

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

**CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2013**

CITY OF ATHENS, TEXAS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2013

Table of Contents

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-3
	MANAGEMENT'S DISCUSSION AND ANALYSIS	4-12
	FINANCIAL SECTION	
	Basic Financial Statements:	
1	Statement of Net Position	13
2	Statement of Activities	14
3	Balance Sheet - Governmental Funds	15
4	Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position	16
5	Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	17
6	Reconciliation in Fund Balance of Governmental Funds to the Statement of Activities	18
7	Statement of Net Position - Proprietary Fund	19
8	Statement of Revenues and Changes in Fund Net Position - Proprietary Fund	20
9	Statement of Cash Flows - Proprietary Fund	21
	Notes to the Financial Statements	22-41
	REQUIRED SUPPLEMENTAL INFORMATION	
A	Combining Balance Sheet - Nonmajor Governmental Funds	42
B	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	43
C	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	44
D	Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual - Debt Service Fund	45
E	Schedule of Funding Progress (Unaudited)	46

	<u>Page</u>
OTHER INDEPENDENT AUDITOR'S REPORT SECTION	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	47-48

Table

STATISTICAL SECTION

1	Tax Levies and Tax Collections - Last Ten Fiscal Years	49
2	Schedule of General Obligation Bonds and Interest Requirements	50
3	Schedule of Certificates of Obligation and Interest Requirements	51
4	Schedule of Certificates of Obligation and Interest Requirements	52
5	Miscellaneous Statistical Data and Other Information	53

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

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

Cheri E. Kirkland, CPA

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

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

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the *Management's Discussion and Analysis* be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

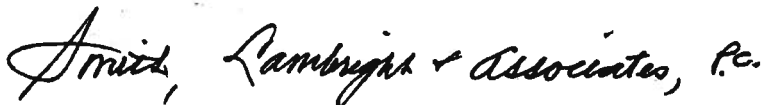
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal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

The budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2014 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Respectfully submitted,

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

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

April 21, 2014

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, 2013. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 13. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets of the City of Athens exceeded its liabilities at September 30, 2013 by \$22,313,468. Of this amount, unrestricted net position of \$4,924,727 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net position increased by \$301,951. Of this amount \$300,775 was associated with governmental and \$1,176 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 \$4,759,235. This was an increase of \$23,704 in comparison with the prior year.
- Sales taxes increased with a 5.64% increase above prior years' actual. Actual receipts were above budget projections by approximately 7.51%.
- At the end of the current fiscal year, unassigned fund balance in the General Fund was \$2,944,122. The City Council has currently restricted \$800,000 or 8.71% of total General Fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2012 tax rolls increased by \$6,419,622 (1.01%) compared to the prior tax year (2011).
- Property tax rate was increased to .630387/\$100 from .600387/\$100.

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

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

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains 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 15 through 18 of this report.

Proprietary Funds

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

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

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 through 41 of this report.

Other Information

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

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2013, the City's assets exceeded its liabilities by \$22,313,468. The largest portion of the City's net position (68%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Athens Net Position

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 5,514,526	\$ 5,440,566	\$ 3,424,826	\$ 3,405,536	\$ 8,939,352	\$ 8,846,102
Capital assets	8,193,845	8,234,155	14,458,624	14,850,495	22,652,469	23,084,650
Total Assets	13,708,371	13,674,721	17,883,450	18,256,031	31,591,821	31,930,752
Long-term liabilities outstanding	3,621,621	3,936,505	4,658,846	5,014,089	8,280,467	8,950,594
Other liabilities	766,668	718,909	231,218	249,732	997,886	968,641
Total Liabilities	4,388,289	4,655,414	4,890,064	5,263,821	9,278,353	9,919,235
Net Position:						
Invested in capital assets, net of related debt	5,491,846	5,162,916	9,858,624	9,880,495	15,350,470	15,043,411
Restricted	755,008	656,618	1,283,263	1,001,013	2,038,271	1,657,631
Unrestricted	3,073,228	3,199,773	1,851,499	2,110,702	4,924,727	5,310,475
Total Net Position	\$ 9,320,082	\$ 9,019,307	\$12,993,386	\$12,992,210	\$22,313,468	\$22,011,517

An additional portion of net position (9.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$4,924,727) may be used to meet the government's ongoing obligations to citizens and creditors. The following chart shows the revenue and expenses of the total primary government.

City of Athens Changes in Net Position

	Governmental Activities		Business-type Activities		Total Primary Government	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	\$ 253,053	\$ 402,502	\$ 4,597,612	\$ 4,967,935	\$ 4,850,665	\$ 5,370,437
Operating grants and contributions	95,997	136,617	33,915		129,912	136,617
Capital grants and contributions					0	0
Total Program Revenues	<u>349,050</u>	<u>539,119</u>	<u>4,631,527</u>	<u>4,967,935</u>	<u>4,980,577</u>	<u>5,507,054</u>
General revenues:						
Taxes:						
Sales and use taxes	3,982,948	3,757,192			3,982,948	3,757,192
Property taxes	4,098,873	3,836,445			4,098,873	3,836,445
Franchise taxes	821,052	877,535			821,052	877,535
Unrestricted investment income	16,992	15,395	9,189	8,885	26,181	24,280
Donated Capital Assets					0	0
Miscellaneous	45,104	46,901			45,104	46,901
Premium on Bonds Sold			558	558	558	558
Gain(Loss) on sale of capital assets	(5,500)	(534)		(6,314)	(5,500)	(6,848)
Total General Revenue	<u>8,959,469</u>	<u>8,532,934</u>	<u>9,747</u>	<u>3,129</u>	<u>8,969,216</u>	<u>8,536,063</u>
Total Revenue	<u>9,308,519</u>	<u>9,072,053</u>	<u>4,641,274</u>	<u>4,971,064</u>	<u>13,949,793</u>	<u>14,043,117</u>
EXPENSES						
General	\$ 1,326,970	\$ 1,389,537			\$ 1,326,970	\$ 1,389,537
Public Safety:						0
Police	2,821,021	2,706,843			2,821,021	2,706,843
Fire	2,468,443	2,400,821			2,468,443	2,400,821
Other	385,959	373,264			385,959	373,264
Public Services					0	0
Highways, Streets and Airport	1,469,664	1,365,934			1,469,664	1,365,934
Health	346,067	352,389			346,067	352,389
Culture and Recreation	725,988	615,273			725,988	615,273
Conservation and Development					0	0
Interest on long-term debt	113,632	112,421			113,632	112,421
Water Utilities			3,990,098	4,072,712	3,990,098	4,072,712
Total Expense	<u>9,657,744</u>	<u>9,316,482</u>	<u>3,990,098</u>	<u>4,072,712</u>	<u>13,647,842</u>	<u>13,389,194</u>
Increase in net position before transfers	(349,225)	(244,429)	651,176	898,352	301,951	653,923
Transfers	650,000	650,000	(650,000)	(650,000)	0	0
Change in net position	300,775	405,571	1,176	248,352	301,951	653,923
Net position October 1	9,019,307	8,613,736	12,992,210	12,743,858	22,011,517	21,357,594
Net position September 30	<u>\$ 9,320,082</u>	<u>\$ 9,019,307</u>	<u>\$ 12,993,386</u>	<u>\$ 12,992,210</u>	<u>\$ 22,313,468</u>	<u>\$ 22,011,517</u>

Governmental Activities. Governmental activities increased the City's net position by \$300,775 accounting for (99.61) percent of the total increase in net position. Increases in current assets and lower debt offset the decrease in capital assets. Debt payment schedules and assets useful lives may differ slightly creating differences in the increases in accumulated depreciation and reductions in the related debt.

Business-type activities. Business type activities increased the City's net position by \$1,176 accounting for .39 percent of the total increase in the government's net position. The increase was mostly due to decreases in debt and increases in cash and receivable balances over depreciation in capital assets.

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 \$4,759,235. Approximately 61% of this amount (\$2,944,122) constitutes unassigned fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2013, unassigned fund balance of the General Fund was \$2,944,122, while total fund balance reached \$3,955,716.

The General Fund's fund balance decreased during the current fiscal year \$123,198. Key factors in this decrease are as follows:

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

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

The Debt Service Fund's fund balance increased by \$66,533 due to variations in revenue from property tax collections over debt payments and more favorable bid prices on capital items and capital lease interest rates than expected during the budget cycle.

The Capital Projects Fund's fund balance decreased by \$840. The decrease was due to spending of donations from prior years over offsets of interest earnings on proceeds from donated cash held for future capital projects. Projects are determined based on specific donation restrictions and purposes.

Proprietary Funds

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

Total net position of the Water and Sewer Fund at the end of the year amounted to \$12,993,386. This was an increase of \$1,176. 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 \$291,000 (net) from the original budget to the final budget (an increase of 3.03%). These increases in revenue and (expenses) can be summarized as follows:

- (170,000) for Land Purchase
- (121,000) for Land Purchase
- 15,295 donation for Police Voice Recorder
- (15,295) for Purchase of Police Voice Recorder

\$480,060 was allocated from prior years reserves as a part of the original budget as approved by the City Council. As noted earlier fund balance only declined \$123,198 due to excess revenues and under budget expenditures.

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for its governmental and business type activities at September 30, 2013 amounts to \$22,652,469 (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 \$432,180 (1.8%) net of accumulated depreciation.

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

- \$293,547 for purchase of land adjacent to City Hall.
- \$83,737 For Kubota Tractor and Rear Mount Boom Cutter.
- \$184,207 For Street Sweeper.
- \$27,729 for 3/4 Ton Pickup for Street Department.
- \$9,550 for Scag Lawn Mower for Parks Department.
- \$24,847 for 3/4 Ton Pickup for Parks Department.
- \$22,319 For Administrative Vehicle for Fire Department.
- \$16,226 for 1/2 Ton Pickup for Animal Control Department.
- \$18,555 for New Police Network Server.
- \$34,835 in Security Camera Upgrades at Utility Infrastructure Facilities.
- \$72,750 For Case Backhoe for Utility Line Maintenance.
- \$108,006 for Water and Wastewater Line Improvements.
- \$7,215 For New Utility Bill Burster for Utility Billing Department.
- \$18,915 in Work in Progress on First Time Sewer Grant.

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

Long-term Debt

At the end of the current fiscal year, the City had \$8,280,468 in outstanding debt consisting of general obligation bonds, certificates of obligation, capital leases, compensated absences payable and post employment benefits. Additional information on the City's long term debt can be found in note 6 on pages 33 through 36.

Outstanding Debt at September 30, 2013

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 1,525,000		\$ 1,525,000
Certificates of Obligation		\$ 4,600,000	4,600,000
Notes Payable			0
Capital Leases Payable	1,176,999		1,176,999
Compensated Absences Payable	884,088	48,694	932,782
Post Employment Benefits	35,534	10,153	45,687
Total	<u>\$ 3,621,621</u>	<u>\$ 4,658,847</u>	<u>\$ 8,280,468</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values increase with the taxable valuations in 2013 increasing by (\$10,060,859). The property tax rate for 2013 was set at .645140 per \$100 valuation.
- Sales tax revenue increased slightly above the previous year. Sales tax revenue were above the prior year by \$199,037 and above budget by \$260,383 in 2013. The 2014 budget anticipates a slight increase in sales tax revenue over the prior year. (\$3,700,079)
- 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. The current project includes using bond proceeds to match a first time sewer grant to obtain up to \$275,000 in grant revenue. It is anticipated that approximately \$1,000,000 in interest will still be available for future water and wastewater projects.

Requests for Information

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

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET POSITION
SEPTEMBER 30, 2013

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 3,350,004	\$ 1,603,855	\$ 4,953,859	\$ 1,005,651
Investments	14,854	8,813	23,667	834,503
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	193,265		193,265	
Accounts	865,680	620,532	1,486,212	2,822,939
Due from other governments	20,998	28,880	49,878	
Internal balances	300,610	(300,610)	0	
Inventories	5,294	179,993	185,287	
Prepaid items	8,813	100	8,913	
Restricted assets:				
Cash	755,008	1,283,263	2,038,271	
Investments			0	
Capital assets:				
Work in progress		34,804	34,804	
Land	2,445,876	152,200	2,598,076	249,194
Buildings	8,254,981	799,441	9,054,422	1,881,605
Improvements other than buildings	6,863,667	24,005,463	30,869,130	177,432
Machinery and equipment	6,709,702	1,325,435	8,035,137	49,613
Amortizable assets	93,403	243,082	336,485	
Accumulated depreciation	(16,080,381)	(11,909,111)	(27,989,492)	(568,215)
Accumulated amortization	(93,403)	(192,690)	(286,093)	
Total Assets	13,708,371	17,883,450	31,591,821	6,452,722
Liabilities				
Accounts payable	641,044	22,150	663,194	841,864
Wages and salaries payable	111,086		111,086	
Accrued interest	11,378	35,104	46,482	
Payable to other governments			0	
Deposits	3,160	167,830	170,990	
Unearned revenue		6,134	6,134	
Noncurrent liabilities:				
Due within one year	558,836	385,000	943,836	47,398
Due in more than one year	3,062,785	4,273,846	7,336,631	338,498
Total Liabilities	4,388,289	4,890,064	9,278,353	1,227,760
Net Position				
Invested in capital assets, net of related debt	5,491,846	9,858,624	15,350,470	1,403,733
Restricted for:				
Debt service	56,074		56,074	
Capital projects	431,755	1,283,263	1,715,018	
Other special purposes	267,179		267,179	
Unrestricted	3,073,228	1,851,499	4,924,727	3,821,229
Total Net Position	\$ 9,320,082	\$ 12,993,386	\$ 22,313,468	\$ 5,224,962

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	\$ 1,326,970	\$ 74,538	\$ 26,805
Police	2,821,021	94,387	18,882
Fire Protection	2,468,443		27,243
Other Public Safety	385,959		
Highways Streets and Airport	1,469,664	84,128	23,067
Health	346,067		
Culture and Recreation	725,988		
Interest on Long-term Debt	113,632		
Total Government Activities	9,657,744	253,053	95,997
Business-type Activities			
Utility Fund	3,990,098	4,597,612	33,915
Total Primary Government	\$ 13,647,842	\$ 4,850,665	\$ 129,912
Component Unit:			
Athens Economic Development Corporation	\$ 1,008,321	\$ 33,875	\$

General Revenue

Taxes:

Property

Sales

Franchise

Investment Earnings

Miscellaneous

Premium on Bonds Sold

Gain (Loss) on Sale of Capital Assets

Transfers

Other

Total General Revenues, Transfers and Other

Changes in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net (Expenses) Revenue and Changes in Net Position			
Government Activities	Business-type Activities	Total	Component Unit AEDC
\$ (1,225,627)	\$	\$ (1,225,627)	\$
(2,707,752)		(2,707,752)	
(2,441,200)		(2,441,200)	
(385,959)		(385,959)	
(1,362,469)		(1,362,469)	
(346,067)		(346,067)	
(725,988)		(725,988)	
(113,632)		(113,632)	
(9,308,694)	0	(9,308,694)	0
	641,429	641,429	
\$ (9,308,694)	\$ 641,429	\$ (8,667,265)	\$. 0
\$	\$	\$	\$ (974,446)
\$ 4,098,873	\$	\$ 4,098,873	\$
3,982,948		3,982,948	1,242,103
821,052		821,052	
16,992	9,189	26,181	2,469
45,104		45,104	11,259
	558	558	
(5,500)		(5,500)	75,348
650,000	(650,000)	0	
9,609,469	(640,253)	8,969,216	1,331,180
300,775	1,176	301,951	356,734
9,019,307	12,992,210	22,011,517	4,868,229
\$ 9,320,082	\$ 12,993,386	\$ 22,313,468	\$ 5,224,963

CITY OF ATHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2013

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 3,350,004	\$ 56,073	\$ 120,496	\$ 578,438	\$ 4,105,011
Investments - Current	14,854				14,854
Taxes Receivable (net of allow. for uncoll.)	159,248	34,017			193,265
Receivables (net of allowable for uncoll.)	864,689			741	865,430
Due from Other Governments				20,998	20,998
Intergovernmental Receivable	300,610				300,610
Due from Other Funds	5,144			20,748	25,892
Inventories	5,294				5,294
Prepaid Items	8,813				8,813
Total Assets	<u>\$ 4,708,656</u>	<u>\$ 90,090</u>	<u>\$ 120,496</u>	<u>\$ 620,925</u>	<u>\$ 5,540,167</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 640,794	\$	\$	\$	\$ 640,794
Wages and Salaries Payable	111,086				111,086
Due to Other Funds				25,892	25,892
Deposits Payable	1,060			2,100	3,160
Total Liabilities	<u>\$ 752,940</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 27,992</u>	<u>\$ 780,932</u>
Fund Balances:					
Non-spendable Fund Balance:					
Inventories and Prepaid Items	11,594				11,594
Restricted Fund Balance:					
Capital Acquisition			120,496		120,496
Retirement of Long-term Debt		90,090			90,090
Other Restricted Funds				424,019	424,019
Committed Fund Balance:					
Emergency Reserve	800,000				800,000
Capital Acquisition	200,000				200,000
Assigned Fund Balance:					
Other Assigned Fund Balance				168,914	168,914
Unassigned Fund Balance	<u>2,944,122</u>				<u>2,944,122</u>
Total Fund Balances	<u>3,955,716</u>	<u>90,090</u>	<u>120,496</u>	<u>592,933</u>	<u>4,759,235</u>
Total Liabilities and Fund Balances	<u>\$ 4,708,656</u>	<u>\$ 90,090</u>	<u>\$ 120,496</u>	<u>\$ 620,925</u>	<u>\$ 5,540,167</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO STATEMENT OF NET POSITION
 SEPTEMBER 30, 2013

Total Fund Balance - Total Governmental Funds	\$ 4,759,235
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital Assets used in governmental activities are not current financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	8,193,845
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.	(11,377)
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	(558,836)
Due in more than one year	<u>(3,062,785)</u>
Net Position of governmental activities	<u>\$ 9,320,082</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, 2013

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 3,295,963	\$ 721,331	\$	\$	\$ 4,017,294
General Sales and Use	3,746,448			236,500	3,982,948
Franchise	821,053				821,053
Penalty and Interest	67,395	14,182			81,577
Licenses and Permits	39,818				39,818
Intergovernmental Revenues and Grants	40,522			29,217	69,739
Charges for Services	37,779			2,440	40,219
Fines	89,964			4,907	94,871
Investment Income	13,950	917	388	1,737	16,992
Rents and Royalties	900			47,245	48,145
Contributions & Donations from Private Sources	26,805			16,930	43,735
Other Revenue	43,019			16,424	59,443
Total Revenues	<u>8,223,616</u>	<u>736,430</u>	<u>388</u>	<u>355,400</u>	<u>9,315,834</u>
EXPENDITURES:					
Current:					
General Government	1,277,611		228	11,318	1,289,157
Public Safety:					
Police	2,690,472			21,525	2,711,997
Fire	2,304,454				2,304,454
Other	388,149				388,149
Public Works:					
Highways, Streets and Airport	989,374		1,000	54,898	1,045,272
Health	338,432				338,432
Conservation and Development					0
Culture and Recreation	498,241			186,450	684,691
Debt Service:					
Principal		553,448			553,448
Interest		116,128			116,128
Fiscal Agent Fees		321			321
Capital Outlay:					
Capital Outlay	<u>696,013</u>				<u>696,013</u>
Total Expenditures	<u>9,182,746</u>	<u>669,897</u>	<u>1,228</u>	<u>274,191</u>	<u>10,128,062</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(959,130)</u>	<u>66,533</u>	<u>(840)</u>	<u>81,209</u>	<u>(812,228)</u>
OTHER FINANCING SOURCES (USES):					
Non-Current Loans	184,207				184,207
Transfers In	651,725			22,858	674,583
Transfers Out (Use)				(22,858)	(22,858)
Total Other Financing Sources (Uses)	<u>835,932</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>835,932</u>
Net Change in Fund Balances	(123,198)	66,533	(840)	81,209	23,704
Fund Balance - October 1 (Beginning)	<u>4,078,914</u>	<u>23,557</u>	<u>121,336</u>	<u>511,724</u>	<u>4,735,531</u>
Fund Balance - September 30 (Ending)	<u>\$ 3,955,716</u>	<u>\$ 90,090</u>	<u>\$ 120,496</u>	<u>\$ 592,933</u>	<u>\$ 4,759,235</u>

The accompanying notes are an integral part of this statement.

CITY OF ATHENS, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

Net change in fund balances - total governmental funds	\$	23,704
--	----	--------

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

Governmental funds report capital outlay as expenditures. However, in the government-wide Statement of Activities and Changes in Net Position, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		696,013
--	--	---------

Depreciation expense on capital assets is reported in the government-wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, depreciation expense is not expenditure in governmental funds.		(730,824)
--	--	-----------

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are unearned and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		314,886
---	--	---------

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		(5,500)
Accrued Interest		2,496

Change in Net Position of Governmental Activities	\$	<u>300,775</u>
---	----	----------------

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2013

ASSETS

Current Assets:

Cash and Cash Equivalents	\$ 1,603,855
Investments - Current	8,813
Accounts Receivable - Net of Uncollectible Allowance	620,532
Intergovernmental Receivables	28,880
Inventories	179,993
Prepaid Items	100

Restricted Assets:

Cash and Cash Equivalents	1,283,263
---------------------------	-----------

Total Current Assets	<u>3,725,436</u>
----------------------	------------------

Non-Current Assets:

Capital Assets:

Work in Progress	34,804
Land Purchase and Improvements	152,200
Buildings	799,441
Improvement Other Than Buildings	24,005,463
Machinery and Equipment	1,325,435
Amortizable Assets	243,082
Accumulated Depreciation	(11,909,111)
Accumulated Amortization	(192,690)

Total Non-Current Assets	<u>14,458,624</u>
--------------------------	-------------------

Total Assets	<u>18,184,060</u>
--------------	-------------------

LIABILITIES

Current Liabilities:

Accounts Payable	22,150
Accrued Interest Payable	35,104
Internal Balances	300,610
Certificates of Obligation Payable	385,000
Unearned Revenue	6,134
Deposits	167,830

Total Current Liabilities	<u>916,828</u>
---------------------------	----------------

Non-Current Liabilities

Compensated Absences Payable	58,846
Certificates of Obligation Payable	4,215,000

Total Non-Current Liabilities	<u>4,273,846</u>
-------------------------------	------------------

Total Liabilities	<u>5,190,674</u>
-------------------	------------------

NET POSITION

Investments in Capital Assets, Net of Debt	9,858,624
Restricted for Construction	1,283,263
Unrestricted Net Position	1,851,499

Total Net Position	<u>\$ 12,993,386</u>
--------------------	----------------------

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PROPRIETARY FUND
 FOR YEAR ENDED SEPTEMBER 30, 2013

OPERATING REVENUES

Charges for Water Services	\$ 2,332,577
Charges for Waste Water Services	1,974,317
Fees	111,535
Other Revenue	<u>179,183</u>

Total Operating Revenues	<u>4,597,612</u>
--------------------------	------------------

OPERATING EXPENSES:

Personnel Services	1,666,646
Supplies	575,879
Contractual Services	804,982
Depreciation	701,392
Bad Debt Expense	<u>34,924</u>

Total Operating Expenses	<u>3,783,823</u>
--------------------------	------------------

Operating Income	<u>813,789</u>
------------------	----------------

NON-OPERATING REVENUES (EXPENSES):

Investment Earnings	9,189
Interest Expense - Non-Operating	(205,417)
Fiscal Agent Fees	(858)
Premium on Bonds Sold	558
Grants	<u>33,915</u>

Total Non-Operating Revenue (Expenses)	<u>(162,613)</u>
--	------------------

Income Before Transfers	651,176
-------------------------	---------

Transfers Out	<u>(650,000)</u>
---------------	------------------

Change in Net Position	1,176
------------------------	-------

Total Net Position - October 1 (Beginning)	<u>12,992,210</u>
--	-------------------

Total Net Position - September 20 (Ending)	<u><u>\$ 12,993,386</u></u>
--	-----------------------------

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2013

Cash Flows From Operating Activities:

Cash Received From User Charges	\$ 4,753,515
Other Operating Revenues (uses)	179,183
Cash Payments to Employees for Services	(1,651,888)
Cash Payments to Suppliers	(1,442,389)
Net Cash Provided by Operating Activities	<u>1,838,421</u>

Cash Flows from non-Capital Financing Activities:

Operating Transfers Out	(650,000)
Grants	33,915
Net Cash Provided by (Used for) Capital Financing Activities	<u>(616,085)</u>

Cash Flows from Capital & Related Financing Activities:

Acquisition of Capital Assets	(309,521)
Interest Paid on Bonds	(210,138)
Retirement of Bonds	(370,000)
Fiscal Agent Fees	(858)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(890,517)</u>

Cash Flows from Investing Activities:

Interest and Dividends on Investments	<u>9,189</u>
Net Increase (Decrease) in Cash and Cash Equivalents	341,008
Cash and Cash Equivalents at Beginning of the Year	<u>2,554,923</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 2,895,931</u>

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$ 813,789
------------------	------------

Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation	701,392
--------------	---------

Effect of Increases and Decreases in Current Assets and Liabilities:

Decrease (Increase) in Receivables	361,905
Decrease (Increase) in Inventories	(5,228)
Increase (Decrease) in Accounts Payable	(21,341)
Increase (Decrease) in Internal Balances	(34,959)
Increase (Decrease) in Deposits	8,105
Increase (Decrease) in Compensated Absences	<u>14,758</u>
Net Cash Provided by Operating Activities	<u>\$ 1,838,421</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. The Reporting Entity

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

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

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

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

DISCRETELY PRESENTED COMPONENT UNIT:

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

Excluded from the reporting entity:

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013 audit of the City.

B. Basis of Presentation

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

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

Fund Financial Statements:

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

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

General Fund -

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

Debt Service Fund -

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

Capital Projects Fund -

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

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

Water and Sewer Fund -

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

C. Measurement Focus/Basis of Accounting

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

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

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

D. Budgetary Control

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

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

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

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

E. Cash and Investments

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

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

F. Prepaid Items

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

G. Inventories

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

H. Restricted Assets

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

I. Interfund Receivables and Payables

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013, 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 position and current expense for that portion of the debt incurred for the current year.

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

N. Net Position

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

O. Fund Balance

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

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

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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	\$ 11,594	\$	\$	\$	\$ 11,594
Total Non-spendable	<u>11,594</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>11,594</u>
Restricted:					
Debt Service		90,090			90,090
Capital Projects			120,496		120,496
Other				424,019	424,019
Total Restricted	<u>0</u>	<u>90,090</u>	<u>120,496</u>	<u>424,019</u>	<u>634,605</u>
Committed:					
Emergency	800,000				800,000
Capital Items	200,000				200,000
Total Committed	<u>1,000,000</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,000,000</u>
Assigned:					
Other				168,914	168,914
Total Assigned	<u>0</u>	<u>0</u>	<u>0</u>	<u>168,914</u>	<u>168,914</u>
Unassigned	<u>2,944,122</u>				<u>2,944,122</u>
Total Fund Balances	<u>\$ 3,955,716</u>	<u>\$ 90,090</u>	<u>\$ 120,496</u>	<u>\$ 592,933</u>	<u>\$ 4,759,235</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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 2012-2013 the City's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the City and held by the City's agent.

The largest, combined balances of cash, savings and time deposit accounts amounted to \$9,672,370 and occurred on February 12, 2013. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$10,117,688. 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, 2013

- 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, 2013, the amount of the City's cash balance accounts was \$6,976,547. The cash balance in interest bearing accounts was \$6,976,547.

INVESTMENTS

The City's investments at September 30, 2013, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 6,976,547	6,976,547	.0833
TexPool	<u>37,632</u>	<u>37,635</u>	1.00009
Total Investments	<u>\$ 7,014,179</u>	<u>\$ 7,014,182</u>	

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

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

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

	Balance 10/01/12	Additions	Retirements	Adjustments	Balance 9/30/2013
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2,152,329	\$ 293,547	\$ 0	\$ 0	\$ 2,445,876
Construction in progress	0	0	0	0	0
Total capital assets not being depreciated	<u>2,152,329</u>	<u>293,547</u>	<u>0</u>	<u>0</u>	<u>2,445,876</u>
Capital asset being depreciated:					
Buildings	8,254,981	0	0	0	8,254,981
Equipment	6,490,881	452,146	(139,922)	0	6,803,105
Improvements	2,057,133	0	0	0	2,057,133
Infrastructure	4,806,534	0	0	0	4,806,534
Total capital assets being depreciated	<u>21,609,529</u>	<u>452,146</u>	<u>(139,922)</u>	<u>0</u>	<u>21,921,753</u>
Less: accumulated depreciation for:					
Buildings	(7,203,830)	(75,760)	0	0	(7,279,590)
Equipment	(4,492,826)	(288,995)	134,423	(49,680)	(4,697,078)
Improvements	(1,320,604)	(125,726)	0	0	(1,446,330)
Infrastructure	(2,510,444)	(240,343)	0	0	(2,750,787)
Total accumulated depreciation	<u>\$(15,527,704)</u>	<u>\$ (730,824)</u>	<u>\$ 134,423</u>	<u>\$ (49,680)</u>	<u>\$(16,173,785)</u>
Total capital assets being depreciated, net	<u>6,081,825</u>	<u>(278,678)</u>	<u>(5,499)</u>	<u>(49,680)</u>	<u>5,747,968</u>
Governmental activities capital assets, net	<u>\$ 8,234,154</u>	<u>\$ 14,869</u>	<u>\$ (5,499)</u>	<u>\$ (49,680)</u>	<u>\$ 8,193,844</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152,200	\$ 0	\$ 0	\$ 0	\$ 152,200
Construction in progress	327	34,477	0	0	34,804
Total capital assets not being depreciated	<u>152,527</u>	<u>34,477</u>	<u>0</u>	<u>0</u>	<u>187,004</u>
Capital assets being depreciated:					
Buildings	799,441	0	0	0	799,441
Equipment	1,280,424	114,801	(69,790)	0	1,325,435
Amortizable assets	243,082	0	0	0	243,082
Improvements	1,454	0	0	0	1,454
Infrastructure	23,843,766	160,243	0	0	24,004,009
Total capital asset being depreciated	<u>26,168,167</u>	<u>275,044</u>	<u>(69,790)</u>	<u>0</u>	<u>26,373,421</u>
Less: accumulated depreciation for:					
Buildings	(699,895)	(10,787)	0	0	(710,682)
Equipment	(1,006,687)	(65,814)	69,790	0	(1,002,711)
Amortizable assets	(171,278)	(21,412)	0	0	(192,690)
Improvements	(1,454)	0	0	0	(1,454)
Infrastructure	(9,590,885)	(603,379)	0	0	(10,194,264)
Total accumulated depreciation	<u>(11,470,199)</u>	<u>(701,392)</u>	<u>69,790</u>	<u>0</u>	<u>(12,101,801)</u>
Total capital assets being depreciated, net	<u>14,697,968</u>	<u>(426,348)</u>	<u>0</u>	<u>0</u>	<u>14,271,620</u>
Business-type activities capital assets, net	<u>\$ 14,850,495</u>	<u>\$ (391,871)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 14,458,624</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Governmental activities:	
General government and administration	\$ 334,708
Public safety	128,056
Public services	30,866
Culture and recreation	230,907
Health	6,287
Total depreciation expense-Governmental activities	<u>\$ 730,824</u>
Business-type activities:	
Water and sewer	<u>\$ 701,392</u>

4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2013, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Community Improvement	\$ 3,888
General	Airport	680
General	Airport Grant	250
General	Municipal Court Technology	326
Airport	Airport Grant	<u>20,748</u>
Total		<u>\$ 25,892</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, 2013 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2014	\$ 4,201
2015	1,531
2016	<u>1,276</u>
Total	<u>\$ 7,008</u>

Rental expenditures in 2012-2013 were \$8,792.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, fire truck and a street sweeper. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 3.62%, 4.415%, 2.589%, 2.349% and 1.929%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2013:

	Balance 10/01/12	Issued	Retired	Balance 9/30/13
Hydraulic Excavator	\$ 18,662	\$	\$ 18,662	\$ 18,662
Fire Engine Pumper	186,152		30,009	186,152
Police Vehicles	106,425		74,719	106,425
Fire Truck	900,000		80,102	900,000
Street Sweeper		184,208	14,956	
	<u>\$ 1,211,239</u>	<u>\$ 184,208</u>	<u>\$ 218,448</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
2014	\$ 176,763	\$ 27,359	\$ 204,122
2015	151,393	23,773	175,166
2016	155,488	19,677	175,165
2017	159,709	15,456	175,165
2018	147,922	11,158	159,080
2019-2022	<u>385,724</u>	<u>18,677</u>	<u>404,401</u>
Total	<u>\$ 1,176,999</u>	<u>\$ 116,100</u>	<u>\$ 1,293,099</u>

B. Long-term Debt - Notes Payable

As of September 30, 2013 the City had no notes payable.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013:

	<u>Balance</u> <u>10/01/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>9/30/13</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 1,860,000	\$	\$ 335,000	\$ 1,525,000
Totals	<u>\$ 1,860,000</u>	<u>\$ 0</u>	<u>\$ 335,000</u>	<u>\$ 1,525,000</u>

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

<u>Fiscal Year Ending</u> <u>September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirement</u>
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>\$ 1,525,000</u>	<u>\$ 175,725</u>	<u>\$ 1,700,725</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, 2013 the City had no revenue bonds outstanding.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013, none of the general obligation bonds considered defeased are still outstanding.

F. Certificates of Obligation

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

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

The following is a summary of changes in long term debt for the Certificates of Obligation for the year ended September 30, 2013:

	Balance 10/01/12	Issued	Retired	Balance 9/30/13
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1,185,000	\$	\$ 120,000	\$ 1,065,000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	3,785,000		250,000	3,535,000
	<u>\$ 4,970,000</u>	<u>\$ 0</u>	<u>\$ 370,000</u>	<u>\$ 4,600,000</u>

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

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
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	465,000	125,073	590,073
2019 - 2023	2,075,000	332,869	2,407,869
2024	395,000	16,985	411,985
Total	<u>\$ 4,600,000</u>	<u>\$ 1,151,475</u>	<u>\$ 5,751,475</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, 2013

G. Changes in Long-term Liabilities

Long-term liabilities activity for the year ended September 30, 2013, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	<u>\$ 1,860,000</u>	<u>\$</u>	<u>\$ 335,000</u>	<u>\$ 1,525,000</u>	<u>\$ 355,000</u>
Capital Leases Payable:					
Vehicles and Equipment	<u>1,211,239</u>	<u>184,208</u>	<u>218,448</u>	<u>1,176,999</u>	<u>176,763</u>
Compensated Absences	<u>852,932</u>	<u>31,156</u>		<u>884,088</u>	
Post Employment Benefits	<u>12,334</u>	<u>23,200</u>		<u>35,534</u>	<u>27,073</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 3,936,505</u>	<u>\$ 238,564</u>	<u>\$ 553,448</u>	<u>\$ 3,621,621</u>	<u>\$ 558,836</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	<u>\$ 4,970,000</u>	<u>\$</u>	<u>\$ 370,000</u>	<u>\$ 4,600,000</u>	<u>\$ 385,000</u>
Compensated Absences	<u>44,089</u>	<u>4,605</u>		<u>48,694</u>	
Post Employment Benefits		<u>10,153</u>		<u>10,153</u>	<u>6,768</u>
Total Business Type Activities Long-term Liabilities	<u>\$ 5,014,089</u>	<u>\$ 14,758</u>	<u>\$ 370,000</u>	<u>\$ 4,658,847</u>	<u>\$ 391,768</u>

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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, 2013 is as follows:

Operating Revenues	\$ 4,597,612
Depreciation Expense	701,392
Operating Income	813,789
Operating Transfers (Out)	(650,000)
Change in Net Position	1,176
Fixed Asset Additions	309,521
Net Working Capital (Deficiency)	2,808,608
Total Assets	18,184,060
Total Net Position	12,993,386
Certificates of Obligation Payable	4,600,000

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, 2013

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 2012	Plan Year 2013
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)
2011	1,241,969	967,264	78%	827,047
2012	1,297,549	1,104,643	85%	1,019,952
2013	1,314,398	1,178,258	89%	1,156,089

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Actuarial Valuation Date	12/31/10	12/31/11	12/31/12
Actuarial Cost Method	Projected Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
GASB 25 Equivalent Single Amortization Period	27.1 years Closed Period	26.2 Closed Period	25.2 Closed Period
Amortization Period for new Gains/Losses	30 years	30 years	30 years
Asset Valuation Method	10-year Smoothed Method	10-year Smoothed Method	10-year Smoothed Method
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.15%	7.0%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	2.1%	2.1%	2.1%

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2013

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

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL(UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2012	\$17,902,602	\$27,260,649	65.7%	\$9,358,047	\$5,899,862	158.6%

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, 2013

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 2012, 2011, and 2010 were \$1,823, \$1,690 and \$1,756, respectively, which equaled the required contributions each year.

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

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

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, 2013.

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, 2013.

10. LITIGATION

The City of Athens is involved in one instance of pending litigation the outcome of which is unknown as of the audit report date.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT A

Energy Grants Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$ 209	\$ 11,727	\$ 28,663	\$ 578,438
			741
			20,998
			20,748
<u>\$ 209</u>	<u>\$ 11,727</u>	<u>\$ 28,663</u>	<u>\$ 620,925</u>
	\$ 326		\$ 25,892
			2,100
<u>\$ 0</u>	<u>\$ 326</u>	<u>\$ 0</u>	<u>\$ 27,992</u>
209	11,401	28,663	424,019
			168,914
<u>209</u>	<u>11,401</u>	<u>28,663</u>	<u>592,933</u>
<u>\$ 209</u>	<u>\$ 11,727</u>	<u>\$ 28,663</u>	<u>\$ 620,925</u>

EXHIBIT B

Energy Grants Fund	Municipal Court Technology Fund	Local Forfeited Cash	Total Nonmajor Governmental Funds
\$	\$	\$	\$
			236,500
			29,217
			2,440
	4,907		4,907
	24	64	1,737
			47,245
		14,339	16,424
209			16,930
209	4,931	14,403	355,400
	4,723		11,318
		3,542	21,525
			54,898
			186,450
0	4,723	3,542	274,191
209	208	10,861	81,209
			22,858
0	0	0	(22,858)
209	208	10,861	81,209
	11,193	17,802	511,724
\$ 209	\$ 11,401	\$ 28,663	\$ 592,933

CITY OF ATHENS, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2013

	Budgeted Amounts		Actual	Variances With
	Original	Final	Amounts (GAAP Basis)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property	\$ 3,365,923	\$ 3,365,923	\$ 3,295,963	\$ (69,960)
General Sales and Use	3,490,720	3,490,720	3,746,448	255,728
Franchise	876,638	876,638	821,053	(55,585)
Penalty and Interest	45,000	45,000	67,395	22,395
Licenses and Permits	35,390	35,390	39,818	4,428
Intergovernmental Revenues and Grants	40,522	40,522	40,522	0
Charges for Services	35,500	35,500	37,779	2,279
Fines	191,450	191,450	89,964	(101,486)
Investment Income	12,000	12,000	13,950	1,950
Rents and Royalties	1,200	1,200	900	(300)
Contributions & Donations from Private Sources	9,000	24,295	26,805	2,510
Other Revenue	21,025	21,025	43,019	21,994
Total Revenues	<u>8,124,368</u>	<u>8,139,663</u>	<u>8,223,616</u>	<u>83,953</u>
EXPENDITURES:				
Current:				
General Government	1,098,461	1,389,461	1,277,611	111,850
Public Safety:				
Police	2,929,924	2,945,219	2,690,472	254,747
Fire	2,359,871	2,359,871	2,304,454	55,417
Other	399,049	399,049	388,149	10,900
Public Works:				
Highways and Streets	820,642	820,642	989,374	(168,732)
Health	388,619	388,619	338,432	50,187
Culture and Recreation	530,308	530,308	498,241	32,067
Capital Outlay:				
Capital Outlay	941,554	941,554	696,013	245,541
Total Expenditures	<u>9,468,428</u>	<u>9,774,723</u>	<u>9,182,746</u>	<u>591,977</u>
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	<u>(1,344,060)</u>	<u>(1,635,060)</u>	<u>(959,130)</u>	<u>675,930</u>
OTHER FINANCING SOURCES (USES):				
Non-current Loans	214,000	214,000	184,207	(29,793)
Transfers In	650,000	650,000	651,725	1,725
Transfers Out (Use)				0
Total Other Financing Sources (Uses)	<u>864,000</u>	<u>864,000</u>	<u>835,932</u>	<u>(28,068)</u>
Net Change in Fund Balances	(480,060)	(771,060)	(123,198)	647,862
Fund Balance - October 1 (Beginning)	<u>4,078,914</u>	<u>4,078,914</u>	<u>4,078,914</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 3,598,854</u>	<u>\$ 3,307,854</u>	<u>\$ 3,955,716</u>	<u>\$ 647,862</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, 2013

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 734,901	\$ 734,901	\$ 721,331	\$ (13,570)
Penalty and Interest	8,000	8,000	14,182	6,182
Investment Income	702	702	917	215
Total Revenues	743,603	743,603	736,430	(7,173)
EXPENDITURES:				
General Government:				
Debt Service:				
Principal	574,663	574,663	553,448	21,215
Interest	125,240	125,240	116,128	9,112
Fiscal Agent Fees	700	700	321	379
Total Expenditures	700,603	700,603	669,897	30,706
Excess (Deficiency) of Revenues Over (Under) Expenditures	43,000	43,000	66,533	23,533
OTHER FINANCING SOURCES (USES)				
Transfers In				
Net Change in fund Balances	43,000	43,000	66,533	23,533
Fund Balance - October 01 (Beginning)	23,557	23,557	23,557	0
Fund Balance - September 30 (Ending)	\$ 66,557	\$ 66,557	\$ 90,090	\$ 23,533

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)
12/31/2010	\$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
12/31/2012	\$17,902,602	\$27,260,649	65.7	\$9,358,047	\$5,899,862	158.6

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

Cheri E. Kirkland, CPA

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

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended September 30, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated April 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

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

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

April 21, 2014

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2013
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2013</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
2002	\$ 1,527,754	\$ 1,525,206	100
2003	1,658,588	1,654,495	100
2004	1,747,353	1,743,392	100
2005	2,278,403	2,272,124	100
2006	2,469,898	2,402,753	100
2007	2,622,686	2,615,729	100
2008	2,946,236	2,932,080	100
2009	3,263,140	3,253,350	100
2010	3,483,041	3,454,459	99
2011	3,804,103	3,738,443	98
2012	4,042,455	3,948,118	98
	<u>\$ 29,843,657</u>	<u>\$ 29,540,149</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, 2013

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>
9-30-14	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>\$ 1,525,000</u>	<u>\$ 175,725</u>	<u>\$ 1,700,725</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, 2013

<u>Requirements for Fiscal Year Ended</u>	<u>Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000</u>			
	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
9-30-14	5.00%	\$ 125,000	\$ 53,250	\$ 178,250
9-30-15	5.00%	135,000	47,000	182,000
9-30-16	5.00%	145,000	40,250	185,250
9-30-17	5.00%	150,000	33,000	183,000
9-30-18	5.00%	160,000	25,500	185,500
9-30-19	5.00%	170,000	17,500	187,500
9-30-20	5.00%	<u>180,000</u>	<u>9,000</u>	<u>189,000</u>
TOTAL		<u>\$ 1,065,000</u>	<u>\$ 225,500</u>	<u>\$ 1,290,500</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, 2013

<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>
9-30-14	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>\$ 3,535,000</u>	<u>\$ 925,975</u>	<u>\$ 4,460,975</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, 2013
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	19.6 Square Miles	
Miles of Streets	Paved 100 Graded 2	
Fire Protection	Number of Stations 2 Number of Employees 27	
Police Protection	Number of Stations 1 Number of Policemen 34	
Education	Community College 1 High School 1 Middle School 2 Elementary School 4	
Hospital	East Texas Medical Center - Athens	
Number of City Employees	122	
Population	<u>Years</u>	<u>Federal Census</u>
	1920	3 176
	1930	4 342
	1940	4 765
	1950	5 194
	1960	7 086
	1970	9 553
	1980	10 197
	1990	10 818
	2000	11 297
	2010	12 710

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

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

Cheri E. Kirkland, CPA

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

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

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

Members of the City Council:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City for the year ended September 30, 2013. 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 April 21, 2014. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

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

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

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

Difficulties Encountered in Performing the Audit

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

Audit Differences and Misstatements

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

Disagreements with Management

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

Management Representations

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

Management Consultations with Other Independent Accountants

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

Issues Discussed Prior to Retention of Independent Auditors

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

Supplementary Information

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statement themselves.

General Audit Comments, Findings or Issues

None

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

Respectfully submitted,



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

April 21, 2014

