

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2005

CITY OF ATHENS, TEXAS
TABLE OF CONTENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2005

Table of Contents

<u>Exhibit</u>		<u>Page</u>
	Independent Auditor's Report	1-2
	MANAGEMENT'S DISCUSSION AND ANALYSIS	3-11
	FINANCIAL SECTION	
	Basic Financial Statements:	
1	Statement of Net Assets	12
2	Statement of Activities	13
3	Balance Sheet - Governmental Funds	14
4	Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets	15
5	Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	16
6	Reconciliation in Fund Balance of Governmental Funds to the Statement of Activities	17
7	Statement of Revenue, Expenditures and Changes in Fund Balances - Budget and Actual	18
8	Statement of Net Assets - Proprietary Fund	19
9	Statement of Revenues and Changes in Fund Net Assets - Proprietary Fund	20
10	Statement of Cash Flows - Proprietary Fund	21
11	Statement of Net Assets - Fiduciary Funds	22
12	Statement of Changes in Fund Net Assets - Fiduciary Funds	23
	Notes to the General Purpose Financial Statements	24-38
	Combining and Other Financial Statements:	
A	Combining Balance Sheet - Nonmajor Governmental Funds	39
B	Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	40
C	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Debt Service Fund	41

CITY OF ATHENS, TEXAS
TABLE OF CONTENTS
PAGE 2.....

Schedule

D	Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - Capital Projects Fund	42
---	--	----

Page

OTHER INDEPENDENT AUDITOR’S REPORT SECTION

	Independent Auditor’s Report on Compliance and Internal Control Over Financial Reporting	43-44
--	---	-------

Table

Page

STATISTICAL SECTION

1	Tax Levies and Tax Collections - Last Ten Fiscal Years	45
2	Schedule of General Obligation Bonds and Interest Requirements	46
3	Schedule of Certificates of Obligation and Interest Requirements	47
4	Schedule of Certificates of Obligation and Interest Requirements	48
5	Miscellaneous Statistical Data and Other Information	49

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

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

Cheri E. Kirkland, CPA
Deborah Adcock, CPA
Michael D. Rogers, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
jwlsla@cox - internet.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the financial statements of the governmental activities, business-type activities, major funds, and remaining fund information, which collectively comprise the basic financial statements, of the City of Athens, Texas (City) as of and for the year ended September 30, 2005 as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information of the City as of September 30, 2005, and the respective changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

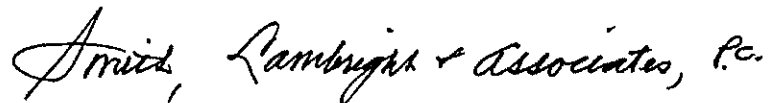
In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, grants and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis and the Analysis of Funding Progress are not required parts of the basic financial statements, but are supplementary information required by the GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary 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's basic financial statements. The combining and individual fund statements and schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Respectfully submitted,

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

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

June 23, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

CITY OF ATHENS

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management for the City of Athens, we offer readers of the City of Athens financial statements this narrative overview and analysis of the financial activities of the City of Athens for the fiscal year ended September 30, 2005. We encourage readers to consider the information presented here in conjunction with the City's financial statements which begin on page 12. All amounts in this discussion and analysis, unless otherwise indicated, are expressed in whole dollars.

Financial Highlights

- The assets of the City of Athens exceeded its liabilities at September 30, 2005 by \$17,586,200. Of this amount, unrestricted net assets of \$3,149,040 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net assets increased by \$875,076. Of this amount \$102,728 was associated with governmental and \$772,348 with business type activities.
- As of the close of the current fiscal year, the City of Athens governmental funds reported combined ending fund balances of \$2,584,197. This was a decrease of \$435,585 in comparison with the prior year.
- Sales taxes declined slightly with a -1.38% decrease under prior years' actual. Actual receipts fell short of budget projections by approximately 4%.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$2,430,172. Of this amount the City Council has currently restricted \$800,000 or 32% of total general fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2005 tax rolls increased by \$23,694,044 (4.9%) over the prior tax year (2004).
- The City implemented a new 5-year water and sewer rate plan effective with the September 2003 billing cycle. The rate plan was adopted by City Council after a utility rate study by the City's rate consultants.
- The City sold \$5,500,000 in certificates of obligation this year for various water and wastewater system improvements. More information is available in note 6F on page 34.

ATHENS CITY HALL

508 East Tyler St. • Athens, Texas 75751 • 903-675-5131 • FAX 903-675-7562

Overview of the Financial Statements

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

Government-wide financial statements

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

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

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

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

The government-wide financial statements can be found on pages 12 through 15 of this report.

Fund Financial Statements

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

Governmental Funds

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

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

The City maintains 11 governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Charges in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, which are considered to be major funds. Data from the other 8 funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

Proprietary Funds

The City of Athens maintains one proprietary fund in the form of an enterprise fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Information is presented in the proprietary statement of net assets and the proprietary statement of revenues, expenses and changes in fund net assets for the Utility fund which accounts for the City's water and sewer operations.

The basic proprietary fund financial statements can be found on pages 19 through 21 of this report.

Fiduciary Funds

The City of Athens maintains one fiduciary fund. 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 statements because the resources of those funds are not available to support the City of Athens own programs. The accounting for these funds is much like that used for proprietary funds. The "Special Donations Fund" is used to account for donations for a very specific purpose such as charitable activities.

The basic fiduciary fund financial statements can be found on pages 22 through 23 of this report.

Notes To The Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 38 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain other required supplementary information concerning budgetary comparisons, combining balance sheets for the other governmental funds, debt service schedules and miscellaneous statistical information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of September 30, 2005, the City's assets exceeded its liabilities by \$17,586,200. The largest portion of the City's net assets (49%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. Capital assets are used to provide services to citizens and they are not available for future spending. Although the investment in capital assets are reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

City of Athens Net Assets

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 3,176,310	\$ 3,471,256	\$ 7,298,475	\$ 2,160,891	\$10,474,785	\$ 5,632,147
Capital assets	10,244,373	9,918,695	9,490,414	8,896,973	19,734,787	18,815,668
Total assets	13,420,683	13,389,951	16,788,889	11,057,864	30,209,572	24,447,815
Long-term liabilities outstanding	4,223,031	4,553,604	6,901,088	1,887,812	11,124,119	6,441,416
Other liabilities	1,033,448	774,871	465,805	517,405	1,499,253	1,292,276
Total liabilities	5,256,479	5,328,475	7,366,893	2,405,217	12,623,372	7,733,692
Net assets:						
Invested in capital assets, net of related debt	6,252,934	5,073,047	2,403,267	6,963,973	8,656,201	12,037,020
Restricted	152,922	560,315	5,628,037	7,269	5,780,959	567,584
Unrestricted	1,758,348	2,428,114	1,390,692	1,678,405	3,149,040	4,106,519
Total net assets	\$ 8,164,204	\$ 8,061,476	\$ 9,421,996	\$ 8,649,647	\$17,586,200	\$16,711,123

An additional portion of net assets (32%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$3,149,040) may be used to meet the government's ongoing obligations to citizens and creditors.

The following chart shows the revenue and expenses of the total primary government.

**City of Athens Changes in Net Assets
For the Fiscal Year Ended September 30, 2005**

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program revenues:						
Charges for services	\$ 432,579	\$ 611,584	\$ 3,674,983	\$ 3,405,713	\$ 4,107,562	\$ 4,017,297
Operating grants and contributions	259,365	592,038			259,365	592,038
Capital grants and contributions	0	0		40,575	0	40,575
Total Program Revenues	<u>691,944</u>	<u>1,203,622</u>	<u>3,674,983</u>	<u>3,446,288</u>	<u>4,366,927</u>	<u>4,649,910</u>
General revenues:						
Taxes:						
Sales and use taxes	3,008,717	3,027,480			3,008,717	3,027,480
Property taxes	1,759,657	1,662,668			1,759,657	1,662,668
Franchise taxes	776,492	744,847			776,492	744,847
Unrestricted investment income	108,618	117,517	231,728	63,963	340,346	181,480
Donated Capital Assets	547,280		905,578		1,452,858	0
Miscellaneous	67,534	50,904		(1,388)	67,534	49,516
Premium on Bonds Sold			558		558	0
Gain(Loss) on sale of capital assets	17,316		618		17,934	0
Total General Revenue	<u>6,285,614</u>	<u>5,603,416</u>	<u>1,138,482</u>	<u>62,575</u>	<u>7,424,096</u>	<u>5,665,991</u>
Total Revenue	<u>6,977,558</u>	<u>6,807,038</u>	<u>4,813,465</u>	<u>3,508,863</u>	<u>11,791,023</u>	<u>10,315,901</u>
EXPENSES						
General	\$ 1,206,793	\$ 1,161,498			\$ 1,206,793	\$ 1,161,498
Public Safety:						0
Police	2,175,855	2,086,013			2,175,855	2,086,013
Fire	1,709,488	1,756,250			1,709,488	1,756,250
Other	311,135	303,557			311,135	303,557
Public Services					0	0
Highways and Streets	1,077,204	1,206,658			1,077,204	1,206,658
Health	288,383	299,177			288,383	299,177
Culture and Recreation	600,817	576,982			600,817	576,982
Conservation and Development	600	24,945			600	24,945
Interest on long-term debt	191,778	239,142	293,044	116,634	484,822	355,776
Water Utilities			3,062,151	2,773,677	3,062,151	2,773,677
Total Expense	<u>7,562,053</u>	<u>7,654,222</u>	<u>3,355,195</u>	<u>2,890,311</u>	<u>10,917,248</u>	<u>10,544,533</u>
Increase in net assets before transfers	(584,495)	(847,184)	1,458,270	618,552	873,775	(228,632)
Transfers	687,223	671,046	(685,922)	(705,148)	1,301	(34,102)
Change in net assets	102,728	(176,138)	772,348	(86,596)	875,076	(262,734)
Net assets October 1	8,061,476	8,237,614	8,649,648	8,736,244	16,711,124	16,973,858
Net assets September 30	<u>\$ 8,164,204</u>	<u>\$ 8,061,476</u>	<u>\$ 9,421,996</u>	<u>\$ 8,649,648</u>	<u>\$ 17,586,200</u>	<u>\$ 16,711,124</u>

Governmental Activities. Governmental activities increased the City's net assets by \$102,728 accounting for 12 percent of the total increase in the net assets. Donated capital assets accounted for most of the increase. Debt payment schedules and assets useful lives may differ slightly creating differences in the increases in accumulated depreciation and reductions in the related debt.

Business-type activities. Business type activities increased the City's net assets by \$772,348 accounting for 88 percent of the total increase in the governments net assets. This increase was due principally to donations of water transmission lines by the Athens Municipal Water Authority with a value of \$905,578.

Financial Analysis of the Governments' Funds

Governmental Funds

The focus of the City of Athens governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the current fiscal year, the City of Athens Governmental funds reported combined ending fund balances of \$2,584,197. Approximately 56.7% of this amount (\$1,465,616) constitutes unreserved and undesignated fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2005, unreserved fund balance of the General Fund was \$2,430,172, while total fund balance reached \$2,430,172.

The General Fund's fund balance decreased during the current fiscal year (\$29,293). Key factors in this decrease are as follows:

- General expenditures and transfers in above revenue for the year.
- Supplemental budget appropriations.

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

The Debt Service Fund's fund balance decreased from \$30,663 to \$11,275 due to variations in revenue from property tax collections under debt payments and receivables and allowance adjustments.

The Capital Projects Fund's fund balance decreased by \$389,182. The decrease was due to spending of bond proceeds received in prior years as various projects are completed from the 1998 bond issue. The Certificates of Obligation were for the construction of a second fire station and various street and drainage projects within the City.

Proprietary Funds

The City's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$1,390,694. This was an increase of \$772,348. Factors concerning the finances of this fund have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

The General Fund budget was increased by \$255,426 (net) from the original budget to the final budget (an increase of 3.77%). These increases can be summarized as follows:

- \$36,000 in increases in operating transfer from Utility Fund.(revenue)
- \$34,034 in increases in donations(Gardens of Athens).(revenue)
- \$8,750 in increased donations for 4th of July celebration. (revenue)
- \$74,000 allocated to the parks for Coleman Park Soccer Field Completion.(expense)
- \$15,000 for Arboretum donation. (expense)
- \$100,000 for replacement of phone system. (expense)
- \$20,000 for police computer aided dispatch. (expense)
- \$15,200 for Cain center tennis court resurfacing. (expense)
- \$12,000 allocation of 911 donations from prior year for police server. (expense)
- \$34,034 for donation to Gardens of Athens housing project. (expense)
- \$7,400 for gas remediation at former City landfill. (expense)
- \$25,000 for improvements to guard armory donated to City. (expense)
- \$8,025 for repair of aerial truck for fire department. (expense)
- \$10,500 for electricity budget overruns. (expense)
- \$10,550 for 4th of July celebration. (expenses)
- \$2,501 for miscellaneous adjustments. (expense)

Capital Asset and Debt Administration

Capital Assets

The City's investment in capital assets for it's governmental and business type activities at September 30, 2005 amounts to \$19,782,639 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, easements, equipment, computer hardware, vehicles, capitalized software, as well as infrastructure assets such as roads, sidewalks, water and sewer lines, water and wastewater treatment facilities. The total increase in the City's investment in capital assets for the current fiscal year was 5.15%

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

- \$905,578 in water transmission lines were donated by the Athens Municipal Water Authority in the enterprise fund.
- \$89,845 National Guard Armory building was donated to the City.
- \$213,188 out of the operating budget for the enterprise fund was spent for water and sewer line and facilities improvements during the fiscal year.
- \$454,770 in roads, curb and gutter was donated to the City by developers upon completion of the Red Oak Estates subdivisions II and III.

Additional information on the City's capital assets can be found in note 3 on pages 30 and 31 of this report.

Long-term Debt

At the end of the current fiscal year, the City had \$11,807,320 in outstanding debt consisting of certificates of obligation, capital leases, compensated absences payable and an installment loan. Additional information on the City's long term debt can be found in note 6 on pages 32 through 35.

Outstanding Debt at September 30, 2005

	Governmental Activities 2005	Business-type Activities 2005	Total
Certificates of Obligation	\$ 3,805,000	\$ 7,135,000	\$ 10,940,000
Notes Payable	121,491		121,491
Capital Leases Payable	64,948		64,948
Compensated Absences Payable	644,793	36,088	680,881
Total	<u>\$ 4,636,232</u>	<u>\$ 7,171,088</u>	<u>11,807,320</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values continue to increase with the taxable valuations in 2005 increasing by 4.9%. The property tax rate is increased 10 cents to .443793 per \$100 valuation.
- Sales tax revenue decreased slightly with a 1.38% decrease in FY 2005 over the prior fiscal year. The sales tax budget was below budget by \$88,245 in 2005. The 2006 budget anticipates a .2% increase in sales tax revenue over the prior year.
- \$396,664 in excess interest earnings on bond funds, was used to pay the debt service on the 1998 certificates of obligation in 2005. This allowed more property taxes to be allocated to the General Fund which funded most the capital purchases in that fund in 2005. These funds will be exhausted after 2006.
- A five year utility rate plan is in effect to help cover costs for water and sewer services. The third phase of the plan raised rates approximately 1% beginning with the September 2005 billing.
- The City has not been adversely effected by the downturn in interest rates. A favorable depository contract with a floor of 3.8% has allowed the City to earn above market rates during the fiscal year.

Requests for Information

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

FINANCIAL SECTION

BASIC FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005

Assets	Primary Government		
	Government Activities	Business-type Activities	Total
Cash	\$ 2 022 808	\$ 734 392	\$ 2 757 200
Investments	17 560	430 436	447 996
Receivables (net of allowances for doubtful accounts):			
Ad valorem taxes	94 392		94 392
Accounts	735 571	544 488	1 280 059
Due from other governments	101 641	8 204	109 845
Internal balances	195 900	(195 900)	0
Inventories	5 438	100 129	105 567
Prepaid items	3 000		3 000
Restricted assets:			
Cash		5 628 874	5 628 874
Capital assets:			
Work in progress		47 851	47 851
Land	2 147 751	152 200	2 299 951
Buildings	7 657 528	799 441	8 456 969
Improvements other than buildings	6 136 154	16 855 558	22 991 712
Machinery and equipment	4 230 653	1 056 861	5 287 514
Amortizable assets	104 679	237 832	342 511
Accumulated depreciation	(9 962 676)	(9 582 997)	(19 545 673)
Accumulated amortization	(69 716)	(28 480)	(98 196)
Total Assets	13 420 683	16 788 889	30 209 572
Liabilities			
Accounts payable	393 233	12 012	405 245
Wages and salaries payable	194 709		194 709
Accrued interest	28 133	60 943	89 076
Due to other governments	287		287
Deposits	2 050	112 255	114 305
Deferred revenue	1 834	10 595	12 429
Noncurrent liabilities:			
Due within one year	413 202	270 000	683 202
Due in more than one year	4 223 031	6 901 088	11 124 119
Total Liabilities	5 256 479	7 366 893	12 623 372
Net Assets			
Invested in capital assets, net of related debt	6 252 934	2 403 267	8 656 201
Restricted for:			
Debt service	18 274		18 274
Capital projects	107 306	5 628 037	5 735 343
Other purposes	27 342		27 342
Unrestricted	1 758 348	1 390 692	3 149 040
Total Net Assets	\$ 8 164 204	\$ 9 421 996	\$ 17 586 200

See accompanying notes to the financial statements.

Program Activities	Expenses	Program Revenues	
		Fees, Fines & Charges for Services	Operating Grants and Contributions
Government Activities			
General Government	\$ 1 206 793	\$ 74 646	\$ 42 784
Police	2 175 855	322 932	66 450
Fire Protection	1 709 488		18 786
Other Public Safety	311 135		125 198
Highways Streets and Airport	1 077 204	35 001	6 147
Health	288 383		
Culture and Recreation	600 817		
Conservation and Development	600		
Bond Interest	191 778		
Total Government Activities	<u>7 562 053</u>	<u>432 579</u>	<u>259 365</u>
Business-type Activities			
Utility Fund	<u>3 355 195</u>	<u>3 674 983</u>	
Total Business-type Activities	<u>3 355 195</u>	<u>3 674 983</u>	<u>0</u>
Total Government	<u>\$ 10 917 248</u>	<u>\$ 4 107 562</u>	<u>\$ 259 365</u>

General Revenue

Taxes:

Property

Sales

Franchise

Investment Earnings

Donated Capital Assets

Miscellaneous

Premium on Bonds Sold

Gain (Loss) on Sale of Capital Assets

Transfers

Total General Revenues and Transfers

Changes in Net Assets

Net Assets at Beginning of Year

Net Assets at End of Year

See accompanying notes to the financial statements.

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net (Expenses) Revenue and Changes in Net Assets		
Government Activities	Business-type Activities	Total
\$ (1 089 363)	\$	\$ (1 089 363)
(1 786 473)		(1 786 473)
(1 690 702)		(1 690 702)
(185 937)		(185 937)
(1 036 056)		(1 036 056)
(288 383)		(288 383)
(600 817)		(600 817)
(600)		(600)
(191 778)		(191 778)
<u>(6 870 109)</u>	<u>0</u>	<u>(6 870 109)</u>
	319 788	319 788
<u>0</u>	<u>319 788</u>	<u>319 788</u>
<u>\$ (6 870 109)</u>	<u>\$ 319 788</u>	<u>\$ (6 550 321)</u>
1 759 657		1 759 657
3 008 717		3 008 717
776 492		776 492
108 618	231 728	340 346
547 280	905 578	1 452 858
67 534		67 534
	558	558
17 316	618	17 934
687 223	(685 922)	1 301
<u>6 972 837</u>	<u>452 560</u>	<u>7 425 397</u>
102 728	772 348	875 076
8 061 476	8 649 648	16 711 124
<u>\$ 8 164 204</u>	<u>\$ 9 421 996</u>	<u>\$ 17 586 200</u>

CITY OF ATHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2005

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 1 863 547	\$ 1 038	\$ 107 306	\$ 50 916	\$ 2 022 807
Investments - Current	17 560				17 560
Taxes Receivable (net of allow. for uncoll.)	77 156	17 237			94 393
Receivables (net of allowable for uncoll.)	735 147			166	735 313
Due from Other Governments	78 137			23 505	101 642
Intergovernmental Receivables	195 900				195 900
Due from Other Funds	31 463				31 463
Inventories	5 438				5 438
Prepaid Items	3 000				3 000
Other Assets	258				258
Total Assets	\$ 3 007 606	\$ 18 275	\$ 107 306	\$ 74 587	\$ 3 207 774
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 373 966	\$	\$	\$ 14 680	\$ 388 646
Wages and Salaries Payable	194 709				194 709
Due to Other Funds		7 000		24 463	31 463
Deposits Payable	2 050				2 050
Deferred Revenues	1 834				1 834
Other Current Liabilities	4 875				4 875
Total Liabilities	577 434	7 000	0	39 143	623 577
Fund Balances:					
Reserved for:					
Debt Service		11 275			11 275
Unreserved Designated for:					
Emergency Reserve	800 000				800 000
Capital Improvements	200 000		107 306		307 306
Unreserved and Undesignated:					
Reported in the General Fund	1 430 172				1 430 172
Reported in Special Revenue Funds				35 444	35 444
Total Fund Balances	2 430 172	11 275	107 306	35 444	2 584 197
Total Liabilities and Fund Balances	\$ 3 007 606	\$ 18 275	\$ 107 306	\$ 74 587	\$ 3 207 774

See accompanying notes to basic financial statements.

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

Total Fund Balance - Total Governmental Funds	\$ 2 584 197
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital Assets used in governmental activities are not current Financial resources and therefore are not reported in the Governmental Funds Balance Sheet.	10 244 373
Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in Governmental Funds Balance Sheet.	(28 133)
Long-term liabilities are not due and payable in the current period and therefore, they are not reported in the Governmental Funds Balance Sheet.	
Due within one year	(413 202)
Due in more than one year	<u>(4 223 031)</u>
Net assets of governmental activities	<u>\$ 8 164 204</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 1 664 477	\$ 57 410	\$	\$	\$ 1 721 887
General Sales and Use	2 851 622			157 095	3 008 717
Franchise	776 492				776 492
Penalty and Interest	34 405	3 365			37 770
Licenses and Permits	41 049			262	41 311
Intergovernmental Revenues and Grants	41 842			204 739	246 581
Charges for Services	29 021				29 021
Fines	309 118			13 810	322 928
Investment Income	91 566	596	14 518	1 939	108 619
Rents and Royalties	820			8 499	9 319
Contributions & Donations from Private Sources	42 784				42 784
Other Revenue	24 262				24 262
Total Revenues	5 907 458	61 371	14 518	386 344	6 369 691
EXPENDITURES:					
Current:					
General Government	969 073	29	5 621	2 923	977 646
Public Safety:					
Police	1 930 173			67 851	1 998 024
Fire	1 591 556			15 506	1 607 062
Other	305 202				305 202
Public Works:					
Highways, Streets and Airport	743 310			14 364	757 674
Health	278 314				278 314
Culture and Recreation	409 972			157 722	567 694
Conservation and Development				600	600
Debt Service:					
Principal		282 604		10 007	292 611
Interest		194 462		1 543	196 005
Fiscal Agent Fees		328			328
Capital Outlay:					
Capital Outlay	383 031		1 415	161 204	545 650
Total Expenditures	6 610 631	477 423	7 036	431 720	7 526 810
Excess (Deficiency) of Revenues Over (Under) Expenditures	(703 173)	(416 052)	7 482	(45 376)	(1 157 119)
OTHER FINANCING SOURCES (USES):					
Non-Current Loans				34 810	34 810
Transfers In	686 050	396 664		13 452	1 096 166
Transfers Out (Use)	(12 170)		(396 664)	(606)	(409 440)
Total Other Financing Sources (Uses)	673 880	396 664	(396 664)	47 656	721 536
Net Change in Fund Balances	(29 293)	(19 388)	(389 182)	2 280	(435 583)
Fund Balance - October 1 (Beginning)	2 459 465	30 663	496 488	33 164 *	3 019 780
Fund Balance - September 30 (Ending)	<u>\$ 2 430 172</u>	<u>\$ 11 275</u>	<u>\$ 107 306</u>	<u>\$ 35 444</u>	<u>\$ 2 584 197</u>

*Two additional local funds have been added to this group that were not reported in the previous year.

The accompanying notes are an integral part of this statement.

CITY OF ATHENS, TEXAS
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
 IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

Net change in fund balances - total governmental funds	\$ (435 583)
--	--------------

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Governmental funds report capital outlay as expenditures. However, in the government-wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	545 650
--	---------

Depreciation expense on capital assets is reported in the government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not expenditure in governmental funds.	(826 906)
--	-----------

Donations of capital assets are reported as income in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not provide current financial resources. Therefore donations of capital assets is not revenue in governmental funds.	547 280
---	---------

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	272 287
---	---------

Change in Net Assets of Governmental Activities	<u>\$ 102 728</u>
---	-------------------

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual	Variances With
	Original	Final	Amounts (GAAP Basis)	Final Budget Positive or (Negative)
REVENUES:				
Taxes:				
Property	\$ 1 707 833	\$ 1 707 833	\$ 1 664 477	(43 356)
General Sales and Use	2 933 156	2 933 156	2 851 622	(81 534)
Franchise	793 141	793 141	776 492	(16 649)
Penalty and Interest	21 000	21 000	34 405	13 405
Licenses and Permits	42 950	42 950	41 049	(1 901)
Intergovernmental Revenues and Grants	57 551	57 551	41 842	(15 709)
Charges for Services	17 500	17 500	29 021	11 521
Fines	378 700	378 700	309 118	(69 582)
Investment Income	71 000	71 000	91 566	20 566
Rents and Royalties	1 500	1 500	820	(680)
Contributions & Donations from Private Sources	0	42 784	42 784	0
Other Revenue	8 300	12 028	24 262	12 234
Total Revenues	<u>6 032 180</u>	<u>6 079 143</u>	<u>5 907 458</u>	<u>(171 685)</u>
EXPENDITURES:				
Current:				
General Government	976 708	1 018 565	969 073	49 492
Public Safety:				
Police	2 052 149	2 043 031	1 930 173	112 858
Fire	1 688 923	1 699 969	1 591 556	108 413
Other	315 404	315 404	305 202	10 202
Public Works:				
Highways, Streets and Airport	643 255	642 870	743 310	(100 440)
Health	299 633	306 083	278 314	27 769
Culture and Recreation	406 823	442 023	409 972	32 051
Capital Outlay:				
Capital Outlay	<u>332 838</u>	<u>504 909</u>	<u>383 031</u>	<u>121 878</u>
Total Expenditures	<u>6 715 733</u>	<u>6 972 854</u>	<u>6 610 631</u>	<u>362 223</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(683 102)	(893 711)	(703 173)	190 538
OTHER FINANCING SOURCES (USES):				
Transfers In	650 000	687 302	686 050	(1 252)
Transfers Out (Use)	(40 899)	(49 017)	(12 170)	36 847
Total Other Financing Sources (Uses)	609 101	638 285	673 880	35 595
Net Change in Fund Balances	(74 001)	(255 426)	(29 293)	(226 133)
Fund Balance - October 1 (Beginning)	<u>2 459 465</u>	<u>2 459 465</u>	<u>2 459 465</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 2 385 464</u>	<u>\$ 2 204 039</u>	<u>\$ 2 430 172</u>	<u>\$ 226 133</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2005

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 734 392
Investments - Current	430 436
Accounts Receivable - Net of Uncollectible Allowance	544 488
Intergovernmental Receivables	8 204
Inventories	100 129
Restricted Assets:	
Cash and Cash Equivalents	<u>5 628 874</u>
Total Current Assets	<u>7 446 523</u>
Non-Current Assets:	
Capital Assets:	
Work in Progress	47 851
Land Purchase and Improvements	152 200
Buildings	799 441
Improvement Other Than Buildings	16 855 558
Machinery and Equipment	1 056 861
Amortizable Assets	237 832
Accumulated Depreciation	(9 582 997)
Accumulated Amortization	<u>(28 480)</u>
Total Non-Current Assets	<u>9 538 266</u>
Total Assets	<u>16 984 789</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	12 012
Accrued Interest Payable	60 943
Internal Balances	195 900
Certificates of Obligation Payable	270 000
Deferred Revenue	10 595
Deposits	<u>112 255</u>
Total Current Liabilities	<u>661 705</u>
Non-Current Liabilities	
Compensated Absences Payable	36 088
Certificates of Obligation Payable	<u>6 865 000</u>
Total Non-Current Liabilities	<u>6 901 088</u>
Total Liabilities	<u>7 562 793</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	2 403 265
Restricted for Construction	5 628 037
Unrestricted Net Assets	<u>1 390 694</u>
Total Net Assets	<u>\$ 9 421 996</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2005

OPERATING REVENUES	
Charges for Water Services	\$ 1 885 250
Charges for Waste Water Services	1 551 480
Fees	235 726
Other Revenue	<u>2 527</u>
Total Operating Revenues	<u>3 674 983</u>
OPERATING EXPENSES:	
Personnel Services	1 259 390
Supplies	332 408
Contractual Services	712 907
Depreciation	672 017
Bad Debt Expense	<u>84 887</u>
Total Operating Expenses	<u>3 061 609</u>
Operating Income	<u>613 374</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	905 578
Investment Earnings	231 728
Gain (Loss) on Sale of Real and Personal Property	618
Interest Expense - Non-Operating	(293 044)
Fiscal Agent Fees	(542)
Premium on Bonds Sold	<u>558</u>
Total Non-Operating Revenue (Expenses)	<u>844 896</u>
Income Before Transfers	1 458 270
Transfers Out	<u>(685 922)</u>
Change in Net Assets	772 348
Total Net Assets - October 1 (Beginning)	<u>8 649 648</u>
Total Net Assets - September 20 (Ending)	<u>\$ 9 421 996</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2005

Cash Flows From Operating Activities:

Cash Received From User Charges	\$ 3 571 492
Other Operating Revenues	2 527
Cash Payments to Employees for Services	(1 256 114)
Cash Payments to Suppliers	(1 140 261)
Net Cash Provided by Operating Activities	<u>1 177 644</u>

Cash Flows from non-Capital Financing Activities:

Operating Transfers Out	<u>(686 000)</u>
-------------------------	------------------

Cash Flows from Capital & Related Financing Activities:

Acquisition of Capital Assets	(410 803)
Sale of Certificates of Obligation	5 511 153
Interest Paid on Bonds	(260 242)
Retirement of Bonds	(295 000)
Cash Received on Sale of Capital Assets	768
Fiscal Agent Fees	(542)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>4 545 334</u>

Cash Flows from Investing Activities:

Interest and Dividends on Investments	<u>231 728</u>
---------------------------------------	----------------

Net Increase (Decrease) in Cash and Cash Equivalents 5 268 706

Cash and Cash Equivalents at Beginning of the Year 1 524 996

Cash and Cash Equivalent at End of the Year \$ 6 793 702

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income \$ 613 374

Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation 672 017

Effect of Increases and Decreases in Current Assets and Liabilities:

Decrease (Increase) in Receivables	(18 342)
Decrease (Increase) in Inventories	1 416
Increase (Decrease) in Accounts Payable	(96 362)
Increase (Decrease) in Deposits	2 265
Increase (Decrease) in Compensated Absences	<u>3 276</u>

Net Cash Provided by Operating Activities \$ 1 177 644

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
SEPTEMBER 30, 2005

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and Cash Equivalents	<u>\$ 35 217</u>
Total Assets	<u>35 217</u>
LIABILITIES	
Accounts Payable	<u>685</u>
Total Liabilities	<u>685</u>
NET ASSETS	
Unrestricted Net Assets	<u>34 532</u>
Total Net Assets	<u><u>\$ 34 532</u></u>

The accompanying notes are an integral part of this statement.

CITY OF ATHENS, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Private Purpose Trust Fund
REVENUES	
Investment Earnings	\$ 1 295
Donations	<u>21 283</u>
Total Revenues	<u>22 578</u>
EXPENDITURES	
Public Safety	8 653
Capital Outlay	<u>2 665</u>
Total Expenditures	<u>11 318</u>
Total Revenues Over Expenditures	<u>11260</u>
OTHER FINANCING SOURCES (USES)	
Transfers Out (Use)	<u>(1 302)</u>
Total Other Financing Sources (Uses)	<u>(1 302)</u>
Change in Net Assets	9 958
Net Assets - October 1 (Beginning)	<u>24 574</u>
Net Assets - September 30 (Ending)	\$ <u><u>34 532</u></u>

The accompanying notes are an integral part of this statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Athens, Texas (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The City applied all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements; in which case, GASB prevails.

A. The Reporting Entity

The City of Athens, Texas is a political subdivision of the State of Texas. The City was incorporated in 1902 under the provisions of the State of Texas. The City operates under a council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire, animal control and inspection), streets, sanitation, health and social services, culture-recreation, public improvements, planning and zoning and general administrative services. Other services include utilities and airport operations.

The City's basic financial statements include the accounts of all City operations. The criteria for including organizations as component units within the City's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the City holds the corporate powers of the organization
- the City appoints a voting majority of the organization's board
- the City is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the City
- there is fiscal dependency by the organization on the City

Based on the aforementioned criteria, the City of Athens, Texas has no component units.

Excluded from the reporting entity:

ATHENS MUNICIPAL WATER AUTHORITY - The Athens Municipal Water Authority (the Water Authority) was established by a special state act in 1958. The Water Authority's governing board (a separately elected board) selects management staff, sets user charges, establishes budgets and controls all aspects of general management and production of water from the Water Authority except for water purchases. Additionally, the City does not hold title to any of the Water Authority's assets, nor does it have any right to the Water Authority's surpluses.

ATHENS ECONOMIC DEVELOPMENT CORPORATION (AEDC) - The AEDC was authorized by the voters of Athens in an election on May 5, 1990. The corporation received its charter/certificate of authority on October 11, 1990, and immediately began operations. The AEDC is funded by a .5% sales tax. It also earns interest on funds temporarily invested pending expenditure on approved economic programs. The AEDC is separately managed and audited and issues its own financial statements. Although the City has some relation to the AEDC in discussion of budget and approval of directors, it is functionally independent of the AEDC in regards to control of its activities.

CITY OF ATHENS HOUSING AUTHORITY - This is the Section 8 Housing Assistance Payments Program. This entity receives federal grant funds and administers a housing/rent subsidy program inside the city limits of Athens. This entity is subject to the City's control and oversight through the City Council and City Administrator's office, but is audited as a separate program based upon an understanding with the federal funding agency (HUD). This entity operates on a calendar year basis and has been audited in prior years by other auditors without being combined with the City of Athens. Consequently, an audit of this entity was not included in the Request for Proposal for performing the September 30, 2005 audit of the City.

B. Basis of Presentation

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

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

Fund Financial Statements:

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

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

General Fund -

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

Debt Service Fund -

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

Capital Projects Fund -

The Capital Projects Fund is used to account for funds received and expended for construction, renovation, expansion and major improvement of various City facilities, acquisition of land and other large nonrecurring projects.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Assets. The City has presented the following major proprietary fund:

Water and Sewer Fund -

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary to assure integrity of the funds.

C. Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the account and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The *government-wide* statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all governmental fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. All governmental fund revenues are recognized when received.

D. Budgetary Control

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all major funds. All annual appropriations lapse at fiscal year end.

Before the first regular meeting in August, the proposed budget is presented to the City's council for review. The City's council holds public hearings and may add to, subtract from or change appropriations, but may not change the form of the budget. Any changes in the budget must be within the revenues and reserves estimated as available by the City's manager.

Amendments can be made to the budget during the fiscal year. Although there are no legal requirements of allowing actual expenditures to exceed budget appropriations, the City charter seems to imply such limitation.

The Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results.

E. Cash and Investments

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

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

F. Prepaid Items

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

G. Inventories

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

H. Restricted Assets

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

I. Interfund Receivables and Payables

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

J. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Proprietary funds an indirect cost percentage of information technology services and salaries and wages and related costs of personnel who perform administrative services for those funds but are paid through the General Fund along with other indirect costs deemed necessary for their operations. During the year ended September 30, 2005, the City allocated \$686,000 as a transfer for such services.

K. Capital Assets

Capital assets, which include property, plant and infrastructure assets, are reported in the applicable governmental or business type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$500 or more and over three years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

<u>Assets</u>	<u>Years</u>
Buildings	25
Machinery & Equipment	3-20
System Infrastructure	20-40
Vehicles	5-10
Office Equipment	5
Computer Equipment	5

L. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. No liability is reported for non-civil service employees' unpaid accumulated sick leave. Vacation pay is accrued when incurred in proprietary funds and reported as a fund liability. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are shown as non-current liabilities on the government-wide statement of net assets and current expense for that portion of the debt incurred for the current year.

M. Nature and Purpose of Reservation and Designations of Fund Equity

The fund equity reserves for revenue bond retirement and construction, prepaid items and debt service are discussed in notes 6, 1(F), and 1(B) respectively. The fund equity designation for subsequent years' expenditures primarily represents Capital Projects Fund Balances specifically identified for capital outlays.

N. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

2. DEPOSITS AND INVESTMENTS

The Public funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

State statutes authorize the City to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the City has adopted an investment policy. The City is in substantial compliance with the requirements of the Act. The risks that the City may be subject are:

- a. Custodial Credit Risk - Deposits: This is the risk that in the event of a bank failure, the City's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the City must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the City's agent bank in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2004-2005 the City's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the City and held by the City's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$10,046,374 and occurred on May 31, 2005. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$10,428,659. The total amount of FDIC coverage at the time of the highest combined balance was \$300,000.

- b. **Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.
- c. **Interest Rate Risk:** Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. **Concentration of Credit Risk:** Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At September 30, 2005, the amount of the City's cash balance in checking accounts was \$8,420,013. The cash balance in interest bearing account was \$8,147,146.

INVESTMENTS

The City's investments at September 30, 2005, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 8 147 146	\$ 8 147 146	.083
Certificates of Deposit	426 000	426 000	.083
TexPool	21 996	21 996	.083
Total Investments	<u>\$ 8 595 142</u>	<u>\$ 8 595 142</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, the City considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

3. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2005, was as follows:

	Balance 10/01/04	Additions/ Adjustments	Retirements/ Adjustments	Balance 9/30/2005
Government Activities:				
Capital assets not being depreciated:				
Land	\$ 2 147 751	\$	\$	\$ 2 147 751
Total capital assets not being depreciated	<u>2 147 751</u>			<u>2 147 751</u>
Capital asset being depreciated:				
Buildings	7 515 962	141 566		7 657 528
Equipment	3 872 938	465 350	(2 956)	4 335 332
Improvements	1 135 337	322 934		1 458 271
Infrastructure	4 475 052	202 831		4 677 883
Total capital assets being depreciated	<u>16 999 289</u>	<u>1 132 681</u>	<u>(2 956)</u>	<u>18 129 014</u>
Less: accumulated depreciation for:				
Buildings	(5 328 206)	(245 192)		(5 573 398)
Equipment	(2 821 043)	(282 519)	22 859	(3 080 703)
Improvements	(382 687)	(154 944)		(537 631)
Infrastructure	(696 409)	(144 251)		(840 660)
Total accumulated depreciation	<u>(9 228 345)</u>	<u>(826 906)</u>	<u>22 859</u>	<u>(10 032 392)</u>
Total capital assets being depreciated, net	<u>7 770 944</u>	<u>305 775</u>	<u>19 903</u>	<u>8 096 622</u>
Governmental activities capital assets, net	<u>\$ 9 918 695</u>	<u>\$ 305 775</u>	<u>\$ 19 903</u>	<u>\$ 10 244 373</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 152 200	\$	\$	\$ 152 200
Construction in progress		47 851		47 851
Total capital assets not being depreciated	<u>152 200</u>	<u>47 851</u>	<u>0</u>	<u>200 051</u>
Capital assets being depreciated:				
Buildings	799 441			799 441
Equipment	968 140	99 401	(10 680)	1 056 861
Amortizable assets	187 468	50 364		237 832
Improvements	1 454			1 454
Infrastructure	15 724 484	1 129 620		16 854 104
Total capital asset being depreciated	<u>17 680 987</u>	<u>1 279 385</u>	<u>(10 680)</u>	<u>18 949 692</u>
Less: accumulated depreciation for:				
Buildings	(474 247)	(166 954)		(641 201)
Equipment	(603 751)	(102 288)	10 609	(695 430)
Amortizable assets	(8 451)	(20 029)		(28 480)
Improvements	(1 405)	(48)		(1 453)
Infrastructure	(7 851 359)	(382 699)	(10 855)	(8 244 913)
Total accumulated depreciation	<u>(8 939 213)</u>	<u>(672 018)</u>	<u>(246)</u>	<u>(9 611 477)</u>
Total capital assets being depreciated, net	<u>8 741 774</u>	<u>607 367</u>	<u>(10 926)</u>	<u>9 338 215</u>
Business-type activities capital assets, net	<u>\$ 8 893 974</u>	<u>\$ 655 218</u>	<u>\$ (10 926)</u>	<u>\$ 9 538 266</u>

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

Governmental activities:

General government and administration	\$ 226 246
Public safety	236 945
Public services	321 320
Culture and recreation	31 910
Health	10 485

Total depreciation expense-Governmental activities	<u>\$ 826 906</u>
--	-------------------

Business-type activities:

Water and sewer	<u>\$ 607 367</u>
-----------------	-------------------

4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2005, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Emergency Management Grant	\$ 2 068
General	Debt Service	7 000
General	Airport Grant	803
General	Law Enforcement Grants	21 592
General	Utility	<u>195 900</u>
Total		<u>\$ 227 363</u>

5. Operating Leases

The City has entered into operating lease agreements for equipment. Commitments under the agreements provide for future rental payments as of September 30, 2005 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2006	\$ 15 411
2007	5 509
2008	5 015
2009	<u>4 855</u>
Total	<u>\$ 30 790</u>

Rental expenditures in 2004-2005 were \$16,611.

6. Long-term Debt

A. Capital Leases Payable

The City has entered into lease agreements as lessee for the acquisition of police vehicles and municipal court technology. These lease agreements qualify as capital leases for accounting purposes (as titles transfer at the end of the lease terms or bargain purchase options are present) and therefore have recorded at the present value of future minimum lease payments as of the date of their inception. The interest rates are 4.95% and 5.29%.

The following is a summary of changes in long-term debt for the capital leases for the year ended September 30, 2005:

	Balance 10/01/04	Issued	Retired	Balance 9/30/05
Police Vehicles	\$ 78 396	\$	\$ 38 251	\$ 40 145
Municipal Court Technology		34 810	10 007	24 803
Totals	<u>\$ 78 396</u>	<u>\$ 34 810</u>	<u>\$ 48 258</u>	<u>\$ 64 948</u>

Debt service requirements for the capital leases payable are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
2006	\$ 51 710	\$ 3 022	\$ 54 732
2007	12 192	407	12 599
2008	<u>1 046</u>	<u>5</u>	<u>1 051</u>
Total	<u>\$ 64 948</u>	<u>\$ 3 434</u>	<u>\$ 68 382</u>

B. Long-term Debt - Notes Payable

A note is owed to a bank for financing the purchase of the City of Athens Administrative Office. The current interest rate is 6.0% and the monthly payments are \$2,076. The note is renewable annually.

	Balance 10/01/04	Issued	Retired	Balance 9/30/05
Administrative Office	\$ 140 844	\$	\$ 19 353	\$ 121 491
Totals	<u>\$ 140 844</u>	<u>\$ 0</u>	<u>\$ 19 353</u>	<u>\$ 121 491</u>

Debt service requirements for the notes payable are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Requirements
2006	\$ 121 491	\$ 6 272	\$ 127 763
Total	<u>\$ 121 491</u>	<u>\$ 6 272</u>	<u>\$ 127 763</u>

C. Long-term Debt - General Obligation Bonds

The City issues general obligation bonds to provide funds for acquisition and construction of major capital facilities for general government activities. General obligation bonds are direct obligations and pledge the full faith and credit of the City.

The following is a summary of changes in long-term debt for the general obligation bonds for the year ended September 30, 2005:

	<u>Balance 10/01/04</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/05</u>
Series 1998: Original issue \$5,060,000 with interest rates of 4.5% to 7.25%	\$ 4 030 000	\$	\$ 225 000	\$ 3 805 000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 4 030 000</u>	<u>\$ 0</u>	<u>\$ 225 000</u>	<u>\$ 3 805 000</u>

Debt service requirements for the general obligation bonds are as follows:

<u>Fiscal Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirement</u>
2006	\$ 240 000	\$ 169 723	\$ 409 723
2007	250 000	159 523	409 523
2008	265 000	148 772	413 772
2009	275 000	137 112	412 112
2010	290 000	124 875	414 875
2011 - 2015	1 685 000	414 900	2 099 900
2016 - 2017	<u>800 000</u>	<u>54 450</u>	<u>854 450</u>
Total	<u>\$ 3 805 000</u>	<u>\$ 1 209 355</u>	<u>\$ 5 014 355</u>

Detailed debt service requirement data may be found in Table 2 in the Statistical Section of this report.

D. Long-term Debt - Revenue Bonds

The City issues bonds whereby the City pledges income derived from the acquired or constructed assets to pay debt service.

As of September 30, 2005 the City had no revenue bonds outstanding.

E. Prior year Defeasance of Debt

In prior years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments of the old bonds. Accordingly, the trust accounts and the defeased bonds are not included in the financial statements of the City of Athens. As of September 30, 2005, none of the revenue bonds and none of general obligation bonds considered defeased are still outstanding.

F. Certificates of Obligation

On April 10, 2000, the City issued \$2,000,000 of Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000. Proceeds from the sale of the Certificates will be used to pay for improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities, and to pay for professional services rendered in relation to the project, including the payment of costs related to the issuance of the Certificates.

On October 15, 2004 the City issued \$5,500,000 of Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2004. Proceeds from the sale of the Certificates will be used for (1) the construction of public works, to wit, improvements and extensions to the City's combined Waterworks and Sanitary Sewer System, including wastewater treatment and collection facilities, and (2) to pay for professional services rendered in relation to the project, including the payment of costs related to the issuance of the Certificates.

The following is a summary of changes in long term debt for the Certificates of Obligation for the year ended September 30, 2005:

	Balance 10/01/04	Issued	Retired	Balance 9/30/05
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1 930 000	\$	\$ 75 000	\$ 1 855 000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004		5 500 000	220 000	5 280 000
	<u>\$ 1 930 000</u>	<u>\$ 5 500 000</u>	<u>\$ 295 000</u>	<u>\$ 7 135 000</u>

Debt service requirements for the Certificates of Obligation are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
2006	\$ 270 000	\$ 313 403	\$ 583 403
2007	280 000	300 552	580 552
2008	295 000	287 140	582 140
2009	310 000	272 990	582 990
2010	320 000	257 566	577 566
2011 - 2015	1 850 000	1 048 814	2 898 814
2016 - 2020	2 335 000	619 713	2 954 713
2021 - 2024	1 475 000	160 137	1 635 137
Total	<u>\$ 7 135 000</u>	<u>\$ 3 260 315</u>	<u>\$ 10 395 315</u>

Detailed debt service requirement data may be found in Table 3 and Table 4 in the Statistical Section of this report.

G. Changes in Long-term Liabilities

Long-term liabilities activity for the year ended September 30, 2005, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable					
General Obligation Bonds	<u>\$ 4 030 000</u>	<u>\$</u>	<u>\$ 225 000</u>	<u>\$ 3 805 000</u>	<u>\$ 240 000</u>
Notes Payable:					
Administrative Office	<u>140 844</u>		<u>19 353</u>	<u>121 491</u>	<u>121 491</u>
Capital Leases Payable:					
Vehicles and Equipment	<u>78 396</u>	<u>34 810</u>	<u>48 258</u>	<u>64 948</u>	<u>51 710</u>
Compensated Absences	<u>593 970</u>	<u>94 876</u>	<u>44 053</u>	<u>644 793</u>	
Total Governmental Activities Long-term Liabilities	<u>\$ 4 843 210</u>	<u>\$ 129 686</u>	<u>\$ 336 664</u>	<u>\$ 4 636 232</u>	<u>\$ 413 201</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	<u>\$ 1 930 000</u>	<u>\$ 5 500 000</u>	<u>\$ 295 000</u>	<u>\$ 7 135 000</u>	<u>\$ 270 000</u>
Compensated Absences	<u>32 812</u>	<u>7 460</u>	<u>4 184</u>	<u>36 088</u>	
Total Business Type Activities Long-term Liabilities	<u>\$ 1 962 812</u>	<u>\$ 5 507 460</u>	<u>\$ 299 184</u>	<u>\$ 7 171 088</u>	<u>\$ 270 000</u>

7. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance.

B. Segment Information - Enterprise Funds

The City maintains one enterprise fund. The City accounts for the provision of basic utility service to all citizens through its Water and Sewer fund. Selected segment information for the year ended September 30, 2005 is as follows:

Operating Revenues	\$ 3 674 983
Depreciation Expense	672 017
Operating Income	613 374
Operating Transfers (Out)	(685 922)
Change in Net Assets	772 348
Fixed Asset Additions	1 279 385
Net Working Capital (Deficiency)	<u>1 155 944</u>
Total Assets	
Total Net Assets	9 421 996
Certificates of Obligation Payable	<u>7 135 000</u>

C. Pension Benefits Plan

Plan Description

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 801 currently administered by TMRS, an agent multiple-employer public employee retirement system.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

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

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
A member is vested after	5 years

Members can retire at certain ages, based on the years of service with the City.

The Service Retirement Eligibilities for the City are: 5 years/age 60, 20 years/any age.

Contributions

Under the state law governing TMRS, the actuary annually determines the City's contribution rate. This rate consists of the normal cost contribution rate and the prior service contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City's contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2004 valuation is effective for rates beginning January, 2006.)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00	12/31/99
Actuarial Value of Assets	\$ 6 574 522	\$ 6 089 248	\$ 5 866 549	\$ 5 230 208	\$ 4 531 344	\$ 4 093 157
Actuarial Accrued Liability	\$ 10 892 201	\$ 8 999 404	\$ 7 362 413	\$ 6 472 763	\$ 5 641 308	\$ 4 684 032
Percentage Funded	60.4%	67.7%	79.7%	80.8%	80.3%	87.4%
Underfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 4 317 679	\$ 2 910 156	\$ 1 495 864	\$ 1 242 555	\$ 1 109 964	\$ 690 875
Annual Covered Payroll	\$ 4 527 284	\$ 4 247 718	\$ 4 003 466	\$ 3 783 576	\$ 3 375 061	\$ 2 992 489
AAL as a Percentage of Covered Payroll	95.4%	68.5%	37.4%	32.8%	32.9%	19.7%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Pension Cost: Annual required Contribution (ARC)	\$ 867 092	\$ 653 063	\$ 574 383	\$ 245 815	\$ 239 661	\$ 341 322
Contributions Made	\$ 867 092	\$ 653 063	\$ 574 383	\$ 245 815	\$ 239 661	\$ 341 322
Increase in NPO	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
NPO at the End of the Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

Note: Trend data presented is audited information as of December 31st of the previous year, which is the fiscal year of the Texas Municipal Retirement System.

9. EXPENDITURES OF FEDERAL AWARDS

A "Single Audit" of Federal Grant Award Programs was not required by the OMB Circular A-133 for the City of Athens, Texas for the fiscal year ended September 30, 2005.

10. EXPENDITURES OF STATE AWARDS

A "Single Audit" of State of Texas Grant Award Programs was not required by the State of Texas Single Audit Circular for the City of Athens, Texas for the fiscal year ended September 30, 2005.

COMBINING FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2005

	Airport Funds	Community Improvement Fund	Emergency Management Grant	Law Enforcement Grant
ASSETS				
Cash and Cash Equivalents	\$ 15 671	\$ 14 415	\$	\$ 958
Receivables (net of allowance for uncollectibles)	166			
Intergovernmental Receivables			2 068	20 634
Due from Other Funds				
Prepaid Items				
Total Assets	<u>\$ 15 837</u>	<u>\$ 14 415</u>	<u>\$ 2 068</u>	<u>\$ 21 592</u>
LIABILITIES AND FUND BALANCES				
Accounts Payable	\$ 265	\$ 14 415	\$	\$
Due to Other Funds			2 068	21 592
Deferred Revenues				
Total Liabilities	<u>\$ 265</u>	<u>\$ 14 415</u>	<u>\$ 2 068</u>	<u>\$ 21 592</u>
FUND BALANCES				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	<u>15 572</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>15 572</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 15 837</u>	<u>\$ 14 415</u>	<u>\$ 2 068</u>	<u>\$ 21 592</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A

TDHCA Grant Fund	Domestic Preparation Grants	Airport Grants Fund	Municipal Court Technology Fund	Total Nonmajor Governmental Funds
\$	\$	\$	\$ 19 872	\$ 50 916
		803		166
				23 505
				0
				0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 803</u>	<u>\$ 19 872</u>	<u>\$ 74 587</u>
\$	\$	\$	\$	\$ 14 680
		803		24 463
				0
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 803</u>	<u>\$ 0</u>	<u>\$ 39 143</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>19 872</u>	<u>35 444</u>
<u>0</u>	<u>0</u>	<u>0</u>	<u>19 872</u>	<u>35 444</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 803</u>	<u>\$ 19 872</u>	<u>\$ 74 587</u>

CITY OF ATHENS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Airport Funds	Community Improvement Fund	Emergency Management Grant	Law Enforcement Grant
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$	\$ 157 095	\$	\$
Licenses and Permits	262			
Intergovernmental Revenue and Grants			10 258	63 136
Fines				
Charges for Services				
Investment Earnings	573	627		
Rents and Royalties	8 499			
Donations				
Other Revenue				
Total Revenues	9 334	157 722	10 258	63 136
EXPENDITURES:				
Current:				
General Government				
Public Safety - Police				67 204
Public Safety - Fire			10 258	
Public Works:				
Highways and Streets	7 534			
Culture and Recreation		157 722		
Conservation and Development				
Debt Service:				
Principal				
Interest				
Capital Outlay:				
Capital Outlay				
Total Expenditures	7 534	157 722	10 258	67 204
Excess (Deficiency) of Revenues Over (Under) Expenditures	1 800	0	0	(4 068)
OTHER FINANCING SOURCES (USES):				
Capital Lease Proceeds				
Transfers In				4 068
Transfers Out (Use)	(606)			
Total Other Financing Sources (Uses)	(606)	0	0	4 068
Net Change in Fund Balance	1 194	0	0	0
Fund Balance - October 1 (Beginning)	14 378	0	0	0
Fund Balance - September 30 (Ending)	\$ 15 572	\$ 0	\$ 0	\$ 0

The accompanying notes are an integral part of this statement.

EXHIBIT B

<u>TDHCA Grant Fund</u>	<u>Domestic Preparation Grants</u>	<u>Airport Grants Fund</u>	<u>Municipal Court Technology Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$	\$	\$	\$
				157 095
				262
	125 198	6 147		204 739
				0
			13 810	13 810
			739	1 939
				8 499
				0
				0
0	125 198	6 147	14 549	386 344
			2 923	2 923
	647			67 851
	5 248			15 506
		6 830		14 364
600				157 722
				600
			10 007	10 007
			1 543	1 543
	127 404		33 800	161 204
600	133 299	6 830	48 273	431 720
(600)	(8 101)	(683)	(33 724)	(45 376)
600	8101	683	34 810	34 810
				13 452
				(606)
600	8 101	683	34 810	47 656
0	0	0	1 086	2 280
0	0	0	18 786	33 164
\$ 0	\$ 0	\$ 0	\$ 19 872	\$ 35 444

CITY OF ATHENS, TEXAS
DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 74 881	\$ 74 881	\$ 57 410	\$ (17 471)
Penalty and Interest	9 000	9 000	3 365	(5 635)
Investment Income	<u>1 000</u>	<u>1 000</u>	<u>596</u>	<u>(404)</u>
Total Revenues	<u>84 881</u>	<u>84 881</u>	<u>61 371</u>	<u>(23 510)</u>
EXPENDITURES:				
Current:				
General Government	0	0	29	(29)
Debt Service:				
Principal	282 954	282 954	282 604	350
Interest	194 113	194 113	194 462	(349)
Fiscal Agent Fees	<u>1 000</u>	<u>1 000</u>	<u>328</u>	<u>672</u>
Total Expenditures	<u>478 067</u>	<u>478 067</u>	<u>477 423</u>	<u>644</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(393 186)	(393 186)	(416 052)	(22 866)
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>393 186</u>	<u>393 186</u>	<u>396 664</u>	<u>3 478</u>
Net Change in fund Balances	0	0	(19 388)	(19 388)
Fund Balance - October 01 (Beginning)	<u>30 663</u>	<u>30 663</u>	<u>30 663</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 30 663</u>	<u>\$ 30 663</u>	<u>\$ 11 275</u>	<u>\$ (19 388)</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS
CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2005

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Investment Income	\$ 9 648	\$ 9 648	\$ 14 518	\$ 4 870
Total Revenues	9 648	9 648	14 518	4 870
EXPENDITURES:				
Current:				
General Government	2 000	2 000	5 621	(3 621)
Capital Outlay:				
Capital Outlay	0	0	1 415	(1 415)
Total Expenditures	2 000	2 000	7 036	(5 036)
Excess (Deficiency) of Revenues Over (Under) Expenditures	7 648	7 648	7 482	(166)
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)	(393 186)	(393 186)	(396 664)	(3 478)
Net Change in Fund Balances	(385 538)	(385 538)	(389 182)	(3 644)
Fund Balance - October 1 (Beginning)	496 488	496 488	496 488	0
Fund Balance - September 30 - (Ending)	\$ 110 950	\$ 110 950	\$ 107 306	\$ (3 644)

See accompanying notes to the basic financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

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

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

Cheri E. Kirkland, CPA
Deborah Adcock, CPA
Michael D. Rogers, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
jwlsia@cox - internet.com

INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the financial statements of the governmental activities, business-type activities, major funds, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City of Athens, Texas (City) as of and for the year ended September 30, 2005, as listed in the table of contents, and have issued our report thereon dated June 23, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information and use of the City's management, City Council, state and federal awarding agencies, and pass-through entities and is not intended to be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

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

June 23, 2006

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2005
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2005</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
1995	\$ 753 581	\$ 752 543	99.86%
1996	816 779	815 221	99.81%
1997	863 056	861 203	99.79%
1998	1 049 459	1 047 419	99.81%
1999	1 099 734	1 097 436	99.79%
2000	1 226 270	1 222 912	99.73%
2001	1 283 556	1 277 324	99.51%
2002	1 529 152	1 521 662	99.51%
2003	1 659 163	1 645 030	99.15%
2004	1 750 262	1 703 203	97.31%
	<u>\$ 12 031 012</u>	<u>\$ 11 943 953</u>	

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

TABLE 2

CITY OF ATHENS, TEXAS
 SCHEDULE OF GENERAL OBLIGATION BONDS
 AND INTEREST REQUIREMENTS
 BONDS OUTSTANDING AT SEPTEMBER 30, 2005

Series 1998 General Obligation Improvement and Refunding Bonds Original Bond Issue \$5,060,000				
<u>Requirements for Fiscal Year Ended</u>	<u>Annual Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
9-30-06	4.25%	\$ 240 000	\$ 169 723	\$ 409 723
9-30-07	4.30%	250 000	159 523	409 523
9-30-08	4.30%	265 000	148 722	413 772
9-30-09	4.45%	275 000	137 112	412 112
9-30-10	4.50%	290 000	124 875	414 875
9-30-11	4.50%	305 000	111 825	416 825
9-30-12	4.50%	320 000	98 100	418 100
9-30-13	4.50%	335 000	83 700	418 700
9-30-14	4.50%	355 000	68 625	423 625
9-30-15	4.50%	370 000	52 650	422 650
9-30-16	4.50%	390 000	36 000	426 000
9-30-17	4.50%	<u>410 000</u>	<u>18 450</u>	<u>428 450</u>
TOTAL		<u>\$ 3 805 000</u>	<u>\$ 1 209 355</u>	<u>\$ 5 014 355</u>

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

TABLE 3

CITY OF ATHENS, TEXAS
SCHEDULE OF CERTIFICATES OF OBLIGATION
AND INTEREST REQUIREMENTS
CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2005

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000			
	Annual Rate	Principal	Interest	Total Requirements
9-30-06	7.75%	\$ 80 000	\$ 106 753	\$ 186 753
9-30-07	7.75%	85 000	100 552	185 552
9-30-08	7.75%	90 000	93 965	183 965
9-30-09	7.75%	95 000	86 990	181 990
9-30-10	7.75%	100 000	79 628	179 628
9-30-11	6.65%	105 000	71 877	176 877
9-30-12	5.00%	115 000	65 000	180 000
9-30-13	5.00%	120 000	59 250	179 250
9-30-14	5.00%	125 000	53 250	178 250
9-30-15	5.00%	135 000	47 000	182 000
9-30-16	5.00%	145 000	40 250	185 250
9-30-17	5.00%	150 000	33 000	183 000
9-30-18	5.00%	160 000	25 500	185 500
9-30-19	5.00%	170 000	17 500	187 500
9-30-20	5.00%	180 000	9 000	189 000
TOTAL		<u>\$ 1 855 000</u>	<u>\$ 889 515</u>	<u>\$ 2 744 515</u>

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

TABLE 4

CITY OF ATHENS, TEXAS
SCHEDULE OF CERTIFICATES OF OBLIGATION
AND INTEREST REQUIREMENTS
CERTIFICATES OUTSTANDING AT SEPTEMBER 30, 2005

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004			
	Annual Rate	Principal	Interest	Total Requirements
9-30-06	3.50%	\$ 190 000	\$ 206 650	\$ 396 650
9-30-07	3.50%	195 000	200 000	395 000
9-30-08	3.50%	205 000	193 175	398 175
9-30-09	3.75%	215 000	186 000	401 000
9-30-10	3.75%	220 000	177 938	397 938
9-30-11	4.00%	230 000	169 687	399 687
9-30-12	4.00%	240 000	160 488	400 488
9-30-13	4.00%	250 000	150 887	400 887
9-30-14	4.00%	260 000	140 888	400 888
9-30-15	3.50%	270 000	130 487	400 487
9-30-16	3.65%	285 000	121 038	406 038
9-30-17	3.75%	295 000	110 635	405 635
9-30-18	3.85%	305 000	99 573	404 573
9-30-19	3.95%	315 000	87 830	402 830
9-30-20	4.00%	330 000	75 387	405 387
9-30-21	4.10%	345 000	62 188	407 188
9-30-22	4.20%	360 000	48 042	408 042
9-30-23	4.25%	375 000	32 922	407 922
9-30-24	4.30%	395 000	16 985	411 985
TOTAL		<u>\$ 5 280 000</u>	<u>\$ 2 370 800</u>	<u>\$ 7 650 800</u>

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

CITY OF ATHENS, TEXAS
MISCELLANEOUS STATISTICAL DATA AND OTHER INFORMATION
SEPTEMBER 30, 2005
UNAUDITED

Date of Incorporation	1902	
Date City Charter Adopted	December, 1966	
Form of City Government	Council - Administrator	
City Council	Randy Daniel, Mayor Carroll Maberry, Bob Gould, Elaine Jenkins, Carol Barton	
Other Officials	City Administrator - Pam Burton Assistant City Administrator & Director of Finance/Technology -David Hopkins, CPA City Judge - Elaine Coffman City Secretary - Pam Watson City Attorney - Dan Moore Assistant City Administrator & Director of Public Works/Utilities - Don Herriage Chief of Police - Michael Hill Fire Chief - Dan Barnes	
City Area	16 Square Miles	
Miles of Streets	Paved	96
	Graded	2
Fire Protection	Number of Stations	2
	Number of Employees	27
Police Protection	Number of Stations	1
	Number of Policemen	34
Education	Community College	1
	High School	1
	Middle School	2
	Elementary School	4
Hospital	East Texas Medical Center - Athens	
Number of City Employees	122	
Population	<u>Years</u>	<u>Federal Census</u>
	1910	2 261
	1920	3 176
	1930	4 342
	1940	4 765
	1950	5 194
	1960	7 086
	1970	9 553
	1980	10 197
	1990	10 818
	2000	11 297