

CITY OF ATHENS, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

CITY OF ATHENS, TEXAS  
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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2007

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, 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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

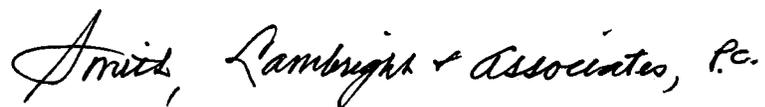
In accordance with *Government Auditing Standards*, we have also issued our report dated May 27, 2008 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Respectfully submitted,

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

SMITH, LAMBRIGHT AND ASSOCIATES, P. C.

Certified Public Accountants

May 27, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## 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, 2007. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 12. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in whole dollars.

### Financial Highlights

- The assets of the City of Athens exceeded its liabilities at September 30, 2007 by \$19,277,210. Of this amount, unrestricted net assets of \$3,973,055 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net assets increased by \$652,973. Of this amount \$417,865 was associated with governmental and \$235,108 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 \$3,497,754. This was a increase of \$213,190 in comparison with the prior year.
- Sales taxes increased substantially with a 6.18% increase over prior years' actual. Actual receipts exceeded budget projections by approximately 1%.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$3,062,342. Of this amount the City Council has currently restricted \$800,000 or 11% of total general fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2006 tax rolls increased by \$29,994,260(5.82%) over the prior tax year (2006).
- The City implemented a new 5-year water and sewer rate plan effective with the September 2003 billing cycle. The rate plan was adopted by City Council after a utility rate study by the City's rate consultants.

## **Overview of the Financial Statements**

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

### **Government-wide financial statements**

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

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

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

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

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

### **Fund Financial Statements**

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

### **Governmental Funds**

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

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

The City maintains 12 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Charges in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the other 9 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

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

### **Proprietary Funds**

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

The basic proprietary fund financial statements can be found on pages 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 37 of this report.

## Other Information

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

## Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a governments financial position. As of September 30, 2007, the City's assets exceeded it's liabilities by \$19,277,210. The largest portion of the City's net assets (53%) 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 are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Athens Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 4,159,622	\$ 3,889,454	\$ 6,582,572	\$ 7,014,288	\$ 10,742,194	\$ 10,903,742
Capital assets	9,597,239	9,563,974	10,753,935	10,303,075	20,351,174	19,867,049
Total assets	13,756,861	13,453,428	17,336,507	17,317,363	31,093,368	30,770,791
Long-term liabilities outstanding	3,866,745	4,415,732	6,338,888	6,906,145	10,205,633	11,321,877
Other liabilities	1,065,885	631,333	544,638	193,345	1,610,523	824,678
Total liabilities	4,932,630	5,047,065	6,883,526	7,099,490	11,816,156	12,146,555
Net assets:						
Invested in capital assets, net of related debt	6,103,852	5,880,158	4,168,934	3,438,076	10,272,786	9,318,234
Restricted	145,474	116,594	4,885,895	5,101,914	5,031,369	5,218,508
Unrestricted	2,574,903	2,409,611	1,398,152	1,677,883	3,973,055	4,087,494
Total net assets	\$ 8,824,229	\$ 8,406,363	\$ 10,452,981	\$ 10,217,873	\$ 19,277,210	\$ 18,624,236

An additional portion of net assets (26%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3,973,055) may be used to meet the government's ongoing obligations to citizens and creditors.

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

## City of Athens Changes in Net Assets

	Governmental Activities		Business-type Activities		Total Primary Government	
	2007	2006	2007	2006	2007	2006
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 217,971	\$ 534,233	\$ 3,566,689	\$ 3,908,197	\$ 3,784,660	\$ 4,442,430
Operating grants and contributions	645,249	159,478			645,249	159,478
Capital grants and contributions	0	0			0	0
Total Program Revenues	<u>863,220</u>	<u>693,711</u>	<u>3,566,689</u>	<u>3,908,197</u>	<u>4,429,909</u>	<u>4,601,908</u>
General revenues:						
Taxes:						
Sales and use taxes	3,669,602	3,427,457			3,669,602	3,427,457
Property taxes	2,421,229	2,270,974			2,421,229	2,270,974
Franchise taxes	858,820	832,144			858,820	832,144
Unrestricted investment income	169,228	131,953	315,331	308,182	484,559	440,135
Donated Capital Assets	128,650	51,100	174,974	300,637	303,624	351,737
Miscellaneous	23,509	11,941			23,509	11,941
Premium on Bonds Sold			557	558	557	558
Gain(Loss) on sale of capital assets	(2,197)	(520)			(2,197)	(520)
Total General Revenue	<u>7,268,841</u>	<u>6,725,049</u>	<u>490,862</u>	<u>609,377</u>	<u>7,759,703</u>	<u>7,334,388</u>
Total Revenue	<u>8,132,061</u>	<u>7,418,760</u>	<u>4,057,551</u>	<u>4,517,574</u>	<u>12,189,612</u>	<u>11,936,296</u>
<b>EXPENSES</b>						
General	\$ 1,291,590	\$ 1,244,660			\$ 1,291,590	\$ 1,244,660
Public Safety:						0
Police	2,263,814	2,087,092			2,263,814	2,087,092
Fire	2,023,660	1,933,859			2,023,660	1,933,859
Other	312,969	319,676			312,969	319,676
Public Services					0	0
Highways and Streets	1,317,008	1,179,865			1,317,008	1,179,865
Health	302,441	287,338			302,441	287,338
Culture and Recreation	685,606	630,666			685,606	630,666
Conservation and Development					0	0
Interest on long-term debt	167,106	177,977	297,674	310,750	464,780	488,727
Water Utilities			2,874,769	2,760,947	2,874,769	2,760,947
Total Expense	<u>8,364,194</u>	<u>7,861,133</u>	<u>3,172,443</u>	<u>3,071,697</u>	<u>11,536,637</u>	<u>10,932,830</u>
Increase in net assets before transfers	(232,133)	(442,373)	885,108	1,445,877	652,975	1,003,466
Transfers	650,000	650,000	(650,000)	(650,000)	0	0
Change in net assets	417,867	207,627	235,108	795,877	652,975	1,003,466
Net assets October 1	8,406,363	8,198,736	10,217,873	9,421,996	18,624,236	17,620,732
Net assets September 30	<u>\$ 8,824,230</u>	<u>\$ 8,406,363</u>	<u>\$ 10,452,981</u>	<u>\$ 10,217,873</u>	<u>\$ 19,277,211</u>	<u>\$ 18,624,198</u>

**Governmental Activities.** Governmental activities increased the City's net assets by \$417,867 accounting for 63 percent of the total increase in the net assets. Excess revenue over expenditures especially sales taxes along with donated capital assets accounted for most of the increase. Debt payment schedules and assets useful lives may differ slightly creating differences in the increases in accumulated depreciation and reductions in the related debt.

**Business-type activities.** Business type activities increased the City's net assets by \$235,108 accounting for 37 percent of the total increase in the governments net assets. This increase was due principally to donations of capital assets from developers and excess interest earnings during the fiscal year.

## **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 \$3,497,754. Approximately 58% of this amount (\$2,062,341) constitutes unreserved and undesignated fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2007, unreserved fund balance of the General Fund was \$3,062,342, while total fund balance reached \$3,062,342.

The General Fund's fund balance decreased during the current fiscal year (\$1,361). Key factors in this decrease are as follows:

- Supplemental budget appropriations over excess revenue.

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

The Debt Service Fund's fund balance increased from \$6,110 to \$30,477 due to variations in revenue from property tax collections over debt payments and receivables and allowance adjustments.

The Capital Projects Fund's fund balance increased by \$4,513. The increase was due to interest earnings on proceeds from donated cash held for future capital projects. Projects are determined based on specific donation restrictions and purposes.

## **Proprietary Funds**

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,398,152. This was an increase of \$235,108. 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 \$341,688 (net) from the original budget to the final budget (an increase of 4.3%). These increases can be summarized as follows:

- \$234,941 for matching funds for airport grants.
- \$11,692 for replacement of a police vehicle.
- \$1,527 for remodel of the Emergency Operations Center.
- \$4,000 for City of Athens web site development.
- \$2,157 For police laptop.
- \$60,000 for Civil Service legal expenses.
- \$18,000 for boiler replacement at Cain Center Civic Center.
- \$10,168 for annual July 4<sup>th</sup> fireworks celebration.
- \$1,360 for City Council travel and training.

## **Capital Asset and Debt Administration**

### **Capital Assets**

The City's investment in capital assets for its governmental and business type activities at September 30, 2007 amounts to \$20,351,174 (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 increase in the City's investment in capital assets for the current fiscal year was 2.4%

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

- \$128,650 in streets and improvements was donated by developers.
- \$143,220 for seven new police vehicles.
- \$495,617 for construction of 12 new t-hanger sat Athens Municipal Airport.
- \$295,735 in water and sewer infrastructure improvements.

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

**Long-term Debt**

At the end of the current fiscal year, the City had \$10,879,992 in outstanding debt consisting of certificates of obligation, capital leases, compensated absences payable and an installment loan. Additional information on the City’s long term debt can be found in note 6 on pages 31 through 34.

**Outstanding Debt at September 30, 2007**

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 3,315,000		\$ 3,315,000
Certificates of Obligation		6,585,000	6,585,000
Notes Payable	86,725		86,725
Capital Leases Payable	91,662		91,662
Compensated Absences Payable	752,717	48,888	801,605
Total	<u>\$ 4,246,104</u>	<u>\$ 6,633,888</u>	<u>10,879,992</u>

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

- Property tax values continue to increase with the taxable valuations in 2007 increasing by \$40,043,623. The property tax rate remain the same for 2008 at .443793 per \$100 valuation.
- Sales tax revenue continue to increase for the first time in 5 years. The sales tax revenue was above budget by \$18,072 in 2007. The 2008 budget anticipates a 2% increase in sales tax revenue over the prior year.
- Interest earnings on the 2004 bond proceeds have been used to cover cost over runs on projects due to dramatic increases in the cost of pipe brought about by increased oil prices. This along with any arbitrage rebates may effect the total number of projects which can be completed as compared to the scheduled projects to be done.
- A five year utility rate plan is in effect to help cover costs for water and sewer services. The fourth phase of the plan raised rates approximately 2% beginning with the September 2007 billing. A new water and sewer rate study is budgeted for 2008.
- Delivery is expected on the \$344,000 fire truck budgeted and ordered in the prior fiscal year.
- \$1,259,505 is budgeted in the airports grants fund for airport improvements including a master plan, runway improvements and new hanger construction. Most of the improvements are to be paid for by federal grant funds.

## **Requests for Information**

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

FINANCIAL SECTION

**BASIC FINANCIAL STATEMENTS**

CITY OF ATHENS, TEXAS  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 692 143	\$ 229 742	\$ 921 885	\$ 305 613
Investments	2 191 178	1 140 570	3 331 748	261 052
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	119 778		119 778	
Accounts	731 397	515 501	1 246 898	901 583
Due from other governments	19 059	8 714	27 773	
Internal balances	312 160	(312 160)	0	
Inventories	5 222	114 310	119 532	
Prepaid items	88 684		88 684	
Restricted assets:				
Cash		102 099	102 099	
Investments		4 783 796	4 783 796	
Capital assets:				
Work in progress	540 616	696 612	1 237 228	
Land	2 152 329	152 200	2 304 529	217 722
Buildings	7 674 876	799 441	8 474 317	1 061 271
Improvements other than buildings	6 264 804	18 305 049	24 569 853	177 432
Machinery and equipment	4 534 916	1 168 335	5 703 251	49 613
Amortizable assets	104 679	237 832	342 511	
Accumulated depreciation	(11 582 190)	(10 536 330)	(22 118 520)	(340 917)
Accumulated amortization	(92 791)	(69 204)	(161 995)	
<b>Total Assets</b>	<b><u>13 756 860</u></b>	<b><u>17 336 507</u></b>	<b><u>31 093 367</u></b>	<b><u>2 633 369</u></b>
Liabilities				
Accounts payable	530 698	67 806	598 504	1 658
Wages and salaries payable	125 968		125 968	
Accrued interest	24 660	55 512	80 172	
Deposits	5 200	116 840	122 040	
Deferred revenue		9 480	9 480	
Noncurrent liabilities:				
Due within one year	390 359	295 000	685 359	6 250
Due in more than one year	3 855 745	6 338 888	10 194 633	50 001
<b>Total Liabilities</b>	<b><u>4 932 630</u></b>	<b><u>6 883 526</u></b>	<b><u>11 816 156</u></b>	<b><u>57 909</u></b>
Net Assets				
Invested in capital assets, net of related debt	6 103 851	4 168 934	10 272 785	1 165 121
Restricted for:				
Debt service	30 477		30 477	
Capital projects	114 997	4 885 895	5 000 892	
Unrestricted	2 574 903	1 398 152	3 973 055	1 410 339
<b>Total Net Assets</b>	<b><u>\$ 8 824 228</u></b>	<b><u>\$ 10 452 981</u></b>	<b><u>\$ 19 277 209</u></b>	<b><u>\$ 2 575 460</u></b>

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	\$ 1 291 590	\$ 79 273	\$ 9 050
Police	2 263 814	99 452	3 151
Fire Protection	2 023 660		21 595
Other Public Safety	312 969		167 940
Highways Streets and Airport	1 317 008	39 247	443 514
Health	302 441		
Culture and Recreation	685 606		
Conservation and Development			
Bond Interest	167 106		
Total Government Activities	<u>8 364 194</u>	<u>217 972</u>	<u>645 250</u>
Business-type Activities			
Utility Fund	<u>3 172 443</u>	<u>3 566 689</u>	
Total Business-type Activities	<u>3 172 443</u>	<u>3 566 689</u>	<u>0</u>
Total Primary Government	<u>11 536 637</u>	<u>3 784 661</u>	<u>645 250</u>
Component Unit:			
Athens Economic Development Corporation	<u>1 480 119</u>	<u>68 592</u>	<u>36 643</u>
Total Component Unit	<u>\$ 1 450 188</u>	<u>\$ 68 592</u>	<u>\$ 36 643</u>

General Revenue

Taxes:
Property
Sales
Franchise
Investment Earnings
Donated Capital Assets
Miscellaneous
Premium on Bonds Sold
Gain (Loss) on Sale of Capital Assets
Transfers
Total General Revenues and Transfers
Changes in Net Assets
Net Assets at Beginning of Year
Net Assets at End of Year

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS  
 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Net (Expenses) Revenue and Changes in Net Assets			
Government Activities	Business-type Activities	Total	Component Unit
\$ (1 203 267)	\$	\$ (1 203 267)	\$
(2 161 211)		(2 161 211)	
(2 002 065)		(2 002 065)	
(145 029)		(145 029)	
(834 247)		(834 247)	
(302 441)		(302 441)	
(685 606)		(685 606)	
0		0	
(167 106)		(167 106)	
(7 500 972)	0	(7 500 972)	0
	394 246	394 246	
0	394 246	394 246	
(7 500 972)	394 246	(7 106 726)	0
			(1 374 884)
			(1 374 884)
2 421 229		2 421 229	
3 669 602		3 669 602	1 145 622
858 820		858 820	
169 228	315 331	484 559	15 175
128 650	174 974	303 624	
23 505		23 505	
	557	557	
(2 197)		(2 197)	
650 000	(650 000)	0	
7 918 837	(159 138)	7 759 699	1 160 797
417 865	235 108	652 973	(214 087)
8 406 363	10 217 873	18 624 236	2 789 547
\$ 8 824 228	\$ 10 452 981	\$ 19 277 209	\$ 2 575 460

CITY OF ATHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2007

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 341 051	\$ 5 461	\$ 114 997	\$ 230 633	\$ 692 142
Investments - Current	2 191 178				2 191 178
Taxes Receivable (net of allow. for uncoll.)	94 762	25 016			119 778
Receivables (net of allowable for uncoll.)	731 232			165	731 397
Due from Other Governments					0
Intergovernmental Receivables	312 160			19 059	331 219
Due from Other Funds	41 402				41 402
Inventories	5 222				5 222
Prepaid Items	3 000			85 684	88 684
Other Assets					0
<b>Total Assets</b>	<b><u>\$ 3 720 007</u></b>	<b><u>\$ 30 477</u></b>	<b><u>\$ 114 997</u></b>	<b><u>\$ 335 541</u></b>	<b><u>\$ 4 201 022</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 530 698				\$ 530 698
Wages and Salaries Payable	125 968				125 968
Due to Other Funds				41 402	41 402
Deposits Payable	1 000			4 200	5 200
Deferred Revenues					0
Other Current Liabilities					0
<b>Total Liabilities</b>	<b><u>657 666</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>45 602</u></b>	<b><u>703 268</u></b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Debt Service		30 477			30 477
<b>Unreserved Designated for:</b>					
Emergency Reserve	800 000				800 000
Capital Improvements	200 000		114 997		314 997
<b>Unreserved and Undesignated:</b>					
Reported in the General Fund	2 062 341				2 062 341
Reported in Special Revenue Funds				289 939	289 939
<b>Total Fund Balances</b>	<b><u>3 062 341</u></b>	<b><u>30 477</u></b>	<b><u>114 997</u></b>	<b><u>289 939</u></b>	<b><u>3 497 754</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 3 720 007</u></b>	<b><u>\$ 30 477</u></b>	<b><u>\$ 114 997</u></b>	<b><u>\$ 335 541</u></b>	<b><u>\$ 4 201 022</u></b>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO STATEMENT OF NET ASSETS  
 SEPTEMBER 30, 2007

Total Fund Balance - Total Governmental Funds	\$	3 497 754
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital Assets used in governmental activities are not current Financial resources and therefore are not reported in the Governmental Funds Balance Sheet.		9 597 238
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.		(24 660)
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		(390 359)
Due in more than one year		<u>(3 855 745)</u>
Net assets of governmental activities	\$	<u>8 824 228</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, 2007

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
<b>REVENUES:</b>					
Taxes:					
Property	\$ 1 946 609	\$ 440 748			\$ 2 387 357
General Sales and Use	3 457 244			212 358	3 669 602
Franchise	858 820				858 820
Penalty and Interest	27 784	6 087			33 871
Licenses and Permits	43 925				43 925
Intergovernmental Revenues and Grants	43 207			455 053	498 260
Charges for Services	35 112			1 397	36 509
Fines	92 657			7 404	100 061
Investment Income	147 318	9 546	4 513	7 850	169 227
Rents and Royalties	1 132			6 344	7 476
Contributions & Donations from Private Sources	9 050			167 939	176 989
Other Revenue	23 509				23 509
<b>Total Revenues</b>	<b>6 686 367</b>	<b>456 381</b>	<b>4 513</b>	<b>858 345</b>	<b>8 005 606</b>
<b>EXPENDITURES:</b>					
Current:					
General Government	1 055 859			3 452	1 059 311
Public Safety:					
Police	2 129 371			117	2 129 488
Fire	1 876 740			25 411	1 902 151
Other	308 345				308 345
Public Works:					
Highways, Streets and Airport	857 467			104 467	961 934
Health	296 237				296 237
Culture and Recreation	424 541			213 093	637 634
Debt Service:					
Principal		321 456		12 192	333 648
Interest		168 481		407	168 888
Fiscal Agent Fees		909			909
Capital Outlay:					
Capital Outlay	259 948			527 143	787 091
<b>Total Expenditures</b>	<b>7 208 508</b>	<b>490 846</b>	<b>0</b>	<b>886 282</b>	<b>8 585 636</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(522 141)	(34 465)	4 513	(27 937)	(580 030)
<b>OTHER FINANCING SOURCES (USES):</b>					
Non-Current Loans					
Note Proceeds	143 220				143 220
Transfers In	650 000	58 832		213 609	922 441
Transfers Out (Use)	(272 441)				(272 441)
<b>Total Other Financing Sources (Uses)</b>	<b>520 779</b>	<b>58 832</b>	<b>0</b>	<b>213 609</b>	<b>793 220</b>
Net Change in Fund Balances	(1 362)	24 367	4 513	185 672	213 190
Fund Balance - October 1 (Beginning)	3 063 703	6 110	110 484	104 267	3 284 564
Fund Balance - September 30 (Ending)	<u>\$ 3 062 341</u>	<u>\$ 30 477</u>	<u>\$ 114 997</u>	<u>\$ 289 939</u>	<u>\$ 3 497 754</u>

\*Two additional local funds have been added to this group that were not reported in the previous year.

The accompanying notes are an integral part of this statement.

EXHIBIT 6

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, 2007

Net change in fund balances - total governmental funds	\$	213 190
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Governmental funds report capital outlay as expenditures. However, in the government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.		787 091
Depreciation expense on capital assets is reported in the government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not expenditure in governmental funds.		(880 280)
Donations of capital assets are reported as income in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not provide current financial resources. Therefore donations of capital assets is not revenue in governmental funds.		128 650
The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		190 430
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.		
Compensated Absences		(20 801)
Accrued Interest on Debt		1 782
Loss on Sale of Capital Assets		(2 197)
		(2 197)
Change in Net Assets of Governmental Activities	\$	417 865

See accompanying notes to basic financial statements.

EXHIBIT 7

CITY OF ATHENS, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property	\$ 2 018 920	\$ 2 018 920	\$ 1 946 609	\$ (72 311)
General Sales and Use	3 436 861	3 436 861	3 457 244	20 383
Franchise	833 000	833 000	858 820	25 820
Penalty and Interest	27 993	27 993	27 784	(209)
Licenses and Permits	44 875	44 875	43 925	(950)
Intergovernmental Revenues and Grants	40 800	40 800	43 207	2 407
Charges for Services	27 000	27 000	35 112	8 112
Fines	330 100	330 100	92 657	(237 443)
Investment Income	107 000	107 000	147 318	40 318
Rents and Royalties	1 500	1 500	1 132	(368)
Contributions & Donations from Private Sources	0	0	9 050	9 050
Other Revenue	10 100	12 257	23 509	11 252
Total Revenues	<u>6 878 149</u>	<u>6 880 306</u>	<u>6 686 367</u>	<u>(193 939)</u>
<b>EXPENDITURES:</b>				
Current:				
General Government	1 078 271	1 148 109	1 055 859	92 250
Public Safety:				
Police	2 313 203	2 291 150	2 129 371	161 779
Fire	1 938 327	1 932 840	1 876 740	56 100
Other	342 131	328 921	308 345	20 576
Public Works:				
Highways, Streets and Airport	685 324	685 324	857 467	(172 143)
Health	326 987	331 387	296 937	34 450
Culture and Recreation	426 634	458 034	424 541	33 493
Capital Outlay:				
Capital Outlay	712 700	755 244	259 248	495 996
Total Expenditures	<u>7 823 577</u>	<u>7 931 009</u>	<u>7 208 508</u>	<u>722 501</u>
Excess (Deficiency ) of Revenues Over (Under) Expenditures	<u>(945 428)</u>	<u>(1 050 703)</u>	<u>(522 141)</u>	<u>528 562</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Note Proceeds	315 296	372 656	143 220	(229 436)
Transfers In	650 000	650 000	650 000	0
Transfers Out (Use)	(202 068)	(313 641)	(272 441)	41 200
Total Other Financing Sources (Uses)	<u>763 228</u>	<u>709 015</u>	<u>520 779</u>	<u>(188 236)</u>
Net Change in Fund Balances	(182 200)	(341 688)	(1 362)	340 326
Fund Balance - October 1 (Beginning)	<u>3 063 703</u>	<u>3 063 703</u>	<u>3 063 703</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 2 881 503</u>	<u>\$ 2 722 015</u>	<u>\$ 3 062 341</u>	<u>\$ 340 326</u>

See accompanying notes to the basic financial statements.

EXHIBIT 8

CITY OF ATHENS, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
FOR YEAR ENDED SEPTEMBER 30, 2007

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 229 742
Investments - Current	1 140 570
Accounts Receivable - Net of Uncollectible Allowance	515 501
Intergovernmental Receivables	8 714
Inventories	114 310
Restricted Assets:	
Cash and Cash Equivalents	4 885 895
Total Current Assets	6 894 732
Non-Current Assets:	
Capital Assets:	
Work in Progress	696 612
Land Purchase and Improvements	152 200
Buildings	799 441
Improvement Other Than Buildings	18 305 049
Machinery and Equipment	1 168 335
Amortizable Assets	237 832
Accumulated Depreciation	(10 536 330)
Accumulated Amortization	(69 204 )
Total Non-Current Assets	10 753 935
Total Assets	17 648 667
LIABILITIES	
Current Liabilities:	
Accounts Payable	67 806
Accrued Interest Payable	55 512
Internal Balances	312 160
Certificates of Obligation Payable	295 000
Deferred Revenue	9 480
Deposits	116 840
Total Current Liabilities	856 798
Non-Current Liabilities	
Compensated Absences Payable	48 888
Certificates of Obligation Payable	6 290 000
Total Non-Current Liabilities	6 338 888
Total Liabilities	7 195 686
NET ASSETS	
Investments in Capital Assets, Net of Debt	4 168 934
Restricted for Construction	4 885 895
Unrestricted Net Assets	1 398 152
Total Net Assets	\$ 10 452 981

See accompanying notes to basic financial statements.

EXHIBIT 9

CITY OF ATHENS, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2007

OPERATING REVENUES	
Charges for Water Services	\$ 1 799 807
Charges for Waste Water Services	1 523 274
Fees	240 940
Other Revenue	<u>2 668</u>
Total Operating Revenues	<u>3 566 689</u>
OPERATING EXPENSES:	
Personnel Services	1 356 051
Supplies	330 528
Contractual Services	666 268
Depreciation	<u>521 450</u>
Total Operating Expenses	<u>2 874 297</u>
Operating Income	<u>692 392</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	174 974
Investment Earnings	315 331
Interest Expense - Non-Operating	(297 774)
Fiscal Agent Fees	(371)
Premium on Bonds Sold	<u>557</u>
Total Non-Operating Revenue (Expenses)	<u>192 717</u>
Income Before Transfers	885 109
Transfers Out	<u>(650 000)</u>
Change in Net Assets	235 109
Total Net Assets - October 1 (Beginning)	<u>10 217 872</u>
Total Net Assets - September 20 (Ending)	<u>\$ 10 452 981</u>

See accompanying notes to basic financial statements.

EXHIBIT 10

CITY OF ATHENS, TEXAS

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUND  
 FOR YEAR ENDED SEPTEMBER 30, 2007

<u>Cash Flows From Operating Activities:</u>	
Cash Received From User Charges	\$ 3 592 129
Other Operating Revenues	2 668
Other Payments	13 847
Cash Payments to Employees for Services	(1 348 308)
Cash Payments to Suppliers	(864 890)
Net Cash Provided by Operating Activities	<u>1 395 446</u>
<u>Cash Flows from non-Capital Financing Activities:</u>	
Operating Transfers Out	<u>(650 000)</u>
<u>Cash Flows from Capital &amp; Related Financing Activities:</u>	
Acquisition of Capital Assets	(797 334)
Interest Paid on Bonds	(300 552)
Retirement of Bonds	(280 000)
Fiscal Agent Fees	(371)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1 378 257)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>315 331</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(317 480)
Cash and Cash Equivalents at Beginning of the Year	<u>6 573 687</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 6 256 207</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 692 392
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	521 450
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	28 109
Decrease (Increase) in Inventories	(11 936)
Increase (Decrease) in Accounts Payable	154 998
Increase (Decrease) in Deposits	2 690
Increase (Decrease) in Compensated Absences	<u>7 743</u>
Net Cash Provided by Operating Activities	<u>\$ 1 395 446</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### A. The Reporting Entity

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

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

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

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

#### DISCRETELY PRESENTED COMPONENT UNIT:

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

Excluded from the reporting entity:

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

CITY OF ATHENS 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, 2007 audit of the City.

## **B. Basis of Presentation**

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

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

### **Fund Financial Statements:**

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

#### **Capital Projects Fund -**

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

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

Water and Sewer Fund -

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

### **C. Measurement Focus/Basis of Accounting**

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

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

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

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

### **D. Budgetary Control**

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

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

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

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary date 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."

#### **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, 2007, 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 \$500 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

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

#### **L. Compensated Absences**

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

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

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

#### **N. Net Assets**

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

## **2. DEPOSITS AND INVESTMENTS**

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

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

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

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

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2006-2007 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 \$3,384,107 and occurred on May 15, 2007. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$9,992,621. The total amount of FDIC coverage at the time of the highest combined balance was \$300,000.

- 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.
- 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, 2007, the amount of the City's cash balance accounts was \$1,023,984. The cash balance in interest bearing account was \$1,022,684.

## INVESTMENTS

The City's investments at September 30, 2007, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 1 022 664	\$ 1 022 664	.083
Certificates of Deposit	426 000	426 000	.086
TexPool	<u>7 689 543</u>	<u>7 689 543</u>	1.00018
Total Investments	<u>\$ 9 138 207</u>	<u>\$ 9 138 207</u>	

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

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

### 3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007, was as follows:

	Balance 10/01/06	Additions	Retirements	Adjustment s	Balance 9/30/2007
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2 152 329	\$	\$	\$	\$ 2 152 329
Construction in progress	60 811	497 153		(17 348)	540 616
Total capital assets not being depreciated	<u>2 213 140</u>	<u>497 153</u>		<u>(17 348)</u>	<u>2 692 945</u>
Capital asset being depreciated:					
Buildings	7 657 528			17 348	7 674 876
Equipment	4 448 876	291 628	116 809	15 900	4 639 595
Improvements	1 458 271				1 458 271
Infrastructure	4 677 883	128 650			4 806 533
Total capital assets being depreciated	<u>18 242 558</u>	<u>420 278</u>	<u>116 809</u>	<u>33 248</u>	<u>18 579 275</u>
Less: accumulated depreciation for:					
Buildings	(5 822 388)	(247 790)			(6 070 178)
Equipment	(3 364 378)	(305 574)	112 743	(15 721)	(3 572 930)
Improvements	(630 387)	(92 756)			(723 143)
Infrastructure	(1 074 571)	(234 160)		1	(1 308 730)
Total accumulated depreciation	<u>(10 891 724)</u>	<u>(880 280)</u>	<u>112 743</u>	<u>(15 720)</u>	<u>(11 674 981)</u>
Total capital assets being depreciated, net	<u>7 350 834</u>	<u>(460 002)</u>	<u>(4 066)</u>	<u>17 528</u>	<u>6 904 294</u>
Governmental activities capital assets, net	<u>\$ 9 563 974</u>	<u>\$ 37 151</u>	<u>\$ (4 066)</u>	<u>\$ 180</u>	<u>\$ 9 597 239</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152 200	\$	\$	\$	\$ 152 200
Construction in progress	99 999	596 613			696 612
Total capital assets not being depreciated	<u>252 199</u>	<u>596 613</u>			<u>848 812</u>
Capital assets being depreciated:					
Buildings	799 441				799 441
Equipment	1 105 116	79 959	16 741		1 168 334
Amortizable assets	237 832				237 832
Improvements	1 454				1 454
Infrastructure	18 007 859	295 736			18 303 595
Total capital asset being depreciated	<u>20 151 702</u>	<u>375 695</u>	<u>16 741</u>		<u>20 510 656</u>
Less: accumulated depreciation for:					
Buildings	(650 423)	(9 223)			(659 646)
Equipment	(779 226)	(83 511)	16 741		(845 996)
Amortizable assets	(48 842)	(20 362)			(69 204)
Improvements	(1 453)				(1 453)
Infrastructure	(8 620 881)	(408 354)			(9 029 235)
Total accumulated depreciation	<u>(10 100 825)</u>	<u>(521 450)</u>	<u>16 741</u>		<u>(10 605 534)</u>
Total capital assets being depreciated, net	<u>10 050 877</u>	<u>(145 755)</u>	<u>0</u>	<u>0</u>	<u>9 905 122</u>
Business-type activities capital assets, net	<u>\$ 10 303 076</u>	<u>\$ 450 858</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10 753 934</u>

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

Governmental activities:	
General government and administration	\$ 520 422
Public safety.....	247 585
Public services	59 243
Culture and recreation	47 181
Health	5 849
	<u>880 280</u>
Total depreciation expense-Governmental activities	
	<u>\$ 880 280</u>
Business-type activities:	
Water and sewer	<u>\$ 521 450</u>

**4. Interfund Assets/Liabilities**

The compositions of interfund balances as of September 30, 2007, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Emergency Management Grant	\$ 5 874
General	Airport	445
General	Community Improvements	21 498
General	Utility	312 160
Airport Grant	General	<u>13 585</u>
Total		<u>\$ 353 562</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, 2007 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2008	\$ 9 206
2009	4 855
Total	<u>\$ 14 061</u>

Rental expenditures in 2006-2007 were \$21,695.

**6. Long-term Debt**

**A. Capital Leases Payable**

The City has entered into lease agreements as lessee for the acquisition of police vehicles and municipal court technology. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 4.84% and 5.29%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2007:

	<u>Balance 10/01/06</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/07</u>
Police Vehicles	\$ 0	\$ 143 220	\$ 52 603	\$ 90 617
Municipal Court Technology	<u>13 238</u>	<u>          </u>	<u>12 193</u>	<u>1 045</u>
Totals	<u>\$ 13 238</u>	<u>\$ 143 220</u>	<u>\$ 64 796</u>	<u>\$ 91 662</u>

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

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2008	\$ 38 634	\$ 3 564	\$ 42 198
2009	39 449	1 699	41 148
2010	<u>13 579</u>	<u>137</u>	<u>13 716</u>
Total	<u>\$ 91 662</u>	<u>\$ 5 400</u>	<u>\$ 97 062</u>

**B. Long-term Debt - Notes Payable**

A note is owed to a bank for financing the purchase of the City of Athens Administrative Office. The current interest rate is 6.0% and the monthly payments are \$2,076. The note is renewable annually.

	<u>Balance 10/01/06</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/07</u>
Administrative Office	\$ 105 579	\$ _____	\$ 18 854	\$ 86 725
Totals	<u>\$ 105 579</u>	<u>\$ 0</u>	<u>\$ 18 854</u>	<u>\$ 86 725</u>

Debt service requirements for the notes payable are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2008	\$ 86 725	\$ 4 311	\$ 91 036
Total	<u>\$ 86 725</u>	<u>\$ 4 311</u>	<u>\$ 91 036</u>

**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, 2007:

	<u>Balance 10/01/06</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/07</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 3 565 000	\$	\$ 250 000	\$ 3 315 000
Totals	<u>\$ 3 565 000</u>	<u>\$ 0</u>	<u>\$ 250 000</u>	<u>\$ 3 315 000</u>

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

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2008	\$ 265 000	\$ 148 772	\$ 413 772
2009	275 000	137 112	412 112
2010	290 000	124 875	414 875
2011	305 000	111 825	416 825
2012	320 000	98 100	418 100
2013 - 2017	<u>1 860 000</u>	<u>259 425</u>	<u>2 119 425</u>
Total	<u>\$ 3 315 000</u>	<u>\$ 880 109</u>	<u>\$ 4 195 109</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, 2007 the City had no revenue bonds outstanding.

**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, 2007, none of the revenue bonds and none of general obligation bonds considered defeased are still outstanding.

**F. Certificates of Obligation**

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

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

The following is a summary of changes in long term debt for the Certificates of Obligation for the year ended September 30, 2007:

	<u>Balance 10/01/06</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/07</u>
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1 775 000	\$	\$ 85 000	\$ 1 690 000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	5 090 000		195 000	4 895 000
	<u>\$ 6 865 000</u>	<u>\$ 0</u>	<u>\$ 280 000</u>	<u>\$ 6 585 000</u>

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

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2008	\$ 295 000	\$ 287 140	\$ 582 140
2009	310 000	272 990	582 990
2010	320 000	257 566	577 566
2011	335 000	241 564	576 564
2012	355 000	225 488	580 488
2013 - 2017	2 035 000	886 685	2 921 685
2018 - 2022	2 165 000	425 020	2 590 020
2023 - 2024	770 000	49 907	819 907
Total	<u>\$ 6 585 000</u>	<u>\$ 2 646 360</u>	<u>\$ 9 231 360</u>

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

**G. Changes in Long-term Liabilities**

Long-term liabilities activity for the year ended September 30, 2007, 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	\$ 3 565 000	\$ 0	\$ 250 000	\$ 3 315 000	\$ 265 000
Notes Payable:					
Administrative Office	105 579	0	18 854	86 725	86 725
Capital Leases Payable:					
Vehicles and Equipment	13 238	143 220	64 796	91 662	38 634
Compensated Absences	731 916	68 079	47 278	752 717	
Total Governmental Activities Long-term Liabilities	<u>\$ 4 415 733</u>	<u>\$ 211 299</u>	<u>\$ 380 928</u>	<u>\$ 4 246 104</u>	<u>\$ 390 359</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	\$ 6 865 000	\$ 0	\$ 280 000	\$ 6 585 000	\$ 295 000
Compensated Absences	41 145	17 594	9 851	48 888	
Total Business Type Activities Long-term Liabilities	<u>\$ 6 906 145</u>	<u>\$ 17 594</u>	<u>\$ 289 851</u>	<u>\$ 6 633 888</u>	<u>\$ 295 000</u>

## 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, 2007 is as follows:

Operating Revenues	\$ 3 566 689
Depreciation Expense	521 450
Operating Income	692 392
Operating Transfers (Out)	(650 000)
Change in Net Assets	235 109
Fixed Asset Additions	375 695
Net Working Capital (Deficiency)	1 563 879
Total Assets	17 336 507
Total Net Assets	10 452 981
Certificates of Obligation Payable	6 585 000

### C. Pension Benefits Plan

#### Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 821 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City.  
The Service Retirement Eligibilities for the City are: 5 years/age 60, 20 years/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City's contribution 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. (i.e. December 31, 2005 valuation is effective for rates beginning January, 2007.)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	<u>12/31/06</u>	<u>12/31/05</u>	<u>12/31/04</u>	<u>12/31/03</u>	<u>12/31/02</u>	<u>12/31/01</u>
Actuarial Value of Assets	\$ 8 422 450	\$ 7 708 934	\$ 6 574 522	\$ 6 089 248	\$ 5 866 549	\$ 5 230 208
Actuarial Accrued Liability	\$ 13 639 437	\$ 12 498 234	\$ 10 892 201	\$ 8 999 404	\$ 7 362 413	\$ 6 472 763
Percentage Funded	61.75%	61.7%	60.4%	67.7%	79.7%	80.8%
Underfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 5 216 987	\$ 4 789 300	\$ 4 317 679	\$ 2 910 156	\$ 1 495 864	\$ 1 242 555
Annual Covered Payroll	\$ 4 658 742	\$ 4 536 189	\$ 4 527 284	\$ 4 247 718	\$ 4 003 466	\$ 3 783 576
AAL as a Percentage of Covered Payroll	111.98%	105.6%	95.4%	68.5%	37.4%	32.8%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Pension Cost: Annual required Contribution (ARC)	\$ 603 333	\$ 973 887	\$ 867 092	\$ 653 063	\$ 574 383	\$ 245 815
Contributions Made	\$ 603 333	\$ 973 887	\$ 867 092	\$ 653 063	\$ 574 383	\$ 245 815
Increase in NPO	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NPO at the End of the Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Note: Trend data presented is audited information as of December 31st of the previous year, which is the fiscal year of the Texas Municipal Retirement System.

**9. EXPENDITURES OF FEDERAL AWARDS**

A "Single Audit" of Federal Grant Award Programs was not required by the OMB Circular A-133 for the City of Athens, Texas for the fiscal year ended September 30, 2007.

**10. EXPENDITURES OF STATE AWARDS**

A "Single Audit" of State of Texas Grant Award Programs was not required by the State of Texas Single Audit Circular for the City of Athens, Texas for the fiscal year ended September 30, 2007.

COMBINING FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2007

	Airport Funds	Community Improvement Fund	Emergency Management Grant	Airport Grants Fund
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 26 174	\$ 21 498	\$	\$
Receivables (net of allowance for uncollectibles)	165			
Intergovernmental Receivables			5 874	13 185
Prepaid Items				85 684
Total Assets	<u>\$ 26 339</u>	<u>\$ 21 498</u>	<u>\$ 5 874</u>	<u>\$ 98 869</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Due to Other Funds	\$ 445	\$ 21 498	\$ 5 874	\$ 13 585
Deposits	4 200			
Total Liabilities	<u>\$ 4 645</u>	<u>\$ 21 498</u>	<u>\$ 5 874</u>	<u>\$ 13 585</u>
<b>FUND BALANCES</b>				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	<u>21 694</u>	<u>0</u>	<u>0</u>	<u>85 284</u>
Total Fund Balances	<u>21 694</u>	<u>0</u>	<u>0</u>	<u>85 284</u>
Total Liabilities and Fund Balances	<u>\$ 26 339</u>	<u>\$ 21 498</u>	<u>\$ 5 874</u>	<u>\$ 98 869</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A

Special Donations Fund	Municipal Court Technology Fund	Total Nonmajor Governmental Funds
\$ 174 904	\$ 8 057	\$ 230 633
		165
		19 059
		85 684
<u>\$ 174 904</u>	<u>\$ 8 057</u>	<u>\$ 335 541</u>
\$	\$	\$ 41 402
		4 200
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 45 602</u>
<u>174 904</u>	<u>8 057</u>	<u>289 939</u>
<u>174 904</u>	<u>8 057</u>	<u>289 939</u>
<u>\$ 174 904</u>	<u>\$ 8 057</u>	<u>\$ 335 541</u>

CITY OF ATHENS, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

	Airport Fund	Community Improvement Fund	Emergency Management Grant	Airport Grants Fund
<b>REVENUES:</b>				
Taxes:				
General Sales and Use Taxes	\$	\$ 212 358	\$	\$
Intergovernmental Revenue and Grants			11 539	443 514
Charges for Services	1 397			
Fines				
Investment Earnings	1 083	735		
Rents and Royalties	6 344			
Contributions & Donation from Private Sources				
Total Revenues	<u>8 824</u>	<u>213 093</u>	<u>11 539</u>	<u>443 514</u>
<b>EXPENDITURES:</b>				
Current:				
General Government				
Public Safety - Police				
Public Safety - Fire			11 539	
Public Works:				
Highways and Streets	14 520			89 947
Culture and Recreation		213 093		
Debt Service:				
Principal				
Interest				
Capital Outlay:				
Capital Outlay				495 618
Total Expenditures	<u>14 520</u>	<u>213 093</u>	<u>11 539</u>	<u>585 565</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5 696)</u>	<u>0</u>	<u>0</u>	<u>(142 051)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers In				213 609
Transfers Out (Use)				
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>0</u>	<u>213 609</u>
Net Change in Fund Balance	(5 696)	0	0	71 558
Fund Balance - October 1 (Beginning)	<u>27 390</u>	<u>0</u>	<u>0</u>	<u>13 726</u>
Fund Balance - September 30 (Ending)	<u>\$ 21 694</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 85 284</u>

The accompanying notes are an integral part of this statement.

EXHIBIT B

Special Donations Fund	Municipal Court Technology Fund	Total Nonmajor Governmental Funds
\$	\$	\$ 212 358
		455 053
		1 397
	7 404	7 404
5 524	508	7 850
		6 344
<u>167 939</u>		<u>167 939</u>
<u>173 463</u>	<u>7 912</u>	<u>858 345</u>
	3 452	3 452
117		117
13 872		25 411
		104 467
		213 093
	12 192	12 192
	407	407
<u>31 525</u>		<u>527 143</u>
<u>45 514</u>	<u>16 051</u>	<u>886 282</u>
<u>127 949</u>	<u>(8 139)</u>	<u>(27 937)</u>
		213 609
		0
<u>0</u>	<u>0</u>	<u>213 609</u>
127 949	(8 139)	185 672
<u>46 955</u>	<u>16 196</u>	<u>104 267</u>
<u>\$ 174 904</u>	<u>\$ 8 057</u>	<u>\$ 289 939</u>

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, 2007

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property	\$ 446 435	\$ 446 435	\$ 440 748	\$ (5 687)
Penalty and Interest	3 000	3 000	6 087	3 087
Investment Income	6 000	6 000	9 546	3 546
Total Revenues	<u>455 435</u>	<u>455 435</u>	<u>456 381</u>	<u>946</u>
<b>EXPENDITURES:</b>				
Debt Service:				
Principal	269 233	324 969	321 456	3 513
Interest	165 202	168 298	168 481	(183)
Fiscal Agent Fees	1 000	1 000	909	91
Total Expenditures	<u>435 435</u>	<u>494 267</u>	<u>490 846</u>	<u>3 421</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	20 000	(38 832)	(34 465)	4 367
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In		58 832	58 832	0
Net Change in fund Balances	20 000	20 000	24 367	4 367
Fund Balance - October 01 (Beginning)	6 110	6 110	6 110	0
Fund Balance - September 30 (Ending)	<u>\$ 26 110</u>	<u>\$ 26 110</u>	<u>\$ 30 477</u>	<u>\$ 4 367</u>

See accompanying notes to the basic financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

# SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City as of and for the year ended September 30, 2007, which collectively comprise the City's basic financial statements, and have issued our report thereon dated May 27, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

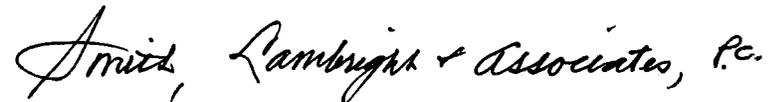
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

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

This report is intended solely for the information and use of the City's management, City Council, state and federal awarding agencies, and pass-through entities and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,



SMITH, LAMBRIGHT AND ASSOCIATES, P. C.  
Certified Public Accountants  
May 27, 2008

STATISTICAL SECTION

CITY OF ATHENS, TEXAS  
TAX LEVIES AND TAX COLLECTIONS  
LAST TEN FISCAL YEARS  
SEPTEMBER 30, 2007  
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2007</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
1997	\$ 862 482	\$ 861 281	99.86
1998	1 049 378	1 047 559	99.83
1999	1 099 682	1 097 609	99.81
2000	1 225 923	1 223 379	99.79
2001	1 281 870	1 278 059	99.70
2002	1 528 133	1 523 161	99.67
2003	1 658 847	1 650 048	99.47
2004	1 749 308	1 733 117	99.07
2005	2 280 729	2 212 691	97.02
2006	2 470 646	2 409 804	97.54
	<u>\$ 15 206 998</u>	<u>\$ 15 036 708</u>	

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

CITY OF ATHENS, TEXAS  
 SCHEDULE OF GENERAL OBLIGATION BONDS  
 AND INTEREST REQUIREMENTS  
 BONDS OUTSTANDING AT SEPTEMBER 30, 2007

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>
9-30-08	4.30%	\$ 265 000	\$ 148 772	\$ 413 772
9-30-09	4.45%	275 000	137 112	412 112
9-30-10	4.50%	290 000	124 875	414 875
9-30-11	4.50%	305 000	111 825	416 825
9-30-12	4.50%	320 000	98 100	418 100
9-30-13	4.50%	335 000	83 700	418 700
9-30-14	4.50%	355 000	68 625	423 625
9-30-15	4.50%	370 000	52 650	422 650
9-30-16	4.50%	390 000	36 000	426 000
9-30-17	4.50%	<u>410 000</u>	<u>18 450</u>	<u>428 450</u>
TOTAL		<u>\$ 3 315 000</u>	<u>\$ 880 109</u>	<u>\$ 4 195 109</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, 2007

<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>
9-30-08	7.75%	\$ 90 000	\$ 93 965	\$ 183 965
9-30-09	7.75%	95 000	86 990	181 990
9-30-10	7.75%	100 000	79 628	179 628
9-30-11	6.65%	105 000	71 877	176 877
9-30-12	5.00%	115 000	65 000	180 000
9-30-13	5.00%	120 000	59 250	179 250
9-30-14	5.00%	125 000	53 250	178 250
9-30-15	5.00%	135 000	47 000	182 000
9-30-16	5.00%	145 000	40 250	185 250
9-30-17	5.00%	150 000	33 000	183 000
9-30-18	5.00%	160 000	25 500	185 500
9-30-19	5.00%	170 000	17 500	187 500
9-30-20	5.00%	<u>180 000</u>	<u>9 000</u>	<u>189 000</u>
TOTAL		<u>\$ 1 690 000</u>	<u>\$ 682 210</u>	<u>\$ 2 372 210</u>

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

CITY OF ATHENS, TEXAS  
 SCHEDULE OF CERTIFICATES OF OBLIGATION  
 AND INTEREST REQUIREMENTS  
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2007

<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>
9-30-08	3.50%	\$ 205 000	\$ 193 175	\$ 398 175
9-30-09	3.75%	215 000	186 000	401 000
9-30-10	3.75%	220 000	177 938	397 938
9-30-11	4.00%	230 000	169 687	399 687
9-30-12	4.00%	240 000	160 488	400 488
9-30-13	4.00%	250 000	150 887	400 887
9-30-14	4.00%	260 000	140 888	400 888
9-30-15	3.50%	270 000	130 487	400 487
9-30-16	3.65%	285 000	121 038	406 038
9-30-17	3.75%	295 000	110 635	405 635
9-30-18	3.85%	305 000	99 573	404 573
9-30-19	3.95%	315 000	87 830	402 830
9-30-20	4.00%	330 000	75 387	405 387
9-30-21	4.10%	345 000	62 188	407 188
9-30-22	4.20%	360 000	48 042	408 042
9-30-23	4.25%	375 000	32 922	407 922
9-30-24	4.30%	<u>395 000</u>	<u>16 985</u>	<u>411 985</u>
TOTAL		<u>\$ 4 895 000</u>	<u>\$ 1 964 150</u>	<u>\$ 6 859 150</u>

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

CITY OF ATHENS, TEXAS  
 MISCELLANEOUS STATISTICAL DATA AND OTHER INFORMATION  
 SEPTEMBER 30, 2007  
 UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Randy Daniel, Mayor Carroll Maberry, Bob Gould, Elaine Jenkins, Carol Barton	
Other Officials	City Administrator - Pam Burton Assistant City Administrator & Director of Finance/Technology -David Hopkins, CPA City Judge - Elaine Coffman City Secretary - Pam Watson City Attorney - Jack Holland Assistant City Administrator & Director of Public Works/Utilities - Don Herriage Chief of Police - Michael Hill Fire Chief - Dan Barnes	
City Area	19.3 Square Miles	
Miles of Streets	Paved	98
	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>
	1910	2 261
	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