fines	193,850	193,850	229,478	35,628
Investment Income	35,000	35,000	12,729	(22,271)
Rents and Royalties	1,000	1,000	1,060	60
Contributions & Donations from Private Sources	8,000	8,000	9,160	1,160
Other Revenue	10,030	20,247	46,901	26,654
Total Revenues	<u>8,076,090</u>	<u>8,086,307</u>	<u>8,146,533</u>	<u>60,226</u>
EXPENDITURES:				
Current:				
General Government	1,333,622	1,381,496	1,298,664	82,832
Public Safety:				
Police	2,862,637	2,862,637	2,602,731	259,906
Fire	2,329,911	2,363,507	2,282,036	81,471
Other	404,078	404,078	371,150	32,928
Public Works:				
Highways, Streets and Airport	804,483	806,783	947,986	(141,203)
Health	386,927	386,927	349,453	37,474
Culture and Recreation	499,377	499,377	464,364	35,013
Capital Outlay:				
Capital Outlay	250,059	1,147,963	947,584	200,379
Total Expenditures	<u>8,871,094</u>	<u>9,852,768</u>	<u>9,263,968</u>	<u>588,800</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>(795,004)</u>	<u>(1,766,461)</u>	<u>(1,117,435)</u>	<u>649,026</u>
OTHER FINANCING SOURCES (USES):				
Non-current Loans		900,000	900,000	0
Transfers In	650,000	650,000	650,000	0
Transfers Out (Use)	0	0	0	0
Total Other Financing Sources (Uses)	<u>650,000</u>	<u>1,550,000</u>	<u>1,550,000</u>	<u>0</u>
Net Change in Fund Balances	(145,004)	(216,461)	432,565	649,026
Fund Balance - October 1 (Beginning)	<u>3,646,349</u>	<u>3,646,349</u>	<u>3,646,349</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 3,501,345</u>	<u>\$ 3,429,888</u>	<u>\$ 4,078,914</u>	<u>\$ 649,026</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, 2012

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final	(GAAP Basis)	Positive Negative
REVENUES:				
Taxes:				
Property	\$ 551,052	\$	\$ 536,617	\$ (536,617)
Penalty and Interest	8,000		8,466	(8,466)
Investment Income	2,500		769	(769)
Total Revenues	561,552	0	545,852	(545,852)
EXPENDITURES:				
General Government:			101	
Debt Service:				
Principal	462,772		462,672	(462,672)
Interest	112,320		112,421	(112,421)
Fiscal Agent Fees	700		321	(321)
Total Expenditures	575,792	0	575,515	(575,414)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(14,240)	0	(29,663)	29,562
OTHER FINANCING SOURCES (USES)				
Transfers In				
Net Change in fund Balances	(14,240)	0	(29,663)	29,562
Fund Balance - October 01 (Beginning)	53,220	53,220	53,220	0
Fund Balance - September 30 (Ending)	\$ 38,980	\$ 53,220	\$ 23,557	\$ 29,562

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)
12/31/2009	\$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
12/31/2011	\$16,085,459	\$25,395,397	63.3	\$9,309,938	\$5,707,949	163.1

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

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

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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, 2012, 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,

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

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

April 12, 2013

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2012
UNAUDITED

Year of Levy	Adjusted City Tax Levy	Collections to SEPTEMBER 30, 2012	Percentage of Total Collections to Adjusted Levy
2002	\$ 1,527,754	\$ 1,525,206	100
2003	1,658,588	1,654,796	100
2004	1,747,353	1,743,180	100
2005	2,278,403	2,271,373	100
2006	2,469,898	2,401,041	100
2007	2,622,686	2,613,862	100
2008	2,946,236	2,929,456	99
2009	3,263,140	3,248,149	100
2010	3,483,041	3,430,885	99
2011	3,804,103	3,682,662	97
	<u>\$ 25,801,202</u>	<u>\$ 25,500,610</u>	

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

TABLE 2

CITY OF ATHENS, TEXAS
 SCHEDULE OF GENERAL OBLIGATION BONDS
 AND INTEREST REQUIREMENTS
 BONDS OUTSTANDING AT SEPTEMBER 30, 2012

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>
9-30-13	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>\$ 1,860,000</u>	<u>\$ 259,425</u>	<u>\$ 2,119,425</u>

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

TABLE 3

CITY OF ATHENS, TEXAS
SCHEDULE OF CERTIFICATES OF OBLIGATION
AND INTEREST REQUIREMENTS
CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2012

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000			
	Annual Rate	Principal	Interest	Total Requirements
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%	180,000	9,000	189,000
TOTAL		<u>\$ 1,185,000</u>	<u>\$ 284,750</u>	<u>\$ 1,469,750</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, 2012

<u>Requirements for Fiscal Year Ended</u>	<u>Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004</u>			
	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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%	<u>395,000</u>	<u>16,985</u>	<u>411,985</u>
TOTAL		<u>\$ 3,785,000</u>	<u>\$ 1,076,862</u>	<u>\$ 4,861,862</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, 2012
UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Jerry Don Vaught, Mayor Aubrey Jones, Jr., Monte Montgomery, 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 - Steven R. Green 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.
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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, 2012. 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 30, 2012. 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

April 12, 2013

