

CITY OF ATHENS, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED SEPTEMBER 30, 2006

CITY OF ATHENS, TEXAS
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FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2006

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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, 2006 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, 2006, 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.

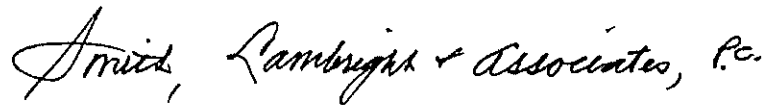
In accordance with *Government Auditing Standards*, we have also issued our report dated June 23, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, grants and contracts. That report is an 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

May 11, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006. 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, 2006 by \$18,624,236. Of this amount, unrestricted net assets of \$4,087,494 may be used to meet the government's ongoing obligations to citizens and, creditors.
- Total net assets increased by \$1,003,504. Of this amount \$207,627 was associated with governmental and \$795,877 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 \$3,284,565. This was a increase of \$665,837 in comparison with the prior year.
- Sales taxes increased substantially with a 15.7% increase over prior years' actual. Actual receipts exceeded budget projections by approximately 14.18%.
- At the end of the current fiscal year, unreserved fund balance in the General Fund was \$3,063,703. Of this amount the City Council has currently restricted \$800,000 or 12% of total general fund expenditures for emergency reserve. Council has also restricted \$200,000 for future capital improvements.
- Property tax values for 2006 tax rolls increased by \$7,953,550(1.56%) over the prior tax year (2005).
- 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.

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's 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 13 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.

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, 2006, the City's assets exceeded its liabilities by \$18,624,236. The largest portion of the City's net assets (50%) 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 3,889,454	\$ 3,211,527	\$ 7,014,288	\$ 7,298,475	\$10,903,742	\$10,510,002
Capital assets	9,563,974	10,244,373	10,303,075	9,490,414	19,867,049	19,734,787
Total assets	13,453,428	13,455,900	17,317,363	16,788,889	30,770,791	30,244,789
Long-term liabilities outstanding	4,415,732	4,223,031	6,906,145	6,901,088	11,321,877	11,124,119
Other liabilities	631,333	466,490	193,345	465,805	824,678	932,295
Total liabilities	5,047,065	4,689,521	7,099,490	7,366,893	12,146,555	12,056,414
Net assets:						
Invested in capital assets, net of related debt	5,880,158	6,252,934	3,438,076	2,403,267	9,318,234	8,656,201
Restricted	116,594	187,454	5,101,914	5,628,037	5,218,508	5,815,491
Unrestricted	2,409,611	1,758,348	1,677,883	1,390,692	4,087,494	3,149,040
Total net assets	\$ 8,406,363	\$ 8,198,736	\$10,217,873	\$ 9,421,996	\$18,624,236	\$17,620,732

An additional portion of net assets (28%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$4,087,494) 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, 2006

	Governmental Activities		Business-type Activities		Total Primary Government	
	2006	2005	2006	2005	2006	2005
REVENUES						
Program revenues:						
Charges for services	\$ 534,233	\$ 432,579	\$ 3,908,197	\$ 3,674,983	\$ 4,442,430	\$ 4,107,562
Operating grants and contributions	159,478	280,648			159,478	280,648
Capital grants and contributions	0	0			0	0
Total Program Revenues	693,711	713,227	3,908,197	3,674,983	4,601,908	4,388,210
General revenues:						
Taxes:						
Sales and use taxes	3,427,457	3,008,717			3,427,457	3,008,717
Property taxes	2,270,974	1,759,657			2,270,974	1,759,657
Franchise taxes	832,144	776,492			832,144	776,492
Unrestricted investment income	131,953	109,913	308,182	231,728	440,135	341,641
Donated Capital Assets	51,100	547,280	300,637	905,578	351,737	1,452,858
Miscellaneous	11,941	67,534			11,941	67,534
Premium on Bonds Sold			558	558	558	558
Gain(Loss) on sale of capital assets	(520)	17,316		618	(520)	17,934
Total General Revenue	6,725,049	6,286,909	609,377	1,138,482	7,334,426	7,406,899
Total Revenue	7,418,760	7,000,136	4,517,574	4,813,465	11,936,334	11,795,109
EXPENSES						
General	\$ 1,244,660	\$ 1,206,793			\$ 1,244,660	\$ 1,206,793
Public Safety:						0
Police	2,087,092	2,176,040			2,087,092	2,176,040
Fire	1,933,859	1,717,956			1,933,859	1,717,956
Other	319,676	311,135			319,676	311,135
Public Services					0	0
Highways and Streets	1,179,865	1,077,204			1,179,865	1,077,204
Health	287,338	288,383			287,338	288,383
Culture and Recreation	630,666	600,817			630,666	600,817
Conservation and Development		600			0	600
Interest on long-term debt	177,977	191,778	310,750	293,044	488,727	484,822
Water Utilities			2,760,947	3,062,151	2,760,947	3,062,151
Total Expense	7,861,133	7,570,706	3,071,697	3,355,195	10,932,830	10,925,901
Increase in net assets before transfers	(442,373)	(570,570)	1,445,877	1,458,270	1,003,504	869,208
Transfers	650,000	685,921	(650,000)	(685,922)	0	(1)
Change in net assets	207,627	115,351	795,877	772,348	1,003,504	869,207
Net assets October 1	8,198,736	8,083,385	9,421,996	8,649,648	17,620,732	16,733,033
Net assets September 30	\$ 8,406,363	\$ 8,198,736	\$ 10,217,873	\$ 9,421,996	\$ 18,624,236	\$ 17,602,240

Governmental Activities. Governmental activities increased the City's net assets by \$207,627 accounting for 20 percent of the total increase in the net assets. Excess revenue over expenditures especially sales taxes 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 \$795,877 accounting for 79 percent of the total increase in the governments net assets. This increase was due principally to donations of capital assets from developers and excess revenue over expenditures due to an extremely severe drought during the fiscal year.

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 \$3,284,565. Approximately 66% of this amount (\$2,167,970) constitutes unreserved and undesignated fund balance.

The General Fund is the chief operating fund of the City. For the fiscal year ended September 30, 2006, unreserved fund balance of the General Fund was \$3,063,703, while total fund balance reached \$3,063,703.

The General Fund's fund balance increased during the current fiscal year (\$633,531). Key factors in this decrease are as follows:

- Large increase in sales tax revenue and excess revenue over expenditures

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

The Debt Service Fund's fund balance decreased from \$11,274 to \$6,111 due to variations in revenue from property tax collections under debt payments and receivables and allowance adjustments.

The Capital Projects Fund's fund balance increased by \$3,178. The increase was due to interest earnings on proceeds from donated cash held for future capital projects. Projects are determined based on specific donation restrictions and purposes.

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 \$1,677,883. This was an increase of \$795,876. 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 \$113,938 (net) from the original budget to the final budget (an increase of 1.67%). These increases can be summarized as follows:

- \$2,119 for Street Department dump truck repair.
- \$27,078 for gas remediation at the old City landfill.
- \$17,341 for remodeling the former National Guard Armory for use as an Emergency Management Center for the City of Athens.
- \$66,400 for cost overruns on electricity usage.
- \$1,000 for donations to other organizations.

Capital Asset and Debt Administration**Capital Assets**

The City's investment in capital assets for its governmental and business type activities at September 30, 2006 amounts to \$19,867,050 (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 1%

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

- \$7,00 in emergency management equipment is donated to the City by Henderson County.
- \$44,000 decontamination trailer donated to Fire Department.
- \$717,331 in utility infrastructure was completed and moved into service from the 2004 Water/Sewer Capital Projects Fund. These projects were funded by the 2004 Certificates of Obligation.
- \$145,364 in water and sewer infrastructure was donated to the City by the developers of the Gardens of Athens housing development.
- \$155,273 in water and sewer infrastructure was donated to the City by the developers of the Palomita Cove housing development.

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 \$11,321,877 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, 2006

	Governmental Activities	Business-type Activities	Total
Certificates of Obligation	\$ 3,565,000	\$ 6,865,000	\$ 10,430,000
Notes Payable	105,579		105,579
Capital Leases Payable	13,238		13,238
Compensated Absences Payable	731,916	41,145	773,061
Total	<u>\$ 4,415,733</u>	<u>\$ 6,906,145</u>	<u>11,321,878</u>

Economic Factors and Next Year's Budgets and Rates

- Property tax values continue to increase with the taxable valuations in 2006 increasing by 1.56%. The property tax rate remain the same for 2007 at .443793 per \$100 valuation.
- Sales tax revenue continue to increase for the first time in 5 years. The sales tax revenue was above budget by \$402,048 in 2006. The 2007 budget anticipates a 2% increase in sales tax revenue over the prior year.
- Interest earnings on the 2004 bond proceeds have been used to cover cost over runs on projects due to dramatic increases in the cost of pipe brought about by increased oil prices. This along with any arbitrage rebates may effect the total number of projects which can be completed as compared to the scheduled projects to be done.
- 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 2% beginning with the September 2006 billing.
- \$1,259,505 is budgeted in the airports grants fund for airport improvements including a master plan, runway improvements and new hanger construction. Most of the improvements are to be paid for by federal grant funds.

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, 2006

	Government Activities	Business-type Activities	Total	Component Unit
Assets				
Cash	\$ 608 087	\$ 367 768	\$ 975 855	\$ 297 176
Investments	2 079 056	1 104 005	3 183 061	250 279
Receivables (net of allowances for doubtful accounts):				
Ad valorem taxes	116 446		116 446	
Accounts	841 453	537 008	1 378 461	1 094 956
Due from other governments	7 948	15 316	23 264	
Internal balances	214 097	(214 097)	0	
Inventories	5 641	102 374	108 015	
Prepaid items	16 726		16 726	
Restricted assets:				
Cash		5 101 914	5 101 914	
Capital assets:				
Work in progress	60 811	99 999	160 810	
Land	2 152 329	152 200	2 304 529	217 722
Buildings	7 657 528	799 441	8 456 969	835 251
Improvements other than buildings	6 136 154	18 009 313	24 145 467	133 843
Machinery and equipment	4 344 197	1 105 116	5 449 313	24 667
Amortizable assets	104 679	237 832	342 511	
Accumulated depreciation	(10 806 930)	(10 051 984)	(20 858 914)	
Accumulated amortization	(84 794)	(48 842)	(133 636)	
Total Assets	13 453 428	17 317 363	30 770 791	2 853 894
Liabilities				
Accounts payable	482 891	10 868	493 759	8 097
Wages and salaries payable	118 139		118 139	
Accrued interest	26 443	58 290	84 733	
Deposits	3 860	114 150	118 010	
Deferred revenue		10 037	10 037	
Noncurrent liabilities:				
Due within one year	367 771	280 000	647 771	56 250
Due in more than one year	4 047 961	6 626 145	10 674 106	
Total Liabilities	5 047 065	7 099 490	12 146 555	64 347
Net Assets				
Invested in capital assets, net of related debt	5 880 158	3 438 076	9 318 234	1 211 483
Restricted for:				
Debt service	6 110		6 110	
Capital projects	110 484	5 101 914	5 212 398	
Unrestricted	2 409 611	1 677 883	4 087 494	1 578 064
Total Net Assets	\$ 8 406 363	\$ 10 217 873	\$ 18 624 236	\$ 2 789 547

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	\$ 1 244 660	\$ 100 921	\$ 8 500
Police	2 087 092	389 478	29 745
Fire Protection	1 933 859		20 753
Other Public Safety	319 676		15 230
Highways Streets and Airport	1 179 865	43 834	79 607
Health	287 338		
Culture and Recreation	630 666		5 643
Conservation and Development			
Bond Interest	177 977		
Total Government Activities	<u>7 861 133</u>	<u>534 233</u>	<u>159 478</u>
Business-type Activities			
Utility Fund	<u>3 071 697</u>	<u>3 908 197</u>	
Total Business-type Activities	<u>3 071 697</u>	<u>3 908 197</u>	<u>0</u>
Total Primary Government	<u>\$ 10 932 830</u>	<u>\$ 4 442 430</u>	<u>\$ 159 478</u>
Component Unit:			
Athens Economic Development Corporation	<u>1 450 188</u>	<u>80 327</u>	
Total Component Unit	<u>\$ 1 450 188</u>	<u>\$ 80 327</u>	<u>\$</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.

EXHIBIT 2

CITY OF ATHENS, TEXAS
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2006

Net (Expenses) Revenue and Changes in Net Assets			
Government Activities	Business-type Activities	Total	Component Unit
\$ (1 135 239)	\$	\$ (1 135 239)	\$
(1 667 869)		(1 667 869)	
(1 913 106)		(1 913 106)	
(304 446)		(304 446)	
(1 056 424)		(1 056 424)	
(287 338)		(287 338)	
(625 023)		(625 023)	
0		0	
(177 977)		(177 977)	
(7 167 422)	0	(7 167 422)	
	836 500	836 500	
0	836 500	836 500	
(7 167 422)	836 500	(6 330 922)	
			(1 369 861)
			(1 369 861)
2 270 974		2 270 974	
3 427 457		3 427 457	1 078 968
832 144		832 144	
131 953	308 182	440 135	30 874
51 100	300 637	351 737	
11 941		11 941	
	558	558	
(520)		(520)	
650 000	(650 000)	0	223 601
7 375 049	(40 623)	7 334 426	1 333 443
207 627	795 877	1 003 504	(36 418)
8 198 736	9 421 996	17 620 732	2 825 965
\$ 8 406 363	\$ 10 217 873	\$ 18 624 236	\$ 2 789 547

CITY OF ATHENS, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
ASSETS					
Cash and Cash Equivalents	\$ 380 425	\$ 10 309	\$ 110 484	\$ 106 870	\$ 608 088
Investments - Current	2 079 056				2 079 056
Taxes Receivable (net of allow. for uncoll.)	90 644	25 802			116 446
Receivables (net of allowable for uncoll.)	841 287			166	841 453
Due from Other Governments				7 948	7 948
Intergovernmental Receivables	214 097				214 097
Due from Other Funds	51 643				51 643
Inventories	5 641				5 641
Prepaid Items	3 000			13 726	16 726
Other Assets					0
Total Assets	<u>\$ 3 665 793</u>	<u>\$ 36 111</u>	<u>\$ 110 484</u>	<u>\$ 128 710</u>	<u>\$ 3 941 098</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts Payable	\$ 482 891	\$	\$	\$	482 891
Wages and Salaries Payable	118 139				118 139
Due to Other Funds		30 000		21 643	51 643
Deposits Payable	1 060			2 800	3 860
Deferred Revenues					0
Other Current Liabilities					0
Total Liabilities	<u>602 090</u>	<u>30 000</u>	<u>0</u>	<u>24 443</u>	<u>656 533</u>
Fund Balances:					
Reserved for:					
Debt Service		6 111			6 111
Unreserved Designated for:					
Emergency Reserve	800 000				800 000
Capital Improvements	200 000		110 484		310 484
Unreserved and Undesignated:					
Reported in the General Fund	2 063 703				2 063 703
Reported in Special Revenue Funds				104 267	104 267
Total Fund Balances	<u>3 063 703</u>	<u>6 111</u>	<u>110 484</u>	<u>104 267</u>	<u>3 284 565</u>
Total Liabilities and Fund Balances	<u>\$ 3 665 793</u>	<u>\$ 36 111</u>	<u>\$ 110 484</u>	<u>\$ 128 710</u>	<u>\$ 3 941 098</u>

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, 2006

Total Fund Balance - Total Governmental Funds	\$	3 284 565
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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.		9 563 973
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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.		(26 443)
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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		(367 771)
Due in more than one year		(4 047 961)

Net assets of governmental activities	\$	8 406 363
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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, 2006

	General Fund	Debt Service Fund	Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
Taxes:					
Property	\$ 1 782 971	\$ 457 943	\$	\$	\$ 2 240 914
General Sales and Use	3 250 574			176 883	3 427 457
Franchise	832 145				832 145
Penalty and Interest	25 247	4 812			30 059
Licenses and Permits	64 556			266	64 822
Intergovernmental Revenues and Grants	43 255			119 670	162 925
Charges for Services	39 955			1 965	41 920
Fines	381 614			8 550	390 164
Investment Income	116 270	7 395	4 198	4 090	131 953
Rents and Royalties	1 351			5 976	7 327
Contributions & Donations from Private Sources	8 500			18 053	26 552
Other Revenue	11 942			3	11 945
Total Revenues	<u>6 558 377</u>	<u>470 150</u>	<u>4 198</u>	<u>335 455</u>	<u>7 368 183</u>
EXPENDITURES:					
Current:					
General Government	1 003 060	265		313	1 003 638
Public Safety:					
Police	1 952 996			26 583	1 979 579
Fire	1 700 908			15 216	1 716 124
Other	313 955				313 955
Public Works:					
Highways, Streets and Airport	779 732		1 020	53 898	834 650
Health	281 502				281 502
Culture and Recreation	402 738			183 298	586 036
Debt Service:					
Principal		296 058		11 565	307 623
Interest		178 632		1 034	179 666
Fiscal Agent Fees		358			358
Capital Outlay:					
Capital Outlay	104 217			44 998	149 215
Total Expenditures	<u>6 539 108</u>	<u>475 313</u>	<u>1 020</u>	<u>336 905</u>	<u>7 352 346</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>19 272</u>	<u>(5 163)</u>	<u>3 178</u>	<u>(1 450)</u>	<u>15 837</u>
OTHER FINANCING SOURCES (USES):					
Non-Current Loans					0
Transfers In	650 000			60 432	710 432
Transfers Out (Use)	(35 741)			(24 691)	(60 432)
Total Other Financing Sources (Uses)	<u>614 259</u>	<u>0</u>	<u>0</u>	<u>35 741</u>	<u>650 000</u>
Net Change in Fund Balances	633 531	(5 163)	3 178	34 291	665 837
Fund Balance - October 1 (Beginning)	<u>2 430 172</u>	<u>11 274</u>	<u>107 306</u>	<u>69 976</u>	<u>2 618 728</u>
Fund Balance - September 30 (Ending)	<u>\$ 3 063 703</u>	<u>\$ 6 111</u>	<u>\$ 110 484</u>	<u>\$ 104 267</u>	<u>\$ 3 284 565</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, 2006

Net change in fund balances - total governmental funds	\$	665 837
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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.		149 215
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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.		(880 192)
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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.		51 100
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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.		307 620
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Some expenses in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the government funds.

Compensated Absences		(87 123)
Accrued Interest on Debt		1 690
Loss on Sale of Capital Assets		(520)

Change in Net Assets of Governmental Activities	\$	<u>207 627</u>
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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, 2006

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 1 863 475	\$ 1 863 475	\$ 1 782 971	\$ (80 504)
General Sales and Use	2 852 983	2 852 983	3 250 574	397 591
Franchise	826 500	826 500	832 145	5 645
Penalty and Interest	22 000	22 000	25 247	3 247
Licenses and Permits	45 875	45 875	64 556	18 681
Intergovernmental Revenues and Grants	39 800	39 800	43 255	3 455
Charges for Services	27 000	27 000	39 955	12 955
Fines	379 200	379 200	381 614	2 414
Investment Income	85 000	85 000	116 270	31 270
Rents and Royalties	1 500	1 500	1 351	(149)
Contributions & Donations from Private Sources	0	0	8 500	8 500
Other Revenue	12 100	12 100	11 939	(168)
Total Revenues	<u>6 155 433</u>	<u>6 155 433</u>	<u>6 558 377</u>	<u>402 947</u>
EXPENDITURES:				
Current:				
General Government	1 009 793	1 027 597	1 003 060	24 537
Public Safety:				
Police	2 186 365	2 132 324	1 952 996	179 328
Fire	1 719 786	1 716 410	1 700 908	15 502
Other	321 291	323 993	313 955	10 038
Public Works:				
Highways, Streets and Airport	651 536	699 729	779 732	(80 003)
Health	308 793	341 293	281 502	59 791
Culture and Recreation	417 768	429 312	402 738	26 574
Capital Outlay:				
Capital Outlay	129 023	208 579	104 217	104 362
Total Expenditures	<u>6 744 355</u>	<u>6 879 237</u>	<u>6 539 108</u>	<u>340 129</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(588 922)</u>	<u>(723 804)</u>	<u>19 272</u>	<u>763 836</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	650 000	650 000	650 000	0
Transfers Out (Use)	(61 080)	(40 136)	(35 741)	4 395
Total Other Financing Sources (Uses)	<u>588 920</u>	<u>609 864</u>	<u>614 259</u>	<u>4 395</u>
Net Change in Fund Balances	(2)	(113 940)	633 531	789 175
Fund Balance - October 1 (Beginning)	<u>2 430 172</u>	<u>2 430 172</u>	<u>2 430 172</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 2 430 170</u>	<u>\$ 2 316 232</u>	<u>\$ 3 063 700</u>	<u>\$ 747 471</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
FOR YEAR ENDED SEPTEMBER 30, 2006

ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 367 768
Investments - Current	1 104 005
Accounts Receivable - Net of Uncollectible Allowance	537 008
Intergovernmental Receivables	15 316
Inventories	102 374
Restricted Assets:	
Cash and Cash Equivalents	<u>5 101 914</u>
Total Current Assets	<u>7 228 385</u>
Non-Current Assets:	
Capital Assets:	
Work in Progress	99 999
Land Purchase and Improvements	152 200
Buildings	799 441
Improvement Other Than Buildings	18 009 313
Machinery and Equipment	1 105 116
Amortizable Assets	237 832
Accumulated Depreciation	(10 051 984)
Accumulated Amortization	<u>(48 842)</u>
Total Non-Current Assets	<u>10 303 075</u>
Total Assets	<u>17 531 460</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	10 868
Accrued Interest Payable	58 290
Internal Balances	214 097
Certificates of Obligation Payable	280 000
Deferred Revenue	10 037
Deposits	<u>114 150</u>
Total Current Liabilities	<u>687 442</u>
Non-Current Liabilities	
Compensated Absences Payable	41 145
Certificates of Obligation Payable	<u>6 585 000</u>
Total Non-Current Liabilities	<u>6 626 145</u>
Total Liabilities	<u>7 313 587</u>
NET ASSETS	
Investments in Capital Assets, Net of Debt	3 438 075
Restricted for Construction	5 101 914
Unrestricted Net Assets	<u>1 677 883</u>
Total Net Assets	<u>\$ 10 217 872</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, 2006

OPERATING REVENUES	
Charges for Water Services	\$ 2 066 610
Charges for Waste Water Services	1 588 192
Fees	239 182
Other Revenue	<u>14 211</u>
Total Operating Revenues	<u>3 908 195</u>
OPERATING EXPENSES:	
Personnel Services	
Supplies	1 253 485
Contractual Services	332 882
Depreciation	672 292
Bad Debt Expense	<u>501 415</u>
Total Operating Expenses	<u>2 760 074</u>
Operating Income	<u>1 148 121</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	300 637
Investment Earnings	308 182
Interest Expense - Non-Operating	(310 750)
Fiscal Agent Fees	(872)
Premium on Bonds Sold	<u>558</u>
Total Non-Operating Revenue (Expenses)	<u>297 755</u>
Income Before Transfers	1 445 876
Transfers Out	<u>(650 000)</u>
Change in Net Assets	795 876
Total Net Assets - October 1 (Beginning)	<u>9 421 996</u>
Total Net Assets - September 20 (Ending)	<u>\$ 10 217 872</u>

See accompanying notes to basic financial statements.

CITY OF ATHENS, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR YEAR ENDED SEPTEMBER 30, 2006

Cash Flows From Operating Activities:

Cash Received From User Charges	\$ 3 894 352
Other Operating Revenues	14 213
Other Payments	1 895
Cash Payments to Employees for Services	(1 248 427)
Cash Payments to Suppliers	(990 367)
Net Cash Provided by Operating Activities	<u>1 671 666</u>

Cash Flows from non-Capital Financing Activities:

Operating Transfers Out	<u>(650 000)</u>
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Cash Flows from Capital & Related Financing Activities:

Acquisition of Capital Assets	(965 588)
Interest Paid on Bonds	(313 403)
Retirement of Bonds	(270 000)
Fiscal Agent Fees	(872)
Net Cash Provided by (Used for) Capital & Related Financing Activities	<u>(1 549 863)</u>

Cash Flows from Investing Activities:

Interest and Dividends on Investments	<u>308 182</u>
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Net Increase (Decrease) in Cash and Cash Equivalents	(220 015)
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Cash and Cash Equivalents at Beginning of the Year	<u>6 793 702</u>
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Cash and Cash Equivalent at End of the Year	<u>\$ 6 573 687</u>
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Reconciliation of Operating Income to Net Cash Provided by Operating Activities:

Operating Income	\$ 1 148 122
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Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation	501 415
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Effect of Increases and Decreases in Current Assets and Liabilities:

Decrease (Increase) in Receivables	368
Decrease (Increase) in Inventories	(2 245)
Increase (Decrease) in Accounts Payable	17 054
Increase (Decrease) in Deposits	1 895
Increase (Decrease) in Compensated Absences	<u>5 057</u>

Net Cash Provided by Operating Activities	<u>\$ 1 671 666</u>
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See accompanying notes to basic financial statement.

CITY OF ATHENS, TEXAS
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED SEPTEMBER 30, 2006

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 one component unit.

DISCRETELY PRESENTED COMPONENT UNIT:

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. The City appoints directors and approves budgets..

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.

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, 2006 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, 2006, the City allocated \$650,000 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 2005-2006 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 \$9,668,999 and occurred on November 30, 2005. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$9,830,921. 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, 2006, the amount of the City's cash balance in checking accounts was \$1,058,657. The cash balance in interest bearing account was \$1,055,250.

INVESTMENTS

The City's investments at September 30, 2006, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Time Deposits	\$ 1 055 250	\$ 1 055 250	.083
Certificates of Deposit	426 000	426 000	.083
TexPool	<u>7 774 994</u>	<u>7 774 994</u>	.093
Total Investments	<u>\$ 9 256 244</u>	<u>\$ 9 256 244</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, 2006, was as follows:

	Balance 10/01/05	Additions	Retirements	Adjustments	Balance 9/30/2006
Government Activities:					
Capital assets not being depreciated:					
Land	\$ 2 147 751	\$ 4 578	\$	\$	\$ 2 152 329
Construction in progress		60 811			60 811
Total capital assets not being depreciated	<u>2 147 751</u>	<u>65 389</u>			<u>2 213 140</u>
Capital asset being depreciated:					
Buildings	7 657 528				7 657 528
Equipment	4 335 332	249 544	(146 345)	10 345	4 448 876
Improvements	1 458 271				1 458 271
Infrastructure	4 677 883				4 677 883
Total capital assets being depreciated	<u>18 129 014</u>	<u>249 544</u>	<u>(146 345)</u>	<u>10 345</u>	<u>18 242 558</u>
Less: accumulated depreciation for:					
Buildings	(5 573 398)	(248 990)			(5 822 388)
Equipment	(3 080 703)	(304 536)	31 206	(10 345)	(3 364 378)
Improvements	(537 631)	(92 756)			(630 387)
Infrastructure	(840 660)	(233 911)			(1 074 571)
Total accumulated depreciation	<u>(10 032 392)</u>	<u>(880 193)</u>	<u>31 206</u>	<u>(10 345)</u>	<u>(10 891 724)</u>
Total capital assets being depreciated, net	<u>8 096 622</u>	<u>(630 649)</u>	<u>(115 139)</u>		<u>7 350 834</u>
Governmental activities capital assets, net	<u>\$ 10 244 373</u>	<u>\$ (565 260)</u>	<u>\$ (115 139)</u>	<u>\$</u>	<u>\$ 9 563 974</u>
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 152 200	\$	\$	\$	\$ 152 200
Construction in progress	47 851	769 480	(717 332)		99 999
Total capital assets not being depreciated	<u>200 051</u>	<u>769 480</u>	<u>(717 332)</u>		<u>252 199</u>
Capital assets being depreciated:					
Buildings	799 441				799 441
Equipment	1 056 861	60 321	(1 721)	(10 345)	1 105 116
Amortizable assets	237 832				237 832
Improvements	1 454				1 454
Infrastructure	16 854 104	1 153 755			18 007 859
Total capital asset being depreciated	<u>18 949 692</u>	<u>1 214 076</u>	<u>(1 721)</u>	<u>(10 345)</u>	<u>20 151 702</u>
Less: accumulated depreciation for:					
Buildings	(641 201)	(9 222)			(650 423)
Equipment	(695 430)	(95 862)	1 721	10 345	(779 226)
Amortizable assets	(28 480)	(20 362)			(48 842)
Improvements	(1 453)				(1 453)
Infrastructure	(8 244 913)	(375 968)			(8 620 881)
Total accumulated depreciation	<u>(9 611 477)</u>	<u>(501 414)</u>	<u>1 721</u>	<u>10 345</u>	<u>(10 100 825)</u>
Total capital assets being depreciated, net	<u>9 338 215</u>	<u>712 662</u>	<u>0</u>	<u>0</u>	<u>10 050 877</u>
Business-type activities capital assets, net	<u>\$ 9 538 266</u>	<u>\$ 1 482 142</u>	<u>\$ (717 332)</u>	<u>\$ 0</u>	<u>\$ 10 303 076</u>

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

Governmental activities:

General government and administration	\$ 520 373
Public safety	59 491
Public services	249 520
Culture and recreation	44 366
Health	6 443

Total depreciation expense-Governmental activities	<u>\$ 880 193</u>
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Business-type activities:

Water and sewer	<u>\$ 501 414</u>
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4. Interfund Assets/Liabilities

The compositions of interfund balances as of September 30, 2006, is as follows:

Due From/To Other Funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Emergency Management Grant	\$ 7 948
General	Debt Service	30 000
General	Airport	292
General	Community Improvements	13 188
General	Utility	1 672
General	Municipal Technology	<u>215</u>
Total		<u>\$ 53 315</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, 2006 as follows:

<u>Fiscal Year Ending September 30</u>	<u>Amount</u>
2008	\$ 9 206
2009	<u>4 855</u>
Total	<u>\$ 14 061</u>

Rental expenditures in 2005-2006 were \$32,073.

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, 2006:

	Balance 10/01/05	Issued	Retired	Balance 9/30/06
Police Vehicles	\$ 40 145	\$	\$ 40 145	\$ 0
Municipal Court Technology	24 803		11 565	13 238
Totals	<u>\$ 64 948</u>	<u>\$ 0</u>	<u>\$ 51 710</u>	<u>\$ 13 238</u>

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

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
2007	\$ 12 192	\$ 407	\$ 12 599
2008	1 046	5	1 051
Total	<u>\$ 13 238</u>	<u>\$ 412</u>	<u>\$ 13 650</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 6.25% and the monthly payments are \$2,076. The note is renewable annually.

	Balance 10/01/05	Issued	Retired	Balance 9/30/06
Administrative Office	\$ 121 491	\$	\$ 15 912	\$ 105 579
Totals	<u>\$ 121 491</u>	<u>\$ 0</u>	<u>\$ 15 912</u>	<u>\$ 105 579</u>

Debt service requirements for the notes payable are as follows:

Fiscal Year Ending September 30	Principal	Interest	Total Requirements
2007	\$ 105 579	\$ 5 572	\$ 111 151
Total	<u>\$ 105 579</u>	<u>\$ 5 572</u>	<u>\$ 111 151</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, 2006:

	<u>Balance 10/01/05</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance 9/30/06</u>
Series 1998: Original issue \$5,060,000 with interest rates of 4.5% to 7.25%	\$ 3 805 000	\$	\$ 240 000	\$ 3 565 000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Totals	<u>\$ 3 805 000</u>	<u>\$ 0</u>	<u>\$ 240 000</u>	<u>\$ 3 565 000</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>
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	305 000	111 825	416 825
2012 - 2016	1 770 000	339 075	2 109 075
2017	<u>410 000</u>	<u>18 450</u>	<u>428 450</u>
Total	<u>\$ 3 565 000</u>	<u>\$ 1 039 632</u>	<u>\$ 4 604 632</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, 2006 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, 2006, 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, 2006:

	Balance 10/01/05	Issued	Retired	Balance 9/30/06
Tax and Utility System Surplus Revenue Certificates of Obligation, Series 2000	\$ 1 855 000	\$	\$ 80 000	\$ 1 775 000
Tax and Utility System Surplus Revenue Certificates of Obligations, Series 2004	5 280 000		190 000	5 090 000
	<u>\$ 7 135 000</u>	<u>\$ 0</u>	<u>\$ 270 000</u>	<u>\$ 6 865 000</u>

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

Fiscal Year Ending September 30	Principal	Interest	Total Requirement
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	335 000	241 565	576 565
2012 - 2016	1 945 000	968 537	2 913 537
2017 - 2021	2 250 000	520 612	2 770 612
2022 - 2024	<u>1 130 000</u>	<u>97 950</u>	<u>1 227 950</u>
Total	<u>\$ 6 865 000</u>	<u>\$ 2 946 912</u>	<u>\$ 9 811 912</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, 2006, 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	\$ 3 805 000	\$	\$ 240 000	\$ 3 565 000	\$ 250 000
Notes Payable:					
Administrative Office	121 491		15 912	105 579	105 579
Capital Leases Payable:					
Vehicles and Equipment	64 948		51 710	13 238	12 192
Compensated Absences	644 793	125 067	37 944	731 916	
Total Governmental Activities Long-term Liabilities	<u>\$ 4 636 232</u>	<u>\$ 125 067</u>	<u>\$ 345 566</u>	<u>\$ 4 415 733</u>	<u>\$ 367 771</u>
Business Type Activities:					
Bonds Payable:					
Certificates of Obligation	\$ 7 135 000	\$	\$ 270 000	\$ 6 865 000	\$ 280 000
Compensated Absences	36 088	14 524	9 467	41 145	
Total Business Type Activities Long-term Liabilities	<u>\$ 7 171 088</u>	<u>\$ 14 524</u>	<u>\$ 279 467</u>	<u>\$ 6 906 145</u>	<u>\$ 280 000</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, 2006 is as follows:

Operating Revenues	\$ 3 908 195
Depreciation Expense	501 415
Operating Income	1 148 121
Operating Transfers (Out)	(650 000)
Change in Net Assets	795 876
Fixed Asset Additions	1 983 556
Net Working Capital (Deficiency)	1 439 029
Total Assets	17 531 460
Total Net Assets	10 217 872
Certificates of Obligation Payable	6 865 000

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, 2005 valuation is effective for rates beginning January, 2007.)

Schedule of Actuarial Liabilities and Funding Progress

Actuarial Valuation Date	12/31/05	12/31/04	12/31/03	12/31/02	12/31/01	12/31/00
Actuarial Value of Assets	\$ 7 708 934	\$ 6 574 522	\$ 6 089 248	\$ 5 866 549	\$ 5 230 208	\$ 4 531 344
Actuarial Accrued Liability	\$ 12 498 234	\$ 10 892 201	\$ 8 999 404	\$ 7 362 413	\$ 6 472 763	\$ 5 641 308
Percentage Funded	61.7%	60.4%	67.7%	79.7%	80.8%	80.3%
Underfunded (Over-funded) Actuarial Accrued Liability (UAAL)	\$ 4 789 300	\$ 4 317 679	\$ 2 910 156	\$ 1 495 864	\$ 1 242 555	\$ 1 109 964
Annual Covered Payroll	\$ 4 536 189	\$ 4 527 284	\$ 4 247 718	\$ 4 003 466	\$ 3 783 576	\$ 3 375 061
AAL as a Percentage of Covered Payroll	105.6%	95.4%	68.5%	37.4%	32.8%	32.9%
Net Pension Obligation (NPO) at the Beginning of Period	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Annual Pension Cost: Annual required Contribution (ARC)	\$ 973 887	\$ 867 092	\$ 653 063	\$ 574 383	\$ 245 815	\$ 239 661
Contributions Made	\$ 973 887	\$ 867 092	\$ 653 063	\$ 574 383	\$ 245 815	\$ 239 661
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, 2006.

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, 2006.

COMBINING FINANCIAL STATEMENTS

CITY OF ATHENS, TEXAS
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	Airport Funds	Community Improvement Fund	Emergency Management Grant	Law Enforcement Grant
ASSETS				
Cash and Cash Equivalents	\$ 30 316	\$ 13 188	\$	\$
Receivables (net of allowance for uncollectibles)	166			
Intergovernmental Receivables			7 948	
Prepaid Items				
Total Assets	<u>\$ 30 482</u>	<u>\$ 13 188</u>	<u>\$ 7 948</u>	<u>\$ 0</u>
LIABILITIES AND FUND BALANCES				
Accounts Payable	\$	\$	\$	\$
Due to Other Funds	292	13 188	7 948	
Deposits	2 800			
Total Liabilities	<u>\$ 3 092</u>	<u>\$ 13 188</u>	<u>\$ 7 948</u>	<u>\$ 0</u>
FUND BALANCES				
Unreserved and Undesignated:				
Reported in the Special Revenue Fund	<u>27 390</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Fund Balances	<u>27 390</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Liabilities and Fund Balances	<u>\$ 30 482</u>	<u>\$ 13 188</u>	<u>\$ 7 948</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A

Texas Yes Grant	Airport Grants Fund	Special Donations Fund	Municipal Court Technology Fund	Total Nonmajor Governmental Funds
\$	\$	\$ 46 955	\$ 16 411	\$ 106 870
				166
				7 948
	13 726			13 726
<u>\$ 0</u>	<u>\$ 13 726</u>	<u>\$ 46 955</u>	<u>\$ 16 411</u>	<u>\$ 128 710</u>
\$	\$	\$	\$	\$ 0
			215	21 643
				2 800
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 215</u>	<u>\$ 24 443</u>
0	13 726	46 955	16 196	104 267
0	13 726	46 955	16 196	104 267
<u>\$ 0</u>	<u>\$ 13 726</u>	<u>\$ 46 955</u>	<u>\$ 16 411</u>	<u>\$ 128 710</u>

CITY OF ATHENS, TEXAS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

	Airport Fund	Community Improvement Fund	Emergency Management Grant	Law Enforcement Grant
REVENUES:				
Taxes:				
General Sales and Use Taxes	\$	\$ 176 883	\$	\$
Licenses and Permits	266			
Intergovernmental Revenue and Grants			10 767	26 476
Charges for Services	1 965			
Fines				
Investment Earnings	882	772		
Rents and Royalties	5 976			
Contributions & Donation from Private Sources				
Other Revenue	3			
	<u>9 092</u>	<u>177 655</u>	<u>10 767</u>	<u>26 476</u>
Total Revenues				
EXPENDITURES:				
Current:				
General Government				
Public Safety - Police				26 476
Public Safety - Fire			10 767	
Public Works:				
Highways and Streets	8 325			
Culture and Recreation		177 655		
Debt Service:				
Principal				
Interest				
Capital Outlay:				
Capital Outlay				
	<u>8 325</u>	<u>177 655</u>	<u>10 767</u>	<u>26 476</u>
Total Expenditures				
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>767</u>	<u>0</u>	<u>0</u>	<u>0</u>
OTHER FINANCING SOURCES (USES):				
Transfers In	35 741			
Transfers Out (Use)	(24 691)			
Total Other Financing Sources (Uses)	<u>11 050</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in Fund Balance	11 817			
Fund Balance - October 1 (Beginning)	<u>15 573</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 27 390</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this statement.

EXHIBIT B

<u>Texas Yes Grant</u>	<u>Airport Grants Fund</u>	<u>Special Donations Fund</u>	<u>Municipal Court Technology Fund</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$	\$	\$	\$
				176 883
				266
2 821	79 606			119 670
				1 965
			8 550	8 550
		1 749	687	4 090
				5 976
2 822		15 230		18 052
				3
<u>5 643</u>	<u>79 606</u>	<u>16 979</u>	<u>9 237</u>	<u>335 455</u>
			313	313
		107		26 583
		4 449		15 216
	45 573			53 898
5 643				183 298
			11 565	11 565
			1 034	1 034
	44 998			44 998
<u>5 643</u>	<u>90 571</u>	<u>4 556</u>	<u>12 912</u>	<u>336 905</u>
0	(10 965)	12 423	(3 675)	(1 450)
	24 691			60 432
				(24 691)
0	24 691	0	0	35 741
0	13 726	12 423	(3 675)	34 291
0	0	34 532	19 871	69 976
<u>\$ 0</u>	<u>\$ 13 726</u>	<u>\$ 46 955</u>	<u>\$ 16 196</u>	<u>\$ 104 267</u>

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, 2006

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance With Final Budget Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 473 768	\$ 473 768	\$ 457 943	\$ (15 825)
Penalty and Interest	3 000	3 000	4 812	1 812
Investment Income	<u>1 000</u>	<u>1 000</u>	<u>7 395</u>	<u>6 395</u>
Total Revenues	<u>477 768</u>	<u>477 768</u>	<u>470 150</u>	<u>(7 618)</u>
EXPENDITURES:				
Current:				
General Government	0	0	265	(265)
Debt Service:				
Principal	300 651	300 651	296 058	4 593
Interest	176 117	176 117	178 632	(2 516)
Fiscal Agent Fees	<u>1 000</u>	<u>1000</u>	<u>358</u>	<u>642</u>
Total Expenditures	<u>477 768</u>	<u>477 768</u>	<u>475 313</u>	<u>2 454</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	0	0	(5 163)	(5 163)
OTHER FINANCING SOURCES (USES)				
Transfers In	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Net Change in fund Balances	0	0	(5 163)	(5 163)
Fund Balance - October 01 (Beginning)	<u>11 274</u>	<u>11 274</u>	<u>11 274</u>	<u>0</u>
Fund Balance - September 30 (Ending)	<u>\$ 11 274</u>	<u>\$ 11 274</u>	<u>\$ 6 111</u>	<u>\$ (5 163)</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, 2006

	Budgeted Amounts		Actual Amounts (GAAP Basis)	Variances With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
Investment Income	\$	\$	\$ 4 198	\$ 4 198
Total Revenues			4 198	4 198
EXPENDITURES:				
Current:				
General Government			1 020	(1 020)
Capital Outlay:				
Capital Outlay				
Total Expenditures			1 020	(1 020)
Excess (Deficiency) of Revenues Over (Under) Expenditures			3 178	3 178
OTHER FINANCING SOURCES (USES):				
Transfers Out (Use)			0	0
Net Change in Fund Balances			3 178	3 178
Fund Balance - October 1 (Beginning)	107 306	107 306	107 306	0
Fund Balance - September 30 - (Ending)	\$ 107 306	\$ 107 306	\$ 110 484	\$ 3 178

See accompanying notes to the basic financial statements.

OTHER INDEPENDENT AUDITOR'S REPORTS SECTION

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

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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, 2006, as listed in the table of contents, and have issued our report thereon dated May 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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

May 11, 2007

STATISTICAL SECTION

TABLE 1

CITY OF ATHENS, TEXAS
TAX LEVIES AND TAX COLLECTIONS
LAST TEN FISCAL YEARS
SEPTEMBER 30, 2006
UNAUDITED

<u>Year of Levy</u>	<u>Adjusted City Tax Levy</u>	<u>Collections to September 30, 2006</u>	<u>Percentage of Total Collections to Adjusted Levy</u>
1996	\$ 816 602	\$ 815 296	99.84
1997	862 482	861 281	99.86
1998	1 049 378	1 047 559	99.83
1999	1 099 682	1 097 609	99.81
2000	1 225 923	1 223 379	99.79
2001	1 281 870	1 278 059	99.70
2002	1 528 133	1 523 161	99.67
2003	1 658 847	1 650 048	99.47
2004	1 749 308	1 733 117	99.07
2005	2 280 729	2 212 691	97.02
	<u>\$ 13 552 954</u>	<u>\$ 13 442 200</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, 2006

Series 1998 General Obligation Improvement and Refunding Bonds Original Bond Issue \$5,060,000				
Requirements for Fiscal Year Ended	Annual Rate	Principal	Interest	Total Requirements
9-30-07	4.30%	\$ 250 000	\$ 159 523	\$ 409 523
9-30-08	4.30%	265 000	148 772	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%	410 000	18 450	428 450
TOTAL		<u>\$ 3 565 000</u>	<u>\$ 1 039 632</u>	<u>\$ 4 604 632</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, 2006

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2000			
	Annual Rate	Principal	Interest	Total Requirements
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>\$ 1 775 000</u>	<u>\$ 782 762</u>	<u>\$ 2 557 762</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, 2006

Requirements for Fiscal Year Ended	Taxes and Utility System Surplus Revenue Certificates of Obligation, Series 2004			
	Annual Rate	Principal	Interest	Total Requirements
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>\$ 5 090 000</u>	<u>\$ 2 164 150</u>	<u>\$ 7 254 150</u>

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

TABLE 5

CITY OF ATHENS, TEXAS
MISCELLANEOUS STATISTICAL DATA AND OTHER INFORMATION
SEPTEMBER 30, 2006
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	19.3 Square Miles	
Miles of Streets	Paved	98
	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	123	
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