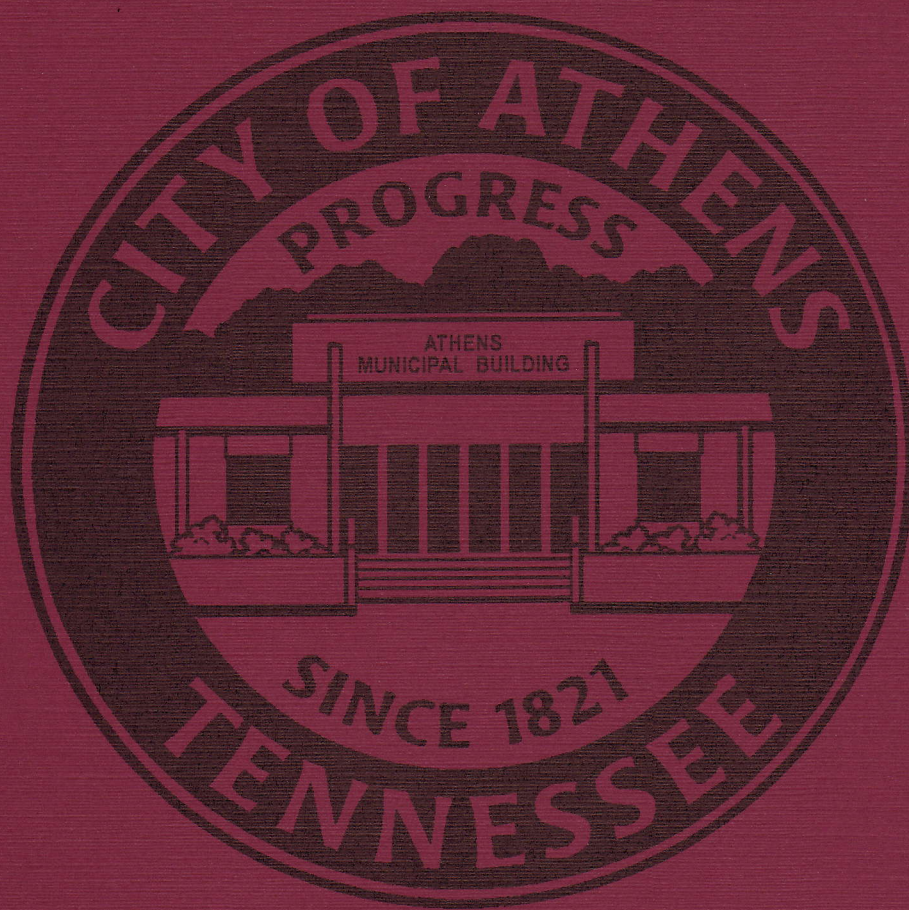


Comprehensive Annual Financial Report

City of Athens, Tennessee



For The Year Ended
June 30, 2008

CITY OF ATHENS, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2008**

**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, 2008.

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, 2008, 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, 2008, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement 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 13,553 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 current rate) and the lowest rate being 4.4 percent. During the past ten years, Denso Manufacturing has grown from a vacant parcel of land to an employer of approximately 900 individuals.

During the past ten years, the government's expenses related to education have generally 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 to the Athens City Schools administrative offices and various school buildings. However, for the year ended June 30, 2008, the government's expenses related to education decreased, as renovations have been completed.

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 (55 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 \$20,000,000 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 \$750,000 and is funded primarily by federal and state grants.

Relevant Financial Policies

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

Major Initiatives

Several transportation-related projects are expected to begin during the next several years. These include the signalization of Congress Parkway at 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 2010. It is expected that traffic will increase in the city as a result of this and may require changes and upgrades to the streets and signalizations over future years. The city and McMinn County have been in discussions with the State of Tennessee concerning the location of a bypass to improve traffic flow in the area.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada(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, 2007. This was the sixteenth 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 19, 2008

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Athens
Tennessee

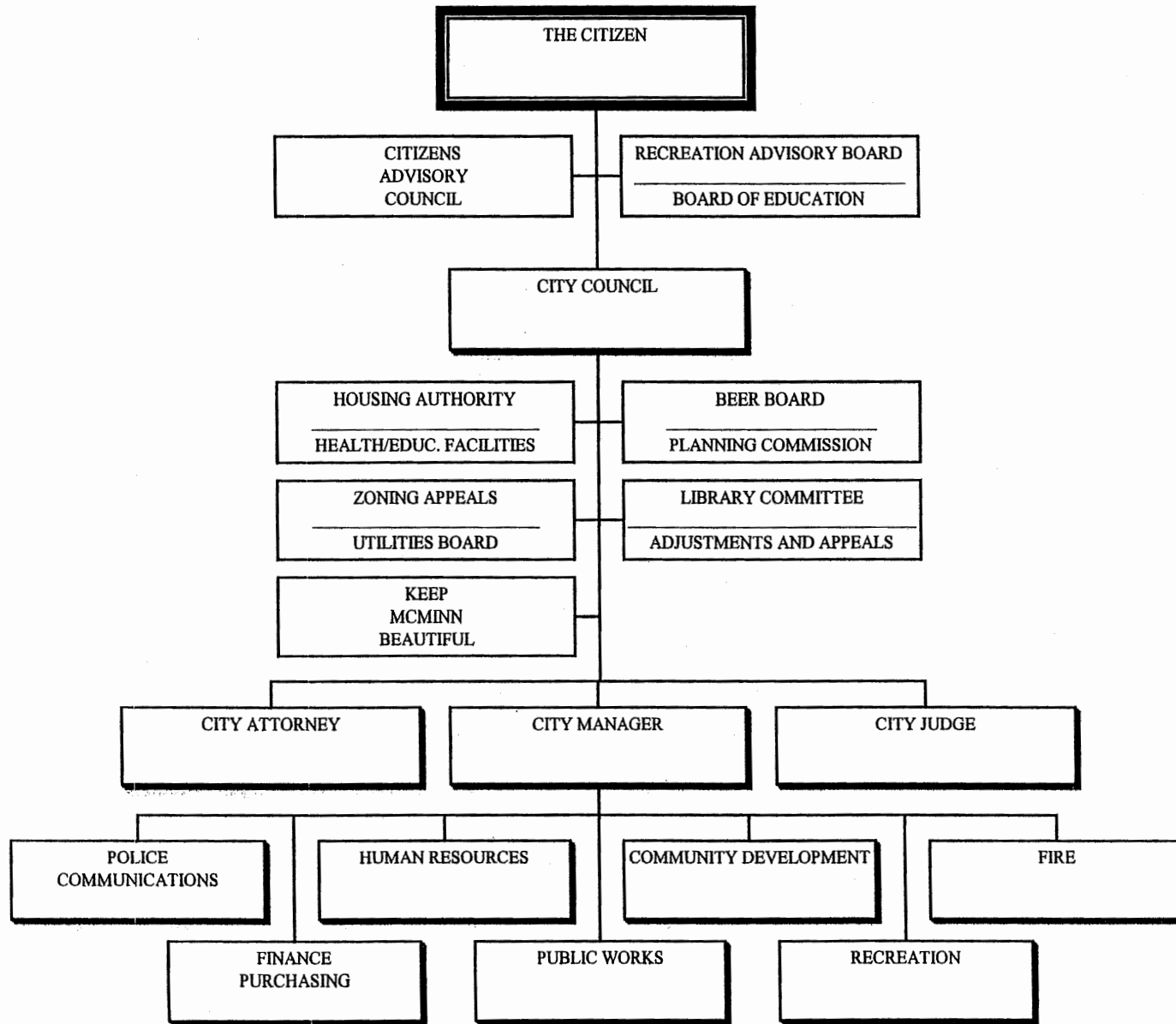
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

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



President

Executive Director



CITY OF ATHENS, TENNESSEE
LIST OF PRINCIPAL OFFICIALS
June 30, 2008

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

R. Carter Runyan
Charles J. Liner
Linda Derrick
Lou Pascarella
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, 2008, 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, 2008, 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 19, 2008, 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, the schedule of expenditures of federal and state awards, statistical data, and the financial schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements 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 19, 2008

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008

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, 2008. 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, 2008, by \$23,220,810 (net assets). Of this amount, \$8,229,037 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- Net assets increased by \$1,751,542, an increase of 8.2% compared to fiscal year 2007. The City of Athens' changes in net assets is detailed in the chart on page B-6 of this report. Total revenues decreased \$1,448,920, primarily due to reductions in grants, property taxes, and investment income. Expenses decreased \$772,415 primarily due to a decrease in appropriations (loan proceeds) from fiscal year 2007 for the Athens City Schools and a decrease in pass-through grant funds.
- As of the close of the current fiscal year, the City of Athens' governmental funds reported combined ending fund balances of \$13,989,404. Only 23.5% is reserved for specific purposes, and the remaining 76.5%, or \$10,708,336, 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 \$7,018,754, or 60.1% of total general fund expenditures. Expenditures do not include transfers to other funds, which totaled \$1,790,000 in the City's general fund.

Overview of the Financial Statements

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

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

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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008

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 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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008

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.

The basic proprietary fund financial statements can be found on pages 13-15 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

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008

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 \$23,220,180 at the close of this fiscal year.

The largest portion of the City of Athens' net assets (52%) 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 35% 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.

At June 30, 2008, 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, Tennessee
Management's Discussion and Analysis
June 30, 2008**

**City of Athens
Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Current and other assets	\$21,488,532	\$20,413,985	\$ 1,002,373	\$ 883,126	\$22,490,905	\$21,297,111
Capital assets	<u>11,600,566</u>	<u>11,959,401</u>	<u>1,485,011</u>	<u>1,346,519</u>	<u>13,085,577</u>	<u>13,305,920</u>
Total assets	<u>33,089,098</u>	<u>32,373,386</u>	<u>2,487,384</u>	<u>2,229,645</u>	<u>35,576,482</u>	<u>34,603,031</u>
Long-term liabilities	7,318,680	7,879,225	—	—	7,318,680	7,879,225
Other liabilities	<u>5,017,624</u>	<u>5,245,941</u>	<u>19,368</u>	<u>19,744</u>	<u>5,036,992</u>	<u>5,265,685</u>
Total liabilities	<u>12,336,304</u>	<u>13,125,166</u>	<u>19,368</u>	<u>19,744</u>	<u>12,355,672</u>	<u>13,144,910</u>
Invested in capital assets, net of related debt	10,614,066	10,514,601	1,485,011	1,346,519	12,099,077	11,861,120
Restricted	2,892,696	2,491,767	—	—	2,892,696	2,491,767
Unrestricted	<u>7,246,032</u>	<u>6,241,852</u>	<u>983,005</u>	<u>863,382</u>	<u>8,229,037</u>	<u>7,105,234</u>
Total net assets	<u>\$20,752,794</u>	<u>\$19,248,220</u>	<u>\$ 2,468,016</u>	<u>\$ 2,209,901</u>	<u>\$23,220,810</u>	<u>\$21,458,121</u>

Governmental activities. Governmental activities increased the City of Athens' net assets by \$1,504,574 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 a decrease in funding for education expenses as much of the renovation expenses were done in the prior years, a decrease in capital expenses, and a decrease in fleet asset purchases. The 2008 financial statements include a prior period adjustment of \$11,147 for the inclusion of the police benefit fund as a reserve. Additional information on the prior period adjustment can be found in Note 12 on page 49.

Business-type activities. Business-type activities increased the City of Athens' net assets by \$258,115. This increase was primarily the result of a transfer to the sanitation fund due to the purchase of fleet assets.

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

**City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008**

**City of Athens
Changes in Net Assets**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues:						
Program revenues:						
Charges for services	\$ 766,595	\$ 896,119	\$ 814,434	\$ 808,306	\$ 1,581,029	\$ 1,704,425
Operating grants and contributions	540,073	920,680	-	-	540,073	920,680
Capital grants and contributions	48,010	791,576	-	-	48,010	791,576
General revenues:						
Property taxes	4,184,673	4,379,275	-	-	4,184,673	4,379,275
Other taxes	6,140,651	6,124,469	-	-	6,140,651	6,124,469
Intergovernmental revenues not restricted to specific programs						
Other	1,368,407	1,340,060	-	-	1,368,407	1,340,060
Other	<u>380,020</u>	<u>690,741</u>	<u>295,382</u>	<u>35,939</u>	<u>675,402</u>	<u>726,680</u>
Total revenues	<u>13,428,429</u>	<u>15,142,920</u>	<u>1,109,816</u>	<u>844,245</u>	<u>14,538,245</u>	<u>15,987,165</u>
Expenses:						
General government	2,819,334	3,213,814	-	-	2,819,334	3,213,814
Public safety	3,885,236	3,668,107	-	-	3,885,236	3,668,107
Highways and streets	2,252,358	1,872,584	-	-	2,252,358	1,872,584
Culture and recreation	825,652	878,552	-	-	825,652	878,552
Education	1,808,646	2,680,133	-	-	1,808,646	2,680,133
Health and welfare	89,773	96,383	-	-	89,773	96,383
Interest on long-term debt	254,003	326,030	-	-	254,003	326,030
Conference center	-	-	78,630	73,475	78,630	73,475
Sanitation	-	-	773,071	750,040	773,071	750,040
Total expenses	<u>11,935,002</u>	<u>12,735,603</u>	<u>851,701</u>	<u>823,515</u>	<u>12,786,703</u>	<u>13,559,118</u>
Change in net assets	1,493,427	2,407,317	258,115	20,730	1,751,542	2,428,047
Net assets, beginning of year	(1) <u>19,259,367</u>	<u>16,840,903</u>	<u>2,209,901</u>	<u>2,189,171</u>	<u>21,469,268</u>	<u>19,030,074</u>
Net assets, end of year	<u>\$20,752,794</u>	<u>\$19,248,220</u>	<u>\$ 2,468,016</u>	<u>\$ 2,209,901</u>	<u>\$23,220,810</u>	<u>\$21,458,121</u>

(1) Includes restatement of net assets of \$11,147, as described in Note 12. The restatement changes net assets at July 1, 2007 from \$19,248,220 to \$19,259,367.

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, 2008

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 \$13,989,404, an increase of \$1,518,261 in comparison to the prior year. Approximately 76.5% of this total amount (\$10,708,336) 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, \$74,507 is reserved for encumbrances, \$10,017 is reserved for Cook Park, \$106,917 is reserved for inventory, \$196,932 is reserved for law enforcement and police benefit, \$131,395 is reserved for cemetery perpetual care, and \$2,761,301 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 \$7,018,754. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total general fund expenditures. Unreserved fund balance represents 60% of total fund expenditures, but represents 52% 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 \$5,965 during the current fiscal year, including the prior period adjustment of \$11,147 (see Note 12). The fund had a net change in fund balance of \$(5,182) although a net change of in excess of \$(1,470,000) had been budgeted. Revenues exceeded expenses by \$1,764,334 but were offset by the transfers noted below. The key factors are that actual expenditures were less than budgeted throughout most departments and property tax, intergovernmental revenues and charges for services exceeded the original budget.

The debt service fund has a total fund balance of \$2,761,301. The net increase was \$397,510 due to an increase in school system intergovernmental revenue and a decrease in interest expense. The capital projects fund has a total fund balance of \$3,454,320. The net increase was \$1,062,254, as revenues such as intergovernmental and investment income and the transfer noted below were significant, totaling \$1,127,955 while expenditures were minimal at \$65,701. The City continued to transfer \$790,000 to the debt service fund in the current year and transferred an additional \$1,000,000 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.

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008

Unrestricted net assets at the end of the year amounted to \$9,839 for the conference center fund, \$973,166 for the sanitation fund, and \$1,424,781 for the fleet management fund.

General Fund Budgetary Highlights.

Differences between the original budget and the final amended budgeted expenditures were approximately \$709,000 and are summarized below:

\$199,000 in miscellaneous increases in general government activities, related primarily to grants, election expenses, legal and other professional services, as well as capital asset expenditures.

\$170,000 in miscellaneous increases in public safety, related primarily to fixed asset expenditures in emergency communications and police services.

\$67,000 in miscellaneous increases in culture and recreation, related primarily to maintenance projects and fixed asset expenditures.

\$273,000 in miscellaneous increases in public works, related primarily to maintenance and street projects, as well as fixed asset expenditures.

Actual revenues exceeded final amended budgeted revenues by \$223,776 and are summarized below:

\$45,440 in property taxes and other local taxes, related primarily to the collection of significant prior year property taxes.

\$108,532 in intergovernmental revenues, primarily due to an increase in state sales taxes and state income taxes.

\$27,847 in interest income.

\$32,138 in charges for services, related primarily to an increase in building permits and recreation concessions.

Final amended budgeted expenditures exceeded actual expenditures by \$1,220,658 and are summarized below:

\$262,052 in general government expenditures, related primarily to pass-through grants, administrative services, finance and community development.

**City of Athens, Tennessee
Management's Discussion and Analysis
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\$507,894 in public safety expenditures including police (\$221,158), fire (\$153,531), and communications (\$133,205).

\$330,799 in highways and streets primarily due to street construction.

\$112,633 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, 2008, amounts to \$13,085,577 (net of accumulated depreciation). This investment in capital assets includes land, buildings, other improvements, equipment, and infrastructure.

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

A new generator and fire bay doors added approximately \$95,000.

Police department activities added approximately \$161,000 in computer equipment and vehicles.

Fire department activities added approximately \$67,000 in new equipment and vehicles.

Parks and recreation projects added approximately \$271,000 in downtown property renovations.

Public works and sanitation added approximately \$366,000 in equipment, a pedestrian enhancement project, and a new refuse truck.

**City of Athens
Capital Assets**

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Buildings and improvements	\$ 5,150,639	\$ 5,039,325	\$ 1,517,930	\$ 1,517,930	\$ 6,668,569	\$ 6,557,255
Infrastructure	6,544,813	6,414,216	-	-	6,544,813	6,414,216
Furniture and office equipment	837,451	800,749	29,864	29,864	867,315	830,613
Machinery and equipment	5,702,229	5,893,080	1,327,819	1,239,768	7,030,048	7,132,848
Land	2,563,167	2,405,075	34,500	34,500	2,597,667	2,439,575
Construction in progress	-	129,002	-	-	-	129,002
	<u>\$20,798,299</u>	<u>\$20,681,447</u>	<u>\$ 2,910,113</u>	<u>\$ 2,822,062</u>	<u>\$23,708,412</u>	<u>\$23,503,509</u>

City of Athens, Tennessee
Management's Discussion and Analysis
June 30, 2008

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 \$986,500 and the Series 2003 note was \$6,100,000. 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 35-37 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 8.3%, which is an increase from the rate of 4.9% a year ago. Athens' rate is higher than the state and federal rates, due to the closing of a local manufacturing facility.

Revenues were expected to increase by 0.7% due to increases related to taxes and intergovernmental revenues. Management has been conservative in estimating all revenues for 2008-2009 and expenditures decreased by 0.7% also. Budgeted expenditures were to increase primarily due to salary and fringe benefits. The property tax rate decreased from 1.29% to 1.1147% for 2008-2009.

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, 2008

	Primary Government			Component Units	
				Governmental	Proprietary
	Governmental Activities	Business-Type Activities	Total	Athens Board of Education	Athens Utilities Board
ASSETS					
Cash and cash equivalents	\$ 819,225	\$ 92,878	\$ 912,103	\$ 3,450,449	\$ 13,491,473
Investments	13,762,468	827,392	14,589,860	-	-
Receivables:					
Customers, net	-	21,124	21,124	-	3,859,380
Other	54,928	-	54,928	-	576,919
Property taxes, net	4,560,364	-	4,560,364	1,907,060	-
Interest	-	-	-	-	-
Other governments	1,408,646	-	1,408,646	1,191,939	-
Component units/primary government	350,947	60,979	411,926	330,000	78,919
Prepaid expenses	-	-	-	-	550,007
Inventories	106,917	-	106,917	27,380	1,936,422
Restricted assets	-	-	-	-	395,715
Capital assets, net of depreciation	9,037,399	1,450,511	10,487,910	6,584,986	81,312,242
Nondepreciable capital assets	2,563,167	34,500	2,597,667	211,146	7,180,415
Customer loans receivable	-	-	-	-	730,448
Debt issue costs, net	22,225	-	22,225	-	157,186
Prepaid pension obligation	402,812	-	402,812	-	156,132
Total assets	\$33,089,098	\$2,487,384	\$35,576,482	\$13,702,960	\$110,425,258
LIABILITIES AND NET ASSETS					
LIABILITIES					
Accounts payable	\$ 220,442	\$ 17,158	\$ 237,600	\$ 263,697	\$ 5,108,195
Retention payable	-	-	-	-	156,405
Accrued payroll and withholdings	57,516	2,210	59,726	850,270	-
Customer deposits	-	-	-	-	386,120
Due to component units/primary government	387,364	-	387,364	350,947	62,070
Other current liabilities	-	-	-	-	555,161
Unearned revenues	4,352,302	-	4,352,302	1,926,326	59,750
TVA advances	-	-	-	-	691,156
Long-term liabilities:					
Due within one year	735,994	-	735,994	-	791,669
Due in more than one year	6,582,686	-	6,582,686	-	26,933,840
Total liabilities	12,336,304	19,368	12,355,672	3,391,240	34,744,366
NET ASSETS					
Invested in capital assets, net of related debt	10,614,066	1,485,011	12,099,077	6,422,275	60,919,871
Restricted for:					
Debt service	2,761,301	-	2,761,301	-	284,690
Cemetery perpetual care:					
Expendable	84,112	-	84,112	-	-
Nonexpendable	47,283	-	47,283	-	-
Unrestricted	7,246,032	983,005	8,229,037	3,889,445	14,476,331
Total net assets	20,752,794	2,468,016	23,220,810	10,311,720	75,680,892
Total liabilities and net assets	\$33,089,098	\$2,487,384	\$35,576,482	\$13,702,960	\$110,425,258

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, 2008

Functions/Programs	Expenses	Program Revenues		Net Revenues (Expenses) and Changes in Net Assets					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Athens Board of Education	Athens Utilities Board
Primary government:									
Governmental activities:									
General government	\$ 2,819,334	\$ 161,389	\$ -	\$ -	\$ (2,657,945)	\$ -	\$ (2,657,945)	\$ -	\$ -
Public safety	3,885,236	456,715	81,468	-	(3,347,053)	-	(3,347,053)	-	-
Highways and streets	2,252,358	-	439,515	48,010	(1,764,833)	-	(1,764,833)	-	-
Culture and recreation	825,652	129,551	-	-	(696,101)	-	(696,101)	-	-
Education	1,808,646	-	-	-	(1,808,646)	-	(1,808,646)	-	-
Health and welfare	89,773	18,940	19,090	-	(51,743)	-	(51,743)	-	-
Interest on long-term debt	254,003	-	-	-	(254,003)	-	(254,003)	-	-
Total governmental activities	11,935,002	766,595	540,073	48,010	(10,580,324)	-	(10,580,324)	-	-
Business-type activities:									
Conference center	78,630	16,085	-	-	-	(62,545)	(62,545)	-	-
Sanitation	773,071	798,349	-	-	-	25,278	25,278	-	-
Total business-type activities	851,701	814,434	-	-	-	(37,267)	(37,267)	-	-
Total primary government	\$ 12,786,703	\$ 1,581,029	\$ 540,073	\$ 48,010	(10,580,324)	(37,267)	(10,617,591)	\$ -	\$ -
Component units:									
School system	\$ 15,567,382	\$ 638,873	\$ 2,908,751	\$ -				\$ (12,019,758)	\$ -
Public utilities	59,733,625	62,452,839	-	685,440				-	3,404,654
Total component units	\$ 75,301,007	\$ 63,091,712	\$ 2,908,751	\$ 685,440				(12,019,758)	3,404,654
General revenues:									
Property taxes					4,184,673	-	4,184,673	1,796,682	-
Local sales tax					3,954,205	-	3,954,205	-	-
In lieu of taxes					865,380	-	865,380	-	-
Gross receipts tax					656,149	-	656,149	-	-
Wholesale beer tax					478,869	-	478,869	-	-
Other local taxes					186,048	-	186,048	-	-
Intergovernmental revenues not restricted to specific programs					1,368,407	-	1,368,407	8,136,487	-
Payments from the primary government					-	-	-	1,808,646	-
Investment income					505,678	32,461	538,139	174,014	378,637
Gain on disposal of capital assets					46,329	5,033	51,362	-	1,264
Miscellaneous					79,103	6,798	85,901	43,579	-
Transfers					(251,090)	251,090	-	-	-
Total general revenues					12,073,751	295,382	12,369,133	11,959,408	379,901
Change in net assets					1,493,427	258,115	1,751,542	(60,350)	3,784,555
Net assets, beginning of year					19,248,220	2,209,901	21,458,121	10,372,070	71,896,337
Prior period adjustment					11,147	-	11,147	-	-
Net assets, beginning of year, as restated					19,259,367	2,209,901	21,469,268	10,372,070	71,896,337
Net assets, end of year					\$ 20,752,794	\$ 2,468,016	\$ 23,220,810	\$ 10,311,720	\$ 75,680,892

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

CITY OF ATHENS, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	Debt Service	Capital Projects Fund Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 480,653	\$ 223,470	\$ 57,854	\$ 33,818	\$ 795,795
Investments	6,105,210	2,504,466	3,416,566	332,839	12,359,081
Property taxes receivable, less allowance of \$43,984	4,560,364	-	-	-	4,560,364
Due from other governments	1,375,281	33,365	-	-	1,408,646
Other receivables	54,928	-	-	-	54,928
Inventories	106,917	-	-	-	106,917
Total assets	<u>\$12,683,353</u>	<u>\$2,761,301</u>	<u>\$3,474,420</u>	<u>\$ 366,657</u>	<u>\$19,285,731</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 200,342	\$ -	\$ 20,100	\$ -	\$ 220,442
Accrued payroll and withholdings	57,516	-	-	-	57,516
Due to component units	387,364	-	-	-	387,364
Deferred revenues	4,631,005	-	-	-	4,631,005
Total liabilities	<u>5,276,227</u>	<u>-</u>	<u>20,100</u>	<u>-</u>	<u>5,296,327</u>
 FUND BALANCES					
Reserved for debt service	-	2,761,301	-	-	2,761,301
Reserved	388,372	-	-	131,395	519,767
Unreserved, undesignated	7,018,754	-	3,454,320	-	10,473,074
Unreserved, undesignated reported in nonmajor:					
Special revenue fund	-	-	-	216,477	216,477
Capital projects fund	-	-	-	18,785	18,785
Total fund balances	<u>7,407,126</u>	<u>2,761,301</u>	<u>3,454,320</u>	<u>366,657</u>	<u>13,989,404</u>
Total liabilities and fund balances	<u>\$12,683,353</u>	<u>\$2,761,301</u>	<u>\$3,474,420</u>	<u>\$ 366,657</u>	<u>\$19,285,731</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, 2008

Total fund balances		\$ 13,989,404
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	\$ 16,906,585	
Accumulated depreciation	<u>(7,254,841)</u>	9,651,744
Certain property taxes and intergovernmental revenue are not available to pay for current period expenditures and therefore are deferred in the funds.		
Property taxes	184,039	
Intergovernmental revenue	<u>96,700</u>	280,739
Prepaid pension obligations are not current financial resources and are not reported in the funds.		
		402,812
Certain long-term receivables from the component unit are not considered a current financial resource in the funds.		
		350,947
Certain liabilities are not considered a use of current financial resources in the funds.		
Bonds and notes payable	(7,086,500)	
Compensated absences	<u>(232,180)</u>	(7,318,680)
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>(9,275)</u>	22,225
An internal service fund is used by management to charge the cost of fleet management to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.		
Cash	23,431	
Investments	1,403,387	
Capital assets	3,891,714	
Accumulated depreciation	(1,942,892)	
Accounts payable	(600)	
Deferred revenue	<u>(1,437)</u>	<u>3,373,603</u>
Net assets		<u>\$ 20,752,794</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, 2008

	General	Debt Service	Capital Projects Fund Capital Improvement	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Property taxes	\$4,390,787	\$ -	\$ -	\$ -	\$ 4,390,787
Other local taxes	6,140,653	-	-	-	6,140,653
Intergovernmental	1,961,232	310,259	10,000	-	2,281,491
Charges for services	275,138	-	-	-	275,138
Fines and forfeitures	404,761	-	-	51,954	456,715
Investment and interest income	197,847	117,623	117,955	10,743	444,168
Miscellaneous	77,558	-	-	1,545	79,103
Total revenues	<u>13,447,976</u>	<u>427,882</u>	<u>127,955</u>	<u>64,242</u>	<u>14,068,055</u>
EXPENDITURES					
Current:					
General government	2,759,548	8,069	-	-	2,767,617
Public safety	3,962,106	-	-	5,890	3,967,996
Highways and streets	2,181,401	-	-	-	2,181,401
Culture and recreation	878,867	-	-	-	878,867
Education	1,808,646	-	-	-	1,808,646
Health and welfare	93,074	-	-	-	93,074
Debt service:					
Principal	-	558,300	-	-	558,300
Interest	-	254,003	-	-	254,003
Capital outlay	-	-	65,701	5,820	71,521
Total expenditures	<u>11,683,642</u>	<u>820,372</u>	<u>65,701</u>	<u>11,710</u>	<u>12,581,425</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,764,334</u>	<u>(392,490)</u>	<u>62,254</u>	<u>52,532</u>	<u>1,486,630</u>
OTHER FINANCING SOURCES (USES)					
Transfers	(1,790,000)	790,000	1,000,000	-	-
Sale of capital assets	20,484	-	-	-	20,484
Total other financing sources (uses)	<u>(1,769,516)</u>	<u>790,000</u>	<u>1,000,000</u>	<u>-</u>	<u>20,484</u>
NET CHANGE IN FUND BALANCES	<u>(5,182)</u>	<u>397,510</u>	<u>1,062,254</u>	<u>52,532</u>	<u>1,507,114</u>
FUND BALANCES, beginning of year	7,401,161	2,363,791	2,392,066	314,125	12,471,143
Prior period adjustment	11,147	-	-	-	11,147
FUND BALANCES, beginning of year, as restated	<u>7,412,308</u>	<u>2,363,791</u>	<u>2,392,066</u>	<u>314,125</u>	<u>12,482,290</u>
FUND BALANCES, end of year	<u>\$7,407,126</u>	<u>\$2,761,301</u>	<u>\$3,454,320</u>	<u>\$ 366,657</u>	<u>\$13,989,404</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, 2008

Net change in fund balances		\$ 1,507,114
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	\$ 4,184,673	
Fund revenue recognized	<u>(4,390,787)</u>	(206,114)
Intergovernmental revenues that do not provide current financial resources are not reported as revenue in the funds.		
State beer tax-full accrual	7,293	
State income tax-full accrual	211,570	
Collected fund revenue	<u>(198,868)</u>	19,995
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.		
		(310,258)
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	468,641	
Less current year depreciation	<u>(690,094)</u>	(221,453)
The change in value of the net pension obligation is recorded as an expense in the statement of activities.		
		16,805
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.		
		128,893
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.		
Bonds and notes payable payments	558,300	
Net change in compensated absences	<u>2,245</u>	560,545
Debt issue costs are amortized over the life of the debt in the statement of activities and expended when incurred in the funds.		
		<u>(2,100)</u>
Change in net assets		<u>\$ 1,493,427</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, 2008

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
PROPERTY TAXES				
Property taxes-current	\$ 4,100,000	\$ 4,100,000	\$ 3,934,101	\$ (165,899)
Property taxes-prior	130,000	130,000	336,009	206,009
Property taxes-delinquent	30,000	30,000	40,568	10,568
Public utilities taxes	90,000	90,000	80,109	(9,891)
Total property taxes	<u>4,350,000</u>	<u>4,350,000</u>	<u>4,390,787</u>	<u>40,787</u>
OTHER LOCAL TAXES				
Penalty and interest on property tax-prior	15,000	15,000	20,252	5,252
Penalty and interest on property tax-current	15,000	15,000	13,620	(1,380)
In lieu of taxes	832,000	832,000	865,380	33,380
Local sales tax	4,000,000	4,000,000	3,954,205	(45,795)
Wholesale beer tax	460,000	460,000	478,869	18,869
Minimum business tax	14,000	14,000	13,665	(335)
Cable TV franchise tax	130,000	130,000	138,113	8,113
Gross receipts tax	670,000	670,000	656,149	(13,851)
Transient fees	-	-	400	400
Total other local taxes	<u>6,136,000</u>	<u>6,136,000</u>	<u>6,140,653</u>	<u>4,653</u>
INTERGOVERNMENTAL				
State sales tax	920,000	920,000	956,974	36,974
State beer tax	6,000	6,000	7,293	1,293
State income tax	90,000	145,000	191,570	46,570
State gas and motor fuel tax	380,000	380,000	377,991	(2,009)
State gasoline inspection tax	30,000	30,000	29,118	(882)
State mixed drink tax	45,000	45,000	50,506	5,506
State excise tax	80,000	108,700	112,946	4,246
State law/fire grants	17,000	17,000	13,200	(3,800)
Reimbursement-other government agencies	49,000	72,000	121,345	49,345
Highway maintenance reimbursement	10,000	10,000	13,202	3,202
Police grants	-	-	29,270	29,270
Other grant funds	-	119,000	57,817	(61,183)
Total intergovernmental	<u>1,627,000</u>	<u>1,852,700</u>	<u>1,961,232</u>	<u>108,532</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, 2008
(continued)

	Budget		Actual	Variance
	Original	Final		With Final Budget
CHARGES FOR SERVICES				
Utility damage reimbursement	\$ 10,000	\$ 10,000	\$ 16,278	\$ 6,278
Animal control	35,000	35,000	18,940	(16,060)
Grave opening	20,000	20,000	22,525	2,525
Recreation fees	73,000	73,000	77,820	4,820
Building permits	60,000	60,000	82,224	22,224
Clerks fees	5,000	5,000	5,200	200
Recreation concessions	30,000	40,000	52,151	12,151
Total charges for services	<u>233,000</u>	<u>243,000</u>	<u>275,138</u>	<u>32,138</u>
FINES AND FORFEITURES				
Court fines	400,000	400,000	403,673	3,673
Law enforcement forfeitures	20,000	20,000	1,088	(18,912)
Total fines and forfeitures	<u>420,000</u>	<u>420,000</u>	<u>404,761</u>	<u>(15,239)</u>
INTEREST	<u>170,000</u>	<u>170,000</u>	<u>197,847</u>	<u>27,847</u>
MISCELLANEOUS	<u>49,000</u>	<u>52,500</u>	<u>77,558</u>	<u>25,058</u>
Total revenues	<u>12,985,000</u>	<u>13,224,200</u>	<u>13,447,976</u>	<u>223,776</u>
EXPENDITURES				
GENERAL GOVERNMENT				
Administrative:				
City Manager's Office	301,600	382,600	262,144	120,456
City Council	56,100	70,600	66,054	4,546
City Judge	15,500	15,500	15,197	303
City Attorney	18,000	28,000	17,328	10,672
Special appropriations	332,400	332,400	331,923	477
Athens Utilities Board	512,000	522,000	515,952	6,048
Finance	686,400	720,800	691,889	28,911
Personnel	167,300	167,300	145,199	22,101
Administrative services:				
Administration	98,800	98,800	96,419	2,381
City Hall	294,000	335,100	290,065	45,035
Community development:				
Administration	148,400	148,400	138,443	9,957
Codes enforcement	137,200	145,200	137,465	7,735
Cemeteries	54,900	54,900	51,470	3,430
Total general government	<u>2,822,600</u>	<u>3,021,600</u>	<u>2,759,548</u>	<u>262,052</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, 2008
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
PUBLIC SAFETY				
Police:				
Administration	\$ 249,000	\$ 249,000	\$ 239,453	\$ 9,547
Patrol	1,773,900	1,841,200	1,649,904	191,296
Detective	211,900	211,900	191,585	20,315
Fire:				
Administration	116,200	116,200	110,748	5,452
Prevention	91,400	91,400	83,724	7,676
Suppression	1,454,100	1,454,100	1,313,697	140,403
Administrative services:				
Communications	403,400	506,200	372,995	133,205
Total public safety	<u>4,299,900</u>	<u>4,470,000</u>	<u>3,962,106</u>	<u>507,894</u>
HIGHWAYS AND STREETS				
Public Works:				
Administration	187,800	196,100	185,578	10,522
Traffic control	197,100	252,600	214,456	38,144
Street maintenance	527,600	727,600	663,844	63,756
Street construction	406,000	415,200	274,515	140,685
Street cleaning	618,300	618,300	584,993	33,307
City garage	302,400	302,400	258,015	44,385
Total highways and streets	<u>2,239,200</u>	<u>2,512,200</u>	<u>2,181,401</u>	<u>330,799</u>
CULTURE AND RECREATION				
Parks and Recreation:				
Administration	173,400	183,400	173,578	9,822
Maintenance	472,200	513,600	430,812	82,788
Swimming pools	36,500	39,500	35,734	3,766
Program planning	242,200	255,000	238,743	16,257
Total culture and recreation	<u>924,300</u>	<u>991,500</u>	<u>878,867</u>	<u>112,633</u>
EDUCATION				
Athens City Schools	<u>1,804,500</u>	<u>1,804,500</u>	<u>1,808,646</u>	<u>(4,146)</u>
HEALTH AND WELFARE				
Public Works:				
Animal control	<u>104,500</u>	<u>104,500</u>	<u>93,074</u>	<u>11,426</u>
Total expenditures	<u>12,195,000</u>	<u>12,904,300</u>	<u>11,683,642</u>	<u>1,220,658</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>790,000</u>	<u>319,900</u>	<u>1,764,334</u>	<u>1,444,434</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, 2008
(continued)

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES OVER (UNDER) EXPENDITURES	<u>\$ 790,000</u>	<u>\$ 319,900</u>	<u>\$ 1,764,334</u>	<u>\$ 1,444,434</u>
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Transfer to debt service fund	(790,000)	(790,000)	(790,000)	-
Transfer to capital improvement fund	-	(1,000,000)	(1,000,000)	-
Sale of capital assets	-	-	20,484	20,484
Total other financing sources (uses)	<u>(790,000)</u>	<u>(1,790,000)</u>	<u>(1,769,516)</u>	<u>20,484</u>
Net change in fund balance	-	(1,470,100)	(5,182)	1,464,918
FUND BALANCE, beginning of year	<u>7,412,308</u>	<u>7,412,308</u>	<u>7,412,308</u>	<u>-</u>
FUND BALANCE, end of year	<u><u>\$ 7,412,308</u></u>	<u><u>\$ 5,942,208</u></u>	<u><u>\$ 7,407,126</u></u>	<u><u>\$ 1,464,918</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
BALANCE SHEET
PROPRIETARY FUNDS
June 30, 2008

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference Center	Sanitation	Total	Internal Service Fund
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 10,451	\$ 82,427	\$ 92,878	\$ 23,431
Investments	-	827,392	827,392	1,403,387
Accounts receivable	287	20,837	21,124	-
Due from component units	-	60,979	60,979	-
Total current assets	<u>10,738</u>	<u>991,635</u>	<u>1,002,373</u>	<u>1,426,818</u>
Capital assets:				
Land	34,500	-	34,500	-
Other capital assets, net	<u>1,164,537</u>	<u>285,974</u>	<u>1,450,511</u>	<u>1,948,822</u>
Total capital assets	<u>1,199,037</u>	<u>285,974</u>	<u>1,485,011</u>	<u>1,948,822</u>
Total assets	<u><u>\$ 1,209,775</u></u>	<u><u>\$1,277,609</u></u>	<u><u>\$ 2,487,384</u></u>	<u><u>\$ 3,375,640</u></u>
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 347	\$ 16,811	\$ 17,158	600
Accrued payroll and withholdings	552	1,658	2,210	-
Deferred revenue	-	-	-	1,437
Total current liabilities	<u>899</u>	<u>18,469</u>	<u>19,368</u>	<u>2,037</u>
NET ASSETS				
Invested in capital assets	1,199,037	285,974	1,485,011	1,948,822
Unrestricted	<u>9,839</u>	<u>973,166</u>	<u>983,005</u>	<u>1,424,781</u>
Total net assets	<u>1,208,876</u>	<u>1,259,140</u>	<u>2,468,016</u>	<u>3,373,603</u>
Total liabilities and net assets	<u><u>\$ 1,209,775</u></u>	<u><u>\$1,277,609</u></u>	<u><u>\$ 2,487,384</u></u>	<u><u>\$ 3,375,640</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, 2008

	<u>Business-Type Activities-Enterprise Funds</u>			<u>Governmental</u>
				<u>Activities</u>
	<u>Conference</u>	<u>Sanitation</u>	<u>Total</u>	<u>Internal</u>
	<u>Center</u>			<u>Service</u>
				<u>Fund</u>
OPERATING REVENUES				
Charges for services	\$ -	\$ 798,349	\$ 798,349	\$ 538,500
Rental income	16,085	-	16,085	-
Miscellaneous	200	6,598	6,798	-
Total operating revenues	<u>16,285</u>	<u>804,947</u>	<u>821,232</u>	<u>538,500</u>
OPERATING EXPENSES				
Salaries and employee benefits	16,459	393,894	410,353	-
Operation	9,246	140,832	150,078	3,543
Maintenance	2,345	5,509	7,854	-
Depreciation	50,580	62,018	112,598	242,329
Landfill services	-	170,818	170,818	-
Total operating expenses	<u>78,630</u>	<u>773,071</u>	<u>851,701</u>	<u>245,872</u>
OPERATING INCOME (LOSS)	<u>(62,345)</u>	<u>31,876</u>	<u>(30,469)</u>	<u>292,628</u>
NONOPERATING REVENUES				
Interest income	647	31,814	32,461	61,510
Gain on sale of capital assets	-	5,033	5,033	25,845
Transfer	-	251,090	251,090	(251,090)
Total nonoperating revenues	<u>647</u>	<u>287,937</u>	<u>288,584</u>	<u>(163,735)</u>
CHANGE IN NET ASSETS	<u>(61,698)</u>	<u>319,813</u>	<u>258,115</u>	<u>128,893</u>
NET ASSETS, beginning of year	<u>1,270,574</u>	<u>939,327</u>	<u>2,209,901</u>	<u>3,244,710</u>
NET ASSETS, end of year	<u>\$ 1,208,876</u>	<u>\$1,259,140</u>	<u>\$ 2,468,016</u>	<u>\$ 3,373,603</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, 2008

	Business-Type Activities-Enterprise Funds			Governmental Activities
	Conference			Internal Service Fund
	Center	Sanitation	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 15,798	\$ 800,710	\$ 816,508	\$ 539,937
Payments to employees	(14,640)	(294,468)	(309,108)	-
Payments to suppliers and vendors	(12,649)	(417,722)	(430,371)	(2,943)
Other receipts	200	3,134	3,334	-
Net cash provided by (used in) operating activities	<u>(11,291)</u>	<u>91,654</u>	<u>80,363</u>	<u>536,994</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	-	-	-	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of capital assets	-	5,033	5,033	37,853
Purchase of capital assets	-	-	-	(368,049)
Net cash used in capital and related financing activities	<u>-</u>	<u>5,033</u>	<u>5,033</u>	<u>(330,196)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Investment and interest earnings	647	31,814	32,461	61,510
Purchase of investments	-	(148,415)	(148,415)	(244,877)
Sale of investments	16,515	-	16,515	-
Net cash provided by (used in) investing activities	<u>17,162</u>	<u>(116,601)</u>	<u>(99,439)</u>	<u>(183,367)</u>
Net increase (decrease) in cash and cash equivalents	5,871	(19,914)	(14,043)	23,431
Cash and cash equivalents, beginning of year	4,580	102,341	106,921	-
Cash and cash equivalents, end of year	<u>\$ 10,451</u>	<u>\$ 82,427</u>	<u>\$ 92,878</u>	<u>23,431</u>
Reconciliation of operating income to net cash provided by (used in) operating activities:				
Operating income (loss)	\$ (62,345)	\$ 31,876	\$ (30,469)	\$ 292,628
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	50,580	62,018	112,598	242,329
Changes in assets and liabilities:				
Accounts receivable	(287)	(1,103)	(1,390)	-
Accounts payable and accrued liabilities	761	(1,137)	(376)	600
Deferred revenues	-	-	-	1,437
Net cash provided by (used in) operating activities	<u>\$ (11,291)</u>	<u>\$ 91,654</u>	<u>\$ 80,363</u>	<u>\$ 536,994</u>
NONCASH, INVESTING, CAPITAL, AND FINANCING ACTIVITIES				
Transfer of capital assets	\$ -	\$ 251,090	\$ 251,090	\$ (251,090)

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, 2008

ASSETS	
Interest receivable	<u>\$ 16,698</u>
Investments, at fair value:	
U.S. government and agency securities	1,471,040
Foreign stocks	153,861
Common stock	1,730,247
Mutual funds	3,057,506
Money market fund	<u>95,256</u>
Total investments	<u>6,507,910</u>
Total assets	<u><u>\$ 6,524,608</u></u>
 NET ASSETS	
Net assets held in trust for pension benefits	<u><u>\$ 6,524,608</u></u>

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

CITY OF ATHENS, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ATHENS PENSION TRUST FUND
FIDUCIARY FUND
Year Ended June 30, 2008

ADDITIONS

Employer contributions	\$ 525,000
Net investment income:	
Interest and dividend income	246,642
Net depreciation in the fair value of investments	<u>(533,803)</u>
Total additions	<u>237,839</u>

DEDUCTIONS

Benefits paid	332,823
Administrative expenses	<u>21,788</u>
Total deductions	<u>354,611</u>

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

	(116,772)
NET ASSETS , held in trust for pension benefits, beginning of year	<u>6,641,380</u>
NET ASSETS , held in trust for pension benefits, end of year	<u><u>\$ 6,524,608</u></u>

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

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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, 2008

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, 2008

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. Activity which represents services provided or used are not eliminated in the government-wide 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.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 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 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, 2008

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, 2008

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, 2008

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 Fund: 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, 2008

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, 2008

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, 2008

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, 2008

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 2008. 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, 2008

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, 2008

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, 2008

Note 1. Summary of Significant Accounting Policies (continued)

M. Property Taxes (continued)

The assessed value for the list of January 1, 2007, was \$324,599,862 based upon a reappraisal completed for the list of January 1, 2007. The estimated actual was \$1,088,471,535 making the total assessed value 29.82 percent of the total actual value.

Taxes were levied at a rate of \$1.29 per \$100 of assessed value. Current tax collections of \$4,007,842 for the fiscal year ended June 30, 2008, were 96 percent of the 2007 tax levy. An allowance has been established for delinquent taxes to the extent that their collectibility is improbable. The allowance at June 30, 2008, for the 2007 tax levy was \$23,984.

The 2008 taxes were levied at a rate of \$1.1147 per \$100 of assessed value and have been recorded as a receivable at June 30, 2008. An allowance for doubtful collection of \$20,000 has been estimated and established for this levy at June 30, 2008. There are no current tax collections related to the 2008 levy.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 2. Capital Assets

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

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
<u>Governmental Activities</u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 5,039,325	\$ 111,314	\$ -	\$ 5,150,639
Infrastructure	6,414,216	130,597	-	6,544,813
Furniture and office equipment	800,749	197,640	160,938	837,451
Machinery and equipment	<u>5,893,080</u>	<u>116,959</u>	<u>307,810</u>	<u>5,702,229</u>
Total capital assets depreciated	<u>18,147,370</u>	<u>556,510</u>	<u>468,748</u>	<u>18,235,132</u>
Accumulated depreciation:				
Buildings and improvements	2,855,551	174,066	1,459	3,028,158
Infrastructure	1,823,500	155,069	-	1,978,569
Furniture and office equipment	528,871	262,525	159,479	631,917
Machinery and equipment	<u>3,514,124</u>	<u>340,763</u>	<u>295,798</u>	<u>3,559,089</u>
Total accumulated depreciation	<u>8,722,046</u>	<u>932,423</u>	<u>456,736</u>	<u>9,197,733</u>
Net capital assets being depreciated	<u>9,425,324</u>	<u>(375,913)</u>	<u>12,012</u>	<u>9,037,399</u>
Capital assets not being depreciated:				
Land	2,405,075	158,092	-	2,563,167
Construction in progress	<u>129,002</u>	<u>-</u>	<u>129,002</u>	<u>-</u>
Total capital assets not depreciated	<u>2,534,077</u>	<u>158,092</u>	<u>129,002</u>	<u>2,563,167</u>
Net capital assets	<u>\$11,959,401</u>	<u>\$ (217,821)</u>	<u>\$ 141,014</u>	<u>\$11,600,566</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>1,239,768</u>	<u>251,090</u>	<u>163,039</u>	<u>1,327,819</u>
Total capital assets depreciated	<u>2,787,562</u>	<u>251,090</u>	<u>163,039</u>	<u>2,875,613</u>
Accumulated depreciation:				
Buildings and improvements	302,813	50,580	-	353,393
Furniture and office equipment	29,864	-	-	29,864
Machinery and equipment	<u>1,142,866</u>	<u>62,018</u>	<u>163,039</u>	<u>1,041,845</u>
Total accumulated depreciation	<u>1,475,543</u>	<u>112,598</u>	<u>163,039</u>	<u>1,425,102</u>
Net capital assets being depreciated	<u>1,312,019</u>	<u>138,492</u>	<u>-</u>	<u>1,450,511</u>
Capital assets not being depreciated:				
Land	<u>34,500</u>	<u>-</u>	<u>-</u>	<u>34,500</u>
Net capital assets	<u>\$ 1,346,519</u>	<u>\$ 138,492</u>	<u>\$ -</u>	<u>\$ 1,485,011</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 2. Capital Assets (continued)

Depreciation expense was charged to functions as follows:

Governmental Activities	
General government	\$ 122,226
Public safety	352,903
Highways and streets	358,201
Culture and recreation	99,093
	\$ 932,423
Business-Type Activities	
Conference Center	\$ 50,580
Sanitation	62,018
	\$ 112,598

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

Utilities Board:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Capital assets being depreciated:				
Plant in service	\$ 107,875,883	\$ 4,524,768	\$ 450,831	\$ 111,949,820
Equipment and furniture	3,192,770	1,617,176	57,291	4,752,655
Transportation equipment	2,590,635	266,783	41,844	2,815,574
Total depreciable capital assets	113,659,288	6,408,727	549,966	119,518,049
Accumulated depreciation:				
Plant in service	31,137,927	3,294,171	668,274	33,763,824
Equipment and furniture	2,177,595	361,758	52,645	2,486,708
Transportation equipment	1,783,280	211,527	39,532	1,955,275
Total accumulated depreciation	35,098,802	3,867,456	760,451	38,205,807
Net depreciable capital assets	78,560,486	2,541,271	(210,485)	81,312,242
Capital assets not being depreciated:				
Land	623,392	41,080	-	664,472
Construction in progress	5,699,904	7,458,571	6,642,532	6,515,943
Nondepreciable capital assets	6,323,296	7,499,651	6,642,532	7,180,415
Net capital assets	\$ 84,883,782	\$10,040,922	\$ 6,432,047	\$ 88,492,657

Depreciation was charged as follows:

	Charged to Depreciation and Amortization	Charged to Other Accounts	Total Depreciation and Amortization
Power Division	\$ 1,349,593	\$ 87,959	\$ 1,437,552
Water Division	609,824	26,760	636,584
Gas Division	412,373	27,745	440,118
Department of Sewer	1,182,332	69,063	1,251,395
	\$ 3,554,122	\$ 211,527	\$ 3,765,649

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 2. Capital Assets (continued)

Board of Education:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets being depreciated:				
Buildings and improvements	\$ 13,005,271	\$ 545,490	\$ -	\$ 13,550,761
Infrastructure	19,350	-	-	19,350
Furniture, equipment, and vehicles	<u>2,237,686</u>	<u>125,914</u>	<u>151,467</u>	<u>2,212,133</u>
Total depreciable capital assets	<u>15,262,307</u>	<u>671,404</u>	<u>151,467</u>	<u>15,782,244</u>
Accumulated depreciation:				
Buildings and improvements	7,480,557	256,690	-	7,737,247
Infrastructure	9,249	970	-	10,219
Furniture, equipment, and vehicles	<u>1,393,599</u>	<u>195,053</u>	<u>138,860</u>	<u>1,449,792</u>
Total accumulated depreciation	<u>8,883,405</u>	<u>452,713</u>	<u>138,860</u>	<u>9,197,258</u>
Net depreciable capital assets	<u>6,378,902</u>	<u>218,691</u>	<u>12,607</u>	<u>6,584,986</u>
Capital assets not being depreciated:				
Land	211,146	-	-	211,146
Construction in progress	<u>214,405</u>	<u>331,085</u>	<u>545,490</u>	<u>-</u>
Nondepreciable capital assets	<u>425,551</u>	<u>331,085</u>	<u>545,490</u>	<u>211,146</u>
Net capital assets	<u>\$ 6,804,453</u>	<u>\$ 549,776</u>	<u>\$ 558,097</u>	<u>\$ 6,796,132</u>

Depreciation expense was charged to functions as follows:

Regular instruction	\$ 79,160
Administration	14,181
Operation and maintenance	3,907
Transportation	49,543
Food services	47,464
Unallocated depreciation	<u>258,458</u>
	<u>\$452,713</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, 2008

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>6/30/07</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>6/30/08</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	\$ 1,444,800	\$ -	\$ 458,300	\$ 986,500	\$ 481,200
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	6,200,000	-	100,000	6,100,000	100,000
Compensated absences	<u>234,425</u>	<u>236,253</u>	<u>238,498</u>	<u>232,180</u>	<u>154,794</u>
Total long-term debt	<u>\$ 7,879,225</u>	<u>\$ 236,253</u>	<u>\$ 796,798</u>	<u>\$ 7,318,680</u>	<u>\$ 735,994</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 1.39 percent and 1.54 percent, respectively, for the Series 1995 and Series 2003 notes payable at June 30, 2008.

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

<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 581,200	\$ 107,652	\$ 688,852
2010	605,300	99,424	704,724
2011	662,000	90,860	752,860
2012	683,000	80,665	763,665
2013	703,000	70,147	773,147
2014-2018	<u>3,852,000</u>	<u>181,505</u>	<u>4,033,505</u>
Total	<u>\$ 7,086,500</u>	<u>\$ 630,253</u>	<u>\$ 7,716,753</u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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:

	Balance 6/30/07	Additions	Payments	Balance 6/30/08	Due within one year
Revenue and tax bonds	\$ 2,220,000	\$ -	\$ 120,000	\$ 2,100,000	\$ 130,000
Notes payable	24,179,879	2,026,943	581,313	25,625,509	661,669
TVA advances	980,141	32,660	321,645	691,156	230,884
Total	<u>\$27,380,020</u>	<u>\$ 2,059,603</u>	<u>\$ 1,022,958</u>	<u>\$28,416,665</u>	<u>\$ 1,022,553</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, 2008, 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, 2008.

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, 2008, set at 2.50 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, 2008, the Power Division had drawn \$2,979,199 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.

During 2008, the Board entered a \$2,600,000 loan agreement, which will be utilized to upgrade the North Athens electrical substation. The note payable is between the City of Athens, Tennessee and the Public Building Authority of the City of Clarksville, Tennessee (PBA); however, the debt service will be paid by the Board over a 29-year amortization period. At June 30, 2008, the Division of Power had drawn \$1,761,144 including debt issue cost of \$18,201. If

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 3. Long-Term Debt (continued)

Utilities Board: (continued)

Board funds are not sufficient to service the debt, the city of Athens is required to establish ad valorem taxes to pay the note. The debt issue requires monthly interest at a variable rate with the rate at June 30, 2008, at 1.25 percent.

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>
2009	\$ 791,669	\$ 672,150	\$ 1,463,819
2010	753,092	647,732	1,400,824
2011	767,297	626,092	1,393,389
2012	781,111	607,919	1,389,030
2013	813,153	589,675	1,402,828
2014-2018	4,284,672	2,666,750	6,951,422
2019-2023	7,114,000	2,028,192	9,142,192
2024-2028	7,216,000	1,143,230	8,359,230
2029-2033	5,204,515	312,430	5,516,945
	<u>\$27,725,509</u>	<u>\$ 9,294,170</u>	<u>\$37,019,679</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, 2008, all the City's deposits were insured or collateralized.

Component units

At June 30, 2008, all cash deposits of the Athens City Board of Education were covered by state or federal depository insurance or collateralized with securities held by the Board's agents in the Board's name.

At June 30, 2008, one financial institution did not provide collateral at 105 percent for the cash deposits of Athens Utilities Board, leaving a collateral shortfall of \$399,299. The Board experienced no losses as a result of the under collateralization.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 or be covered by an institution that is 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, 2008, the City had \$14,458,465 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, 2008. At June 30, 2008, 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, 2008, the Cemetery Perpetual Care Fund's investments consisted of the following:

	<u>Fair Value</u>
Money market funds	\$ 13,446
Mutual funds	<u>117,949</u>
	<u>\$ 131,395</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, 2008

Note 4. Cash Deposits and Investments (continued)

Athens Pension Trust Fund:

As of June 30, 2008, the Pension Trust Fund's investments consisted of the following:

	<u>Weighted Average Maturity</u>	<u>Fair Value</u>
U.S. government and agency securities	5.58 years	\$1,471,040
Foreign stocks	N/A	153,861
Common stock	N/A	1,730,247
Mutual funds	N/A	3,057,506
Money market fund	N/A	<u>95,256</u>
		<u>\$6,507,910</u>

The Athens Pension Trust Fund is authorized to invest in stocks and corporate bonds rated investment grade or above 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 \$1,000,000 to the Capital Improvement Fund. The Internal Service Fund transferred capital assets of \$251,090 to the Sanitation Fund.

The purpose of the interfund transactions was to fund debt service requirements and to provide funds for future capital projects. The purpose of the transfer from the Internal Service Fund was to properly reflect the assets in the business-type activity/Sanitation Fund. 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, 2008

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. During 2008, the City entered another agreement to issue \$2,600,000 of Adjustable Rate Pooled Financing Revenue Bonds, Series 2008. The debt agreements are 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 29-year amortization periods and will be reflected in the Utilities Board financial statements. See Note 3 for further details.

Board of Education:

During 2008, the City appropriated \$1,808,646, 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 \$330,000 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. There were no amounts appropriated to the Board during 2008. During 2007, the City had appropriated \$877,000 to the Board for school renovations. As of June 30, 2008, 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 \$350,947 for the Board's remaining share of principal and interest due. The financial statements reflect an additional receivable from the Board of Education related to the debt in the amount of \$22,910 at June 30, 2008.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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	\$ 20,798,299	\$ 2,910,113	\$ 23,708,412
Accumulated depreciation	(9,197,733)	(1,425,102)	(10,622,835)
Debt related to acquisition and construction of capital assets	<u>(986,500)</u>	<u>—</u>	<u>(986,500)</u>
Invested in capital assets, net of related debt	<u>10,614,066</u>	<u>1,485,011</u>	<u>12,099,077</u>
Restricted for debt service	2,761,301	—	2,761,301
Restricted for cemetery perpetual care:			
Expendable	84,112	—	84,112
Nonexpendable	<u>47,283</u>	<u>—</u>	<u>47,283</u>
Total restricted	<u>2,892,696</u>	<u>—</u>	<u>2,892,696</u>
Unrestricted	<u>7,246,032</u>	<u>983,005</u>	<u>8,229,037</u>
Total net assets	<u>\$ 20,752,794</u>	<u>\$ 2,468,016</u>	<u>\$ 23,220,810</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, 2008

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

Reserved for police benefit fund. This reserve was created from a portion of the funds collected from charges for traffic accident reports. It is used for small purchases made by the department for flowers to families of deceased police officers and other miscellaneous items.

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, 2008. Revenues were \$377,991 and expenditures were \$474,502 for street lighting and \$379,431 for paving.

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

Reserved	
Major Funds:	
General Fund	
Encumbrances	\$ 74,507
Cook Park	10,017
Inventory	106,917
Law enforcement	182,518
Police benefit	14,413
Debt Service Fund	
Debt service	<u>2,761,301</u>
	3,149,673
Nonmajor Funds:	
Cemetery Perpetual Care Fund	
Cemetery perpetual care	<u>131,395</u>
Total reserved fund balances	<u>3,281,068</u>
Unreserved	
Major Funds:	
General Fund	10,473,074
Nonmajor Funds:	
Drug Fund	216,477
General Obligation Bond Fund	18,785
Capital Improvement Fund	<u>—</u>
Total unreserved fund balances	<u>10,708,336</u>
Total governmental fund balances	<u><u>\$13,989,404</u></u>

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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	\$ 60,919,871
Restricted for debt service	284,690
Unrestricted	<u>14,476,331</u>
	<u>\$ 75,680,892</u>

Board of Education

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

Invested in capital assets, net of related debt	\$ 6,422,275
Unrestricted	<u>3,889,445</u>
	<u>\$ 10,311,720</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 105 active and 18 terminated participants, as well as 33 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, 2008

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, 2008

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, 2008

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, 2008	\$ 506,743
Interest on net pension obligation	(28,951)
Adjustment to annual required contribution	<u>30,403</u>
Annual pension cost	508,195
Employer contributions made	<u>525,000</u>
Change in net pension benefit	(16,805)
Net pension benefit at June 30, 2007	<u>(386,007)</u>
Net pension benefit at June 30, 2008	<u><u>\$(402,812)</u></u>

The annual required contribution for the 2008 year was determined as part of the annual actuarial valuation on January 1, 2008.

CITY OF ATHENS, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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>
6/30/08	\$ 506,743	127.1%	\$(402,812)
6/30/07	401,148	127.1	\$(386,007)
6/30/06	439,869	105.9	(277,780)

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, 2008

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, 2008

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.

Note 12. Prior Period Adjustment

In financial statements for June 30, 2007, and prior, the City failed to report the Athens Police Department's Police Benefit Fund. These funds are now being accounted for and reported as reserved fund balance in the General Fund. Accordingly, fund balance in the General Fund and the Governmental Activities net assets have been restated as of July 1, 2007, as follows:

	<u>General Fund Fund Balance</u>	<u>Governmental Activities Net Assets</u>
Beginning of year, as previously reported	\$ 7,401,161	\$ 19,248,220
Recognition of Police Benefit Fund, net	<u>11,147</u>	<u>11,147</u>
Beginning of year, as restated	<u>\$ 7,412,308</u>	<u>\$ 19,259,367</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF FUNDING PROGRESS
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
PENSION PLAN
June 30, 2008

<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	48.06
1/1/04	5,068,768	7,113,097	2,044,329	71.26	3,610,949	56.61
1/1/05	5,493,047	7,847,572	2,354,525	70.00	3,777,279	62.33
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
1/1/08	7,202,088	9,671,718	2,469,630	74.47	4,234,871	58.32

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
6/30/08	525,000	506,743	103.6

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

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Fund

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

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

Capital Projects Fund

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

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

Permanent Fund

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

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

**CITY OF ATHENS, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2008**

	Special Revenue Fund	Capital Projects Fund	Permanent Fund	Total Nonmajor Governmental Funds
	Drug	General Obligation Bond	Cemetery Perpetual Care	
ASSETS				
Cash and cash equivalents	\$ 30,037	\$ 3,781	\$ -	\$ 33,818
Investments	186,440	15,004	131,395	332,839
Due from other governments	-	-	-	-
Total assets	\$ 216,477	\$ 18,785	\$ 131,395	\$ 366,657
LIABILITIES AND FUND BALANCES				
LIABILITIES	\$ -	\$ -	\$ -	\$ -
FUND BALANCES				
Reserved for cemetery perpetual care	-	-	131,395	131,395
Unreserved, undesignated	216,477	18,785	-	235,262
Total fund balances	216,477	18,785	131,395	366,657
Total liabilities and fund balances	\$ 216,477	\$ 18,785	\$ 131,395	\$ 366,657

CITY OF ATHENS, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	Special Revenue Fund <hr/> Drug	Capital Projects Fund General Obligation Bond	Permanent Fund Cemetery Perpetual Care	Total Nonmajor Governmental Funds
REVENUES				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Fines and forfeitures	51,954	-	-	51,954
Contributions	-	-	-	-
Investment and interest income	4,637	4,232	1,874	10,743
Miscellaneous	-	-	1,545	1,545
Total revenues	<hr/> 56,591	<hr/> 4,232	<hr/> 3,419	<hr/> 64,242
EXPENDITURES				
Current:				
Public safety	5,890	-	-	5,890
Capital outlay	-	5,820	-	5,820
Total expenditures	<hr/> 5,890	<hr/> 5,820	<hr/> -	<hr/> 11,710
NET CHANGE IN FUND BALANCES	50,701	(1,588)	3,419	52,532
FUND BALANCES, beginning of year	<hr/> 165,776	<hr/> 20,373	<hr/> 127,976	<hr/> 314,125
FUND BALANCES, end of year	<hr/> <u>\$ 216,477</u>	<hr/> <u>\$ 18,785</u>	<hr/> <u>\$ 131,395</u>	<hr/> <u>\$ 366,657</u>

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
Year Ended June 30, 2008

	Budget		Actual	Variance With Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ 400,000	\$ 400,000	\$ 310,259	\$ (89,741)
Interest	100,000	100,000	117,623	17,623
Total revenues	<u>500,000</u>	<u>500,000</u>	<u>427,882</u>	<u>(72,118)</u>
EXPENDITURES				
Debt service:				
Principal	560,000	560,000	558,300	1,700
Interest	370,000	370,000	254,003	115,997
General government	10,000	10,000	8,069	1,931
Total expenditures	<u>940,000</u>	<u>940,000</u>	<u>820,372</u>	<u>119,628</u>
REVENUES OVER (UNDER) EXPENDITURES	(440,000)	(440,000)	(392,490)	47,510
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	350,000	350,000	397,510	47,510
FUND BALANCE, beginning of year	<u>2,363,791</u>	<u>2,363,791</u>	<u>2,363,791</u>	<u>-</u>
FUND BALANCE, end of year	<u>\$ 2,713,791</u>	<u>\$ 2,713,791</u>	<u>\$ 2,761,301</u>	<u>\$ 47,510</u>

CITY OF ATHENS, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
DRUG FUND
Year Ended June 30, 2008

	Budget		Actual	Variance
	Original	Final		With Final Budget
REVENUES				
Drug fines and forfeitures	\$ 32,000	\$ 32,000	\$ 51,954	\$ 19,954
Investment and interest income	-	-	4,637	4,637
Total revenues	<u>32,000</u>	<u>32,000</u>	<u>56,591</u>	<u>24,591</u>
EXPENDITURES				
Drug investigation	12,000	12,000	4,000	8,000
Supplies	15,000	15,000	991	14,009
Education and training	5,000	5,000	899	4,101
Total expenditures	<u>32,000</u>	<u>32,000</u>	<u>5,890</u>	<u>26,110</u>
REVENUES OVER EXPENDITURES	-	-	50,701	50,701
FUND BALANCE, beginning of year	<u>165,776</u>	<u>165,776</u>	<u>165,776</u>	-
FUND BALANCE, end of year	<u><u>\$ 165,776</u></u>	<u><u>\$ 165,776</u></u>	<u><u>\$ 216,477</u></u>	<u><u>\$ 50,701</u></u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2007	Grant Revenues Received	Expenditures	Other	Accrued (Deferred) Grant Revenues June 30, 2008
PRIMARY GOVERNMENT:							
FEDERAL AWARDS:							
DEPARTMENT OF HOMELAND SECURITY							
Passed through TN Emergency Management Agency: Hazard Mitigation Grant	97.039	GG-04-10880-00	\$ 119,175	\$ 113,850	\$ -	\$ (5,325)	\$ -
APPALACHIAN REGIONAL COMMISSION							
Appalachian Area Development	23.002	N/A	23,675	23,675	-	-	-
U.S. DEPARTMENT OF TRANSPORTATION							
Passed through TN Department of Transportation: Pedestrian Crosswalk/Signalization	20.205	STP-M-30(45)	-	-	38,010	-	38,010
U.S. DEPARTMENT OF AGRICULTURE							
Passed through Southeast TN Development District: Rural Business Enterprise Grants	10.769	8-54-626000242-0-8	-	10,000	10,000	-	-
Community Development Block Grant	14.228	GG-05-11658-00	56,555	56,555	-	-	-
			56,555	66,555	10,000	-	-
U.S. DEPARTMENT OF JUSTICE							
Byrne Justice Assistance Grant	16.592	2007-DJ-BX-0995	-	-	15,728	-	15,728
Local Law Enforcement Block Grant	16.592	2006-DJ-BX-0926	-	13,542	13,542	-	-
			-	13,542	29,270	-	15,728
Total Federal Awards			199,405	217,622	77,280	(5,325)	53,738
STATE AWARDS:							
Tennessee Department of Environment and Conservation: Local Parks and Recreation	N/A	Z-05-022827-00	248,550	246,885	-	(1,665)	-
Tennessee Department of Transportation: Highway Safety Grant: High Visibility	N/A	Z-07-035701-00	-	5,000	5,000	-	-
Tennessee Wildlife Resource Agency	N/A	Z-03-014750-00	1,000	1,000	-	-	-
Tennessee Wildlife Resource Agency	N/A	Z-08-200962-00	-	1,000	-	-	(1,000)
Total State Awards			249,550	253,885	5,000	(1,665)	(1,000)
Total Primary Government			\$ 448,955	\$ 471,507	\$ 82,280	\$ (6,990)	\$ 52,738

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2007	Grant Revenues Received	Expenditures	Other	Accrued (Deferred) Grant Revenues June 30, 2008
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	\$ -	\$ 51,192	\$ 51,192	\$ -	\$ -
Passed through the TN Department of Human Services:							
Child and Adult Food Care Program	10.558	N/A	-	61,966	61,966	-	-
Child and Adult Food Care Program	10.558	N/A	-	38,835	38,835	-	-
Passed through the TN Department of Education:							
Child Nutrition Cluster:							
National School Lunch Program	10.555	N/A	-	387,815	387,815	-	-
School Breakfast Program	10.553	N/A	-	134,925	134,925	-	-
Summer Food Service Program for Children	10.559	N/A	65,845	111,722	134,780	-	88,903
			<u>65,845</u>	<u>786,455</u>	<u>809,513</u>	<u>-</u>	<u>88,903</u>
U.S. DEPARTMENT OF EDUCATION							
Impact Aid	84.041	N/A	\$ -	\$ 3,867	\$ 3,867	\$ -	\$ -
Passed through the TN Department of Education:							
Special Education Cluster:							
Special Education - Grants to States	84.027	N/A	3,673	451,371	424,625	-	(23,073)
Special Education - Grants to States	84.027	N/A	-	5,024	5,024	-	-
Special Education - Preschool Grants	84.173	N/A	-	20,590	20,590	-	-
Title I Grants to Local Educational Agencies	84.010	N/A	(8,542)	424,037	414,179	-	(18,400)
Improving Teacher Quality - State Grants	84.367	N/A	752	125,100	124,001	-	(347)
Education Technology State Grants	84.318	N/A	-	2,901	2,903	-	2
Safe and Drug-Free Schools and Communities - State Grants	84.186	N/A	225	12,125	11,079	-	(821)
State Grants for Innovative Programs	84.298	N/A	-	2,902	2,842	-	(60)
Rural Education Achievement Program	84.358	N/A	-	51,726	49,630	-	(2,096)
English Language Acquisition Grants	84.162	N/A	(12)	16,350	15,978	-	(384)

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2007	Grant Revenues Received	Expenditures	Other	Accrued (Deferred) Grant Revenues June 30, 2008
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-08-020757-00	\$ -	\$ 57,692	\$ 89,912	\$ -	\$ 32,220
Adult Education - State Grant Program	84.002	Z-07-033669-00	46,813	46,813	-	-	-
Families First	84.002	Z-07-03419-00	4,171	4,171	-	-	-
			<u>47,080</u>	<u>1,224,669</u>	<u>1,164,630</u>	<u>-</u>	<u>(12,959)</u>
U.S. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT							
Passed through the TN Department of Labor and Workforce Development:							
Workforce Development Investment Act-Incumbent Worker	17.260	Z-08-211877-00	-	10,400	23,171	-	12,771
Workforce Development Incentive Grant	17.266	DG-07-02031-00	3,060	11,219	8,159	-	-
			<u>3,060</u>	<u>21,619</u>	<u>31,330</u>	<u>-</u>	<u>12,771</u>
Total Federal Awards - Athens City Board of Education			<u>115,985</u>	<u>2,032,743</u>	<u>2,005,473</u>	<u>-</u>	<u>88,715</u>
STATE AWARDS:							
Adult Education - State Grant Program		Z-07-033669-00	\$ 15,604	\$ 15,604	\$ -	\$ -	\$ -
Adult Education - State Grant Program		Z-08-020757-00	-	19,231	29,971	-	10,740
Lottery Pre-K		N/A	168,752	506,215	585,697	-	248,234
Lottery for Education Afterschool Program		019-06-1-017	89,354	164,277	161,166	-	86,243
Coordinated School Health Program		GZ8/AAX9	-	60,408	90,000	-	29,592
Families First		Z-07-034197-00	7,746	7,746	-	-	-
Family Resource Grant		07-12076	33,300	33,300	33,300	-	33,300
Coordinated School Health Program-Milk Settlement Funds		N/A	-	3,552	3,552	-	-
Safe Schools Act		N/A	10,005	-	9,393	-	19,398
ACT Funds		N/A	-	7,859	7,859	-	-
Total State Awards - Athens City Board of Education			<u>324,761</u>	<u>818,192</u>	<u>920,938</u>	<u>-</u>	<u>427,507</u>
Total Component Unit			<u>\$ 440,746</u>	<u>\$ 2,850,935</u>	<u>\$ 2,926,411</u>	<u>\$ -</u>	<u>\$ 516,222</u>

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
Year Ended June 30, 2008
(continued)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Grantor's Number	Accrued (Deferred) Grant Revenues July 1, 2007	Grant Revenues Received	Expenditures	Other	Accrued (Deferred) Grant Revenues June 30, 2008
SUMMARY OF PRIMARY GOVERNMENT AND DISCRETELY PRESENTED COMPONENT UNIT:							
Total Federal Awards			\$ 315,390	\$ 2,250,365	\$ 2,082,753	\$ (5,325)	\$ 142,453
Total State Awards			<u>574,311</u>	<u>1,072,077</u>	<u>925,938</u>	<u>(1,665)</u>	<u>426,507</u>
TOTAL AWARDS			<u><u>\$ 889,701</u></u>	<u><u>\$ 3,322,442</u></u>	<u><u>\$ 3,008,691</u></u>	<u><u>\$ (6,990)</u></u>	<u><u>\$ 568,960</u></u>

Note 1: The City received federal awards which were below the level requiring the City to have a "Single Audit" in accordance with OMB Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations" for the year ended June 30, 2008. 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, 2008. 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.

OTHER

CITY OF ATHENS, TENNESSEE
SCHEDULE OF UNCOLLECTED DELINQUENT TAXES FILED
LAST TEN YEARS
June 30, 2008

<u>Tax Year</u>	<u>Delinquent Taxes Filed</u>	<u>July 1, 2007 Delinquent Taxes Receivable</u>	<u>Current Collections and Adjustment</u>	<u>June 30, 2008 Delinquent Taxes Receivable</u>
1997 and Prior	\$ *	\$ 1,646	\$ -	\$ 1,646
1998	32,006	109	-	109
1999	42,359	915	-	915
2000	52,893	942	-	942
2001	53,445	305	-	305
2002	37,540	1,734	-	1,734
2003	54,164	3,837	209	3,628
2004	42,110	146,597	142,112	4,485
2005	45,102	103,235	92,914	10,321
2006	55,813	193,609	146,911	46,698

* 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, 2008

	Total	2008 Assessment	2007 Assessment	Prior Years
PROPERTY TAXES RECEIVABLE				
July 1, 2007	<u>\$ 4,642,929</u>	<u>\$ -</u>	<u>\$4,190,000</u>	<u>\$ 452,929</u>
Add -				
Taxes assessed	4,365,000	4,365,000	-	-
Late listings	<u>15,101</u>	<u>-</u>	<u>-</u>	<u>15,101</u>
	<u>4,380,101</u>	<u>4,365,000</u>	<u>-</u>	<u>15,101</u>
Deduct -				
Collections	4,384,419	-	4,007,842	376,577
Adjustments and abatements	<u>34,263</u>	<u>-</u>	<u>13,593</u>	<u>20,670</u>
	<u>4,418,682</u>	<u>-</u>	<u>4,021,435</u>	<u>397,247</u>
PROPERTY TAXES RECEIVABLE				
June 30, 2008	<u><u>\$ 4,604,348</u></u>	<u><u>\$4,365,000</u></u>	<u><u>\$ 168,565</u></u>	<u><u>\$ 70,783</u></u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS
June 30, 2008

	Interest Rate	Maturity Date	Cost	Market Value
<u>FUNDS GOVERNED BY THE CITY COUNCIL</u>				
Cemetery Perpetual Care Fund:				
Allianz Large Cap Value Fund	-	-	\$ 9,894	\$ 8,699
BB&T U.S. Treasury Money Market Fund	-	-	13,446	13,446
BB&T Intermediate U.S. Government Bond Fund	-	-	52,490	52,100
BB&T Midcap Growth Fund	-	-	1,774	2,268
BB&T Midcap Value Fund	-	-	2,431	2,097
BB&T Small Cap Fund	-	-	2,027	2,283
Federated Intermediate Income Fund	-	-	36,816	36,345
Harbor International Fund	-	-	5,050	5,046
T. Rowe Price Growth Fund	-	-	9,794	9,111
Total			\$ 133,722	\$ 131,395
Athens Pension Trust Fund:				
Federal Home Loan Bank	2.375	04/30/10	\$ 128,532	\$ 128,212
Federal Home Loan Bank	5.250	06/18/14	294,362	299,073
Federal Home Loan Mortgage Corporation	5.000	01/30/14	212,253	222,190
Federal Home Loan Mortgage Corporation	4.750	11/17/15	79,549	75,938
Federal National Mortgage Association	5.000	05/11/17	85,267	81,425
Federal National Mortgage Association	4.750	02/21/13	143,145	148,988
Federal National Mortgage Association	5.125	01/02/14	141,812	144,682
U.S. Treasury Bond	4.250	11/15/14	210,967	224,473
U.S. Treasury Note	4.250	08/15/13	137,415	146,059
Abbott Laboratories	-	-	30,056	29,716
Adobe Systems, Inc.	-	-	16,618	16,307
Aetna, Inc.	-	-	9,580	6,728
American Express Company	-	-	10,217	8,476
American Tower Corporation	-	-	20,216	19,435
Apache Corporation	-	-	25,805	28,495
Apple, Inc.	-	-	29,684	27,628
Applied Materials, Inc.	-	-	17,490	17,124
AT&T	-	-	24,269	20,517
Avalonbay Communities, Inc.	-	-	11,700	10,164
Bank of New York Mellon Company, Inc.	-	-	23,368	21,941
Baxter International, Inc.	-	-	24,196	24,617
Becton, Dickinson & Company	-	-	19,004	17,480
Best Buy Company, Inc.	-	-	8,900	7,920
BHP Billiton Limited	-	-	14,966	15,760
Burlington Northern Santa Fe Railway Co.	-	-	23,850	22,675
Chubb Corporation	-	-	20,074	18,183
Cisco Systems, Inc.	-	-	14,962	11,816
Citrix Systems, Inc.	-	-	8,991	7,882

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS
June 30, 2008
(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Coca Cola Company	-	-	\$ 25,091	\$ 22,143
Colgate-Palmolive Company	-	-	15,619	13,475
Comcast	-	-	10,467	8,973
ConocoPhillips Company	-	-	16,060	27,939
Cummins, Inc.	-	-	10,284	9,238
CVS Caremark Corporation	-	-	24,865	23,782
Danaher Corporation	-	-	14,318	14,223
Deere and Company	-	-	31,970	26,544
Eaton Corporation	-	-	21,208	19,543
Edison International	-	-	23,833	23,378
Electronic Arts, Inc.	-	-	10,273	8,619
EMC Corporation	-	-	11,613	10,636
Exelon Corporation	-	-	16,812	17,542
First Energy Corporation	-	-	11,106	11,609
Florida Power and Light Company	-	-	17,177	16,461
Freeport-McMoran Copper & Gold, Inc.	-	-	18,094	19,688
Genentech, Inc.	-	-	15,179	17,078
General Dynamics Corporation	-	-	19,135	17,850
General Electric Company	-	-	9,941	8,301
Genzyme Corporation	-	-	12,929	13,513
Gilead Sciences, Inc.	-	-	19,353	19,221
Goldman Sachs Group, Inc.	-	-	24,474	20,114
Google, Inc.	-	-	23,583	21,583
Halliburton	-	-	20,119	23,775
Hess Corporation	-	-	21,126	25,869
Hewlett Packard Development Company	-	-	41,203	36,296
Intel Corporation	-	-	19,497	17,893
International Business Machines Corporation	-	-	43,942	42,315
JC Penney Company, Inc.	-	-	9,835	8,165
Johnson & Johnson Services, Inc.	-	-	37,220	38,926
Johnson Controls, Inc.	-	-	10,311	8,231
JP Morgan Chase & Company	-	-	36,720	29,815
Kimberly-Clark Corporation	-	-	15,132	13,989
Kroger Company	-	-	33,576	35,221
Lincoln National Corporation	-	-	16,603	13,641
Lockheed Martin Corporation	-	-	37,194	34,038
Manufacturers and Traders Trust Company	-	-	11,002	8,042
McDonald's Corporation	-	-	21,254	19,621
Medtronic, Inc.	-	-	10,691	11,489
MEMC Electronic Materials, Inc.	-	-	9,357	8,862
Merck & Company, Inc.	-	-	29,878	19,109
Metlife, Inc.	-	-	19,685	16,834
Microsoft Corporation	-	-	27,792	24,071
Monsanto Company	-	-	18,827	20,736

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2008

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
National Oilwell Varco	-	-	\$ 25,996	\$ 30,431
News Corporation	-	-	14,344	11,656
Nike, Inc.	-	-	16,966	15,260
Nordstrom, Inc.	-	-	6,390	5,606
Northern Trust Corporation	-	-	11,382	10,286
NRG Energy, Inc.	-	-	22,024	22,222
Nucor Corporation	-	-	15,349	15,307
Occidental Petroleum Corporation	-	-	41,803	45,918
Omnicom Group, Inc.	-	-	7,339	6,642
Oracle Corporation	-	-	19,429	19,110
PepsiCo, Inc.	-	-	21,591	17,487
Phillip Morris International	-	-	11,016	10,718
Precision Castparts Corporation	-	-	14,046	9,252
Procter and Gamble Company	-	-	16,363	16,784
Public Service Enterprise Group, Inc.	-	-	18,484	19,520
Qualcomm, Inc.	-	-	14,058	13,843
Range Resources	-	-	10,173	9,897
Raytheon Company	-	-	14,384	12,550
Safeway, Inc.	-	-	8,377	7,566
Schlumberger Limited	-	-	18,894	20,519
Simon Property Group, Inc.	-	-	16,336	14,382
Staples, Inc.	-	-	24,466	24,676
State Street Corporation	-	-	16,057	14,142
Texas Instruments, Inc.	-	-	15,596	13,601
The Travelers Companies, Inc.	-	-	21,726	20,528
United States Steel	-	-	10,458	11,087
United Technologies Corporation	-	-	20,093	16,659
US Bancorp	-	-	15,649	12,578
Valero Energy Corporation	-	-	7,021	4,406
Verizon Communications, Inc.	-	-	20,036	18,089
Wal-Mart Stores, Inc.	-	-	27,049	26,133
Walt Disney Company	-	-	11,363	10,452
Wells Fargo & Company	-	-	13,040	12,089
XTO Energy, Inc.	-	-	26,567	29,596
ABB Limited	-	-	10,752	9,912
Amdocs Limited	-	-	12,618	11,768
Canadian Natural Resources Limited	-	-	20,534	24,060
Coviden Limited	-	-	10,156	9,961
Fomento Economico Mexicano	-	-	7,067	7,418
Nestle	-	-	22,896	21,752
Nokia	-	-	17,405	14,455
Petroleo Brasileiro	-	-	14,940	16,999
Transocean, Inc.	-	-	30,813	31,850
Vodafone Group, P.C.	-	-	6,180	5,686

(continued)

CITY OF ATHENS, TENNESSEE
SCHEDULE OF INVESTMENTS

June 30, 2008

(continued)

	Interest Rate	Maturity Date	Cost	Market Value
Alpine International Real Estate	-	-	\$ 50,000	\$ 41,601
Artisan Mid Cap Value	-	-	270,000	260,943
Fidelity Advisor Small Cap	-	-	221,883	229,504
Goldman Sachs Growth Opportunity	-	-	270,000	260,881
Harbor International	-	-	235,729	232,547
iShares Lehman 1-3 year	-	-	637,099	639,519
iShares Lehman Intermediate	-	-	419,957	414,160
iShares Lehman MBS	-	-	349,964	352,018
iShares MSCI EAFE Index	-	-	254,009	269,530
Lazard Emerging Markets	-	-	163,893	159,602
Legg Mason Western Asset Non-US Opportunity Bond Fund	-	-	150,606	154,263
Vanguard REIT VIPER	-	-	48,583	42,938
BB&T Prime Money Market Fund	-	-	21,018	21,018
Charles Schwab Government Money Fund	-	-	74,238	74,238
			<u>\$ 6,575,801</u>	<u>\$ 6,507,910</u>
Participation in the State of Tennessee Local Government Investment Pool:				
General Fund	-	-	<u>\$ 6,105,210</u>	<u>\$ 6,105,210</u>
Debt Service Fund	-	-	<u>\$ 2,504,466</u>	<u>\$ 2,504,466</u>
Sanitation Fund	-	-	<u>\$ 827,392</u>	<u>\$ 827,392</u>
Drug Fund	-	-	<u>\$ 186,440</u>	<u>\$ 186,440</u>
Capital Improvement Fund	-	-	<u>\$ 3,416,566</u>	<u>\$ 3,416,566</u>
Fleet Management Fund	-	-	<u>\$ 1,403,387</u>	<u>\$ 1,403,387</u>
General Obligation Bond Fund	-	-	<u>\$ 15,004</u>	<u>\$ 15,004</u>

CITY OF ATHENS, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
June 30, 2008

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
2009	\$ 100,000	\$ 13,712	\$ 113,712	\$ 481,200	\$ 93,940	\$ 575,140	\$ 581,200	\$ 107,652	\$ 688,852
2010	100,000	7,024	107,024	505,300	92,400	597,700	605,300	99,424	704,724
2011	662,000	90,860	752,860	-	-	-	662,000	90,860	752,860
2012	683,000	80,665	763,665	-	-	-	683,000	80,665	763,665
2013	703,000	70,147	773,147	-	-	-	703,000	70,147	773,147
2014	725,000	59,321	784,321	-	-	-	725,000	59,321	784,321
2015	747,000	48,156	795,156	-	-	-	747,000	48,156	795,156
2016	770,000	36,652	806,652	-	-	-	770,000	36,652	806,652
2017	793,000	24,794	817,794	-	-	-	793,000	24,794	817,794
2018	817,000	12,582	829,582	-	-	-	817,000	12,582	829,582
	<u>\$ 6,100,000</u>	<u>\$ 443,913</u>	<u>\$ 6,543,913</u>	<u>\$ 986,500</u>	<u>\$ 186,340</u>	<u>\$ 1,172,840</u>	<u>\$ 7,086,500</u>	<u>\$ 630,253</u>	<u>\$ 7,716,753</u>

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STATISTICAL SECTION

The statistical section presents data to assist users of this report to assess the economic condition of the City. They are intended to provide a broader and more complete understanding of the City and its affairs than is possible from the financial statements, note disclosures and required supplementary information. Many of these schedules cover more than two fiscal years and present data from sources other than the accounting records. Therefore, the data contained in the Statistical Section has not been subjected to independent audit. The five categories of information are as follows:

Financial Trends

These schedules contain trend information to help the reader understand and assess how the City's financial position has changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant revenue source, the property tax.

Debt Capacity

These schedules contain information to help the reader assess the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operation Information

These schedules contain information to help the reader understand the City's operations and resources.

The following tables are inapplicable

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

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

CITY OF ATHENS, TENNESSEE
NET ASSETS BY COMPONENT
LAST SIX FISCAL YEARS
June 30, 2008
(Accrual Basis of Accounting)

	<u>2008</u>	<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	\$10,614,066	\$10,514,601	\$ 8,795,550	\$ 8,003,707	\$ 5,182,286	\$ 2,927,226
Restricted	2,892,696	2,888,921	2,345,447	1,943,236	1,591,590	1,276,029
Unrestricted	<u>7,246,032</u>	<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>\$20,752,794</u>	<u>\$19,259,367</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	\$ 1,485,011	\$ 1,346,519	\$ 1,456,036	\$ 1,587,133	\$ 1,685,987	\$ 1,789,623
Unrestricted	<u>983,005</u>	<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>\$ 2,468,016</u>	<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	\$12,099,077	\$11,861,120	\$10,251,586	\$ 9,590,840	\$ 6,868,273	\$ 4,716,849
Restricted	2,892,696	2,888,921	2,345,447	1,943,236	1,591,590	1,276,029
Unrestricted	<u>8,229,037</u>	<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>\$23,220,810</u>	<u>\$21,469,268</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 SIX FISCAL YEARS
June 30, 2008
(Accrual Basis of Accounting)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
EXPENSES						
Governmental activities:						
General government	\$ 2,819,334	\$ 3,213,814	\$ 3,247,334	\$ 3,466,385	\$ 3,808,931	\$ 2,916,608
Public safety	3,885,236	3,668,107	3,407,171	3,327,801	3,145,414	3,333,481
Highways and streets	2,252,358	1,872,584	2,031,940	1,838,813	1,930,598	1,540,403
Culture and recreation	825,652	878,552	588,744	870,846	847,670	894,206
Education	1,808,646	2,680,133	2,359,781	4,393,735	3,452,952	1,437,643
Health and welfare	89,773	96,383	86,069	81,158	76,462	79,706
Interest on long-term debt	254,003	326,030	259,020	148,652	56,436	99,015
Total governmental activities expenses	<u>11,935,002</u>	<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	78,630	73,475	74,533	74,332	71,182	73,638
Sanitation	773,071	750,040	713,587	821,148	874,411	737,660
Total business-type activities expenses	<u>851,701</u>	<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>\$ 12,786,703</u>	<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	\$ 161,389	\$ 124,870	\$ 143,012	\$ 144,930	\$ 124,963	\$ 107,968
Public safety	456,715	607,386	624,310	537,985	324,137	320,501
Culture and recreation	129,551	123,270	107,138	117,433	113,228	147,784
Health and welfare	18,940	40,593	34,339	29,416	28,969	23,385
Operating grants and contributions	540,073	920,680	932,309	568,915	3,245,413	1,427,757
Capital grants and contributions	48,010	791,576	406,067	180,797	851,939	272,007
Total governmental activities program revenues	<u>1,354,678</u>	<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>

(continued)

CITY OF ATHENS, TENNESSEE
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
June 30, 2008
(Accrual Basis of Accounting)
(continued)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
PROGRAM REVENUES						
Business-type activities:						
Charges for services:						
Conference center	\$ 16,085	\$ 18,250	\$ 14,303	\$ 12,676	\$ 17,752	\$ 13,735
Sanitation	798,349	790,056	782,040	740,626	742,961	739,929
Total business-type activities program revenues	<u>814,434</u>	<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>\$ 2,169,112</u>	<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	\$(10,580,324)	\$(10,127,228)	\$(9,732,884)	\$(12,547,914)	\$ (8,629,814)	\$ (8,001,660)
Business-type activities	<u>(37,267)</u>	<u>(15,209)</u>	<u>8,223</u>	<u>(142,178)</u>	<u>(184,880)</u>	<u>(57,634)</u>
Total primary government net expenses	<u>\$(10,617,591)</u>	<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>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS						
Governmental activities:						
Property taxes	\$ 4,184,673	\$ 4,379,275	\$ 4,216,453	\$ 4,120,554	\$ 4,106,766	\$ 4,074,004
Other taxes	6,140,651	6,124,469	5,922,972	5,463,756	5,191,945	4,880,830
Intergovernmental revenues not restricted to specific programs	1,368,407	1,340,060	1,200,623	981,944	976,987	1,053,087
Insurance proceeds	-	-	-	-	15,900	-
Investment income	552,007	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	79,103	67,911	72,368	79,639	104,314	65,042
Transfers	<u>(251,090)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(36,604)</u>
Total governmental activities	<u>12,073,751</u>	<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>

(continued)

CITY OF ATHENS, TENNESSEE
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
June 30, 2008
 (Accrual Basis of Accounting)
 (continued)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS						
Business-type activities:						
Investment income	\$ 32,461	\$ 28,199	\$ 19,327	\$ 12,015	\$ 5,449	\$ 7,317
Transfers	251,090	-	-	-	-	36,604
Gain (loss) on disposal of capital assets	5,033	-	-	13,433	-	-
Miscellaneous	6,798	7,740	4,957	5,116	3,607	9,887
Total business-type activities	<u>295,382</u>	<u>35,939</u>	<u>24,284</u>	<u>30,564</u>	<u>9,056</u>	<u>53,808</u>
Total primary government	<u>\$ 12,369,133</u>	<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>\$ 11,147</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,911,050)</u>	<u>\$ 266,024</u>	<u>\$ -</u>
CHANGES IN NET ASSETS						
Governmental activities	\$ 1,504,574	\$ 2,407,317	\$ 2,123,239	\$ (3,618,151)	\$ 2,148,787	\$ 2,184,169
Business-type activities	258,115	20,730	32,507	(111,614)	(175,824)	(3,826)
Total primary government	<u>\$ 1,762,689</u>	<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 SIX FISCAL YEARS
June 30, 2008
(Modified Accrual Basis of Accounting)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
GENERAL FUND						
Reserved	\$ 388,372	\$ 468,185	\$ 320,513	\$ 208,339	\$ 153,069	\$ 361,522
Unreserved	<u>7,018,754</u>	<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 fund	<u><u>\$ 7,407,126</u></u>	<u><u>\$ 7,401,161</u></u>	<u><u>\$ 7,163,465</u></u>	<u><u>\$ 5,426,634</u></u>	<u><u>\$ 4,257,480</u></u>	<u><u>\$ 3,817,023</u></u>
ALL OTHER GOVERNMENTAL FUNDS						
Reserved	\$ 2,892,696	\$ 2,491,767	\$ 2,067,667	\$ 1,685,639	\$ 1,312,627	\$ 1,276,029
Unreserved, reported in:						
Special revenue funds	216,477	165,776	106,900	84,185	96,109	125,948
Capital projects funds	<u>3,473,105</u>	<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><u>\$ 6,582,278</u></u>	<u><u>\$ 5,069,982</u></u>	<u><u>\$ 3,325,045</u></u>	<u><u>\$ 3,006,594</u></u>	<u><u>\$ 3,910,031</u></u>	<u><u>\$ 4,148,029</u></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 SIX FISCAL YEARS
June 30, 2008
(Modified Accrual Basis of Accounting)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
REVENUES						
Property taxes	\$4,390,787	\$4,356,454	\$4,133,726	\$4,049,947	\$4,136,932	\$3,713,629
Other local taxes	6,140,653	6,124,469	5,922,972	5,463,757	5,191,945	4,880,830
Intergovernmental	2,281,491	3,380,451	2,586,240	1,792,575	3,789,949	2,752,751
Charges for services and tuition	275,138	288,732	284,489	291,779	267,159	279,137
Fines and forfeitures	456,715	607,385	624,310	537,985	324,137	320,501
Contributions	-	-	82,550	-	-	-
Investment and interest income	444,168	526,025	347,647	140,539	70,785	107,460
Miscellaneous	79,103	68,180	109,842	120,649	104,313	64,289
Total revenues	<u>14,068,055</u>	<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	2,767,617	3,059,784	2,831,550	2,582,941	3,683,843	2,724,436
Public safety	3,967,996	3,850,012	3,438,595	3,432,724	3,210,617	3,415,071
Highways and streets	2,181,401	1,775,508	1,936,248	1,699,759	1,859,132	1,617,956
Culture and recreation	878,867	809,515	847,650	823,538	803,238	839,221
Education	1,808,646	2,680,133	2,359,781	4,393,735	3,452,952	1,437,643
Health and welfare	93,074	99,383	89,069	84,158	79,462	82,706
Capital outlay	71,521	1,109,198	482,024	1,387,070	1,816,498	995,226
Debt service:						
Debt issue costs	-	-	-	-	31,500	-
Principal	558,300	536,500	415,700	395,900	712,600	669,900
Interest and fiscal charges	254,003	326,030	259,020	148,652	62,167	104,269
Total expenditures	<u>12,581,425</u>	<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>1,486,630</u>	<u>1,105,633</u>	<u>1,432,139</u>	<u>(2,551,246)</u>	<u>(1,826,789)</u>	<u>232,169</u>

(continued)

CITY OF ATHENS, TENNESSEE
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST SIX FISCAL YEARS
June 30, 2008
(Modified Accrual Basis of Accounting)
(continued)

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</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	20,484	-	17,143	2,463	26,748	70,018
Transfers	-	-	-	-	-	(36,604)
Total other financing resources	<u>20,484</u>	<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>\$ 1,507,114</u>	<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	6.49%	6.57%	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, 2008
(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>
1999	\$ 173,881,910	\$ 70,407,339	\$ 7,453,775	\$ 9,658,738	\$ 242,084,286	\$ 765,648,948	1.4500
2000	185,738,817	92,282,084	7,538,125	10,956,172	274,602,854	854,790,829	1.4500
2001	180,866,984	87,102,270	7,265,321	10,560,049	264,674,526	837,756,475	1.4500
2002	177,694,878	84,493,381	6,328,788	10,302,315	258,214,732	852,941,016	1.4500
2003 (1)	231,552,089	91,337,810	7,210,349	12,665,105	317,435,143	1,005,090,291	1.2900
2004	234,482,438	90,276,371	7,765,595	12,758,114	319,766,290	1,010,933,001	1.2900
2005	232,808,860	92,600,618	7,613,415	12,777,240	320,245,653	1,051,808,986	1.2900
2006	239,201,033	98,373,977	7,202,231	13,228,224	331,549,017	1,088,679,712	1.2900
2007	249,442,106	82,069,030	6,498,177	13,409,451	324,599,862	1,088,471,535	1.2900
2008 (1)	288,844,328	101,817,455	8,195,180	14,718,263	384,138,700	1,222,784,857	1.1147

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, 2008
(Unaudited)**

<u>Tax Year</u>	<u>City (Direct Rate)</u>	<u>County (Overlapping Rate)</u>	<u>Total</u>
1999	1.4500	1.9800	3.4300
2000	1.4500	1.9800	3.4300
2001	1.4500	2.2300	3.6800
2002	1.4500	2.2300	3.6800
2003 ⁽¹⁾	1.2900	1.9000	3.1900
2004	1.2900	1.9000	3.1900
2005	1.2900	1.9000	3.1900
2006	1.2900	1.9000	3.1900
2007	1.2900	1.9000	3.1900
2008	1.1147	1.5600	2.6747

(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, 2008
(Unaudited)**

2008				1999			
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	\$ 50,656,606	13.2	Nippondenso Tennessee, Inc.	Automotive parts manufacturer	\$ 24,985,519	10.3
Johnson Controls Athens Regional Medical Center	Automotive seating	14,578,977	3.8	Davidson Textron, Inc.	Automotive parts manufacturer	9,847,032	4.1
Mayfield Dairy Farms, Inc.	Healthcare	9,186,261	2.4	Thomas & Betts	Electrical component manufacturer	7,500,000	3.1
Thomas & Betts	Dairy products	8,857,472	2.3	Mayfield Dairy Farms, Inc.	Electrical component manufacturer	7,357,892	3.0
Walmart	Electrical component manufacturer	6,685,330	1.7	Johnson Controls	Dairy products	5,070,158	2.1
New Plan of Tennessee	Retail	6,076,166	1.6	BellSouth	Automotive seating	4,871,934	2.0
Plastic Industries, Inc.	Real estate investment	3,862,120	1.0	Columbia Regional Medical Center	Telephone company	4,496,569	1.9
BellSouth	Plastic component manufacturer	3,859,700	1.0	WCI	Healthcare	4,405,744	1.8
The Heil Co.	Telephone company	3,712,946	1.0	Athens Furniture	Appliance manufacturer	3,201,516	1.3
	Trailer manufacturer	3,508,771	0.9	New Plan of Tennessee	Furniture manufacturer	3,201,516	1.3
					Real Estate Investment	2,939,480	1.2

NOTE: Total assessed valuations for 2008 and 1999 are \$384,138,700 and \$242,084,286, respectively.

Source: Official records of the Department of Finance

CITY OF ATHENS, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN FISCAL YEARS
June 30, 2008
(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
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	305,583	4,203,490	99.91
2005	4,146,728	3,838,801	92.57	303,442	4,142,243	99.90
2006	4,238,560	3,996,467	94.28	229,571	4,226,038	99.70
2007	4,382,400	4,181,838	95.42	133,194	4,315,032	98.46
2008	4,176,407	4,007,842	95.96	-	4,007,842	95.96

Source: Official records of Department of Finance

CITY OF ATHENS, TENNESSEE
RATIO OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS
June 30, 2008

Fiscal Year	General Obligation Bonds	Notes Payable	Total Primary Government	Percentage of Personal Income	Per Capita
1999	\$ 2,870,000	\$ 2,954,900	\$ 5,824,900	4.45%	\$ 458
2000	2,375,000	2,907,500	5,282,500	3.95	415
2001	1,835,000	2,857,700	4,692,700	2.12	355
2002	1,270,000	2,805,400	4,075,400	1.84	308
2003	655,000	2,750,500	3,405,500	1.53	256
2004	-	4,695,400	4,695,400	2.11	353
2005	-	7,114,000	7,114,000	3.19	534
2006	-	7,304,300	7,304,300	3.25	548
2007	-	7,644,800	7,644,800	2.83	564
2008	-	7,086,500	7,086,500	2.62	522

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, 2008

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				
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	256
2004	-	4,695,400	4,695,400	1,210,045	3,485,355	1.47	353
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	564
2008	-	7,086,500	7,086,500	2,761,301	4,325,199	1.84	522

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

Source: Actual taxable value of property data from Table 5

CITY OF ATHENS, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
June 30, 2008

<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)	7,318,680	100.00	<u>7,318,680</u>
Total direct and overlapping debt			<u><u>\$ 7,318,680</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, 2008**

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, 2008**

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, 2008

<u>Fiscal Year</u>	<u>Population</u>	<u>Personal Income</u>	<u>Per Capita Personal Income</u>	<u>Median Age</u>	<u>School Enrollment</u>	<u>Civilian Labor Force</u>	<u>Unemployment Rate</u>
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	13,553	270,192,608	19,936	37.2	1,717	10,152	4.90
2008	13,553	270,192,608	19,936	38.5	1,744	10,160	8.30

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

**CITY OF ATHENS, TENNESSEE
PRINCIPAL EMPLOYERS
CURRENT FISCAL YEAR AND NINE YEARS AGO
June 30, 2008**

2008			1999		
Employer	Taxable Employees	Percentage of Total City Employment	Employer	Taxable Employees	Percentage of Total City Employment
Denso Tennessee, Inc.	900	8.86	Mayfield Dairy Farms, Inc.	970	10.36
Johnson Controls, Inc.	700	6.89	Textron Automotive	910	9.72
McMinn Co. Board of Education	572	5.63	Athens Furniture	700	7.48
Mayfield Dairy Farms, Inc.	385	3.79	Johnson Controls, Inc.	560	5.98
Heil Trailer	350	3.44	Thomas & Betts	495	5.29
Thomas & Betts	290	2.85	Plastic Industries, Inc.	360	3.84
Dynasty Spas	250	2.46	Heil Trailer	350	3.74
Texas Hydraulics	162	1.59	Athens Products	350	3.74
Mills Products	160	1.57	Homemaker of Tennessee	347	3.71
United Grocery	130	1.28	Denso Manufacturing of Athens, TN	295	3.15
	<u>3,899</u>	<u>38.36</u>		<u>5,337</u>	<u>57.01</u>

Source: McMinn County Economic Development Authority

CITY OF ATHENS, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES
BY FUNCTION/PROGRAM
LAST SIX FISCAL YEARS
June 30, 2008

Function/Program	Full-Time Equivalent Employees as of June 30					
	2003	2004	2005	2006	2007	2008
City Manager	2	2	2	2	2	2
Finance	5	5	5	5	5	5
Human Resources	2	2	2	2	2	2
Purchasing	2	2	2	2	2	2
Emergency preparedness	1	-	-	-	-	-
Communications	13	8	8	8	8	7
Community Development	4	4	4	4	4	4
Police	34	34	34	34	35	33
Fire	22	21	21	22	21	22
Parks and Recreation	10	10	10	10	10	10
Public Works	36	36	36	36	36	36
	<u>131</u>	<u>124</u>	<u>124</u>	<u>125</u>	<u>125</u>	<u>123</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 SIX FISCAL YEARS
June 30, 2008

Function/Program	2003	2004	2005	2006	2007	2008
Governmental Activities:						
Community Development						
Number of building permits	561	627	585	517	507	501
Police						
Number of arrests	1,168	895	1,155	1,180	1,133	1,040
Number of traffic citations issued	3,416	6,061	6,852	5,815	5,399	5,177
Fire						
Total calls	403	431	430	379	414	369
Inspections	397	401	403	281	279	270
Business-type Activities:						
Conference Center						
Rentals	81	78	79	111	92	147

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 SIX FISCAL YEARS
June 30, 2008

Function/Program	2003	2004	2005	2006	2007	2008
Police:						
Stations	1	1	1	1	1	1
Patrol units	13	13	14	14	14	15
Fire:						
Stations	2	2	2	2	2	2
Fire trucks	6	6	6	6	6	6
Parks and recreation:						
Parks	10	10	10	10	10	10
Park acreage	233	233	233	233	233	233
Tennis courts	13	13	13	13	13	13
Softball fields	5	5	5	5	5	5
Baseball fields	3	3	3	3	3	3
Conference center	1	1	1	1	1	1
Soccer fields	3	3	3	3	3	3
Public works:						
Streets (miles)	125	125	125	126	126	126
Square feet of sidewalks	693,077	693,077	693,077	693,077	693,077	699,630
New traffic signals	-	-	2	1	2	-

Source: Various City Departments

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

NEAL, SCOUTEN & McCONNELL, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

633 Chestnut Street

Suite 1440 Republic Centre

Chattanooga, Tennessee 37450-1440

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

To the City Council
City of Athens
Athens, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Athens, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise the City of Athens, Tennessee's basic financial statements and have issued our report thereon dated December 19, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City 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.

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.

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 or material weaknesses. We did not identify any

deficiencies in internal control over financial reporting that we consider to be material weaknesses as defined above.

Compliance and Other Matters

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

COMPONENT UNIT – ATHENS UTILITIES BOARD

Internal Control Over Financial Reporting

Our separate component unit report dated December 5, 2008, 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 December 5, 2008, disclosed an instance of noncompliance or other matters that is required to be reported under Government Auditing Standards. The instance noted is as follows:

Condition:

Collateralization of Deposits

Governmental Accounting Standards Board Statements require that all deposits be insured or collateralized. Board deposits of \$380,285 were uninsured and uncollateralized at June 30, 2008. To achieve collateralized status, additional collateral of \$399,299 should have been in place at June 30, 2008.

Management Response:

Subsequent to June 30, 2008, and prior to issuance of this audit report, a review of all deposits and collateral securing those deposits indicated that collateral at two financial institutions was inadequate to be in compliance with Board policy and did not meet statutory requirements at one of these institutions. The institution at which collateral was below statutory limits joined the State of Tennessee collateral pool. All Board funds on deposit are now secured in accordance with statutory and Board requirements. Management will continue to monitor deposits and collateral securing those deposits.

COMPONENT UNIT – ATHENS CITY BOARD OF EDUCATION

Internal Control Over Financial Reporting

Our separate component unit report dated December 19, 2008, 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 December 19, 2008, 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 & M = Connell, P.C.

Chattanooga, Tennessee
December 19, 2008

CITY OF ATHENS, TENNESSEE
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2008

SECTION II – FINANCIAL STATEMENT FINDINGS PRIOR YEAR

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.

Status:

The City's steps to address the issues are adequate and the matter is considered resolved.

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