

Comprehensive Annual Financial Report

City of Athens, Tennessee



For The Year Ended
June 30, 2005

CITY OF ATHENS, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2005**

**Prepared by:
Department of Finance**

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

INTRODUCTORY SECTION

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Michael L. Keith, CPA
Director of Finance

CITY OF ATHENS

Honorable Mayor,
Members of the City Council and
Citizens of the City of Athens, Tennessee

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and an audit in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Athens for the fiscal year ended June 30, 2005.

This report consists of management's representations concerning the finances of the City of Athens. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Athens has established a comprehensive internal control framework that is designed both to protect the city's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Athens' financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Athens' comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Athens' financial statements have been audited by Neal, Scouten and McConnell, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Athens, for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Athens' financial statements, for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Athens' MD&A can be found immediately following the report of the independent auditors.

PROFILE OF THE CITY OF ATHENS

The City of Athens, incorporated in 1891, is located in the southeastern part of the state, midway between the metropolitan cities of Knoxville and Chattanooga. This unique location affords the citizens of the City of Athens the ability to quickly access the amenities of two metropolitan areas. In addition, its proximity to the mountains of east Tennessee, the Tennessee River, and whitewater rafting makes it attractive to a wide range of individuals. The City of Athens serves a population of 13,334 and occupies a land area of approximately 14 square miles.

The City of Athens operates under the council-manager form of government, as authorized under Chapter 455 of the Private Acts of 1953. The five council members are elected at large. All elections are non-partisan, and the terms are for four years. Elections are held every two years on the first Tuesday in November so that only two or three seats are up for election at any given time. The council members select the Mayor and Vice-Mayor every two years at the council meeting in November following the election. Policy-making and legislative authority are vested in the council. The council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, hiring the city manager, and appointing the city attorney and city judge. The city manager is responsible for carrying out the policies and ordinances of the city council, for overseeing the city's day-to-day operations, and for appointing the heads of the various departments.

The city provides a full range of services which include police and fire protection; sanitation services; the construction and maintenance of highways, streets, and infrastructure; recreational activities and cultural events. In addition to general government activities, the governing body appoints the Athens Utilities Board and approves the annual budget and debt issues for the Athens City Schools; therefore, these activities are reported separately within the financial statements of the City of Athens. However, the Athens Housing Authority, the McMinn County Economic Development Authority, the E. G. Fisher Library, and the Athens Health and Educational Facilities Board have not met the established criteria for inclusion; and, accordingly, are excluded from this report.

The annual budget serves as the foundation for the City of Athens' financial planning and control. The council reviews capital outlay needs each year at their annual retreat in January/February. The finance department compiles budgetary information to be distributed to the departments by February 28. Budget requests are submitted to the finance director in March, at which time the finance department compiles the data and makes revenue estimates. Budget hearings are held in April of each year with the department heads. In early May, the City Manager and/or Director of Finance makes a formal balanced budget presentation to the city council.

After much review and debate among the council, the budget is revised to include any recommendations of the city council. A revised budget is submitted to city council at the May council meeting. The council is required to hold a public hearing on the proposed budget and to adopt a final budget and tax rate by June 30th each year, which is the close of the city's fiscal year. The appropriated budget is prepared by fund, function (e.g., public safety), department (e.g., police) and division (e.g., patrol). Department heads may make transfers within a division, but transfers of appropriations between divisions and funds require approval of the city council. Budget to actual comparisons are provided in this report for each governmental fund for which an appropriated annual budget has been adopted.

Local Economy

Major industries located within the city include several automotive parts suppliers, manufacturers of electrical components and plastics, and a producer of dairy products.

The unemployment rate has varied over the past decade. In 1995, the rate was 6.6%, with the highest rate being 8.9%, the lowest rate being 4.4%, and the current rate of 6.5%. During the past ten years, Denso Manufacturing has grown from a vacant parcel of land to an employer of approximately 900 individuals.

During the past ten years, the governments expenses related to education have increased in both percentage and amount. This is due to the increased state funding for The Basic Education Program (BEP) and the funding for the renovations. Capital outlay increased significantly due to capital projects such as the Dennis Street addition, Regional Park trails and industrial park property purchases in fiscal year 2005.

During the same ten-year period, taxes and intergovernmental revenues have increased in both amount and percentage. Property tax collections have grown because of the growth of Denso and personal property tax growth through the entire city. Sales taxes have also continued to grow since Athens now accounts for approximately 80 percent of sales tax collections within McMinn County. Intergovernmental increases are a result of the BEP funds from the state.

Long-Term Financial Planning

Unreserved, undesignated fund balance in the general fund (43 percent of total general fund revenues) has continued to grow over the past ten years. The policy has been to maintain approximately 2 to 3 months of expenditures in fund balance (approximately 17 to 25 percent). The excess has typically been transferred to the capital improvement fund to accumulate funds for large capital items and grant matching funds. These funds are currently being held in the general fund and will be transferred to the capital improvement fund to be used for such items as identified by the council.

The city has identified approximately \$22,000,000 in capital funding items. The policy for the city has been to fund many of these types of projects with grant monies or the funds accumulated in the capital improvement fund. The city is anticipating the development of additional sidewalks, trails and parking lots at the Athens Regional Park in addition to a community playground to be funded in part with federal and state grants. The total cost is estimated to be approximately \$500,000.

Major Initiatives

Several transportation-related projects are expected to begin during the next several years. These include the signalization of Tellico Avenue at Congress Parkway, Congress Parkway at Velma Road, and Congress Parkway at Rocky Mount Road. These will be funded with federal highway funds. These state is in the planning process for widening Highway 30 between Athens and Etowah to a four lane highway. Construction is expected to begin in 2008. It is expected that traffic will increase in the city as a result of this and may require changes and upgrades to the streets and signalizations over future years. The city and McMinn County have been in discussions with the State of Tennessee concerning the location of a bypass to improve traffic flow in the area.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Athens for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the thirteenth consecutive year that the city has received this prestigious award. In order to be awarded a Certificate of Achievement, the city published an easily readable and efficiently organized CAFR. This report satisfied both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this CAFR on a timely basis was made possible by the dedicated service of the entire staff of the finance and administration departments. Credit must also be given to the mayor, city council, and the city manager for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Athens' finances.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael L. Keith". The signature is written in a cursive style with a large initial "M" and "K".

Michael L. Keith
Director of Finance

August 26, 2005

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Athens,
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

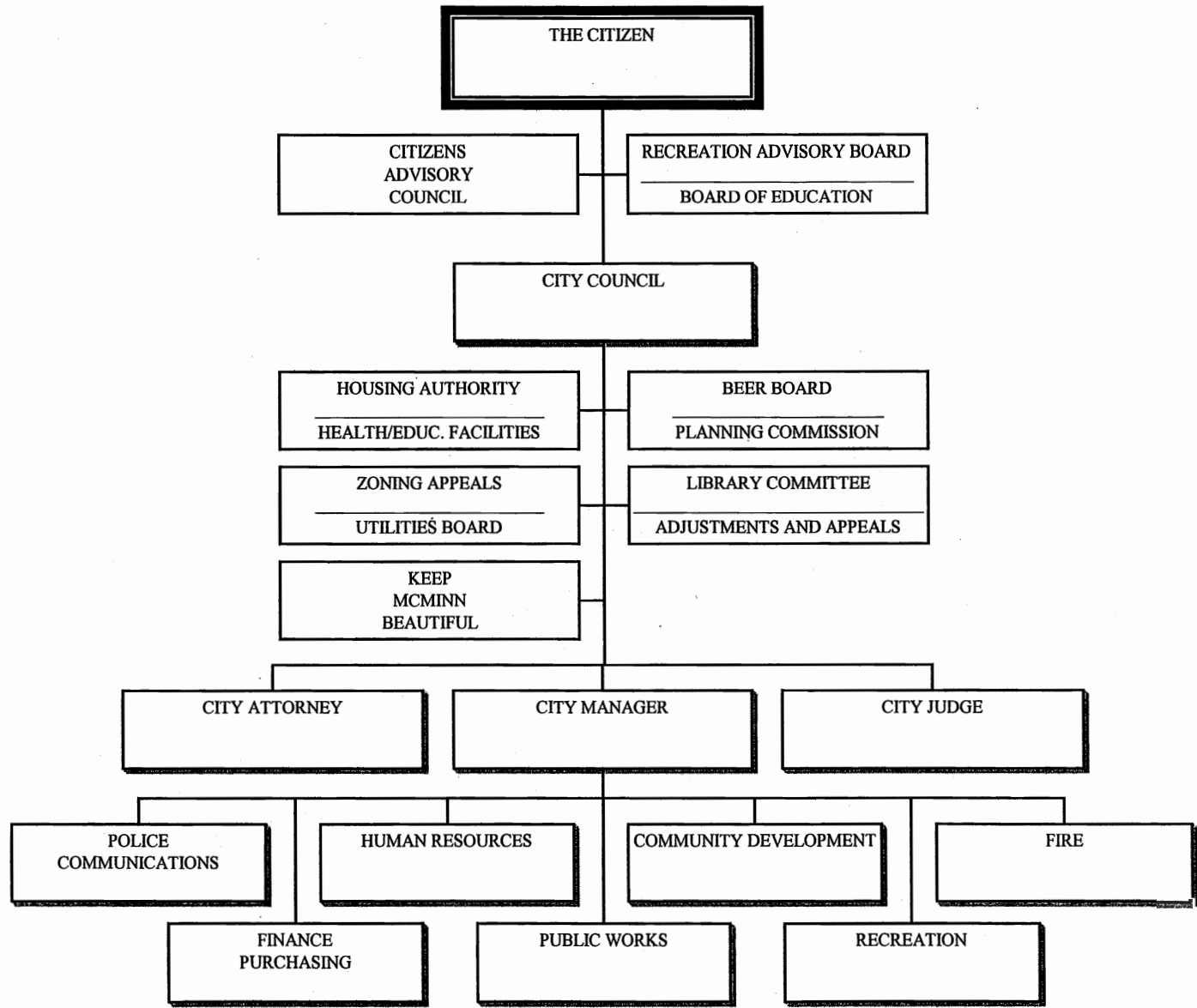


Nancy L. Zelle

President

Jeffrey R. Emery

Executive Director



**CITY OF ATHENS, TENNESSEE
LIST OF PRINCIPAL OFFICIALS
June 30, 2005**

City of Athens

John Proffitt, Jr.
William Bo Perkinson
Charles Myers
Dick Pelley
Shannon Alvey

Mayor
Vice-Mayor
Council Member
Council Member
Council Member

Mitchell B. Moore
H. Chris Trew
Donald B. Reid
Michael L. Keith
Rita C. Brown
Vacant

City Manager
City Attorney
City Judge
Director of Finance
Director of Human Resources
Director of Administrative
and Emergency Services
Director of Community Development
Police Chief
Fire Chief
Director of Parks & Recreation
Director of Public Works

Harold R. Hunter
Charles T. Zeigler
Robert G. Miller
Austin Fesmire
Shawn Lindsey

Athens City Board of Education

Michael L. Bevins
Stan McKee
Sandra Boyd
Harold Powers
Jim Nelson
Chris Liner

Chairman
Vice-Chairman
Secretary
Treasurer
Board Member
Board Member

Craig D. Rigell
Becky Simpson
Pete Harrell
Diana Calfee
Yvonne Raper
Eddie Arnold
Diane Frank

Director of Schools
Supervisor of Instruction
Supervisor of Attendance & Transportation
Supervisor of Special Education & Federal Projects
Supervisor of Food Services
Supervisor of Maintenance
Supervisor of Financial Services

Athens Utilities Board

Charles J. Liner
Joe Hutton
R. Carter Runyan
Linda Derrick
William Bo Perkinson

Chairman
Vice-Chairman
Board Member
Board Member
Board Member

Eric Newberry
Doug Rodgers
Nicholas H. Fortson
Bob Ingram
Jill Davis
Wayne Scarbrough

General Manager
Superintendent of Accounting
Superintendent of Power
Superintendent of Gas
Superintendent of Water/Wastewater
Director of Communications

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FINANCIAL SECTION

NEAL, SCOUTEN & McCONNELL, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
633 Chestnut Street
Suite 1440 Republic Centre
Chattanooga, Tennessee 37450-1440

Report of Independent Certified Public Accountants
on Financial Statements

To the City Council
City of Athens
Athens, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Athens, Tennessee, as of and for the year ended June 30, 2005, 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 of Athens, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Athens, Tennessee, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, the City of Athens, Tennessee elected to delay the retroactive reporting of major general infrastructure until July 1, 2004, in accordance with the provisions of Governmental Accounting Standards Board Statement No. 34 "Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments."

In accordance with Government Auditing Standards, we have also issued our report dated August 26, 2005, on our consideration of the City of Athens, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 considered in assessing the results of our audit.

The management's discussion and analysis on pages B-1 – B-9 and the required supplemental information on pages 46-50 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Athens, Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, the budgetary comparison schedules on pages 53-54, the schedule of expenditures of federal and state awards, statistical data, and the financial schedules as listed in the table of contents 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, the budgetary comparison schedules on pages 53-54, the schedule of expenditures of federal and state awards, and the financial schedules 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 introductory section and statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Neal, Swater & McConnell, P.C.

Chattanooga, Tennessee
August 26, 2005

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

As management of the City of Athens, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Athens for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in pages A-1 to A-4 of this report.

Financial Highlights

- The assets of the City of Athens exceeded its liabilities at June 30, 2005 by \$16,874,328 (net assets). Of this amount, \$5,340,252 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Net assets decreased by \$1,818,715, a decrease of 9.7% compared to fiscal year 2004. The City of Athens' changes in net assets is detailed in the chart on page B-6 of this report. Total revenues decreased \$2,766,840, primarily due to reductions in pass-through grants and the federal grant in 2004 for a portion of the White Street Drainage Project. Expenses increased \$758,814 due to the appropriations to Athens City Schools for renovations.
- As of the close of the current fiscal year, the City of Athens' governmental funds reported combined ending fund balances of \$8,433,228. Only 22.5% is reserved for specific purposes, and the remaining 77.5%, or \$6,539,250, is available for spending at the City's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,218,295, or 40.3% of total general fund expenditures. Expenditures do not include transfers to other funds, which totaled \$790,000 in the City's general fund.
- The City of Athens continued debt borrowing up to the approved amount of \$6,300,000 for renovations at the Athens City Schools. The first draw was in February 2004 and will be drawn down over a three-year period with repayment being made through 2018. This debt has been borrowed through the Public Building Authority of Clarksville, Tennessee.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the City of Athens' basic financial statements. The City of Athens' basic financial statements comprise 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.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

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 of Athens' 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 of Athens 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 (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Athens 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, highways and streets, education, economic development, and culture and recreation. The business-type activities of the City of Athens include the Conference Center Fund and the Sanitation Fund.

The government-wide financial statements include not only the City of Athens itself (which is the primary government), but also the legally separate entities Athens Board of Education and Athens Utilities Board. However, the Athens Housing Authority, the McMinn County Economic Development Authority, the E. G. Fisher Library, and the Athens Health and Educational Facilities Board are not legal entities of the City of Athens, and, accordingly are excluded from this report.

The government-wide financial statements can be found on pages 3-4 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 of Athens, 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 three categories: governmental funds, proprietary funds, and fiduciary 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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

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 the 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 governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Athens maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital improvement fund, which are considered to be major funds. Data from the other four governmental funds are combined into a single aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements later in this report beginning on page 51.

The City of Athens adopts an annual appropriated budget for its governmental funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 5-8 of this report.

Proprietary funds. The City of Athens maintains two different types of proprietary funds: enterprise funds and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Athens uses enterprise funds to account for its Southeast Tennessee Trade and Conference Center operations and sanitation services. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Athens' various functions. The City of Athens uses an internal service fund to account for its fleet of vehicles. Because this service predominantly benefits governmental rather than business-type functions, it has been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds financial statements provide separate information for the Southeast Tennessee Trade and Conference Center operations and sanitation fund, both of which are considered to be major funds of the City of Athens. Since there is only one internal service fund, it is presented in the proprietary fund financial statement.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

The basic proprietary fund financial statements can be found on pages 9-11 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City of Athens' own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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 14-45 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Athens' progress in funding its obligation to provide pension benefits to its employees. Required supplemental information can be found on pages 46-50 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplemental information on pensions. Combining and individual fund statements and schedules can be found on pages 51-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Athens, assets exceeded liabilities by \$16,874,328 at the close of this fiscal year.

The largest portion of the City of Athens net assets (57 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any debt used to acquire those assets that still outstanding. The City of Athens uses these capital assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City of Athens' investment in its 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. Unrestricted net assets total 32 percent of net assets and may be used to meet the government's ongoing obligations to its citizens and creditors. The City has accumulated funds for capital project needs as approved by Council and debt service. Restricted net assets comprise 11 percent of net assets. These resources are subject to external restrictions on how they may be used.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

At June 30, 2005, the City of Athens is able to report positive balances in all categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities and its component units.

City of Athens
Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Current and other assets	\$17,357,205	\$16,676,131	\$ 608,213	\$ 770,482	\$17,965,418	\$17,446,613
Capital assets	<u>10,300,707</u>	<u>7,875,186</u>	<u>1,587,133</u>	<u>1,685,987</u>	<u>11,887,840</u>	<u>9,561,173</u>
Total assets	<u>27,657,912</u>	<u>24,551,317</u>	<u>2,195,346</u>	<u>2,456,469</u>	<u>29,853,258</u>	<u>27,007,786</u>
Long-term liabilities	7,327,931	4,896,336	—	—	7,327,931	4,896,336
Other liabilities	<u>5,612,317</u>	<u>1,319,166</u>	<u>38,682</u>	<u>188,191</u>	<u>5,650,999</u>	<u>1,507,357</u>
Total liabilities	<u>12,940,248</u>	<u>6,215,502</u>	<u>38,682</u>	<u>188,191</u>	<u>12,978,930</u>	<u>6,403,693</u>
Invested in capital assets, net of related debt	8,003,707	5,182,286	1,587,133	1,685,987	9,590,840	6,868,273
Restricted	1,943,236	1,591,590	—	—	1,943,236	1,591,590
Unrestricted	<u>4,770,721</u>	<u>11,561,939</u>	<u>569,531</u>	<u>582,291</u>	<u>5,340,252</u>	<u>12,144,230</u>
Total net assets	<u>\$14,717,664</u>	<u>\$18,335,815</u>	<u>\$ 2,156,664</u>	<u>\$ 2,268,278</u>	<u>\$16,874,328</u>	<u>\$20,604,093</u>

Governmental activities. Governmental activities decreased the City of Athens' net assets by \$1,707,101 (\$3,618,151 when the restatement of net assets described in Note 2 is included) which accounts for most of the total decrease in the net assets of the City of Athens. The majority of this decrease is due to education expenses and the decrease in grants and contributions.

Business-type activities. Business-type activities decreased the City of Athens' net assets by \$111,614. This decrease was the result of the operations of both the sanitation fund and conference center fund.

Key elements of this decrease in net assets are as follows:

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

City of Athens
Changes in Net Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Revenues:						
Program revenues:						
Charges for services	\$ 829,764	\$ 591,297	\$ 753,302	\$ 760,713	\$ 1,583,066	\$ 1,352,010
Operating grants and contributions	568,915	3,245,413	—	—	568,915	3,245,413
Capital grants and contributions	180,797	851,939	—	—	180,797	851,939
General revenues:						
Property taxes	4,120,554	4,106,766	—	—	4,120,554	4,106,766
Other taxes	5,463,756	5,191,945	—	—	5,463,756	5,191,945
Intergovernmental revenues not restricted to specific programs	981,944	976,987	—	—	981,944	976,987
Other	<u>274,559</u>	<u>236,879</u>	<u>30,564</u>	<u>9,056</u>	<u>305,123</u>	<u>245,935</u>
Total revenues	<u>12,420,289</u>	<u>15,201,226</u>	<u>783,866</u>	<u>769,769</u>	<u>13,204,155</u>	<u>15,970,995</u>
Expenses:						
General government	3,466,385	3,808,931	—	—	3,466,385	3,808,931
Public safety	3,327,801	3,145,414	—	—	3,327,801	3,145,414
Highways and streets	1,838,813	1,930,598	—	—	1,838,813	1,930,598
Culture and recreation	870,846	847,670	—	—	870,846	847,670
Education	4,393,735	3,452,952	—	—	4,393,735	3,452,952
Health and welfare	81,158	76,462	—	—	81,158	76,462
Interest on long-term debt	148,652	56,436	—	—	148,652	56,436
Conference center	—	—	74,332	71,182	74,332	71,182
Sanitation	—	—	821,148	874,411	821,148	874,411
Total expenses	<u>14,127,390</u>	<u>13,318,463</u>	<u>895,480</u>	<u>945,593</u>	<u>15,022,870</u>	<u>14,264,056</u>
Change in net assets	(1,707,101)	1,882,763	(111,614)	(175,824)	(1,818,715)	1,706,939
Net assets, beginning of year	<u>16,424,765</u> (1)	<u>16,453,052</u>	<u>2,268,278</u>	<u>2,444,102</u>	<u>18,693,043</u> (1)	<u>18,897,154</u>
Net assets, end of year	<u>\$14,717,664</u>	<u>\$18,335,815</u>	<u>\$ 2,156,664</u>	<u>\$ 2,268,278</u>	<u>\$16,874,328</u>	<u>\$20,604,093</u>

(1) June 30, 2004, net assets of \$18,335,815 have been restated by \$1,911,050, as described at Note 2 bringing net assets change in 2005 to \$3,618,151.

Financial Analysis of the City's Funds

As noted earlier, the City of Athens' uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

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 of Athens' financing requirements. The unreserved fund balance may serve as a useful measure of a government's net resources available at the end of the fiscal year for future unforeseen emergencies.

As of the end of the current fiscal year, the City of Athens' governmental funds reported combined ending fund balances of \$8,433,228, an increase of \$265,717 in comparison to the prior year. Approximately 78 percent of this total amount (\$6,539,250) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for spending because it has already been committed. Within the governmental funds, \$65,684 is reserved for encumbrances, \$9,025 is reserved for Cook Park, \$109,271 is reserved for inventory, \$24,359 is reserved for law enforcement, \$111,185 is reserved for cemetery perpetual care, and \$1,574,454 is reserved for debt service.

The general fund is the chief operating fund of the City of Athens. At the end of the current fiscal year, unreserved fund balance of the general fund was \$5,218,295. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total general fund expenditures. Unreserved fund balance represents 40 percent of total fund expenditures, but represents 38 percent when compared to total fund expenditures and transfers to other funds (e.g. debt service).

The fund balance of the City of Athens' general fund increased by \$1,169,154 during the current fiscal year. The key factors are that actual expenditures were less than budgeted throughout all departments and sales tax (both local and state) and fines revenues exceeded the original budget.

The capital improvement fund balance decreased by \$1,509,784 during the year. This was due to approximately \$730,000 provided to the McMinn County Economic Development Authority for land purchases, approximately \$520,000 for the Dennis Street extension, and \$285,000 transferred to the general obligation bond fund. The debt service fund has a total fund balance of \$1,574,454. The net increase was \$364,409, due to lower interest rates on the City's variable rate loans and the retirement of the 1992 bonds in the prior year. The City continued to transfer \$790,000 to the debt service fund in the current year even with the retirement of the 1992 bonds. The general obligation bond fund increased due to the transfer from the capital improvement fund.

Proprietary funds. The City of Athens' proprietary funds provide the same type of information in the government-wide financial statements, but with more detail.

Unrestricted net assets at the end of the year amounted to \$25,929 for the conference center fund, \$543,602 for the sanitation fund and \$1,506,771 for the fleet management fund.

**City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005**

General Fund Budgetary Highlights.

Differences between the original budget and the final amended budgeted expenditures were approximately \$4,493,000 and are summarized below:

\$493,400 in miscellaneous increases in general government activities, related primarily to pass-through grants and finance for state business license payments.

\$3,815,000 in increases allocated to the Athens City Schools due to school renovations.

\$84,000 in public safety due to grant expenditures.

Capital Asset and Debt Administration

Capital assets. The City of Athens' investment in capital assets for its governmental and business-type fund activities as of June 30, 2005, amounts to \$11,887,840 (net of accumulated depreciation). This investment in capital assets includes land, buildings, other improvements, equipment, and infrastructure.

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

Public works and recreation activities added approximately \$624,000 in construction in progress for Dennis Street and part trails.

Retroactive reporting of infrastructure assets added approximately \$2,182,000 in assets (net of accumulated depreciation).

**City of Athens
Capital Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Buildings and improvements	\$ 4,619,595	\$ 4,619,595	\$ 1,517,930	\$ 1,517,930	\$ 6,137,525	\$ 6,137,525
Infrastructure	5,572,936	2,083,014	-	-	2,083,014	2,083,014
Furniture and office equipment	617,209	533,801	29,864	29,864	647,073	563,665
Machinery and equipment	4,851,193	4,729,284	1,343,787	1,351,219	6,194,980	6,080,503
Land	1,645,612	1,645,612	34,500	34,500	1,680,112	1,680,112
Construction in progress	<u>623,628</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>623,628</u>	<u>-</u>
	<u>\$17,930,173</u>	<u>\$13,611,306</u>	<u>\$ 2,926,081</u>	<u>\$ 2,933,513</u>	<u>\$20,856,254</u>	<u>\$16,544,819</u>

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2005

Additional information on the City of Athens' capital assets can be found in Note 3 on pages 28-31 of this report.

Long-term debt. At the end of the current fiscal year, the City of Athens had no bonded debt outstanding. The City has financed projects through two loans from bond proceeds issued by the Public Building Authority of the City of Clarksville, Tennessee. The balance outstanding for the 1995 note was \$2,297,000 and the 2004 note was \$4,817,000. These are both backed by the full faith and credit of the City.

The City maintains a Baa1 rating from Moody's Investor Service for general debt. State statutes do not limit the amount of general obligation bonded debt a governmental entity may issue.

Economic Factors and Next Year's Budgets and Rates

The unemployment rate for the City of Athens is currently 6.5 percent, which is an increase from the rate of 5.9 percent a year ago. Athens' rate is lower than the state and higher than the federal rates.

Revenues were expected to increase by 3.3 percent due to increases in sales tax collections and fines and forfeitures. Management has been conservative in estimating all revenues for 2005-2006 and expenditures increased by 3.3 percent also. Budgeted expenditures were to increase primarily due to education and salary and fringe benefits. The property tax rate remained the same for 2005-2006.

The City will continue to draw funds on the 2004 note for renovations at the Athens City Schools. Interest on this debt will be paid by the Board of Education for approximately three years at which time payments will be made by the City.

Requests for Information

This financial report is designed to provide a general overview of the City of Athens' finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional financial information may be addressed to the City of Athens, Office of the Finance Director, Post Office Box 849, Athens, Tennessee 37371-0849.

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**BASIC FINANCIAL
STATEMENTS**

CITY OF ATHENS, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2005

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Governmental	Proprietary
	Activities	Activities		Athens Board of Education	Athens Utilities Board
ASSETS					
Cash and cash equivalents	\$ 1,759,261	\$ 68,114	\$ 1,827,375	\$ 2,242,582	\$ 5,664,111
Certificates of deposit	-	-	-	1,500,000	-
Investments	8,281,640	468,331	8,749,971	-	-
Receivables:					
Customers, net	-	21,224	21,224	-	3,364,806
Other	44,313	-	44,313	-	114,400
Property taxes, net	4,504,722	-	4,504,722	1,809,964	-
Interest	-	-	-	2,100	-
Other governments	1,171,415	-	1,171,415	464,907	687,473
Component units/primary government	1,200,461	50,544	1,251,005	287,000	112,615
Inventories	109,271	-	109,271	18,306	1,425,937
Restricted assets	-	-	-	-	1,110,091
Capital assets, net of depreciation	8,031,467	1,552,633	9,584,100	6,280,897	57,541,610
Nondepreciable capital assets	2,269,240	34,500	2,303,740	501,321	21,019,754
Customer loans receivable	-	-	-	-	847,935
Debt issue costs, net	28,525	-	28,525	-	165,679
Prepaid pension obligation	257,597	-	257,597	-	148,583
Total assets	<u>\$27,657,912</u>	<u>\$ 2,195,346</u>	<u>\$29,853,258</u>	<u>\$13,107,077</u>	<u>\$92,202,994</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 780,340	\$ 26,462	\$ 806,802	\$ 359,298	\$ 4,307,182
Retention payable	53,553	-	53,553	23,873	-
Accrued payroll and withholdings	174,146	12,220	186,366	675,471	-
Customer deposits	-	-	-	-	283,760
Due to component units/primary government	399,615	-	399,615	1,200,461	50,544
Other current liabilities	-	-	-	-	500,000
Deferred revenues	4,204,663	-	4,204,663	1,869,734	65,800
Long-term liabilities:					
Due within one year	558,328	-	558,328	-	782,293
Due in more than one year	6,769,603	-	6,769,603	-	22,749,507
Total liabilities	<u>12,940,248</u>	<u>38,682</u>	<u>12,978,930</u>	<u>4,128,837</u>	<u>28,739,086</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,003,707	1,587,133	9,590,840	5,581,757	55,999,649
Restricted for:					
Debt service	1,574,454	-	1,574,454	-	278,373
Pension obligation	257,597	-	257,597	-	148,583
Cemetery perpetual care:					
Expendable	63,902	-	63,902	-	-
Nonexpendable	47,283	-	47,283	-	-
Unrestricted	4,770,721	569,531	5,340,252	3,396,483	7,037,303
Total net assets	<u>14,717,664</u>	<u>2,156,664</u>	<u>16,874,328</u>	<u>8,978,240</u>	<u>63,463,908</u>
Total liabilities and net assets	<u>\$27,657,912</u>	<u>\$ 2,195,346</u>	<u>\$29,853,258</u>	<u>\$13,107,077</u>	<u>\$92,202,994</u>

The Notes to Financial Statements are an integral part of this statement.

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CITY OF ATHENS, TENNESSEE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Assets				
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Athens Board of Education	Athens Utilities Board
Primary government:									
Governmental activities:									
General government	\$ 3,466,385	\$ 144,930	\$ 136,835	\$ -	\$ (3,184,620)	\$ -	\$ (3,184,620)	\$ -	\$ -
Public safety	3,327,801	537,985	39,360	76,921	(2,673,535)	-	(2,673,535)	-	-
Highways and streets	1,838,813	-	392,720	41,010	(1,405,083)	-	(1,405,083)	-	-
Culture and recreation	870,846	117,433	-	62,866	(690,547)	-	(690,547)	-	-
Education	4,393,735	-	-	-	(4,393,735)	-	(4,393,735)	-	-
Health and welfare	81,158	29,416	-	-	(51,742)	-	(51,742)	-	-
Interest on long-term debt	148,652	-	-	-	(148,652)	-	(148,652)	-	-
Total governmental activities	14,127,390	829,764	568,915	180,797	(12,547,914)	-	(12,547,914)	-	-
Business-type activities:									
Conference center	74,332	12,676	-	-	-	(61,656)	(61,656)	-	-
Sanitation	821,148	740,626	-	-	-	(80,522)	(80,522)	-	-
Total business-type activities	895,480	753,302	-	-	-	(142,178)	(142,178)	-	-
Total primary government	\$ 15,022,870	\$ 1,583,066	\$ 568,915	\$ 180,797	(12,547,914)	(142,178)	(12,690,092)	\$ -	\$ -
Component units:									
School system	\$ 13,019,528	\$ 412,365	\$ 2,130,561	\$ -				\$(10,476,602)	\$ -
Public utilities	49,827,936	52,727,341	-	1,059,626				-	3,959,031
Total component units	\$ 62,847,464	\$ 53,139,706	\$ 2,130,561	\$ 1,059,626				(10,476,602)	3,959,031
General revenues:									
Property taxes					4,120,554	-	4,120,554	1,756,350	-
Other local taxes					5,463,756	-	5,463,756	-	-
Intergovernmental revenues not restricted to specific programs					981,944	-	981,944	6,850,087	-
Payments from the primary government					-	-	-	4,394,713	-
Investment income					169,953	12,015	181,968	107,686	147,633
Insurance proceeds					-	-	-	131,366	-
Gain (loss) on disposal of capital assets					24,967	13,433	38,400	(31,772)	933
Miscellaneous					79,639	5,116	84,755	44,412	-
Total general revenues					10,840,813	30,564	10,871,377	13,252,842	148,566
Change in net assets					(1,707,101)	(111,614)	(1,818,715)	2,776,240	4,107,597
Net assets, beginning of year, as previously stated					18,335,815	2,268,278	20,604,093	7,936,068	59,356,311
Net prior period adjustment and restatement (Note 2)					(1,911,050)	-	(1,911,050)	(1,734,068)	-
Net assets, beginning of year, as restated (Note 2)					16,424,765	2,268,278	18,693,043	6,202,000	59,356,311
Net assets, end of year					\$ 14,717,664	\$ 2,156,664	\$ 16,874,328	\$ 8,978,240	\$63,463,908

The Notes to Financial Statements are an integral part of this statement.

**CITY OF ATHENS, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005**

	<u>General</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 690,509	\$ 906,614	\$ 99,880	\$ 1,697,003
Investments	4,372,529	492,154	1,930,795	6,795,478
Property taxes receivable, less allowance of \$45,888	4,504,722	-	-	4,504,722
Due from other governments	1,040,649	67,900	62,866	1,171,415
Other receivables	32,412	-	-	32,412
Inventories	109,271	-	-	109,271
Total assets	<u><u>\$10,750,092</u></u>	<u><u>\$1,466,668</u></u>	<u><u>\$2,093,541</u></u>	<u><u>\$14,310,301</u></u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 263,343	\$ 429,338	\$ 70,724	\$ 763,405
Retention payable	-	45,695	7,858	53,553
Accrued payroll and withholdings	174,146	-	-	174,146
Due to component units	363,000	-	-	363,000
Deferred revenues	4,522,969	-	-	4,522,969
Total liabilities	<u><u>5,323,458</u></u>	<u><u>475,033</u></u>	<u><u>78,582</u></u>	<u><u>5,877,073</u></u>
 FUND BALANCES				
Reserved	208,339	-	1,685,639	1,893,978
Unreserved, undesignated	5,218,295	991,635	-	6,209,930
Unreserved, undesignated reported in nonmajor:				
Special revenue fund	-	-	84,185	84,185
Capital projects fund	-	-	245,135	245,135
Total fund balances	<u><u>5,426,634</u></u>	<u><u>991,635</u></u>	<u><u>2,014,959</u></u>	<u><u>8,433,228</u></u>
Total liabilities and fund balances	<u><u>\$10,750,092</u></u>	<u><u>\$1,466,668</u></u>	<u><u>\$2,093,541</u></u>	<u><u>\$14,310,301</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances \$ 8,433,228

Amounts for governmental activities in the statement of net assets are different because:

Capital assets and related accumulated depreciation are not financial resources or uses and not reported in the funds.

Capital assets	\$ 14,903,363	
Accumulated depreciation	<u>(5,963,638)</u>	8,939,725

Certain property taxes and intergovernmental revenue are not available to pay for current period expenditures and therefore are deferred in the funds.

Property taxes	284,606	
Intergovernmental revenue	<u>33,700</u>	318,306

Prepaid pension obligations are not current financial resources and are not reported in the funds.

257,597

Certain long-term receivables from the component unit are not considered a current financial resource in the funds.

1,200,461

Certain liabilities are not considered a use of current financial resources in the funds.

Bonds and notes payable	(7,114,000)	
Compensated absences	<u>(213,931)</u>	(7,327,931)

Debt issue costs are amortized in the statement of net assets but are considered a current financial use in the funds.

Debt issue costs	31,500	
Accumulated amortization	<u>(2,975)</u>	28,525

An internal service fund is used by management to charge the cost of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.

Cash	62,258	
Investments	1,486,162	
Receivables	11,901	
Capital assets	3,026,810	
Accumulated depreciation	(1,665,828)	
Accounts payable	<u>(53,550)</u>	<u>2,867,753</u>

Net assets \$ 14,717,664

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	<u>General</u>	<u>Capital Improvement</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 4,049,947	\$ -	\$ -	\$ 4,049,947
Other local taxes	5,463,757	-	-	5,463,757
Intergovernmental	1,636,779	-	155,796	1,792,575
Charges for services	291,779	-	-	291,779
Fines and forfeitures	500,064	-	37,921	537,985
Investment and interest income	79,161	18,599	42,779	140,539
Miscellaneous	76,814	41,010	2,825	120,649
	<u>12,098,301</u>	<u>59,609</u>	<u>239,321</u>	<u>12,397,231</u>
EXPENDITURES				
Current:				
General government	2,573,373	-	9,568	2,582,941
Public safety	3,381,547	-	51,177	3,432,724
Highways and streets	1,699,759	-	-	1,699,759
Culture and recreation	823,538	-	-	823,538
Education	4,393,735	-	-	4,393,735
Health and welfare	84,158	-	-	84,158
Debt service:				
Principal	-	-	395,900	395,900
Interest	-	-	148,652	148,652
Capital outlay	-	1,284,393	102,677	1,387,070
	<u>12,956,110</u>	<u>1,284,393</u>	<u>707,974</u>	<u>14,948,477</u>
REVENUES UNDER EXPENDITURES	(857,809)	(1,224,784)	(468,653)	(2,551,246)
OTHER FINANCING SOURCES (USES)				
Debt proceeds	2,814,500	-	-	2,814,500
Proceeds from the sale of capital assets	2,463	-	-	2,463
Transfers	(790,000)	(285,000)	1,075,000	-
	<u>2,026,963</u>	<u>(285,000)</u>	<u>1,075,000</u>	<u>2,816,963</u>
NET CHANGE IN FUND BALANCES	1,169,154	(1,509,784)	606,347	265,717
FUND BALANCES, beginning of year	<u>4,257,480</u>	<u>2,501,419</u>	<u>1,408,612</u>	<u>8,167,511</u>
FUND BALANCES, end of year	<u>\$ 5,426,634</u>	<u>\$ 991,635</u>	<u>\$ 2,014,959</u>	<u>\$ 8,433,228</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2005

Net change in fund balances		\$ 265,717
Amounts for governmental activities included in the statement of activities are different because:		
Property taxes are recognized as revenue in the period for which they are levied in the statement of activities while funds recognize revenue when collected and available.		
Current year levy	\$ 4,120,554	
Fund revenue recognized	<u>(4,049,947)</u>	70,607
Intergovernmental revenues that do not provide current financial resources are not reported as revenue in the funds.		
State beer tax-full accrual	6,538	
State income tax-full accrual	37,099	
Collected fund revenue	<u>(52,637)</u>	(9,000)
Repayments from a component unit due under the school renovation agreement are recognized as revenue in the funds. The receipts are recorded against the receivable balance in the statement of net assets.		
		(92,930)
Funds report capital outlays as expenditures. Asset cost is capitalized and allocated over the estimated useful lives as depreciation expense in the statement of activities.		
Capital asset expenditures in the current period	837,562	
Less current year depreciation	<u>(457,314)</u>	380,248
The change in value of the net pension obligation is recorded as an expense in the statement of activities.		
		(21,366)
Internal service fund is used by management to charge the cost of fleet management to individual funds. The change in net assets of the internal service fund is reported with governmental activities.		
		133,318
Funds report proceeds from the issuance of long-term debt as financing sources and the related liabilities as expenditures when paid; but the proceeds and payments are recorded through a liability in the statement of net assets.		
Long-term debt proceeds	(2,814,500)	
Bonds and notes payable payments	395,900	
Net change in compensated absences	<u>(12,995)</u>	(2,431,595)
Debt issue costs are amortized over the life of the debt in the statement of activities and expended when incurred in the funds.		
		<u>(2,100)</u>
Change in net assets		<u>\$ (1,707,101)</u>

The Notes to Financial Statements are an integral part of this statement.

**CITY OF ATHENS, TENNESSEE
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2005**

	<u>Business-Type Activities-Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Conference Center</u>	<u>Sanitation</u>	<u>Total</u>	<u>Internal Service Fund</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,636	\$ 65,478	\$ 68,114	\$ 62,258
Investments	23,303	445,028	468,331	1,486,162
Accounts receivable	-	21,224	21,224	11,901
Due from component units	-	50,544	50,544	-
Total current assets	<u>25,939</u>	<u>582,274</u>	<u>608,213</u>	<u>1,560,321</u>
Capital assets:				
Land	34,500	-	34,500	-
Other capital assets, net	<u>1,323,505</u>	<u>229,128</u>	<u>1,552,633</u>	<u>1,360,982</u>
Total capital assets	<u>1,358,005</u>	<u>229,128</u>	<u>1,587,133</u>	<u>1,360,982</u>
Total assets	<u>\$ 1,383,944</u>	<u>\$ 811,402</u>	<u>\$ 2,195,346</u>	<u>\$ 2,921,303</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 10	\$ 26,452	\$ 26,462	\$ 53,550
Accrued payroll and withholdings	-	12,220	12,220	-
Total current liabilities	<u>10</u>	<u>38,672</u>	<u>38,682</u>	<u>53,550</u>
NET ASSETS				
Invested in capital assets	1,358,005	229,128	1,587,133	1,360,982
Unrestricted	<u>25,929</u>	<u>543,602</u>	<u>569,531</u>	<u>1,506,771</u>
Total net assets	<u>1,383,934</u>	<u>772,730</u>	<u>2,156,664</u>	<u>2,867,753</u>
Total liabilities and net assets	<u>\$ 1,383,944</u>	<u>\$ 811,402</u>	<u>\$ 2,195,346</u>	<u>\$ 2,921,303</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference			Internal Service Fund
	Center	Sanitation	Total	
OPERATING REVENUES				
Charges for services	\$ -	\$ 740,626	\$ 740,626	\$ 326,200
Rental income	12,676	-	12,676	-
Miscellaneous	-	5,116	5,116	-
Total operating revenues	<u>12,676</u>	<u>745,742</u>	<u>758,418</u>	<u>326,200</u>
OPERATING EXPENSES				
Salaries and employee benefits	6,909	411,206	418,115	-
Operation	7,399	129,040	136,439	-
Maintenance	3,471	11,872	15,343	-
Depreciation	56,553	97,413	153,966	244,800
Landfill services	-	171,617	171,617	-
Total operating expenses	<u>74,332</u>	<u>821,148</u>	<u>895,480</u>	<u>244,800</u>
OPERATING INCOME (LOSS)	<u>(61,656)</u>	<u>(75,406)</u>	<u>(137,062)</u>	<u>81,400</u>
NONOPERATING REVENUES				
Interest income	233	11,782	12,015	29,414
Gain on sale of capital assets	-	13,433	13,433	22,504
Total nonoperating revenues	<u>233</u>	<u>25,215</u>	<u>25,448</u>	<u>51,918</u>
CHANGE IN NET ASSETS	(61,423)	(50,191)	(111,614)	133,318
NET ASSETS, beginning of year	<u>1,445,357</u>	<u>822,921</u>	<u>2,268,278</u>	<u>2,734,435</u>
NET ASSETS, end of year	<u>\$ 1,383,934</u>	<u>\$ 772,730</u>	<u>\$ 2,156,664</u>	<u>\$ 2,867,753</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended June 30, 2005

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference Center	Sanitation	Total	Internal Service Fund
	Center	Sanitation	Total	Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 12,676	\$ 771,588	\$ 784,264	\$ 326,200
Payments to employees	(6,753)	(313,996)	(320,749)	-
Payments to suppliers and vendors	(11,411)	(405,561)	(416,972)	-
Internal activity-receipts from other funds	-	-	-	-
Other receipts	-	5,116	5,116	-
Net cash provided by (used in) operating activities	<u>(5,488)</u>	<u>57,147</u>	<u>51,659</u>	<u>326,200</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of capital assets	-	13,433	13,433	47,829
Purchase of capital assets	-	(208,414)	(208,414)	(91,960)
Net cash used in capital and related financing activities	<u>-</u>	<u>(194,981)</u>	<u>(194,981)</u>	<u>(44,131)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment and interest earnings	233	11,782	12,015	29,414
Purchase of investments	(2,624)	-	(2,624)	(302,596)
Sale of investments	-	75,159	75,159	-
Net cash provided by (used in) investing activities	<u>(2,391)</u>	<u>86,941</u>	<u>84,550</u>	<u>(273,182)</u>
Net increase (decrease) in cash and cash equivalents	(7,879)	(50,893)	(58,772)	8,887
Cash and cash equivalents, beginning of year	10,515	116,371	126,886	53,371
Cash and cash equivalents, end of year	<u>\$ 2,636</u>	<u>\$ 65,478</u>	<u>\$ 68,114</u>	<u>\$ 62,258</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (61,656)	\$ (75,406)	\$ (137,062)	\$ 81,400
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	56,553	97,413	153,966	244,800
Change in assets and liabilities:				
Accounts receivable	-	30,962	30,962	-
Accounts payable and accrued liabilities	(385)	4,178	3,793	-
Net cash provided by (used in) operating activities	<u>\$ (5,488)</u>	<u>\$ 57,147</u>	<u>\$ 51,659</u>	<u>\$ 326,200</u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
STATEMENT OF FIDUCIARY NET ASSETS
ATHENS PENSION TRUST FUND
FIDUCIARY FUND
June 30, 2005

ASSETS

Interest receivable	\$ 22,754
Investments, at fair value:	
U.S. government and agency securities	1,728,195
Corporate bonds	707,144
Common stock	2,184,158
Mutual funds	589,196
Certificate of deposit	100,000
Money market fund	34,860
Total investments	<u>5,343,553</u>
Total assets	<u>\$ 5,366,307</u>

NET ASSETS

Net assets held in trust for pension benefits	<u>\$ 5,366,307</u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ATHENS PENSION TRUST FUND
FIDUCIARY FUND
Year Ended June 30, 2005

ADDITIONS

Employer contributions	\$ 418,536
Net investment income:	
Interest and dividend income	158,687
Net appreciation in the fair value of investments	<u>156,224</u>
Total additions	<u>733,447</u>

DEDUCTIONS

Benefits paid	298,322
Administrative expenses	<u>15,425</u>
Total deductions	<u>313,747</u>

**CHANGE IN NET ASSETS HELD IN TRUST FOR
PENSION BENEFITS**

	419,700
NET ASSETS , held in trust for pension benefits, beginning of year	<u>4,946,607</u>
NET ASSETS , held in trust for pension benefits, end of year	<u><u>\$ 5,366,307</u></u>

The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies

The City of Athens, Tennessee (the City) was incorporated on March 25, 1891, by an act of the legislature of the Tennessee General Assembly. The City operates under the Council-Manager form of government as authorized under Chapter 455 of the Private Acts of 1953.

In accordance with GASB Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", the basic financial statements include both government-wide and fund financial statements.

The government-wide financial statements consist of the Statement of Net Assets and the Statement of Activities which are presented on a full accrual basis of accounting. The City's funds are reported as governmental activities or business-type activities. Fund financial statements are presented on a modified accrual basis of accounting for governmental activities and present information by individual major funds. Nonmajor funds are presented in total in one column.

The financial statements of the City have been prepared in accordance with U.S. generally accepted accounting principles as applied to governmental units. The City applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. The more significant accounting policies used by the City are described below.

A. Financial Reporting Entity

As required by generally accepted accounting principles, these financial statements present the City of Athens, Tennessee (the primary government) and its component units. The component units are presented in a separate column in the government-wide financial statements to emphasize their separate legal status from the primary government. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Their inclusion in the City's reporting entity is based upon criteria provided by Section 2100 of Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, including 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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Component Units:

Athens Utilities Board

The Athens Utilities Board (Utilities Board) provides power, water, gas and sewer services to residential, commercial and industrial customers located in Athens, Tennessee and surrounding areas. The Utilities Board is governed by a five-member commission appointed by the City Council. The City Council has authority over the Utilities Board and prescribes the rules and regulations with which the Utilities Board must comply. The Utilities Board reports as four separate accounting and reporting entities presenting divisional financial statements on its business-type activities in accordance with enterprise fund accounting requirements. Complete financial statements may be obtained at the Utilities Board's administrative office at Athens Utilities Board, 100 New Englewood Road, Athens, Tennessee.

Athens City Board of Education

The Athens City Board of Education (Board of Education) is responsible for elementary education within the government's jurisdiction. The Board of Education consists of six publicly elected officials who appoint the Director of Schools. However, the Board of Education is fiscally dependent upon the City because the City Council approves the annual budget, levies taxes (if necessary), and must approve any debt issues. The Board of Education's activity is presented within the government-wide financial statements. Complete financial statements may be obtained at the Board of Education's administrative office at Athens City Schools, 943 Crestway Drive, Athens, Tennessee.

Other Related Organizations:

Athens Housing Authority

The Athens Housing Authority Board consists of five members appointed by the Mayor. The Department of Housing and Urban Development subsidizes Housing Authority operations and sets rates charged for housing. The debts of the Housing Authority are not secured by the City and deficits are not financed by the City.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Other Related Organizations: (continued)

McMinn County Economic Development Authority

This independent corporation is governed by a twenty-member board, only one of which is a City official. The activities of the Economic Development Authority include industrial recruitment, assistance in expansion of existing industries, and development of industrial parks. The Authority has the power to issue its own debt.

E. G. Fisher Public Library

The City of Athens and McMinn County participate in the joint operation of E. G. Fisher Public Library. The McMinn County Library Board is responsible for administering the joint library. This Board consists of seven members, of which four are appointed by the County Commission and three are appointed by the City Council. The Board directs all the internal affairs of the library, and such assistants or employees as may be necessary.

Athens Health and Education Facilities Board

The Athens Health and Education Facilities Board's activities include acquiring, owning, leasing and disposing of property as well as issuing bonds to promote higher education and health in Athens. The City is not liable for the debt of the Health and Education Facilities Board nor does the City finance their deficits. The Board is directed by volunteer Board members appointed by the City.

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the City. As a general rule, the effect of interfund activity has been eliminated from these statements. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities rely to a significant extent on fees and charges for services.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. This means that revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Government-wide Financial Statements: (continued)

the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions", (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenues when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met should be reported as advances by the provider and deferred revenue by the recipient. Certain nonexchange transactions where revenues are collected by other governments are not recognized in the statement of activities because they are not measurable at year end. The statement of activities reflects these transactions (bank excise tax and gross receipts tax) on the same basis as the fund financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. The City does not allocate indirect expenses to functions or activities in the statement of activities. Program revenues include: (1) charges to individuals who purchase, use or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not considered program revenues are reported as general revenues. When both restricted and unrestricted resources are available for use, the City's policy is to use restricted resources first.

Fund Financial Statements:

Fund financial statements of the reporting entity are organized into funds, each of which are considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, equity, revenues, and expenditures/expenses.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual proprietary funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days of the end of the current fiscal period.

Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on long-term debt, claims, judgments, compensated absences, and pension expenditures, which are recorded as a fund liability when expected to be paid with expendable available financial resources.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

State and federal funding is recognized as revenue in the period the City is entitled to the resources and the amounts are available. Reimbursements from expenditure-driven programs are recognized as revenue when the qualifying expenditures have been incurred and the amounts are available. For governmental fund financial statements, deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received before the City has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to the resources, the deferred revenue liability is removed and revenue is recognized.

Proprietary funds financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. The internal service fund of the City and the City's two enterprise funds are included in the proprietary fund financial statements. Since the

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

principal users of the internal services are the City's governmental activities, financial statements of the internal service funds are consolidated into the governmental column when presented at the government-wide level. Proprietary funds report activity and transactions as operating if the transaction constitutes activity that is the funds' principal ongoing operations. Activity not pertaining to the funds' ongoing operations are reported as nonoperating. Enterprise funds 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. Enterprise funds do not apply FASB pronouncements issued subsequent to November 30, 1989.

Fiduciary funds are used to report assets held in a trustee or agency capacity for others and therefore are not available to support City programs. The reporting focus is on net assets and changes in net assets and employs accounting principles similar to proprietary funds. The City's fiduciary fund is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements.

Governmental Funds:

The measurement focus of governmental funds is based upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. These funds are maintained on the modified accrual basis of accounting. The following are the City's governmental fund types:

General Fund: The General Fund is the principal fund of the City and is used to account for the financial resources of the City which are not accounted for in other funds. The principal sources of revenues are taxes and state-shared revenue. Primary expenditures are for public safety, education and general administration.

Special Revenue Fund: The Special Revenue Fund is used to account for the proceeds of specific revenues which are legally restricted to finance specific functions or activities of the government and which, therefore, cannot be diverted to other uses.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Governmental Funds: (continued)

Drug Fund: This fund was established expressly to account for financial activities related to drug revenues and expenditures. This includes revenues for drug fines and forfeitures and expenditures for drug enforcement, education and treatment.

Capital Projects Funds: Resources designated for the construction or acquisition of major capital assets are accounted for in this fund. Revenues are derived primarily from debt proceeds or capital grants.

Capital Improvement Fund: This fund is used to account for large capital projects as designated by City Council.

General Obligation Bond Fund: This fund was established in fiscal year 1989 to account for the proceeds of a bond issue for the construction of public works and recreation projects.

Permanent Fund: The Permanent Fund is used to account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support a specific government program.

Cemetery Perpetual Care Fund: This trust fund was established to provide for future maintenance of the City's cemeteries.

Debt Service Fund: This fund accounts for the payment of principal and interest on the City's general obligation long-term debt.

Proprietary Funds:

Proprietary funds include the Internal Service Fund and Enterprise Funds. The measurement focus is upon determination of net income, financial position, and changes in financial position. The generally accepted accounting principles used are those applicable to similar businesses in the private sector and, accordingly, these funds are maintained on the accrual basis of accounting. The following are the City's proprietary fund types:

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

B. Basic Financial Statements, Presentation, Basis of Accounting and Measurement Focus (continued)

Fund Financial Statements: (continued)

Proprietary Funds: (continued)

Internal Service Fund: This fund accounts for operations that provide service to other departments or agencies of the government, or to other governments, on a cost-reimbursement basis.

Fleet Management Fund: This fund is used to account for the acquisition and depreciation of motorized vehicles and equipment used by the City.

Enterprise Funds: These funds account for the acquisition, operations and maintenance of City facilities and services which are entirely or predominantly self-supporting through user charges.

Conference Center Fund: This fund was established to provide a facility for recreational, cultural and educational activities and to promote regional awareness.

Sanitation Fund: This fund was established expressly to account for financial activities related to the management of solid waste. This includes the collection, transportation and disposal of industrial, commercial and residential refuse.

Fiduciary Funds:

Fiduciary funds include trust and agency funds. The following is the City's fiduciary fund type:

Trust Fund: This fund is used to account for assets held by the City in a trustee capacity.

Athens Pension Trust Fund: This fund is used to account for the accumulation of resources for pension benefit payments to qualified City retirees.

Funds are classified as major funds or nonmajor funds within the statements. An emphasis is placed on major funds with all nonmajor funds presented in total in one column on the governmental and proprietary funds financial statements.

The City's major governmental funds are the General Fund and Capital Improvement Fund. The City's major proprietary funds are the Conference Center Fund and Sanitation Fund.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

C. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The City holds budget hearings in April of each year with all department heads submitting requests. The operating budget includes proposed expenditures and the means of financing them.
2. In early May the City Manager and/or the Director of Finance makes a formal presentation to the City Council.
3. Prior to July 1, the Council will pass on second reading an ordinance to adopt the budget and set the tax rate.
4. Management may transfer budgeted amounts between line items within a department; however, any revision that alters the total expenditures of any department and/or fund must be approved by the City Council.
5. Formal budgets are adopted for the General Fund, the Debt Service Fund and the Special Revenue Fund on a basis consistent with generally accepted accounting principles (GAAP). Budgeted amounts reflected in the accompanying budget and actual comparison are as originally adopted, unless amended by the City Council.
6. All appropriations which are not expensed or encumbered lapse at year end.

D. Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits and certificates of deposit with original maturities of 90 days or less. In accordance with governmental accounting standards, certain restricted assets are considered cash equivalents for purposes of the statements of cash flows.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

F. Investments

Investments are valued at fair value. Legal provisions require that all investments be properly insured or collateralized with a financial depository. State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, equity securities, repurchase agreements, and pooled investment funds.

G. Inventories

Inventories consist primarily of supplies and gravesites, valued at weighted average cost, which approximates market. The cost of inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation even though they are a component of reported assets.

H. Capital Assets

In the government-wide financial statements, capital expenditures are accounted for as capital assets. Capital assets are defined by the City as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of one year. All capital assets are valued at historical cost, except for donated capital assets which are recorded at their estimated fair value at the date of donation. The City charges maintenance and repairs, including the costs of renewals of minor items of property, to maintenance expense accounts.

Capital asset depreciation is provided using the straight-line method over the estimated useful lives as follows:

Vehicles, machinery, and equipment	5-15 years
Furniture and office equipment	5 years
Buildings and improvements	15-40 years
Infrastructure	40 years

In the fund financial statements, the acquisition of capital assets is accounted for as capital outlay expenditures and depreciation is not reported.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

Component Unit - Athens Utilities Board:

The Athens Utilities Board uses group depreciation for many of its assets. Under this method, assets are aggregated into pools and depreciated over their estimated useful lives. In group depreciation, depreciation is not accumulated by individual assets; therefore, property subject to depreciation is retired at its average unit cost. In addition, accumulated depreciation of the same amount is retired with no gain or loss recognized on the disposal. Cost of removing retired assets less the salvage value recovered is also charged to accumulated depreciation.

The composite straight-line depreciation rate, expressed as a percentage of average depreciable plant, property and equipment, ranged from 2.8 to 3.1 percent in 2005. The depreciation and amortization in the Utilities Board's statement of revenues, expenses and changes in net assets does not include depreciation on certain transportation equipment which is allocated to other expense classifications based on relative usage.

I. Debt Issue Costs

Debt issue costs are amortized using the straight-line method over the life of the related debt in the government-wide financial statements. Debt issue costs are accounted for as expenditures in the governmental fund financial statements when incurred.

J. Interfund Transactions

During the normal course of the City's operations, transactions occur between individual funds that are classified as transfers or as receivables/payables in the fund financial statements. These fund transactions are eliminated in the government-wide financial statements within the governmental activities column and the business-type activities column.

K. Long-Term Debt

Bonds and Notes Payable:

General obligation bonds and the notes payable which have been issued to fund capital projects of the general government and to fund school renovations are to be repaid from tax revenues of the City.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

K. Long-Term Debt (continued)

Compensated Absences:

Employees of the City are granted vacation and sick leave in varying amounts based on years of service. Sick leave is not vested and employees who resign or are dismissed from employment will lose any accrued sick leave benefits.

Vacation leave is vested and employees who resign or are dismissed from employment are compensated for unused vacation upon termination. Employees of the City may accrue vacation leave to a maximum of the leave earned in a one and one-half year period.

Accordingly, the City has accrued a liability for vacation leave which has been earned but not taken by City employees.

The accounting treatment of long-term debt differs between the government-wide and governmental fund financial statements. All long-term debt to be repaid from governmental resources is reported as a liability in the government-wide statements. The fund financial statements for governmental funds report long-term debt principal and interest payments as expenditures and do not reflect a liability.

L. Net Assets and Fund Balances

Net assets in the government-wide financial statements are classified in three components:

- a. Invested in capital assets, net of related debt – Consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of any related debt that is attributable to the acquisition, construction, or improvement of those assets. If there are unspent debt proceeds, these proceeds are not included in the calculation of invested in capital assets, net of related debt.
- b. Restricted net assets – Consists of net assets with constraints placed on the use either by 1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or 2) law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – Consists of all other net assets that do not meet the definition of restricted, or invested in capital assets, net of related debt.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

L. Net Assets and Fund Balances (continued)

Fund balances in the fund financial statements are classified as reserved and unreserved, with unreserved further split between designated and undesignated. Reserved fund balances represent amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose.

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrances outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year. Designated fund balances represent restrictions made by the City Council for specific purposes that are not legally binding. Undesignated fund balance amounts represent amounts available for use in future periods.

M. Property Taxes

In the government-wide financial statements, property tax revenues are recognized as revenue in the fiscal year for which the taxes are levied. Property taxes are based on the assessed value of property as of January 1. Property taxes attach as an enforceable lien on the assessment date and are therefore recognized on this date. In October, property taxes are due and are considered delinquent if not paid by the first day of March. Amounts owed to the City as of year end, which are not available, are recorded as receivables and deferred revenue in the fund financial statements.

The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City. City property tax revenues are recognized when levied to the extent that they result in current receivables. Taxes not collected as of March 1 of the following year are considered delinquent and are subject to lien on March 1 of the succeeding year.

Assessed values are established by the State of Tennessee at the following rates of assumed market value:

Public Utility Property	55%	(Railroads 40%)
Industrial and Commercial Property:		
Real	40	
Personal	30	
Residential Property	25	

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 1. Summary of Significant Accounting Policies (continued)

M. Property Taxes (continued)

The assessed value for the list of January 1, 2004, was \$319,766,290 based upon a reappraisal completed for the list of January 1, 2004. The estimated actual was \$1,010,933,001 making the total assessed value 31.6 percent of the total actual value.

Taxes were levied at a rate of \$1.29 per \$100 of assessed value. Current tax collections of \$3,838,801 for the fiscal year ended June 30, 2005, were 92.8 percent of the 2004 tax levy. An allowance has been established for delinquent taxes to the extent that their collectibility is improbable. The allowance at June 30, 2005, for the 2004 tax levy was \$25,888.

The 2005 taxes were levied at a rate of \$1.29 per \$100 of assessed value and have been recorded as a receivable at June 30, 2005. An allowance for doubtful collection of \$20,000 has been estimated and established for this levy at June 30, 2005. There are no current tax collections related to the 2005 levy.

Note 2. Restatement of Government-Wide Governmental Activities Beginning Net Assets

A prior period adjustment has been made to the government-wide governmental activities net assets balance as of June 30, 2004. The adjustment is necessary to correct the treatment of property tax revenues on the government-wide basis in accordance with GASB No. 34.

Upon adoption of GASB No. 34, the City elected to delay the retroactive reporting of their major general infrastructure assets, in accordance with the provisions of GASB No. 34. Effective July 1, 2004, the City elected to recognize these assets.

The effect on net assets of the prior period adjustment and the recording of the City's retroactive infrastructure assets resulted in a \$1,911,050 decrease in net assets and is as follows:

Net assets, as previously stated June 30, 2004		\$ 18,335,815
Current year property tax revenue included in net assets at June 30, 2004		<u>(4,092,838)</u>
Net assets, as restated at June 30, 2004		14,242,977
Recognition of the retroactive major infrastructure assets as of July 1, 2004		
Capital assets	3,489,922	
Accumulated depreciation	<u>(1,308,134)</u>	<u>2,181,788</u>
Net assets as restated at July 1, 2004		<u><u>\$ 16,424,765</u></u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Capital Assets

Primary government capital asset activity for the year is as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,619,595	\$ —	\$ —	\$ 4,619,595
Infrastructure	5,572,936 ⁽¹⁾	—	—	5,572,936
Furniture and office equipment	533,801	83,408	—	617,209
Machinery and equipment	<u>4,729,284</u>	<u>276,037</u>	<u>154,128</u>	<u>4,851,193</u>
Total capital assets depreciated	<u>15,455,616</u>	<u>359,445</u>	<u>154,128</u>	<u>15,660,933</u>
Accumulated depreciation:				
Buildings and improvements	2,346,694	207,881	—	2,554,575
Infrastructure	1,360,209 ⁽¹⁾	147,949	—	1,508,158
Furniture and office equipment	347,696	53,903	—	401,599
Machinery and equipment	<u>2,989,655</u>	<u>292,381</u>	<u>116,902</u>	<u>3,165,134</u>
Total accumulated depreciation	<u>7,044,254</u>	<u>702,114</u>	<u>116,902</u>	<u>7,629,466</u>
Net capital assets being depreciated	<u>8,411,362</u>	<u>(342,669)</u>	<u>37,226</u>	<u>8,031,467</u>
Capital assets not being depreciated:				
Land	1,645,612	—	—	1,645,612
Construction in progress	<u>—</u>	<u>623,628</u>	<u>—</u>	<u>623,628</u>
Total capital assets not depreciated	<u>1,645,612</u>	<u>623,628</u>	<u>—</u>	<u>2,269,240</u>
Net capital assets	<u>\$10,056,974⁽¹⁾</u>	<u>\$ 280,959</u>	<u>\$ 37,226</u>	<u>\$10,300,707</u>
<u>Business-Type Activities</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 1,517,930	\$ —	\$ —	\$ 1,517,930
Furniture and office equipment	29,864	—	—	29,864
Machinery and equipment	<u>1,351,219</u>	<u>55,112</u>	<u>62,544</u>	<u>1,343,787</u>
Total capital assets depreciated	<u>2,899,013</u>	<u>55,112</u>	<u>62,544</u>	<u>2,891,581</u>
Accumulated depreciation:				
Buildings and improvements	151,073	50,580	—	201,653
Furniture and office equipment	16,663	5,973	—	22,636
Machinery and equipment	<u>1,079,790</u>	<u>97,413</u>	<u>62,544</u>	<u>1,114,659</u>
Total accumulated depreciation	<u>1,247,526</u>	<u>153,966</u>	<u>62,544</u>	<u>1,338,948</u>
Net capital assets being depreciated	<u>1,651,487</u>	<u>(98,854)</u>	<u>—</u>	<u>1,552,633</u>
Capital assets not being depreciated:				
Land	<u>34,500</u>	<u>—</u>	<u>—</u>	<u>34,500</u>
Net capital assets	<u>\$ 1,685,987</u>	<u>\$ (98,854)</u>	<u>\$ —</u>	<u>\$ 1,587,133</u>

(1) As described in Note 2, the City recorded its infrastructure assets under provisions of GASB No. 34 allowing retroactive reporting to be delayed. Effective July 1, 2004, the City recorded its retroactive

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Capital Assets (continued)

infrastructure assets. Accordingly, certain governmental activities asset balances previously reported are restated as follows:

	Balance as previously reported	Restatement	Balance as restated
	<u>July 1, 2004</u>		<u>July 1, 2004</u>
Infrastructure	<u>\$ 2,083,014</u>	\$ 3,489,922	<u>\$ 5,572,936</u>
Accumulated depreciation- infrastructure	<u>\$ 52,075</u>	<u>1,308,134</u>	<u>\$ 1,360,209</u>
Net restatement		2,181,788	
Net capital assets, previously reported		<u>7,875,186</u>	
Net capital assets, as restated		<u>\$ 10,056,974</u>	

Depreciation expense was charged to functions as follows:

<u>Governmental Activities</u>	
General government	\$ 167,918
Public safety	177,610
Highways and streets	279,382
Culture and recreation	<u>77,204</u>
	<u>\$ 702,114</u>
<u>Business-Type Activities</u>	
Conference Center	\$ 56,553
Sanitation	<u>97,413</u>
	<u>\$ 153,966</u>

Component unit capital asset activity for the year is as follows:

Utilities Board:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets being depreciated:				
Plant in service	\$ 83,060,291	\$ 4,251,473	\$ 588,122	\$ 86,723,642
Equipment and furniture	2,583,789	344,424	151,246	2,776,967
Transportation equipment	<u>2,254,852</u>	<u>248,536</u>	<u>90,704</u>	<u>2,412,684</u>
Total depreciable capital assets	<u>87,898,932</u>	<u>4,844,433</u>	<u>830,072</u>	<u>91,913,293</u>
Accumulated depreciation:				
Plant in service	29,692,822	2,471,519	769,137	31,395,204
Equipment and furniture	1,985,147	226,057	152,318	2,058,886
Transportation equipment	<u>1,378,963</u>	<u>231,608</u>	<u>82,136</u>	<u>1,528,435</u>
Total accumulated depreciation	<u>33,056,932</u>	<u>2,929,184</u>	<u>1,003,591</u>	<u>34,982,525</u>
Net depreciable capital assets	<u>54,842,000</u>	<u>1,915,249</u>	<u>(173,519)</u>	<u>56,930,768</u>
Capital assets not being depreciated:				
Land	550,494	60,348	-	610,842
Construction in progress	<u>9,203,470</u>	<u>17,136,317</u>	<u>5,320,033</u>	<u>21,019,754</u>
Nondepreciable capital assets	<u>9,753,964</u>	<u>17,196,665</u>	<u>5,320,033</u>	<u>21,630,596</u>
Net capital assets	<u>\$ 64,595,964</u>	<u>\$19,111,914</u>	<u>\$ 5,146,514</u>	<u>\$ 78,561,364</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Capital Assets (continued)

Utilities Board: (continued)

Depreciation was charged as follows:

	Charged to Depreciation and <u>Amortization</u>	Charged to Other <u>Accounts</u>	Total Depreciation and <u>Amortization</u>
Power Division	\$ 1,087,007	\$ 92,222	\$ 1,179,229
Water Division	509,152	39,336	548,488
Gas Division	378,187	25,505	403,692
Department of Sewer	<u>735,496</u>	<u>74,544</u>	<u>810,040</u>
	<u>\$ 2,709,842</u>	<u>\$ 231,607</u>	<u>\$ 2,941,449</u>

Board of Education:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2005</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 7,930,040	\$ 4,156,009	\$ -	\$ 12,086,049
Infrastructure	19,350	-	-	19,350
Furniture, equipment, and vehicles	<u>1,978,946</u>	<u>511,990</u>	<u>209,237</u>	<u>2,281,699</u>
Total depreciable capital assets	<u>9,928,336</u>	<u>4,667,999</u>	<u>209,237</u>	<u>14,387,098</u>
Accumulated depreciation:				
Buildings and improvements	6,767,441	135,378	-	6,902,819
Infrastructure	6,346	968	-	7,314
Furniture, equipment, and vehicles	<u>1,155,558</u>	<u>210,115</u>	<u>169,605</u>	<u>1,196,068</u>
Total accumulated depreciation	<u>7,929,345</u>	<u>346,461</u>	<u>169,605</u>	<u>8,106,201</u>
Net depreciable capital assets	<u>1,998,991</u>	<u>4,321,538</u>	<u>39,632</u>	<u>6,280,897</u>
Capital assets not being depreciated:				
Land	211,146	-	-	211,146
Construction in progress	<u>1,158,387</u>	<u>290,175</u>	<u>1,158,387</u>	<u>290,175</u>
Nondepreciable capital assets	<u>1,369,533</u>	<u>290,175</u>	<u>1,158,387</u>	<u>501,321</u>
Net capital assets	<u>\$ 3,368,524</u>	<u>\$ 4,611,713</u>	<u>\$ 1,198,019</u>	<u>\$ 6,782,218</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 3. Capital Assets (continued)

Board of Education: (continued)

Depreciation expense was charged to functions as follows:

Regular instruction	\$ 81,007
Administration	21,336
Operation and maintenance	2,593
Transportation	65,353
Food services	39,031
Unallocated depreciation	<u>137,141</u>
	<u>\$346,461</u>

Unallocated depreciation consists of depreciation related to the Board's buildings. Depreciation has not been allocated because the buildings serve multiple functions.

Note 4. Long-Term Debt

All long-term debt of the primary government is related to governmental activities. Primary government long-term debt activity for the year is as follows:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/05</u>	<u>Due</u> <u>within</u> <u>one year</u>
Note payable to the Public Building Authority of the City of Clarksville, Tennessee, Pooled Loan Program, Series 1995; adjustable rate pooled financing; principal due annually, interest due monthly through May 2010	\$ 2,692,900	\$ -	\$ 395,900	\$ 2,297,000	\$ 415,700
Note payable to the Public Building Authority of the City of Clarksville, Tennessee, Pooled Loan Program, Series 2003; adjustable rate pooled financing; principal due annually beginning May 2007, interest due monthly	2,002,500	2,814,500	-	4,817,000	-
Compensated absences	<u>200,936</u>	<u>249,831</u>	<u>236,836</u>	<u>213,931</u>	<u>142,628</u>
Total long-term debt	<u>\$ 4,896,336</u>	<u>\$ 3,064,331</u>	<u>\$ 632,736</u>	<u>\$ 7,327,931</u>	<u>\$ 558,328</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Long-Term Debt (continued)

The liability for compensated absences is typically liquidated in the General Fund.

The notes payable to the Public Building Authority of the City of Clarksville, Tennessee, Pooled Loan Program, Series 1995 and Series 2003 carries an adjustable interest rate that is determined based on the market rate of tax exempt variable interest. The rates are adjusted weekly and were 2.49% and 2.18%, respectively, for the Series 1995 and Series 2003 notes payable at June 30, 2005.

The debt service requirements for the notes payable are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 415,700	\$ 162,206	\$ 577,906
2007	536,500	141,497	677,997
2008	558,300	138,807	697,107
2009	581,200	125,215	706,415
2010	605,300	111,052	716,352
2011-2015	3,520,000	332,602	3,852,602
2016-2017	897,000	22,323	919,323
Total	<u>\$ 7,114,000</u>	<u>\$ 1,033,702</u>	<u>\$ 8,147,702</u>

During 2004, the City authorized the issuance of \$6,300,000 of debt through the Tennessee Municipal Bond Fund to be appropriated to the Athens City Board of Education for school renovations. As of June 30, 2005, \$4,817,000 had been drawn on the debt issue of which \$4,785,500 has been appropriated to the Board of Education and \$31,500 has been disbursed to pay debt issue costs. See Note 7 for further details regarding this debt issue.

Component unit long-term debt activity for the year is as follows:

Utilities Board:

	<u>Balance</u> <u>6/30/04</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/05</u>	<u>Due</u> <u>within</u> <u>one year</u>
Revenue and tax bonds	\$ 2,555,000	\$ -	\$ 110,000	\$ 2,445,000	\$ 110,000
Notes payable	8,928,603	11,877,465	488,104	20,317,964	564,105
TVA advances	653,950	206,921	92,035	768,836	108,188
Total	<u>\$12,137,553</u>	<u>\$12,084,386</u>	<u>\$ 690,139</u>	<u>\$23,531,800</u>	<u>\$ 782,293</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 4. Long-Term Debt (continued)

Utilities Board: (continued)

The Power Division and the Department of Sewer revenue bonds are payable from and are secured by a first pledge of the revenues derived from the operation of the respective systems. The revenue bonds and the Water Division note payable are collateralized by a statutory lien on the respective systems.

The Department of Sewer bond documents require that certain restricted reserve funds be established and maintained. At June 30, 2005, the required funds have been segregated into restricted accounts in the financial statements. The principal and interest payments on all long-term debt were current as of June 30, 2005.

During 2004, Athens Utilities Board entered a \$20,500,000 loan agreement. The note payable is between the City of Athens, Tennessee and the Public Building Authority of the City of Clarksville, Tennessee; however, the debt service will be paid by the Board over a 29 year amortization period. The debt issue requires monthly interest at a variable rate with the rate at June 30, 2005, set at 2.28%. The debt issue will be used to construct, repair, improve, extend and equip the electrical distribution system and the sewer system. It is anticipated that the Department of Sewer will utilize \$17,500,000 and the Power Division will utilize \$3,000,000 of the debt issue. At June 30, 2005, the Power Division had drawn \$1,518,341 and the Department of Sewer had drawn \$13,689,200 of this debt. If Board funds are not sufficient to service the debt, the City of Athens is required to establish ad valorem taxes to pay the note.

Aggregate maturities or payments required on principal under long-term debt obligations are as follows:

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 674,105	\$ 656,049	\$ 1,330,154
2007	680,000	635,099	1,315,099
2008	696,920	613,367	1,310,287
2009	751,051	589,756	1,340,807
2010	706,092	565,609	1,271,701
2011-2015	3,724,493	2,544,072	6,268,565
2016-2020	5,132,762	2,084,097	7,216,859
2021-2025	6,568,219	1,395,139	7,963,358
2026-2027	<u>3,829,322</u>	<u>538,473</u>	<u>4,367,795</u>
	<u>\$22,762,964</u>	<u>\$ 9,621,661</u>	<u>\$32,384,625</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Cash Deposits and Investments

Cash Deposits:

Primary government

State statutes require that all deposits with financial institutions must be collateralized in an amount equal to 105 percent of the face amount of uninsured deposits. Under these statutes, the deposits must be either covered by state or federal depository insurance, by collateral held by the City's agent in the City's name or by the Federal Reserve Banks acting as third-party agents. At June 30, 2005, all the City's deposits were insured or collateralized.

Component units

At June 30, 2005, all cash deposits of the Athens City Board of Education and Athens Utilities Board were covered by state or federal depository insurance or collateralized with securities held by the Boards' agents in the Boards' names.

Investments:

Primary government

The City's investment policy states that investments shall only be made in debt instruments of commercial banks or other investment institutions or other obligors having a Standard and Poors (A) and Moody's (P) short-term credit rating of at least an A1 P1. For instruments not rated, deposits must be insured by the maximum authorized under the Federal Deposit Insurance Corporation, in instances where such insurance is applicable or a participant in the State of Tennessee's Bank Collateral Pool. Investments are carried at fair value, as determined by quoted market prices. It is the City's policy generally to hold investments until maturity. Investments will have an average maturity of less than one year and shall not exceed two years.

State statutes authorize the City to invest in obligations of the U.S. Treasury, its agents and instrumentalities, repurchase agreements, interest earning money market accounts, certificates of deposit, obligations of the state or any agency of the state, and the State of Tennessee Local Government Investment Pool (LGIP).

As of June 30, 2005, the City had \$8,638,786 invested in the LGIP, which represents all of the City's investments excluding those included in the Cemetery Perpetual Care Fund and the Athens Pension Trust Fund. The LGIP was not rated as of June 30, 2005. The fair value of the position of the LGIP is the same as the value of the pool shares. Regulatory oversight for the LGIP is provided by the State legislature, the State Comptroller and the State Funding Board.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 5. Cash Deposits and Investments (continued)

Cemetery Perpetual Fund:

The Cemetery Perpetual Care Fund's investments are determined by Branch Banking and Trust, the Trustee. The Trustee is authorized to invest in all legal and prudent investments.

As of June 30, 2005, the Cemetery Perpetual Care Fund's investments consisted of the following:

	<u>Fair Value</u>
Money market funds	\$ 14,620
Mutual funds	<u>96,565</u>
	<u>\$ 111,185</u>

There is not a formal policy to limit the credit risk exposure on these investments.

Athens Pension Trust Fund:

As of June 30, 2005, the Pension Trust Fund's investments consisted of the following:

	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
U.S. government and agency securities	4.22 years	\$1,728,195
Corporate bonds	1.70 years	707,144
Common stock	N/A	2,184,158
Mutual funds	N/A	589,196
Certificate of deposit	7 months	100,000
Money market fund	N/A	<u>34,860</u>
		<u>\$5,343,553</u>

The Athens Pension Trust Fund is authorized to invest in stocks and corporate bonds rated AAA or better by Moody's Investor Services. The Retirement Committee's investment policy is to achieve a 60/40 government and corporate bonds/equities ratio. U.S. governments and agency securities carry the explicit guarantee of the U.S. government. The certificate of deposit is insured under FDIC deposit insurance. The City does not have any additional formal policy to limit its credit risk exposure.

The City does not have a formal policy to limit its exposure to fair value losses arising from rising interest rates.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 6. Interfund Transactions

Interfund Transfers:

Interfund transfers during the year consisted of the General Fund transferring \$790,000 to the Debt Service Fund and the Capital Improvement Fund transferring \$285,000 to the General Obligation Bond Fund.

The purpose of the interfund transactions was to fund debt service requirements and to finance ongoing capital projects. Interfund activity is netted in the government-wide statements within the governmental activities and business-type activities columns.

Note 7. Component Unit Transactions

Utilities Board:

Generally all transactions with the Utilities Board are as a result of services being provided. The Utilities Board provides utilities to the City. In addition, the Utilities Board bills and collects residential sanitation services for the City.

During 2004, the City entered an agreement to issue \$20,500,000 of Adjustable Rate Pooled Financing Revenue Bonds, Series 2003. The debt agreement is between the City and the Public Building Authority of the City of Clarksville, Tennessee; however, the debt service will be paid by the Utilities Board over a 29 year amortization period and will be reflected in the Utilities Board financial statements. See Note 4 for further details.

Board of Education:

During 2005, the City appropriated \$1,579,234, as part of its annual appropriation to fund the Board's operations to the Board of Education. The appropriation is paid monthly. The financial statements reflect a payable from the City to the Board of Education of \$287,000 which represents the June 2005 appropriation.

During 2004, the City authorized \$6,300,000 for school renovations. The City has issued debt through the Tennessee Municipal Bond Fund. The debt is in the City's name and draws on the loan are appropriated to the Board of Education for renovations as necessary, but renovations must be completed within three years.

During the construction period, interest only payments will be made based on the amounts drawn. The Board of Education has agreed to pay the first \$1,300,000 due with the City liable for all principal and interest due thereafter. During 2005, the City had appropriated \$2,814,500

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 7. Component Unit Transactions (continued)

Board of Education: (continued)

to the Board for school renovation. As of June 30, 2005, the City had drawn debt of \$4,817,000 with \$4,785,500 appropriated to the Board of Education for school renovations and \$31,500 used to pay debt issue costs.

Note 8. Detail of Net Assets and Fund Balances

Net Assets:

Net assets reported on the government-wide Statement of Net Assets include the following:

	Governmental Activities	Business- Type Activities	Total
Capital assets	\$ 17,930,173	\$ 2,926,081	\$ 20,856,254
Accumulated depreciation	(7,629,466)	(1,338,948)	(8,968,414)
Debt related to acquisition and construction of capital assets	<u>(2,297,000)</u>	—	<u>(2,297,000)</u>
Invested in capital assets, net of related debt	<u>8,003,707</u>	<u>1,587,133</u>	<u>9,590,840</u>
Restricted for debt service	1,574,454	—	1,574,454
Restricted for pension obligation	257,597	—	257,597
Restricted for cemetery perpetual care:			
Expendable	63,902	—	63,902
Nonexpendable	<u>47,283</u>	—	<u>47,283</u>
Total restricted	<u>1,943,236</u>	—	<u>1,943,236</u>
Unrestricted	<u>4,770,721</u>	<u>569,531</u>	<u>5,340,252</u>
Total net assets	<u>\$ 14,717,664</u>	<u>\$ 2,156,664</u>	<u>\$ 16,874,328</u>

Governmental Fund Balances:

Reservations of fund balances of governmental funds are created to either (1) satisfy legal covenants that require that a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriated for future expenditures. Specific reservations of the fund balance accounts are summarized below.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8. Detail of Net Assets and Fund Balances (continued)

Reserved for encumbrances. This reserve was created to represent encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the City but not completed as of the close of the fiscal year.

Reserved for Cook Park. This reserve was created as a result of an agreement between the City and the Cook Garden Club. The agreement provides for an annual appropriation for the neighborhood park of \$6,617 in return for the closing of the Cook Park swimming pool.

Reserved for inventories. This reserve was created to represent the portion of the fund balance that is not available for expenditures because the City expects to use these resources within the next budgetary period.

Reserved for law enforcement. This reserve was created to comply with federal statutes concerning accountability for federally forfeited property.

Reserved for cemetery perpetual care. This reserve was in conjunction with an irrevocable trust agreement established for the Cemetery Perpetual Care Fund.

Reserved for debt service. This reserve was established to provide for future debt service.

Reserved for state street aid. This reserve was created to comply with state statutes concerning accountability for funds received from the State of Tennessee gas tax. There was no reserve required at June 30, 2005. Revenues were \$376,654 and expenditures were \$398,316 for street lighting and \$165,255 for paving.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8. Detail of Net Assets and Fund Balances (continued)

Governmental Fund Balances: (continued)

Governmental fund balances reported on the fund financial statements include the following:

Reserved	
Major Funds:	
General Fund	
Encumbrances	\$ 65,684
Cook Park	9,025
Inventory	109,271
Law enforcement	24,359
	<u>208,339</u>
Nonmajor Funds:	
Cemetery Perpetual Care Fund	
Cemetery perpetual care	111,185
Debt Service Fund	
Debt service	<u>1,574,454</u>
Total nonmajor funds reserved fund balances	<u>1,685,639</u>
Total reserved fund balances	<u>1,893,978</u>
Unreserved	
Major Funds:	
General Fund	5,218,295
Capital Improvement Fund	991,635
Nonmajor Funds:	
Drug Fund	84,185
General Obligation Bond Fund	<u>245,135</u>
Total unreserved fund balances	<u>6,539,250</u>
Total governmental fund balances	<u>\$ 8,433,228</u>

Component Units:

Utilities Board

Net assets of the Utilities Board consist of the following:

Invested in capital assets, net of related debt	<u>\$ 55,999,649</u>
Restricted for pension obligation	148,583
Restricted for debt service	<u>278,373</u>
Total restricted	<u>426,956</u>
Unrestricted	<u>7,037,303</u>
	<u>\$ 63,463,908</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 8. Detail of Net Assets and Fund Balances (continued)

Component Units: (continued)

Board of Education

Net assets of the Board of Education consist of the following:

Invested in capital assets, net of related debt	\$ 5,581,757
Unrestricted	<u>3,396,483</u>
	<u>\$ 8,978,240</u>

Note 9. Pension Plans

Primary Government:

Plan description

The City of Athens, Tennessee Pension Plan (Plan) is a single employer non-contributory defined benefit plan. All regular and full-time employees of the City, and the City Judge, but excluding temporary, part-time or seasonal employees, whose customary employment is less than 5 months a year, are eligible to participate. Currently there are 100 active and 15 terminated participants, as well as 35 retired participants.

A complete copy of the Plan's actuarial report is available upon request at the City of Athens Finance Department.

All employees who have completed at least one year of employment are eligible to participate in the Plan. Under the Plan, employees' annual benefits, to be paid in monthly installments for life, are based on continuous service to normal retirement age (65) and are equal to the sum of:

1. Thirty percent of average compensation, plus
2. One percent of average compensation in excess of the Average Covered Wage, given by the table below, for each year of service up to 35 years.

**CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005**

Note 9. Pension Plans (continued)

Primary Government: (continued)

Plan description (continued)

<u>Participant's Year of Birth</u>	<u>Average Covered Wage</u>
Before 1910	\$ 6,000
1910 to 1911	6,600
1912 to 1913	7,200
1914 to 1915	8,400
1916 to 1917	9,000
1918 to 1921	9,600
1922 to 1925	10,200
1926 to 1930	10,800
1931 to 1932	11,400
1933 to 1934	12,000
1935 to 1936	12,600
1937 to 1940	13,200
1941 to 1944	13,800
1945 and later	14,100

The minimum annual benefit is the greater of (a) \$42 per year of service not to exceed 35 years, (b) the accrued benefit under the formula as of June 30, 1976 or (c) the accrued benefit under the formula as of June 30, 1998.

Upon the completion of 15 years of continuous service and the attainment of age 55, a participant may elect early retirement. The participant may receive a monthly benefit for life beginning at early retirement date equal to the benefit accrued, reduced by one-fifteenth for each of the first 5 years and one-thirtieth for each of the next 5 years by which early retirement precedes normal retirement. A participant age 62 with 15 years of service or age 55 with 25 years of service is eligible for an unreduced benefit.

A participant who becomes totally and permanently disabled before the normal retirement date and has 10 years of continuous service may retire and receive a disability retirement benefit reduced one-fifteenth for each of the first 5 years and one-thirtieth for each of the next 5 years by which disability precedes normal retirement date and actuarially reduced for each additional year.

A participant is 100 percent vested upon termination after 5 or more years of service. The Plan trust funds are managed by the Trust Division of Branch Banking & Trust Company.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 9. Pension Plans (continued)

Primary Government: (continued)

Summary of significant accounting policies

The City of Athens, Tennessee's financial statements are prepared using the accrual basis of accounting. Contributions are recognized in the period that they are due. Benefits and refunds are recognized in the period that they are payable to the participants.

Following are the significant accounting principles followed by the Trust Division of Branch Banking & Trust Company:

The securities listed on a national securities exchange are valued at the closing price at the valuation date. Securities which are not listed on a national securities exchange are valued at the mean of the bid and asked prices on the valuation date. Temporary investments are valued at their estimated market value by the Fund's Trustee.

Interest income is accrued as earned on each valuation date. The cost of securities sold is determined by the specific identification method.

Fixed income fund securities are valued utilizing prices quoted by a statistical service. U.S. Government Securities (held in trust) are valued at their estimated market value by the Fund's Trustee.

Contributions and reserves

- a. The authority under which the obligation to contribute to the Plan of the City is established through Section 3.02 of the Plan Document and a Trust Agreement between the employer and the Trust Division of Branch Banking & Trust Company.
- b. The funding policy is to contribute annually the normal cost with interest as determined through an actuarial valuation utilizing the collective aggregate normal cost method.
- c. Active Plan members are not required to contribute.
- d. There are no long-term contracts for contributions at the reporting date.
- e. There are no legally required reserves at the reporting date.

Annual pension cost and net pension obligation (benefit):

The amount shown below as the "net pension obligation (benefit)" is the cumulative difference between annual pension cost and the City's contributions to the Plan, including the pension liability at transition.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 9. Pension Plans (continued)

Primary Government: (continued)

Annual pension cost and net pension obligation (benefit) (continued)

Significant actuarial assumptions used in the valuation and the update include (a) rate of return on investment of present and future assets of 8 percent a year compounded annually, (b) projected salary increases of a 4 percent annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) no post retirement benefit increases, (d) level percentage of projected payroll amortization method, and (e) 30 years open amortization period. The actuarial value of assets was the market value.

Development of the net pension obligation (benefit)

Annual required contribution for year ending June 30, 2005	\$ 408,869
Interest on net pension obligation	(22,317)
Adjustment to annual required contribution	<u>28,350</u>
Annual pension cost	414,902
Employer contributions made	<u>393,536</u>
Change in net pension benefit	21,366
Net pension benefit at June 30, 2004	<u>(278,963)</u>
Net pension benefit at June 30, 2005	<u><u>\$(257,597)</u></u>

The annual required contribution for the 2005 year was determined as part of the annual actuarial valuation on January 1, 2005.

Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Required Contribution (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net Pension Obligation (Benefit)</u>
6/30/05	\$ 408,869	96.3%	\$(257,597)
6/30/04	391,030	104.9	(278,963)
6/30/03	366,470	111.9	(266,024)

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 9. Pension Plans (continued)

Component Units

Utilities Board:

Plan description

The Utilities Board has a single-employer, noncontributory defined benefit pension plan covering substantially all employees in all divisions.

Board of Education:

Non-instructional employees - plan description

Employees of the Board of Education are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Political subdivisions such as the Board of Education participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan.

Instructional employees - plan description

The Board of Education contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries.

Report availability

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP and the PSPP in which the Board of Education participates. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

The Board of Education and Utilities Board issue stand-alone financial reports which include all required disclosures and required supplementary information related to the component units' pension plan. Complete financial statements can be obtained at the component units' administrative office.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

Note 10. Deferred Compensation

The City and the Utilities Board offer its employees deferred compensation plans created in accordance with Internal Revenue Code Section 457. The plans, available to all employees, permit them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Note 11. Contingencies

The City is subject to lawsuits and claims arising out of its business nature. Management, after review and consultation with counsel, considers that any liability, not covered by insurance, from these lawsuits would not materially affect the financial position of the City.

The City has received several federal and state grants for specific purposes which are subject to review by the grantor agencies. Such reviews could lead to a request for reimbursement to the grantor agencies for any expenditures disallowed under the terms of the grants. Management believes that such disallowed costs, if any, would be immaterial.

Note 12. Risk Management

The City is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries commercial insurance or participates in the Tennessee Municipal League Risk Management Pool. The Tennessee Municipal League Risk Management Pool is a public entity risk pool which provides coverage for a variety of risks to Tennessee governments. The City does not retain the risk of loss under coverages with the pool. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2005

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
PROPERTY TAXES				
Property taxes-current	\$ 3,850,000	\$ 3,850,000	\$ 3,763,584	\$ (86,416)
Property taxes-prior	140,000	140,000	139,253	(747)
Property taxes-delinquent	40,000	40,000	47,094	7,094
Public utilities taxes	90,000	90,000	100,016	10,016
Total property taxes	<u>4,120,000</u>	<u>4,120,000</u>	<u>4,049,947</u>	<u>(70,053)</u>
OTHER LOCAL TAXES				
Penalty and interest on property tax-prior	15,000	15,000	22,041	7,041
Penalty and interest on property tax-current	15,000	15,000	13,593	(1,407)
In lieu of taxes	770,000	770,000	790,124	20,124
Local sales tax	3,250,000	3,250,000	3,461,227	211,227
Wholesale beer tax	400,000	400,000	441,654	41,654
Minimum business tax	14,000	14,000	14,090	90
Cable TV franchise tax	100,000	100,000	118,597	18,597
Gross receipts tax	510,000	670,000	601,961	(68,039)
Transient fees	-	-	470	470
Total other local taxes	<u>5,074,000</u>	<u>5,234,000</u>	<u>5,463,757</u>	<u>229,757</u>
INTERGOVERNMENTAL				
State sales tax	730,000	808,000	805,012	(2,988)
State beer tax	6,000	6,000	6,538	538
State income tax	50,000	50,000	46,098	(3,902)
State gas and motor fuel tax	380,000	380,000	376,654	(3,346)
State gasoline inspection tax	27,000	27,000	30,032	3,032
State mixed drink tax	25,000	25,000	40,864	15,864
State excise tax	60,000	60,000	62,400	2,400
State law/fire grants	17,000	17,000	12,449	(4,551)
Reimbursement-other government agencies	25,000	25,000	26,911	1,911
Highway maintenance reimbursement	5,000	5,000	11,029	6,029
Police grants	-	-	5,036	5,036
Other grant funds	-	391,000	213,756	(177,244)
Total intergovernmental	<u>1,325,000</u>	<u>1,794,000</u>	<u>1,636,779</u>	<u>(157,221)</u>

(continued)

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2005
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
CHARGES FOR SERVICES				
Utility damage reimbursement	\$ 10,000	\$ 10,000	\$ 12,100	\$ 2,100
Animal control	25,000	25,000	29,416	4,416
Grave opening	17,000	21,000	18,925	(2,075)
Recreation fees	80,500	90,500	74,255	(16,245)
Building permits	60,000	60,000	108,045	48,045
Clerks fees	5,000	5,000	5,860	860
Recreation concessions	35,000	40,000	42,863	2,863
Special ticket sales	2,000	2,000	315	(1,685)
Total charges for services	<u>234,500</u>	<u>253,500</u>	<u>291,779</u>	<u>38,279</u>
FINES AND FORFEITURES				
Court fines	300,000	300,000	483,188	183,188
Law enforcement forfeitures	-	-	16,876	16,876
Total fines and forfeitures	<u>300,000</u>	<u>300,000</u>	<u>500,064</u>	<u>200,064</u>
INTEREST	<u>25,000</u>	<u>25,000</u>	<u>79,161</u>	<u>54,161</u>
MISCELLANEOUS	<u>37,500</u>	<u>37,500</u>	<u>76,814</u>	<u>39,314</u>
Total revenues	<u>11,116,000</u>	<u>11,764,000</u>	<u>12,098,301</u>	<u>334,301</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
City Manager's Office	298,200	298,600	233,435	65,165
City Council	49,100	49,100	45,988	3,112
City Judge	12,600	12,600	12,593	7
City Attorney	18,000	18,000	13,590	4,410
Special appropriations	291,100	291,100	290,600	500
Athens Utilities Board	450,000	450,000	437,566	12,434
Pass-through grant	-	314,000	136,835	177,165
Finance	614,400	774,400	710,409	63,991
Personnel	149,600	149,600	134,277	15,323
Administrative services:				
Administration	90,700	90,700	82,660	8,040
City Hall	223,600	238,600	180,061	58,539
Community development:				
Administration	142,100	142,100	131,658	10,442
Codes enforcement	136,200	136,200	111,268	24,932
Cemeteries	59,000	63,000	52,433	10,567
Total general government	<u>2,534,600</u>	<u>3,028,000</u>	<u>2,573,373</u>	<u>454,627</u>

(continued)

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2005
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
PUBLIC SAFETY				
Police:				
Administration	\$ 211,000	\$ 211,670	\$ 202,975	\$ 8,695
Patrol	1,458,900	1,464,827	1,347,641	117,186
Detective	189,300	189,300	180,105	9,195
Fire:				
Administration	103,300	103,300	96,496	6,804
Prevention	80,400	80,400	78,032	2,368
Suppression	1,142,000	1,219,000	1,139,031	79,969
Administrative services:				
Communications	354,300	354,300	337,267	17,033
Total public safety	<u>3,539,200</u>	<u>3,622,797</u>	<u>3,381,547</u>	<u>241,250</u>
HIGHWAYS AND STREETS				
Public Works:				
Administration	188,200	188,200	179,493	8,707
Traffic control	128,500	128,500	98,317	30,183
Street maintenance	462,200	462,200	364,396	97,804
Street construction	333,100	345,405	296,851	48,554
Street cleaning	487,300	507,300	504,357	2,943
City garage	260,900	263,900	256,345	7,555
Total highways and streets	<u>1,860,200</u>	<u>1,895,505</u>	<u>1,699,759</u>	<u>195,746</u>
CULTURE AND RECREATION				
Parks and Recreation:				
Administration	165,000	170,000	162,873	7,127
Maintenance	402,700	437,295	396,903	40,392
Swimming pools	66,600	71,600	59,420	12,180
Program planning	215,100	230,100	204,342	25,758
Total culture and recreation	<u>849,400</u>	<u>908,995</u>	<u>823,538</u>	<u>85,457</u>
EDUCATION				
Athens City Schools	<u>1,460,000</u>	<u>5,275,000</u>	<u>4,393,735</u>	<u>881,265</u>
HEALTH AND WELFARE				
Public Works:				
Animal control	<u>82,600</u>	<u>88,600</u>	<u>84,158</u>	<u>4,442</u>
Total expenditures	<u>10,326,000</u>	<u>14,818,897</u>	<u>12,956,110</u>	<u>1,862,787</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>790,000</u>	<u>(3,054,897)</u>	<u>(857,809)</u>	<u>2,197,088</u>

(continued)

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2005
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES OVER (UNDER) EXPENDITURES	<u>790,000</u>	<u>(3,054,897)</u>	<u>(857,809)</u>	<u>2,197,088</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	3,815,000	2,814,500	(1,000,500)
Proceeds from the sale of capital assets	-	-	2,463	2,463
Transfer to debt service fund	<u>(790,000)</u>	<u>(790,000)</u>	<u>(790,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(790,000)</u>	<u>3,025,000</u>	<u>2,026,963</u>	<u>(998,037)</u>
Net change in fund balance	-	(29,897)	1,169,154	1,199,051
FUND BALANCE, beginning of year	<u>4,257,480</u>	<u>4,257,480</u>	<u>4,257,480</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ 4,257,480</u></u>	<u><u>\$ 4,227,583</u></u>	<u><u>\$ 5,426,634</u></u>	<u><u>\$ 1,199,051</u></u>

1. The basis of budgeting for the City of Athens is based upon generally accepted accounting principles.

**CITY OF ATHENS, TENNESSEE
SCHEDULE OF FUNDING PROGRESS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
PENSION PLAN
June 30, 2005**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Unfunded AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
1/1/03	4,664,487	6,497,963	1,833,476	71.78	3,815,073	48.06%
1/1/04	5,068,768	7,113,097	2,044,329	71.26	3,610,949	56.61
1/1/05	5,493,047	7,847,572	2,354,525	70.00	3,777,279	62.33

Schedule of Employer Contributions

<u>Plan Year Ending</u>	<u>Contributions by the City</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/96	\$ 105,005	\$ 105,005	100.0
6/30/97	138,656	138,656	100.0
6/30/98	153,810	153,810	100.0
6/30/99	426,797	176,796	241.4
6/30/00	278,587	275,060	101.3
6/30/01	282,666	281,558	100.4
6/30/02	343,829	339,606	101.2
6/30/03	410,000	366,470	111.9
6/30/04	410,000	391,030	104.9
6/30/05	393,536	408,869	96.2

1. The service prorated unit credit actuarial cost method has been used. Under this method, annual contributions consist of normal cost plus amortization of the unfunded actuarial accrued liability. Costs are allocated as a percentage of earnings.
2. There are no factors that significantly affect the identification of trends in the amounts reported in the required schedules.

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Fund

The Special Revenue Fund is used to account for the proceeds of specific revenues which are legally restricted to finance specific functions or activities of government and which, therefore, cannot be diverted to other uses.

DRUG FUND: This fund was established expressly to account for financial activities related to drug revenues and expenditures. This includes revenues for drug fines and forfeitures and expenditures for drug enforcement, education and treatment.

Capital Projects Fund

The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds.

GENERAL OBLIGATION BOND FUND: This fund was established in fiscal year 1989 to account for the proceeds of a bond issue for the construction of public works and recreation projects.

Permanent Fund

The Permanent Fund is used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

CEMETERY PERPETUAL CARE FUND: This fund was established to provide for the future maintenance of city cemeteries. The interest income of the trust can be used for cemetery maintenance with no principal encroachment permitted.

Debt Service Fund

The Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**CITY OF ATHENS, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005**

	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Drug	General Obligation Bond	Cemetery Perpetual Care	Debt Service	
ASSETS					
Cash and cash equivalents	\$ 4,040	\$ 882	\$ -	\$ 94,958	\$ 99,880
Investments	80,145	259,969	111,185	1,479,496	1,930,795
Due from other governments	-	62,866	-	-	62,866
Total assets	<u>\$ 84,185</u>	<u>\$ 323,717</u>	<u>\$ 111,185</u>	<u>\$ 1,574,454</u>	<u>\$ 2,093,541</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ 70,724	\$ -	\$ -	\$ 70,724
Retention payable	-	7,858	-	-	7,858
Interfund payable	-	-	-	-	-
Total liabilities	<u>-</u>	<u>78,582</u>	<u>-</u>	<u>-</u>	<u>78,582</u>
FUND BALANCES					
Reserved for cemetery perpetual care	-	-	111,185	-	111,185
Reserved for debt service	-	-	-	1,574,454	1,574,454
Unreserved, undesignated	84,185	245,135	-	-	329,320
Total fund balances	<u>84,185</u>	<u>245,135</u>	<u>111,185</u>	<u>1,574,454</u>	<u>2,014,959</u>
Total liabilities and fund balances	<u>\$ 84,185</u>	<u>\$ 323,717</u>	<u>\$ 111,185</u>	<u>\$ 1,574,454</u>	<u>\$ 2,093,541</u>

CITY OF ATHENS, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2005

	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Debt Service Fund	Total Nonmajor Governmental Funds
	Drug	General Obligation Bond	Cemetery Perpetual Care	Debt Service	
REVENUES					
Intergovernmental	\$ -	\$ 62,866	\$ -	\$ 92,930	\$ 155,796
Fines and forfeitures	37,921	-	-	-	37,921
Investment and interest income	1,332	70	5,778	35,599	42,779
Miscellaneous	-	-	2,825	-	2,825
Total revenues	<u>39,253</u>	<u>62,936</u>	<u>8,603</u>	<u>128,529</u>	<u>239,321</u>
EXPENDITURES					
Current:					
General government	-	-	-	9,568	9,568
Public safety	51,177	-	-	-	51,177
Debt service:					
Principal	-	-	-	395,900	395,900
Interest	-	-	-	148,652	148,652
Capital outlay	-	102,677	-	-	102,677
Total expenditures	<u>51,177</u>	<u>102,677</u>	<u>-</u>	<u>554,120</u>	<u>707,974</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(11,924)</u>	<u>(39,741)</u>	<u>8,603</u>	<u>(425,591)</u>	<u>(468,653)</u>
OTHER FINANCING SOURCES					
Transfers in	-	285,000	-	790,000	1,075,000
Net change in fund balances	(11,924)	245,259	8,603	364,409	606,347
FUND BALANCES, beginning of year	<u>96,109</u>	<u>(124)</u>	<u>102,582</u>	<u>1,210,045</u>	<u>1,408,612</u>
FUND BALANCES, end of year	<u>\$ 84,185</u>	<u>\$ 245,135</u>	<u>\$ 111,185</u>	<u>\$ 1,574,454</u>	<u>\$ 2,014,959</u>

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DRUG FUND
Year Ended June 30, 2005

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Drug fines and forfeitures	\$ 30,000	\$ 30,000	\$ 37,921	\$ 7,921
Investment and interest income	-	-	1,332	1,332
Total revenues	<u>30,000</u>	<u>30,000</u>	<u>39,253</u>	<u>9,253</u>
EXPENDITURES				
Drug investigation	10,000	10,000	14,500	(4,500)
Supplies	15,000	41,000	33,995	7,005
Education and training	5,000	5,000	2,682	2,318
Total expenditures	<u>30,000</u>	<u>56,000</u>	<u>51,177</u>	<u>4,823</u>
REVENUES UNDER EXPENDITURES	-	(26,000)	(11,924)	14,076
FUND BALANCE, beginning of year	<u>96,109</u>	<u>96,109</u>	<u>96,109</u>	-
FUND BALANCE, end of year	<u>\$ 96,109</u>	<u>\$ 70,109</u>	<u>\$ 84,185</u>	<u>\$ 14,076</u>

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year Ended June 30, 2005

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 200,000	\$ 200,000	\$ 92,930	\$ (107,070)
Interest	20,000	20,000	35,599	15,599
Total revenues	<u>220,000</u>	<u>220,000</u>	<u>128,529</u>	<u>(91,471)</u>
EXPENDITURES				
Debt service:				
Principal	400,000	400,000	395,900	4,100
Interest and fiscal charges	285,000	285,000	158,220	126,780
Total expenditures	<u>685,000</u>	<u>685,000</u>	<u>554,120</u>	<u>130,880</u>
REVENUES OVER (UNDER) EXPENDITURES	(465,000)	(465,000)	(425,591)	39,409
OTHER FINANCING SOURCES				
Transfer from general fund	<u>790,000</u>	<u>790,000</u>	<u>790,000</u>	<u>-</u>
Net change in fund balance	325,000	325,000	364,409	39,409
FUND BALANCE, beginning of year	<u>1,210,045</u>	<u>1,210,045</u>	<u>1,210,045</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 1,535,045</u>	<u>\$ 1,535,045</u>	<u>\$ 1,574,454</u>	<u>\$ 39,409</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2004	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2005
PRIMARY GOVERNMENT:						
FEDERAL AWARDS:						
FEDERAL EMERGENCY MANAGEMENT AGENCY						
Passed through TN Emergency Management Agency: Emergency Management Performance Grant	83.552	Z-03-015910-00	\$ 12,226	\$ 12,226	\$ -	\$ -
U.S. DEPARTMENT OF HOMELAND SECURITY						
Assistance to Firefighters Grants	97.044	EMW-2003-FG-0337	-	76,921	76,921	-
APPALACHIAN REGIONAL COMMISSION						
Appalachian Area Development	23.002	N/A	-	100,220	136,835	36,615
U.S. DEPARTMENT OF COMMERCE						
Grants for Public Works and Economic Development Facilities	11.300	04-01-05088	127,311	127,311	-	-
ENVIRONMENTAL PROTECTION AGENCY						
Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP-97435001-0	967,900	900,000	-	67,900
Total Federal Awards			<u>1,107,437</u>	<u>1,216,678</u>	<u>213,756</u>	<u>104,515</u>
STATE AWARDS:						
Tennessee Department of Environment and Conservation:						
Local Parks and Recreation	N/A	Z-05-023551-00	\$ -	\$ -	\$ 62,866	\$ 62,866
Tennessee Department of Transportation:						
Tennessee Highway Safety Program	N/A	Z-05-024066-00	-	5,037	5,037	-
Tennessee Infrastructure Improvement Program	N/A	Z-02-008498-00	84,239	84,239	-	-
Total State Awards			<u>84,239</u>	<u>89,276</u>	<u>67,903</u>	<u>62,866</u>
Total Primary Government			<u>\$ 1,191,676</u>	<u>\$ 1,305,954</u>	<u>\$ 281,659</u>	<u>\$ 167,381</u>
COMPONENT UNIT - ATHENS UTILITIES BOARD						
FEDERAL AWARDS:						
ENVIRONMENTAL PROTECTION AGENCY						
Surveys, studies, investigations, and special purpose grants	66.606	XP-974898-03-0	\$ 268,534	\$ 365,733	\$ 860,672	\$ 763,473

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2005
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2004	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2005
COMPONENT UNIT - ATHENS CITY BOARD OF EDUCATION:						
FEDERAL AWARDS:						
U.S. DEPARTMENT OF AGRICULTURE						
Passed through the TN Department of Agriculture:						
Food Distribution	10.550	N/A	\$ -	\$ 62,324	\$ 62,324	\$ -
Passed through the TN Department of Education:						
Child Nutrition Cluster:						
National School Lunch Program	10.555	N/A	-	293,098	296,041	2,943
School Breakfast Program	10.553	N/A	-	104,256	105,552	1,296
Summer Food Service Program for Children	10.559	N/A	48,231	107,349	108,739	49,621
			<u>48,231</u>	<u>567,027</u>	<u>572,656</u>	<u>53,860</u>
U.S. DEPARTMENT OF EDUCATION						
Impact Aid	84.041	N/A	\$ -	\$ 4,817	\$ 4,817	\$ -
Passed through the TN Department of Education:						
Special Education Cluster:						
Special Education - Grants to States	84.027	N/A	(27,644)	376,400	378,014	(26,030)
Special Education - Grants to States	84.027	N/A	-	6,355	6,355	-
Special Education - Preschool Grants	84.173	N/A	-	20,658	20,658	-
Title I Grants to Local Educational Agencies	84.010	N/A	18,292	552,746	505,946	(28,508)
Improving Teacher Quality - State Grants	84.367	N/A	1,996	128,161	124,908	(1,257)
Technology Literacy Challenge Fund Grants	84.318	N/A	1,103	25,177	23,809	(265)
Technology Literacy Challenge Fund Grants	84.318	Z-03-014999-00	23,621	92,157	91,841	23,305
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	(378)	14,930	14,300	(1,008)
Innovative Education Program Strategies	84.298	N/A	-	8,879	8,733	(146)
Rural Education Achievement Program	84.358	N/A	(12,169)	47,739	57,353	(2,555)
Even Start - Statewide Family Literacy Program	84.314	Z-04-018567-00	38,703	38,703	-	-
Even Start - State Educational Agencies	84.213	Z-05-020469-00	-	63,654	98,789	35,135

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2005
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2004	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2005
COMPONENT UNIT - ATHENS CITY BOARD OF EDUCATION: (continued)						
FEDERAL AWARDS: (continued)						
U.S. DEPARTMENT OF EDUCATION (continued)						
Passed through the TN Department of Labor and Workforce Development:						
Adult Education - State Grant Program	84.002	Z-04-016640-00	\$ 19,114	\$ 19,114	\$ -	\$ -
Adult Education - State Grant Program	84.002	Z-05-022192-00	-	90,054	107,550	17,496
Families First	84.002	Z-05-022257-00	-	9,492	14,765	5,273
Families First	84.002	Z-04-016485-00	5,632	5,632	-	-
			<u>68,270</u>	<u>1,504,668</u>	<u>1,457,838</u>	<u>21,440</u>
 U.S. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT						
Passed through the TN Department of Labor and Workforce Development:						
Workforce Development Incentive Grant	17.260	Z-04-019469-00	1,200	4,244	6,253	3,209
Workforce Development Incentive Grant	17.260	Z-05-023718-00	-	1,705	2,310	605
			<u>1,200</u>	<u>5,949</u>	<u>8,563</u>	<u>3,814</u>
Total Federal Awards - Athens City Board of Education			<u>117,701</u>	<u>2,077,644</u>	<u>2,039,057</u>	<u>79,114</u>
 STATE AWARDS:						
Adult Education - State Grant Program	N/A	Z-05-022192-00	\$ -	\$ 23,938	\$ 28,589	\$ 4,651
Adult Education - State Grant Program	N/A	Z-04-016640-00	5,081	5,081	-	-
Families First	N/A	Z-04-016485-00	2,650	2,650	-	-
Families First	N/A	Z-05-022287-00	-	4,468	6,949	2,481
Family Resource Grant	N/A	Z-05-021441-00	9,634	9,634	9,607	9,607
Safe Schools Act 2001	N/A	N/A	-	14,813	30,545	15,732
Total State Awards - Athens City Board of Education			<u>17,365</u>	<u>60,584</u>	<u>75,690</u>	<u>32,471</u>
Total Component Unit			<u>\$ 135,066</u>	<u>\$ 2,138,228</u>	<u>\$ 2,114,747</u>	<u>\$ 111,585</u>

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2005
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2004	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2005
COMPONENT UNIT - ATHENS CITY BOARD OF EDUCATION: (continued)						
SUMMARY OF PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT:						
Total Federal Awards			\$ 1,493,672	\$ 3,660,055	\$ 3,113,485	\$ 947,102
Total State Awards			101,604	149,860	143,593	95,337
TOTAL AWARDS			<u>\$ 1,595,276</u>	<u>\$ 3,809,915</u>	<u>\$ 3,257,078</u>	<u>\$ 1,042,439</u>

Note 1: The City received federal awards which were below the level requiring the City to have a "Single Audit" in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" for the year ended June 30, 2005. The Schedule of Expenditures of Federal and State Awards includes the federal and state grant activity of the City of Athens and its component units and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2: The Board of Education, component unit of the City, received federal awards which made it subject to audit under OMB Circular A-133 for the year ended June 30, 2005. The Board of Education awards have been reported on in the separately issued financial statements of Athens City Board of Education. The Board of Education awards have been included in the Schedule of Expenditures of Federal and State Awards to reflect the entire reporting entity. See separately issued Board of Education financial report regarding the Board's Schedule of Expenditures of Federal and State Awards.

Note 3: The Utilities Board, component unit of the City, received federal awards which made it subject to audit under OMB Circular A-133 for the year ended June 30, 2005. The Utilities Board awards have been reported on in the separately issued financial statements of Athens Utilities Board. The Utilities Board awards have been included in the Schedule of Expenditures of Federal and State Awards to reflect the entire reporting entity. See separately issued Utilities Board financial report regarding the Board's Schedule of Expenditures of Federal Awards.

Note 4: Expenditures under the U.S. Department of Agriculture Food Distribution grant received by the Board of Education represent receipt and expenditures of noncash commodities as valued based on equivalent purchased product.

OTHER

CITY OF ATHENS, TENNESSEE
SCHEDULE OF UNCOLLECTED DELINQUENT TAXES FILED
LAST TEN YEARS
June 30, 2005

<u>Tax Year</u>	<u>Delinquent Taxes Filed</u>	<u>July 1, 2004 Delinquent Taxes Receivable</u>	<u>Current Collections and Adjustment</u>	<u>June 30, 2005 Delinquent Taxes Receivable</u>
1994 and Prior	(1)	\$ 1,355	\$ 40	\$ 1,315
1995	28,293	149	-	149
1996	58,335	225	-	225
1997	32,487	376	158	218
1998	32,006	253	102	151
1999	42,359	1,048	102	946
2000	52,893	1,280	261	1,019
2001	53,445	2,417	1,401	1,016
2002	37,540	36,232	26,849	9,383
2003	54,164	-	21,674	32,490

(1) Not available

CITY OF ATHENS, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
Year Ended June 30, 2005

	<u>Total</u>	<u>2005 Assessment</u>	<u>2004 Assessment</u>	<u>Prior Years</u>
PROPERTY TAXES RECEIVABLE				
July 1, 2004	<u>\$ 4,347,404</u>	<u>\$ -</u>	<u>\$4,112,838</u>	<u>\$ 234,566</u>
Add -				
Taxes assessed	4,227,216	4,215,000	12,216	-
Late listings	<u>25,803</u>	<u>-</u>	<u>13,525</u>	<u>12,278</u>
	<u>4,253,019</u>	<u>4,215,000</u>	<u>25,741</u>	<u>12,278</u>
Deduct -				
Collections	4,030,455	-	3,838,801	191,654
Adjustments and abatements	<u>19,358</u>	<u>-</u>	<u>12,439</u>	<u>6,919</u>
	<u>4,049,813</u>	<u>-</u>	<u>3,851,240</u>	<u>198,573</u>
PROPERTY TAXES RECEIVABLE				
June 30, 2005	<u><u>\$ 4,550,610</u></u>	<u><u>\$4,215,000</u></u>	<u><u>\$ 287,339</u></u>	<u><u>\$ 48,271</u></u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS
June 30, 2005

	Interest Rate	Maturity Date	Cost	Market Value
<u>FUNDS GOVERNED BY THE CITY COUNCIL</u>				
Cemetery Perpetual Care Fund:				
BB&T U.S. Treasury Money Market Fund	-	-	\$ 14,620	\$ 14,620
BB&T Intermediate U.S. Government Bond Fund	-	-	17,383	16,877
BB&T Intermediate Corporate Bond Fund	-	-	2,340	2,372
BB&T International Equity Fund	-	-	4,369	5,085
BB&T Large Company Growth Fund	-	-	8,002	9,021
BB&T Large Company Value Fund	-	-	11,554	13,425
BB&T Midcap Growth Fund	-	-	1,407	1,952
BB&T Midcap Value Fund	-	-	2,145	2,944
BB&T Short U.S. Government Income Fund	-	-	10,211	9,787
BB&T Small Company Growth Fund	-	-	1,407	1,768
Federated Intermediate Income Fund	-	-	32,659	33,334
Total			\$ 106,097	\$ 111,185
Athens Pension Trust Fund:				
Fannie Mae Balloon Banks	5.000	08/01/09	\$ 33,779	\$ 33,732
Federal Farm Credit	5.000	08/25/06	58,333	57,841
Federal Home Loan Banks	6.500	11/15/06	194,613	207,062
Federal Home Loan Mortgage Corporation	6.783	08/18/05	101,137	100,438
Federal Home Loan Mortgage Corporation	4.000	05/01/11	222,835	223,417
Federal National Mortgage Association	1.750	06/16/06	170,242	171,719
Federal National Mortgage Association	2.625	11/15/06	147,495	147,797
Federal National Mortgage Association	4.250	05/15/09	151,105	151,641
Federal National Mortgage Association	4.250	07/15/09	150,905	151,641
Federal National Mortgage Association	4.500	05/20/20	198,880	198,954
Federal National Mortgage Association Pool	6.000	07/01/16	14,362	14,780
Government National Mortgage Association	7.500	06/15/07	1,533	1,546
U.S. Treasury Notes	4.250	01/15/10	170,644	166,740
U.S. Treasury Notes	5.750	11/15/05	104,656	100,887
Banc One Corporation	7.000	07/15/05	129,816	125,110
Citigroup, Inc.	6.750	12/01/05	131,104	126,484
Citigroup, Inc.	4.250	07/29/09	129,819	130,438
First Data Corporation	3.375	08/01/08	49,351	48,822
General Electric Company	2.850	01/30/06	100,830	99,498
IBM Corporation	4.250	09/15/09	76,522	75,368
SBC Communications, Inc.	5.750	05/02/06	101,535	101,424
Abbott Laboratories	-	-	28,742	35,532
ALCOA, Inc.	-	-	19,972	18,291
Alltell Corporation	-	-	18,384	23,355
American International Group, Inc.	-	-	42,818	46,480
AmSouth Bancorporation	-	-	30,084	31,200

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2005

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Applied Materials, Inc.	-	-	\$ 34,889	\$ 29,124
Anadarko Petroleum Corporation	-	-	14,322	28,753
Bank of America Corporation	-	-	34,237	50,171
Bank of New York Company, Inc.	-	-	34,598	34,536
Baxter International, Inc.	-	-	28,710	31,535
BB&T Corporation	-	-	16,630	19,985
Best BUY Company, Inc.	-	-	11,528	23,993
Carnival Corporation	-	-	19,313	40,912
Chevron Texaco Corporation	-	-	16,891	22,368
Cisco Systems, Inc.	-	-	39,067	21,465
Citigroup, Inc.	-	-	36,729	46,230
ConocoPhillips	-	-	16,888	31,620
CVS Corporation	-	-	16,516	36,338
Dell, Inc.	-	-	18,859	25,649
Dominion Resources, Inc.	-	-	24,761	31,191
Dover Corporation	-	-	37,890	36,380
Dow Chemical Company	-	-	23,075	31,171
E.I. Dupont De Nemours & Company	-	-	25,044	24,731
Eli Lilly & Company	-	-	16,839	19,499
EMC Corporation	-	-	28,431	31,190
Exxon Mobil Corporation	-	-	14,283	27,011
First Data Corporation	-	-	21,027	21,074
General Electric Company	-	-	27,570	34,650
HCA, Inc.	-	-	22,809	34,002
Home Depot, Inc.	-	-	12,574	19,450
Illinois Tool Works	-	-	27,195	31,872
Ingersoll-Rand Company	-	-	27,109	39,243
Intel Corporation	-	-	18,290	24,069
IBM Corporation	-	-	25,201	24,115
Ishares Nasdaq Biotech Index	-	-	19,550	18,673
Johnson and Johnson, Inc.	-	-	23,780	35,750
JP Morgan Chase & Company	-	-	34,320	38,852
Kimberly-Clark Corporation	-	-	23,497	28,166
KLA-Tencor Corporation	-	-	23,099	21,840
Kohl's Corporation	-	-	35,902	40,535
Kraft Foods, Inc.	-	-	23,730	22,267
Lowe's Companies, Inc.	-	-	28,739	36,970
Marathon Oil Corporation	-	-	14,531	29,354
Masco Corporation	-	-	30,828	39,700
Maxim Integrated Products, Inc.	-	-	26,879	24,843
Medtronic, Inc.	-	-	19,920	31,074
Mellon Financial Corporation	-	-	26,570	27,256
Merrill Lynch and Company	-	-	22,208	22,004
Microsoft Corporation	-	-	31,908	24,840

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2005

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Morgan Stanley	-	-	33,044	39,353
Nike, Inc.	-	-	21,041	36,805
NiSource, Inc.	-	-	21,291	27,821
Nokia Corporation	-	-	12,833	16,224
Oracle Corporation	-	-	29,367	33,990
Pepsico, Inc.	-	-	24,271	26,965
Pfizer, Inc.	-	-	23,032	17,238
Pitney Bowes, Inc.	-	-	29,383	32,663
PPG Industries, Inc.	-	-	31,284	31,650
Schlumberger, Ltd.	-	-	28,905	28,590
St. Paul Companies, Inc.	-	-	39,038	39,530
Staples, Inc.	-	-	26,514	31,935
Sysco Corporation	-	-	23,366	29,857
Texas Instruments, Inc.	-	-	39,528	37,193
Textron, Inc.	-	-	24,658	37,925
Tiffany & Company	-	-	33,897	31,941
United Health Group, Inc.	-	-	11,837	26,070
United Technologies Corporation	-	-	21,846	38,523
Valero Energy Corporation	-	-	22,243	27,669
Verizon Communications, Inc.	-	-	18,102	14,684
Wal-Mart Stores, Inc.	-	-	20,057	25,305
Wellpoint, Inc.	-	-	25,027	27,856
Wells, Fargo & Company	-	-	28,454	38,487
Xilinx, Inc.	-	-	20,423	16,575
BB&T Midcap Growth Fund	-	-	155,023	243,702
BB&T Midcap Value Fund	-	-	214,631	345,494
BB&T Certificate of Deposit	6.000	01/08/06	100,000	100,000
BB&T Prime Money Market Fund	-	-	34,860	34,860
			<u>\$ 4,770,187</u>	<u>\$ 5,343,553</u>
Participation in the State of Tennessee Local Government Investment Pool:				
General Fund	-	-	<u>\$ 4,372,529</u>	<u>\$ 4,372,529</u>
Sanitation Fund	-	-	<u>\$ 445,028</u>	<u>\$ 445,028</u>
Drug Fund	-	-	<u>\$ 80,145</u>	<u>\$ 80,145</u>
Debt Service Fund	-	-	<u>\$ 1,479,496</u>	<u>\$ 1,479,496</u>
Capital Improvement Fund	-	-	<u>\$ 492,154</u>	<u>\$ 492,154</u>
Fleet Management Fund	-	-	<u>\$ 1,486,162</u>	<u>\$ 1,486,162</u>
Conference Center Fund	-	-	<u>\$ 23,303</u>	<u>\$ 23,303</u>
General Obligation Bond Fund	-	-	<u>\$ 259,969</u>	<u>\$ 259,969</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2005

Fiscal Year Ending 6/30	Public Building Authority of the City of Clarksville, Tennessee, Pooled Loan Program, Series 2003			Public Building Authority of the City of Clarksville, Tennessee, Pooled Loan Program, Series 1995			Total All Issues		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2006	\$ -	\$ 105,011	\$ 105,011	\$ 415,700	\$ 57,195	\$ 472,895	\$ 415,700	\$ 162,206	\$ 577,906
2007	100,000	94,653	194,653	436,500	46,844	483,344	536,500	141,497	677,997
2008	100,000	102,831	202,831	458,300	35,976	494,276	558,300	138,807	697,107
2009	100,000	100,651	200,651	481,200	24,564	505,764	581,200	125,215	706,415
2010	100,000	98,470	198,470	505,300	12,582	517,882	605,300	111,052	716,352
2011	662,000	96,290	758,290	-	-	-	662,000	96,290	758,290
2012	683,000	81,859	764,859	-	-	-	683,000	81,859	764,859
2013	703,000	66,970	769,970	-	-	-	703,000	66,970	769,970
2014	725,000	51,644	776,644	-	-	-	725,000	51,644	776,644
2015	747,000	35,839	782,839	-	-	-	747,000	35,839	782,839
2016	770,000	19,555	789,555	-	-	-	770,000	19,555	789,555
2017	127,000	2,768	129,768	-	-	-	127,000	2,768	129,768
	<u>\$ 4,817,000</u>	<u>\$ 856,541</u>	<u>\$ 5,673,541</u>	<u>\$ 2,297,000</u>	<u>\$ 177,161</u>	<u>\$ 2,474,161</u>	<u>\$ 7,114,000</u>	<u>\$ 1,033,702</u>	<u>\$ 8,147,702</u>

STATISTICAL SECTION

The following tables are inapplicable.

SPECIAL ASSESSMENT BILLINGS AND COLLECTIONS: The City has made no special assessments during the last ten years.

COMPUTATION OF LEGAL DEBT MARGIN: The State of Tennessee imposes no legal debt margin on municipalities.

CITY OF ATHENS, TENNESSEE
GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION
LAST TEN YEARS
June 30, 2005
(Unaudited)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
General government	\$ 2,582,941	\$ 3,683,843	\$ 2,724,436	\$ 2,095,580	\$ 2,161,010	\$ 1,894,465	\$ 1,875,492	\$ 1,856,262	\$ 1,880,298	\$ 1,839,540
Public safety	3,432,724	3,210,617	3,415,071	3,225,646	3,006,832	3,065,254	2,973,811	2,777,765	2,735,194	2,423,994
Highways and streets	1,699,759	1,859,132	1,617,956	1,692,059	1,725,796	1,482,044	1,413,260	1,381,320	1,456,943	1,149,191
Sanitation	- (1)	- (1)	- (1)	742,618	699,893	755,959	673,413	750,155	810,036	590,097
Culture and recreation	823,538	803,238	839,221	947,650	750,345	799,613	687,478	634,474	564,218	461,842
Education	20,959,519	16,776,934	12,808,412	12,940,000	12,171,682	11,801,068	10,958,502	10,468,051	10,643,097	9,850,206
Health and welfare	84,158	79,462	82,706	117,882	68,211	64,795	63,349	62,417	58,181	56,019
Debt service	544,552	806,267	774,169	766,900	827,861	806,967	789,995	836,135	784,394	742,473
Capital outlay	<u>1,387,070</u>	<u>1,816,498</u>	<u>995,226</u>	<u>1,722,958</u>	<u>833,834</u>	<u>129,378</u>	<u>279,577</u>	<u>1,297,455</u>	<u>393,779</u>	<u>198,040</u>
Total expenditures	<u>\$31,514,261</u>	<u>\$29,035,991</u>	<u>\$23,257,197</u>	<u>\$24,251,293</u>	<u>\$22,245,464</u>	<u>\$20,799,543</u>	<u>\$19,714,877</u>	<u>\$20,064,034</u>	<u>\$19,326,140</u>	<u>\$17,311,402</u>

Note: Includes general, special revenue, debt service, permanent, capital projects and component unit.

- (1) Prior to 2003, the Sanitation Fund was reported as a special revenue fund. Based on criteria set by GASB No. 34, the Sanitation Fund was required to be reported as an enterprise fund beginning in 2003.

CITY OF ATHENS, TENNESSEE
GENERAL GOVERNMENTAL REVENUES BY SOURCE
LAST TEN YEARS
June 30, 2005
(Unaudited)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Taxes	\$11,306,839	\$10,998,266	\$10,126,247	\$ 8,506,222	\$ 8,476,938	\$ 7,957,055	\$ 7,552,859	\$ 7,020,812	\$ 6,753,891	\$ 6,123,847
Intergovernmental	15,104,384	15,808,662	12,346,244	13,519,377	12,076,915	11,498,405	11,169,271	10,734,603	10,459,289	9,971,562
Charges for services and tuition	704,144 (1)	681,294 (1)	570,952 (1)	1,417,493	1,394,496	1,257,146	1,159,134	1,121,657	1,137,492	1,134,586
Fines and forfeits	537,985	324,137	390,390	361,042	356,516	450,326	420,673	423,339	370,673	436,849
Investment income	248,225	115,515	159,537	239,016	530,858	456,360	356,485	323,482	269,538	234,769
Miscellaneous	<u>223,222</u>	<u>197,781</u>	<u>258,316</u>	<u>257,647</u>	<u>208,754</u>	<u>293,468</u>	<u>222,563</u>	<u>284,812</u>	<u>391,057</u>	<u>355,804</u>
Total revenues	<u>\$28,124,799</u>	<u>\$28,125,655</u>	<u>\$23,851,686</u>	<u>\$24,300,797</u>	<u>\$23,044,477</u>	<u>\$21,912,760</u>	<u>\$20,880,985</u>	<u>\$19,908,705</u>	<u>\$19,381,940</u>	<u>\$18,257,417</u>

Note: Includes general, special revenue, debt service, permanent, capital projects and component unit.

(1) Prior to 2003, the Sanitation Fund was reported as a special revenue fund. Based on criteria set by GASB No. 34, the Sanitation Fund was required to be reported as an enterprise fund beginning in 2003.

CITY OF ATHENS, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS
June 30, 2005
(Unaudited)

<u>Tax Year</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>Percent of Current Taxes Collected</u>	<u>Delinquent Tax Collections (1)</u>	<u>Total Tax Collections</u>	<u>Ratio of Total Tax Collections To Total Tax Levy</u>	<u>Outstanding Delinquent Taxes</u>	<u>Ratio of Delinquent Taxes to Total Tax Levy</u>
1995	\$ 2,424,382	\$ 2,309,157	95.2	\$ 115,320	\$ 2,424,477	100.0	\$ 192,456	7.9
1996	2,840,542	2,676,762	94.2	131,769	2,808,531	98.9	225,415	7.9
1997	2,996,864	2,831,098	94.5	147,621	2,978,719	99.4	243,789	8.1
1998	3,235,618	3,072,547	95.0	193,119	3,265,666	100.9	205,798	6.4
1999	3,517,335	3,345,637	95.1	168,237	3,513,874	99.9	208,561	5.9
2000	3,967,737	3,507,205	88.4	366,394	3,873,599	97.6	436,746	11.0
2001	3,839,981	3,652,247	95.1	282,092	3,934,339	102.5	216,727	5.6
2002	3,878,286	3,549,421	91.5	166,017	3,715,438	95.8	284,300	7.3
2003	4,207,118	3,897,907	92.7	239,300	4,137,207	98.3	234,566	5.6
2004	4,138,579	3,838,801	92.8	191,654	4,030,455	97.4	335,610	8.1

(1) Each amount includes collections for any prior year's delinquent taxes received in the year presented.

CITY OF ATHENS, TENNESSEE
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN YEARS
June 30, 2005
(Unaudited)

Tax Year	Real Property		Personal Property		Public Utility Property		Total		Ratio of Total Assessed Value To Total Estimate Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
1995	\$104,518,035	\$335,993,800	\$31,808,680	\$106,028,932	\$7,315,932	\$13,301,695	\$143,642,647	\$455,324,427	31.5
1996	108,616,986	348,460,600	35,360,102	117,867,008	6,978,214	12,687,662	150,955,302	479,015,270	31.5
1997	113,878,064	370,471,400	39,787,150	132,623,835	6,128,300	11,142,364	159,793,514	514,237,599	31.1
1998 (1)	159,927,701	504,227,500	52,224,956	174,083,187	7,159,465	13,017,209	219,312,122	691,327,896	31.7
1999	164,223,172	517,405,500	70,407,339	234,691,130	7,453,775	13,552,318	242,084,286	765,648,948	31.6
2000	174,782,645	533,458,200	92,282,084	307,606,947	7,538,125	13,705,682	274,602,854	854,770,829	32.1
2001	170,306,935	534,205,900	87,102,270	290,340,900	7,265,321	13,209,675	264,674,526	837,756,475	31.6
2002	167,392,563	559,589,500	84,493,381	281,644,629	6,328,788	11,506,887	258,214,732	852,741,016	30.3
2003 (1)	218,886,984	687,521,200	91,337,810	304,459,366	7,210,349	13,109,725	317,435,143	1,005,090,291	31.6
2004	221,724,324	695,892,500	90,276,371	300,921,238	7,765,595	14,119,263	319,766,290	1,010,933,001	31.6

Data Source: McMinn County Tax Assessor's Office

(1) Reappraisal

**CITY OF ATHENS, TENNESSEE
PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
(PER \$100 OF ASSESSED VALUE)
LAST TEN YEARS
June 30, 2005
(Unaudited)**

Tax Year	McMinn County, TN		
	City	County	Total
1995	1.68	2.53	4.21
1996	1.86	2.53	4.39
1997	1.86	2.53	4.39
1998	1.45	1.98	3.43
1999	1.45	1.98	3.43
2000	1.45	1.98	3.43
2001	1.45	2.23	3.68
2002	1.45	2.23	3.68
2003	1.29	1.90	3.19
2004	1.29	1.90	3.19

Data Sources: Minutes of City Council and County Commission meetings

**CITY OF ATHENS, TENNESSEE
PRINCIPAL TAXPAYERS
June 30, 2005
(Unaudited)**

<u>Taxpayer</u>	<u>Type of Business</u>	<u>2004 Assessed Valuation</u>	<u>Percentage of Total Assessed Valuation</u>
Denso Tennessee, Inc.	Automotive parts manufacturer	\$ 41,244,567	12.9
Johnson Controls	Automotive seating	12,046,669	3.8
Collins and Aikman	Automotive parts manufacturer	10,560,822	3.3
Mayfield Dairy Farms, Inc.	Dairy products	10,164,207	3.2
Athens Regional Medical Center	Healthcare	5,667,181	1.8
Thomas & Betts	Electrical component manufacturer	5,630,581	1.8
Bell South	Telephone company	4,562,481	1.4
Plastic Industries, Inc.	Plastic products manufacturer	3,547,450	1.1
New Plan of Tennessee	Real estate investment	3,025,440	0.9
The Heil Company	Tank trailers	2,853,053	0.9

CITY OF ATHENS, TENNESSEE
RATIO OF NET GENERAL OBLIGATION BONDED DEBT
TO ASSESSED VALUE AND NET GENERAL OBLIGATION BONDED DEBT PER CAPITA
LAST TEN YEARS
June 30, 2005
(Unaudited)

<u>Fiscal Year</u>	<u>Estimated Population</u>	<u>Assessed Value (3)</u>	<u>Gross Bonded Debt (4)</u>	<u>Less Debt Service Fund (4)</u>	<u>Debt Payable from Enterprise Revenues (4)</u>	<u>Net Bonded Debt (4)</u>	<u>Ratio of Net Bonded Debt to Assessed Value (4)</u>	<u>Net Bonded Debt Per Capita (4)</u>
1996	12,729 (1)	\$ 143,642,647	\$ 4,430,000	\$ 6,608	\$ -	\$ 4,423,392	3.1	348
1997	12,729 (1)	150,955,302	3,905,000	22,294	-	3,882,706	2.6	305
1998	12,729 (1)	159,793,514	3,345,000	972,204	-	2,372,796	1.5	186
1999	12,729 (1)	219,312,122	2,870,000	1,055,228	-	1,814,772	0.8	143
2000	12,729 (1)	242,084,286	2,375,000	1,081,476	-	1,293,524	0.5	102
2001	13,220 (2)	274,602,854	1,835,000	1,102,921	-	732,079	0.3	55
2002	13,334 (1)	264,674,526	1,270,000	1,151,989	-	118,011	0.1	9
2003	13,334 (1)	258,214,732	655,000	1,180,621	-	-	-	-
2004	13,334 (1)	317,435,143	-	1,210,045	-	-	-	-
2005	13,334 (1)	312,000,695	-	1,574,454	-	-	-	-

Data Sources:

- (1) Certified by Department of Community Development
- (2) U.S. Census Bureau
- (3) McMinn County Tax Assessor's Office
- (4) Official records of the Department of Finance

CITY OF ATHENS, TENNESSEE
RATIO OF ANNUAL DEBT SERVICE FOR GENERAL
BONDED DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES
LAST TEN YEARS
June 30, 2005
(Unaudited)

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
1996	\$ 495,000	\$ 247,473	\$ 742,473	\$ 17,311,402	4.3
1997	525,000	259,394	784,394	19,326,140	4.1
1998	560,000	270,666	830,666	20,064,034	4.1
1999	520,100	269,895	789,995	19,714,877	4.0
2000	542,400	264,567	806,967	20,799,543	3.9
2001	589,800	238,061	827,861	22,245,464	3.7
2002	617,300	149,600	766,900	24,251,293	3.2
2003	669,900	104,269	774,169	23,257,197	3.3
2004	712,600	62,167	774,767	29,035,991	2.7
2005	395,900	148,652	544,552	31,514,261	1.7

**CITY OF ATHENS, TENNESSEE
REVENUE BOND COVERAGE
ENTERPRISE FUNDS
LAST TEN YEARS
June 30, 2005
(Unaudited)**

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue Available for Debt Service	Debt Service Requirements			Coverage
				Principal	Interest	Total	
1996	\$ 37,915,266	\$ 34,329,101	\$ 3,586,165	\$ 257,000	\$ 74,568	\$ 331,568	10.82
1997	36,704,298	33,452,624	3,251,674	126,555	49,509	176,064	18.47
1998	40,784,765	36,323,528	4,461,237	110,000	30,650	140,650	31.72
1999	42,515,829	36,637,089	5,878,740	40,000	106,145	146,145	40.23
2000	43,473,246	37,742,946	5,730,300	85,000	153,364	238,364	24.04
2001	47,969,733	42,772,940	5,196,793	90,000	149,539	239,539	21.69
2002	46,142,428	40,560,640	5,581,788	100,000	65,115	165,115	33.81
2003	50,184,652	45,582,118	4,602,534	100,000	61,836	161,836	28.44
2004	52,350,512	46,980,190	5,370,322	110,000	36,785	146,785	36.59
2005	53,545,424	47,522,560	6,022,864	110,000	60,411	170,411	35.34

(1) Total revenues including interest

(2) Total operating expenses excluding depreciation and amortization

CITY OF ATHENS, TENNESSEE
COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT
GENERAL OBLIGATION BONDS
June 30, 2005
(Unaudited)

<u>Jurisdiction</u>	<u>Net General Obligation Bonded Debt Outstanding</u>	<u>Percentage Applicable to Government</u>	<u>Amount Applicable to Government</u>
Direct:			
City of Athens	\$ -	100%	\$ -
Overlapping:			
McMinn County	<u>689,025</u> (1)	27	<u>186,037</u>
Total	<u>\$ 689,025</u>		<u>\$ 186,037</u>

Data Source:

(1) McMinn County Finance Director's Office

**CITY OF ATHENS, TENNESSEE
DEMOGRAPHIC STATISTICS
LAST TEN YEARS
June 30, 2005
(Unaudited)**

<u>Fiscal Year</u>	<u>Estimated Population (1)</u>	<u>Per Capita Income (2)</u>	<u>Median Age (2)</u>	<u>Educational Level in Years of Formal Schooling (2)</u>	<u>School Enrollment (3)</u>	<u>Unemployment Rate (4)</u>
1996	12,729	\$ 10,286	34.8	12.6	1,738	8.9%
1997	12,729	10,286	34.8	12.6	1,777	7.5
1998	12,729	10,286	34.8	12.6	1,777	6.2
1999	12,729	10,286	34.8	12.6	1,745	5.0
2000	12,729	10,286	34.8	12.6	1,733	4.4
2001	13,220	10,508	36.5	12.6	1,833	8.3
2002	13,334	16,725	37.9	12.6	1,709	8.0
2003	13,334	16,725	37.9	12.6	1,700	7.4
2004	13,334	16,725	37.9	12.6	1,661	5.9
2005	13,334	16,725	37.9	12.6	1,670	6.5

Data Sources:

- (1) Table 7
- (2) Estimated
- (3) Athens City Schools
- (4) Department of Employment Security

CITY OF ATHENS, TENNESSEE
PROPERTY VALUE, CONSTRUCTION AND BANK DEPOSITS
LAST TEN YEARS
June 30, 2005
(Unaudited)

Fiscal Year	Property Value (1)	Commercial Construction (2)		Residential Construction (2)		Bank Deposits (3)
		Number of Units	Value	Number of Units	Value	
1996	\$ 455,324,427	26	\$ 13,209,617	56	\$ 4,368,662	not available
1997	479,015,270	75	22,430,287	109	6,034,035	not available
1998	514,237,599	69	15,951,101	93	5,678,280	not available
1999	691,327,896 (4)	51	15,541,616	91	6,552,064	not available
2000	765,648,948	78	15,140,838	100	5,024,496	not available
2001	854,770,829	74	16,069,273	104	3,948,594	not available
2002	837,756,475	68	13,941,770	92	6,805,661	not available
2003	852,741,016	70	11,474,645	90	4,777,012	not available
2004	1,005,090,291 (4)	58	7,021,021	125	7,223,147	not available
2005	1,010,933,001	101	18,626,076	75	7,445,048	not available

Data Sources:

- (1) McMinn County Tax Assessor's Office
- (2) Community Development Department
- (3) Local bank financial statements
- (4) Reappraisal

**CITY OF ATHENS, TENNESSEE
MISCELLANEOUS STATISTICS**

June 30, 2005

(Unaudited)

Date of Incorporation	1891
Form of Government	Council/Manager
Number of City employees (excluding police and fire)	
Regular full-time	70
Regular part-time	0
Seasonal part-time	26
City of Athens, Tennessee facilities and services:	
HIGHWAY AND STREETS	
Miles of streets	125
Square feet of sidewalks	693,077
Number of street lights	2,436
CULTURE AND RECREATION	
Parks	10
Park acreage	233
Swimming pools	3
Tennis courts	13
Softball fields	5
Libraries	1 City/County
Number of volumes	33,000
FIRE PROTECTION	
Classification	3
Number of stations	2
Number of full-time employees	20
Number of volunteers	12
Number of fire trucks	6
Number of calls answered	452
Number of inspections conducted	453
Number of fire hydrants	785

(continued)

**CITY OF ATHENS, TENNESSEE
MISCELLANEOUS STATISTICS**

June 30, 2005

(Unaudited)

(continued)

POLICE PROTECTION

Number of stations	1
Number of full-time sworn officers	30
Number of police reserves	6
Number of patrol units	13
Number of law violations:	
Physical arrests	929
Traffic violations	3,939

EDUCATION

Number of elementary schools	4
Number of elementary school instructors	70
Number of elementary school students	1,188
Teacher - Pupil ratio of elementary schools	17:1
Number of secondary schools	1
Number of secondary school instructors	28
Number of secondary school students	482
Teacher - Pupil ratio of secondary schools	16:1
Other full-time employees	110

Facilities and services not included in the reporting entity:

Telephones - Athens is served by BellSouth Telecommunications

Railroads - Athens is served by Norfolk Southern and CSX

Airports - Athens is served by the McMinn County Airport

Hospitals - Athens is served by Athens Regional Medical Center

Colleges - Athens is served by Tennessee Wesleyan College

Report of Independent Certified Public Accountants on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
the Financial Statements Performed in Accordance
with Government Auditing Standards

To the City Council
City of Athens
Athens, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Athens, Tennessee, as of and for the year ended June 30, 2005, which collectively comprise the City of Athens, Tennessee's basic financial statements and have issued our report thereon dated August 26, 2005. 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, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Athens, Tennessee'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 that are required to be reported under Government Auditing Standards.

COMPONENT UNIT – ATHENS UTILITIES BOARD

Internal Control Over Financial Reporting

Our separate component unit report dated September 7, 2005, did not disclose any matters involving the internal control over financial reporting and its operations that were considered to be a material weakness.

Compliance and Other Matters

Our separate component unit report dated September 7, 2005, disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

COMPONENT UNIT – ATHENS CITY BOARD OF EDUCATION

Internal Control Over Financial Reporting

Our separate component unit report dated July 26, 2005, did not disclose any matters involving the internal control over financial reporting and its operations that were considered to be a material weakness.

Compliance and Other Matters

Our separate component unit report dated July 26, 2005 disclosed no instances of noncompliance 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, others within the Organization, federal and state awarding agencies and pass through entities and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Neal, Scooter ; McConnell, P.C.

Chattanooga, Tennessee
August 26, 2005