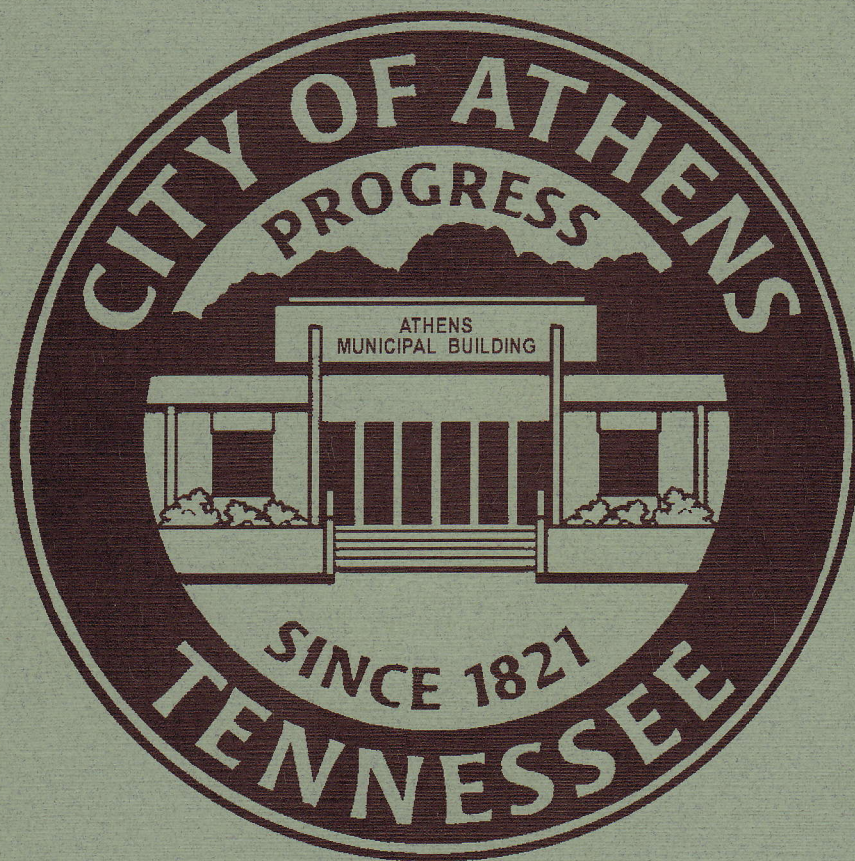


Comprehensive Annual Financial Report

City of Athens, Tennessee



For The Year Ended
June 30, 2006

CITY OF ATHENS, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2006**

**Prepared by:
Department of Finance**

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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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CITY OF ATHENS

Michael L. Keith, CPA
Director of Finance

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, 2006.

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, 2006, 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, 2006, 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 30 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 1996, the rate was 8.9%, with the highest rate being 8.9%, the lowest rate being 4.4%, and the current rate of 6.3%. During the past ten years, Denso Manufacturing has grown from a vacant parcel of land to an employer of approximately 1,100 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.

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 (51 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 walking trails and a new road at the Athens Regional Park along with new sidewalks throughout the City. The total cost is estimated to be approximately \$800,000 and is funded primarily by federal and state grants.

Relevant Financial Policies

The City continues to receive payments on federally forfeited funds. Future payments are expected but will be determined as various aspects of the legal proceedings are concluded. It is the City of Athens' policy that "onetime" resource inflows not be used for operating purposes. Accordingly, these funds will be used to provide additional equipment for the police department that will enhance the services offered. Several items relate to enhancements for the radio system for the department.

Major Initiatives

Several transportation-related projects are expected to begin during the next several years. These include the signalization of Congress Parkway at Velma Road and Congress Parkway at Rocky Mount Road. These will be funded with federal highway funds. The 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 2009. 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. The City is reviewing capital and personnel needs for the fire department as a result of its fire class rating decreasing from a 3 to a 4.

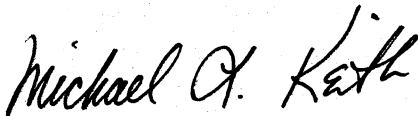
Awards and Acknowledgements

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, 2005. This was the fourteenth 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,



Michael L. Keith
Director of Finance

September 9, 2006

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Athens
Tennessee

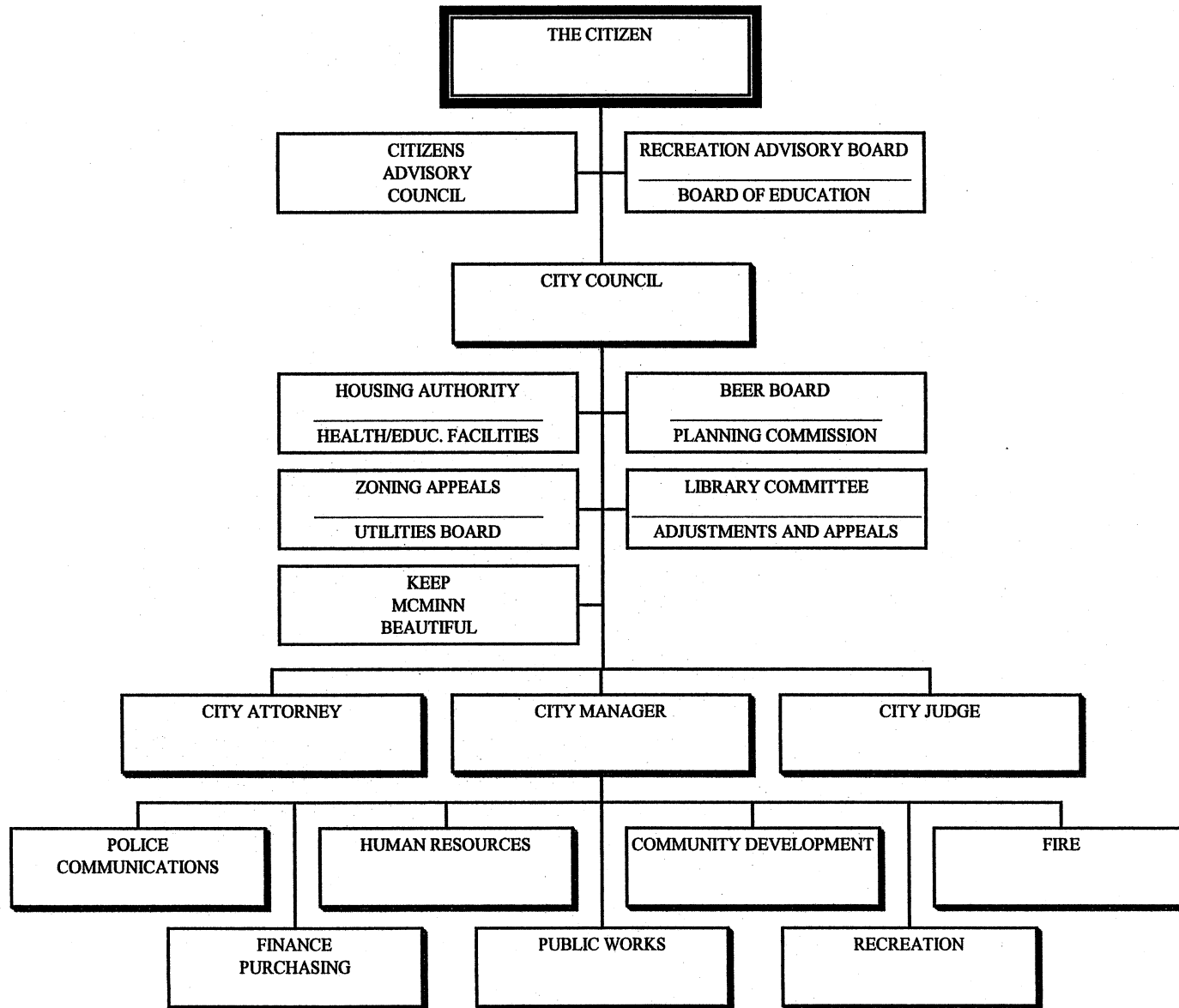
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2005

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.



President

Executive Director



**CITY OF ATHENS, TENNESSEE
LIST OF PRINCIPAL OFFICIALS
June 30, 2006**

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, 2006, 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 the 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, 2006, 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.

In accordance with Government Auditing Standards, we have also issued our report dated September 9, 2006, 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 46-51 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 schedule on page 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 schedule on page 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, Scoates & McConnell, P.C.

Chattanooga, Tennessee
September 9, 2006

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006

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, 2006. 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, 2006, by \$19,030,074 (net assets). Of this amount, \$6,433,041 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Net assets increased by \$2,155,746, an increase of 12.8% compared to fiscal year 2005. The City of Athens' changes in net assets is detailed in the chart on page B-6 of this report. Total revenues increased \$1,719,770, primarily due to grant revenues and sales tax collections. Expenses decreased \$2,254,691 due to a decrease in appropriations from fiscal year 2005 for the 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 \$10,488,510. Only 22.8% is reserved for specific purposes, and the remaining 77.2%, or \$8,100,330, 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 \$6,842,952, or 59.6% 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 through February 2007 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.

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.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006

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, Athens Parks Foundation, Inc., 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 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.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006

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 debt service 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 52.

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.

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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006

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 supplementary information can be found on pages 46-51 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 52-54 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 \$19,030,074 at the close of this fiscal year.

The largest portion of the City of Athens net assets (54%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any debt used to acquire those assets that is 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 34% 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 12% 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, 2006**

At June 30, 2006, 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>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Current and other assets	\$ 19,187,059	\$ 17,357,205	\$ 758,637	\$ 608,213	\$ 19,945,696	\$ 17,965,418
Capital assets	<u>10,676,850</u>	<u>10,300,707</u>	<u>1,456,036</u>	<u>1,587,133</u>	<u>12,132,886</u>	<u>11,887,840</u>
Total assets	<u>29,863,909</u>	<u>27,657,912</u>	<u>2,214,673</u>	<u>2,195,346</u>	<u>32,078,582</u>	<u>29,853,258</u>
Long-term liabilities	7,513,294	7,327,931	-	-	7,513,294	7,327,931
Other liabilities	<u>5,509,712</u>	<u>5,612,317</u>	<u>25,502</u>	<u>38,682</u>	<u>5,535,214</u>	<u>5,650,999</u>
Total liabilities	<u>13,023,006</u>	<u>12,940,248</u>	<u>25,502</u>	<u>38,682</u>	<u>13,048,508</u>	<u>12,978,930</u>
Invested in capital assets, net of related debt	8,795,550	8,003,707	1,456,036	1,587,133	10,251,586	9,590,840
Restricted	2,345,447	1,943,236	-	-	2,345,447	1,943,236
Unrestricted	<u>5,699,906</u>	<u>4,770,721</u>	<u>733,135</u>	<u>569,531</u>	<u>6,433,041</u>	<u>5,340,252</u>
Total net assets	<u>\$ 16,840,903</u>	<u>\$ 14,717,664</u>	<u>\$ 2,189,171</u>	<u>\$ 2,156,664</u>	<u>\$ 19,030,074</u>	<u>\$ 16,874,328</u>

Governmental activities. Governmental activities increased the City of Athens' net assets by \$2,123,239 which accounts for most of the total increase in the net assets of the City of Athens. The majority of this increase is due to an increase in federal forfeitures, increases in sales tax collections, and a decrease in the funding for education expenses as much of the renovation expenses were done in the prior 2 years.

Business-type activities. Business-type activities increased the City of Athens' net assets by \$32,507. This increase was the result of an increase in monthly residential fee and a reduction of expense in the sanitation fund.

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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006

City of Athens
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 908,799	\$ 829,764	\$ 796,343	\$ 753,302	\$ 1,705,142	\$ 1,583,066
Operating grants and contributions	932,309	568,915	—	—	932,309	568,915
Capital grants and contributions	406,067	180,797	—	—	406,067	180,797
General revenues:						
Property taxes	4,216,453	4,120,554	—	—	4,216,453	4,120,554
Other taxes	5,922,972	5,463,756	—	—	5,922,972	5,463,756
Intergovernmental revenues not restricted to specific programs						
	1,200,623	981,944	—	—	1,200,623	981,944
Other	516,075	274,559	24,284	30,564	540,539	305,123
Total revenues	<u>14,103,298</u>	<u>12,420,289</u>	<u>820,627</u>	<u>783,866</u>	<u>14,923,925</u>	<u>13,204,155</u>
Expenses:						
General government	3,247,334	3,466,385	—	—	3,247,334	3,466,385
Public safety	3,407,171	3,327,801	—	—	3,407,171	3,327,801
Highways and streets	2,031,940	1,838,813	—	—	2,031,940	1,838,813
Culture and recreation	588,744	870,846	—	—	588,744	870,846
Education	2,359,781	4,393,735	—	—	2,359,781	4,393,735
Health and welfare	86,069	81,158	—	—	86,069	81,158
Interest on long-term debt	259,020	148,652	—	—	259,020	148,652
Conference center	—	—	74,533	74,332	74,533	74,332
Sanitation	—	—	713,587	821,148	713,587	821,148
Total expenses	<u>11,980,059</u>	<u>14,127,390</u>	<u>788,120</u>	<u>895,480</u>	<u>12,768,179</u>	<u>15,022,870</u>
Change in net assets	2,123,239	(1,707,101)	32,507	(111,614)	2,155,746	(1,818,715)
Net assets,						
beginning of year	<u>14,717,664</u>	<u>16,424,765</u>	<u>2,156,664</u>	<u>2,268,278</u>	<u>16,874,328</u>	<u>18,693,043</u>
Net assets, end of year	<u>\$16,840,903</u>	<u>\$14,717,664</u>	<u>\$ 2,189,171</u>	<u>\$ 2,156,664</u>	<u>\$19,030,074</u>	<u>\$16,874,328</u>

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
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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 \$10,488,510, an increase of \$2,055,282 in comparison to the prior year. Approximately 77% of this total amount (\$8,100,330) 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, \$49,059 is reserved for encumbrances, \$14,477 is reserved for Cook Park, \$109,567 is reserved for inventory, \$147,410 is reserved for law enforcement, \$116,209 is reserved for cemetery perpetual care, and \$1,951,458 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 \$6,842,952. 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 60% of total fund expenditures, but represents 56% when compared to total fund expenditures and transfers to other funds (e.g. debt service fund).

The fund balance of the City of Athens' general fund increased by \$1,736,831 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 debt service fund has a total fund balance of \$1,951,458. The net increase was \$377,004 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 decreased due to expenditures for the playground and parking lot at the Athens Regional Park.

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 \$23,152 for the conference center fund, \$709,983 for the sanitation fund, and \$1,450,403 for the fleet management fund.

**City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006**

General Fund Budgetary Highlights.

Differences between the original budget and the final amended budgeted expenditures were approximately \$1,484,000 and are summarized below:

\$410,000 in miscellaneous increases in general government activities, related primarily to grants and finance for state business license payments.

\$840,000 in increases allocated to the Athens City Schools due to school renovations and increases in sales tax collections.

\$68,500 due to roof repairs at fire station 2.

\$165,500 in increases in various departments throughout the City.

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, 2006, amounts to \$12,132,886 (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:

Recreation projects added approximately \$400,000 and a new fire pumper was purchased for approximately \$350,000.

**City of Athens
Capital Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Buildings and improvements	\$ 4,921,094	\$ 4,619,595	\$ 1,517,930	\$ 1,517,930	\$ 6,439,024	\$ 6,137,525
Infrastructure	6,202,761	5,572,936	-	-	6,202,761	2,083,014
Furniture and office equipment	625,996	617,209	29,864	29,864	655,860	647,073
Machinery and equipment	5,171,472	4,851,193	1,220,258	1,343,787	6,391,730	6,194,980
Land	1,645,612	1,645,612	34,500	34,500	1,680,112	1,680,112
Construction in progress	<u>174,327</u>	<u>623,628</u>	<u>-</u>	<u>-</u>	<u>174,327</u>	<u>623,628</u>
	<u>\$18,741,262</u>	<u>\$17,930,173</u>	<u>\$ 2,802,552</u>	<u>\$ 2,926,081</u>	<u>\$21,543,814</u>	<u>\$20,856,254</u>

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2006

Additional information on the City of Athens' capital assets can be found in Note 2 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 \$1,881,300 and the 2004 note was \$5,423,000. 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 6.3%, which is a decrease from the rate of 6.5% a year ago. Athens' rate is higher than the state and federal rates.

Revenues were expected to increase by 7.3% due to increases in sales tax collections and fines and forfeitures. Management has been conservative in estimating all revenues for 2006-2007 and expenditures increased by 7.3% also. Budgeted expenditures were to increase primarily due to education and salary and fringe benefits. The property tax rate remained the same for 2006-2007.

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, 2006

	Primary Government			Component Units	
	Governmental	Business-Type	Total	Governmental	Proprietary
	Activities	Activities		Athens Board of Education	Athens Utilities Board
ASSETS					
Cash and cash equivalents	\$ 538,197	\$ 116,988	\$ 655,185	\$ 3,514,639	\$ 8,811,009
Certificates of deposit	-	-	-	-	-
Investments	10,852,500	563,997	11,416,497	-	-
Receivables:					
Customers, net	71,349	18,476	89,825	-	3,598,917
Other	-	-	-	-	159,012
Property taxes, net	4,719,111	-	4,719,111	1,840,578	-
Interest	-	-	-	-	-
Other governments	1,576,934	-	1,576,934	651,425	-
Component units/primary government	1,015,196	59,176	1,074,372	441,866	345,327
Inventories	109,567	-	109,567	9,002	2,035,214
Restricted assets	-	-	-	-	561,352
Capital assets, net of depreciation	8,856,911	1,421,536	10,278,447	6,594,921	57,407,457
Nondepreciable capital assets	1,819,939	34,500	1,854,439	272,997	24,829,221
Customer loans receivable	-	-	-	-	712,139
Debt issue costs, net	26,425	-	26,425	-	156,817
Prepaid pension obligation	277,780	-	277,780	-	160,469
Total assets	<u>\$29,863,909</u>	<u>\$ 2,214,673</u>	<u>\$32,078,582</u>	<u>\$13,325,428</u>	<u>\$ 98,776,934</u>
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 301,315	\$ 22,817	\$ 324,132	\$ 236,568	\$ 4,753,445
Retention payable	46,464	-	46,464	-	-
Accrued payroll and withholdings	39,287	2,685	41,972	785,546	-
Customer deposits	-	-	-	-	323,400
Due to component units/primary government	787,193	-	787,193	1,015,196	59,176
Other current liabilities	-	-	-	-	1,105,454
Unearned revenues	4,335,453	-	4,335,453	1,774,930	43,200
Long-term liabilities:					
Due within one year	675,836	-	675,836	-	786,770
Due in more than one year	6,837,458	-	6,837,458	-	24,074,637
Total liabilities	<u>13,023,006</u>	<u>25,502</u>	<u>13,048,508</u>	<u>3,812,240</u>	<u>31,146,082</u>
NET ASSETS					
Invested in capital assets, net of related debt	8,795,550	1,456,036	10,251,586	5,852,722	58,253,018
Restricted for:					
Debt service	1,951,458	-	1,951,458	-	272,420
Pension obligation	277,780	-	277,780	-	160,469
Cemetery perpetual care:					
Expendable	68,926	-	68,926	-	-
Nonexpendable	47,283	-	47,283	-	-
Unrestricted	5,699,906	733,135	6,433,041	3,660,466	8,944,945
Total net assets	<u>16,840,903</u>	<u>2,189,171</u>	<u>19,030,074</u>	<u>9,513,188</u>	<u>67,630,852</u>
Total liabilities and net assets	<u>\$29,863,909</u>	<u>\$ 2,214,673</u>	<u>\$32,078,582</u>	<u>\$13,325,428</u>	<u>\$ 98,776,934</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, 2006

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	\$ 3,247,334	\$ 143,012	\$ 443,532	\$ -	\$ (2,660,790)	\$ -	\$ (2,660,790)	\$ -	\$ -
Public safety	3,407,171	624,310	51,388	-	(2,731,473)	-	(2,731,473)	-	-
Highways and streets	2,031,940	-	388,125	138,947	(1,504,868)	-	(1,504,868)	-	-
Culture and recreation	588,744	107,138	32,884	267,120	(181,602)	-	(181,602)	-	-
Education	2,359,781	-	-	-	(2,359,781)	-	(2,359,781)	-	-
Health and welfare	86,069	34,339	16,380	-	(35,350)	-	(35,350)	-	-
Interest on long-term debt	259,020	-	-	-	(259,020)	-	(259,020)	-	-
Total governmental activities	11,980,059	908,799	932,309	406,067	(9,732,884)	-	(9,732,884)	-	-
Business-type activities:									
Conference center	74,533	14,303	-	-	-	(60,230)	(60,230)	-	-
Sanitation	713,587	782,040	-	-	-	68,453	68,453	-	-
Total business-type activities	788,120	796,343	-	-	-	8,223	8,223	-	-
Total primary government	\$ 12,768,179	\$ 1,705,142	\$ 932,309	\$ 406,067	(9,732,884)	8,223	(9,724,661)	\$ -	\$ -
Component units:									
School system	\$ 13,972,676	\$ 555,984	\$ 2,450,137	\$ -				\$(10,966,556)	\$ -
Public utilities	58,549,640	61,798,985	-	679,197				-	3,928,542
Total component units	\$ 72,522,316	\$ 62,354,969	\$ 2,450,137	\$ 679,197				(10,966,556)	3,928,542
General revenues:									
Property taxes					4,216,453	-	4,216,453	1,809,964	-
Other local taxes					5,922,972	-	5,922,972	-	-
Intergovernmental revenues not restricted to specific programs					1,200,623	-	1,200,623	7,117,639	-
Payments from the primary government					-	-	-	2,359,764	-
Investment income					412,700	19,327	432,027	176,770	236,545
Insurance proceeds					-	-	-	2,947	-
Gain (loss) on disposal of capital assets					31,007	-	31,007	(7,096)	1,857
Miscellaneous					72,368	4,957	77,325	41,516	-
Total general revenues					11,856,123	24,284	11,880,407	11,501,504	238,402
Change in net assets					2,123,239	32,507	2,155,746	534,948	4,166,944
Net assets, beginning of year					14,717,664	2,156,664	16,874,328	8,978,240	63,463,908
Net assets, end of year					<u>\$ 16,840,903</u>	<u>\$ 2,189,171</u>	<u>\$ 19,030,074</u>	<u>\$ 9,513,188</u>	<u>\$67,630,852</u>

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

**CITY OF ATHENS, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 298,152	\$ 128,246	\$ 98,964	\$ 525,362
Investments	6,260,243	1,823,212	1,331,477	9,414,932
Property taxes receivable, less allowance of \$48,091	4,719,111	-	-	4,719,111
Interfund receivable	240,000	-	-	240,000
Due from other governments	1,346,948	-	229,986	1,576,934
Other receivables	71,349	-	-	71,349
Inventories	109,567	-	-	109,567
Total assets	<u>\$13,045,370</u>	<u>\$1,951,458</u>	<u>\$1,660,427</u>	<u>\$16,657,255</u>
 LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 300,939	\$ -	\$ 376	\$ 301,315
Retention payable	-	-	46,464	46,464
Interfund payable	-	-	240,000	240,000
Accrued payroll and withholdings	39,287	-	-	39,287
Due to component units	787,193	-	-	787,193
Deferred revenues	4,754,486	-	-	4,754,486
Total liabilities	<u>5,881,905</u>	<u>-</u>	<u>286,840</u>	<u>6,168,745</u>
 FUND BALANCES				
Reserved for debt service	-	1,951,458	-	1,951,458
Reserved	320,513	-	116,209	436,722
Unreserved, undesignated	6,842,952	-	-	6,842,952
Unreserved, undesignated reported in nonmajor:				
Special revenue fund	-	-	106,900	106,900
Capital projects fund	-	-	1,150,478	1,150,478
Total fund balances	<u>7,163,465</u>	<u>1,951,458</u>	<u>1,373,587</u>	<u>10,488,510</u>
Total liabilities and fund balances	<u>\$13,045,370</u>	<u>\$1,951,458</u>	<u>\$1,660,427</u>	<u>\$16,657,255</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, 2006

Total fund balances		\$ 10,488,510
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	\$ 15,380,304	
Accumulated depreciation	<u>(6,271,405)</u>	9,108,899
Certain property taxes and intergovernmental revenue are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	367,333	
Intergovernmental revenue	<u>51,700</u>	419,033
Prepaid pension obligations are not current financial resources and are not reported in the funds.		
		277,780
Certain long-term receivables from the component unit are not considered a current financial resource in the funds.		
		1,015,196
Certain liabilities are not considered a use of current financial resources in the funds.		
Bonds and notes payable	(7,304,300)	
Compensated absences	<u>(208,994)</u>	(7,513,294)
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>(5,075)</u>	26,425
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	12,835	
Investments	1,437,568	
Capital assets	3,360,958	
Accumulated depreciation	<u>(1,793,007)</u>	<u>3,018,354</u>
Net assets		<u>\$ 16,840,903</u>

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, 2006

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Property taxes	\$ 4,133,726	\$ -	\$ -	\$ 4,133,726
Other local taxes	5,922,972	-	-	5,922,972
Intergovernmental	2,133,855	185,265	267,120	2,586,240
Charges for services	284,489	-	-	284,489
Fines and forfeitures	583,023	-	41,287	624,310
Contributions	-	-	82,550	82,550
Investment and interest income	209,645	85,709	52,293	347,647
Miscellaneous	107,942	-	1,900	109,842
Total revenues	13,375,652	270,974	445,150	14,091,776
EXPENDITURES				
Current:				
General government	2,822,300	9,250	-	2,831,550
Public safety	3,416,916	-	21,679	3,438,595
Highways and streets	1,936,248	-	-	1,936,248
Culture and recreation	847,650	-	-	847,650
Education	2,359,781	-	-	2,359,781
Health and welfare	89,069	-	-	89,069
Debt service:				
Principal	-	415,700	-	415,700
Interest	-	259,020	-	259,020
Capital outlay	-	-	482,024	482,024
Total expenditures	11,471,964	683,970	503,703	12,659,637
REVENUES UNDER EXPENDITURES	1,903,688	(412,996)	(58,553)	1,432,139
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	606,000	-	-	606,000
Proceeds from the sale of capital assets	17,143	-	-	17,143
Transfers	(790,000)	790,000	-	-
Total other financing sources (uses)	(166,857)	790,000	-	623,143
NET CHANGE IN FUND BALANCES	1,736,831	377,004	(58,553)	2,055,282
FUND BALANCES, beginning of year	5,426,634	1,574,454	1,432,140	8,433,228
FUND BALANCES, end of year	\$ 7,163,465	\$ 1,951,458	\$ 1,373,587	\$ 10,488,510

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, 2006

Net change in fund balances		\$ 2,055,282
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	\$ 4,216,453	
Fund revenue recognized	<u>(4,133,726)</u>	82,727
Intergovernmental revenues that do not provide current financial resources are not reported as revenue in the funds.		
State beer tax-full accrual	6,631	
State income tax-full accrual	132,350	
Collected fund revenue	<u>(120,981)</u>	18,000
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.		
		(185,264)
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	603,378	
Less current year depreciation	(431,169)	
Net book value of assets retired	<u>(3,036)</u>	169,173
The change in value of the net pension obligation is recorded as an expense in the statement of activities.		
		20,183
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.		
		150,601
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	(606,000)	
Bonds and notes payable payments	415,700	
Net change in compensated absences	<u>4,937</u>	(185,363)
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>\$ 2,123,239</u>

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

**CITY OF ATHENS, TENNESSEE
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2006**

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference			Internal Service Fund
	Center	Sanitation	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,486	\$ 112,502	\$ 116,988	\$ 12,835
Investments	19,037	544,960	563,997	1,437,568
Accounts receivable	-	18,476	18,476	-
Due from component units	-	59,176	59,176	-
Total current assets	<u>23,523</u>	<u>735,114</u>	<u>758,637</u>	<u>1,450,403</u>
Capital assets:				
Land	34,500	-	34,500	-
Other capital assets, net	1,266,952	154,584	1,421,536	1,567,951
Total capital assets	<u>1,301,452</u>	<u>154,584</u>	<u>1,456,036</u>	<u>1,567,951</u>
Total assets	<u>\$ 1,324,975</u>	<u>\$ 889,698</u>	<u>\$ 2,214,673</u>	<u>\$ 3,018,354</u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 176	\$ 22,641	\$ 22,817	\$ -
Accrued payroll and withholdings	195	2,490	2,685	-
Total current liabilities	<u>371</u>	<u>25,131</u>	<u>25,502</u>	<u>-</u>
NET ASSETS				
Invested in capital assets	1,301,452	154,584	1,456,036	1,567,951
Unrestricted	23,152	709,983	733,135	1,450,403
Total net assets	<u>1,324,604</u>	<u>864,567</u>	<u>2,189,171</u>	<u>3,018,354</u>
Total liabilities and net assets	<u>\$ 1,324,975</u>	<u>\$ 889,698</u>	<u>\$ 2,214,673</u>	<u>\$ 3,018,354</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, 2006

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference Center	Sanitation	Total	Internal Service Fund
	OPERATING REVENUES			
Charges for services	\$ -	\$ 782,040	\$ 782,040	\$ 326,200
Rental income	14,303	-	14,303	-
Miscellaneous	-	4,957	4,957	-
Total operating revenues	<u>14,303</u>	<u>786,997</u>	<u>801,300</u>	<u>326,200</u>
OPERATING EXPENSES				
Salaries and employee benefits	6,120	359,999	366,119	-
Operation	10,192	106,204	116,396	-
Maintenance	1,668	2,244	3,912	-
Depreciation	56,553	76,916	133,469	257,554
Landfill services	-	168,224	168,224	-
Total operating expenses	<u>74,533</u>	<u>713,587</u>	<u>788,120</u>	<u>257,554</u>
OPERATING INCOME (LOSS)	<u>(60,230)</u>	<u>73,410</u>	<u>13,180</u>	<u>68,646</u>
NONOPERATING REVENUES				
Interest income	900	18,427	19,327	65,053
Gain on sale of capital assets	-	-	-	16,902
Total nonoperating revenues	<u>900</u>	<u>18,427</u>	<u>19,327</u>	<u>81,955</u>
CHANGE IN NET ASSETS	<u>(59,330)</u>	<u>91,837</u>	<u>32,507</u>	<u>150,601</u>
NET ASSETS, beginning of year	<u>1,383,934</u>	<u>772,730</u>	<u>2,156,664</u>	<u>2,867,753</u>
NET ASSETS, end of year	<u>\$ 1,324,604</u>	<u>\$ 864,567</u>	<u>\$ 2,189,171</u>	<u>\$ 3,018,354</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, 2006

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference Center	Sanitation	Total	Internal Service Fund
	CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 14,303	\$ 779,442	\$ 793,745	\$ 326,200
Payments to employees	(5,469)	(281,959)	(287,428)	-
Payments to suppliers and vendors	(12,150)	(368,253)	(380,403)	-
Other receipts	-	1,671	1,671	-
Net cash provided by (used in) operating activities	<u>(3,316)</u>	<u>130,901</u>	<u>127,585</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	-	-	-	28,802
Purchase of capital assets	-	(2,372)	(2,372)	(518,072)
Net cash used in capital and related financing activities	<u>-</u>	<u>(2,372)</u>	<u>(2,372)</u>	<u>(489,270)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment and interest earnings	900	18,427	19,327	65,053
Purchase of investments	-	(99,932)	(99,932)	-
Sale of investments	4,266	-	4,266	48,594
Net cash provided by (used in) investing activities	<u>5,166</u>	<u>(81,505)</u>	<u>(76,339)</u>	<u>113,647</u>
Net increase (decrease) in cash and cash equivalents	1,850	47,024	48,874	(49,423)
Cash and cash equivalents, beginning of year	<u>2,636</u>	<u>65,478</u>	<u>68,114</u>	<u>62,258</u>
Cash and cash equivalents, end of year	<u>\$ 4,486</u>	<u>\$ 112,502</u>	<u>\$ 116,988</u>	<u>\$ 12,835</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (60,230)	\$ 73,410	\$ 13,180	\$ 68,646
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	56,553	76,916	133,469	257,554
Changes in assets and liabilities:				
Accounts receivable	-	(5,884)	(5,884)	-
Accounts payable and accrued liabilities	361	(13,541)	(13,180)	-
Net cash provided by (used in) operating activities	<u>\$ (3,316)</u>	<u>\$ 130,901</u>	<u>\$ 127,585</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, 2006**

ASSETS

Interest receivable	\$ 39,887
Investments, at fair value:	
U.S. government and agency securities	2,071,299
Corporate bonds	642,496
Common stock	2,560,236
Mutual funds	406,397
Money market fund	25,813
Total investments	<u>5,706,241</u>
Total assets	<u>\$ 5,746,128</u>
 NET ASSETS	
Net assets held in trust for pension benefits	<u>\$ 5,746,128</u>

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, 2006

ADDITIONS	
Employer contributions	\$ 441,000
Net investment income:	
Interest and dividend income	<u>311,873</u>
Total additions	<u>752,873</u>
DEDUCTIONS	
Benefits paid	336,239
Administrative expenses	17,242
Net depreciation in the fair value of investments	<u>19,571</u>
Total deductions	<u>373,052</u>
CHANGE IN NET ASSETS HELD IN TRUST FOR	
PENSION BENEFITS	379,821
NET ASSETS, held in trust for pension benefits, beginning of year	<u>5,366,307</u>
NET ASSETS, held in trust for pension benefits, end of year	<u><u>\$ 5,746,128</u></u>

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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, 2006

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 Debt Service 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, 2006

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, 2006

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, 2006

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 3.0 percent in 2006. 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, 2006

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, 2006

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, 2006

Note 1. Summary of Significant Accounting Policies (continued)

M. Property Taxes (continued)

The assessed value for the list of January 1, 2005, was \$320,245,653 based upon a reappraisal completed for the list of January 1, 2005. The estimated actual was \$1,051,808,986 making the total assessed value 30.5 percent of the total actual value.

Taxes were levied at a rate of \$1.29 per \$100 of assessed value. Current tax collections of \$3,996,467 for the fiscal year ended June 30, 2006, were 94.6 percent of the 2005 tax levy. An allowance has been established for delinquent taxes to the extent that their collectibility is improbable. The allowance at June 30, 2006, for the 2005 tax levy was \$28,091.

The 2006 taxes were levied at a rate of \$1.29 per \$100 of assessed value and have been recorded as a receivable at June 30, 2006. An allowance for doubtful collection of \$20,000 has been estimated and established for this levy at June 30, 2006. There are no current tax collections related to the 2006 levy.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2. Capital Assets

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

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,619,595	\$ 301,499	\$ -	\$ 4,921,094
Infrastructure	5,572,936	629,825	-	6,202,761
Furniture and office equipment	617,209	33,852	25,065	625,996
Machinery and equipment	<u>4,851,193</u>	<u>552,027</u>	<u>231,748</u>	<u>5,171,472</u>
Total capital assets depreciated	<u>15,660,933</u>	<u>1,517,203</u>	<u>256,813</u>	<u>16,921,323</u>
Accumulated depreciation:				
Buildings and improvements	2,554,575	134,997	-	2,689,572
Infrastructure	1,508,158	160,273	-	1,668,431
Furniture and office equipment	401,599	80,399	25,065	456,933
Machinery and equipment	<u>3,165,134</u>	<u>313,054</u>	<u>228,712</u>	<u>3,249,476</u>
Total accumulated depreciation	<u>7,629,466</u>	<u>688,723</u>	<u>253,777</u>	<u>8,064,412</u>
Net capital assets being depreciated	<u>8,031,467</u>	<u>828,480</u>	<u>3,036</u>	<u>8,856,911</u>
Capital assets not being depreciated:				
Land	1,645,612	-	-	1,645,612
Construction in progress	<u>623,628</u>	<u>174,327</u>	<u>623,628</u>	<u>174,327</u>
Total capital assets not depreciated	<u>2,269,240</u>	<u>174,327</u>	<u>623,628</u>	<u>1,819,939</u>
Net capital assets	<u>\$10,300,707</u>	<u>\$ 1,002,807</u>	<u>\$ 626,664</u>	<u>\$10,676,850</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>1,343,787</u>	<u>2,372</u>	<u>125,901</u>	<u>1,220,258</u>
Total capital assets depreciated	<u>2,891,581</u>	<u>2,372</u>	<u>125,901</u>	<u>2,768,052</u>
Accumulated depreciation:				
Buildings and improvements	201,653	50,580	-	252,233
Furniture and office equipment	22,636	5,973	-	28,609
Machinery and equipment	<u>1,114,659</u>	<u>76,916</u>	<u>125,901</u>	<u>1,065,674</u>
Total accumulated depreciation	<u>1,338,948</u>	<u>133,469</u>	<u>125,901</u>	<u>1,346,516</u>
Net capital assets being depreciated	<u>1,552,633</u>	<u>(131,097)</u>	<u>-</u>	<u>1,421,536</u>
Capital assets not being depreciated:				
Land	<u>34,500</u>	<u>-</u>	<u>-</u>	<u>34,500</u>
Net capital assets	<u>\$ 1,587,133</u>	<u>\$ (131,097)</u>	<u>\$ -</u>	<u>\$ 1,456,036</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2. Capital Assets (continued)

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 141,244
Public safety	180,706
Highways and streets	80,288
Culture and recreation	286,485
	\$ 688,723
Business-Type Activities	
Conference Center	\$ 56,553
Sanitation	76,916
	\$ 133,469

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

Utilities Board:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital assets being depreciated:				
Plant in service	\$ 86,723,642	\$ 2,572,909	\$ 301,768	\$ 88,994,783
Equipment and furniture	2,776,967	47,403	41,834	2,782,536
Transportation equipment	2,412,684	88,710	89,677	2,411,717
Total depreciable capital assets	91,913,293	2,709,022	433,279	94,189,036
Accumulated depreciation:				
Plant in service	31,395,204	2,530,960	369,369	33,556,795
Equipment and furniture	2,058,886	167,105	48,434	2,177,557
Transportation equipment	1,528,435	210,919	81,285	1,658,069
Total accumulated depreciation	34,982,525	2,908,984	499,088	37,392,421
Net depreciable capital assets	56,930,768	(199,962)	(65,809)	56,796,615
Capital assets not being depreciated:				
Land	610,842	-	-	610,842
Construction in progress	21,019,754	6,770,716	2,961,249	24,829,221
Nondepreciable capital assets	21,630,596	6,770,716	2,961,249	25,440,063
Net capital assets	\$ 78,561,364	\$ 6,570,754	\$ 2,895,440	\$ 82,236,678

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	\$ 1,064,560	\$ 78,901	\$ 1,143,461
Water Division	522,738	39,082	561,820
Gas Division	388,618	27,723	416,341
Department of Sewer	727,717	65,272	792,989
	\$ 2,703,633	\$ 210,978	\$ 2,914,611

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 2. Capital Assets (continued)

Board of Education:

	<u>Balance</u> <u>July 1, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2006</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 12,086,049	\$ 661,385	\$ -	\$ 12,747,434
Infrastructure	19,350	-	-	19,350
Furniture, equipment, and vehicles	<u>2,281,699</u>	<u>154,048</u>	<u>133,096</u>	<u>2,302,651</u>
Total depreciable capital assets	<u>14,387,098</u>	<u>815,433</u>	<u>133,096</u>	<u>15,069,435</u>
Accumulated depreciation:				
Buildings and improvements	6,902,819	277,195	-	7,180,014
Infrastructure	7,314	967	-	8,281
Furniture, equipment, and vehicles	<u>1,196,068</u>	<u>216,151</u>	<u>126,000</u>	<u>1,286,219</u>
Total accumulated depreciation	<u>8,106,201</u>	<u>494,313</u>	<u>126,000</u>	<u>8,474,514</u>
Net depreciable capital assets	<u>6,280,897</u>	<u>321,120</u>	<u>7,096</u>	<u>6,594,921</u>
Capital assets not being depreciated:				
Land	211,146	-	-	211,146
Construction in progress	<u>290,175</u>	<u>55,351</u>	<u>283,675</u>	<u>61,851</u>
Nondepreciable capital assets	<u>501,321</u>	<u>55,351</u>	<u>283,675</u>	<u>272,997</u>
Net capital assets	<u>\$ 6,782,218</u>	<u>\$ 376,471</u>	<u>\$ 290,771</u>	<u>\$ 6,867,918</u>

Depreciation expense was charged to functions as follows:

Regular instruction	\$ 78,865
Administration	22,917
Operation and maintenance	2,347
Transportation	64,409
Food services	47,613
Unallocated depreciation	<u>278,162</u>
	<u>\$494,313</u>

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3. 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>6/30/05</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/06</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	\$ 2,297,000	\$ -	\$ 415,700	\$ 1,881,300	\$ 436,500
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	4,817,000	606,000	-	5,423,000	100,000
Compensated absences	<u>213,931</u>	<u>-</u>	<u>4,937</u>	<u>208,994</u>	<u>139,336</u>
Total long-term debt	<u>\$ 7,327,931</u>	<u>\$ 606,000</u>	<u>\$ 420,637</u>	<u>\$ 7,513,294</u>	<u>\$ 675,836</u>

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 3.62% and 3.7%, respectively, for the Series 1995 and Series 2003 notes payable at June 30, 2006.

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

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 536,500	\$ 266,005	\$ 802,505
2008	558,300	249,253	807,553
2009	581,200	228,962	810,162
2010	605,300	207,843	813,143
2011	662,000	185,851	847,851
2012-2016	3,628,000	546,379	4,174,379
2017	<u>733,000</u>	<u>27,121</u>	<u>760,121</u>
Total	<u>\$ 7,304,300</u>	<u>\$ 1,711,414</u>	<u>\$ 9,015,714</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3. Long-Term Debt (continued)

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, 2006, \$5,423,000 had been drawn on the debt issue of which \$5,391,500 has been appropriated to the Board of Education and \$31,500 has been disbursed to pay debt issue costs. See Note 6 for further details regarding this debt issue.

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

Utilities Board:

	Balance 6/30/05	Additions	Payments	Balance 6/30/06	Due within one year
Revenue and tax bonds	\$ 2,445,000	\$ -	\$ 110,000	\$ 2,335,000	\$ 115,000
Notes payable	20,317,964	2,129,011	564,100	21,882,875	565,000
TVA advances	768,836	89,747	215,051	643,532	106,770
Total	<u>\$23,531,800</u>	<u>\$ 2,218,758</u>	<u>\$ 889,151</u>	<u>\$24,861,407</u>	<u>\$ 786,770</u>

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, 2006, 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, 2006.

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, 2006, set at 4.05 percent. 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, 2006, the Power Division had drawn \$1,849,310 and the Department of Sewer had drawn \$15,487,243 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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 3. Long-Term Debt (continued)

Utilities Board: (continued)

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>
2007	\$ 680,000	\$ 956,805	\$ 1,636,805
2008	696,916	930,020	1,626,936
2009	751,051	901,354	1,652,405
2010	706,093	872,070	1,578,163
2011	717,297	845,458	1,562,755
2012-2016	3,848,479	3,826,507	7,674,986
2017-2021	5,636,486	3,008,320	8,644,806
2022-2026	6,830,000	1,712,564	8,542,564
2027	4,351,553	387,146	4,738,699
	<u>\$24,217,875</u>	<u>\$13,440,244</u>	<u>\$37,658,119</u>

Note 4. 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, 2006, all the City's deposits were insured or collateralized.

Component units

At June 30, 2006, 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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4. Cash Deposits and Investments (continued)

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, 2006, the City had \$11,300,288 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, 2006. 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.

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, 2006, the Cemetery Perpetual Care Fund's investments consisted of the following:

	<u>Fair Value</u>
Money market funds	\$ 5,894
Mutual funds	<u>110,315</u>
	<u>\$ 116,209</u>

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 4. Cash Deposits and Investments (continued)

Athens Pension Trust Fund:

As of June 30, 2006, 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	5.64 years	\$2,071,299
Corporate bonds	2.42 years	642,496
Common stock	N/A	2,560,236
Mutual funds	N/A	406,397
Money market fund	N/A	<u>25,813</u>
		<u>\$5,706,241</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 50/50 government and corporate bonds/equities ratio. U.S. governments and agency securities carry the explicit guarantee of the U.S. government. 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.

Note 5. Interfund Transactions

Interfund Transfers:

Interfund transfers during the year consisted of the General Fund transferring \$790,000 to the Debt Service Fund.

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 6. 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 3 for further details.

Board of Education:

During 2006, the City appropriated \$1,753,781, 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 \$441,866 for appropriations to be remitted.

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 2006, the City had appropriated \$606,000 to the Board for school renovations. As of June 30, 2006, the City had drawn debt of \$5,423,000 with \$5,391,500 appropriated to the Board of Education for school renovations and \$31,500 used to pay debt issue costs.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Detail of Net Assets and Fund Balances

Net Assets:

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

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Capital assets	\$ 18,741,262	\$ 2,802,552	\$ 21,543,814
Accumulated depreciation	(8,064,412)	(1,346,516)	(9,410,928)
Debt related to acquisition and construction of capital assets	<u>(1,881,300)</u>	<u>—</u>	<u>(1,881,300)</u>
Invested in capital assets, net of related debt	<u>8,795,550</u>	<u>1,456,036</u>	<u>10,251,586</u>
Restricted for debt service	1,951,458	—	1,951,458
Restricted for pension obligation	277,780	—	277,780
Restricted for cemetery perpetual care:			
Expendable	68,926	—	68,926
Nonexpendable	<u>47,283</u>	<u>—</u>	<u>47,283</u>
Total restricted	<u>2,345,447</u>	<u>—</u>	<u>2,345,447</u>
Unrestricted	<u>5,699,906</u>	<u>733,135</u>	<u>6,433,041</u>
Total net assets	<u>\$ 16,840,903</u>	<u>\$ 2,189,171</u>	<u>\$ 19,030,074</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.

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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Detail of Net Assets and Fund Balances (continued)

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, 2006. Revenues were \$376,195 and expenditures were \$417,402 for street lighting and \$261,485 for paving.

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

Reserved

Major Funds:

General Fund

Encumbrances \$ 49,059

Cook Park 14,477

Inventory 109,567

Law enforcement 147,410

Debt Service Fund

Debt service 1,951,458

2,271,971

Nonmajor Funds:

Cemetery Perpetual Care Fund

Cemetery perpetual care 116,209

Total reserved fund balances 2,388,180

Unreserved

Major Funds:

General Fund

6,842,952

Nonmajor Funds:

Drug Fund 106,900

General Obligation Bond Fund 38,737

Capital Improvement Fund 1,111,741

Total unreserved fund balances 8,100,330

Total governmental fund balances \$10,488,510

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 7. Detail of Net Assets and Fund Balances (continued)

Governmental Fund Balances: (continued)

Component Units:

Utilities Board

Net assets of the Utilities Board consist of the following:

Invested in capital assets, net of related debt	<u>\$ 58,253,018</u>
Restricted for pension obligation	160,469
Restricted for debt service	<u>272,420</u>
Total restricted	<u>432,889</u>
Unrestricted	<u>8,944,945</u>
	<u><u>\$ 67,630,852</u></u>

Board of Education

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

Invested in capital assets, net of related debt	\$ 5,852,722
Unrestricted	<u>3,660,466</u>
	<u><u>\$ 9,513,188</u></u>

Note 8. 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 97 active and 17 terminated participants, as well as 37 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:

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 8. Pension Plans (continued)

Primary Government: (continued)

Plan description (continued)

1. Thirty percent of average compensation reduced by 1/10 for each year of continuous service less than 10, 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.

Effective January 1, 2006, the normal retirement date coincides with the attainment of age 65 and 5 years of continuous service.

<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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 8. Pension Plans (continued)

Primary Government: (continued)

Plan description (continued)

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.

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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 8. Pension Plans (continued)

Primary Government: (continued)

Contributions and reserves (continued)

- 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.

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, 2006	\$ 439,869
Interest on net pension obligation	(20,608)
Adjustment to annual required contribution	<u>26,556</u>
Annual pension cost	445,817
Employer contributions made	<u>466,000</u>
Change in net pension benefit	(20,183)
Net pension benefit at June 30, 2005	<u>(257,597)</u>
Net pension benefit at June 30, 2006	<u><u>\$(277,780)</u></u>

The annual required contribution for the 2006 year was determined as part of the annual actuarial valuation on January 1, 2006.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 8. Pension Plans (continued)

Primary Government: (continued)

Development of the net pension obligation (benefit) (continued)

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>
6/30/06	\$ 439,869	105.9%	\$(277,780)
6/30/05	408,869	96.3	(257,597)
6/30/04	391,030	104.9	(278,963)

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 (SETHEPP), 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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 8. Pension Plans (continued)

Component Units (continued)

Board of Education: (continued)

Report availability

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEPP 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.

Note 9. 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 10. 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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2006

Note 11. 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
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
PROPERTY TAXES				
Property taxes-current	\$ 3,800,000	\$ 3,800,000	\$ 3,900,440	\$ 100,440
Property taxes-prior	140,000	140,000	104,496	(35,504)
Property taxes-delinquent	40,000	40,000	37,593	(2,407)
Public utilities taxes	90,000	90,000	91,197	1,197
Total property taxes	<u>4,070,000</u>	<u>4,070,000</u>	<u>4,133,726</u>	<u>63,726</u>
OTHER LOCAL TAXES				
Penalty and interest on property tax-prior	20,000	20,000	16,655	(3,345)
Penalty and interest on property tax-current	15,000	15,000	15,994	994
In lieu of taxes	780,000	780,000	798,491	18,491
Local sales tax	3,400,000	3,634,000	3,843,205	209,205
Wholesale beer tax	430,000	430,000	448,861	18,861
Minimum business tax	14,000	14,000	14,520	520
Cable TV franchise tax	110,000	110,000	121,968	11,968
Gross receipts tax	540,000	590,000	662,978	72,978
Transient fees	-	-	300	300
Total other local taxes	<u>5,309,000</u>	<u>5,593,000</u>	<u>5,922,972</u>	<u>329,972</u>
INTERGOVERNMENTAL				
State sales tax	790,000	790,000	901,063	111,063
State beer tax	6,000	6,000	6,631	631
State income tax	50,000	50,000	114,350	64,350
State gas and motor fuel tax	380,000	380,000	376,195	(3,805)
State gasoline inspection tax	30,000	30,000	29,703	(297)
State mixed drink tax	35,000	35,000	47,178	12,178
State excise tax	60,000	60,000	83,697	23,697
State law/fire grants	17,000	17,000	10,893	(6,107)
Reimbursement-other government agencies	25,000	25,000	43,232	18,232
Highway maintenance reimbursement	10,000	10,000	10,056	56
Police grants	-	-	4,878	4,878
Other grant funds	-	364,000	505,979	141,979
Total intergovernmental	<u>1,403,000</u>	<u>1,767,000</u>	<u>2,133,855</u>	<u>366,855</u>

(continued)

CITY OF ATHENS, TENNESSEE
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006
(continued)

	Budget		Actual	Variance
	Original	Final		With Final Budget
CHARGES FOR SERVICES				
Utility damage reimbursement	\$ 10,000	\$ 10,000	\$ 15,986	\$ 5,986
Animal control	25,000	31,000	34,339	3,339
Grave opening	20,000	20,000	22,350	2,350
Recreation fees	60,500	67,500	77,783	10,283
Building permits	60,000	60,000	97,032	37,032
Clerks fees	5,000	5,000	7,644	2,644
Recreation concessions	35,000	35,000	29,355	(5,645)
Special ticket sales	2,000	2,000	-	(2,000)
Total charges for services	<u>217,500</u>	<u>230,500</u>	<u>284,489</u>	<u>53,989</u>
FINES AND FORFEITURES				
Court fines	400,000	400,000	440,610	40,610
Law enforcement forfeitures	-	-	142,413	142,413
Total fines and forfeitures	<u>400,000</u>	<u>400,000</u>	<u>583,023</u>	<u>183,023</u>
INTEREST	<u>40,000</u>	<u>40,000</u>	<u>209,645</u>	<u>169,645</u>
MISCELLANEOUS	<u>43,500</u>	<u>76,500</u>	<u>107,942</u>	<u>31,442</u>
Total revenues	<u>11,483,000</u>	<u>12,177,000</u>	<u>13,375,652</u>	<u>1,198,652</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
City Manager's Office	280,600	280,600	221,620	58,980
City Council	47,400	47,400	44,421	2,979
City Judge	12,600	12,600	12,580	20
City Attorney	18,000	18,000	10,511	7,489
Special appropriations	302,400	302,400	302,400	-
Athens Utilities Board	470,000	470,000	456,602	13,398
Pass-through grant	-	310,000	443,532	(133,532)
Finance	596,000	646,000	624,851	21,149
Personnel	151,100	151,100	142,848	8,252
Administrative services:				
Administration	88,400	88,400	87,290	1,110
City Hall	242,500	292,500	174,077	118,423
Community development:				
Administration	144,900	144,900	131,471	13,429
Codes enforcement	139,300	139,300	114,521	24,779
Cemeteries	66,900	66,900	55,576	11,324
Total general government	<u>2,560,100</u>	<u>2,970,100</u>	<u>2,822,300</u>	<u>147,800</u>

(continued)

CITY OF ATHENS, TENNESSEE
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
PUBLIC SAFETY				
Police:				
Administration	\$ 225,600	\$ 225,600	\$ 218,492	\$ 7,108
Patrol	1,492,900	1,499,573	1,335,747	163,826
Detective	195,700	195,700	173,184	22,516
Fire:				
Administration	106,900	106,900	101,804	5,096
Prevention	81,900	81,900	77,764	4,136
Suppression	1,158,000	1,226,500	1,186,334	40,166
Administrative services:				
Communications	356,300	356,300	323,591	32,709
Total public safety	<u>3,617,300</u>	<u>3,692,473</u>	<u>3,416,916</u>	<u>275,557</u>
HIGHWAYS AND STREETS				
Public Works:				
Administration	188,500	198,500	194,867	3,633
Traffic control	169,400	169,400	110,854	58,546
Street maintenance	493,300	528,300	483,736	44,564
Street construction	353,200	409,700	336,364	73,336
Street cleaning	509,800	509,800	503,712	6,088
City garage	325,000	325,000	306,715	18,285
Total highways and streets	<u>2,039,200</u>	<u>2,140,700</u>	<u>1,936,248</u>	<u>204,452</u>
CULTURE AND RECREATION				
Parks and Recreation:				
Administration	161,500	161,654	146,955	14,699
Maintenance	417,900	425,757	409,365	16,392
Swimming pools	67,000	67,000	41,034	25,966
Program planning	214,200	257,700	250,296	7,404
Total culture and recreation	<u>860,600</u>	<u>912,111</u>	<u>847,650</u>	<u>64,461</u>
EDUCATION				
Athens City Schools	<u>1,530,000</u>	<u>2,370,000</u>	<u>2,359,781</u>	<u>10,219</u>
HEALTH AND WELFARE				
Public Works:				
Animal control	<u>85,800</u>	<u>91,800</u>	<u>89,069</u>	<u>2,731</u>
Total expenditures	<u>10,693,000</u>	<u>12,177,184</u>	<u>11,471,964</u>	<u>705,220</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>790,000</u>	<u>(184)</u>	<u>1,903,688</u>	<u>1,903,872</u>

(continued)

**CITY OF ATHENS, TENNESSEE
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended June 30, 2006
(continued)**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES OVER (UNDER) EXPENDITURES	<u>790,000</u>	<u>(184)</u>	<u>1,903,688</u>	<u>1,903,872</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	606,000	606,000	-
Proceeds from the sale of capital assets	-	-	17,143	17,143
Transfer to debt service fund	<u>(790,000)</u>	<u>(790,000)</u>	<u>(790,000)</u>	-
Total other financing sources (uses)	<u>(790,000)</u>	<u>(184,000)</u>	<u>(166,857)</u>	<u>17,143</u>
Net change in fund balance	-	(184,184)	1,736,831	1,921,015
FUND BALANCE, beginning of year	<u>5,426,634</u>	<u>5,426,634</u>	<u>5,426,634</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 5,426,634</u>	<u>\$ 5,242,450</u>	<u>\$ 7,163,465</u>	<u>\$ 1,921,015</u>

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

**CITY OF ATHENS, TENNESSEE
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year Ended June 30, 2006**

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 150,000	\$ 190,000	\$ 185,265	\$ (4,735)
Interest	<u>30,000</u>	<u>60,000</u>	<u>85,709</u>	<u>25,709</u>
Total revenues	<u>180,000</u>	<u>250,000</u>	<u>270,974</u>	<u>20,974</u>
EXPENDITURES				
Debt service:				
Principal	420,000	420,000	415,700	4,300
Interest and fiscal charges	<u>210,000</u>	<u>280,000</u>	<u>268,270</u>	<u>11,730</u>
Total expenditures	<u>630,000</u>	<u>700,000</u>	<u>683,970</u>	<u>16,030</u>
REVENUES OVER (UNDER) EXPENDITURES	(450,000)	(450,000)	(412,996)	37,004
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	340,000	340,000	377,004	37,004
FUND BALANCE, beginning of year	<u>1,574,545</u>	<u>1,574,454</u>	<u>1,574,454</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 1,914,545</u>	<u>\$ 1,914,454</u>	<u>\$ 1,951,458</u>	<u>\$ 37,004</u>

**CITY OF ATHENS, TENNESSEE
REQUIRED SUPPLEMENTAL INFORMATION
SCHEDULE OF FUNDING PROGRESS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
PENSION PLAN
June 30, 2006**

<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>
1/1/04	\$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
1/1/06	5,953,249	7,906,837	1,953,588	75.29	3,713,900	52.60

Schedule of Employer Contributions

<u>Plan Year Ending</u>	<u>Contributions by the City</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/97	\$ 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
6/30/06	466,000	439,869	105.9

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.

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.

**CITY OF ATHENS, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006**

	Special	Capital Projects		Permanent	Total Nonmajor Governmental Funds
	Revenue	Fund		Fund	
	Fund	General	Capital	Cemetery	
	Drug	Obligation Bond	Improvement	Perpetual Care	
ASSETS					
Cash and cash equivalents	\$ 27,718	\$ 45,439	\$ 25,807	\$ -	\$ 98,964
Investments	79,182	3,688	1,132,398	116,209	1,331,477
Due from other governments	-	229,986	-	-	229,986
Total assets	<u>\$ 106,900</u>	<u>\$ 279,113</u>	<u>\$1,158,205</u>	<u>\$ 116,209</u>	<u>\$ 1,660,427</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ -	\$ 376	\$ -	\$ -	\$ 376
Retention payable	-	-	46,464	-	46,464
Interfund payable	-	240,000	-	-	240,000
Total liabilities	<u>-</u>	<u>240,376</u>	<u>46,464</u>	<u>-</u>	<u>286,840</u>
FUND BALANCES					
Reserved for cemetery perpetual care	-	-	-	116,209	116,209
Unreserved, undesignated	106,900	38,737	1,111,741	-	1,257,378
Total fund balances	<u>106,900</u>	<u>38,737</u>	<u>1,111,741</u>	<u>116,209</u>	<u>1,373,587</u>
Total liabilities and fund balances	<u>\$ 106,900</u>	<u>\$ 279,113</u>	<u>\$1,158,205</u>	<u>\$ 116,209</u>	<u>\$ 1,660,427</u>

CITY OF ATHENS, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2006

	Special	Capital Projects		Permanent	Total Nonmajor Governmental Funds
	Revenue	Fund		Fund	
	Fund	General	Capital	Cemetery	
	Drug	Obligation Bond	Improvement	Perpetual Care	
REVENUES					
Intergovernmental	\$ -	\$ 267,120	\$ -	\$ -	\$ 267,120
Fines and forfeitures	41,287	-	-	-	41,287
Contributions	-	-	82,550	-	82,550
Investment and interest income	3,107	3,719	42,343	3,124	52,293
Miscellaneous	-	-	-	1,900	1,900
Total revenues	<u>44,394</u>	<u>270,839</u>	<u>124,893</u>	<u>5,024</u>	<u>445,150</u>
EXPENDITURES					
Current:					
Public safety	21,679	-	-	-	21,679
Capital outlay	-	477,237	4,787	-	482,024
Total expenditures	<u>21,679</u>	<u>477,237</u>	<u>4,787</u>	<u>-</u>	<u>503,703</u>
NET CHANGE IN FUND BALANCES	22,715	(206,398)	120,106	5,024	(58,553)
FUND BALANCES, beginning of year	<u>84,185</u>	<u>245,135</u>	<u>991,635</u>	<u>111,185</u>	<u>1,432,140</u>
FUND BALANCES, end of year	<u>\$ 106,900</u>	<u>\$ 38,737</u>	<u>\$ 1,111,741</u>	<u>\$ 116,209</u>	<u>\$ 1,373,587</u>

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DRUG FUND
Year Ended June 30, 2006

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
Drug fines and forfeitures	\$ 32,000	\$ 32,000	\$ 41,287	\$ 9,287
Investment and interest income	-	-	3,107	3,107
Total revenues	<u>32,000</u>	<u>32,000</u>	<u>44,394</u>	<u>12,394</u>
EXPENDITURES				
Drug investigation	12,000	12,000	6,500	5,500
Supplies	15,000	15,000	14,191	809
Education and training	5,000	5,000	988	4,012
Total expenditures	<u>32,000</u>	<u>32,000</u>	<u>21,679</u>	<u>10,321</u>
REVENUES UNDER EXPENDITURES	-	-	22,715	22,715
FUND BALANCE, beginning of year	<u>84,185</u>	<u>84,185</u>	<u>84,185</u>	-
FUND BALANCE, end of year	<u><u>\$ 84,185</u></u>	<u><u>\$ 84,185</u></u>	<u><u>\$ 106,900</u></u>	<u><u>\$ 22,715</u></u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2005	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2006
PRIMARY GOVERNMENT:						
FEDERAL AWARDS:						
FEDERAL EMERGENCY MANAGEMENT AGENCY						
Passed through TN Emergency Management Agency: Public Assistance Grant	83.544	Z-03-017817-00	\$ -	\$ 5,260	\$ 5,260	\$ -
APPALACHIAN REGIONAL COMMISSION						
Appalachian Area Development	23.002	N/A	36,615	180,861	240,326	96,080
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through TN Department of Transportation: Highway Planning and Construction	20.205	STP-H-30(44)	-	-	41,307	41,307
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Southeast TN Development District: Community Development Block Grant	14.228	GG-05-11658-00	-	102,634	180,832	78,198
U.S. DEPARTMENT OF JUSTICE						
Local Law Enforcement Block Grant	16.592	2004LBBX0977	(9,662)	-	4,209	(5,453)
ENVIRONMENTAL PROTECTION AGENCY						
Surveys, Studies, Investigations and Special Purpose Grants	66.606	XP-97435001-0	67,900	67,900	-	-
Total Federal Awards			94,853	356,655	471,934	210,132
STATE AWARDS:						
Tennessee Department of Environment and Conservation:						
Local Parks and Recreation	N/A	Z-05-023551-00	62,866	100,000	37,134	-
Local Parks and Recreation	N/A	Z-05-022827-00	-	-	229,986	229,986
Tennessee Department of Transportation:						
Tennessee Infrastructure Improvement Program	N/A	Z-02-008516-00	-	-	22,374	22,374
Tennessee Division of Community Assistance	N/A	GG-030405-00	-	-	10,500	10,500
Tennessee Department of Agriculture	N/A	Z-06-026175-00	-	-	3,380	3,380
Total State Awards			62,866	100,000	303,374	266,240
Total Primary Government			\$ 157,719	\$ 456,655	\$ 775,308	\$ 476,372

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2006
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2005	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2006
COMPONENT UNIT - ATHENS UTILITIES BOARD						
FEDERAL AWARDS:						
ENVIRONMENTAL PROTECTION AGENCY						
Surveys, studies, investigations, and special purpose grants	66.606	XP-974898-03-0	\$ 763,473	\$ 935,268	\$ 171,795	\$ -
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	\$ -	\$ 31,522	\$ 31,522	\$ -
Passed through the TN Department of Education:						
Child Nutrition Cluster:						
National School Lunch Program	10.555	N/A	2,943	380,602	377,659	-
School Breakfast Program	10.553	N/A	1,296	144,480	143,184	-
Summer Food Service Program for Children	10.559	N/A	49,621	89,007	89,922	50,536
			<u>53,860</u>	<u>645,611</u>	<u>642,287</u>	<u>50,536</u>
U.S. DEPARTMENT OF EDUCATION						
Impact Aid	84.041	N/A	\$ -	\$ 3,058	\$ 3,058	\$ -
Passed through the TN Department of Education:						
Special Education Cluster:						
Special Education - Grants to States	84.027	N/A	(26,030)	319,200	336,838	(8,392)
Special Education - Grants to States	84.027	N/A	-	14,200	14,200	-
Special Education - Preschool Grants	84.173	N/A	-	11,000	10,805	(195)
Title I Grants to Local Educational Agencies	84.010	N/A	(28,508)	493,000	521,385	(123)
Improving Teacher Quality - State Grants	84.367	N/A	(1,257)	124,552	122,863	(2,946)
Technology Literacy Challenge Fund Grants	84.318	N/A	(265)	9,440	9,705	-
Technology Literacy Challenge Fund Grants	84.318	Z-03-014999-00	23,305	23,305	-	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	(1,008)	11,258	11,441	(825)
Innovative Education Program Strategies	84.298	N/A	(146)	5,849	5,995	-
Rural Education Achievement Program	84.358	N/A	(2,555)	77,606	80,161	-
Even Start - State Educational Agencies	84.213	N/A	-	52,859	84,374	31,515
Even Start - State Educational Agencies	84.213	Z-05-020469-00	35,135	35,135	-	-
Title III Emergency Immigrant	84.162	N/A	-	7,410	7,248	(162)

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2006
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2005	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2006
COMPONENT UNIT - ATHENS CITY BOARD OF EDUCATION: (continued)						
FEDERAL AWARDS: (continued)						
U.S. DEPARTMENT OF EDUCATION (continued)						
Hurricane Education Recovery Passed through the TN Department of Labor and Workforce Development:	84.938	N/A	\$ -	\$ 15,593	\$ 15,593	\$ -
Adult Education - State Grant Program	84.002	Z-06-027746-00	-	93,912	114,334	20,422
Adult Education - State Grant Program	84.002	Z-05-022192-00	17,496	17,496	-	-
Families First	84.002	Z-05-022287-00	5,273	5,273	-	-
Families First	84.002	Z-06-027157-00	-	6,658	7,918	1,260
			<u>21,440</u>	<u>1,326,804</u>	<u>1,345,918</u>	<u>40,554</u>
U.S. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT						
Passed through the TN Department of Labor and Workforce Development:						
Workforce Development Incentive Grant	17.267	Z-04-019469-00	3,209	3,209	-	-
Workforce Development Incentive Grant	17.267	Z-05-023718-00	605	605	-	-
Workforce Development Incentive Grant	17.267	Z-05-023766-00	-	2,604	2,796	192
			<u>3,814</u>	<u>6,418</u>	<u>2,796</u>	<u>192</u>
Total Federal Awards - Athens City Board of Education			<u>79,114</u>	<u>1,978,833</u>	<u>1,991,001</u>	<u>91,282</u>
STATE AWARDS:						
Adult Education - State Grant Program		Z-05-022192-00	\$ 4,651	\$ 4,651	\$ -	\$ -
Adult Education - State Grant Program		Z-06-027746-00	-	24,963	30,392	5,429
Lottery Pre-K		N/A	-	199,916	321,189	121,273
Lottery for Education Afterschool Program		019-06-1-017	-	47,300	114,623	67,323
Families First		Z-06-027157-00	-	3,332	4,010	678
Families First		Z-05-022287-00	2,481	2,481	-	-
Family Resource Grant		Z-05-021441-00	15,732	15,732	-	-
Family Resource Grant		06-120-76	-	12,309	28,185	15,876
Safe Schools Act 2001		N/A	9,607	9,607	10,167	10,167
Total State Awards - Athens City Board of Education			<u>32,471</u>	<u>320,291</u>	<u>508,566</u>	<u>220,746</u>
Total Component Unit			<u>\$ 111,585</u>	<u>\$ 2,299,124</u>	<u>\$ 2,499,567</u>	<u>\$ 312,028</u>

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2006
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2005	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2006
COMPONENT UNIT - ATHENS CITY BOARD OF EDUCATION: (continued)						
SUMMARY OF PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT:						
Total Federal Awards			\$ 937,440	\$ 3,270,756	\$ 2,634,730	\$ 301,414
Total State Awards			95,337	420,291	811,940	486,986
TOTAL AWARDS			<u>\$ 1,032,777</u>	<u>\$ 3,691,047</u>	<u>\$ 3,446,670</u>	<u>\$ 788,400</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, 2006. 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, 2006. 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 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, 2006. 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.

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OTHER

CITY OF ATHENS, TENNESSEE
SCHEDULE OF UNCOLLECTED DELINQUENT TAXES FILED
LAST TEN YEARS
June 30, 2006

<u>Tax Year</u>	<u>Delinquent Taxes Filed</u>	<u>July 1, 2005 Delinquent Taxes Receivable</u>	<u>Current Collections and Adjustment</u>	<u>June 30, 2006 Delinquent Taxes Receivable</u>
1994 and Prior	(1)	\$ 1,315	\$ 30	\$ 1,285
1995	28,293	149	10	139
1996	58,335	225	31	194
1997	32,487	218	190	28
1998	32,006	151	42	109
1999	42,359	946	31	915
2000	52,893	1,019	77	942
2001	53,445	1,016	711	305
2002	37,540	9,383	6,276	3,107
2003	54,164	32,490	20,669	11,821
2004	42,110	287,179	118,504	168,675

(1) Not available

Note: 2004 taxes receivable include amounts for Collins & Aikman, which filed for bankruptcy protection. Bankruptcies are not filed with the Clerk and Master's Office.

CITY OF ATHENS, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
Year Ended June 30, 2006

	<u>Total</u>	<u>2006 Assessment</u>	<u>2005 Assessment</u>	<u>Prior Years</u>
PROPERTY TAXES RECEIVABLE				
July 1, 2005	<u>\$ 4,550,610</u>	<u>\$ -</u>	<u>\$4,215,000</u>	<u>\$ 335,610</u>
Add -				
Taxes assessed	4,360,244	4,350,000	10,244	-
Late listings	<u>65,961</u>	<u>-</u>	<u>65,122</u>	<u>839</u>
	<u>4,426,205</u>	<u>4,350,000</u>	<u>75,366</u>	<u>839</u>
Deduct -				
Collections	4,140,940	-	3,994,753	146,187
Adjustments and abatements	<u>68,673</u>	<u>-</u>	<u>67,334</u>	<u>1,339</u>
	<u>4,209,613</u>	<u>-</u>	<u>4,062,087</u>	<u>147,526</u>
PROPERTY TAXES RECEIVABLE				
June 30, 2006	<u><u>\$ 4,767,202</u></u>	<u><u>\$4,350,000</u></u>	<u><u>\$ 228,279</u></u>	<u><u>\$ 188,923</u></u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS
June 30, 2006

	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	-	-	\$ 5,894	\$ 5,894
BB&T Intermediate U.S. Government Bond Fund	-	-	46,490	44,011
BB&T International Equity Fund	-	-	3,600	4,925
BB&T Large Company Growth Fund	-	-	6,206	7,305
BB&T Large Company Value Fund	-	-	9,049	10,911
BB&T Midcap Growth Fund	-	-	1,049	1,500
BB&T Midcap Value Fund	-	-	1,631	1,681
BB&T Short U.S. Government Income Fund	-	-	2,340	2,218
BB&T Small Cap Fund	-	-	1,227	1,824
Federated Intermediate Income Fund	-	-	36,816	35,940
Total			<u>\$ 114,302</u>	<u>\$ 116,209</u>
Athens Pension Trust Fund:				
Federal Farm Credit	3.000	04/15/08	\$ 217,089	\$ 215,649
Federal Home Loan Banks	4.125	04/18/08	148,669	146,625
Federal Home Loan Banks	5.250	06/18/14	232,317	221,414
Federal Home Loan Mortgage Corporation	5.000	01/30/14	221,486	216,704
Federal Home Loan Mortgage Corporation	5.875	03/21/11	156,016	151,220
Federal National Mortgage Association	4.750	02/21/13	296,312	287,532
Federal National Mortgage Association	5.125	01/02/14	121,369	119,961
Government National Mortgage Association	7.500	06/15/07	390	386
U.S. Treasury Notes	3.500	02/15/10	289,997	284,133
U.S. Treasury Notes	4.375	08/15/12	152,127	144,293
U.S. Treasury Notes	4.250	08/15/13	147,138	142,312
U.S. Treasury Notes	4.250	11/15/14	147,205	141,070
US Bancorp	5.100	07/15/07	75,644	74,518
Lehman Brothers Holdings Company	4.000	01/22/08	73,885	73,041
Pepsico, Inc.	3.200	05/15/07	73,601	73,478
Chevron Texaco Capital Company	3.500	09/17/07	73,679	73,168
Goldman Sachs Group	4.125	01/15/08	74,118	73,394
Household Finance Corporation	4.625	01/15/08	74,876	73,929
Anheuser-Busch Company, Inc.	4.375	01/15/13	72,632	69,296
Bank of America Corporation	7.400	01/15/11	83,098	79,802
Procter and Gamble Company	6.875	09/15/09	52,384	51,870
Abbott Laboratories	-	-	28,742	31,617
ALCOA, Inc.	-	-	28,702	32,360
American International Group, Inc.	-	-	42,817	47,240
Amgen	-	-	21,066	21,200
AmSouth Bancorporation	-	-	30,084	31,740
Applied Materials, Inc.	-	-	34,889	29,304

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2006

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Anadarko Petroleum Corporation	-	-	\$ 14,322	\$ 33,383
Arch Coal, Inc.	-	-	27,679	29,659
Avon Products, Inc.	-	-	26,940	31,000
Bank of America Corporation	-	-	34,237	52,910
Bank of New York Company, Inc.	-	-	34,598	38,640
BB&T Corporation	-	-	16,630	20,795
Best Buy Company, Inc.	-	-	13,250	21,936
Bunge Limited	-	-	28,695	25,125
Carnival Corporation	-	-	19,313	31,305
Caterpillar Tractor Company	-	-	29,852	40,964
Chevron Texaco Corporation	-	-	22,411	31,030
Cisco Systems, Inc.	-	-	39,067	21,971
Citigroup, Inc.	-	-	36,729	48,250
ConocoPhillips	-	-	17,457	31,127
Dell Computer Corporation, Inc.	-	-	18,859	15,899
Dominion Resources, Inc.	-	-	24,761	31,786
Dover Corporation	-	-	28,418	37,072
Dow Chemical Company	-	-	41,491	42,933
E.I. Dupont De Nemours Company	-	-	25,044	23,920
EMC Corporation	-	-	28,431	24,957
Exxon Mobil Corporation	-	-	26,216	41,104
First Data Corporation	-	-	21,027	23,646
Gannett, Inc.	-	-	35,398	30,761
General Electric Company	-	-	65,877	70,864
Halliburton Company	-	-	28,836	29,684
HCA, Inc.	-	-	22,809	25,890
Home Depot, Inc.	-	-	12,574	17,895
Ingersoll-Rand Company	-	-	27,109	47,058
Intel Corporation	-	-	18,290	17,575
IBM Corporation	-	-	25,201	24,966
Ishares MSCIEAFE Index	-	-	191,698	196,170
Johnson & Johnson, Inc.	-	-	23,780	32,956
Johnson Controls, Inc.	-	-	33,028	47,277
JP Morgan Chase & Company	-	-	34,320	46,200
Kimberly Clark Corporation	-	-	23,497	27,765
KLA-Tencor Corporation	-	-	23,099	20,785
Kohls Corporation	-	-	35,902	42,862
Marathon Oil Corporation	-	-	14,531	45,815
Masco Corporation	-	-	30,828	37,050
Medco Health Solutions, Inc.	-	-	33,847	35,800
Medtronic, Inc.	-	-	13,280	18,768
Merrill Lynch and Company	-	-	22,208	27,824
Microsoft Corporation	-	-	31,908	23,300
Morgan Stanley	-	-	33,044	47,408

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2006

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Mylan Laboratories, Inc.	-	-	\$ 33,641	\$ 37,000
Nabors Industries	-	-	29,573	30,411
Nike, Inc.	-	-	21,041	34,425
Nokia Systems Corporation	-	-	12,833	19,754
Oracle Systems Corporation	-	-	29,367	37,312
Parker Hannifin Corporation	-	-	31,708	31,040
Pepsico, Inc.	-	-	24,271	30,020
Pitney Bowes, Inc.	-	-	29,383	30,975
PNC Bank Corporation	-	-	22,375	28,068
Procter and Gamble	-	-	31,284	33,360
Scherling-Plough Corporation	-	-	28,905	28,545
Seagate Technology	-	-	29,563	34,526
Sprint Corporation	-	-	20,319	18,491
St. Paul Companies, Inc.	-	-	39,038	44,580
Sysco Corporation	-	-	23,366	25,212
Texas Instruments, Inc.	-	-	39,528	40,134
United Health Group, Inc.	-	-	11,837	22,390
United Technologies Corporation	-	-	21,846	47,565
Valero Energy Corporation	-	-	15,093	31,597
Wal-Mart Stores, Inc.	-	-	28,844	33,719
Wellpoint, Inc.	-	-	25,027	29,108
Wells, Fargo & Company	-	-	28,454	41,925
Xcel Energy, Inc.	-	-	28,376	27,811
Xilinx, Inc.	-	-	20,423	14,722
BB&T Midcap Growth Fund	-	-	110,454	171,038
BB&T Midcap Value Fund	-	-	149,996	166,595
Non US FD 253 Legg Mason Western Asset	-	-	70,000	68,764
BB&T Prime Money Market Fund	-	-	25,813	25,813
			<u>\$ 5,309,181</u>	<u>\$ 5,706,241</u>
Participation in the State of Tennessee Local Government Investment Pool:				
General Fund	-	-	<u>\$ 6,260,243</u>	<u>\$ 6,260,243</u>
Debt Service Fund	-	-	<u>\$ 1,823,212</u>	<u>\$ 1,823,212</u>
Sanitation Fund	-	-	<u>\$ 544,960</u>	<u>\$ 544,960</u>
Drug Fund	-	-	<u>\$ 79,182</u>	<u>\$ 79,182</u>
Capital Improvement Fund	-	-	<u>\$ 1,132,398</u>	<u>\$ 1,132,398</u>
Fleet Management Fund	-	-	<u>\$ 1,437,568</u>	<u>\$ 1,437,568</u>
Conference Center Fund	-	-	<u>\$ 19,037</u>	<u>\$ 19,037</u>
General Obligation Bond Fund	-	-	<u>\$ 3,688</u>	<u>\$ 3,688</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2006

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
2007	\$ 100,000	\$ 197,902	\$ 297,902	\$ 436,500	\$ 68,103	\$ 504,603	\$ 536,500	\$ 266,005	\$ 802,505
2008	100,000	196,951	296,951	458,300	52,302	510,602	558,300	249,253	807,553
2009	100,000	193,251	293,251	481,200	35,711	516,911	581,200	228,962	810,162
2010	100,000	189,551	289,551	505,300	18,292	523,592	605,300	207,843	813,143
2011	662,000	185,851	847,851	-	-	-	662,000	185,851	847,851
2012	683,000	161,357	844,357	-	-	-	683,000	161,357	844,357
2013	703,000	136,086	839,086	-	-	-	703,000	136,086	839,086
2014	725,000	110,075	835,075	-	-	-	725,000	110,075	835,075
2015	747,000	83,250	830,250	-	-	-	747,000	83,250	830,250
2016	770,000	55,611	825,611	-	-	-	770,000	55,611	825,611
2017	733,000	27,121	760,121	-	-	-	733,000	27,121	760,121
	<u>\$ 5,423,000</u>	<u>\$ 1,537,006</u>	<u>\$ 6,960,006</u>	<u>\$ 1,881,300</u>	<u>\$ 174,408</u>	<u>\$ 2,055,708</u>	<u>\$ 7,304,300</u>	<u>\$ 1,711,414</u>	<u>\$ 9,015,714</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
NET ASSETS BY COMPONENT
LAST FOUR YEARS
June 30, 2006
(Accrual Basis of Accounting)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GOVERNMENTAL ACTIVITIES				
Invested in capital assets, net of related debt	\$ 8,795,550	\$ 8,003,707	\$ 5,182,286	\$ 2,927,226
Restricted	2,345,447	1,943,236	1,591,590	1,276,029
Unrestricted	<u>5,699,906</u>	<u>4,770,721</u>	<u>11,561,939</u>	<u>11,983,773</u>
Total governmental activities net assets	<u>\$16,840,903</u>	<u>\$14,717,664</u>	<u>\$18,335,815</u>	<u>\$16,187,028</u>
BUSINESS-TYPE ACTIVITIES				
Invested in capital assets, net of related debt	\$ 1,456,036	\$ 1,587,133	\$ 1,685,987	\$ 1,789,623
Unrestricted	<u>733,135</u>	<u>569,531</u>	<u>582,291</u>	<u>654,479</u>
Total business-type activities net assets	<u>\$ 2,189,171</u>	<u>\$ 2,156,664</u>	<u>\$ 2,268,278</u>	<u>\$ 2,444,102</u>
PRIMARY GOVERNMENT				
Invested in capital assets, net of related debt	\$10,251,586	\$ 9,590,840	\$ 6,868,273	\$ 4,716,849
Restricted	2,345,447	1,943,236	1,591,590	1,276,029
Unrestricted	<u>6,433,041</u>	<u>5,340,252</u>	<u>12,144,230</u>	<u>12,638,252</u>
Total primary government net assets	<u>\$19,030,074</u>	<u>\$16,874,328</u>	<u>\$20,604,093</u>	<u>\$18,631,130</u>

NOTE: The City adopted GASB 34 in fiscal year 2003 and ten years of data is not available but will be accumulated over time.

Source: Comprehensive Annual Financial Reports

CITY OF ATHENS, TENNESSEE
CHANGES IN NET ASSETS
LAST FOUR YEARS
June 30, 2006
(Accrual Basis of Accounting)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
EXPENSES				
Governmental activities:				
General government	\$ 3,247,334	\$ 3,466,385	\$ 3,808,931	\$ 2,916,608
Public safety	3,407,171	3,327,801	3,145,414	3,333,481
Highways and streets	2,031,940	1,838,813	1,930,598	1,540,403
Culture and recreation	588,744	870,846	847,670	894,206
Education	2,359,781	4,393,735	3,452,952	1,437,643
Health and welfare	86,069	81,158	76,462	79,706
Interest on long-term debt	259,020	148,652	56,436	99,015
Total governmental activities expenses	<u>11,980,059</u>	<u>14,127,390</u>	<u>13,318,463</u>	<u>10,301,062</u>
Business-type activities:				
Conference center	74,533	74,332	71,182	73,638
Sanitation	713,587	821,148	874,411	737,660
Total business-type activities expenses	<u>788,120</u>	<u>895,480</u>	<u>945,593</u>	<u>811,298</u>
Total primary government expenses	<u>\$ 12,768,179</u>	<u>\$ 15,022,870</u>	<u>\$ 14,264,056</u>	<u>\$ 11,112,360</u>
PROGRAM REVENUES				
Governmental activities:				
Charges for services:				
General government	\$ 143,012	\$ 144,930	\$ 124,963	\$ 107,968
Public safety	624,310	537,985	324,137	320,501
Culture and recreation	107,138	117,433	113,228	147,784
Health and welfare	34,339	29,416	28,969	23,385
Operating grants and contributions	932,309	568,915	3,245,413	1,427,757
Capital grants and contributions	406,067	180,797	851,939	272,007
Total governmental activities program revenues	<u>2,247,175</u>	<u>1,579,476</u>	<u>4,688,649</u>	<u>2,299,402</u>
Business-type activities:				
Charges for services:				
Conference center	14,303	12,676	17,752	13,735
Sanitation	782,040	740,626	742,961	739,929
Total business-type activities program revenues	<u>796,343</u>	<u>753,302</u>	<u>760,713</u>	<u>753,664</u>
Total primary government program revenues	<u>\$ 3,043,518</u>	<u>\$ 2,332,778</u>	<u>\$ 5,449,362</u>	<u>\$ 3,053,066</u>
NET (EXPENSES)/REVENUES				
Governmental activities	\$ (9,732,884)	\$(12,547,914)	\$ (8,629,814)	\$ (8,001,660)
Business-type activities	8,223	(142,178)	(184,880)	(57,634)
Total primary government net expenses	<u>\$ (9,724,661)</u>	<u>\$ (12,690,092)</u>	<u>\$ (8,814,694)</u>	<u>\$ (8,059,294)</u>

(continued)

CITY OF ATHENS, TENNESSEE
CHANGES IN NET ASSETS
LAST FOUR YEARS
June 30, 2006
(Accrual Basis of Accounting)
(continued)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS				
Governmental activities:				
Property taxes	\$ 4,216,453	\$ 4,120,554	\$ 4,106,766	\$ 4,074,004
Other taxes	5,922,972	5,463,756	5,191,945	4,880,830
Intergovernmental revenues not restricted to specific programs	1,200,623	981,944	976,987	1,053,087
Insurance proceeds	-	-	15,900	-
Investment income	412,700	169,953	84,706	126,519
Gain (loss) on disposal of capital assets	31,007	24,967	31,959	22,951
Miscellaneous	72,368	79,639	104,314	65,042
Transfers	-	-	-	(36,604)
Total governmental activities	<u>11,856,123</u>	<u>10,840,813</u>	<u>10,512,577</u>	<u>10,185,829</u>
Business-type activities:				
Investment income	19,327	12,015	5,449	7,317
Transfers	-	-	-	36,604
Gain (loss) on disposal of capital assets	-	13,433	-	-
Miscellaneous	4,957	5,116	3,607	9,887
Total business-type activities	<u>24,284</u>	<u>30,564</u>	<u>9,056</u>	<u>53,808</u>
Total primary government	<u>\$ 11,880,407</u>	<u>\$ 10,871,377</u>	<u>\$ 10,521,633</u>	<u>\$ 10,239,637</u>
GOVERNMENTAL ACTIVITIES				
Prior period adjustments and restatements	<u>\$ -</u>	<u>\$ (1,911,050)</u>	<u>\$ 266,024</u>	<u>\$ -</u>
CHANGES IN NET ASSETS				
Governmental activities	\$ 2,123,239	\$ (3,618,151)	\$ 2,148,787	\$ 2,184,169
Business-type activities	32,507	(111,614)	(175,824)	(3,826)
Total primary government	<u>\$ 2,155,746</u>	<u>\$ (3,729,765)</u>	<u>\$ 1,972,963</u>	<u>\$ 2,180,343</u>

NOTE: The City adopted GASB 34 in fiscal year 2003 and ten years of data is not available but will be accumulated over time.

Source: Comprehensive Annual Financial Reports

CITY OF ATHENS, TENNESSEE
FUND BALANCES, GOVERNMENTAL FUNDS
LAST FOUR YEARS
June 30, 2006
 (Modified Accrual Basis of Accounting)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GENERAL FUND				
Reserved	\$ 320,513	\$ 208,339	\$ 153,069	\$ 361,522
Unreserved	<u>6,842,952</u>	<u>5,218,295</u>	<u>4,104,411</u>	<u>3,455,501</u>
Total general funds	<u>\$ 7,163,465</u>	<u>\$ 5,426,634</u>	<u>\$ 4,257,480</u>	<u>\$ 3,817,023</u>
 ALL OTHER GOVERNMENTAL FUNDS				
Reserved	\$ 2,067,667	\$ 1,685,639	\$ 1,312,627	\$ 1,276,029
Unreserved, reported in:				
Special revenue funds	106,900	84,185	96,109	125,948
Capital projects funds	<u>1,150,478</u>	<u>1,236,770</u>	<u>2,501,295</u>	<u>2,746,052</u>
Total all other governmental funds	<u>\$ 3,325,045</u>	<u>\$ 3,006,594</u>	<u>\$ 3,910,031</u>	<u>\$ 4,148,029</u>

NOTE: The City adopted GASB 34 in fiscal year 2003 and ten years of data is not consistent or available but will be accumulated over time.

Source: Comprehensive Annual Financial Reports

CITY OF ATHENS, TENNESSEE
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST FOUR YEARS

June 30, 2006

(Modified Accrual Basis of Accounting)

	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES				
Property taxes	\$ 4,133,726	\$ 4,049,947	\$ 4,136,932	\$ 3,713,629
Other local taxes	5,922,972	5,463,757	5,191,945	4,880,830
Intergovernmental	2,586,240	1,792,575	3,789,949	2,752,751
Charges for services and tuition	284,489	291,779	267,159	279,137
Fines and forfeitures	624,310	537,985	324,137	320,501
Contributions	82,550	-	-	-
Investment and interest income	347,647	140,539	70,785	107,460
Miscellaneous	109,842	120,649	104,313	64,289
Total revenues	<u>14,091,776</u>	<u>12,397,231</u>	<u>13,885,220</u>	<u>12,118,597</u>
EXPENDITURES				
General government	2,831,550	2,582,941	3,683,843	2,724,436
Public safety	3,438,595	3,432,724	3,210,617	3,415,071
Highways and streets	1,936,248	1,699,759	1,859,132	1,617,956
Culture and recreation	847,650	823,538	803,238	839,221
Education	2,359,781	4,393,735	3,452,952	1,437,643
Health and welfare	89,069	84,158	79,462	82,706
Capital outlay	482,024	1,387,070	1,816,498	995,226
Debt service:				
Debt issue costs	-	-	31,500	-
Principal	415,700	395,900	712,600	669,900
Interest and fiscal charges	259,020	148,652	62,167	104,269
Total expenditures	<u>12,659,637</u>	<u>14,948,477</u>	<u>15,712,009</u>	<u>11,886,428</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,432,139</u>	<u>(2,551,246)</u>	<u>(1,826,789)</u>	<u>232,169</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of debt	606,000	2,814,500	2,002,500	-
Proceeds from the sale of capital assets	17,143	2,463	26,748	70,018
Transfers	-	-	-	(36,604)
Total other financing resources (uses)	<u>623,143</u>	<u>2,816,963</u>	<u>2,029,248</u>	<u>33,414</u>
NET CHANGE IN FUND BALANCES	<u>\$ 2,055,282</u>	<u>\$ 265,717</u>	<u>\$ 202,459</u>	<u>\$ 265,583</u>
DEBT SERVICE AS A PERCENTAGE OF NONCAPITAL EXPENDITURES	5.54%	4.02%	5.58%	7.11%

NOTE: The City adopted GASB 34 in fiscal year 2003 and ten years of data is not consistent or available but will be accumulated over time.

Source: Comprehensive Annual Financial Reports

CITY OF ATHENS, TENNESSEE
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
June 30, 2006
(Unaudited)

<u>Fiscal Year</u>	<u>Real Property</u>	<u>Personal Property</u>	<u>Public Utility Property</u>	<u>Less Tax Exempt Property</u>	<u>Total Taxable Assessed Value</u>	<u>Estimated Market Value</u>	<u>City Property Tax Rate</u>
1997	\$ 120,253,545	\$ 39,787,150	\$ 6,128,300	\$ 6,375,481	\$ 159,793,514	\$ 514,237,599	1.86
1998 (1)	168,677,870	52,224,956	7,159,465	8,750,169	219,312,122	691,327,896	1.45
1999	173,881,910	70,407,339	7,453,775	9,658,738	242,084,286	765,648,948	1.45
2000	185,738,817	92,282,084	7,538,125	10,956,172	274,602,854	854,790,829	1.45
2001	180,866,984	87,102,270	7,265,321	10,560,049	264,674,526	837,756,475	1.45
2002	177,694,878	84,493,381	6,328,788	10,302,315	258,214,732	852,941,016	1.45
2003 (1)	231,552,089	91,337,810	7,210,349	12,665,105	317,435,143	1,005,090,291	1.29
2004	234,482,438	90,276,371	7,765,595	12,758,114	319,766,290	1,010,933,001	1.29
2005	232,808,860	92,600,618	7,613,415	12,777,240	320,245,653	1,051,808,986	1.29
2006	239,201,033	98,373,977	7,202,231	13,228,224	331,549,017	1,088,679,712	1.29

Data Source: McMinn County Tax Assessor's Office

(1) Reappraisal

**CITY OF ATHENS, TENNESSEE
DIRECT AND OVERLAPPING
PROPERTY TAX RATES
(PER \$100 OF ASSESSED VALUE)
LAST TEN FISCAL YEARS
June 30, 2006
(Unaudited)**

<u>Tax Year</u>	<u>City (Direct Rate)</u>	<u>County (Overlapping Rate)</u>	<u>Total</u>
1997	1.86	2.53	4.39
1998 ⁽¹⁾	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⁾	1.29	1.90	3.19
2004	1.29	1.90	3.19
2005	1.29	1.90	3.19
2006	1.29	1.90	3.19

(1) Reappraisal

Sources: Minutes of City Council and County Commission meetings

**CITY OF ATHENS, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO
June 30, 2006
(Unaudited)**

2006				1997			
Taxpayer	Type of Business	Taxable Assessed Value	Percentage of Total Taxable Assessed Value	Taxpayer	Type of Business	Taxable Assessed Value	Percentage of Total Taxable Assessed Value
Denso Tennessee, Inc.	Automotive parts manufacturer	\$ 43,535,258	13.1	Nippondenso Tennessee, Inc.	Automotive parts manufacturer	\$ 5,233,558	3.2
Collins and Aikman	Automotive parts manufacturer	11,288,633	3.4	Davidson Textron, Inc.	Automotive parts manufacturer	5,129,702	3.1
Johnson Controls	Automotive seating	10,762,464	3.2	Johnson Controls	Automotive seating	4,212,488	2.6
Mayfield Dairy Farms, Inc.	Dairy products	9,346,467	2.8	BellSouth	Telephone company	4,090,581	2.5
Athens Regional Medical Center	Healthcare	5,470,656	1.7	Thomas & Betts	Electrical component manufacturer	3,644,280	2.2
Thomas & Betts	Electrical component manufacturer	4,998,826	1.5	Mayfield Dairy Farms, Inc.	Dairy products	3,528,901	2.2
Walmart	Retail	4,642,600	1.4	Athens Products	Appliance component manufacturer	3,445,406	2.1
BellSouth	Telephone company	4,562,437	1.4	Athens Furniture	Furniture manufacturer	3,043,896	1.9
Plastic Industries, Inc.	Plastic component manufacturer	3,528,601	1.1	WCI	Appliance manufacturer	2,424,673	1.5
NP of Tennessee, LP	Real Estate Investment	3,025,440	0.9	Columbia Regional Medical Center	Healthcare	2,312,160	1.4

NOTE: Total assessed valuations for 2006 and 1997 are \$331,549,017 and \$159,793,514, respectively.

Source: Official records of the Department of Finance

CITY OF ATHENS, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
June 30, 2006
(Modified Accrual Basis of Accounting)

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
1997	\$ 2,840,542	\$ 2,676,762	94.23	\$ 163,695	\$ 2,840,457	99.99
1998	2,996,864	2,831,098	94.46	165,738	2,996,836	99.99
1999	3,235,618	3,072,547	94.96	162,962	3,235,509	99.99
2000	3,517,335	3,345,637	95.12	170,783	3,516,420	99.99
2001	3,967,737	3,507,205	88.39	459,590	3,966,795	99.99
2002	3,839,981	3,652,247	95.11	187,429	3,839,676	99.99
2003	3,878,286	3,549,421	91.52	325,679	3,875,100	99.92
2004	4,207,118	3,897,907	92.65	296,226	4,194,133	99.69
2005	4,138,579	3,838,801	92.76	130,943	3,969,744	95.92
2006	4,224,749	3,996,467	94.60	-	3,996,467	94.60

Source: Official records of Department of Finance

CITY OF ATHENS, TENNESSEE
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
June 30, 2006

Fiscal Year	General Obligation Bonds	Notes Payable	Compensated Absences	Total Primary Government	Percentage of Personal Income	Per Capita
1997	\$ 3,905,000	\$ 1,692,477	\$ 204,107	\$ 5,801,584	4.43%	\$ 456
1998	3,345,000	2,852,209	204,370	6,401,579	4.89	503
1999	2,870,000	2,954,900	202,171	6,027,071	4.60	473
2000	2,375,000	2,907,500	186,126	5,468,626	4.09	430
2001	1,835,000	2,857,700	191,565	4,884,265	2.21	369
2002	1,270,000	2,805,400	200,126	4,275,526	1.93	323
2003	655,000	2,750,500	204,936	3,610,436	1.62	270
2004	-	4,695,400	200,936	4,896,336	2.20	367
2005	-	7,114,000	213,931	7,327,931	3.29	550
2006	-	7,304,300	208,994	7,513,294	3.34	563

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Source: Official records of Department of Finance

Source: Percentage of personal income and per capita data from Table 14

CITY OF ATHENS, TENNESSEE
RATIO OF GENERAL DEBT OUTSTANDING
LAST TEN FISCAL YEARS
June 30, 2006

Fiscal Year	General Debt Outstanding			Less General Obligation Debt Service Fund	Net General Debt	Percentage of Actual Taxable Value of Property	Per Capita
	General Obligation Bonds	Notes Payable	Total				
1997	\$ 3,905,000	\$ 1,692,477	\$ 5,597,477	\$ 22,294	\$ 5,575,183	3.50%	\$ 440
1998	3,345,000	2,852,209	6,197,209	972,204	5,225,005	2.83	487
1999	2,870,000	2,954,900	5,824,900	1,055,228	4,769,672	2.41	458
2000	2,375,000	2,907,500	5,282,500	1,081,476	4,201,024	1.92	415
2001	1,835,000	2,857,700	4,692,700	1,102,921	3,589,779	1.77	355
2002	1,270,000	2,805,400	4,075,400	1,151,989	2,923,411	1.58	308
2003	655,000	2,750,500	3,405,500	1,180,621	2,224,879	1.07	255
2004	-	4,695,400	4,695,400	1,210,045	3,485,355	1.47	352
2005	-	7,114,000	7,114,000	1,574,454	5,539,546	2.22	534
2006	-	7,304,300	7,304,300	1,951,458	5,352,842	2.20	548

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Source: Official records of Department of Finance

Source: Percentage of personal income and per capita data from Table 14

CITY OF ATHENS, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2006

Governmental Unit	Debt Outstanding	Estimated Percentage Applicable	Estimated Share of Overlapping Debt
McMinn County (debt repaid with property taxes)	\$ 326,105	27.00%	\$ 88,048
City of Athens (direct debt)	7,513,294	100.00	<u>7,513,294</u>
Total direct and overlapping debt			<u><u>\$ 7,601,342</u></u>

Source: Official records of McMinn County and the Department of Finance

**CITY OF ATHENS, TENNESSEE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS
June 30, 2006**

The State of Tennessee imposes no legal debt margin on municipalities. The City of Athens has not established a legal debt margin; therefore, this schedule is inapplicable.

**CITY OF ATHENS, TENNESSEE
PLEGGED REVENUE COVERAGE
LAST TEN FISCAL YEARS
June 30, 2006**

All debt for the City of Athens is general obligation debt; therefore, this schedule is inapplicable.

**CITY OF ATHENS, TENNESSEE
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS
June 30, 2006**

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Civilian Labor Force</u>	<u>Unemployment Rate</u>
1997	12,729	\$ 130,930,494	\$ 10,286	34.8	1,777	9,521	7.50%
1998	12,729	130,930,494	10,286	34.8	1,777	9,460	6.20
1999	12,729	130,930,494	10,286	34.8	1,745	9,364	5.00
2000	12,729	133,756,332	10,508	34.8	1,733	10,063	4.40
2001	13,220	221,104,500	16,725	36.5	1,833	10,333	8.30
2002	13,220	221,104,500	16,725	36.5	1,709	9,818	8.00
2003	13,334	223,011,150	16,725	36.5	1,700	9,979	7.40
2004	13,334	223,011,150	16,725	36.5	1,661	9,997	5.90
2005	13,334	223,011,150	16,725	36.5	1,670	9,998	6.50
2006	13,334	225,037,918	16,877	36.5	1,638	10,238	6.30

Source: U.S. Census, U.S. Bureau of Economic Analysis, Tennessee Department of Labor, and Athens City Schools

**CITY OF ATHENS, TENNESSEE
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO
June 30, 2006**

2006			1997		
Employer	Taxable Employees	Percentage of Total City Employment	Employer	Taxable Employees	Percentage of Total City Employment
Denso Tennessee, Inc.	1,100	10.74	Davidson Textron, Inc.	910	9.56
Johnson Controls, Inc.	700	6.84	Athens Furniture	895	9.40
Collins & Aikman	585	5.71	Johnson Controls, Inc.	560	5.88
Mayfield Dairy Farms, Inc.	550	5.37	Mayfield Dairy Farms, Inc.	500	5.25
Thomas & Betts	412	4.02	Thomas & Betts	495	5.20
Heil Trailer	350	3.42	Plastic Industries, Inc.	375	3.94
Plastic Industries, Inc.	245	2.39	Heil Trailer	350	3.68
Dynasty Spas	240	2.34	Athens Products	350	3.68
Mills Products	190	1.86	Neville Industries	285	2.99
Texas Hydraulics	185	1.82	Damy Industries	210	2.20
	<u>4,557</u>	<u>44.51</u>		<u>4,930</u>	<u>51.78</u>

Source: McMinn County Economic Development Authority

CITY OF ATHENS, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST FOUR FISCAL YEARS
June 30, 2006

Function/Program	Full-Time Equivalent Employees as of June 30			
	2003	2004	2005	2006
City Manager	2	2	2	2
Finance	5	5	5	5
Human Resources	2	2	2	2
Purchasing	2	2	2	2
Emergency Preparedness	1	-	-	-
Communications	13	8	8	8
Community Development	4	4	4	4
Police	34	34	34	34
Fire	22	21	21	22
Parks and Recreation	10	10	10	10
Public Works	36	36	36	36
	<u>131</u>	<u>124</u>	<u>124</u>	<u>125</u>

Source: City Finance Department

CITY OF ATHENS, TENNESSEE
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST FOUR FISCAL YEARS
June 30, 2006

Function/Program	2003	2004	2005	2006
Governmental Activities:				
Community Development				
Number of building permits	561	627	585	517
Police				
Number of arrests	1,168	895	1,155	1,180
Number of traffic citations issued	3,416	6,061	6,852	5,815
Fire				
Total calls	403	431	430	379
Inspections	397	401	403	281
Business-type Activities:				
Conference Center				
Rentals	81	78	79	111

Source: Various City Departments

CITY OF ATHENS, TENNESSEE
INFRASTRUCTURE STATISTICS BY FUNCTION
LAST FOUR FISCAL YEARS
June 30, 2006

Function/Program	2003	2004	2005	2006
Police:				
Stations	1	1	1	1
Patrol units	13	13	14	14
Fire:				
Stations	2	2	2	2
Fire trucks	6	6	6	6
Parks and recreation:				
Parks	10	10	10	10
Park acreage	233	233	233	233
Tennis courts	13	13	13	13
Softball fields	5	5	5	5
Baseball fields	3	3	3	3
Conference center	1	1	1	1
Soccer fields	3	3	3	3
Public works:				
Streets (miles)	125	125	125	126
Square feet of sidewalks	693,077	693,077	693,077	693,077
New traffic signals	-	-	2	1

Source: Various City Departments

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
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, 2006, which collectively comprise the City of Athens, Tennessee's basic financial statements and have issued our report thereon dated September 9, 2006. 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 or other matters 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 22, 2006, 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 22, 2006, 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, 2006, 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, 2006, 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, the State of Tennessee, and federal and state awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Neal, Switzer & McConnell, P.C.

Chattanooga, Tennessee
September 9, 2006

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