

**CITY OF ATHENS, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2009**

CITY OF ATHENS, TEXAS  
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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2009

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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, 2009, 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, 2009, 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 3, 2010 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 combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

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

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

May 3, 2010

## MANAGEMENT'S DISCUSSION AND ANALYSIS

# CITY OF ATHENS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management for the City of Athens, we offer readers of the City of Athens financial statements this narrative overview and analysis of the financial activities of the City of Athens for the fiscal year ended September 30, 2009. 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, 2009 by \$19,023,384. Of this amount, unrestricted net assets of \$3,807,818 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net assets decreased by \$605,171. Of this amount \$578,275 was associated with governmental and \$26,896 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 \$3,420,512. This was a decrease of \$60,934 in comparison with the prior year.
- Sales taxes decreased substantially with a 9% decrease below prior years' actual. Actual receipts were below budget projections by approximately 12%.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$3,072,150. Of this amount the City Council has currently restricted \$800,000 or 10.4% of total General Fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2008 tax rolls increased by \$31,461,323(5.37%) over the prior tax year (2007).
- Property tax rate was increased to .481808/\$100 from .443793/\$100.
- The City implemented a new 5-year water and sewer rate plan effective with the December 2008 billing cycle. The rate plan was adopted by City Council after a utility rate study by the City's rate consultants.

ATHENS CITY HALL

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## **Overview of the Financial Statements**

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

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

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

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

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

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

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

### **Fund Financial Statements**

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

#### **Governmental Funds**

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

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

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

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

The basic governmental fund financial statements can be found on pages 14 through 18 of this report.

#### **Proprietary Funds**

The City of Athens maintains one proprietary fund in the form of an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net 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 government's financial position. As of September 30, 2009, the City's assets exceeded its liabilities by \$19,023,384. The largest portion of the City's net assets (66%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

### City of Athens Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$4,403,064	\$ 4,347,958	\$ 4,127,382	\$ 5,642,059	\$ 8,530,446	\$ 9,990,017
Capital assets	9,245,693	10,073,607	12,647,134	11,460,713	21,892,827	21,534,320
Total assets	<u>13,648,757</u>	<u>14,421,565</u>	<u>16,774,516</u>	<u>17,102,772</u>	<u>30,423,273</u>	<u>31,524,337</u>
Long-term liabilities outstanding	4,048,819	4,357,365	6,047,182	6,350,893	10,096,001	10,708,258
Other liabilities	1,003,252	889,239	300,636	298,286	1,303,888	1,187,525
Total liabilities	<u>5,052,071</u>	<u>5,246,604</u>	<u>6,347,818</u>	<u>6,649,179</u>	<u>11,399,889</u>	<u>11,895,783</u>
Net assets:						
Invested in capital assets, net of related debt	6,006,000	6,436,525	6,667,133	5,170,714	12,673,133	11,607,239
Restricted	31,486	137,083	2,510,947	3,971,587	2,542,433	4,108,670
Unrestricted	2,559,200	2,601,353	1,248,618	1,311,293	3,807,818	3,912,646
Total net assets	<u>\$ 8,596,686</u>	<u>\$ 9,174,961</u>	<u>\$10,426,698</u>	<u>\$10,453,594</u>	<u>\$19,023,384</u>	<u>\$19,628,555</u>

An additional portion of net assets (21%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3,807,818) 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	
	2009	2008	2009	2008	2009	2008
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 473,531	\$ 374,493	\$ 4,049,627	\$ 3,816,989	\$ 4,523,158	\$ 4,191,482
Operating grants and contributions	115,134	711,649	20,300	2,900	135,434	714,549
Capital grants and contributions	0	0			0	0
Total Program Revenues	<u>588,665</u>	<u>1,086,142</u>	<u>4,069,927</u>	<u>3,819,889</u>	<u>4,658,592</u>	<u>4,906,031</u>
General revenues:						
Taxes:						
Sales and use taxes	3,473,751	3,790,222			3,473,751	3,790,222
Property taxes	2,905,116	2,592,859			2,905,116	2,592,859
Franchise taxes	841,748	835,041			841,748	835,041
Unrestricted investment income	116,784	125,820	148,327	209,292	265,111	335,112
Donated Capital Assets		0			0	0
Miscellaneous	25,371	18,005			25,371	18,005
Premium on Bonds Sold	(19,579)		558	558	(19,021)	558
Gain(Loss) on sale of capital assets	(5,753)	23,705	(200)	4,326	(5,953)	28,031
Total General Revenue	<u>7,337,438</u>	<u>7,385,652</u>	<u>148,685</u>	<u>214,176</u>	<u>7,486,123</u>	<u>7,599,828</u>
Total Revenue	<u>7,926,103</u>	<u>8,471,794</u>	<u>4,218,612</u>	<u>4,034,065</u>	<u>12,144,715</u>	<u>12,505,859</u>
<b>EXPENSES</b>						
General	\$ 1,406,822	\$ 1,357,550			\$ 1,406,822	\$ 1,357,550
Public Safety:						
Police	2,548,292	2,340,943			2,548,292	2,340,943
Fire	2,286,540	2,129,158			2,286,540	2,129,158
Other	365,107	351,618			365,107	351,618
Public Services					0	0
Highways and Streets	1,320,563	1,365,645			1,320,563	1,365,645
Health	327,200	320,224			327,200	320,224
Culture and Recreation	729,341	744,747			729,341	744,747
Conservation and Development	10,368	1,578			10,368	1,578
Interest on long-term debt	160,145	159,599			160,145	159,599
Water Utilities			3,595,508	3,383,451	3,595,508	3,383,451
Total Expense	<u>9,154,378</u>	<u>8,771,062</u>	<u>3,595,508</u>	<u>3,383,451</u>	<u>12,749,886</u>	<u>12,154,513</u>
Increase in net assets before transfers	(1,228,275)	(299,268)	623,104	650,614	(605,171)	351,346
Transfers	650,000	650,000	(650,000)	(650,000)	0	0
Change in net assets	(578,275)	350,732	(26,896)	614	(605,171)	351,346
Net assets October 1	<u>9,174,960</u>	<u>8,824,228</u>	<u>10,453,595</u>	<u>10,452,981</u>	<u>19,628,555</u>	<u>19,277,209</u>
Net assets September 30	<u>\$ 8,596,685</u>	<u>\$ 9,174,960</u>	<u>\$ 10,426,699</u>	<u>\$ 10,453,595</u>	<u>\$ 19,023,384</u>	<u>\$ 19,628,555</u>

**Governmental Activities.** Governmental activities decreased the City's net assets by \$578,275 accounting for 95 percent of the total decrease in net assets. Lack of additional capital assets while continuing to depreciate existing assets accounted for most of the decrease. 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 decreased the City's net assets by \$26,896 accounting for 5 percent of the total increase in the government's net assets. This decrease was due to a decrease in cash and other current assets to pay operating expenses over the additions to capital assets.

## **Financial Analysis of the Governments' Funds**

### **Governmental Funds**

The focus of the City of Athens governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City of Athens Governmental funds reported combined ending fund balances of \$3,420,512. Approximately 67% of this amount (\$2,292,696) constitutes unreserved and undesignated fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2009, unreserved fund balance of the General Fund was \$2,072,150, while total fund balance reached \$3,072,150.

The General Fund's fund balance increased during the current fiscal year \$6,242. Key factors in this decrease are as follows:

- Actual expenditures below actual revenue received.

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

The Debt Service Fund's fund balance decreased from \$19,697 to \$8,432 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 \$1,998. 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 \$1,248,618. This was an decrease of \$26,896. 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 \$57,945 (net) from the original budget to the final budget (an increase of .7%). These increases can be summarized as follows:

- \$38,790 for matching funds for TDHCA Grants.
- \$16,805 to replace Police equipment from storm damage.
- \$2,350 for firearms purchase delayed from prior year.

## Capital Asset and Debt Administration

### Capital Assets

The City's investment in capital assets for its governmental and business type activities at September 30, 2009 amounts to \$21,892,827 (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 1.6%

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

- \$7,500 for purchase of a tire changing machine for the City Garage.
- \$129,681 for street improvements.
- \$130,538 in water and sewer infrastructure improvements.
- \$219,500 in vehicles and equipment for the water and wastewater departments.

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 \$10,096,001 in outstanding debt consisting of certificates of obligation, capital leases, compensated absences payable, post employment benefits 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, 2009

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 2,775,000		\$ 2,775,000
Certificates of Obligation		5,980,000	5,980,000
Notes Payable	46,838		46,838
Capital Leases Payable	417,854		417,854
Compensated Absences Payable	790,577	50,809	841,386
Post Employment Benefits	18,550	16,373	34,923
Total	<u>\$ 4,048,819</u>	<u>\$ 6,047,182</u>	<u>10,096,001</u>

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

- Property tax values continue to increase with the taxable valuations in 2009 increasing by \$16,637,171. The property tax rate for 2010 was set at .518512 per \$100 valuation.
- Sales tax revenue decreased dramatically below the previous year. Sales tax revenue were below the prior year by \$314,567 and below budget by \$469,260 in 2010. The 2009 budget anticipates no increase in sales tax revenue over the prior year.
- Prices on the 2004 bond projects have dropped significantly as the price of oil dropped and the economy went into recession. Better prices have been received as projects are bid and the savings have compensated for cost over runs on the initial projects. This may allow for all projects to be completed that were anticipated when bonds were sold.
- A five-year utility rate plan is passed to help cover costs for water and sewer services. The first phase of the plan raised rates approximately 8% beginning with the December 2008 billing.

### **Requests for Information**

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

**FINANCIAL SECTION**

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**BASIC FINANCIAL STATEMENTS**

CITY OF ATHENS, TEXAS  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2009

	Government Activities	Business-type Activities	Total	Component Unit
<b>Assets</b>				
Cash	\$ 3,053,448	\$ 724,692	\$ 3,778,140	\$ 664,453
Investments	14,775	434,766	449,541	281,672
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	142,182		142,182	1,148,951
Accounts	894,209	545,811	1,440,020	
Due from other governments	486	33,842	34,328	
Internal balances	258,398	(258,398)	0	
Inventories	4,650	135,722	140,372	
Prepaid items	14,926		14,926	
Restricted assets:				
Cash	19,990	2,497,056	2,517,046	
Investments		13,891	13,891	
Capital assets:				
Work in progress		1,508,462	1,508,462	
Land	2,152,329	152,200	2,304,529	217,722
Buildings	8,235,402	799,442	9,034,844	1,061,271
Improvements other than buildings	6,863,667	20,321,126	27,184,793	177,432
Machinery and equipment	5,161,805	1,189,088	6,350,893	49,613
Amortizable assets	104,679	237,832	342,511	
Accumulated depreciation	(13,169,088)	(11,451,087)	(24,620,175)	(433,637)
Accumulated amortization	(103,101)	(109,929)	(213,030)	
<b>Total Assets</b>	<b>13,648,757</b>	<b>16,774,516</b>	<b>30,423,273</b>	<b>\$ 3,167,477</b>
<b>Liabilities</b>				
Accounts payable	790,425	108,832	899,257	8,736
Wages and salaries payable	189,028		189,028	
Accrued interest	20,699	49,400	70,099	
Deposits	3,100	134,040	137,140	
Deferred revenue		8,364	8,364	
Noncurrent liabilities:				
Due within one year	809,127	370,809	1,179,936	6,250
Due in more than one year	3,239,692	5,676,373	8,916,065	178,250
<b>Total Liabilities</b>	<b>5,052,071</b>	<b>6,347,818</b>	<b>11,399,889</b>	<b>\$ 193,236</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	6,006,000	6,667,133	12,673,133	1,072,401
Restricted for:				
Debt service	30,508		30,508	
Capital projects	978	2,510,947	2,511,925	
Unrestricted	2,559,200	1,248,618	3,807,818	1,901,840
<b>Total Net Assets</b>	<b>\$ 8,596,686</b>	<b>\$ 10,426,698</b>	<b>\$ 19,023,384</b>	<b>\$ 2,974,241</b>

See accompanying notes to the financial statements.

Program Activities	Expenses	Program Revenues	
		Fees, Fines & Charges for Services	Operating Grants and Contributions
<b>Government Activities</b>			
General Government	\$ 1,406,822	\$ 70,937	\$ 9,550
Police	2,548,292	340,571	9,527
Fire Protection	2,286,540		10,400
Other Public Safety	365,107		80,657
Highways Streets and Airport	1,320,563	62,023	5,000
Health	327,200		
Culture and Recreation	729,341		
Conservation and Development	10,368		
Interest on Long-term Debt	160,145		
<b>Total Government Activities</b>	<u>9,154,378</u>	<u>473,531</u>	<u>115,134</u>
<b>Business-type Activities</b>			
Utility Fund	3,595,508	4,049,627	20,300
<b>Total Primary Government</b>	<u>\$ 12,749,886</u>	<u>\$ 4,523,158</u>	<u>\$ 135,434</u>
<b>Component Unit:</b>			
Athens Economic Development Corporation	<u>\$ 574,515</u>	<u>\$ 0</u>	<u>\$ 0</u>

**General Revenue**

**Taxes:**

  Property

  Sales

  Franchise

  Investment Earnings

  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, 2009

Net (Expenses) Revenue and Changes in Net Assets			
Government Activities	Business-type Activities	Total	Component Unit AEDC
\$ (1,326,335)	\$	\$ (1,326,335)	\$
(2,198,194)		(2,198,194)	
(2,276,140)		(2,276,140)	
(284,450)		(284,450)	
(1,253,540)		(1,253,540)	
(327,200)		(327,200)	
(729,341)		(729,341)	
(10,368)		(10,368)	
(160,145)		(160,145)	
(8,565,713)	0	(8,565,713)	0
0	474,419	474,419	
<u>\$ (8,565,713)</u>	<u>\$ 474,419</u>	<u>\$ (8,091,294)</u>	<u>\$ 0</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ (574,515)</u>
\$ 2,905,116	\$	\$ 2,905,116	\$
3,473,751		3,473,751	1,068,309
841,748		841,748	
116,784	148,327	265,111	10,190
25,371		25,371	
(19,579)	558	(19,021)	
(5,753)	(200)	(5,953)	
650,000	(650,000)	0	
7,987,438	(501,315)	7,486,123	1,078,499
(578,275)	(26,896)	(605,171)	503,984
9,174,961	10,453,594	19,628,555	2,470,257
<u>\$ 8,596,686</u>	<u>\$ 10,426,698</u>	<u>\$ 19,023,384</u>	<u>\$ 2,974,241</u>

CITY OF ATHENS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 2,732,094	\$ 1,697	\$ 119,384	\$ 220,264	\$ 3,073,439
Investments - Current	14,775				14,775
Taxes Receivable (net of allow. for uncoll.)	113,372	28,811			142,183
Receivables (net of allowable for uncoll.)	889,738			165	889,903
Due from Other Governments					0
Intergovernmental Receivables	244,513			486	244,999
Due from Other Funds	30,194				30,194
Inventories	4,651				4,651
Prepaid Items	3,000			11,926	14,926
Other Assets					0
<b>Total Assets</b>	<b>\$ 4,032,337</b>	<b>\$ 30,508</b>	<b>\$ 119,384</b>	<b>\$ 232,841</b>	<b>\$ 4,415,070</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts Payable	\$ 770,159	\$ 2,076		\$	\$ 772,235
Wages and Salaries Payable	189,028				189,028
Due to Other Funds		20,000		10,195	30,195
Deposits Payable	1,000			2,100	3,100
Deferred Revenues					0
Other Current Liabilities					0
<b>Total Liabilities</b>	<b>\$ 960,187</b>	<b>\$ 22,076</b>	<b>\$ 0</b>	<b>\$ 12,295</b>	<b>\$ 994,558</b>
<b>Fund Balances:</b>					
<b>Reserved for:</b>					
Debt Service		8,432			8,432
<b>Unreserved Designated for:</b>					
Emergency Reserve	800,000				800,000
Capital Improvements	200,000		119,384		319,384
<b>Unreserved and Undesignated:</b>					
Reported in the General Fund	2,072,150				2,072,150
Reported in Special Revenue Funds				220,546	220,546
<b>Total Fund Balances</b>	<b>3,072,150</b>	<b>8,432</b>	<b>119,384</b>	<b>220,546</b>	<b>3,420,512</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,032,337</b>	<b>\$ 30,508</b>	<b>\$ 119,384</b>	<b>\$ 232,841</b>	<b>\$ 4,415,070</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, 2009

Total Fund Balance - Total Governmental Funds	\$ 3,420,512
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.	9,245,693
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.	(20,699)
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet.	(4,048,820)
Due within one year	
Due in more than one year	<hr/>
Net assets of governmental activities	<u>\$ 8,596,686</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, 2009

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
<b>REVENUES:</b>					
Taxes:					
Property	\$ 2,324,114	\$ 532,427	\$	\$ 245,312	\$3,101,853
General Sales and Use	3,228,438				3,228,438
Franchise	841,748				841,748
Penalty and Interest	39,691	8,885			48,576
Licenses and Permits	35,636				35,636
Intergovernmental Revenues and Grants	43,538			23,819	67,357
Charges for Services	27,834			2,111	29,945
Fines	335,734			5,332	341,066
Investment Income	97,373	7,611	3,618	8,181	116,783
Rents and Royalties	1,044			35,840	36,884
Contributions & Donations from Private Sources	9,550			66,015	75,565
Other Revenue	25,393	2		2,212	27,607
<b>Total Revenues</b>	<b>7,010,093</b>	<b>548,925</b>	<b>3,618</b>	<b>388,822</b>	<b>7,951,458</b>
<b>EXPENDITURES:</b>					
Current:					
General Government	1,176,130		1,620	3,477	1,181,227
Public Safety:					
Police	2,384,816			7,333	2,392,149
Fire	2,081,011			37,875	2,118,886
Other	360,906				360,906
Public Works:					
Highways, Streets and Airport	869,791			14,693	884,484
Health	323,325				323,325
Conservation and Development				11,978	11,978
Culture and Recreation	431,636			245,731	677,367
Debt Service:					
Principal		397,389			397,389
Interest		162,173			162,173
Fiscal Agent Fees		628			628
Capital Outlay:					
Capital Outlay	21,286			130,594	151,880
<b>Total Expenditures</b>	<b>7,648,901</b>	<b>560,190</b>	<b>1,620</b>	<b>451,681</b>	<b>8,662,392</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(638,808)</b>	<b>(11,265)</b>	<b>1,998</b>	<b>(62,859)</b>	<b>(710,934)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Non-Current Loans					0
Transfers In	660,184			15,134	675,318
Transfers Out (Use)	(15,134)			(10,184)	(25,318)
<b>Total Other Financing Sources (Uses)</b>	<b>645,050</b>	<b>0</b>	<b>0</b>	<b>4,950</b>	<b>650,000</b>
<b>Net Change in Fund Balances</b>	<b>6,242</b>	<b>(11,265)</b>	<b>1,998</b>	<b>(57,909)</b>	<b>(60,934)</b>
Fund Balance - October 1 (Beginning)	3,065,908	19,697	117,386	278,455	3,481,446
<b>Fund Balance - September 30 (Ending)</b>	<b>\$ 3,072,150</b>	<b>\$ 8,432</b>	<b>\$ 119,384</b>	<b>\$ 220,546</b>	<b>\$ 3,420,512</b>

\*One additional local fund has been added to this group that was not reported in the previous year.

The accompanying notes are an integral part of this statement.

CITY OF ATHENS, TEXAS  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

Net change in fund balances - total governmental funds	\$	(60,934)
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.		110,725
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.		(954,364)
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.		25,535
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.		397,389
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		(88,844)
Accrued Interest on Debt		(2,029)
Loss on Sale of Capital Assets		(5,753)
		<hr style="border-top: 1px solid black;"/>
Change in Net Assets of Governmental Activities	\$	<u>(578,275)</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
FOR YEAR ENDED SEPTEMBER 30, 2009

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 724,692
Investments - Current	434,766
Accounts Receivable - Net of Uncollectible Allowance	545,811
Intergovernmental Receivables	33,842
Inventories	135,722
Restricted Assets:	
Cash and Cash Equivalents	2,510,947
<b>Total Current Assets</b>	<u>4,385,780</u>
Non-Current Assets:	
Capital Assets:	
Work in Progress	1,508,462
Land Purchase and Improvements	152,200
Buildings	799,442
Improvement Other Than Buildings	20,321,126
Machinery and Equipment	1,189,088
Amortizable Assets	237,832
Accumulated Depreciation	(11,451,087)
Accumulated Amortization	(109,929)
<b>Total Non-Current Assets</b>	<u>12,647,134</u>
<b>Total Assets</b>	<u>17,032,914</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	108,832
Accrued Interest Payable	49,400
Internal Balances	258,398
Certificates of Obligation Payable	320,000
Post Employment Benefits Payable	16,373
Deferred Revenue	8,364
Deposits	134,040
<b>Total Current Liabilities</b>	<u>895,407</u>
Non-Current Liabilities	
Compensated Absences Payable	50,809
Certificates of Obligation Payable	5,660,000
<b>Total Non-Current Liabilities</b>	<u>5,710,809</u>
<b>Total Liabilities</b>	<u>6,606,216</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	6,667,133
Restricted for Construction	2,510,947
Unrestricted Net Assets	1,248,618
<b>Total Net Assets</b>	<u>\$ 10,426,698</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2009

OPERATING REVENUES	
Charges for Water Services	\$ 2,188,274
Charges for Waste Water Services	1,627,283
Fees	215,248
Other Revenue	<u>18,822</u>
Total Operating Revenues	<u>4,049,627</u>
OPERATING EXPENSES:	
Personnel Services	1,481,906
Supplies	420,713
Contractual Services	828,222
Depreciation	523,745
Bad Debt Expense	<u>70,211</u>
Total Operating Expenses	<u>3,324,797</u>
Operating Income	<u>724,830</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	20,300
Investment Earnings	148,327
Interest Expense - Non-Operating	(269,810)
Gain on Sale of Fixed Assets	(200)
Fiscal Agent Fees	(901)
Premium on Bonds Sold	<u>558</u>
Total Non-Operating Revenue (Expenses)	<u>(101,726)</u>
Income Before Transfers	623,104
Transfers Out	<u>(650,000)</u>
Change in Net Assets	(26,896)
Total Net Assets - October 1 (Beginning)	<u>10,453,594</u>
Total Net Assets - September 20 (Ending)	<u><u>\$ 10,426,698</u></u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR YEAR ENDED SEPTEMBER 30, 2009

<u>Cash Flows From Operating Activities:</u>	
Cash Received From User Charges	\$ 3,955,167
Other Operating Revenues	18,822
Other Payments	
Cash Payments to Employees for Services	(1,475,617)
Cash Payments to Suppliers	(1,308,266)
Net Cash Provided by Operating Activities	<u>1,190,106</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	(1,710,364)
Sale of Capital Assets	
Interest Paid on Bonds	(272,990)
Retirement of Bonds	(310,000)
Grants	20,300
Fiscal Agent Fees	(901)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(2,273,955)</u>
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	<u>148,327</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(1,585,522)
Cash and Cash Equivalents at Beginning of the Year	<u>5,255,927</u>
Cash and Cash Equivalent at End of the Year	<u>\$ 3,670,405</u>
<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</u>	
Operating Income	\$ 724,830
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation	523,745
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (Increase) in Receivables	(21,207)
Decrease (Increase) in Inventories	(3,267)
Increase (Decrease) in Accounts Payable	(9,693)
Increase (Decrease) in Internal Balances	(46,371)
Increase (Decrease) in Deposits	15,780
Increase (Decrease) in Post-Employment Benefits Payable	6,006
Increase (Decrease) in Compensated Absences	283
Net Cash Provided by Operating Activities	<u>\$ 1,190,106</u>

See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

**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, 2009 audit of the City.

#### **B. Basis of Presentation**

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

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

#### **Fund Financial Statements:**

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

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

#### **General Fund -**

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

#### **Debt Service Fund -**

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

#### **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 data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

#### **E. Cash and Investments**

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

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

#### **F. Prepaid Items**

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

#### **G. Inventories**

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

#### **H. Restricted Assets**

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

#### **I. Interfund Receivables and Payables**

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

#### **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, 2009, 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 2008-2009 the City's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the City and held by the City's agent.

The largest, combined balances of cash, savings and time deposit accounts amounted to \$9,897,321 and occurred on March 13, 2009. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$12,171,367. The total amount of FDIC coverage at the time of the highest combined balance was \$750,000.

- 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, 2009, the amount of the City's cash balance accounts was \$6,273,851. The cash balance in interest bearing accounts was \$6,273,851.

**INVESTMENTS**

The City's investments at September 30, 2009, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 6,273,851	\$ 6,273,851	.083
Certificates of Deposit	426,000	426,000	.083
TexPool	<u>37,432</u>	<u>37,432</u>	.99958
Total Investments	<u>\$ 6,737,283</u>	<u>\$ 6,737,283</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, 2009, was as follows:

	Balance 10/01/08	Additions	Retirements	Adjustments	Balance 9/30/2009
<b>Government Activities:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 2,152,329	\$ 0	\$ 0	\$ 0	\$ 2,152,329
Construction in progress	1,123,910	0	0	(1,123,910)	0
Total capital assets not being depreciated	<u>3,276,239</u>	<u>0</u>	<u>0</u>	<u>(1,123,910)</u>	<u>2,152,329</u>
<b>Capital asset being depreciated:</b>					
Buildings	7,694,456	41,155	(5,678)	525,048 (19,579)	8,235,402
Equipment	5,203,304	110,724	(47,544)	0	5,266,484
Improvements	1,458,271	0	0	598,862	2,057,133
Infrastructure	4,806,533	0	0	0	4,806,533
Total capital assets being depreciated	<u>19,162,564</u>	<u>151,879</u>	<u>(53,222)</u>	<u>1,104,331</u>	<u>20,365,552</u>
<b>Less: accumulated depreciation for:</b>					
Buildings	(6,309,934)	(255,508)	5,678	0	(6,559,764)
Equipment	(3,690,670)	(330,607)	47,544	(695)	(3,974,428)
Improvements	(815,519)	(127,908)	0	0	(943,427)
Infrastructure	(1,549,073)	(240,342)	0	0	(1,789,415)
Total accumulated depreciation	<u>\$(12,365,196)</u>	<u>\$ (954,365)</u>	<u>\$ 53,222</u>	<u>\$ (695)</u>	<u>\$(13,267,034)</u>
Total capital assets being depreciated, net	<u>6,797,368</u>	<u>(802,486)</u>	<u>0</u>	<u>1,103,636</u>	<u>7,098,518</u>
Governmental activities capital assets, net	<u>\$ 10,073,607</u>	<u>\$ (802,486)</u>	<u>\$ 0</u>	<u>\$ (20,274)</u>	<u>\$ 9,250,847</u>
<b>Business-type activities:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 152,200	\$ 0	\$ 0	\$ 0	\$ 152,200
Construction in progress	1,752,334	1,599,388	0	(1,843,260)	1,508,462
Total capital assets not being depreciated	<u>1,904,534</u>	<u>1,599,388</u>	<u>0</u>	<u>(1,843,260)</u>	<u>1,660,662</u>
<b>Capital assets being depreciated:</b>					
Buildings	799,441	0	0	0	799,441
Equipment	1,155,194	71,268	(37,373)	20,868 (20,868)	1,189,089
Amortizable assets	237,832	0	0	0	237,832
Improvements	1,454	0	0	0	1,454
Infrastructure	18,436,704	39,708	0	1,843,260	20,319,672
Total capital asset being depreciated	<u>20,630,625</u>	<u>110,976</u>	<u>(37,373)</u>	<u>1,843,260</u>	<u>22,546,488</u>
<b>Less: accumulated depreciation for:</b>					
Buildings	(668,868)	(9,208)	0	0	(678,076)
Equipment	(877,376)	(84,381)	37,173	0	(924,584)
Amortizable assets	(89,567)	(20,363)	0	1	(109,929)
Improvements	(1,453)	0	0	0	(1,453)
Infrastructure	(9,437,181)	(409,793)	0	0	(9,846,974)
Total accumulated depreciation	<u>(11,074,445)</u>	<u>(523,745)</u>	<u>37,173</u>	<u>1</u>	<u>(11,561,016)</u>
Total capital assets being depreciated, net	<u>9,556,180</u>	<u>(412,769)</u>	<u>(200)</u>	<u>1,843,261</u>	<u>10,986,472</u>
Business-type activities capital assets, net	<u>\$ 11,460,714</u>	<u>\$ 1,186,619</u>	<u>\$ (200)</u>	<u>\$ 1</u>	<u>\$ 12,647,134</u>

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

Governmental activities:	
General government and administration	\$ 528,672
Public safety	258,435
Public services	114,173
Culture and recreation	51,455
Health	1,629
 Total depreciation expense-Governmental activities	 <u>\$ 954,364</u>
 Business-type activities:	
Water and sewer	<u>\$ 523,745</u>

**4. Interfund Assets/Liabilities**

The compositions of interfund balances as of September 30, 2009, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Debt Service	\$ 20,000
General	Airport	581
General	Special Donations	4,305
General	Law Enforcement	4,178
General	TDHCA Home Grant	1,131
General	Utility	258,398
General	Airport Grants	
 Total		 <u>\$ 288,593</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, 2009 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2009	\$ 6,975
2010	12,243
2011	10,671
2012	9,099
2013	7,262
2014	2,670
Total	<u>\$ 48,920</u>

Rental expenditures in 2008-2009 were \$6,975.

**6. Long-term Debt**

**A. Capital Leases Payable**

The City has entered into lease agreements as lessee for the acquisition of police vehicles, municipal court technology, an excavator and a fire engine pumper. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 4.84%, 5.29%, 3.62% and 4.415%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2009:

	<u>Balance 10/01/09</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/08</u>
Police Vehicles	\$ 53,028	\$	\$ 39,449	\$ 13,579
Hydraulic Excavator	183,191		38,965	144,226
Fire Engine Pumper	<u>284,377</u>		<u>24,328</u>	<u>260,049</u>
Totals	<u>\$ 520,596</u>	<u>\$ 0</u>	<u>\$ 102,742</u>	<u>\$ 417,854</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 t</u>
2010	\$ 76,153	\$ 15,007	\$ 91,160
2011	67,151	13,256	80,407
2012	69,854	10,553	80,407
2013	46,192	7,995	54,187
2014	28,919	6,541	35,460
2015	30,247	5,213	35,460
2016	31,637	3,823	35,460
2017	33,090	2,370	35,460
2018	<u>34,611</u>	<u>849</u>	<u>35,460</u>
Total	<u>\$ 417,854</u>	<u>\$ 65,607</u>	<u>\$ 483,461</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 10/01/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/09</u>
Administrative Office	<u>\$ 66,485</u>	<u>\$</u>	<u>\$ 19,647</u>	<u>\$ 46,838</u>
Totals	<u>\$ 66,485</u>	<u>\$ 0</u>	<u>\$ 19,647</u>	<u>\$ 46,838</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>
2010	\$ 46,838	\$ 2,062	\$ 48,900
Total	<u>\$ 46,838</u>	<u>\$ 2,062</u>	<u>\$ 48,900</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, 2009:

	<u>Balance 10/01/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/09</u>
General Obligation Improvement and Refunding Bonds Series 1998: Original issue \$5,060,000 with interest rates of 4.25% to 7.25%	\$ 3,050,000	\$	\$ 275,000	\$ 2,775,000
Totals	<u>\$ 3,050,000</u>	<u>\$ 0</u>	<u>\$ 275,000</u>	<u>\$ 2,775,000</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>
2010	\$ 290,000	\$ 124,875	\$ 414,875
2011	305,000	111,825	416,825
2012	320,000	98,100	418,100
2013	335,000	83,700	418,700
2014	355,000	68,625	423,625
2015 - 2017	<u>1,170,000</u>	<u>107,100</u>	<u>1,277,100</u>
Total	<u>\$ 2,775,000</u>	<u>\$ 594,225</u>	<u>\$ 3,369,225</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, 2009 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, 2009, 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, 2009:

	<u>Balance 10/01/08</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/09</u>
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1,600,000	\$	\$ 95,000	\$ 1,505,000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	4,690,000		215,000	4,475,000
	<u>\$ 6,290,000</u>	<u>\$ 0</u>	<u>\$ 310,000</u>	<u>\$ 5,980,000</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>
2010	\$ 320,000	\$ 257,566	\$ 577,566
2011	335,000	241,564	576,564
2012	355,000	225,488	580,488
2013	370,000	210,137	580,137
2014	385,000	194,138	579,138
2015 - 2019	2,230,000	712,812	2,942,812
2020 - 2024	<u>1,985,000</u>	<u>244,525</u>	<u>2,229,525</u>
<b>Total</b>	<u>\$ 5,980,000</u>	<u>\$ 2,086,230</u>	<u>\$ 8,066,230</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, 2009, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>Bonds Payable</b>					
General Obligation Bonds	<u>\$ 3,050,000</u>	<u>\$</u>	<u>\$ 275,000</u>	<u>\$ 2,775,000</u>	<u>\$ 290,000</u>
<b>Notes Payable:</b>					
Administrative Office	<u>66,485</u>	<u></u>	<u>19,647</u>	<u>46,838</u>	<u>46,838</u>
<b>Capital Leases Payable:</b>					
Vehicles and Equipment	<u>520,596</u>	<u></u>	<u>102,742</u>	<u>417,854</u>	<u>76,153</u>
Compensated Absences	<u>703,500</u>	<u>87,077</u>	<u></u>	<u>790,577</u>	<u>0</u>
Post Employment Benefits	<u>16,782</u>	<u>1,768</u>	<u></u>	<u>18,550</u>	<u>16,718</u>
<b>Total Governmental Activities Long-term Liabilities</b>	<u><b>\$ 4,357,363</b></u>	<u><b>\$ 88,845</b></u>	<u><b>\$ 397,389</b></u>	<u><b>\$ 4,048,819</b></u>	<u><b>\$ 429,709</b></u>
<b>Business Type Activities:</b>					
<b>Bonds Payable:</b>					
Certificates of Obligation	<u>\$ 6,290,000</u>	<u>\$</u>	<u>\$ 310,000</u>	<u>\$ 5,980,000</u>	<u>\$ 320,000</u>
Compensated Absences	<u>50,526</u>	<u>283</u>	<u></u>	<u>50,809</u>	<u>0</u>
Post Employment Benefits	<u>10,367</u>	<u>6,006</u>	<u></u>	<u>16,373</u>	<u>11,737</u>
<b>Total Business Type Activities Long-term Liabilities</b>	<u><b>\$6,350,893</b></u>	<u><b>\$6,289</b></u>	<u><b>\$310,000</b></u>	<u><b>\$6,047,182</b></u>	<u><b>\$331,737</b></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, 2009 is as follows:

Operating Revenues	\$ 4,049,627
Depreciation Expense	523,745
Operating Income	724,830
Operating Transfers (Out)	(650,000)
Change in Net Assets	(26,896)
Fixed Asset Additions	1,916,863
Net Working Capital (Deficiency)	979,426
Total Assets	17,032,914
Total Net Assets	10,426,698
Certificates of Obligation Payable	5,980,000

**C. Pension Benefits Plan**

Plan Description

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

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

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

	Plan Year 2008	Plan Year 2009
Employee deposit rate	7.0%	7.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5,0/20	60/5,0/20
Updated Service Credit	100% Repeating, Transfers	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

**Contributions:**

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

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

**Three-Year Trend Information**

Fiscal Year Ending	Annual Pension Cost (APC)	Annual Contribution Made	Percentage of APC Contributed	Net Pension Obligation/ (Asset)
2007	691,208	691,208	100%	0
2008	760,803	760,803	100%	0
2009	1,086,850	859,549	79%	227,301

The required contribution rates for fiscal year 2009 were determined as part of the December 31, 2006 and 2007 actuarial valuations. Additional information as of the latest actuarial valuation, December 31, 2008, also follows:

ACTUARIAL INFORMATION:			
	12/31/06	12/31/07	12/31/08
Actuarial Valuation Date	12/31/06	12/31/07	12/31/08
Actuarial Cost Method	Unit Credit	Projected Unit Credit	Projected Unit Credit
Amortization Method	Level percent of payroll	Level percent of payroll	Level percent of payroll
Amortization Period in Years	25 years; open period	30 years; closed period	29 years; closed period
Asset Valuation Method	Amortized Cost	Amortized Cost	Amortized Cost
Actuarial Assumptions:			
Investment Rate of Return*	7.0%	7.0%	7.5%
Projected Salary Increases*	Varies by age and service	Varies by age and service	Varies by age and service
* Includes Inflation at	3.0%	3.0%	3.0%
Cost-of-living Adjustments	NA	2.1%	2.1%

The funded status as of December 31, 2008, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL(UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2008	\$8,299,107	\$16,809,752	49.1%	\$8,600,645	\$5,237,599	164.2%

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

#### 9. 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, 2009.

**REQUIRED SUPPLEMENTARY INFORMATION**

CITY OF ATHENS, TEXAS  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2009

	Airport Fund	Emergency Management Grants	Community Improvement Fund	Law Enforcement Grant	TDHCA Home Grant
<b>ASSETS</b>					
Cash and Cash Equivalents	\$ 81,122	\$	\$ 20	\$ 3,692	\$ 1,131
Receivables (net of allowance for uncollectibles)	165				
Intergovernmental Receivables				486	
Prepaid Items					
Total Assets	<u>\$ 81,287</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 4,178</u>	<u>\$ 1,131</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Due to Other Funds	\$ 581		\$	\$ 4,178	\$ 1,131
Deposits	<u>2,100</u>				
Total Liabilities	<u>\$ 2,681</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,178</u>	<u>\$ 1,131</u>
<b>FUND BALANCES</b>					
Unreserved and Undesignated:					
Reported in the Special Revenue Fund	<u>78,606</u>	<u>0</u>	<u>20</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>78,606</u>	<u>0</u>	<u>20</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 81,287</u>	<u>\$ 0</u>	<u>\$ 20</u>	<u>\$ 4,178</u>	<u>\$ 1,131</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A

Domestic Preparedness Grant	Airport Grant Funds	Special Donations Fund	Municipal Court Technology Fund	Local Forfeited Cash	Federal Forfeited Cash	Total Nonmajor Governmental Funds
\$	\$	\$ 102,672	\$ 11,637	\$ 10,200	\$ 9,790	\$ 220,264
						165
						486
	11,926					11,926
<u>\$ 0</u>	<u>\$ 11,926</u>	<u>\$ 102,672</u>	<u>\$ 11,637</u>	<u>\$ 10,200</u>	<u>\$ 9,790</u>	<u>\$ 232,841</u>
\$	\$	\$ 4,305	\$	\$	\$	\$ 10,195
						2,100
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,305</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,295</u>
	11,926	98,367	11,637	10,200	9,790	220,546
0	11,926	98,367	11,637	10,200	9,790	220,546
<u>\$ 0</u>	<u>\$ 11,926</u>	<u>\$ 102,672</u>	<u>\$ 11,637</u>	<u>\$ 10,200</u>	<u>\$ 9,790</u>	<u>\$ 232,841</u>

CITY OF ATHENS, TEXAS  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NON- MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Airport Fund	Emergency Management Grants	Community Improvement Fund	Law Enforcement Grant	TDHCA Home Grant
<b>REVENUES:</b>					
Taxes:					
General Sales and Use Taxes	\$	\$	\$ 245,312	\$	\$
Intergovernmental Revenue and Grants		3,596		4,177	
Charges for Services	2,111				
Fines					
Investment Earnings	1,980		390		
Rents and Royalties	35,839				
Miscellaneous Revenue					
Contributions & Donation from Private Sources					
<b>Total Revenues</b>	<b>39,930</b>	<b>3,596</b>	<b>245,702</b>	<b>4,177</b>	<b>0</b>
<b>EXPENDITURES:</b>					
Current:					
General Government					
Public Safety - Police				7,333	
Public Safety - Fire		3,596			
Public Works:					
Highways and Streets	9,693				
Conservation and Development					11,978
Culture and Recreation			245,731		
Debt Service:					
Principal					
Interest					
Capital Outlay:					
Capital Outlay					
<b>Total Expenditures</b>	<b>9,693</b>	<b>3,596</b>	<b>245,731</b>	<b>7,333</b>	<b>11,978</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	30,237	0	(29)	(3,156)	(11,978)
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers In				3,156	11,978
Transfers Out (Use)					
<b>Total Other Financing Sources(Uses)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>3,156</b>	<b>11,978</b>
Net Change in Fund Balance	30,237	0	(29)	0	0
Fund Balance - October 1 (Beginning)	48,369	0	49	0	0
Fund Balance - September 30 (Ending)	\$ 78,606	\$ 0	\$ 20	\$ 0	\$ 0

The accompanying notes are an integral part of this statement.

EXHIBIT B

Domestic Preparedness Grant	Airport Grants Fund	Special Donations Fund	Municipal Court Technology Fund	Local Forfeited Cash	Federal Forfeited Cash	Total Nonmajor Governmental Funds
\$ 11,046	\$ 5,000					\$ 245,312
						23,819
						2,111
			5,332			5,332
		4,966	283	268	294	8,181
						35,840
				2,212		2,212
		66,015				66,015
<u>11,046</u>	<u>5,000</u>	<u>70,981</u>	<u>5,615</u>	<u>2,480</u>	<u>294</u>	<u>388,822</u>
			3,477			3,477
5,104		29,175				7,333
	5,000					37,875
						14,693
						11,978
						245,731
5,942		124,652				130,594
<u>11,046</u>	<u>5,000</u>	<u>153,827</u>	<u>3,477</u>	<u>0</u>	<u>0</u>	<u>451,681</u>
0	0	(82,846)	2,138	2,480	294	(62,859)
	(10,183)					15,134
0	(10,183)	0	0	0	0	(10,184)
						4,950
0	(10,183)	(82,846)	2,138	2,480	294	(57,909)
0	22,109	181,213	9,499	7,720	9,496	278,455
<u>\$ 0</u>	<u>\$ 11,926</u>	<u>\$ 98,367</u>	<u>\$ 11,637</u>	<u>\$ 10,200</u>	<u>\$ 9,790</u>	<u>\$ 220,546</u>

CITY OF ATHENS, TEXAS  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property	\$ 2,461,403	\$ 2,461,403	\$ 2,324,114	\$ (137,289)
General Sales and Use	3,696,374	3,696,374	3,228,438	(467,936)
Franchise	897,566	897,566	841,748	(55,818)
Penalty and Interest	14,000	14,000	39,691	25,691
Licenses and Permits	46,125	46,125	35,636	(10,489)
Intergovernmental Revenues and Grants	43,300	43,300	43,538	238
Charges for Services	31,328	31,328	27,834	(3,494)
Fines	299,100	299,100	335,734	36,634
Investment Income	151,466	151,466	97,373	(54,093)
Rents and Royalties	1,500	1,500	1,044	(456)
Contributions & Donations from Private Sources			9,550	9,550
Other Revenue	37,050	37,050	25,393	(11,657)
Total Revenues	7,679,212	7,679,212	7,010,093	(669,119)
<b>EXPENDITURES:</b>				
Current:				
General Government	1,281,912	1,281,912	1,176,130	105,782
Public Safety:				
Police	2,618,999	2,618,999	2,384,816	234,183
Fire	2,206,671	2,206,671	2,081,011	125,660
Other	380,582	380,582	360,906	19,676
Public Works:				
Highways, Streets and Airport	813,946	813,946	869,791	(55,845)
Health	365,323	365,323	323,325	41,998
Culture and Recreation	520,198	520,198	431,636	88,562
Capital Outlay:				
Capital Outlay	137,181	137,181	21,286	115,895
Total Expenditures	8,324,812	8,324,812	7,648,901	675,911
Excess (Deficiency ) of Revenues Over (Under) Expenditures				
	(645,600)	(645,600)	(638,808)	6,792
<b>OTHER FINANCING SOURCES (USES):</b>				
Note Proceeds				
Transfers In	650,000	650,000	660,184	10,184
Transfers Out (Use)	(43,190)	(43,190)	(15,134)	28,056
Total Other Financing Sources (Uses)	606,810	606,810	645,050	38,240
Net Change in Fund Balances				
	(38,790)	(38,790)	6,242	45,032
Fund Balance - October 1 (Beginning)	3,065,908	3,065,908	3,065,908	3,065,908
Fund Balance - September 30 (Ending)	\$ 3,027,118	3,027,118	\$ 3,072,150	\$ 3,110,940

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS  
DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED SEPTEMBER 30, 2009

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES:</b>				
Taxes:				
Property	\$ 558,295	\$ 558,295	\$ 532,427	\$ (25,868)
Penalty and Interest	2,500	2,500	8,885	6,385
Investment Income	<u>6,000</u>	<u>6,000</u>	<u>7,613</u>	<u>1,613</u>
Total Revenues	<u>566,795</u>	<u>566,795</u>	<u>548,925</u>	<u>(17,870)</u>
<b>EXPENDITURES:</b>				
General Government:				
Debt Service:				
Principal	409,868	409,868	397,389	12,479
Interest	155,927	155,927	162,173	(6,246)
Fiscal Agent Fees	<u>1,000</u>	<u>1,000</u>	<u>628</u>	<u>372</u>
Total Expenditures	<u>566,795</u>	<u>566,795</u>	<u>560,190</u>	<u>6,605</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	(11,265)	(11,265)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In				
Net Change in fund Balances	0	0	(11,265)	(11,265)
Fund Balance - October 01 (Beginning)	<u>19,697</u>	<u>19,697</u>	<u>19,697</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 19,697</u>	<u>\$ 19,697</u>	<u>\$ 8,432</u>	<u>\$ (11,265)</u>

See accompanying notes to the basic financial statements.

**Required Supplementary Information**

*Texas Municipal Retirement System*

*Schedule of Funding Progress:*

*(Unaudited)*

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(1)	(2)	(3)	(4)	(5)	(6)
			(1) / (2)	(2) - (1)		(4) / (5)
12/31/2006	\$8,422,450	\$13,639,437	61.8%	\$5,216,987	\$4,658,751	112.0%
12/31/2007	\$9,692,705	\$17,866,771	54.2	\$8,174,066	\$4,865,428	168.
12/31/2008	\$8,299,107	\$16,899,752	49.1	\$8,600,645	\$5,237,599	164.2

**OTHER INDEPENDENT AUDITOR'S REPORTS SECTION**

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

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

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Cheri E. Kirkland, CPA

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Athens, Texas 75751  
(903) 675-5674  
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**INDEPENDENT AUDITOR'S REPORT**

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

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

We have audited the financial statements of The City of Athens, Texas as of and for the year ended September 30, 2009, and have issued our report thereon dated June 29, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in **Government Auditing Standards**, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

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

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

Compliance and Other Matters

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

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

Respectfully submitted,

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

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

May 3, 2010

**STATISTICAL SECTION**

TABLE 1

CITY OF ATHENS, TEXAS  
TAX LEVIES AND TAX COLLECTIONS  
LAST TEN FISCAL YEARS  
SEPTEMBER 30, 2009  
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2009</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
1999	\$ 1,099,324	\$ 1,098,206	100
2000	1,225,655	1,224,011	100
2001	1,281,536	1,278,886	100
2002	1,527,754	1,524,966	100
2003	1,658,588	1,654,184	100
2004	1,747,353	1,741,909	100
2005	2,278,403	2,267,117	100
2006	2,469,898	2,454,164	99
2007	2,622,686	2,600,780	99
2008	2,946,236	2,874,766	98
	<u>\$ 18,857,433</u>	<u>\$ 18,718,989</u>	99

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

TABLE 2

CITY OF ATHENS, TEXAS  
 SCHEDULE OF GENERAL OBLIGATION BONDS  
 AND INTEREST REQUIREMENTS  
 BONDS OUTSTANDING AT SEPTEMBER 30, 2009

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>
9-30-10	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>
<b>TOTAL</b>		<u>\$ 2,775,000</u>	<u>\$ 594,225</u>	<u>\$ 3,369,225</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, 2009

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000			
	Annual Rate	Principal	Interest	Total Requirements
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>
<b>TOTAL</b>		<u>\$ 1,505,000</u>	<u>\$ 501,255</u>	<u>\$ 2,006,255</u>

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

TABLE 4

CITY OF ATHENS, TEXAS  
 SCHEDULE OF CERTIFICATES OF OBLIGATION  
 AND INTEREST REQUIREMENTS  
 CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2009

<u>Requirements for Fiscal Year Ended</u>	<u>Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004</u>			<u>Total Requirements</u>
	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	
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>
<b>TOTAL</b>		<u>\$ 4,475,000</u>	<u>\$ 1,584,975</u>	<u>\$ 6,059,975</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, 2009  
UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Randy Daniel, Mayor Carroll Maberry, Jerry Don Vaught, Elaine Jenkins, Carol Barton	
Other Officials	City Administrator - Pam Burton Assistant City Administrator & Director of Finance/Technology -David Hopkins, CPA Assistant City Administrator & City Secretary - Pam Watson Director of Public Works/Utilities - Glen Herriage Chief of Police - Michael Hill Fire Chief - John McQueary Director of Planning and Development - Gary Crecelius Director of Human Resources - Haven Cox City Judge - Jack Holland City Attorney - Conner Bateman	
City Area	19.3 Square Miles	
Miles of Streets	Paved	100
	Graded	2
Fire Protection	Number of Stations	2
	Number of Employees	27
Police Protection	Number of Stations	1
	Number of Policemen	34
Education	Community College	1
	High School	1
	Middle School	2
	Elementary School	4
Hospital	East Texas Medical Center - Athens	
Number of City Employees	122	
Population	<u>Years</u>	<u>Federal Census</u>
	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