

Comprehensive Annual Financial Report

City of Athens, Tennessee



For The Year Ended
June 30, 2007

CITY OF ATHENS, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2007**

**Prepared by:
Department of Finance**

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INTRODUCTORY SECTION

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CITY OF ATHENS

Brad Harris
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, 2007.

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, 2007, 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, 2007, 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.

The independent audit of the financial statements of the City of Athens was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the City of Athens' internal controls and compliance with legal requirements, with special emphasis on internal controls and compliance with legal

requirements involving the administration of federal awards. These reports are located in the Single Audit section at the end of this Comprehensive Annual Financial 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 the 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 1997, the rate was 7.5 percent, with the highest rate being 8.3 percent, the lowest rate being 4.4 percent, and the current rate of 4.9 percent. 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 government's 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 throughout 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 (53 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 \$18,000,000 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 \$675,000 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 Rocky Mount Road and Dennis Street, Congress Parkway at Rocky Mount Road, and Cook Drive at Madison Avenue. 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. Having funded a new position in the fire department and purchased a new combination pumper/ladder fire truck, the City continues to review capital and personnel needs for the fire department.

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, 2006. This was the fifteenth 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,

Brad Harris
Director of Finance

December 11, 2007

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, 2006

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.

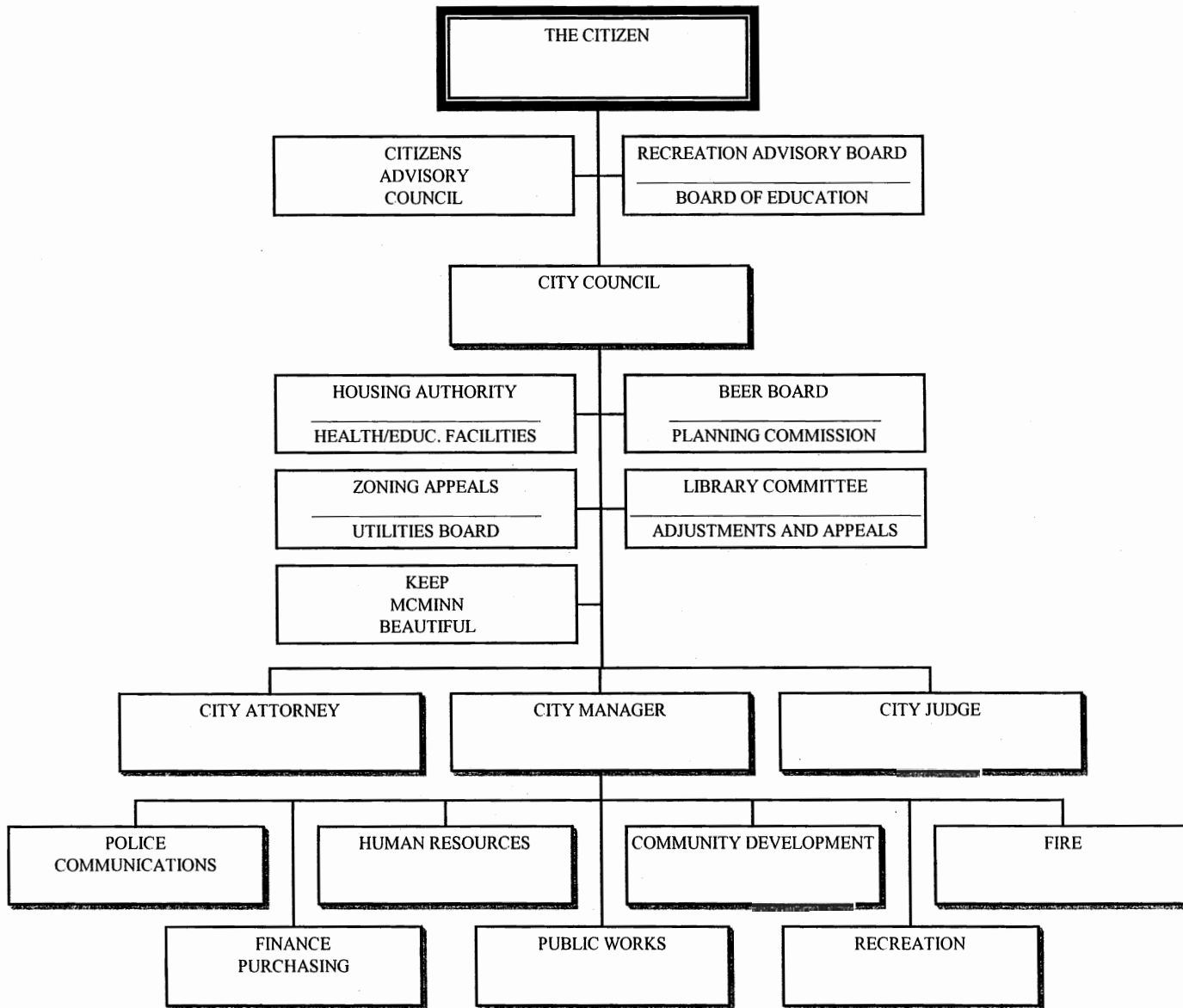


Oliver S. Cox

President

Jeffrey R. Emer

Executive Director



CITY OF ATHENS, TENNESSEE
LIST OF PRINCIPAL OFFICIALS
June 30, 2007

City of Athens

John Proffitt, Jr.
William Bo Perkinson
Shannon Alvey
Hal Buttram
Dick Pelley

Mayor
Vice-Mayor
Council Member
Council Member
Council Member

Mitchell B. Moore
H. Chris Trew
Donald B. Reid
Rita C. Brown
Austin Fesmire

City Manager
City Attorney
City Judge
Director of Human Resources
Director of Parks & Recreation

Brad Harris
Harold R. Hunter
Shawn Lindsay
Robert G. Miller
Charles T. Zeigler

Director of Finance
Director of Community Development
Director of Public Works
Fire Chief
Police Chief

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 Transportation
Supervisor of Special Education & Federal Projects
Supervisor of Food Services
Supervisor of Maintenance
Supervisor of Financial Services

Athens Utilities Board

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

Chairman
Vice-Chairman
Board Member
Board Member
Board Member

Eric Newberry
Doug Rodgers
Nicholas H. Fortson
Sherree Reed
Jill Davis
Wayne Scarbrough
Phyllis Lunceford

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

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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, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City 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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 11, 2007, 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-10 and the required supplemental information on page 50 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Athens, Tennessee's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements on pages 51-52, the budgetary comparison schedules on pages 53-54, 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 accompanying schedule of expenditures of federal and state awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of the City of Athens, Tennessee. The combining and individual nonmajor fund financial statements on pages 51-52, the budgetary comparison schedules on pages 53-54, the schedule of expenditures of federal and state awards, and the financial schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical data have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Neal, Scouter & McConnell, P.C.

Chattanooga, Tennessee
December 11, 2007

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

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, 2007. 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, 2007, by \$21,458,121 (net assets). Of this amount, \$7,105,234 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Net assets increased by \$2,428,047, an increase of 12.8% compared to fiscal year 2006. The City of Athens' changes in net assets is detailed in the chart on page B-6 of this report. Total revenues increased \$1,063,240, primarily due to grant revenues, intergovernmental revenues, and investment income. Expenses increased \$790,939 due to an increase in appropriations from fiscal year 2006 for the Athens City Schools, public safety, and capital outlays.
- As of the close of the current fiscal year, the City of Athens' governmental funds reported combined ending fund balances of \$12,471,143. Only 23.7% is reserved for specific purposes, and the remaining 76.3%, or \$9,511,191, 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 \$6,932,976, or 56.5% of total general fund expenditures. Expenditures do not include transfers to other funds, which totaled \$2,290,000 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 the final draw was 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.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

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

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

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

Both of the government-wide financial statements distinguish functions of the City of Athens that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Athens include general government, public safety, highways and streets, education, economic development, and culture and recreation. The business-type activities of the City of Athens include the Conference Center Fund and the Sanitation Fund.

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

The government-wide financial statements can be found on pages 3-4 of this report.

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

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

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

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 18-49 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 page 50 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 51-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Athens, assets exceeded liabilities by \$21,458,121 at the close of this fiscal year.

The largest portion of the City of Athens' net assets (55%) 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 32% 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 13% 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, 2007

At June 30, 2007, 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>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Current and other assets	\$20,413,985	\$19,187,059	\$ 883,126	\$ 758,637	\$21,297,111	\$19,945,696
Capital assets	<u>11,959,401</u>	<u>10,676,850</u>	<u>1,346,519</u>	<u>1,456,036</u>	<u>13,305,920</u>	<u>12,132,886</u>
Total assets	<u>32,373,386</u>	<u>29,863,909</u>	<u>2,229,645</u>	<u>2,214,673</u>	<u>34,603,031</u>	<u>32,078,582</u>
Long-term liabilities	7,879,225	7,513,294	-	-	7,879,225	7,513,294
Other liabilities	<u>5,245,941</u>	<u>5,509,712</u>	<u>19,744</u>	<u>25,502</u>	<u>5,265,685</u>	<u>5,535,214</u>
Total liabilities	<u>13,125,166</u>	<u>13,023,006</u>	<u>19,744</u>	<u>25,502</u>	<u>13,144,910</u>	<u>13,048,508</u>
Invested in capital assets, net of related debt	10,514,601	8,795,550	1,346,519	1,456,036	11,861,120	10,251,586
Restricted	2,491,767	2,345,447	-	-	2,491,767	2,345,447
Unrestricted	<u>6,241,852</u>	<u>5,699,906</u>	<u>863,382</u>	<u>733,135</u>	<u>7,105,234</u>	<u>6,433,041</u>
Total net assets	<u>\$19,248,220</u>	<u>\$16,840,903</u>	<u>\$ 2,209,901</u>	<u>\$ 2,189,171</u>	<u>\$21,458,121</u>	<u>\$19,030,074</u>

Governmental activities. Governmental activities increased the City of Athens' net assets by \$2,407,317 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 property and sales tax collections, increased investment income, and a decrease in the funding for highway and street expenditures.

Business-type activities. Business-type activities increased the City of Athens' net assets by \$20,730. This increase was the result of an increase in investment income and a reduction of expense in the conference center fund.

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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

City of Athens
Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 896,119	\$ 908,799	\$ 808,306	\$ 796,343	\$ 1,704,425	\$ 1,705,142
Operating grants and contributions	920,680	932,309	—	—	920,680	932,309
Capital grants and contributions	791,576	406,067	—	—	791,576	406,067
General revenues:						
Property taxes	4,379,275	4,216,453	—	—	4,379,275	4,216,453
Other taxes	6,124,469	5,922,972	—	—	6,124,469	5,922,972
Intergovernmental revenues not restricted to specific programs						
Other	1,340,060	1,200,623	—	—	1,340,060	1,200,623
	690,741	516,075	35,939	24,284	726,680	540,539
Total revenues	15,142,920	14,103,298	844,245	820,627	15,987,165	14,923,925
Expenses:						
General government	3,213,814	3,247,334	—	—	3,213,814	3,247,334
Public safety	3,668,107	3,407,171	—	—	3,668,107	3,407,171
Highways and streets	1,872,584	2,031,940	—	—	1,872,584	2,031,940
Culture and recreation	878,552	588,744	—	—	878,552	588,744
Education	2,680,133	2,359,781	—	—	2,680,133	2,359,781
Health and welfare	96,383	86,069	—	—	96,383	86,069
Interest on long-term debt	326,030	259,020	—	—	326,030	259,020
Conference center	—	—	73,475	74,533	73,475	74,533
Sanitation	—	—	750,040	713,587	750,040	713,587
Total expenses	12,735,603	11,980,059	823,515	788,120	13,559,118	12,768,179
Change in net assets	2,407,317	2,123,239	20,730	32,507	2,428,047	2,155,746
Net assets,						
beginning of year	16,840,903	14,717,664	2,189,171	2,156,664	19,030,074	16,874,328
Net assets, end of year	\$ 19,248,220	\$ 16,840,903	\$ 2,209,901	\$ 2,189,171	\$ 21,458,121	\$ 19,030,074

Financial Analysis of the City's Funds

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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

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 \$12,471,143, an increase of \$1,982,633 in comparison to the prior year. Approximately 76% of this total amount (\$9,511,191) 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, \$132,261 is reserved for encumbrances, \$15,638 is reserved for Cook Park, \$106,834 is reserved for inventory, \$213,452 is reserved for law enforcement, \$127,976 is reserved for cemetery perpetual care, and \$2,363,791 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 \$6,932,976. 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 57% of total fund expenditures, but represents 48% when compared to total fund expenditures and transfers to other funds (e.g. debt service fund and capital projects fund).

The fund balance of the City of Athens' general fund increased by \$237,696 during the current fiscal year. The key factors are that actual expenditures were less than budgeted throughout most departments and sales tax (both local and state), in lieu of taxes, fines revenues, and investment income exceeded the original budget.

The debt service fund has a total fund balance of \$2,363,791. The net increase was \$412,333 due to an increase in school system intergovernmental revenue and investment income. The City continued to transfer \$790,000 to the debt service fund in the current year and transferred an additional \$1,500,000 to capital projects fund.

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

Unrestricted net assets at the end of the year amounted to \$20,957 for the conference center fund, \$842,425 for the sanitation fund, and \$1,158,510 for the fleet management fund.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

General Fund Budgetary Highlights.

Differences between the original budget and the final amended budgeted expenditures were approximately \$1,949,000 and are summarized below:

\$666,700 in miscellaneous increases in general government activities, related primarily to grants, additional legal expenditures, and the purchase of equipment.

\$1,077,000 in increases allocated to the Athens City Schools due to school renovations and increases in school appropriations which are based on sales tax collections.

\$128,000 in miscellaneous Public Works Department maintenance and sidewalk projects, as well as fixed asset expenditures.

Actual revenues exceeded final amended budgeted revenues by \$562,488 and are summarized below:

\$221,923 in property taxes and other local taxes.

\$98,289 in fines and forfeitures.

\$181,299 in interest income.

Final amended budgeted expenditures exceeded actual expenditures by \$1,224,308 and are summarized below:

\$290,635 in general government expenditures, related primarily to pass-through grants, administrative services, and community development.

\$298,812 in public safety expenditures including police (\$131,003) and communications (\$126,464).

\$447,892 in highways and streets primarily due to street maintenance.

\$122,185 in parks and recreation primarily due to maintenance.

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, 2007, amounts to \$13,305,920 (net of accumulated

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

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:

Land purchases added approximately \$760,000 and two new fire trucks were purchased for approximately \$663,000.

City of Athens
Capital Assets

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Buildings and improvements	\$ 5,039,325	\$ 4,921,094	\$ 1,517,930	\$ 1,517,930	\$ 6,557,255	\$ 6,439,024
Infrastructure	6,414,216	6,202,761	-	-	6,414,216	6,202,761
Furniture and office equipment	800,749	625,996	29,864	29,864	830,613	655,860
Machinery and equipment	5,893,080	5,171,472	1,239,768	1,220,258	7,132,848	6,391,730
Land	2,405,075	1,645,612	34,500	34,500	2,439,575	1,680,112
Construction in progress	<u>129,002</u>	<u>174,327</u>	<u>-</u>	<u>-</u>	<u>129,002</u>	<u>174,327</u>
	<u>\$20,681,447</u>	<u>\$18,741,262</u>	<u>\$ 2,822,062</u>	<u>\$ 2,802,552</u>	<u>\$23,503,509</u>	<u>\$21,543,814</u>

Additional information on the City of Athens' capital assets can be found in Note 2 on pages 32-34 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 Series 1995 note was \$1,444,800 and the Series 2003 note was \$6,200,000. These are both backed by the full faith and credit of the City. Detailed information on long-term debt activity can be found in Note 3 on pages 35-39 of this report.

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 4.9%, which is a decrease from the rate of 6.3% a year ago. Athens' rate is higher than the state and federal rates.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2007

Revenues were expected to increase by 5.3% due to increases related to in lieu of tax payments, miscellaneous tax collections, and investment income. Management has been conservative in estimating all revenues for 2007-2008 and expenditures decreased by 6.5%. Budgeted expenditures were to decrease primarily due to interdepartmental transfers. The property tax rate remained the same for 2007-2008.

Funds have been fully drawn on the Series 2003 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.

**BASIC FINANCIAL
STATEMENTS**

CITY OF ATHENS, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			Component Units	
				Governmental	Proprietary
	Governmental Activities	Business-Type Activities	Total	Athens Board of Education	Athens Utilities Board
ASSETS					
Cash and cash equivalents	\$ 1,460,880	\$ 106,921	\$ 1,567,801	\$ 3,996,870	\$ 10,742,847
Investments	11,462,243	695,492	12,157,735	-	-
Receivables:					
Customers, net	-	20,932	20,932	-	3,504,231
Other	49,415	-	49,415	-	379,579
Property taxes, net	4,585,111	-	4,585,111	1,836,438	-
Interest	-	-	-	-	-
Other governments	1,677,965	-	1,677,965	771,403	-
Component units/primary government	661,205	59,781	720,986	451,158	124,549
Prepaid expenses	-	-	-	-	542,887
Inventories	106,834	-	106,834	20,110	2,316,659
Restricted assets	-	-	-	-	501,895
Capital assets, net of depreciation	9,425,324	1,312,019	10,737,343	6,378,902	78,300,483
Nondepreciable capital assets	2,534,077	34,500	2,568,577	425,551	6,323,296
Customer loans receivable	-	-	-	-	1,008,776
Debt issue costs, net	24,325	-	24,325	-	147,954
Prepaid pension obligation	386,007	-	386,007	-	158,292
Total assets	\$32,373,386	\$2,229,645	\$34,603,031	\$13,880,432	\$104,051,448
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 413,834	\$ 19,203	\$ 433,037	\$ 202,748	\$ 3,763,227
Retention payable	46,464	-	46,464	10,958	240,739
Accrued payroll and withholdings	39,936	541	40,477	826,242	-
Customer deposits	-	-	-	-	359,240
Due to component units/primary government	575,707	-	575,707	661,205	59,781
Other current liabilities	-	-	-	-	554,188
Unearned revenues	4,170,000	-	4,170,000	1,807,209	57,919
TVA advances	-	-	-	-	980,141
Long-term liabilities:					
Due within one year	714,591	-	714,591	-	696,917
Due in more than one year	7,164,634	-	7,164,634	-	25,702,962
Total liabilities	13,125,166	19,744	13,144,910	3,508,362	32,415,114
NET ASSETS					
Invested in capital assets, net of related debt	10,514,601	1,346,519	11,861,120	6,143,248	58,382,752
Restricted for:					
Debt service	2,363,791	-	2,363,791	-	279,171
Cemetery perpetual care:					
Expendable	80,693	-	80,693	-	-
Nonexpendable	47,283	-	47,283	-	-
Unrestricted	6,241,852	863,382	7,105,234	4,228,822	12,974,411
Total net assets	19,248,220	2,209,901	21,458,121	10,372,070	71,636,334
Total liabilities and net assets	\$32,373,386	\$2,229,645	\$34,603,031	\$13,880,432	\$104,051,448

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, 2007

Functions/Programs	Expenses	Net Revenues (Expenses) and Changes in Net Assets							
		Program Revenues			Primary Government			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	Athens Board of Education	Athens Utilities Board
Primary government:									
Governmental activities:									
General government	\$ 3,213,814	\$ 124,870	\$ 415,507	\$ -	\$ (2,673,437)	\$ -	\$ (2,673,437)	\$ -	\$ -
Public safety	3,668,107	607,386	66,111	-	(2,994,610)	-	(2,994,610)	-	-
Highways and streets	1,872,584	-	394,547	773,012	(705,025)	-	(705,025)	-	-
Culture and recreation	878,552	123,270	-	18,564	(736,718)	-	(736,718)	-	-
Education	2,680,133	-	15,055	-	(2,665,078)	-	(2,665,078)	-	-
Health and welfare	96,383	40,593	29,460	-	(26,330)	-	(26,330)	-	-
Interest on long-term debt	326,030	-	-	-	(326,030)	-	(326,030)	-	-
Total governmental activities	12,735,603	896,119	920,680	791,576	(10,127,228)	-	(10,127,228)	-	-
Business-type activities:									
Conference center	73,475	18,250	-	-	-	(55,225)	(55,225)	-	-
Sanitation	750,040	790,056	-	-	-	40,016	40,016	-	-
Total business-type activities	823,515	808,306	-	-	-	(15,209)	(15,209)	-	-
Total primary government	\$ 13,559,118	\$ 1,704,425	\$ 920,680	\$ 791,576	(10,127,228)	(15,209)	(10,142,437)	\$ -	\$ -
Component units:									
School system	\$ 14,590,941	\$ 648,818	\$ 2,707,946	\$ -				\$(11,234,177)	\$ -
Public utilities	58,134,646	61,235,195	-	649,003				-	3,749,552
Total component units	\$ 72,725,587	\$ 61,884,013	\$ 2,707,946	\$ 649,003				(11,234,177)	3,749,552
General revenues:									
Property taxes					4,379,275	-	4,379,275	1,762,287	-
Local sales tax					3,954,964	-	3,954,964	-	-
In lieu of taxes					859,276	-	859,276	-	-
Gross receipts tax					658,613	-	658,613	-	-
Wholesale beer tax					470,952	-	470,952	-	-
Other local taxes					180,664	-	180,664	-	-
Intergovernmental revenues not restricted to specific programs					1,340,060	-	1,340,060	7,383,612	-
Payments from the primary government					-	-	-	2,680,133	-
Investment income					622,830	28,199	651,029	224,024	244,347
Gain on disposal of capital assets					-	-	-	-	11,583
Miscellaneous					67,911	7,740	75,651	43,003	-
Total general revenues					12,534,545	35,939	12,570,484	12,093,059	255,930
Change in net assets					2,407,317	20,730	2,428,047	858,882	4,005,482
Net assets, beginning of year					16,840,903	2,189,171	19,030,074	9,513,188	67,630,852
Net assets, end of year					\$ 19,248,220	\$ 2,209,901	\$ 21,458,121	\$ 10,372,070	\$71,636,334

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

**CITY OF ATHENS, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007**

	General	Debt Service	Capital Projects Fund Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 1,026,816	\$ 341,948	\$ 10,208	\$ 81,908	\$ 1,460,880
Investments	5,623,462	2,021,843	2,434,761	223,667	10,303,733
Property taxes receivable, less allowance of \$57,818	4,585,111	-	-	-	4,585,111
Interfund receivable	240,000	-	-	-	240,000
Due from other governments	1,310,240	-	119,175	248,550	1,677,965
Other receivables	49,415	-	-	-	49,415
Inventories	106,834	-	-	-	106,834
Total assets	<u>\$12,941,878</u>	<u>\$2,363,791</u>	<u>\$2,564,144</u>	<u>\$ 554,125</u>	<u>\$18,423,938</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 288,220	\$ -	\$ 125,614	\$ -	\$ 413,834
Retention payable	-	-	46,464	-	46,464
Interfund payable	-	-	-	240,000	240,000
Accrued payroll and withholdings	39,936	-	-	-	39,936
Due to component units	575,707	-	-	-	575,707
Deferred revenues	4,636,854	-	-	-	4,636,854
Total liabilities	<u>5,540,717</u>	<u>-</u>	<u>172,078</u>	<u>240,000</u>	<u>5,952,795</u>
FUND BALANCES					
Reserved for debt service	-	2,363,791	-	-	2,363,791
Reserved	468,185	-	-	127,976	596,161
Unreserved, undesignated	6,932,976	-	2,392,066	-	9,325,042
Unreserved, undesignated reported in nonmajor:					
Special revenue fund	-	-	-	165,776	165,776
Capital projects fund	-	-	-	20,373	20,373
Total fund balances	<u>7,401,161</u>	<u>2,363,791</u>	<u>2,392,066</u>	<u>314,125</u>	<u>12,471,143</u>
Total liabilities and fund balances	<u>\$12,941,878</u>	<u>\$2,363,791</u>	<u>\$2,564,144</u>	<u>\$ 554,125</u>	<u>\$18,423,938</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, 2007

Total fund balances		\$ 12,471,143
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	\$ 16,598,881	
Accumulated depreciation	<u>(6,725,680)</u>	9,873,201
Certain property taxes and intergovernmental revenue are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	390,154	
Intergovernmental revenue	<u>76,700</u>	466,854
Prepaid pension obligations are not current financial resources and are not reported in the funds.		
		386,007
Certain long-term receivables from the component unit are not considered a current financial resource in the funds.		
		661,205
Certain liabilities are not considered a use of current financial resources in the funds.		
Bonds and notes payable	(7,644,800)	
Compensated absences	<u>(234,425)</u>	(7,879,225)
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>(7,175)</u>	24,325
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.		
Investments	1,158,510	
Capital assets	4,082,566	
Accumulated depreciation	<u>(1,996,366)</u>	3,244,710
Net assets		<u>\$ 19,248,220</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, 2007

	General	Debt Service	Capital Projects Fund Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$4,356,454	\$ -	\$ -	\$ -	\$ 4,356,454
Other local taxes	6,124,469	-	-	-	6,124,469
Intergovernmental	2,226,166	369,046	766,675	18,564	3,380,451
Charges for services	288,732	-	-	-	288,732
Fines and forfeitures	548,289	-	-	59,096	607,385
Investment and interest income	301,299	124,636	84,864	15,226	526,025
Miscellaneous	65,979	-	856	1,345	68,180
Total revenues	<u>13,911,388</u>	<u>493,682</u>	<u>852,395</u>	<u>94,231</u>	<u>15,351,696</u>
EXPENDITURES					
Current:					
General government	3,050,965	8,819	-	-	3,059,784
Public safety	3,845,188	-	-	4,824	3,850,012
Highways and streets	1,775,508	-	-	-	1,775,508
Culture and recreation	809,515	-	-	-	809,515
Education	2,680,133	-	-	-	2,680,133
Health and welfare	99,383	-	-	-	99,383
Debt service:					
Principal	-	536,500	-	-	536,500
Interest	-	326,030	-	-	326,030
Capital outlay	-	-	1,072,070	37,128	1,109,198
Total expenditures	<u>12,260,692</u>	<u>871,349</u>	<u>1,072,070</u>	<u>41,952</u>	<u>14,246,063</u>
REVENUES OVER (UNDER) EXPENDITURES	1,650,696	(377,667)	(219,675)	52,279	1,105,633
OTHER FINANCING SOURCES (USES)					
Issuance of debt	877,000	-	-	-	877,000
Transfers	(2,290,000)	790,000	1,500,000	-	-
Total other financing sources (uses)	<u>(1,413,000)</u>	<u>790,000</u>	<u>1,500,000</u>	<u>-</u>	<u>877,000</u>
NET CHANGE IN FUND BALANCES	237,696	412,333	1,280,325	52,279	1,982,633
FUND BALANCES, beginning of year	<u>7,163,465</u>	<u>1,951,458</u>	<u>1,111,741</u>	<u>261,846</u>	<u>10,488,510</u>
FUND BALANCES, end of year	<u>\$7,401,161</u>	<u>\$2,363,791</u>	<u>\$2,392,066</u>	<u>\$ 314,125</u>	<u>\$12,471,143</u>

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

CITY OF ATHENS, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2007

Net change in fund balances		\$ 1,982,633
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	\$ 4,379,275	
Fund revenue recognized	<u>(4,356,454)</u>	22,821
Intergovernmental revenues that do not provide current financial resources are not reported as revenue in the funds.		
State beer tax-full accrual	7,158	
State income tax-full accrual	179,883	
Collected fund revenue	<u>(162,041)</u>	25,000
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.		
		(353,991)
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	1,226,988	
Less current year depreciation	<u>(462,686)</u>	764,302
The change in value of the net pension obligation is recorded as an expense in the statement of activities.		
		108,227
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.		
		226,356
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	(877,000)	
Bonds and notes payable payments	536,500	
Net change in compensated absences	<u>(25,431)</u>	(365,931)
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>\$ 2,407,317</u>

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

**CITY OF ATHENS, TENNESSEE
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2007**

	<u>Business-Type Activities-Enterprise Funds</u>			<u>Governmental Activities</u>
	<u>Conference Center</u>	<u>Sanitation</u>	<u>Total</u>	<u>Internal Service Fund</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 4,580	\$ 102,341	\$ 106,921	\$ -
Investments	16,515	678,977	695,492	1,158,510
Accounts receivable	-	20,932	20,932	-
Due from component units	-	59,781	59,781	-
Total current assets	<u>21,095</u>	<u>862,031</u>	<u>883,126</u>	<u>1,158,510</u>
Capital assets:				
Land	34,500	-	34,500	-
Other capital assets, net	<u>1,215,117</u>	<u>96,902</u>	<u>1,312,019</u>	<u>2,086,200</u>
Total capital assets	<u>1,249,617</u>	<u>96,902</u>	<u>1,346,519</u>	<u>2,086,200</u>
Total assets	<u><u>\$ 1,270,712</u></u>	<u><u>\$ 958,933</u></u>	<u><u>\$ 2,229,645</u></u>	<u><u>\$ 3,244,710</u></u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 78	\$ 19,125	\$ 19,203	\$ -
Accrued payroll and withholdings	<u>60</u>	<u>481</u>	<u>541</u>	<u>-</u>
Total current liabilities	<u>138</u>	<u>19,606</u>	<u>19,744</u>	<u>-</u>
NET ASSETS				
Invested in capital assets	1,249,617	96,902	1,346,519	2,086,200
Unrestricted	<u>20,957</u>	<u>842,425</u>	<u>863,382</u>	<u>1,158,510</u>
Total net assets	<u>1,270,574</u>	<u>939,327</u>	<u>2,209,901</u>	<u>3,244,710</u>
Total liabilities and net assets	<u><u>\$ 1,270,712</u></u>	<u><u>\$ 958,933</u></u>	<u><u>\$ 2,229,645</u></u>	<u><u>\$ 3,244,710</u></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, 2007

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference Center	Sanitation	Total	Internal Service Fund
	Center	Sanitation	Total	Fund
OPERATING REVENUES				
Charges for services	\$ -	\$ 790,056	\$ 790,056	\$ 371,800
Rental income	18,250	-	18,250	-
Miscellaneous	-	7,740	7,740	587
Total operating revenues	<u>18,250</u>	<u>797,796</u>	<u>816,046</u>	<u>372,387</u>
OPERATING EXPENSES				
Salaries and employee benefits	9,768	387,589	397,357	-
Operation	10,070	111,141	121,211	-
Maintenance	1,802	7,997	9,799	-
Depreciation	51,835	77,192	129,027	242,837
Landfill services	-	166,121	166,121	-
Total operating expenses	<u>73,475</u>	<u>750,040</u>	<u>823,515</u>	<u>242,837</u>
OPERATING INCOME (LOSS)	<u>(55,225)</u>	<u>47,756</u>	<u>(7,469)</u>	<u>129,550</u>
NONOPERATING REVENUES				
Interest income	1,195	27,004	28,199	96,806
Gain on sale of capital assets	-	-	-	-
Total nonoperating revenues	<u>1,195</u>	<u>27,004</u>	<u>28,199</u>	<u>96,806</u>
CHANGE IN NET ASSETS	<u>(54,030)</u>	<u>74,760</u>	<u>20,730</u>	<u>226,356</u>
NET ASSETS, beginning of year	<u>1,324,604</u>	<u>864,567</u>	<u>2,189,171</u>	<u>3,018,354</u>
NET ASSETS, end of year	<u>\$ 1,270,574</u>	<u>\$ 939,327</u>	<u>\$ 2,209,901</u>	<u>\$ 3,244,710</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, 2007

	Business-Type Activities-Enterprise Funds			Governmental
				Activities
	Conference Center	Sanitation	Total	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 18,250	\$ 791,013	\$ 809,263	\$ 371,800
Payments to employees	(9,070)	(288,707)	(297,777)	-
Payments to suppliers and vendors	(12,803)	(389,667)	(402,470)	-
Other receipts	-	3,722	3,722	587
Net cash provided by (used in) operating activities	<u>(3,623)</u>	<u>116,361</u>	<u>112,738</u>	<u>372,387</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of capital assets	-	-	-	-
Purchase of capital assets	-	(19,510)	(19,510)	(761,086)
Net cash used in capital and related financing activities	<u>-</u>	<u>(19,510)</u>	<u>(19,510)</u>	<u>(761,086)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment and interest earnings	1,195	27,004	28,199	96,806
Purchase of investments	-	(134,016)	(134,016)	-
Sale of investments	2,522	-	2,522	279,058
Net cash provided by (used in) investing activities	<u>3,717</u>	<u>(107,012)</u>	<u>(103,295)</u>	<u>375,864</u>
Net increase (decrease) in cash and cash equivalents	94	(10,161)	(10,067)	(12,835)
Cash and cash equivalents, beginning of year	4,486	112,502	116,988	12,835
Cash and cash equivalents, end of year	<u>\$ 4,580</u>	<u>\$ 102,341</u>	<u>\$ 106,921</u>	<u>-</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (55,225)	\$ 47,756	\$ (7,469)	\$ 129,550
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	51,835	77,191	129,026	242,837
Changes in assets and liabilities:				
Accounts receivable	-	(3,061)	(3,061)	-
Accounts payable and accrued liabilities	(233)	(5,525)	(5,758)	-
Net cash provided by (used in) operating activities	<u>\$ (3,623)</u>	<u>\$ 116,361</u>	<u>\$ 112,738</u>	<u>\$ 372,387</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, 2007

ASSETS

Interest receivable	\$ 44,199
Investments, at fair value:	
U.S. government and agency securities	2,441,716
Corporate bonds	554,813
Common stock	2,575,440
Mutual funds	1,018,121
Money market fund	7,091
Total investments	<u>6,597,181</u>
Total assets	<u>\$ 6,641,380</u>

NET ASSETS

Net assets held in trust for pension benefits	<u>\$ 6,641,380</u>
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The Notes to Financial Statements are an integral part of this statement.

CITY OF ATHENS, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ATHENS PENSION TRUST FUND
FIDUCIARY FUND
Year Ended June 30, 2007

ADDITIONS	
Employer contributions	\$ 510,000
Net investment income:	
Interest and dividend income	216,316
Net appreciation in the fair value of investments	<u>518,067</u>
Total additions	<u>1,244,383</u>
DEDUCTIONS	
Benefits paid	329,881
Administrative expenses	<u>19,250</u>
Total deductions	<u>349,131</u>
CHANGE IN NET ASSETS HELD IN TRUST FOR	
PENSION BENEFITS	895,252
NET ASSETS, held in trust for pension benefits, beginning of year	<u>5,746,128</u>
NET ASSETS, held in trust for pension benefits, end of year	<u><u>\$ 6,641,380</u></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 BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
PROPERTY TAXES				
Property taxes-current	\$ 4,050,000	\$ 4,050,000	\$ 4,096,344	\$ 46,344
Property taxes-prior	140,000	140,000	127,675	(12,325)
Property taxes-delinquent	40,000	40,000	43,738	3,738
Public utilities taxes	90,000	90,000	88,697	(1,303)
Total property taxes	<u>4,320,000</u>	<u>4,320,000</u>	<u>4,356,454</u>	<u>36,454</u>
OTHER LOCAL TAXES				
Penalty and interest on property tax-prior	15,000	15,000	20,330	5,330
Penalty and interest on property tax-current	15,000	15,000	14,121	(879)
In lieu of taxes	780,000	780,000	859,276	79,276
Local sales tax	3,700,000	3,950,000	3,954,964	4,964
Wholesale beer tax	440,000	440,000	470,952	30,952
Minimum business tax	14,000	14,000	13,730	(270)
Cable TV franchise tax	120,000	120,000	131,983	11,983
Gross receipts tax	605,000	605,000	658,613	53,613
Transient fees	-	-	500	500
Total other local taxes	<u>5,689,000</u>	<u>5,939,000</u>	<u>6,124,469</u>	<u>185,469</u>
INTERGOVERNMENTAL				
State sales tax	860,000	930,000	965,636	35,636
State beer tax	6,000	6,000	7,158	1,158
State income tax	70,000	100,000	154,882	54,882
State gas and motor fuel tax	380,000	380,000	374,738	(5,262)
State gasoline inspection tax	30,000	30,000	29,425	(575)
State mixed drink tax	40,000	40,000	57,898	17,898
State excise tax	60,000	87,900	100,061	12,161
State law/fire grants	17,000	17,000	15,000	(2,000)
Reimbursement-other government agencies	25,000	70,000	68,346	(1,654)
Highway maintenance reimbursement	10,000	10,000	10,056	56
Police grants	-	-	9,593	9,593
Other grant funds	-	560,000	433,373	(126,627)
Total intergovernmental	<u>1,498,000</u>	<u>2,230,900</u>	<u>2,226,166</u>	<u>(4,734)</u>

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

(continued)

CITY OF ATHENS, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budget		Actual	Variance
	Original	Final		With Final Budget
CHARGES FOR SERVICES				
Utility damage reimbursement	\$ 10,000	\$ 10,000	\$ 18,071	\$ 8,071
Animal control	30,000	30,000	40,593	10,593
Grave opening	20,000	20,000	28,050	8,050
Recreation fees	70,000	70,000	79,780	9,780
Building permits	60,000	60,000	73,369	13,369
Clerks fees	5,000	5,000	5,379	379
Recreation concessions	35,000	45,000	43,490	(1,510)
Total charges for services	<u>230,000</u>	<u>240,000</u>	<u>288,732</u>	<u>48,732</u>
FINES AND FORFEITURES				
Court fines	400,000	400,000	448,650	48,650
Law enforcement forfeitures	20,000	50,000	99,639	49,639
Total fines and forfeitures	<u>420,000</u>	<u>450,000</u>	<u>548,289</u>	<u>98,289</u>
INTEREST	<u>120,000</u>	<u>120,000</u>	<u>301,299</u>	<u>181,299</u>
MISCELLANEOUS	<u>49,000</u>	<u>49,000</u>	<u>65,979</u>	<u>16,979</u>
Total revenues	<u>12,326,000</u>	<u>13,348,900</u>	<u>13,911,388</u>	<u>562,488</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
City Manager's Office	295,700	345,700	325,883	19,817
City Council	51,800	51,800	42,849	8,951
City Judge	13,000	13,200	13,129	71
City Attorney	18,000	23,000	22,283	717
Special appropriations	319,700	319,700	318,700	1,000
Athens Utilities Board	500,000	500,000	486,410	13,590
Pass-through grant	-	560,000	415,507	144,493
Finance	669,300	669,300	650,684	18,616
Personnel	167,000	167,000	146,298	20,702
Administrative services:				
Administration	93,600	93,600	91,244	2,356
City Hall	202,600	242,600	220,156	22,444
Community development:				
Administration	141,600	141,600	139,881	1,719
Codes enforcement	144,700	144,700	119,897	24,803
Cemeteries	57,900	69,400	58,044	11,356
Total general government	<u>2,674,900</u>	<u>3,341,600</u>	<u>3,050,965</u>	<u>290,635</u>

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

(continued)

CITY OF ATHENS, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budget		Actual	Variance
	Original	Final		With Final Budget
PUBLIC SAFETY				
Police:				
Administration	\$ 249,700	\$ 262,100	\$ 243,474	\$ 18,626
Patrol	1,718,200	1,752,700	1,645,700	107,000
Detective	201,400	201,400	195,993	5,407
Fire:				
Administration	112,100	112,100	106,856	5,244
Prevention	87,200	87,200	83,937	3,263
Suppression	1,247,300	1,247,300	1,214,492	32,808
Administrative services:				
Communications	481,200	481,200	354,736	126,464
Total public safety	<u>4,097,100</u>	<u>4,144,000</u>	<u>3,845,188</u>	<u>298,812</u>
HIGHWAYS AND STREETS				
Public Works:				
Administration	234,100	279,100	194,508	84,592
Traffic control	177,100	222,100	192,258	29,842
Street maintenance	496,700	496,700	288,024	208,676
Street construction	377,400	400,600	307,466	93,134
Street cleaning	525,900	539,200	516,529	22,671
City garage	284,200	285,700	276,723	8,977
Total highways and streets	<u>2,095,400</u>	<u>2,223,400</u>	<u>1,775,508</u>	<u>447,892</u>
CULTURE AND RECREATION				
Parks and Recreation:				
Administration	163,500	169,500	159,916	9,584
Maintenance	446,000	446,000	383,197	62,803
Swimming pools	67,000	76,000	41,581	34,419
Program planning	228,300	240,200	224,821	15,379
Total culture and recreation	<u>904,800</u>	<u>931,700</u>	<u>809,515</u>	<u>122,185</u>
EDUCATION				
Athens City Schools	<u>1,665,000</u>	<u>2,742,000</u>	<u>2,680,133</u>	<u>61,867</u>
HEALTH AND WELFARE				
Public Works:				
Animal control	<u>98,800</u>	<u>102,300</u>	<u>99,383</u>	<u>2,917</u>
Total expenditures	<u>11,536,000</u>	<u>13,485,000</u>	<u>12,260,692</u>	<u>1,224,308</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>790,000</u>	<u>(136,100)</u>	<u>1,650,696</u>	<u>1,786,796</u>

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

(continued)

CITY OF ATHENS, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
Year Ended June 30, 2007
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 790,000</u>	<u>\$ (136,100)</u>	<u>\$ 1,650,696</u>	<u>\$ 1,786,796</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	877,000	877,000	-
Transfer to debt service fund	(790,000)	(790,000)	(790,000)	-
Transfer to capital improvement fund	-	(1,500,000)	(1,500,000)	-
Total other financing sources (uses)	<u>(790,000)</u>	<u>(1,413,000)</u>	<u>(1,413,000)</u>	<u>-</u>
Net change in fund balance	-	(1,549,100)	237,696	1,786,796
FUND BALANCE, beginning of year	<u>7,163,465</u>	<u>7,163,465</u>	<u>7,163,465</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ 7,163,465</u></u>	<u><u>\$ 5,614,365</u></u>	<u><u>\$ 7,401,161</u></u>	<u><u>\$ 1,786,796</u></u>

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

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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, 2007

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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

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

Fund Financial Statements: (continued)

Fiduciary Funds: (continued)

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

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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

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.

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. Summary of Significant Accounting Policies (continued)

H. Capital Assets (continued)

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

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 2.6 to 3.3 percent in 2007. 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, 2007

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, 2007

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, 2007

Note 1. Summary of Significant Accounting Policies (continued)

M. Property Taxes (continued)

The assessed value for the list of January 1, 2006, was \$331,549,017 based upon a reappraisal completed for the list of January 1, 2006. The estimated actual was \$1,088,679,712 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 \$4,181,838 for the fiscal year ended June 30, 2007, were 95.6 percent of the 2006 tax levy. An allowance has been established for delinquent taxes to the extent that their collectibility is improbable. The allowance at June 30, 2007, for the 2006 tax levy was \$37,818.

The 2007 taxes were levied at a rate of \$1.29 per \$100 of assessed value and have been recorded as a receivable at June 30, 2007. An allowance for doubtful collection of \$20,000 has been estimated and established for this levy at June 30, 2007. There are no current tax collections related to the 2007 levy.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 2. Capital Assets

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

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,921,094	\$ 118,231	\$ -	\$ 5,039,325
Infrastructure	6,202,761	211,455	-	6,414,216
Furniture and office equipment	625,996	183,164	8,411	800,749
Machinery and equipment	<u>5,171,472</u>	<u>761,086</u>	<u>39,478</u>	<u>5,893,080</u>
Total capital assets depreciated	<u>16,921,323</u>	<u>1,273,936</u>	<u>47,889</u>	<u>18,147,370</u>
Accumulated depreciation:				
Buildings and improvements	2,689,572	165,979	-	2,855,551
Infrastructure	1,668,431	155,069	-	1,823,500
Furniture and office equipment	456,933	74,874	2,936	528,871
Machinery and equipment	<u>3,249,476</u>	<u>309,601</u>	<u>44,953</u>	<u>3,514,124</u>
Total accumulated depreciation	<u>8,064,412</u>	<u>705,523</u>	<u>47,889</u>	<u>8,722,046</u>
Net capital assets being depreciated	<u>8,856,911</u>	<u>568,413</u>	<u>-</u>	<u>9,425,324</u>
Capital assets not being depreciated:				
Land	1,645,612	759,463	-	2,405,075
Construction in progress	<u>174,327</u>	<u>166,130</u>	<u>211,455</u>	<u>129,002</u>
Total capital assets not depreciated	<u>1,819,939</u>	<u>925,593</u>	<u>211,455</u>	<u>2,534,077</u>
Net capital assets	<u>\$10,676,850</u>	<u>\$ 1,494,006</u>	<u>\$ 211,455</u>	<u>\$11,959,401</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>1,220,258</u>	<u>19,510</u>	<u>-</u>	<u>1,239,768</u>
Total capital assets depreciated	<u>2,768,052</u>	<u>19,510</u>	<u>-</u>	<u>2,787,562</u>
Accumulated depreciation:				
Buildings and improvements	252,233	50,580	-	302,813
Furniture and office equipment	28,609	1,255	-	29,864
Machinery and equipment	<u>1,065,674</u>	<u>77,192</u>	<u>-</u>	<u>1,142,866</u>
Total accumulated depreciation	<u>1,346,516</u>	<u>129,027</u>	<u>-</u>	<u>1,475,543</u>
Net capital assets being depreciated	<u>1,421,536</u>	<u>(109,517)</u>	<u>-</u>	<u>1,312,019</u>
Capital assets not being depreciated:				
Land	<u>34,500</u>	<u>-</u>	<u>-</u>	<u>34,500</u>
Net capital assets	<u>\$ 1,456,036</u>	<u>\$ (109,517)</u>	<u>\$ -</u>	<u>\$ 1,346,519</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 2. Capital Assets (continued)

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 141,062
Public safety	186,184
Highways and streets	281,539
Culture and recreation	96,738
	\$ 705,523
Business-Type Activities	
Conference Center	\$ 51,835
Sanitation	77,192
	\$ 129,027

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

Utilities Board:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital assets being depreciated:				
Plant in service	\$ 88,994,783	\$21,044,503	\$ 2,444,253	\$ 107,595,033
Equipment and furniture	2,782,536	589,295	179,061	3,192,770
Transportation equipment	2,411,717	257,597	78,679	2,590,635
Total depreciable capital assets	94,189,036	21,891,395	2,701,993	113,378,438
Accumulated depreciation:				
Plant in service	33,556,795	2,899,656	5,339,371	31,117,080
Equipment and furniture	2,177,557	179,099	179,061	2,177,595
Transportation equipment	1,658,069	201,498	76,287	1,783,280
Total accumulated depreciation	37,392,421	3,280,253	5,594,719	35,077,955
Net depreciable capital assets	56,796,615	18,611,142	(2,892,726)	78,300,483
Capital assets not being depreciated:				
Land	610,842	12,550	-	623,392
Construction in progress	24,829,221	6,404,558	25,533,875	5,699,904
Nondepreciable capital assets	25,440,063	6,417,108	25,533,875	6,323,296
Net capital assets	\$ 82,236,678	\$25,028,250	\$22,641,149	\$ 84,623,779

Depreciation was charged as follows:

	Charged to Depreciation and Amortization	Charged to Other Accounts	Total Depreciation and Amortization
Power Division	\$ 1,129,865	\$ 83,432	\$ 1,213,297
Water Division	545,897	33,902	579,799
Gas Division	384,055	29,229	413,284
Department of Sewer	1,123,488	54,934	1,178,422
	\$ 3,183,305	\$ 201,497	\$ 3,384,802

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 2. Capital Assets (continued)

Board of Education:

	<u>Balance</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2007</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 12,747,434	\$ 257,837	\$ -	\$ 13,005,271
Infrastructure	19,350	-	-	19,350
Furniture, equipment, and vehicles	<u>2,302,651</u>	<u>60,188</u>	<u>125,153</u>	<u>2,237,686</u>
Total depreciable capital assets	<u>15,069,435</u>	<u>318,025</u>	<u>125,153</u>	<u>15,262,307</u>
Accumulated depreciation:				
Buildings and improvements	7,180,014	300,543	-	7,480,557
Infrastructure	8,281	968	-	9,249
Furniture, equipment, and vehicles	<u>1,286,219</u>	<u>228,627</u>	<u>121,247</u>	<u>1,393,599</u>
Total accumulated depreciation	<u>8,474,514</u>	<u>530,138</u>	<u>121,247</u>	<u>8,883,405</u>
Net depreciable capital assets	<u>6,594,921</u>	<u>(212,113)</u>	<u>3,906</u>	<u>6,378,902</u>
Capital assets not being depreciated:				
Land	211,146	-	-	211,146
Construction in progress	<u>61,851</u>	<u>198,848</u>	<u>46,294</u>	<u>214,405</u>
Nondepreciable capital assets	<u>272,997</u>	<u>198,848</u>	<u>46,294</u>	<u>425,551</u>
Net capital assets	<u>\$ 6,867,918</u>	<u>\$ (13,265)</u>	<u>\$ 50,200</u>	<u>\$ 6,804,453</u>

Depreciation expense was charged to functions as follows:

Regular instruction	\$ 81,451
Administration	23,255
Operation and maintenance	2,951
Transportation	72,545
Food services	47,630
Unallocated depreciation	<u>302,306</u>
	<u>\$530,138</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, 2007

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>6/30/06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/07</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	\$ 1,881,300	\$ -	\$ 436,500	\$ 1,444,800	\$ 458,300
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	5,423,000	877,000	100,000	6,200,000	100,000
Compensated absences	<u>208,994</u>	<u>242,394</u>	<u>216,963</u>	<u>234,425</u>	<u>156,291</u>
Total long-term debt	<u>\$ 7,513,294</u>	<u>\$ 1,119,394</u>	<u>\$ 753,463</u>	<u>\$ 7,879,225</u>	<u>\$ 714,591</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 3.99 percent and 3.87 percent, respectively, for the Series 1995 and Series 2003 notes payable at June 30, 2007.

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

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 558,300	\$ 297,588	\$ 855,888
2009	581,200	275,431	856,631
2010	605,300	252,361	857,661
2011	662,000	228,330	890,330
2012	683,000	202,711	885,711
2013-2017	3,738,000	600,778	4,338,778
2018	<u>817,000</u>	<u>31,618</u>	<u>848,618</u>
Total	<u>\$ 7,644,800</u>	<u>\$ 1,888,817</u>	<u>\$ 9,533,617</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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, 2007, the entire \$6,300,000 issuance had been drawn on the debt issue of which \$6,268,500 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:

	<u>Balance</u> <u>6/30/06</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/07</u>	<u>Due</u> <u>within</u> <u>one year</u>
Revenue and tax bonds	\$ 2,335,000	\$ -	\$ 115,000	\$ 2,220,000	\$ 120,000
Notes payable	21,882,875	2,861,520	564,516	24,179,879	576,917
TVA advances	<u>643,532</u>	<u>604,256</u>	<u>267,647</u>	<u>980,141</u>	<u>243,809</u>
Total	<u>\$24,861,407</u>	<u>\$ 3,465,776</u>	<u>\$ 947,163</u>	<u>\$27,380,020</u>	<u>\$ 940,726</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, 2007, 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, 2007.

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, 2007, set at 3.90 percent. The debt issue is being used to construct, repair, improve, extend and equip the electrical distribution system and the sewer system. At June 30, 2007, the Power Division had drawn \$2,695,199 and the Department of Sewer had drawn \$17,502,874 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, 2007

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>
2008	\$ 696,917	\$ 1,005,081	\$ 1,701,998
2009	751,049	976,810	1,727,859
2010	706,092	947,934	1,654,026
2011	717,297	921,835	1,639,132
2012	729,111	896,416	1,625,527
2013-2017	3,974,354	4,084,880	8,059,234
2018-2022	6,131,486	3,220,341	9,351,827
2023-2027	6,870,000	1,925,072	8,795,072
2028-2032	5,823,573	657,846	6,481,419
	<u>\$26,399,879</u>	<u>\$14,636,215</u>	<u>\$41,036,094</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, 2007, all the City's deposits were insured or collateralized.

Component units

At June 30, 2007, 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, 2007

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, 2007, the City had \$12,029,759 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, 2007. At June 30, 2007, the investments of the LGIP had a weighted average maturity of 77 days. 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, 2007, the Cemetery Perpetual Care Fund's investments consisted of the following:

	<u>Fair Value</u>
Money market funds	\$ 8,521
Mutual funds	<u>119,455</u>
	<u>\$ 127,976</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, 2007

Note 4. Cash Deposits and Investments (continued)

Athens Pension Trust Fund:

As of June 30, 2007, the Pension Trust Fund's investments consisted of the following:

	Weighted Average <u>Maturity</u>	<u>Fair Value</u>
U.S. government and agency securities	5.73 years	\$2,441,716
Corporate bonds	1.70 years	554,813
Common stock	N/A	2,575,440
Mutual funds	N/A	1,018,121
Money market fund	N/A	<u>7,091</u>
		<u><u>\$6,597,181</u></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 and \$1,500,000 to the Capital Improvement Fund.

The purpose of the interfund transactions was to fund debt service requirements and to provide funds for future capital projects. 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, 2007

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 2007, the City appropriated \$1,803,133, 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 \$451,158 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 2007, the City had appropriated \$877,000 to the Board for school renovations. As of June 30, 2007, the City had appropriated \$6,268,500 of the debt proceeds to the Board of Education for school renovations and \$31,500 used to pay debt issue costs. The financial statements reflect a payable from the Board of Education to the City of \$661,205 for the Board's remaining share of principal and interest due.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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:

	Governmental Activities	Business- Type Activities	Total
Capital assets	\$ 20,681,447	\$ 2,822,062	\$ 23,503,509
Accumulated depreciation	(8,722,046)	(1,475,543)	(10,197,589)
Debt related to acquisition and construction of capital assets	<u>(1,444,800)</u>	—	<u>(1,444,800)</u>
Invested in capital assets, net of related debt	<u>10,514,601</u>	<u>1,346,519</u>	<u>11,861,120</u>
Restricted for debt service	2,363,791	—	2,363,791
Restricted for cemetery perpetual care:			
Expendable	80,693	—	80,693
Nonexpendable	<u>47,283</u>	—	<u>47,283</u>
Total restricted	<u>2,491,767</u>	—	<u>2,491,767</u>
Unrestricted	<u>6,241,852</u>	<u>863,382</u>	<u>7,105,234</u>
Total net assets	<u>\$ 19,248,220</u>	<u>\$ 2,209,901</u>	<u>\$ 21,458,121</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, 2007

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, 2007. Revenues were \$374,738 and expenditures were \$445,560 for street lighting and \$29,532 for paving.

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

Reserved	
Major Funds:	
General Fund	
Encumbrances	\$ 132,261
Cook Park	15,638
Inventory	106,834
Law enforcement	213,452
Debt Service Fund	
Debt service	<u>2,363,791</u>
	2,831,976
Nonmajor Funds:	
Cemetery Perpetual Care Fund	
Cemetery perpetual care	<u>127,976</u>
Total reserved fund balances	<u>2,959,952</u>
Unreserved	
Major Funds:	
General Fund	6,932,976
Nonmajor Funds:	
Drug Fund	165,776
General Obligation Bond Fund	20,373
Capital Improvement Fund	<u>2,392,066</u>
Total unreserved fund balances	<u>9,511,191</u>
Total governmental fund balances	<u><u>\$12,471,143</u></u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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	\$ 58,382,752
Restricted for debt service	279,171
Unrestricted	<u>12,974,411</u>
	<u>\$ 71,636,334</u>

Board of Education

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

Invested in capital assets, net of related debt	\$ 6,143,248
Unrestricted	<u>4,228,822</u>
	<u>\$ 10,372,070</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 103 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, 2007

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, 2007

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. Pension administration costs are financed by the General fund and the Sanitation Fund.

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, 2007

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 7.5 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, 2007	\$ 401,148
Interest on net pension obligation	(22,222)
Adjustment to annual required contribution	<u>22,847</u>
Annual pension cost	401,773
Employer contributions made	<u>510,000</u>
Change in net pension benefit	(108,227)
Net pension benefit at June 30, 2006	<u>(277,780)</u>
Net pension benefit at June 30, 2007	<u><u>\$(386,007)</u></u>

The annual required contribution for the 2007 year was determined as part of the annual actuarial valuation on January 1, 2007.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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>
6/30/07	\$ 401,148	127.1%	\$(386,007)
6/30/06	439,869	105.9	\$(277,780)
6/30/05	408,869	96.3	(257,597)

Component Units

Utilities Board:

Plan description

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

Board of Education:

Non-instructional employees - plan description

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

Instructional employees - plan description

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

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, 2007

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
SCHEDULE OF FUNDING PROGRESS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
PENSION PLAN
June 30, 2007**

<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>
1/1/02	\$4,343,940	\$6,104,335	\$1,760,395	71.16%	\$3,554,617	49.52%
1/1/03	4,664,487	6,497,963	1,833,476	71.78	3,815,073	48.00
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
1/1/07	6,531,144	9,312,183	2,781,039	70.14	4,083,265	68.11

Schedule of Employer Contributions

<u>Plan Year Ending</u>	<u>Contributions by the City</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
6/30/98	\$ 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
6/30/07	510,000	401,148	127.1

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

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**CITY OF ATHENS, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007**

	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Drug	General Obligation Bond	Cemetery Perpetual Care	
ASSETS				
Cash and cash equivalents	\$ 73,973	\$ 7,935	\$ -	\$ 81,908
Investments	91,803	3,888	127,976	223,667
Due from other governments	-	248,550	-	248,550
	<u>\$ 165,776</u>	<u>\$ 260,373</u>	<u>\$ 127,976</u>	<u>\$ 554,125</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Interfund payable	\$ -	\$ 240,000	\$ -	\$ 240,000
FUND BALANCES				
Reserved for cemetery perpetual care	-	-	127,976	127,976
Unreserved, undesignated	165,776	20,373	-	186,149
	<u>165,776</u>	<u>20,373</u>	<u>127,976</u>	<u>314,125</u>
Total fund balances	<u>165,776</u>	<u>20,373</u>	<u>127,976</u>	<u>314,125</u>
Total liabilities and fund balances	<u>\$ 165,776</u>	<u>\$ 260,373</u>	<u>\$ 127,976</u>	<u>\$ 554,125</u>

CITY OF ATHENS, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2007

	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Drug	General Obligation Bond	Cemetery Perpetual Care	
REVENUES				
Intergovernmental	\$ -	\$ 18,564	\$ -	\$ 18,564
Fines and forfeitures	59,096	-	-	59,096
Contributions	-	-	-	-
Investment and interest income	4,604	200	10,422	15,226
Miscellaneous	-	-	1,345	1,345
Total revenues	<u>63,700</u>	<u>18,764</u>	<u>11,767</u>	<u>94,231</u>
EXPENDITURES				
Current:				
Public safety	4,824	-	-	4,824
Capital outlay	-	37,128	-	37,128
Total expenditures	<u>4,824</u>	<u>37,128</u>	<u>-</u>	<u>41,952</u>
NET CHANGE IN FUND BALANCES	58,876	(18,364)	11,767	52,279
FUND BALANCES, beginning of year	<u>106,900</u>	<u>38,737</u>	<u>116,209</u>	<u>261,846</u>
FUND BALANCES, end of year	<u>\$ 165,776</u>	<u>\$ 20,373</u>	<u>\$ 127,976</u>	<u>\$ 314,125</u>

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year Ended June 30, 2007

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 350,000	\$ 350,000	\$ 369,046	\$ 19,046
Interest	70,000	77,000	124,636	47,636
Total revenues	<u>420,000</u>	<u>427,000</u>	<u>493,682</u>	<u>66,682</u>
EXPENDITURES				
Debt service:				
Principal	540,000	540,000	536,500	3,500
Interest	320,000	327,000	326,030	970
General government	10,000	10,000	8,819	1,181
Total expenditures	<u>870,000</u>	<u>877,000</u>	<u>871,349</u>	<u>5,651</u>
REVENUES OVER (UNDER) EXPENDITURES	(450,000)	(450,000)	(377,667)	72,333
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	412,333	72,333
FUND BALANCE, beginning of year	<u>1,951,458</u>	<u>1,951,458</u>	<u>1,951,458</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ 2,291,458</u></u>	<u><u>\$ 2,291,458</u></u>	<u><u>\$ 2,363,791</u></u>	<u><u>\$ 72,333</u></u>

**CITY OF ATHENS, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 DRUG FUND
 Year Ended June 30, 2007**

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
Drug fines and forfeitures	\$ 32,000	\$ 32,000	\$ 59,096	\$ 27,096
Investment and interest income	-	-	4,604	4,604
Total revenues	<u>32,000</u>	<u>32,000</u>	<u>63,700</u>	<u>31,700</u>
EXPENDITURES				
Drug investigation	12,000	12,000	3,000	9,000
Supplies	15,000	15,000	577	14,423
Education and training	5,000	5,000	1,247	3,753
Total expenditures	<u>32,000</u>	<u>32,000</u>	<u>4,824</u>	<u>27,176</u>
REVENUES OVER EXPENDITURES	-	-	58,876	58,876
FUND BALANCE, beginning of year	<u>106,900</u>	<u>106,900</u>	<u>106,900</u>	-
FUND BALANCE, end of year	<u><u>\$ 106,900</u></u>	<u><u>\$ 106,900</u></u>	<u><u>\$ 165,776</u></u>	<u><u>\$ 58,876</u></u>

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
SCHEDULE OF UNCOLLECTED DELINQUENT TAXES FILED
LAST TEN YEARS
June 30, 2007

<u>Tax Year</u>	<u>Delinquent Taxes Filed</u>	<u>July 1, 2006 Delinquent Taxes Receivable</u>	<u>Current Collections and Adjustment</u>	<u>June 30, 2007 Delinquent Taxes Receivable</u>
1994 and Prior	(1)	\$ 1,285	\$ -	\$ 1,285
1995	28,293	139	-	139
1996	58,335	194	-	194
1997	32,487	28	-	28
1998	32,006	109	-	109
1999	42,359	915	-	915
2000	52,893	942	-	942
2001	53,445	305	-	305
2002	37,540	3,107	1,453	1,654
2003	54,164	11,821	9,149	2,672
2004	42,110	168,675	22,238	146,437
2005	45,102	228,081	124,846	103,235

(1) Not available

Note: 2004 and 2005 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, 2007

	Total	2007 Assessment	2006 Assessment	Prior Years
PROPERTY TAXES RECEIVABLE July 1, 2006	<u>\$ 4,767,202</u>	<u>\$ -</u>	<u>\$4,350,000</u>	<u>\$ 417,202</u>
Add -				
Taxes assessed	4,205,761	4,190,000	15,761	-
Late listings	<u>23,587</u>	<u>-</u>	<u>9,686</u>	<u>13,901</u>
	<u>4,229,348</u>	<u>4,190,000</u>	<u>25,447</u>	<u>13,901</u>
Deduct -				
Collections	4,353,248	-	4,181,838	171,410
Adjustments and abatements	<u>373</u>	<u>-</u>	<u>-</u>	<u>373</u>
	<u>4,353,621</u>	<u>-</u>	<u>4,181,838</u>	<u>171,783</u>
PROPERTY TAXES RECEIVABLE June 30, 2007	<u><u>\$ 4,642,929</u></u>	<u><u>\$4,190,000</u></u>	<u><u>\$ 193,609</u></u>	<u><u>\$ 259,320</u></u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS
June 30, 2007

	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	-	-	\$ 8,521	\$ 8,521
BB&T Intermediate U.S. Government Bond Fund	-	-	52,490	50,395
BB&T International Equity Fund	-	-	3,600	6,057
BB&T Large Company Value Fund	-	-	16,405	18,642
BB&T Midcap Growth Fund	-	-	1,099	1,603
BB&T Midcap Value Fund	-	-	1,731	2,112
BB&T Short U.S. Government Income Fund	-	-	2,339	2,244
BB&T Small Cap Fund	-	-	1,327	2,094
Federated Intermediate Income Fund	-	-	36,816	36,308
Total			\$ 124,328	\$ 127,976
Athens Pension Trust Fund:				
Federal Farm Credit Bank	3.000	04/15/08	\$ 72,363	\$ 73,664
Federal Home Loan Bank	4.125	04/18/08	148,669	148,594
Federal Home Loan Bank	5.250	06/18/14	335,103	322,562
Federal Home Loan Mortgage Corporation	5.000	01/30/14	221,486	220,570
Federal Home Loan Mortgage Corporation	5.500	08/20/19	224,289	222,914
Federal National Mortgage Association	5.200	11/08/10	99,870	99,656
Federal National Mortgage Association	4.750	02/21/13	147,706	145,734
Federal National Mortgage Association	5.125	01/02/14	145,749	146,579
U.S. Treasury Bond	4.250	11/15/14	220,594	214,682
U.S. Treasury Note	3.500	02/15/10	386,112	386,344
U.S. Treasury Note	4.375	08/15/12	151,652	146,613
U.S. Treasury Note	4.250	08/15/13	319,000	313,804
Bank of America Corporation	7.400	01/15/11	83,098	79,402
Cisco Systems, Inc.	5.250	02/22/11	100,786	99,400
Goldman Sachs Group	4.125	01/15/08	74,118	74,531
Household Finance Corporation	4.625	01/15/08	74,876	74,710
Lehman Brothers Holdings, Inc.	4.000	01/22/08	73,885	74,369
Procter and Gamble Company	6.875	09/15/09	78,478	77,411
US Bancorp	5.100	07/15/07	75,644	74,990
Air Products & Chemicals, Inc.	-	-	28,359	32,148
Altria Group, Inc.	-	-	32,322	35,070
American International Group, Inc.	-	-	37,465	49,021
Anadarko Petroleum Corporation	-	-	12,276	31,194
Automatic Data Processing, Inc.	-	-	26,671	29,082
Baker Hughes, Inc.	-	-	30,415	33,652
Bank of America Corporation	-	-	24,899	39,112
Bank of New York Mellon Company, Inc.	-	-	37,970	53,872
BB&T Corporation	-	-	16,630	20,340

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2007

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Best Buy Company, Inc.	-	-	\$ 18,236	\$ 23,335
Cisco Systems, Inc.	-	-	35,184	31,331
Citigroup, Inc.	-	-	34,024	46,161
ConocoPhillips	-	-	38,900	60,837
Dell, Inc.	-	-	32,454	35,687
Dominion Resources, Inc.	-	-	18,935	28,050
Dow Chemical Company	-	-	33,947	39,798
Duke Energy Corporation	-	-	23,125	21,960
Ebay, Inc.	-	-	59,264	60,337
E.I. Dupont De Nemours and Company	-	-	24,751	29,233
Eli Lilly & Company	-	-	44,946	48,895
Exxon Mobil Corporation	-	-	49,014	81,363
FedEx Corporation	-	-	35,539	36,065
General Electric Company	-	-	59,749	74,646
Google, Inc.	-	-	30,615	33,976
Home Depot, Inc.	-	-	23,839	31,480
Illinois Tool Works, Inc.	-	-	45,037	48,771
Intel Corporation	-	-	26,382	31,455
IBM Corporation	-	-	25,201	34,206
Johnson & Johnson	-	-	90,106	100,132
JP Morgan Chase & Company	-	-	35,625	53,295
Kimberly-Clark Corporation	-	-	30,227	36,790
Kraft Foods, Inc.	-	-	52,717	54,497
Masco Corporation	-	-	26,050	29,894
Medtronic, Inc.	-	-	45,358	51,860
Merrill Lynch and Company, Inc.	-	-	38,475	50,148
Microsoft Corporation	-	-	64,117	61,887
Nabors Industries Limited	-	-	35,738	36,718
Nike, Inc.	-	-	21,041	49,547
Nokia Corporation	-	-	38,691	47,787
Novartis A.G.	-	-	32,971	32,240
Oracle Corporation	-	-	23,251	38,927
Pepsico, Inc.	-	-	24,271	32,425
Pfizer, Inc.	-	-	41,715	40,912
PNC Financial Services Group, Inc.	-	-	36,892	42,948
Procter and Gamble Company	-	-	60,982	64,250
Progressive Corporation	-	-	43,850	44,869
Qualcomm, Inc.	-	-	36,660	37,966
Spectra Energy Corporation	-	-	16,671	15,576
Target Corporation	-	-	72,226	79,500
3M Company	-	-	31,452	34,716
Tiffany & Company	-	-	50,216	76,937
Time Warner, Inc.	-	-	28,624	27,352
The Travelers Companies, Inc.	-	-	35,699	48,150

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS
June 30, 2007
(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Unitedhealth Group, Inc.	-	-	11,837	25,570
United Technologies Corporation	-	-	16,020	39,012
USG Corporation	-	-	38,061	38,006
Valero Energy Corporation	-	-	20,286	42,470
Verizon Communications, Inc.	-	-	33,003	37,053
WellPoint, Inc.	-	-	25,027	31,932
Wells Fargo & Company	-	-	35,658	50,997
BB&T Midcap Value	-	-	367,849	447,536
iShares DJ US Consumer Non-Cyclical Sector	-	-	34,606	35,834
iShares DJ US Energy Sector	-	-	27,685	32,970
iShares DJ US Financial Sector	-	-	29,731	28,803
iShares DJ US Telecommunications	-	-	23,391	26,968
iShares MSCI EAFE Index	-	-	241,660	304,907
Legg Mason Western Asset Non-US Opportunity Bond Fund	-	-	140,063	141,103
BB&T Prime Money Market Fund	-	-	7,091	7,091
			<u>\$ 6,005,220</u>	<u>\$ 6,597,181</u>
Participation in the State of Tennessee Local Government Investment Pool:				
General Fund	-	-	<u>\$ 5,623,462</u>	<u>\$ 5,623,462</u>
Debt Service Fund	-	-	<u>\$ 2,021,843</u>	<u>\$ 2,021,843</u>
Sanitation Fund	-	-	<u>\$ 678,977</u>	<u>\$ 678,977</u>
Drug Fund	-	-	<u>\$ 91,803</u>	<u>\$ 91,803</u>
Capital Improvement Fund	-	-	<u>\$ 2,434,761</u>	<u>\$ 2,434,761</u>
Fleet Management Fund	-	-	<u>\$ 1,158,510</u>	<u>\$ 1,158,510</u>
Conference Center Fund	-	-	<u>\$ 16,515</u>	<u>\$ 16,515</u>
General Obligation Bond Fund	-	-	<u>\$ 3,888</u>	<u>\$ 3,888</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2007

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
2008	\$ 100,000	\$ 239,940	\$ 339,940	\$ 458,300	\$ 57,648	\$ 515,948	\$ 558,300	\$ 297,588	\$ 855,888
2009	100,000	236,070	336,070	481,200	39,361	520,561	581,200	275,431	856,631
2010	100,000	232,200	332,200	505,300	20,161	525,461	605,300	252,361	857,661
2011	662,000	228,330	890,330	-	-	-	662,000	228,330	890,330
2012	683,000	202,711	885,711	-	-	-	683,000	202,711	885,711
2013	703,000	176,278	879,278	-	-	-	703,000	176,278	879,278
2014	725,000	149,072	874,072	-	-	-	725,000	149,072	874,072
2015	747,000	121,015	868,015	-	-	-	747,000	121,015	868,015
2016	770,000	92,106	862,106	-	-	-	770,000	92,106	862,106
2017	793,000	62,307	855,307	-	-	-	793,000	62,307	855,307
2018	817,000	31,618	848,618	-	-	-	817,000	31,618	848,618
	<u>\$ 6,200,000</u>	<u>\$1,771,647</u>	<u>\$ 7,971,647</u>	<u>\$ 1,444,800</u>	<u>\$ 117,170</u>	<u>\$ 1,561,970</u>	<u>\$ 7,644,800</u>	<u>\$ 1,888,817</u>	<u>\$ 9,533,617</u>

OTHER

CITY OF ATHENS, TENNESSEE
NET ASSETS BY COMPONENT
LAST FIVE FISCAL YEARS
June 30, 2007
 (Accrual Basis of Accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GOVERNMENTAL ACTIVITIES					
Invested in capital assets, net of related debt	\$10,514,601	\$ 8,795,550	\$ 8,003,707	\$ 5,182,286	\$ 2,927,226
Restricted	2,877,774	2,345,447	1,943,236	1,591,590	1,276,029
Unrestricted	<u>5,855,845</u>	<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>\$19,248,220</u>	<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	\$ 1,346,519	\$ 1,456,036	\$ 1,587,133	\$ 1,685,987	\$ 1,789,623
Unrestricted	<u>863,382</u>	<u>733,135</u>	<u>569,531</u>	<u>582,291</u>	<u>654,479</u>
Total business-type activities net assets	<u>\$ 2,209,901</u>	<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	\$11,861,120	\$10,251,586	\$ 9,590,840	\$ 6,868,273	\$ 4,716,849
Restricted	2,877,774	2,345,447	1,943,236	1,591,590	1,276,029
Unrestricted	<u>6,719,227</u>	<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>\$21,458,121</u>	<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 FIVE FISCAL YEARS
June 30, 2007
 (Accrual Basis of Accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
EXPENSES					
Governmental activities:					
General government	\$ 3,213,814	\$ 3,247,334	\$ 3,466,385	\$ 3,808,931	\$ 2,916,608
Public safety	3,668,107	3,407,171	3,327,801	3,145,414	3,333,481
Highways and streets	1,872,584	2,031,940	1,838,813	1,930,598	1,540,403
Culture and recreation	878,552	588,744	870,846	847,670	894,206
Education	2,680,133	2,359,781	4,393,735	3,452,952	1,437,643
Health and welfare	96,383	86,069	81,158	76,462	79,706
Interest on long-term debt	326,030	259,020	148,652	56,436	99,015
Total governmental activities expenses	<u>12,735,603</u>	<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	73,475	74,533	74,332	71,182	73,638
Sanitation	750,040	713,587	821,148	874,411	737,660
Total business-type activities expenses	<u>823,515</u>	<u>788,120</u>	<u>895,480</u>	<u>945,593</u>	<u>811,298</u>
Total primary government expenses	<u>\$ 13,559,118</u>	<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	\$ 124,870	\$ 143,012	\$ 144,930	\$ 124,963	\$ 107,968
Public safety	607,386	624,310	537,985	324,137	320,501
Culture and recreation	123,270	107,138	117,433	113,228	147,784
Health and welfare	40,593	34,339	29,416	28,969	23,385
Operating grants and contributions	920,680	932,309	568,915	3,245,413	1,427,757
Capital grants and contributions	791,576	406,067	180,797	851,939	272,007
Total governmental activities program revenues	<u>2,608,375</u>	<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	18,250	14,303	12,676	17,752	13,735
Sanitation	790,056	782,040	740,626	742,961	739,929
Total business-type activities program revenues	<u>808,306</u>	<u>796,343</u>	<u>753,302</u>	<u>760,713</u>	<u>753,664</u>
Total primary government program revenues	<u>\$ 3,416,681</u>	<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	\$(10,127,228)	\$(9,732,884)	\$(12,547,914)	\$(8,629,814)	\$(8,001,660)
Business-type activities	(15,209)	8,223	(142,178)	(184,880)	(57,634)
Total primary government net expenses	<u>\$(10,142,437)</u>	<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 FIVE FISCAL YEARS
June 30, 2007
 (Accrual Basis of Accounting)
 (continued)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GENERAL REVENUES AND OTHER					
CHANGES IN NET ASSETS					
Governmental activities:					
Property taxes	\$ 4,379,275	\$ 4,216,453	\$ 4,120,554	\$ 4,106,766	\$ 4,074,004
Other taxes	6,124,469	5,922,972	5,463,756	5,191,945	4,880,830
Intergovernmental revenues not restricted to specific programs	1,340,060	1,200,623	981,944	976,987	1,053,087
Insurance proceeds	-	-	-	15,900	-
Investment income	622,830	412,700	169,953	84,706	126,519
Gain (loss) on disposal of capital assets	-	31,007	24,967	31,959	22,951
Miscellaneous	67,911	72,368	79,639	104,314	65,042
Transfers	-	-	-	-	(36,604)
Total governmental activities	<u>12,534,545</u>	<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	28,199	19,327	12,015	5,449	7,317
Transfers	-	-	-	-	36,604
Gain (loss) on disposal of capital assets	-	-	13,433	-	-
Miscellaneous	7,740	4,957	5,116	3,607	9,887
Total business-type activities	<u>35,939</u>	<u>24,284</u>	<u>30,564</u>	<u>9,056</u>	<u>53,808</u>
Total primary government	<u>\$ 12,570,484</u>	<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>\$ -</u>	<u>\$ (1,911,050)</u>	<u>\$ 266,024</u>	<u>\$ -</u>
CHANGES IN NET ASSETS					
Governmental activities	\$ 2,407,317	\$ 2,123,239	\$ (3,618,151)	\$ 2,148,787	\$ 2,184,169
Business-type activities	<u>20,730</u>	<u>32,507</u>	<u>(111,614)</u>	<u>(175,824)</u>	<u>(3,826)</u>
Total primary government	<u>\$ 2,428,047</u>	<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 FIVE FISCAL YEARS
June 30, 2007
(Modified Accrual Basis of Accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GENERAL FUND					
Reserved	\$ 468,185	\$ 320,513	\$ 208,339	\$ 153,069	\$ 361,522
Unreserved	<u>6,932,976</u>	<u>6,842,952</u>	<u>5,218,295</u>	<u>4,104,411</u>	<u>3,455,501</u>
Total general funds	<u>\$ 7,401,161</u>	<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	\$ 2,491,767	\$ 2,067,667	\$ 1,685,639	\$ 1,312,627	\$ 1,276,029
Unreserved, reported in:					
Special revenue funds	165,776	106,900	84,185	96,109	125,948
Capital projects funds	<u>2,412,439</u>	<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>\$ 5,069,982</u>	<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 FIVE FISCAL YEARS

June 30, 2007

(Modified Accrual Basis of Accounting)

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES					
Property taxes	\$4,356,454	\$4,133,726	\$4,049,947	\$4,136,932	\$3,713,629
Other local taxes	6,124,469	5,922,972	5,463,757	5,191,945	4,880,830
Intergovernmental	3,380,451	2,586,240	1,792,575	3,789,949	2,752,751
Charges for services and tuition	288,732	284,489	291,779	267,159	279,137
Fines and forfeitures	607,385	624,310	537,985	324,137	320,501
Contributions	-	82,550	-	-	-
Investment and interest income	526,025	347,647	140,539	70,785	107,460
Miscellaneous	68,180	109,842	120,649	104,313	64,289
Total revenues	<u>15,351,696</u>	<u>14,091,776</u>	<u>12,397,231</u>	<u>13,885,220</u>	<u>12,118,597</u>
EXPENDITURES					
General government	3,059,784	2,831,550	2,582,941	3,683,843	2,724,436
Public safety	3,850,012	3,438,595	3,432,724	3,210,617	3,415,071
Highways and streets	1,775,508	1,936,248	1,699,759	1,859,132	1,617,956
Culture and recreation	809,515	847,650	823,538	803,238	839,221
Education	2,680,133	2,359,781	4,393,735	3,452,952	1,437,643
Health and welfare	99,383	89,069	84,158	79,462	82,706
Capital outlay	1,109,198	482,024	1,387,070	1,816,498	995,226
Debt service:					
Debt issue costs	-	-	-	31,500	-
Principal	536,500	415,700	395,900	712,600	669,900
Interest and fiscal charges	326,030	259,020	148,652	62,167	104,269
Total expenditures	<u>14,246,063</u>	<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>1,105,633</u>	<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	877,000	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	<u>877,000</u>	<u>623,143</u>	<u>2,816,963</u>	<u>2,029,248</u>	<u>33,414</u>
NET CHANGE IN FUND BALANCES	<u>\$1,982,633</u>	<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	6.63%	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, 2007
(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>
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
2007	249,442,106	82,069,030	6,498,177	13,409,451	324,599,862	1,088,471,535	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, 2007
 (Unaudited)**

<u>Tax Year</u>	<u>City (Direct Rate)</u>	<u>County (Overlapping Rate)</u>	<u>Total</u>
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
2007	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 FISCAL YEAR AND NINE YEARS AGO
June 30, 2007
(Unaudited)**

2007				1998			
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	\$ 38,162,955	11.9	Nippondenso Tennessee, Inc.	Automotive parts manufacturer	\$ 15,124,314	6.9
Johnson Controls	Automotive seating	11,702,258	3.7	Mayfield Dairy Farms, Inc.	Dairy products	11,245,090	5.1
Collins and Aikman	Automotive parts manufacturer	8,361,099	2.6	Davidson Textron, Inc.	Automotive parts manufacturer	8,322,337	3.8
Mayfield Dairy Farms, Inc.	Dairy products	7,225,832	2.3	Johnson Controls	Automotive seating	5,066,082	2.3
Athens Regional Medical Center	Healthcare	7,106,056	2.2	BellSouth	Telephone company	4,793,499	2.2
Thomas & Betts	Electrical component manufacturer	5,268,259	1.7	Columbia Regional Medical Center	Healthcare	4,496,569	2.1
Walmart	Retail	4,875,229	1.5	Thomas & Betts	Electrical component manufacturer	3,600,000	1.6
General Motors	Automotive	4,590,377	1.4	Athens Furniture	Furniture manufacturer	3,482,434	1.6
Plastic Industries, Inc.	Plastic component manufacturer	4,026,835	1.3	New Plan of Tennessee	Real Estate Investment	2,939,480	1.3
BellSouth	Telephone company	3,712,946	1.2				

NOTE: Total assessed valuations for 2007 and 1998 are \$318,428,385 and \$219,312,122, respectively.

Source: Official records of the Department of Finance

CITY OF ATHENS, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
June 30, 2007
(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
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	3,841,806	3,652,247	95.11	189,344	3,841,591	100.00
2003	3,878,286	3,549,421	91.52	327,132	3,876,553	99.96
2004	4,207,118	3,897,907	92.65	305,375	4,203,282	99.91
2005	4,138,579	3,838,801	92.76	153,181	3,991,982	96.46
2006	4,238,560	3,996,467	94.28	136,657	4,133,124	97.51
2007	4,375,447	4,181,838	95.58	-	4,181,838	95.58

Source: Official records of Department of Finance

CITY OF ATHENS, TENNESSEE
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
June 30, 2007

Fiscal Year	General Obligation Bonds	Notes Payable	Compensated Absences	Total Primary Government	Percentage of Personal Income	Per Capita
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
2007	-	7,644,800	234,425	7,879,225	2.41	591

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, 2007

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				
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
2007	-	7,644,800	7,644,800	2,363,791	5,281,009	2.36	573

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, 2007

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable</u>	<u>Estimated Share of Overlapping Debt</u>
McMinn County (debt repaid with property taxes)	\$ -	- %	\$ -
City of Athens (direct debt)	7,879,225	100.00	<u>7,879,225</u>
Total direct and overlapping debt			<u><u>\$ 7,879,225</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, 2007**

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
PLEDGED REVENUE COVERAGE
LAST TEN FISCAL YEARS
June 30, 2007**

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, 2007**

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Median Age	School Enrollment	Civilian Labor Force	Unemployment Rate
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
2007	13,334	327,056,352	24,528	36.5	1,717	10,152	4.90

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 FISCAL YEAR AND NINE YEARS AGO
June 30, 2007**

2007			1998		
Employer	Taxable Employees	Percentage of Total City Employment	Employer	Taxable Employees	Percentage of Total City Employment
Denso Tennessee, Inc.	1,100	10.84	Textron Automotive	910	9.62
Johnson Controls, Inc.	700	6.90	Athens Furniture	700	7.40
Collins & Aikman	445	4.38	Johnson Controls, Inc.	560	5.92
Mayfield Dairy Farms, Inc.	385	3.79	Mayfield Dairy Farms, Inc.	555	5.87
Thomas & Betts	400	3.94	Thomas & Betts	495	5.23
Heil Trailer	350	3.45	Plastic Industries, Inc.	320	3.38
Plastic Industries, Inc.	250	2.46	Heil Trailer	345	3.65
Dynasty Spas	240	2.36	Athens Products	350	3.70
Mills Products	200	1.97	Homemaker of Tennessee	340	3.59
Texas Hydraulics	198	1.95	Damy Industries	206	2.18
	<u>4,268</u>	<u>42.04</u>		<u>4,781</u>	<u>50.54</u>

Source: McMinn County Economic Development Authority

CITY OF ATHENS, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST FIVE FISCAL YEARS
June 30, 2007

Function/Program	Full-Time Equivalent Employees as of June 30				
	2003	2004	2005	2006	2007
City Manager	2	2	2	2	2
Finance	5	5	5	5	5
Human Resources	2	2	2	2	2
Purchasing	2	2	2	2	2
Emergency Preparedness	1	-	-	-	-
Communications	13	8	8	8	8
Community Development	4	4	4	4	4
Police	34	34	34	34	35
Fire	22	21	21	22	21
Parks and Recreation	10	10	10	10	10
Public Works	36	36	36	36	36
	<u>131</u>	<u>124</u>	<u>124</u>	<u>125</u>	<u>125</u>

Source: City Finance Department

Note: Ten years of data is not available but will be accumulated over time.

CITY OF ATHENS, TENNESSEE
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST FIVE FISCAL YEARS
June 30, 2007

Function/Program	2003	2004	2005	2006	2007
Governmental Activities:					
Community Development					
Number of building permits	561	627	585	517	507
Police					
Number of arrests	1,168	895	1,155	1,180	1,133
Number of traffic citations issued	3,416	6,061	6,852	5,815	5,399
Fire					
Total calls	403	431	430	379	414
Inspections	397	401	403	281	279
Business-type Activities:					
Conference Center					
Rentals	81	78	79	111	92

Source: Various City Departments

Note: Ten years of data is not available but will be accumulated over time.

CITY OF ATHENS, TENNESSEE
INFRASTRUCTURE STATISTICS BY FUNCTION
LAST FIVE FISCAL YEARS
June 30, 2007

Function/Program	2003	2004	2005	2006	2007
Police:					
Stations	1	1	1	1	1
Patrol units	13	13	14	14	14
Fire:					
Stations	2	2	2	2	2
Fire trucks	6	6	6	6	8
Parks and recreation:					
Parks	10	10	10	10	10
Park acreage	233	233	233	233	233
Tennis courts	13	13	13	13	13
Softball fields	5	5	5	5	5
Baseball fields	3	3	3	3	3
Conference center	1	1	1	1	1
Soccer fields	3	3	3	3	3
Public works:					
Streets (miles)	125	125	125	126	126
Square feet of sidewalks	693,077	693,077	693,077	693,077	693,077
New traffic signals	-	-	2	1	2

Source: Various City Departments

Note: Ten years of data is not available but will be accumulated over time.

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**SINGLE AUDIT
SECTION**

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CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2007

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2006	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2007
PRIMARY GOVERNMENT:						
FEDERAL AWARDS:						
DEPARTMENT OF HOMELAND SECURITY						
Passed through TN Emergency Management Agency:						
Public Assistance Grant	83.544	Z-03-017817-00	\$ -	\$ 1,686	\$ 1,686	\$ -
Hazard Mitigation Grant	97.039	GG-04-10880-00	-	622,500	741,675	119,175
			-	624,186	743,361	119,175
APPALACHIAN REGIONAL COMMISSION						
Appalachian Area Development	23.002	N/A	96,080	168,744	96,339	23,675
U.S. DEPARTMENT OF TRANSPORTATION						
Passed through TN Department of Transportation:						
Highway Planning and Construction	20.205	STP-H-30(44)	41,307	41,670	363	-
U.S. DEPARTMENT OF AGRICULTURE						
Passed through Southeast TN Development District:						
Rural Business Enterprise Grants	10.769	8-54-626000242-0-8	-	25,000	25,000	-
Community Development Block Grant	14.228	GG-05-11658-00	78,198	340,811	319,168	56,555
			78,198	365,811	344,168	56,555
U.S. DEPARTMENT OF JUSTICE						
Local Law Enforcement Block Grant	16.592	2004LBBX0977	(5,453)	-	5,453	-
Total Federal Awards			210,132	1,200,411	1,189,684	199,405
STATE AWARDS:						
Tennessee Department of Environment and Conservation:						
Local Parks and Recreation	N/A	Z-05-022827-00	229,986	-	18,564	248,550
Tennessee Department of Transportation:						
Tennessee Infrastructure Improvement Program	N/A	Z-02-008516-00	22,374	22,374	-	-
Governor's Highway Safety Program	N/A	Z-06-027270-00	-	4,140	4,140	-
Tennessee Division of Community Assistance	N/A	GG-030405-00	10,500	10,500	-	-
Tennessee Wildlife Resource Agency	N/A	Z-03-014750-00	-	-	1,000	1,000
Tennessee Department of Agriculture	N/A	Z-06-026175-00	3,380	3,685	305	-
Total State Awards			266,240	40,699	24,009	249,550
Total Primary Government			\$ 476,372	\$ 1,241,110	\$ 1,213,693	\$ 448,955

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2007
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2006	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2007
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	\$ -	\$ 38,679	\$ 38,679	\$ -
Passed through the TN Department of Human Services:						
Child and Adult Food Care Program	10.558	N/A	-	63,865	63,865	-
Child and Adult Food Care Program	10.558	N/A	-	38,516	38,516	-
Passed through the TN Department of Education:						
Child Nutrition Cluster:						
National School Lunch Program	10.555	N/A	-	354,060	354,060	-
School Breakfast Program	10.553	N/A	-	121,944	121,944	-
Summer Food Service Program for Children	10.559	N/A	50,536	87,089	102,398	65,845
			<u>50,536</u>	<u>704,153</u>	<u>719,462</u>	<u>65,845</u>
U.S. DEPARTMENT OF EDUCATION						
Impact Aid	84.041	N/A	\$ -	\$ 6,135	\$ 6,135	\$ -
Passed through the TN Department of Education:						
Special Education Cluster:						
Special Education - Grants to States	84.027	N/A	(8,392)	369,318	381,383	3,673
Special Education - Grants to States	84.027	N/A	-	84	84	-
Special Education - Preschool Grants	84.173	N/A	(195)	29,500	29,695	-
Title I Grants to Local Educational Agencies	84.010	N/A	(123)	506,421	498,002	(8,542)
Improving Teacher Quality - State Grants	84.367	N/A	(2,946)	115,901	119,599	752
Education Technology State Grants	84.318	N/A	-	2,400	2,400	-
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	(825)	6,100	7,150	225
State Grants for Innovative Programs	84.298	N/A	-	2,849	2,849	-
Rural Education Achievement Program	84.358	N/A	-	49,018	49,018	-
Even Start - State Educational Agencies	84.213	N/A	31,515	31,515	-	-
English Language Acquisition Grants	84.365	N/A	(162)	30,624	30,774	(12)
Hurricane Education Recovery	84.938	N/A	-	14,479	14,479	-

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2007
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2006	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2007
COMPONENT UNIT - ATHENS CITY BOARD						
OF EDUCATION: (continued)						
FEDERAL AWARDS: (continued)						
U.S. DEPARTMENT OF EDUCATION (continued)						
Passed through the TN Department of Labor and Workforce Development:						
Adult Education - State Grant Program	84.002	Z-06-027746-00	\$ 20,422	\$ 20,422	\$ -	\$ -
Adult Education - State Grant Program	84.002	Z-07-033669-00	-	57,640	104,453	46,813
Families First	84.002	Z-07-03419-00	-	2,922	7,093	4,171
Families First	84.002	Z-06-027157-00	1,260	1,260	-	-
			<u>40,554</u>	<u>1,246,588</u>	<u>1,253,114</u>	<u>47,080</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	DG-07-02031-00	-	4,781	7,841	3,060
Workforce Development Incentive Grant	17.267	Z-05-023766-00	192	192	-	-
			<u>192</u>	<u>4,973</u>	<u>7,841</u>	<u>3,060</u>
Total Federal Awards - Athens City Board of Education			<u>91,282</u>	<u>1,955,714</u>	<u>1,980,417</u>	<u>115,985</u>
STATE AWARDS:						
Adult Education - State Grant Program		Z-07-033669-00	\$ -	\$ 19,214	\$ 34,818	\$ 15,604
Adult Education - State Grant Program		Z-06-027746-00	5,429	5,429	-	-
Lottery Pre-K		N/A	121,273	368,548	416,027	168,752
Lottery for Education Afterschool Program		019-06-1-017	67,323	178,898	200,929	89,354
Families First		Z-06-027157-00	678	678	-	-
Families First		Z-07-034197-00	-	5,427	13,173	7,746
Family Resource Grant		07-12076	-	-	33,300	33,300
Family Resource Grant		06-120-76	15,876	15,876	-	-
Safe Schools Act		N/A	10,167	10,167	10,005	10,005
Total State Awards - Athens City Board of Education			<u>220,746</u>	<u>604,237</u>	<u>708,252</u>	<u>324,761</u>
Total Component Unit			<u>\$ 312,028</u>	<u>\$ 2,559,951</u>	<u>\$ 2,688,669</u>	<u>\$ 440,746</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2007
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2006	Grant Revenues Received	Expenditures	Accrued (Deferred) Grant Revenues June 30, 2007
COMPONENT UNIT - ATHENS CITY BOARD OF EDUCATION: (continued)						
SUMMARY OF PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT:						
Total Federal Awards			\$ 301,414	\$ 3,156,125	\$ 3,170,101	\$ 315,390
Total State Awards			<u>486,986</u>	<u>644,936</u>	<u>732,261</u>	<u>574,311</u>
TOTAL AWARDS			<u><u>\$ 788,400</u></u>	<u><u>\$ 3,801,061</u></u>	<u><u>\$ 3,902,362</u></u>	<u><u>\$ 889,701</u></u>

Note 1: The City received federal awards which made it subject to audit under OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" for the year ended June 30, 2007. 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: 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.

NEAL, SCOUTEN & McCONNELL, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
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Report of Independent Certified Public Accountants on
Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
the Financial Statements Performed in Accordance
with Government Auditing Standards

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, 2007, which collectively comprise the City of Athens, Tennessee's basic financial statements and have issued our report thereon dated December 11, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City of Athens, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Athens, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 07-1 to be a significant deficiency in internal control over financial reporting.

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

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.

City of Athens, Tennessee's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit City of Athens, Tennessee's response and, accordingly, we express no opinion on it.

COMPONENT UNIT – ATHENS UTILITIES BOARD

Internal Control Over Financial Reporting

Our separate component unit report dated October 26, 2007, 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 October 26, 2007, 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 October 26, 2007, 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 October 26, 2007, 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, Scouter & McConnell, P.C.

Chattanooga, Tennessee
December 11, 2007

NEAL, SCOUTEN & McCONNELL, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
633 Chestnut Street
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Report of Independent Certified Public Accountants on
Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance with OMB Circular A-133

To the City Council
City of Athens
Athens, Tennessee

Compliance

We have audited the compliance of the City of Athens, Tennessee, with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The City of Athens, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Athens, Tennessee's management. Our responsibility is to express an opinion on the City of Athens, Tennessee's compliance based on our audit.

The City of Athens, Tennessee's financial statements include the operations of its component unit, Athens City Board of Education, which received \$1,980,417 in federal awards during the year ended June 30, 2007. The Board of Education issued a separate report dated October 26, 2007, which included the Board of Education's federal awards and presented other information in accordance with OMB Circular A-133. Accordingly, the results of the Board of Education's audit has not been considered in the City of Athens, Tennessee's Schedule of Findings and Questioned Costs or in determining the City of Athens, Tennessee's compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133. Management has elected to present information related to the component units' federal awards in its reporting to reflect all federal awards for the reporting entity.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Athens, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Athens, Tennessee's compliance with those requirements.

In our opinion, the City of Athens, Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the City of Athens, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City of Athens, Tennessee's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Athens, Tennessee's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

COMPONENT UNIT – ATHENS CITY BOARD OF EDUCATION

Compliance

Our separate component unit report dated October 26, 2007, stated that in our opinion, the Athens City Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

Our separate component unit report dated October 26, 2007, did not disclose any matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

Neal, S. Cooper & McConnell, P.C.

Chattanooga, Tennessee
December 11, 2007

CITY OF ATHENS, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? yes X no
 Significant deficiency identified
 not considered to be material weaknesses? X yes no See 07-1

Noncompliance material to financial statements
 noted? yes X no

Federal Awards

Internal Control over major programs:
 Material weakness(es) identified? yes X no
 Significant deficiency identified
 not considered to be material weaknesses? yes X no None reported

Type of auditor's report issued on compliance
 for major programs: Unqualified

Any audit findings disclosed that are required
 to be reported in accordance with
 Circular A-133, Section .510(a)? yes X no

Identification of major programs:	<u>CFDA Number</u>	<u>Name of Program or Cluster</u>
	97.039	Hazard Mitigation Grant
	14.228	Community Development Block Grant

Dollar threshold used to distinguish
 between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes X no

CITY OF ATHENS, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2007

SECTION II – FINANCIAL STATEMENT FINDINGS

QUESTIONED
COSTS

07-1: Controls Over Police Department Funds

After completion of our fieldwork, but prior to issuance of our report, it came to our attention that certain discrepancies were being investigated in the area of funds to be received and reported from the Police Department. The discrepancies arise over a number of years and indicate that controls are lacking between amounts declared and awarded to the City by certain outside parties and the actual receipt and recording of these funds by the finance department.

We recommend controls be reviewed and strengthened over amounts to be received and recorded by the City's Police Department. This process should involve some third-party confirmation (courts, other governments) as to existence and ownership of these funds as they are not due to the City until declared so by the third-party.

\$ - 0 -

Management response and corrective action plan:

Internal control procedures have been revised to include the remittance of all funds, from all sources including seized and confiscated monies to the finance department immediately upon verification by the Chief of Police. Seized and confiscated monies will be placed in a non-interest bearing bank account until notification of ownership has been determined through the legal system.

SECTION III – FEDERAL AWARDS

NONE REPORTED

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