

**CITY OF ATHENS
ATHENS COUNTY**

SINGLE AUDIT

FOR YEAR ENDED DECEMBER 31, 2006



Mary Taylor, CPA
Auditor of State

Members of Council
City of Athens
8 East Washington Street
Athens, Ohio 45701

We have reviewed the *Independent Accountants' Report* of the City of Athens, Athens County, prepared by Perry & Associates, Certified Public Accountants, A.C., for the audit period January 1, 2006 through December 31, 2006. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The City of Athens is responsible for compliance with these laws and regulations.

Mary Taylor

Mary Taylor, CPA
Auditor of State

November 20, 2007

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**CITY OF ATHENS
ATHENS COUNTY**

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Perry & Associates
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INDEPENDENT ACCOUNTANTS' REPORT

August 27, 2007

City of Athens
Athens County
8 East Washington Street
Athens, Ohio 45701

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the **City of Athens, Athens County, Ohio** (The City), as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the Comptroller General of the United States' *Government Auditing Standards*. Those standards require that we plan and perform the audit to reasonably assure 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 our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Athens, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General and Street 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 August 27, 2007, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. While we did not opine on the internal control over financial reporting or on compliance, that report describes the scope of our testing of internal control over financial reporting and compliance and the results of that testing. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*. You should read it in conjunction with this report in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information accounting principles generally accepted in the United States of America requires. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measuring and presenting the required supplementary information. However, we did not audit the information and express no opinion on it.

We conducted our audit to opine on the financial statements that collectively comprise the City's basic financial statements. The schedule of Federal Awards Receipts and expenditures is required by U.S. Office of Management and Budget circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements. We subjected the Schedule of Federal Awards Receipts and Expenditures to the auditing procedures applied in the audit of the basic financial statements. In our opinion, this information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

As described in Note 4 to the basic financial statements, the City implemented Governmental Accounting Standards Board (GASB) Statement 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*, GASB Statement 46, *Net Assets Restricted by Enabling Legislation*, and GASB Statement 47, *Accounting for Termination Benefits*.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

City of Athens, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

The discussion and analysis of the City of Athens's financial performance provides an overall review of the City's financial activities for the year ended December 31, 2006. The purpose of this discussion and analysis is to look at the City's financial performance and discuss pertinent points to better help the reader understand our performance.

Financial Highlights

1. The City's total net assets decreased \$206,811; net assets of the governmental activities decreased \$139,605; and net assets of the business-type activities decreased \$67,206.
2. The General Fund fund balance of \$1,745,591 decreased \$153,299 or 8.07% from the previous year's balance of \$1,898,890.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Athens's basic financial statements. The City of Athens's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic 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's finances, in a manner similar to private-sector businesses.

The *statement of net assets* presents information on all of the City of Athens'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 recent fiscal year.

Both of the government-wide financial statements distinguish functions of the City of Athens that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, security of persons and property, transportation, community environment, and leisure time activities. The business-type activities include water, sewer, garbage, and parking garage operations.

The government-wide financial statements can be found starting on page 12 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. Some funds are required to be established by State law and by bond covenants. However, the Auditor establishes many other funds to help control and manage money for particular purposes or to show that the City is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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Governmental Funds - Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements use the modified accrual basis of accounting and provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information may be useful in evaluating a government's near term financing requirements. We describe the relationship (or differences) between governmental activities (reported in the *statement of net assets* and the *statement of activities*) and governmental funds in a reconciliation which follows the fund financial statements.

The City of Athens maintains 40 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances, for the General Fund, Street Fund, and East State Street/ARC Grant Fund, which are considered to be major funds. Data from the other 37 governmental funds are combined into a single, aggregated presentation.

Proprietary Funds - The City uses proprietary funds to account for its water, sewer, garbage and parking garage operations and internal service operations. Proprietary funds are reported in the same way that all activities are reported in the *statement of net assets* and the *statement of activities* using the full accrual basis of accounting. The enterprise funds are used to report the same activities presented as business-type activities in the government-wide financial statements.

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

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

While this document contains information about the funds used by the City to provide services to our citizens, the view of the City as a whole looks at all financial transactions.

The *statement of net assets* and the *statement of activities* include all assets and liabilities using the full accrual basis of accounting similar to the accounting used by the private sector. The basis for this accounting takes into account all of the current year's revenues and expenses regardless of when the cash is received or paid.

City of Athens, Ohio
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Table 1 provides a summary of the City's net assets for 2006 compared to 2005:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Assets:						
Current and Other Assets	\$10,234,200	\$10,242,167	\$3,298,456	\$2,651,610	\$13,532,656	\$12,893,777
Capital Assets, Net	22,737,934	23,213,964	18,491,229	18,968,433	41,229,163	42,182,397
Total Assets	32,972,134	33,456,131	21,789,685	21,620,043	54,761,819	55,076,174
Liabilities:						
Current and Other Liabilities	4,208,512	4,214,840	2,479,656	1,701,074	6,688,168	5,915,914
<i>Long-Term Liabilities:</i>						
Due Within One Year	844,556	851,814	495,465	524,196	1,340,021	1,376,010
Due in More Than One Year	4,755,969	5,086,775	4,608,494	5,121,497	9,364,463	10,208,272
Total Liabilities	9,809,037	10,153,429	7,583,615	7,346,767	17,392,652	17,500,196
Net Assets:						
Invested in Capital Assets, Net of Related Debt	16,077,934	16,253,964	12,020,236	12,232,650	28,098,170	28,486,614
Restricted	6,477,089	6,503,240	0	0	6,477,089	6,503,240
Unrestricted	608,074	545,498	2,185,834	2,040,626	2,793,908	2,586,124
Total Net Assets	\$23,163,097	\$23,302,702	\$14,206,070	\$14,273,276	\$37,369,167	\$37,575,978

Current assets increased due mostly to an increase in cash and cash equivalents held by the City.

Capital assets decreased due to current year depreciation expense.

Current and other liabilities increased as the result of an increase in accounts payable and in contracts payable related to construction projects.

Long-term liabilities decreased due to the scheduled debt payments made during 2006.

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As noted earlier, the City's net assets, when reviewed over time, may serve as a useful indicator of the City's financial position. By far, the largest portion of the City's net assets (75.19%) reflects its investments in capital assets (e.g., land, buildings, machinery and equipment, infrastructure), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investments in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the City's net assets represents resources that are subject to restrictions on how they can be used. These resources accounted for 17.33% of total assets. The remaining balance of \$2,793,908 or 7.48% which are unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors. The City's total net assets decreased from \$37,575,978 in 2005 to \$37,369,167 in 2006, a change of \$206,811 or 0.55%.

In order to further understand what makes up the changes in net assets for the current year, Table 2 gives readers further details regarding the results of activities for 2006 compared to 2005:

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	Total
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Revenues:						
<i>Program Revenues:</i>						
Charges for Services	\$3,509,981	\$3,261,805	\$6,560,679	\$6,852,360	\$10,070,660	\$10,114,165
Operating Grants and Contributions	1,023,001	1,226,546	0	0	1,023,001	1,226,546
Capital Grants and Contributions	356,650	90,371	10,213	41,870	366,863	132,241
Total Program Revenues	4,889,632	4,578,722	6,570,892	6,894,230	11,460,524	11,472,952
<i>General Revenues:</i>						
Property Taxes	637,638	645,162	0	0	637,638	645,162
Municipal Income Taxes	8,761,770	8,290,827	0	0	8,761,770	8,290,827
Lodging Taxes	206,336	173,892	0	0	206,336	173,892
Payment in Lieu of Taxes	574,254	424,365	0	0	574,254	424,365
Grants and Entitlements	1,237,444	1,035,063	0	0	1,237,444	1,035,063
Investment Earnings	277,835	181,997	50,501	35,385	328,336	217,382
Miscellaneous	648,772	468,920	172,758	114,940	821,530	583,860
Total General Revenues	12,344,049	11,220,226	223,259	150,325	12,567,308	11,370,551
Total Revenues	17,233,681	15,798,948	6,794,151	7,044,555	24,027,832	22,843,503

City of Athens, Ohio
Management's Discussion and Analysis
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	Governmental Activities		Business-Type Activities		Totals	
	2006	Restated 2005	2006	Restated 2005	2006	Restated 2005
Expenses:						
General Government	5,046,311	4,800,153	0	0	5,046,311	4,800,153
<i>Security of Persons and Property:</i>						
Police	2,837,948	2,505,558	0	0	2,837,948	2,505,558
Fire	2,587,077	1,888,221	0	0	2,587,077	1,888,221
Transportation	3,696,224	2,726,665	0	0	3,696,224	2,726,665
Community Environment	1,087,247	1,341,968	0	0	1,087,247	1,341,968
Leisure Time Activities	1,636,756	1,201,816	0	0	1,636,756	1,201,816
Interest and Fiscal Charges	323,824	341,190	0	0	323,824	341,190
Garbage	0	0	908,710	856,869	908,710	856,869
Parking Garage	0	0	207,461	171,535	207,461	171,535
Water	0	0	3,064,559	2,721,441	3,064,559	2,721,441
Sewer	0	0	2,838,526	2,599,604	2,838,526	2,599,604
Total Expenses	17,215,387	14,805,571	7,019,256	6,349,449	24,234,643	21,155,020
Increase (Decrease) in Net Assets Before Transfers	18,294	993,377	(225,105)	695,106	(206,811)	1,688,483
Transfers	(157,899)	(8,385)	157,899	8,385	0	0
Change in Net Assets	(139,605)	984,992	(67,206)	703,491	(206,811)	1,688,483
Net Assets at Beginning of Year, Restated	23,302,702	22,317,710	14,273,276	13,569,785	37,575,978	35,887,495
Net Assets at End of Year	\$23,163,097	\$23,302,702	\$14,206,070	\$14,273,276	\$37,369,167	\$37,575,978

Governmental Activities

The most significant program expenses for the City are General Government, Transportation, Police and Fire. These programs account for 82.29% of the total governmental activities. General Government, which accounts for 29.31% of the total, represents costs associated with the general administration of city government including the City Council, Mayor, City Auditor, and Municipal Court. Transportation, which accounts for 21.47% of the total, represents costs associated with maintaining and improving the City's streets and operating the bus transit system. Police, which accounts for 16.48% of the total, represents costs associated with the operation of the Police Department. Fire, which accounts for 15.03% of the total, represents costs associated with providing firefighting and emergency medical services.

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Funding for the most significant programs indicated above is from charges for services and income taxes. The income tax revenue for 2006 was \$8,761,770. Of the \$24,027,832 in total revenues, income tax accounts for 36.47% of that total. Charges for services of \$10,070,660 accounts for 41.91% of total revenues. Operating and capital grants and contributions account for 5.79% of the total, and lodging taxes, payments in lieu of taxes, grants and entitlements, property taxes, interest, and other revenue make up the remaining 15.83%.

The City monitors its sources of revenues very closely for fluctuations.

Business-Type Activities

The City's business-type activities include the City's water, sewer, garbage, and parking garage operations. Net assets decreased by \$67,206 or 0.47% for 2006.

Table 3, for governmental activities, indicates the total cost of services and the net cost of services. The *statement of activities* reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. The net cost of services identifies the cost of those services supported by income and property tax revenues and unrestricted intergovernmental revenues.

Table 3
Governmental Activities

	Total Cost of Services		Net Cost of Services	
	2006	2005	2006	2005
General Government	\$5,046,311	\$4,800,153	\$2,364,706	\$2,919,417
<i>Security of Persons and Property:</i>				
Police	2,837,948	2,505,558	2,769,814	2,476,199
Fire	2,587,077	1,888,221	2,587,077	1,888,221
Transportation	3,696,224	2,726,665	2,377,725	1,093,122
Community Environment	1,087,247	1,341,968	1,009,656	963,387
Leisure Time Activities	1,636,756	1,201,816	892,953	545,313
Interest and Fiscal Charges	323,824	341,190	323,824	341,190
Total Expenses	<u>\$17,215,387</u>	<u>\$14,805,571</u>	<u>\$12,325,755</u>	<u>\$10,226,849</u>

It should be noted that 28.40% of the costs of services for governmental activities are derived from program revenues including charges for services, operating grants, capital grants, and other contributions.

As shown by the total net costs of \$12,323,755, the majority of the City's programs are funded by general revenues. A significant portion of the total general revenues consists of income taxes and grants and entitlements.

City of Athens, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2006
Unaudited

Financial Analysis of the City's Funds

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year. These funds are accounted for by using the modified accrual basis of accounting.

The General Fund is the chief operating fund of the City. At the end of 2006, the total fund balance for the General Fund was \$1,745,591, of which \$1,664,808 or 95.37% was unreserved. During the current year, the fund balance of the City's General Fund decreased by \$153,299 or 8.07%. The decrease in the General Fund balance is due to decreases in income tax and fines and forfeitures revenues during the year.

For the other major funds of the City, the Street fund balance increased by \$272,118 or 68.23% due to a increase of income tax and intergovernmental revenues. The East State Street/ARC Grant fund balance increased by \$4,096 due to the increase in transfers in during the year.

Proprietary Funds

The City's major proprietary funds are the Parking Garage, Water and Sewer funds. The City operates a parking garage with monthly and hourly spaces. Net assets in the Parking Garage Fund increased \$156,796 or 9.23%, which is the result of an increase in other operating revenue. The City provides water and sewer services to city residents. Net assets in the Water Fund decreased by \$365,760 or 5.05%, which is due to an increase in expenses and decrease in charges for services. Net assets in the Sewer Fund increased by \$107,392 or 2.09% , which is the result of an increase in transfers in.

Major Fund Budgeting Highlights

The City's budget is prepared according to Ohio law and is based on accounting for certain transactions on a budget basis of cash receipts (revenues), and disbursements and encumbrances (expenditures). The most significant budgeted fund is the General Fund. The City does allow small interdepartmental budget changes that modify line items within departments within the same fund.

For the General Fund, the final budgeted revenues were \$9,818,759 representing no change from the original budgeted estimates.

For the General Fund, the final budget basis expenditures were \$10,738,758 representing no change from the original budgeted estimates. There was a 2.70% positive variance in actual expenditures as compared to the final budget in the General Fund. This was due to the fact that the various departments kept their spending levels below their appropriations.

For the Street Fund, the final budgeted revenues were \$1,450,700 which was the same as the original budgeted revenues. The actual revenues received amounted to \$354,888 more than the final budget, due primarily to the income tax and intergovernmental receipts.

For the Street Fund, the final budget basis expenditures were \$1,756,005 representing no change from the original budgeted estimates. There was a 4.70% positive variance in actual expenditures as compared to the final budget in the Street Fund. This was due to the fact that the department kept its spending levels below its appropriations.

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Capital Assets and Debt Administration

The City's investment in capital assets for governmental and business-type activities as of December 31, 2006, amounts to \$28,098,170 (net of accumulated depreciation and related debt). This investment in capital assets includes land, buildings, improvements, equipment and infrastructure.

Total capital assets for governmental activities of the City of Athens for the year 2006 were 22,737,934.

The capital assets for business-type activities of \$18,491,229 as of December 31, 2006.

Additional information concerning the City's capital assets can be found in note 10 of the notes to the basic financial statements.

As of December 31, 2006, the City of Athens had \$9,541,738 in long-term bonds and loans outstanding with \$709,987 due within one year. The City's long-term debt decreased by \$804,045 during 2006.

Outstanding general obligation bonds consists of a community center improvement issue. General obligation bonds are direct obligations of the City for which its full faith, credit and resources are pledged.

Long-term loans in the Water and Sewer funds are OWDA loans for improvements to water and sewer lines.

In addition to the bonded debt, the City's long-term obligations include compensated absences and landfill postclosure care obligations. Additional information concerning the City's debt can be found in note 12 of the notes to the basic financial statements.

Current Known Facts and Conditions

The City of Athens relies mainly on the public sector and now commercial employers, rather than industry, for its income tax revenue. The city's largest employer is Ohio University, with over 3,700 total employees. Other major employers include The State of Ohio, Athens County, Athens City, and Athens City School District. The largest private employers include The Kroger Co., Diagnostic Hybirds, O'Bleness Memorial Hospital, Holzer Medical Center, and Wal-Mart.

There have been several major commercial business closings within the last few years, such as J.C. Penney Co., K-Mart, Big Bear, Hardees, and Fashion Bug and, more recently DFW Furniture Warehouse. Manufacturing jobs were lost in September 2004 when the T.S. Trim factory closed and in April 2006 when McBee Systems Inc. closed out their operations. T.S. Trim and McBee were major contributors to the local tax base.

However, the City of Athens has experienced new commercial construction during the last few years that includes Wal-Mart, Lowe's, Holzer Medical Center, Burger King, a surgery center adjacent to the hospital, a new shopping plaza, and the remodeling of a mall into an updated shopping plaza. During 2006, Applebees and Bennigan's opened and CVS relocated to a new building. The Hampton Inn and Taco Bell opened early in 2007. This trend of new construction continues with a Holiday Inn Express, Citizen's Bank, Hickory Creek Nursing Home, an additional Holzer Clinic, another addition to the hospital, and a senior citizen housing currently being built.

Athens completed major infrastructure upgrades including additional traffic lanes and water and sewer service that has and will continue to entice new business to the area. In addition, the city annexed about 800 acres increasing its size by 22%.

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The University has an ongoing facility plan which means each year they complete a number of construction and renovation projects. Their new \$60 million dollar student center was completed at the end of 2006.

Commercial construction in 2006 resulted in 5 new sites valued at \$9,300,000 and 22 altered sites valued at \$4,872,116. Nineteen new residential sites are valued at \$4,242,000 and 65 residential sites were altered for a value of \$1,452,239.

Income tax receipts, the city's major source of revenue, have increased moderately (about 2%) over the last two years since decreasing in 2004. We are just now looking at the affect that changes in our tax laws, effective 1/01/2006, will have in increasing our revenue. Cuts in local and state funding are still a cause of concern for the community. However, as we begin the fourth year of a Tax Incremental Financing Program, receipts are expected to exceed the original projections. The city continues to apply for grants whenever possible to assist in financing programs in the recreation department, municipal court, police department and to support local housing.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Auditor's Office, 8 East Washington Street, Athens, Ohio 45701.

CITY OF ATHENS, OHIO

Statement of Net Assets

December 31, 2006

	Governmental Activities	Business-Type Activities	Total
Assets:			
Equity in Pooled Cash & Cash Equivalents	\$6,936,879	\$2,476,911	\$9,413,790
Accounts Receivable	121,075	676,769	797,844
Internal Balances	100,000	(100,000)	0
Intergovernmental Receivable	917,524	0	917,524
Income Taxes Receivable	820,103	0	820,103
Property Taxes Receivable	781,954	0	781,954
Other Local Taxes Receivable	45,411	0	45,411
Loans Receivable	396,675	0	396,675
Special Assessments Receivable	13,882	27,551	41,433
Materials and Supplies Inventory	53,984	198,891	252,875
Prepaid Items	46,713	18,334	65,047
<i>Restricted Assets:</i>			
Nondepreciable Capital Assets	3,164,528	727,567	3,892,095
Depreciable Capital Assets, Net	19,573,406	17,763,662	37,337,068
<i>Total Assets</i>	<u>32,972,134</u>	<u>21,789,685</u>	<u>54,761,819</u>
Liabilities:			
Accounts Payable	280,918	169,401	450,319
Contracts Payable	53,857	537,082	590,939
Accrued Wages Payable	146,932	32,001	178,933
Matured Compensated Absences Payable	353	0	353
Intergovernmental Payable	198,520	50,854	249,374
Accrued Interest Payable	61,496	128,133	189,629
Claims Payable	142,965	0	142,965
Deferred Revenue	1,323,471	2,185	1,325,656
Notes Payable	2,000,000	785,000	2,785,000
Loans Payable	0	775,000	775,000
<i>Long-Term Liabilities:</i>			
Due within One Year	844,556	495,465	1,340,021
Due in More Than One Year	4,755,969	4,608,494	9,364,463
<i>Total Liabilities</i>	<u>9,809,037</u>	<u>7,583,615</u>	<u>17,392,652</u>
Net Assets:			
Investments in Capital Assets, Net of Related Debt	16,077,934	12,020,236	28,098,170
<i>Restricted for:</i>			
Street Maintenance	1,471,132	0	1,471,132
Capital Outlay	2,185,548	0	2,185,548
Other Purposes	2,820,409	0	2,820,409
Unrestricted	608,074	2,185,834	2,793,908
<i>Total Net Assets</i>	<u>\$23,163,097</u>	<u>\$14,206,070</u>	<u>\$37,369,167</u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
Statement of Activities
For the Year Ended December 31, 2006

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$5,046,311	\$2,623,923	\$36,855	\$20,827
<i>Security of Persons and Property:</i>				
Police	2,837,948	17,765	50,369	0
Fire	2,587,077	0	0	0
Transportation	3,696,224	119,757	862,919	335,823
Community and Economic Development	1,087,247	6,725	70,866	0
Leisure Time Activities	1,636,756	741,811	1,992	0
Interest and Fiscal Charges	323,824	0	0	0
<i>Total Governmental Activities</i>	<u>17,215,387</u>	<u>3,509,981</u>	<u>1,023,001</u>	<u>356,650</u>
Business-Type Activities:				
Garbage	908,710	932,876	0	0
Parking Garage	207,461	277,390	0	0
Water	3,064,559	2,568,469	0	10,213
Sewer	2,838,526	2,781,944	0	0
<i>Total Business-Type Activities</i>	<u>7,019,256</u>	<u>6,560,679</u>	<u>0</u>	<u>10,213</u>
<i>Totals</i>	<u>\$24,234,643</u>	<u>\$10,070,660</u>	<u>\$1,023,001</u>	<u>\$366,863</u>

General Revenues:

Property Taxes

Income Taxes:

 General Purposes

 Capital Outlay

Lodging Taxes

Payment in Lieu of Taxes

Grants and Entitlements not Restricted to Specific Programs

Investment Earnings

Miscellaneous

Total General Revenues

Transfers

Total General Revenues and Transfers

Change in Net Assets

Net Assets at Beginning of Year - Restated (See Note 4)

Net Assets at End of Year

See accompanying notes to the basic financial statements and accountant's report.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$2,364,706)	\$0	(\$2,364,706)
(2,769,814)	0	(2,769,814)
(2,587,077)	0	(2,587,077)
(2,377,725)	0	(2,377,725)
(1,009,656)	0	(1,009,656)
(892,953)	0	(892,953)
(323,824)	0	(323,824)
<u>(12,325,755)</u>	<u>0</u>	<u>(12,325,755)</u>
0	24,166	24,166
0	69,929	69,929
0	(485,877)	(485,877)
0	(56,582)	(56,582)
<u>0</u>	<u>(448,364)</u>	<u>(448,364)</u>
<u>(12,325,755)</u>	<u>(448,364)</u>	<u>(12,774,119)</u>
637,638	0	637,638
7,511,894	0	7,511,894
1,249,876	0	1,249,876
206,336	0	206,336
574,254	0	574,254
1,237,444	0	1,237,444
277,835	50,501	328,336
648,772	172,758	821,530
12,344,049	223,259	12,567,308
<u>(157,899)</u>	<u>157,899</u>	<u>0</u>
<u>12,186,150</u>	<u>381,158</u>	<u>12,567,308</u>
(139,605)	(67,206)	(206,811)
<u>23,302,702</u>	<u>14,273,276</u>	<u>37,575,978</u>
<u>\$23,163,097</u>	<u>\$14,206,070</u>	<u>\$37,369,167</u>

CITY OF ATHENS, OHIO

Balance Sheet

Governmental Funds

December 31, 2006

	General	Street	East State Street/ARC Grant	Other Governmental Funds	Total Governmental Funds
Assets:					
Equity in Pooled Cash and Cash Equivalents	\$1,385,835	\$545,312	\$40,020	\$4,360,897	\$6,332,064
Accounts Receivable	29,446	0	0	87,941	117,387
Interfund Receivable	0	0	0	100,000	100,000
Intergovernmental Receivable	562,906	190,801	0	163,817	917,524
Income Taxes Receivable	514,935	132,213	0	172,955	820,103
Property Taxes Receivable	781,954	0	0	0	781,954
Other Local Taxes Receivable	0	0	0	45,411	45,411
Loans Receivable	0	0	0	396,675	396,675
Special Assessments Receivable	1,467	0	0	12,415	13,882
Materials and Supplies Inventory	12,338	41,646	0	0	53,984
Prepaid Items	24,728	3,376	0	18,376	46,480
<i>Total Assets</i>	<u>\$3,313,609</u>	<u>\$913,348</u>	<u>\$40,020</u>	<u>\$5,358,487</u>	<u>\$9,625,464</u>
Liabilities:					
Accounts Payable	\$53,199	\$49,521	\$0	\$178,198	\$280,918
Contracts Payable	6,381	0	0	35,258	41,639
Accrued Wages and Benefits	120,969	15,122	0	9,479	145,570
Compensated Absences Payable	353	0	0	0	353
Accrued Interest Payable	0	0	40,192	0	40,192
Intergovernmental Payable	154,957	15,732	0	23,053	193,742
Deferred Revenue	1,232,159	162,037	0	54,253	1,448,449
Notes Payable	0	0	2,000,000	0	2,000,000
<i>Total Liabilities</i>	<u>1,568,018</u>	<u>242,412</u>	<u>2,040,192</u>	<u>300,241</u>	<u>4,150,863</u>
Fund Balances:					
Reserved for Encumbrances	80,783	39,973	0	1,691,009	1,811,765
Reserved for Loans	0	0	0	273,096	273,096
<i>Unreserved, Undesignated, Reported in:</i>					
<i>Undesignated, Reported in:</i>					
General Fund	1,664,808	0	0	0	1,664,808
Special Revenue Funds	0	630,963	0	2,557,809	3,188,772
Debt Service Funds	0	0	0	614	614
Capital Projects Funds	0	0	(2,000,172)	535,718	(1,464,454)
<i>Total Fund Balances</i>	<u>1,745,591</u>	<u>670,936</u>	<u>(2,000,172)</u>	<u>5,058,246</u>	<u>5,474,601</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$3,313,609</u>	<u>\$913,348</u>	<u>\$40,020</u>	<u>\$5,358,487</u>	<u>\$9,625,464</u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2006*

Total Governmental Funds Balances

<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>	\$5,474,601
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	22,737,934
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:	
Taxes	95,608
Intergovernmental Revenue	29,370
Total	124,978
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported when due.	(21,304)
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:	
General Obligation Bonds	(4,660,000)
Landfill Postclosure Care Obligations	(23,174)
Compensated Absences Payable	(894,189)
Total	(5,577,363)
Internal service funds are used by management to charge the costs of services to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.	424,251
<i>Net Assets of Governmental Activities</i>	\$23,163,097

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2006

	General	Street	East State Street/ARC Grant	All Other Governmental Funds	Total Governmental Funds
Revenues:					
Property Taxes	\$647,046	\$0	\$0	\$0	\$647,046
Municipal Income Taxes	5,443,891	1,428,890	0	1,888,989	8,761,770
Other Local Taxes	0	0	0	206,336	206,336
Payments in Lieu of Taxes	0	0	0	574,254	574,254
Charges for Services	741,247	0	0	880,451	1,621,698
Licenses and Permits	535,968	0	0	124,984	660,952
Fines and Forfeitures	1,100,517	0	0	147,138	1,247,655
Intergovernmental	1,286,538	374,217	0	1,390,125	3,050,880
Special Assessments	503	0	0	5,614	6,117
Interest	69,337	13,224	0	171,700	254,261
Other	249,793	15,767	0	383,212	648,772
<i>Total Revenues</i>	<u>10,074,840</u>	<u>1,832,098</u>	<u>0</u>	<u>5,772,803</u>	<u>17,679,741</u>
Expenditures:					
<i>Current:</i>					
General Government	4,218,876	0	0	395,993	4,614,869
<i>Security of Persons and Property:</i>					
Police	2,738,500	0	0	21,487	2,759,987
Fire	2,466,367	0	0	0	2,466,367
Transportation	414,605	1,563,913	0	517,524	2,496,042
Leisure Time Services	0	0	0	1,484,588	1,484,588
Community Environment	415,364	0	0	671,544	1,086,908
Capital Outlay	0	0	0	1,599,673	1,599,673
<i>Debt Service:</i>					
Principal Retirement	0	0	0	300,000	300,000
Interest and Fiscal Charges	0	0	74,740	250,150	324,890
<i>Total Expenditures</i>	<u>10,253,712</u>	<u>1,563,913</u>	<u>74,740</u>	<u>5,240,959</u>	<u>17,133,324</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(178,872)</u>	<u>268,185</u>	<u>(74,740)</u>	<u>531,844</u>	<u>546,417</u>
Other Financing Sources (Uses):					
Transfers In	104,282	3,933	78,836	0	187,051
Transfers Out	(78,709)	0	0	(266,241)	(344,950)
<i>Total Other Financing Sources (Uses)</i>	<u>25,573</u>	<u>3,933</u>	<u>78,836</u>	<u>(266,241)</u>	<u>(157,899)</u>
<i>Net Change in Fund Balances</i>	<u>(153,299)</u>	<u>272,118</u>	<u>4,096</u>	<u>265,603</u>	<u>388,518</u>
<i>Fund Balances at Beginning of Year</i>	<u>1,898,890</u>	<u>398,818</u>	<u>(2,004,268)</u>	<u>4,792,643</u>	<u>5,086,083</u>
<i>Fund Balances at End of Year</i>	<u>\$1,745,591</u>	<u>\$670,936</u>	<u>(\$2,000,172)</u>	<u>\$5,058,246</u>	<u>\$5,474,601</u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
*Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2006*

Net Change in Fund Balances - Total Governmental Funds

Amounts reported for governmental activities in the statement of activities are different because:

388,518

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital Asset Additions	255,425
Current Year Depreciation	<u>(731,455)</u>

Total	(476,030)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	(10,748)
Intergovernmental Revenue	<u>(458,886)</u>

Total	(469,634)
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Repayment of principal of long-term (e.g. bonds, notes, leases) is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.

300,000

Some expenses reported in the statement of activities, such as compensated absences do not require the use of current financial resources and therefore are not reported as an expenditure in the governmental funds.

Compensated Absences Payable	32,104
Landfill Postclosure Care	5,000
Accrued Interest Payable	<u>1,066</u>

Total	38,170
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Internal service funds used by management to charges cost of services to individual funds are not reported in the government-wide Statement of Activities.

Governmental expenditures and the related internal service fund revenues are eliminated. The net revenue (expense) of the internal service funds are allocated among the activities.

79,371

Change in Net Assets of Governmental Activities

(\$139,605)

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual (Budget Basis)
General Fund
For the Year Ended December 31, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$620,000	\$620,000	\$647,046	\$27,046
Municipal Income Taxes	5,600,000	5,600,000	5,465,888	(134,112)
Charges for Services	877,097	877,097	741,247	(135,850)
Licenses and Permits	519,150	519,150	533,878	14,728
Fines and Forfeitures	930,000	930,000	1,102,570	172,570
Intergovernmental	1,149,000	1,149,000	1,285,299	136,299
Special Assessments	500	500	503	3
Interest	35,000	35,000	72,336	37,336
Other	88,012	88,012	319,461	231,449
<i>Total Revenues</i>	9,818,759	9,818,759	10,168,228	349,469
Expenditures:				
<i>Current:</i>				
General Government	4,552,236	4,552,236	4,427,207	125,029
<i>Security of Persons and Property:</i>				
Police	2,776,520	2,776,520	2,727,136	49,384
Fire	2,488,025	2,488,025	2,466,003	22,022
Transportation	453,241	453,241	414,074	39,167
Community Environment	468,736	468,736	414,542	54,194
<i>Total Expenditures</i>	10,738,758	10,738,758	10,448,962	289,796
<i>Excess of Revenues Over (Under) Expenditures</i>	(919,999)	(919,999)	(280,734)	639,265
Other Financing Sources:				
Transfers - In	0	0	129,282	129,282
<i>Total Other Financing Sources</i>	0	0	129,282	129,282
<i>Net Change in Fund Balance</i>	(919,999)	(919,999)	(151,452)	768,547
Fund Balances at Beginning of Year	1,298,496	1,298,496	1,298,496	0
Prior Year Encumbrances Appropriated	136,029	136,029	136,029	0
Fund Balances at End of Year	\$514,526	\$514,526	\$1,283,073	\$768,547

See accompanying notes to the basic financial statements and accountant's report

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenditures, and
 Changes in Fund Balances - Budget and Actual (Budget Basis)*
Street Fund
For the Year Ended December 31, 2006

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Municipal Income Taxes	\$1,115,000	\$1,115,000	\$1,398,626	\$283,626
Intergovernmental	324,000	324,000	376,102	52,102
Interest	9,700	9,700	13,878	4,178
Other	2,000	2,000	16,982	14,982
<i>Total Revenues</i>	<u>1,450,700</u>	<u>1,450,700</u>	<u>1,805,588</u>	<u>354,888</u>
Expenditures:				
<i>Current:</i>				
Transportation	1,756,005	1,756,005	1,673,525	82,480
<i>Total Expenditures</i>	<u>1,756,005</u>	<u>1,756,005</u>	<u>1,673,525</u>	<u>82,480</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	(305,305)	(305,305)	132,063	437,368
Other Financing Sources:				
Transfers - In	3,993	3,993	3,933	(60)
<i>Total Other Financing Sources</i>	<u>3,993</u>	<u>3,993</u>	<u>3,933</u>	<u>(60)</u>
<i>Net Change in Fund Balance</i>	(301,312)	(301,312)	135,996	437,308
Fund Balances at Beginning of Year	246,212	246,212	246,212	0
Prior Year Encumbrances Appropriated	61,235	61,235	61,235	0
Fund Balances at End of Year	<u>\$6,135</u>	<u>\$6,135</u>	<u>\$443,443</u>	<u>\$437,308</u>

See accompanying notes to the basic financial statements and accountant's report

CITY OF ATHENS, OHIO
Statement of Fund Net Assets
Proprietary Funds
December 31, 2006

	Business-Type Activities				Governmental Activities	
	Parking Garage	Water	Sewer	All Other Enterprise Funds	Totals	Internal Service Funds
Assets:						
<i>Current:</i>						
Equity in Pooled Cash & Cash Equivalents	\$272,994	\$936,598	\$1,137,154	\$130,165	\$2,476,911	\$604,815
Accounts Receivable	1,654	249,482	278,630	147,003	676,769	3,688
Special Assessments Receivable	0	27,551	0	0	27,551	0
Materials and Supplies Inventory	0	181,485	17,406	0	198,891	0
Prepaid Items	353	12,731	4,549	701	18,334	233
<i>Noncurrent:</i>						
Nondepreciable Capital Assets	295,774	190,381	226,737	14,675	727,567	0
Depreciable Capital Assets, Net	1,644,227	6,378,624	9,740,811	0	17,763,662	0
Total Assets	2,215,002	7,976,852	11,405,287	292,544	21,889,685	608,736
Liabilities:						
<i>Current:</i>						
Accounts Payable	144	124,647	44,610	0	169,401	0
Contracts Payable	0	375,672	86,014	75,396	537,082	12,218
Accrued Wages Payable	0	15,713	16,288	0	32,001	1,362
Compensated Absences Payable	0	58,925	51,553	0	110,478	17,407
Intergovernmental Payable	0	22,310	28,460	84	50,854	3,778
Accrued Interest Payable	7,034	10,376	110,723	0	128,133	0
Interfund Payable	0	0	100,000	0	100,000	0
Claims Payable	0	0	0	0	0	142,965
Deferred Revenue	2,185	0	0	0	2,185	0
Notes Payable	350,000	435,000	0	0	785,000	0
Loans Payable	0	0	775,000	0	775,000	0
OWDA Loans Payable	0	17,987	367,000	0	384,987	0
<i>Noncurrent:</i>						
Compensated Absences Payable	0	37,840	44,648	0	82,488	6,755
OWDA Loans Payable	0	0	4,526,006	0	4,526,006	0
Total Liabilities	359,363	1,098,470	6,150,302	75,480	7,683,615	184,485
Net Assets:						
Investments in Capital Assets, Net of Related Debt	1,590,001	6,116,018	4,299,542	14,675	12,020,236	0
Unrestricted	265,638	762,364	955,443	202,389	2,185,834	424,251
Total Net Assets	\$1,855,639	\$6,878,382	\$5,254,985	\$217,064	\$14,206,070	\$424,251

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2006*

	Business-Type Activities				Governmental	
	Parking Garage	Water	Sewer	All Other Enterprise Funds	Totals	Internal Service Funds
Operating Revenues:						
Charges for Services	\$277,390	\$2,568,469	\$2,781,944	\$932,876	\$6,560,679	\$2,202,997
Other	58,313	90,485	4,034	6,512	159,344	0
<i>Total Operating Revenues</i>	<u>335,703</u>	<u>2,658,954</u>	<u>2,785,978</u>	<u>939,388</u>	<u>6,720,023</u>	<u>2,202,997</u>
Operating Expenses:						
Personal Services	0	874,661	807,007	6,664	1,688,332	139,683
Fringe Benefits	0	361,321	344,656	1,432	707,409	73,908
Contractual Services	95,298	795,827	590,927	871,616	2,353,668	371,552
Materials and Supplies	7,646	460,078	210,651	28,498	706,873	22,109
Utilities	17,212	242,216	258,386	0	517,814	3,862
Claims	0	0	0	0	0	1,616,114
Depreciation	71,809	289,420	404,097	0	765,326	0
Other	195	1,000	1,245	0	2,440	0
<i>Total Operating Expenses</i>	<u>192,160</u>	<u>3,024,523</u>	<u>2,616,969</u>	<u>908,210</u>	<u>6,741,862</u>	<u>2,227,228</u>
<i>Operating Income</i>	<u>143,543</u>	<u>(365,569)</u>	<u>169,009</u>	<u>31,178</u>	<u>(21,839)</u>	<u>(24,231)</u>
Non-Operating Revenues (Expenses):						
Interest Income	6,721	28,397	11,695	3,688	50,501	23,574
Other Non-Operating Revenues	12,179	1,235	0	0	13,414	80,028
Interest and Fiscal Charges	(15,301)	(40,036)	(221,557)	0	(276,894)	0
Other Non-Operating Expenses	0	0	0	(500)	(500)	0
<i>Total Non-Operating Revenues (Expenses)</i>	<u>3,599</u>	<u>(10,404)</u>	<u>(209,862)</u>	<u>3,188</u>	<u>(213,479)</u>	<u>103,602</u>
<i>Income or (Loss) Before Transfers</i>	<u>147,142</u>	<u>(375,973)</u>	<u>(40,853)</u>	<u>34,366</u>	<u>(235,318)</u>	<u>79,371</u>
Transfers - In	9,654	0	148,245	0	157,899	0
Special Assessments	0	10,213	0	0	10,213	0
<i>Change in Net Assets</i>	<u>156,796</u>	<u>(365,760)</u>	<u>107,392</u>	<u>34,366</u>	<u>(67,206)</u>	<u>79,371</u>
Net Assets at Beginning of Year (Restated - Note 4)	1,698,843	7,244,142	5,147,593	182,698	14,273,276	344,880
Net Assets at End of Year	<u>\$1,855,639</u>	<u>\$6,878,382</u>	<u>\$5,254,985</u>	<u>\$217,064</u>	<u>\$14,206,070</u>	<u>\$424,251</u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2005

	Business-Type Activities				Governmental Activities	
	Parking	Water	Sewer	All Other	Totals	Internal
	Garage			Enterprise Funds		Service Funds
Cash Flows from Operating Activities:						
Cash Received from Customers	\$283,901	\$2,623,834	\$2,847,875	\$902,081	\$6,657,691	\$2,204,887
Cash from Other Receipts	58,313	90,158	4,034	6,512	159,017	0
Cash Payments to Employees	0	(1,271,650)	(1,185,547)	(9,107)	(2,466,304)	(212,792)
Cash Payments for Contractual Services	(113,888)	(666,907)	(725,131)	(862,719)	(2,368,645)	(397,272)
Cash Payments for Insurance Claims	0	0	0	0	0	(1,688,801)
Cash Payments for Supplies and Materials	(1,721)	(376,770)	(207,011)	(27,311)	(612,813)	(11,865)
Cash Payments for Other Expenses	(195)	(1,000)	(1,245)	0	(2,440)	(9,586)
<i>Net Cash from Operating Activities</i>	<u>226,410</u>	<u>397,665</u>	<u>732,975</u>	<u>9,456</u>	<u>1,366,506</u>	<u>(115,429)</u>
Cash Flows from Noncapital Financing Activities:						
Other Nonoperating Receipts	12,179	1,235	0	0	13,414	80,028
Other Nonoperating Payments	0	0	0	(500)	(500)	0
Advances - Out to Other Funds	0	0	(10,000)	0	(10,000)	0
Transfers - In from Other Funds	9,654	0	148,245	0	157,899	0
<i>Net Cash from Noncapital Financing Activities</i>	<u>21,833</u>	<u>1,235</u>	<u>138,245</u>	<u>(500)</u>	<u>160,813</u>	<u>80,028</u>
Cash Flows from Capital and Related Financing Activities:						
Proceeds Received from Notes and Loans	350,000	435,000	801,960	0	1,586,960	0
Interest Paid on Notes and Loans	(16,250)	(36,234)	(226,668)	0	(279,152)	0
Principal Paid on Notes and Loans	(500,000)	(627,529)	(724,230)	0	(1,851,759)	0
Cash Paid to Acquire/Construct Capital Assets	0	(163,895)	(124,227)	0	(288,122)	0
Cash Received from Special Assessments	0	10,213	0	0	10,213	0
<i>Net Cash from Capital and Related Financing Activities</i>	<u>(166,250)</u>	<u>(382,445)</u>	<u>(273,165)</u>	<u>0</u>	<u>(821,860)</u>	<u>0</u>
Cash Flows from Investing Activities:						
Interest Received on Investments	7,530	30,118	12,468	3,937	54,053	24,883
<i>Net Cash from Investing Activities</i>	<u>7,530</u>	<u>30,118</u>	<u>12,468</u>	<u>3,937</u>	<u>54,053</u>	<u>24,883</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	89,523	46,573	610,523	12,893	759,512	(10,518)
Cash and Cash Equivalents at Beginning of Year	<u>183,471</u>	<u>890,025</u>	<u>526,631</u>	<u>117,272</u>	<u>1,717,399</u>	<u>615,333</u>
Cash and Cash Equivalents at End of Year	<u>\$272,994</u>	<u>\$936,598</u>	<u>\$1,137,154</u>	<u>\$130,165</u>	<u>\$2,476,911</u>	<u>\$604,815</u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2006

	Business-Type Activities				Governmental Activities	
	Parking Garage	Water	Sewer	All Other Enterprise Funds	Totals	Internal Service Funds
Reconciliation of Operating Income to Net Cash from Operating Activities:						
Operating Income	\$143,543	(\$365,569)	\$169,009	\$31,178	(\$21,839)	(\$24,231)
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:						
Depreciation Expense	71,809	289,420	404,097	0	765,326	0
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	6,511	55,038	65,931	(30,795)	96,685	1,890
(Increase) Decrease in Material and Supply Inventory	5,925	23,103	874	1,187	31,089	2,507
(Increase) Decrease in Prepaid Items	(9)	(7,980)	(60)	(611)	(8,660)	(17)
Increase (Decrease) in Accounts Payable	(1,369)	74,359	40,119	0	113,109	(1,849)
Increase (Decrease) in Contracts Payable	0	369,257	83,803	9,508	462,568	(21,841)
Increase (Decrease) in Accrued Wages and Benefits	0	(22,236)	(23,375)	(20)	(45,631)	(464)
Increase (Decrease) in Compensated Absences	0	0	(16,856)	(883)	(17,739)	41
Increase (Decrease) in Due to Other Funds	0	(2,427)	0	0	(2,427)	0
Increase (Decrease) in Intergovernmental Payable	0	0	9,433	(108)	9,325	1,222
Increase (Decrease) in Claims and Judgements Payable	0	(15,300)	0	0	(15,300)	(72,687)
<i>Net Cash from Operating Activities</i>	<u>\$226,410</u>	<u>\$397,665</u>	<u>\$732,975</u>	<u>\$9,456</u>	<u>\$1,366,506</u>	<u>(\$115,429)</u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
December 31, 2006

	<u>Agency</u>
Assets:	
Equity in Pooled Cash & Cash Equivalents	\$6,211
Cash and Cash Equivalents in Segregated Accounts	232,641
Accounts Receivable	<u>100</u>
<i>Total Assets</i>	<u>238,952</u>
Liabilities:	
Deposits Held and Due to Others	<u>238,952</u>
<i>Total Liabilities</i>	<u><u>\$238,952</u></u>

See accompanying notes to the basic financial statements and accountant's report.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 1 - DESCRIPTION OF THE ENTITY

The City of Athens, Ohio (the City) is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio.

The City was incorporated in 1811 and is a statutory municipal corporation under the laws of the State of Ohio. The City operates under a Council-Mayor form of government and provides various services including police and fire protection, parks and recreation, planning, zoning, street maintenance, and other governmental services. In addition, the City owns and operates a water treatment and distribution system, a wastewater treatment and collection system, and a public parking garage, which are reported as enterprise funds. Refuse collection services are also accounted for as an enterprise operation.

As required by generally accepted accounting principles, the financial statements present the City of Athens (the primary government) and any component units. In determining whether to include a governmental department, agency, commission or organization as a component unit, the City must evaluate each entity as to whether they are legally separate and financially accountable based on criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue or be sued and (3) the right to buy, sell, lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of a specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the City.

Based on the foregoing criteria, the following governmental entity is not considered legally separate and is financially accountable to the City. Therefore, it is included as part of the reporting entity of the City.

Athens Municipal Court - The City budgets and appropriates for the operation of the Court, establishes the compensation for certain Court employees and is ultimately responsible for any operating deficits sustained by the Court. The operations of the Court are presented as a separate Agency Fund in the City's financial statements.

However, the following organizations are not part of the City of Athens reporting entity and are excluded from the City's combined financial statements.

Athens City School District - The Athens City School District encompasses the City of Athens. The members of the Board of Education of the District are elected by the voters within the District. The Board is a legally separate body politic and corporate, capable of suing, contracting, possessing, acquiring, and disposing of real property. The Board controls its own operations and budget and has no financial accountability to the City.

Athens Public Library - The Library provides library services for the citizens of Athens County. The Library is a legally separate entity with no financial accountability to the City. It has a separately selected governing authority and a separate designation of management. The City has no ability to impose its will upon the Library. Additionally, the Library provides no financial benefit to nor does it impose any financial burden upon the City.

Athens Cable Access Center - The Center is a nonprofit organization that operates a public access channel for the citizens of Athens County and surrounding areas. It is a legally separate entity that appoints its own governing board. Although the City contributes a portion of its cable franchise fee revenue toward the operation of the Center, the City cannot impose its will upon the Center. While this organization is excluded from the reporting entity of the City, the contributions made to the Center are reflected in a separate Special Revenue Fund.

The accounting policies and financial reporting practices of the City conform to generally accepted accounting principles as applicable to governmental units.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. The City has elected not to apply FASB statements and interpretations issued after November 30, 1989, to its business-type activities and enterprise funds. The most significant of the City's accounting policies are described below.

Basis of Presentation

The City's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements which provide a more detailed level of financial information.

Government-Wide Financial Statements: The statement of net assets and the statement of activities display information about the City as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The activity of the internal service funds is eliminated to avoid "doubling up" revenues and expenses. The statements distinguish between those activities of the City that are governmental and those that are considered business-type activities.

The statement of net assets presents the financial condition of the governmental and business-type activities of the City at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the City's governmental activities and for the business-type activities of the City. Direct expenses are those that are specifically associated with a service, program, or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the City, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the City.

Fund Financial Statements: During the year, the City segregates transactions related to certain City functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the City at this more detailed level. The focus of governmental and enterprise fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Fund Accounting

The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts. There are three categories of funds: governmental, proprietary, and fiduciary.

Governmental Funds: Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the City's major governmental funds:

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

General Fund: This fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the City for any purpose provided it is expended or transferred according to the general laws of Ohio.

Street Fund: This fund accounts for that portion of the state gasoline and motor vehicle registration fees designated for maintenance and repair of streets within the City.

East State Street/ARC Fund: This fund accounts for a grant from the Appalachian Regional Commission to make improvements to East State Street.

The other governmental funds of the City account for grants and other resources whose use is restricted to a particular purpose.

Proprietary Funds: Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The City's proprietary funds are classified as either enterprise or internal service. The following are the City's major enterprise funds:

Parking Garage Fund: This fund accounts for the operation of a public parking garage within the City.

Water Fund: This fund accounts for the provision of water treatment and distribution to its residential and commercial users located within the City.

Sewer Fund: This fund accounts for the provision of sanitary sewer treatment to residential and commercial users located within the City.

The other enterprise funds of the City account for activities for which a fee is charged to external users for goods or services. The internal service funds of the City account for the financing of services provided by one department or agency of the City to other departments or agencies of the City on a cost reimbursement basis.

Fiduciary Funds: Fiduciary fund reporting focuses on net assets. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. Trust funds are used to account for assets held by the City under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the City's own programs. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's only fiduciary fund is an agency fund which accounts for assets that are held pending determination of their disposition.

Measurement Focus

Government-Wide Financial Statements: The government-wide financial statements are prepared using the economic resources measurement focus. All assets and all liabilities associated with the operation of the City are included on the statement of net assets.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements: All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures and changes in fund balances reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

Like the government-wide statements, all proprietary funds are accounted for on a flow of economic resources measurement focus. All assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses and changes in fund net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows provides information about how the city finances and meets the cash flow needs of its proprietary activities.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue and in the presentation of expenses versus expenditures.

Revenues - Exchange and Nonexchange Transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, available means expected to be received within sixty days of year-end.

Nonexchange transactions, in which the City receives value without directly giving equal value in return, include municipal income taxes, property taxes, grants, entitlements and donations. On an accrual basis, revenue from municipal income taxes is recognized in the period in which the income is earned. Revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the City must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

On a modified accrual basis, revenue from nonexchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: municipal income taxes, grants, state-levied shared taxes (including gasoline tax), fines and forfeitures, and investment earnings.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Revenue: Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Property taxes for which there is an enforceable legal claim as of December 31, 2006, but which were levied to finance fiscal year 2007 operations, have been recorded as deferred revenue. Grants and entitlements received before eligibility requirements are met are also recorded as deferred revenue.

On governmental fund financial statements, receivables that will not be collected within the available period have also been reported as deferred revenue.

Expenses/Expenditures: On the accrual basis of accounting, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

Budgetary Accounting and Control:

Under Ohio law, City Council must adopt an appropriations budget by January 1st of a given year, or adopt a temporary appropriation measure with final passage of a permanent budget by April 1st, for all funds except Agency Funds. Budgets are adopted for each organizational unit by fund.

Each City department prepares a budget which is approved by City Council. All modifications made throughout the year to the original department budgets must be requested by the departmental management and approved through legal resolution by City Council, except in the travel transportation, materials and supplies, and contractual services and miscellaneous or other expenditure categories of each department.

Several budget modifications and supplemental appropriations were made during the year and each revised budget amount reported in the budget to actual comparisons includes all modifications and supplemental appropriations that were necessary.

The City maintains budgetary control by fund and ordinance does not permit expenditures and encumbrances to exceed appropriations for each fund level. Unencumbered and unexpended appropriations lapse at year-end in all budgeted funds. Prior year encumbrances and corresponding prior year appropriations are carried forward as part of the budgetary authority for next year and are included in the original and revised budget amounts shown in the budget-to-actual comparisons.

A budget of estimated revenue and expenditures is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

The County Budget Commission determines if the budget substantiates a need to levy all or part of previously authorized taxes and reviews estimated revenue. The Commission certifies its actions to the City by September 1. As part of this certification, the City receives the official certificate of estimated resources, which states the projected revenue of each fund. Prior to December 31, the City must revise its budget so that the total contemplated expenditures from any fund during the ensuing fiscal year will not exceed the amount available as stated in the certificate of estimated resources.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The revised budget then serves as the basis for the annual appropriation measure. On or about January 1, the certificate of estimated resources is amended to include any unencumbered balances from the preceding year. The certificate may be further amended during the year if a new source of revenue is identified or actual receipts exceed current estimates. The amounts reported as original budgeted amounts on the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as final budget amounts on the budgetary statements reflect the amounts in the final amended official certificate of estimated resources issued during 2006.

The City's budgetary process accounts for certain transactions on a budgetary basis instead of a GAAP basis. The major differences between the budget basis and the GAAP basis are that revenues are recorded when actually received (budget basis) as opposed to when susceptible to accrual (GAAP basis), and expenditures are recorded when paid (budget basis) as opposed to when incurred (GAAP basis). Additionally, the City reflects outstanding encumbrances at year-end as expenditures on the budgetary basis.

Cash and Investments

Cash and investments of the City's funds, except those held in restricted asset accounts, are pooled and invested in short-term investments in order to provide improved cash management. During 2006, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks. For purposes of the statement of cash flows, the enterprise funds' portion of cash and cash equivalents is considered a cash equivalent because the City is able to withdraw resources from the enterprise funds without prior notice or penalty.

For purposes of the statement of cash flows and for the presentation on the statement of net assets/balance sheet, investments with an original maturity of three months or less and investments of the cash management pool are considered to be cash equivalents.

Following the local ordinance of the City as well as State statutes, the City has specified the funds to receive an allocation of interest earnings. During 2006, the General Fund earned interest revenue of \$69,337, of which \$18,905 was assigned from other funds.

Inventories

On government-wide financial statements, inventories are presented at the lower of cost or market on a first-in, first-out basis and are expensed when used.

On fund financial statements, inventories of governmental funds are stated at cost while inventories of proprietary funds are stated at the lower of cost or market. For all funds, cost is determined on a first-in, first-out basis. The costs of inventory items are recognized as expenditures in governmental funds when purchased and as expenses in the proprietary funds when used.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond December 31, 2006 are recorded as prepaid items using the consumption method by recording a current asset for the prepaid amount and reflecting the expenditure/expense in the year in which it is consumed.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and deletions during the year. Donated capital assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of two thousand dollars. The City's infrastructure consists of streets, traffic signals, sidewalks, drainage systems, water and sewer lines, and valves and meters. The City has elected to use prospective reporting for infrastructure. They are in the process of inventorying infrastructure acquired prior to 2004 and will report such infrastructure by fiscal year 2007.

Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not. Interest incurred during the construction of capital assets is also capitalized. All reported capital assets are depreciated except for land and construction in progress. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Description	Governmental Activities Estimated Lives	Business-Type Activities Estimated Lives
Buildings and Improvements	20 - 40 years	20 - 40 years
Machinery and Equipment	5 - 20 years	5 - 20 years
Vehicles	5 - 10 years	5 - 10 years
Infrastructure	10 - 80 years	10 - 80 years

Compensated Absences

The City reports compensated absences in accordance with the provisions of GASB No. 16, "Accounting for Compensated Absences".

The City records a liability for sick leave, vacation, and compensatory time when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined.

Employees earn vacation time at varying rates depending on the duration of their employment. Employees with a minimum of one (1) year of service become vested in accumulated unpaid vacation time. Vacation leave is to be taken by the employee in the year accrued unless administrative approval has been obtained to carry-over the accumulated time to the following year. Ohio law requires that vacation time not be accumulated for more than three (3) years. Unused vacation time is payable upon termination of employment. It is deemed that each employee will remain with the City for at least one year, therefore, the City accrues a liability for each employee based on their unused vacation time.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unused sick leave may be accumulated until retirement. Employees with a minimum of ten (10) years of service under Public Employee Retirement System (PERS) and fifteen (15) years under Ohio Police and Fire Pension Fund (OP&F) are entitled to payment for accumulated sick leave credit upon retirement. Payment may be made at twenty-five (25) percent, up to a maximum of thirty (30) days, of accrued sick leave credit. The City uses a termination method to accrue a liability based on average sick leave rates paid to retirees and years worked by current employees.

Employees are awarded compensatory time off in lieu of overtime pay when overtime hours are worked, except in certain departments where employees have the option of being compensated for overtime hours worked. Compensatory time off must be used within a specified period of time. Upon termination of employment or retirement, employees may be entitled to payment for unused compensatory time in those departments which provide for payment of overtime hours. The City accrues a liability for each employee with unused compensatory time.

The entire compensated absence liability is reported on the government-wide financial statements. In governmental funds, compensated absences are recognized as liabilities and expenditures to the extent payments come due each period upon the occurrence of employee resignation or retirement. These amounts are recorded in the account "compensated absences payable" in the fund from which the employees who have accumulated leave are paid. The noncurrent portion of the liability is not reported on the fund financial statements. In proprietary funds, the entire amount of compensated absences is reported as a fund liability on the fund financial statements.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources, are reported as obligations of the funds. However, claims and judgments, compensated absences, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance Reserves

The City reserves those portions of fund balance which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for encumbrances and loans.

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 borrowings used for the acquisition, construction or improvement of those assets. 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. Restricted for Other Purposes includes funds which are restricted by grant agreements.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the City, these revenues are parking garage fees and charges for services for water, sanitary sewer, and garbage collection services. Operating expenses are necessary costs incurred to provide the goods or services that are the primary activity of the fund.

Interfund Transactions

Transfers between governmental and business-type activities on the government-wide statements are reported in the same manner as general revenues.

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the City Administration and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during 2006.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - RECONCILIATION OF BUDGET BASIS TO GAAP BASIS

While the City is reporting financial position, results of operations and changes in fund balance on the basis of generally accepted accounting principles (GAAP), the budgetary basis as provided by law is based upon accounting for certain transactions on a basis of cash receipts and disbursements. The statement of revenues, expenditures and changes in fund balance - budget and actual (budget basis) is presented for the General Fund and the major special revenue fund on the budgetary basis to provide a meaningful comparison of actual results with the budget. The major differences between the budget basis and the modified accrual GAAP basis are that:

- (a) Revenues are recorded when received in cash (budget basis) as opposed to when susceptible to accrual (GAAP basis).
- (b) Expenditures are recorded when paid in cash (budget basis) as opposed to when the liability is incurred (GAAP basis).
- (c) Outstanding year end encumbrances are treated as expenditures (budget basis) rather than as a reservation of fund balance (GAAP basis).

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 3 - RECONCILIATION OF BUDGET BASIS TO GAAP BASIS (Continued)

(d) Proceeds from and principal payment on bond and tax anticipation notes are reported on the operating statement (budget basis) rather than on the balance sheet (GAAP basis).

The following table summarizes the adjustments necessary to reconcile the GAAP and budgetary basis statements for the General Fund and major special revenue fund.

	Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses/Net Change in Fund Balance	
	General	Street
Budget Basis	(\$151,452)	\$135,996
<i>Adjustments:</i>		
Revenue Accruals	(93,338)	26,510
Expenditure Accruals and Encumbrances	195,250	109,612
Other Financing Sources (Uses)	(103,709)	0
GAAP Basis	(\$153,299)	\$272,118

NOTE 4 - PRIOR PERIOD ADJUSTMENT AND NEW ACCOUNTING PRONOUNCEMENT

Prior Period Adjustment

The City increased their threshold for capitalizing capital assets to \$2,000 and corrected some errors in the calculation of accumulated depreciation during fiscal year 2006 which resulted in December 31, 2005 capital asset balances being misstated.

	Governmental Activities
Net Assets at December 31, 2005	\$23,152,662
Understatement of Capital Assets	150,040
Adjusted Net Assets at December 31, 2005	\$23,302,702

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 4 - PRIOR PERIOD ADJUSTMENT AND NEW ACCOUNTING PRONOUNCEMENT - (Continued)

	Parking Garage	Water	Sewer	All Other Enterprise Funds	Business-Type Activities
Net Assets at December 31, 2005	\$1,922,190	\$7,130,284	\$6,828,444	\$194,345	\$16,075,263
Over/Understatement of Capital Assets	(223,347)	113,858	(1,680,851)	(11,647)	(1,801,987)
Adjusted Net Assets at December 31, 2005	<u>\$1,698,843</u>	<u>\$7,244,142</u>	<u>\$5,147,593</u>	<u>\$182,698</u>	<u>\$14,273,276</u>

New GASB Pronouncements

For fiscal year 2006, the City has implemented Governmental Accounting Standards Board (GASB) Statement 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries", GASB Statement 46, "Net Assets Restricted by Enabling Legislation" and GASB Statement 47, "Accounting for Termination Benefits". GASB Statement 42 establishes accounting and financial reporting standards for impairment of capital assets. GASB Statement 46 requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. GASB Statement 47 establishes accounting standards for termination benefits. The application of these new standards did not have a material effect on the City's financial statements, nor did their implementation require a restatement of prior year balances.

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS

State statutes classify monies held by the City into three categories.

Active deposits are public deposits necessary to meet current demands on the treasury. Such monies must be maintained either as cash in the City Treasury, in commercial accounts payable or withdrawable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Inactive deposits are public deposits that Council has identified as not required for use within the two year period of designation of depositories. Inactive deposits must be either evidenced by certificates of deposit maturing not later than the end of the current period of designation of depositories, or by savings or deposit accounts including, but not limited to, passbook accounts.

Interim deposits are deposits of interim moneys. Interim moneys are those moneys which are not needed for immediate use but which will be needed before the end of the current period of designation of depositories. Interim deposits must be evidenced by time certificates of deposit maturing not more than one year from the date of deposit or by savings or deposit accounts including passbook accounts. Interim monies may be deposited or invested in the following securities:

- (1) United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States;

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

- (2) Bonds, notes, debentures, or any other obligations or securities issued by any federal government or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities;
- (3) Written repurchase agreements in the securities listed above, provided that the fair value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to fair value daily, and that the term of the agreement must not exceed thirty days;
- (4) Bonds and other obligations of the State of Ohio;
- (5) No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) of this section, and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- (6) The State Treasury Assets Reserve of Ohio (STAR Ohio);
- (7) Certain banker's acceptances and commercial paper notes for a period not to exceed one hundred eighty days from the date of purchase in an amount not to exceed twenty-five percent of interim monies available for investment at any time; and
- (8) Under limited circumstances, corporate debt interests rated in either of the two highest rating classifications by at least two nationally recognized rating agencies.

The City may also invest any monies not required to be used for a period of six months or more in the following:

- (1) Bonds of the State of Ohio;
- (2) Bonds of any municipal corporation, village, county, township, or other political subdivision of this State, as to which there is no default of principal, interest or coupons; and
- (3) Obligations of the City.

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the City, and must be purchased with the expectation that it will be held to maturity.

Protection of the City's deposits is provided by the Federal Deposit Insurance Corporation, by eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public moneys deposited with the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

The following information classifies deposits and investments by categories of risk as defined in GASB Statement No. 3, "Deposits with Financial Institutions, Investments and Reverse Repurchase Agreements", and GASB Statement No. 40, "Deposit and Investment Risk Disclosure."

Deposits: Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned. All deposits are collateralized with eligible securities in amounts equal to at least 105% of the carrying value of the deposits. Such collateral, as permitted by the Ohio Revised Code, is held in single financial institution collateral pools at Federal Reserve Banks, or at member banks of the federal reserve system, in the name of the respective depository bank and pledged as a pool of collateral against all of the public deposits it holds or as specific collateral held at the Federal Reserve Bank in the name of the City.

At December 31, 2006, the carrying amount of all City deposits was \$9,652,642. Based on the criteria described in GASB Statement No. 40, "Deposit and Investment Risk Disclosures", as of December 31, 2006, **\$10,019,906** of the City's bank balance of **\$10,519,906** was exposed to custodial risk as discussed above while **\$500,000** was covered by Federal Deposit Insurance. The **\$10,019,906** exposed to custodial risk was collateralized with securities held by the City or its agency in the City's name.

NOTE 6 - PROPERTY TAXES

Property taxes, include amounts levied against all real, public utility, and tangible personal (used in business) property located in the City. Real property taxes are levied after October 1 on the assessed value listed as of the prior January 1, the lien date. Assessed values are established by State law at 35% of appraised market value. Real property taxes are collected in and intended to finance the year following the year in which they are levied.

Public utility property taxes are assessed on tangible personal property, as well as land and improvements, at true value (normally 50% of cost). Tangible personal property taxes attach as a lien and are levied January 1 of the current year, the same year in which collections are made. Tangible personal property assessments are 25% of true value for machinery and equipment and 24% of true value for inventory.

The assessed value upon which the 2006 taxes were collected was **\$278,245,750**. The full tax rate for all City operations that was applied to real property for the year ended December 31, 2006 was **\$2.40** per \$1,000 of assessed valuation for City residents in Athens Township, and **\$2.60 per** \$1,000 of assessed valuation for City residents in Canaan Township. Real property owners' tax bills are reduced for inflationary increases in property values and when applicable, are further reduced by homestead and rollback deductions. The amount of these homestead and rollback reductions is reimbursed to the City by the State of Ohio.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 6 - PROPERTY TAXES (Continued)

Real Property - 2005 Valuation:

Residential/Agricultural	\$148,933,140
Commercial/Industrial	102,615,200
Total Real Property	<u>251,548,340</u>

Tangible Personal Property - 2005 Valuation:

General	15,493,600
Public Utilities	11,203,810
Total Personal Property	<u>26,697,410</u>
Total Assessed Valuation	<u><u>\$278,245,750</u></u>

Real property taxes are payable annually or semi-annually. If paid annually, payment is due May 19; if paid semi-annually, the first payment is due May 19 with the remainder payable by August 25. Under certain circumstances, state statute permits earlier or later payment dates to be established.

Tangible personal property taxes paid by multi-county taxpayers are due October 20. Single county taxpayers may pay annually or semi-annually. If paid annually, payment is due June 23; if paid semi-annually, the first payment is due June 23, with the remainder payable by October 20.

Accrued property taxes receivable represent delinquent taxes outstanding and real, tangible personal, and public utility taxes which were measurable as of December 31, 2006. Although total property tax collections for the next fiscal year are measurable, amounts to be received during the available period are not intended to finance 2006 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE 7 - INCOME TAX REVENUE

The City levies a tax of 1.65% on all salaries, wages, commissions, other compensation and net profits earned within the City, as well as, on incomes of residents earned outside the City. In the latter case, the City allows a credit of 100% of the tax paid to another municipality to a maximum of the total amount assessed.

Employers within the City are required to withhold income tax on employees compensation and remit the tax to the City either monthly or quarterly, as required. Corporations and other individual taxpayers are required to pay their estimated tax quarterly and file a declaration annually. In 2006, the income tax generated a total of \$8,761,770 in income tax revenue.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 8 - INTERFUND ACTIVITY

As of December 31, 2006, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivables	Interfund Payables
<i>Governmental Fund:</i>		
Capital Improvement Fund	\$100,000	\$0
<i>Enterprise Fund:</i>		
Sewer Fund	0	100,000
Total - All Funds	\$100,000	\$100,000

All balances resulted from the time lag between the dates that (1) reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

A summary of interfund transfers for 2006 were as follows:

Fund	Transfers In	Transfers Out
<i>Governmental Funds:</i>		
General Fund	\$104,282	\$78,709
Street Fund	3,933	0
East State Street/ARC Grant Fund	78,836	0
Other Nonmajor Governmental Funds	0	266,241
<i>Enterprise Funds:</i>		
Sewer Fund	148,245	0
Parking Garage Fund	9,654	0
Total - All Funds	\$344,950	\$344,950

The transfers were for expenses paid out of certain funds to be reimbursed by others, such as for employees salaries or project expenses. Transfers were also made out of the FEMA grant fund (a nonmajor governmental fund) into various funds to reimburse those funds for expenditures made before grant monies were received.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 9 - INTERGOVERNMENTAL RECEIVABLE

Receivables at December 31, 2006 consisted of property taxes, income taxes, accounts (billings for user charged services), notes, loans, special assessments, interest and intergovernmental grants. All receivables are considered fully collectible.

A summary of the principal items of intergovernmental receivable follows:

Governmental Activities	
<i>General Fund:</i>	
Local Government Distributions	\$506,615
Grants and Other Revenue	56,291
	<hr/>
<i>Total General Fund</i>	562,906
 <i>Street Fund:</i>	
Street Maintenance Distributions	190,801
Nonmajor Special Revenue Funds	148,627
Nonmajor Capital Projects Funds	15,190
	<hr/>
Total Nonmajor Governmental Funds	163,817
	<hr/>
Total Intergovernmental Receivable	<u><u>\$917,524</u></u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 - CAPITAL ASSETS

The following is a summary of changes in the capital assets of the governmental activities during the fiscal year:

	Restated Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
<i>Governmental Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$3,100,580	\$0	\$0	\$3,100,580
Construction in Progress	694,193	63,948	(694,193)	63,948
Total Nondepreciable Capital Assets	3,794,773	63,948	(694,193)	3,164,528
<i>Depreciable Capital Assets:</i>				
Land Improvements	263,404	0	0	263,404
Buildings	13,091,185	0	0	13,091,185
Machinery, Equipment and Vehicles	6,415,078	191,477	0	6,606,555
Infrastructure	9,267,767	694,193	0	9,961,960
Total Depreciable Capital Assets	29,037,434	885,670	0	29,923,104
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(236,791)	(5,543)	0	(242,334)
Buildings	(4,013,826)	(301,616)	0	(4,315,442)
Machinery, Equipment and Vehicles	(5,068,944)	(424,296)	0	(5,493,240)
Infrastructure	(298,682)	0	0	(298,682)
Total Accumulated Depreciation	(9,618,243)	(731,455)	0	(10,349,698)
Total Depreciable Capital Assets, Net	19,419,191	154,215	0	19,573,406
Governmental Activities Capital Assets, Net	\$23,213,964	\$218,163	(\$694,193)	\$22,737,934

For governmental activities, depreciation expense was charged to functions as follows:

Governmental Activities	
General Government	\$178,509
<i>Security of Persons and Property:</i>	
Police	65,989
Fire	136,671
Transportation	131,938
Leisure Time Activities	218,348
Governmental Activities Depreciation Expense	<u>\$731,455</u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 10 - CAPITAL ASSETS (Continued)

The following is a summary of changes in the capital assets of the business-type activities for the fiscal year:

	Restated Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
<i>Business-Type Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$449,319	\$0	\$0	\$449,319
Construction in Progress	445,104	278,248	(445,104)	278,248
Total Nondepreciable Capital Assets	894,423	278,248	(445,104)	727,567
<i>Depreciable Capital Assets:</i>				
Land Improvements	15,200	0	0	15,200
Buildings	11,167,507	0	0	11,167,507
Machinery, Equipment and Vehicles	2,441,307	9,874	0	2,451,181
Infrastructure	22,061,919	445,104	0	22,507,023
Total Depreciable Capital Assets	35,685,933	454,978	0	36,140,911
<i>Less Accumulated Depreciation:</i>				
Land Improvements	(14,611)	(588)	0	(15,199)
Buildings	(4,579,849)	(224,819)	0	(4,804,668)
Machinery, Equipment and Vehicles	(1,584,983)	(139,201)	0	(1,724,184)
Infrastructure	(11,432,480)	(400,718)	0	(11,833,198)
Total Accumulated Depreciation	(17,611,923)	(765,326)	0	(18,377,249)
Total Depreciable Capital Assets, Net	18,074,010	(310,348)	0	17,763,662
Business-Type Activities Capital Assets, Net	\$18,968,433	(\$32,100)	(\$445,104)	\$18,491,229

The business-type activities of the City are the parking garage, water, sewer and garbage operations.

NOTE 11 - NOTES PAYABLE

The Ohio Revised Code provides that notes, including renewal notes, issued in anticipation of the issuance of general obligation bonds, may be issued and outstanding from time to time up to a maximum period of twenty (20) years from the date of issuance of the original notes (the maximum maturity for notes anticipating general obligation bonds payable from special assessments is five (5) years). Any period in excess of five (5) years must be deducted from the permitted maximum maturity of bonds anticipated, and portions of the principal amount of notes outstanding for more than five (5) years must be retired in amounts at least equal to, and payable not later than, those principal maturities that would have been required if the bonds had been issued at the expiration of the initial five (5) year period.

Bond anticipation notes may be retired at maturity from the proceeds of the sale of renewal notes or of the bonds anticipated by the notes, or available funds of the City, or a combination of these sources. All notes are backed by the full faith and credit of the City.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 11 - NOTES PAYABLE (Continued)

The following is a summary of the City's note obligation activity for the year ended December 31, 2006:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006
<u>Governmental Activities:</u>						
<i>Notes Payable:</i>						
East State Street	2006	3.25%	\$2,000,000	\$0	\$2,000,000	\$0
East State Street	2007	4.50%	0	2,000,000	0	2,000,000
Governmental Activities Notes Payable			<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>	<u>\$2,000,000</u>
<u>Business-Type Activities:</u>						
<i>Notes Payable:</i>						
Parking Garage Facility	2006	3.25%	\$500,000	\$0	\$500,000	\$0
Parking Garage Facility	2007	4.50%	0	350,000	0	350,000
EPA Litigation	2006	2.75%	500,000		500,000	0
EPA Litigation	2007	3.55%	0	435,000	0	435,000
Sewer Loan	2006	2.75%	275,000	0	275,000	0
Sewer Loan	2007	3.65%	0	275,000	0	275,000
Sewer Loan	2007	3.50%	0	500,000	0	500,000
Business-Type Activities Notes Payable			<u>\$1,275,000</u>	<u>\$1,560,000</u>	<u>\$1,275,000</u>	<u>\$1,560,000</u>

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2006 was as follows:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006	Amounts Due Within One Year
<u>Governmental Activities:</u>							
<i>General Obligation Bonds Payable:</i>							
Community Center Original Issue Date - 2000 Original Issue Amount - \$6,085,000	2016	4.45%	\$4,960,000	\$0	\$300,000	\$4,660,000	\$325,000
<u>Other Long-Term Obligations:</u>							
Compensated Absences			950,415	0	33,064	917,351	514,556
Landfill Postclosure Care			28,174	0	5,000	23,174	5,000
Governmental Activities Long-Term Obligations			<u>\$5,938,589</u>	<u>\$0</u>	<u>\$338,064</u>	<u>\$5,600,525</u>	<u>\$844,556</u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2006	Additions	Deletions	Balance December 31, 2006	Amounts Due Within One Year
<i>Business-Type Activities:</i>							
<i>OWDA Loans Payable:</i>							
Loan No. 1461 Original Issue Date - 1985 Original Issue Amount - \$356,339	2006	7.00%	\$17,879	\$0	\$17,879	\$0	\$0
Loan No. 1462 Original Issue Date - 1986 Original Issue Amount - \$384,827	2007	7.00%	52,637	0	34,649	17,988	17,988
Loan No. 2669 Original Issue Date - 1991 Original Issue Amount - \$3,943,837	2011	5.00%	1,611,620	0	236,547	1,375,073	248,530
Loan No. 2670 Original Issue Date - 1992 Original Issue Amount - \$1,282,133	2013	5.02%	672,822	0	69,787	603,035	73,463
Loan No. 2672/2673 Original Issue Dates - 1995 & 1996 Original Issue Amount - \$908,787	2016	4.16%	588,461	0	47,897	540,564	45,006
Loan No. 3873 Original Issue Date - 2003 Original Issue Amount - to be determined	2024	3.53%	2,442,364	0	97,286	2,345,078	0
<i>Other Long-Term Obligations:</i>							
Compensated Absences			232,950	0	10,729	222,221	110,478
Business-Type Activities			\$5,618,733	\$0	\$514,774	\$5,103,959	\$495,465
Long-Term Obligations							

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The City's long-term debt requirements as of December 31, 2006, are as follows:

Governmental Activities		
Year Ending December 31	Payments	
	Principal	Interest
2007	325,000	236,350
2008	350,000	221,075
2009	375,000	204,450
2010	400,000	186,450
2011	450,000	167,050
2012 - 2016	2,760,000	447,555
Total	\$4,660,000	\$1,462,930

Business-Type Activities		
Year Ending December 31	Payments	
	Principal	Interest
2007	384,987	118,277
2008	385,340	99,938
2009	404,599	80,678
2010	424,826	60,452
2011	446,128	39,149
2012 - 2016	490,780	48,206
Total	\$2,536,660	\$446,700

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS (Continued)

The OWDA Loan No. 3873, authorized in the amount of \$2,659,572 is being used for renovations and improvements to the City's Sewer System. The loan activity is reflected in the Sewer Enterprise Fund which received the proceeds and which will repay the debt. Only \$2,632,603 of this loan has been drawn out as of December 31, 2006, and therefore, the final amount financed for the loan and the amortization schedule have not been established.

Defeased Debt: In December 1991, the City defeased an outstanding \$4,280,000 of Sewer Mortgage Revenue Bonds and fully funded the defeasance through the purchase of U.S. Government Securities which have amounts and maturities that are sufficient to generate a cash flow that will meet the principal and interest payments as they become due over the remaining life of the bonds. The investments and uninvested cash are being held in an irrevocable trust by US Bank, Cincinnati, Ohio and as of December 31, 2006 there was \$966,222 held in trust with the Bank.

The amount of debt considered to be defeased for the Sewer Mortgage Revenue Bonds at December 31, 2006 is \$890,000. Accordingly, the trust account and corresponding debt are not included in the basic financial statements.

Long-Term Bonds and Loans: All long-term debt issued for governmental purposes of the City (including special assessment debt with governmental commitment) is retired through the Debt Service Fund. OWDA enterprise loans are retired through the respective Enterprise Funds. OWDA loans are secured by revenues generated from enterprise operations. Special assessment bonds are secured by an unvoted property tax levy (special assessment), which constitutes a lien on assessed properties. In the event of default by the assessed property owners, the City would be obligated to pay the special assessment debt. These bonds are also backed by the full faith and credit of the City as additional security.

General obligations bonds are secured by .1% of the City's income tax. These bonds are also backed by the full faith and credit of the City.

NOTE 13 - PENSION OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS

Ohio Public Employees Retirement System

Plan Description: The City contributes to the Ohio Public Employees Retirement System (the System). The System administers three separate pension plans: The Traditional Pension Plan (TP) - a cost-sharing multiple-employer defined benefit pension plan; the Member-Directed Plan (MD) - a defined contribution plan; and the Combined Plan (CO) - a cost-sharing multiple employer defined benefit pension plan that has elements of both a defined benefit and defined contribution plan.

The System provides retirement, disability, survivor and post-retirement health care benefits to qualifying members of both the Traditional and Combined Plans. Members of the Member-Directed Plan do not qualify for ancillary benefits, including post-employment health care coverage.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 13 - PENSION OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Funding Policy: The Ohio Revised Code provides statutory authority for employee and employer contribution rates. The employee contribution rates are 9.0% for employees other than law enforcement and for 2006, the City is required to contribute 13.70%. In January 2001, House Bill 416 divided the OPERS law enforcement program into two separate divisions with separate employee contribution rates and benefits. The law enforcement classification consisted of sheriffs, deputy sheriffs, and township police with an employee contribution rate of 10.1%. All other members of the OPERS law enforcement program were placed in a newly named public safety division and continued to contribute at 9%. The City's required contributions to OPERS for the years ending December 31, 2006, 2005 and 2004 were \$560,130, \$545,139, and \$524,605, respectively; 90.24% has been contributed for 2006 and 100% for years 2005 and 2004. Of the 2006 amount, \$54,681 was unpaid at December 31, 2006 and is recorded as a liability within the basic financial statements.

Postemployment Benefits: The OPERS also provides postemployment health care benefits to age and service retirants with ten (10) or more years of qualifying Ohio service credit. Health care coverage for disability recipients and primary survivor recipients is available. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. A portion of each employer's contribution to OPERS is set aside for the funding of postemployment health care. The Ohio Revised Code provides statutory authority for employer contributions. The OPERS law enforcement program was separated into two divisions; law enforcement and public safety, with separate employee contribution rates and benefits. The 2006 employer contribution rate for local government employer units was 13.7% of covered payroll; 4.5% was the portion that was used to fund health care for the year 2006. The 2006 employer rate was 16.93% and 4.5% was used to fund health care for both the law enforcement and public safety divisions.

Of the employer contributions made by the City for the year 2006, \$234,609 was the amount used to fund postemployment health care.

The assumptions and calculations below were based on the System's latest Actuarial Review performed as of December 31, 2005. An entry age normal actuarial cost method of valuation is used in determining the present value of OPEB. The difference between assumed and actual experience (actuarial gains and losses) becomes part of the unfunded actuarial accrued liability. All investments are carried at market value. For actuarial valuation purposes, a smoothed market approach is used. Under this approach, assets are adjusted annually to reflect 25% of unrealized market appreciation or depreciation on investment assets. The investment assumption rate for 2005 was 6.5%. An annual increase of 4% compounded annually is the base portion of the individual pay increase assumption. This assumes no change in the number of active employees. Additionally, annual pay increases, over and above the 4% base increase, were assumed to range from 0.5% to 6.3%. Health care costs were assumed to increase 4% annually.

As of December 31, 2006, the number of active contributing participants was 369,214. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2004 (the latest information available) was \$11.1 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$31.3 billion and \$20.2 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCPP) with an effective date of January 1, 2007. The HCPP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCPP, retirees eligible for health care coverage will receive a graded monthly allocation based on their years of service at retirement. The Plan incorporates a cafeteria approach, offering a broad range of health care options that allow benefit recipients to use their monthly allocation to purchase health care coverage customized to meet their individual needs. If the monthly allocation exceeds the cost of the options selected, the excess is deposited into a Retiree Medical Account that be used to fund future health care expenses.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 13 - PENSION OBLIGATIONS AND OTHER POSTEMPLOYMENT BENEFITS (Continued)

Ohio Police and Fire Pension Fund

Plan Description: The City contributes to the Ohio Police and Fire Pension Fund (OP&F), a cost-sharing multiple-employer defined benefit pension plan. OP&F provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Benefit provisions are established by the Ohio State Legislature and are codified in Chapter 742 of the Ohio Revised Code. The OP&F issues a publicly available financial report that includes financial statements and required supplementary information for the plan. This report may be obtained by writing to Ohio Police and Fire Pension Fund, 140 East Town Street, Columbus, Ohio 43125-5164 or by calling (614) 228-2975.

Funding Policy: Plan members (both police officers and firefighters) are required to contribute 10% of their annual covered salary and the City is required to contribute 19.5% of annual covered payroll for police officers and 24% of annual covered payroll for firefighters. The City's contributions to OP&F for the years ending December 31, 2006, 2005 and 2004 were \$168,838, \$153,916, and \$160,742, for police officers; and \$223,482, \$182,748, and \$198,683, for firefighters, respectively; 70.33% has been contributed for 2006, and 100% for 2005 and 2004 for police officers; and 72.32% has been contributed for 2006, and 100% for year 2005 and 2004 for firefighters. Of the 2006 amount, \$50,100 for police officers and \$59,625 for firefighters was unpaid at December 31, 2006 and is recorded as a liability within the basic financial statements.

Postemployment Benefits: The OP&F System of Ohio provides postemployment health care coverage to any person who receives or is eligible to receive a monthly benefit check or is a spouse or eligible dependent child of such person. An eligible dependent child is any child under the age of eighteen (18) whether or not the child is attending school or under the age of twenty-two (22) if attending school full-time or on a two-thirds (2/3) basis. The health care coverage provided by the retirement system is considered an Other Postemployment Benefit (OPEB) as described in GASB Statement No. 12. The Ohio Revised Code provides that health care costs paid from the funds of the OP&F shall be included in the employer's contribution rate which is 19.5% of covered payroll for police officers and 24% of covered payroll for firefighters.

The Ohio Revised Code provides the statutory authority allowing the OP&F Board of Trustees to provide health care coverage to all eligible individuals. Health care funding and accounting are on a pay-as-you-go basis. A percentage of covered payroll, as defined by the Board, is used to pay retiree health care expenses. The Board defined allocation was 7.75% of covered payroll in 2005. The portion of the 2005 covered payroll that was used to fund postemployment health care benefits was \$111,361 for police officers and \$106,583 for firefighters. In addition, since July 1, 1992 most retirees have been required to contribute a portion of the cost of their health care coverage through a deduction from their monthly benefit payment.

As of December 31, 2005 (the latest information available) the number of participants eligible to receive health care benefits was 13,922 for police and 10,537 for firemen. The Fund's total health care expenses for the year ended December 31, 2005 were \$108,039,499.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 14 - EMPLOYEE BENEFITS

Compensated Absences

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 16, the City accrues a liability for sick leave and vacation when the obligation is attributable to services previously rendered, to rights that vest or accumulate, and where payment of the obligation is probable and can be reasonably determined.

Sick leave accumulates at the rate of .0575 hours of sick leave for each hour of work completed with a maximum of 80 hours per pay period. Employees who have ten years of service, hired prior to April 12, 1991 who have sick leave accumulated receive payment upon retirement at a rate of one hour for each hour of accumulated and unused sick leave, to a maximum of 960 hours. Employees who have ten years of service, hired after April 12, 1991 who have sick leave accumulated receives payment upon retirement at a rate of one hour for each four hours of accumulated and unused sick leave, to a maximum of 240 hours. Individuals leaving the employment of the City prior to retirement or at retirement with less than ten years of service lose their accumulated sick leave. A liability has been recognized in the accompanying financial statements for a portion of the sick leave hours of those employees who have ten years of service and are age 50 or older, or have thirty years with local government employment as well as other employees who are expected to become eligible in the future to receive such payments.

A liability for accrued vacation has been recognized based on the amount of unused vacation hours for each employee. Vacation is accumulated based upon length of service as follows:

<u>Employee Service</u>	<u>Vacation Credit</u>
After 1 year	2 weeks
After 10 years	3 weeks
After 15 years	4 weeks
After 22 years	5 weeks

Vacation leave must be used within the current calendar year unless the employee is unable to use his vacation due to the operational needs of the employer. Without this, such excess leave is eliminated from the employee's leave balance. In the case of death, termination, or retirement, an employee (or his estate) is paid for the unused vacation.

All sick leave and vacation is compensated at the employee's current rate of pay at the time of retirement or termination.

Health Care Benefits

The City has elected to provide employee medical/surgical and prescription drug benefits through Pharmacare Group Sales of Ohio Insurance Company. The employees share the cost of the monthly premium with the City.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 15 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries and natural disasters. The City has addressed these various types of risk by participating in a risk-sharing pool and by purchasing comprehensive insurance through a commercial carrier.

General liability insurance is maintained in the amount of \$5,000,000 in the aggregate, which includes \$5,000,000 law enforcement professional liability, \$5,000,000 for public official errors and omissions liability, \$5,000,000 for automobile liability, and \$40,000 for uninsured and \$40,000 for underinsured motorist liability.

In addition, the City maintains replacement cost insurance on buildings and contents in the amount of \$78,783,069. Other property insurance includes the following: \$726,834 for contractor's equipment. Supplemental boiler and machinery coverage is carried in the amount of \$100,000 with business interruption and extra expense/actual loss provisions.

Insurance deductibles on any of the above coverages do not exceed \$15,000. The City maintains comprehensive insurance coverage for real property, building contents, and vehicles. Vehicle policies include liability coverage for bodily injury and property damage. Real property and contents are 90% coinsured. Workers' compensation benefits are provided through the State Bureau of Workers' Compensation. The City pays all public officials' bonds by statute.

The City has not incurred any significant reductions in insurance coverage from coverage in the prior year by major category of risk. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three years.

The City participates in a medical self-insurance plan for employees which covers medical claims and prescription drugs. The medical portion is a limited risk health plan with a third party administrator, Harrington Benefit Services. The prescription drug coverage is administered by Claimspro, with the employee paying a deductible amount, then Claimspro paying the balance and billing the City. All claims are paid by the third party administrator under policies established by the City. The City pays an administrative fee to Harrington Benefit to service the claims. All funds contribute to the Medical Internal Service Fund based on fees legislatively set by Council to insure historical and anticipated claims coverage in relation to the number of employees paid from each fund. This fund is presented in the financial statements and reflects all fees paid into the fund and all claims and administrative costs paid out of the fund. The City also carries a specific excess coverage (stop-loss) policy for medical claims in excess of \$65,000 per person and \$1,878,263 in the aggregate. The specific and aggregate excess loss insurance is carried with United Health Care through the third party administrator.

The City maintains a liability for claims in the Medical Internal Service Fund that is based on actuarial forecasts developed by the third party administrator.

Changes in the fund's claims liability in 2005 and 2006 were as follows:

	Beginning Year Balance	Current Year Claims	Claim Payments	Ending Year Balance
2005	251,979	1,378,618	1,414,945	\$215,652
2006	215,652	1,616,114	1,688,801	142,965

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2006

NOTE 15 - RISK MANAGEMENT (Continued)

The City carries a separate coverage for life insurance with a private commercial carrier, Great West Life Assurance Company, for each employee. The amounts of coverage are \$25,000 for life insurance and \$25,000 for AD&D insurance for all employees.

NOTE 16 - LANDFILL CLOSURE AND POST CLOSURE CARE COSTS

The City owns one landfill which was closed prior to 1975. State and federal laws and regulations require that certain maintenance and monitoring functions at landfill sites be performed for 20 to 30 years. In 1995, the City was required to begin maintenance and monitoring functions at the landfill site for 20 years. While there were some preliminary planning costs in 1995, the City installed its monitoring system in 1996 and 1997, but began monitoring in 1996. The City is required to obtain quarterly monitoring samples for the first five years, and semi-annual monitoring samples for the next 15 years. The sampling costs for 2007 are expected to be \$5,000. The City has projected costs, with built-in inflation, for the remaining 6 years.

The City has recorded a liability of \$23,174 as an estimate of future post closure care costs of the landfill. The actual cost of postclosure care may be higher depending upon results from surveying and required well testing, changes in technology, or changes in landfill laws and regulations. The City has partially funded this liability through the Internal Service Fund and Capital Improvements (Capital Projects) Fund.

NOTE 17 - ACCOUNTABILITY

Deficit Fund Balances

The following funds had deficit fund balance as of December 31, 2006:

East State Street/ARC Grant Fund	\$2,000,172
Non-Major Special Revenue Funds:	
Small Cities Grants	\$13,752

The deficit fund balance in the East State Street/ARC Grant Fund, which is a major fund, is due to the issuance of a general obligation note to finance this project. Once the note is retired, the deficit will be eliminated. The deficit fund balance in the Small Cities Grants Fund is due to the application of generally accepted accounting principles and will be eliminated through future revenues.

NOTE 18 - CONTINGENCIES

The City is a defendant in several claims and legal proceedings which may be classified as routine litigation in which minimal damages are being sought. The City believes that the ultimate disposition of these claims and legal proceedings will not have a material effect, if any, on the financial condition of the City.

In addition, the City participates in several federal and state assisted grants and programs that are subject to financial and compliance audits by grantor agencies or their representatives. These audits could lead to a request for reimbursement to the grantor agency for expenditures disallowed under the terms of the grant. The City believes that disallowed claims, if any, will not have a material adverse effect on the City's financial condition.

CITY OF ATHENS
SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Entity Number	Disbursements
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants	14.228	A-F-04-086-1	\$ 58,160
Community Development Block Grants	14.228	A-F-06-086-1	<u>3,900</u>
Total Community Development Block Grants			62,060
HOME Investments Partnership Program	14.228	A-C-04-086-1	68,488
HOME Investments Partnership Program	14.228	A-C-04-086-2	<u>125,738</u>
Total HOME Investments Partnership Program			194,226
Emergency Shelter Grant Program	14.239	A-H-05-086-1	<u>43,275</u>
Total Emergency Shelter Grant Program			43,275
Total United States Department of Housing and Urban Development			299,561
UNITED STATES DEPARTMENT OF JUSTICE			
<i>Passed through the Governor's Office of Criminal Justice Services</i>			
Violence Against Women Formula Grants	16.588	00-WF-VA8-8414	16,312
Violence Against Women Formula Grants	16.588	05-WF-VA8-8414	<u>48,937</u>
Total Violence Against Women Formula Grants			65,249
Total United States Department of Justice			65,249
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed through the Ohio Department of Transportation</i>			
Formula Grants for Other Than Urbanized Areas	20.509	RPT-4005-025-061	337,957
Formula Grants for Other Than Urbanized Areas	20.509	RPT-4005-025-063	31,724
Formula Grants for Other Than Urbanized Areas	20.509	RPT-4005-025-064	<u>101,570</u>
Total Public Transportation for Nonurbanized Areas			471,251
Federal Highway Administration	20.205	N/A	409,237
Federal Highway Administration	20.205	N/A	<u>85,382</u>
Total Federal Highway Administration			494,619
Total United States Department of Transportation			965,870
UNITED STATES DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through Ohio Emergency Management Agency</i>			
Public Assistance Grants	97.036	FEMA-1507-DR-009-02736	<u>152,178</u>
Total United States Department of Homeland Security			152,178
Total Federal Financial Assistance			<u>\$ 1,482,858</u>

The accompanying Notes to the Schedule of Federal Awards Expenditures are an integral part of this schedule.

**CITY OF ATHENS
ATHENS COUNTY**

**NOTES TO THE SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2006**

Note A – Significant Accounting Policies

The accompanying schedule of federal awards expenditures is a summary of the activity of the City's federal award programs. The schedule has been prepared on the cash basis of accounting.

Note B – Subrecipients

The City passes through certain Federal Emergency Shelter Grants Program assistance from the State Department of Development to Good Works, Inc., a not-for-profit corporation. As described in Note 1, the City records expenditures of federal awards to subrecipients when paid in cash.

The subrecipient agency has certain compliance responsibilities related to administering this federal program. Under OMB Circular A-133, the City is responsible for monitoring subrecipients to help assure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and the performance goals are achieved.

Note C – Community Development Block Grants (CDBG) Revolving Loan Program

The City has established a revolving loan program to provide low-interest loans to businesses to create jobs for persons from low to moderate income households. The Federal Department of Housing and Urban Development (HUD) grants the money for these loans to the City, passed through the State Department of Development. The initial loan of this money is recorded as a disbursement on the Schedule. Loans repaid, including interest, are used to make additional loans. Such subsequent loans are subject to certain compliance requirements imposed by HUD, but are not included as disbursements on the Schedule.

These loans are collateralized by accounts receivable, equipment, inventory, mortgages, and vehicles. At December 31, 2006, the gross amount of loans outstanding under this program was \$274,654.

Note D – Matching Requirements

Certain Federal programs require the City contribute non-Federal funds (matching funds) to support the Federally-funded programs. The City has complied with the matching requirements. The expenditure of non-Federal matching funds is not included on the Schedule.

Perry & Associates
Certified Public Accountants, A.C.

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**INDEPENDENT ACCOUNTANTS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
REQUIRED BY GOVERNMENT AUDITING STANDARDS**

August 27, 2007

City of Athens
Athens County
8 East Washington Street
Athens, Ohio 45701

To the Members of Council:

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the **City of Athens, Athens County, Ohio** (the City) as of and for the year ended December 31, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 27, 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 the Comptroller General of the United States' *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our audit procedures for expressing our opinion on the financial statements, but not to opine on the effectiveness of the City's internal control over financial reporting. Accordingly, we have not opined on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with its applicable accounting basis, such that there is more than a remote likelihood that the City's internal control will not prevent or detect a more-than-inconsequential financial statement misstatement.

Internal Control Over Financial Reporting (Continued)

We consider the following deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2006-001 and 2006-002.

A material weakness is a significant deficiency, or combination of significant deficiencies resulting in more than a remote likelihood that the City's internal control will not prevent or detect a material financial statement misstatement.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also material weaknesses. We believe neither of the significant deficiencies described above are material weaknesses.

We also noted certain internal control matters that we reported to the City's management in a separate letter dated August 27, 2007.

Compliance and Other Matters

As part of reasonably assuring whether the City's financial statements are free of material misstatement, we tested its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could directly and materially affect 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 an opinion. The results of our tests disclosed no instances of noncompliance or other matters that we must report under *Government Auditing Standards*.

In a separate letter to the City's management dated August 27, 2007, we reported one matter related to noncompliance we deemed immaterial.

This report is intended solely for the information and use of the audit committee, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

Perry & Associates
Certified Public Accountants, A.C.

PARKERSBURG
1035 Murdoch Avenue
Parkersburg, WV 26101
(304) 422-2203

MARIETTA
428 Second Street
Marietta, OH 45750
(740) 373-0056

August 27, 2007

City of Athens
Athens County
8 East Washington Street
Athens, Ohio 45701

To the Members of Council:

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of the **City of Athens, Athens County, Ohio (the City)** with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular *A-133, Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2006. The Summary of Auditor's Results section of the accompanying Schedule of Findings identifies the City's major federal programs. The City's management is responsible for complying with the requirements of laws, regulations, contracts, and grants applicable to each major federal program. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended December 31, 2006.

Internal Control Over Compliance

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

Internal Control Over Compliance (Continued)

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

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that the City's internal control will not prevent or detect material noncompliance with federal program's compliance requirements.

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

This report is intended solely for the information and use of the audit committee, City Council, federal awarding agencies, and pass-through entities. It is not intended for anyone other than these specified parties.

Respectfully Submitted,

Perry and Associates
Certified Public Accountants, A.C.

**CITY OF ATHENS
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

1. SUMMARY OF AUDITOR'S RESULTS
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<i>(d)(1)(i)</i>	Type of Financial Statement Opinion	Unqualified
<i>(d)(1)(ii)</i>	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
<i>(d)(1)(ii)</i>	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
<i>(d)(1)(iii)</i>	Was there any reported material noncompliance at the financial statement level (GAGAS)?	No
<i>(d)(1)(iv)</i>	Were there any material internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(iv)</i>	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
<i>(d)(1)(v)</i>	Type of Major Programs' Compliance Opinion	Unqualified
<i>(d)(1)(vi)</i>	Are there any reportable findings under § .510?	No
<i>(d)(1)(vii)</i>	Major Programs (list):	Federal Highway Administration, CFDA # 20.205 and Formula Grants for Other Than Urbanized Areas, CFDA # 20.509
<i>(d)(1)(viii)</i>	Dollar Threshold: Type A\B Programs	Type A: > \$ 300,000 Type B: all others
<i>(d)(1)(ix)</i>	Low Risk Auditee?	Yes

**CITY OF ATHENS
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2006-001

Significant Deficiency

Cash Reconciliation

The City did not have adequate controls in place to ensure cash balances per the city's bank accounts were accurately reconciled to the City's cash balance per their financial statements.

The following were noted during our testing of cash:

- A lack of monitoring controls and review procedures surrounding cash resulted in the personnel performing cash entries and preparing cash reconciliations making several errors that were not discovered for several months. An extensive number of reconciling items and correcting entries were necessary.
- Interest earned on Certificates of Deposit was not recorded in the accounting system in a timely manner.
- Transfers between bank accounts were not adequately documented resulting in errors occurring when the transfers were recorded in the accounting system.

We recommend reconciliations be performed monthly and reviewed by senior personnel. Interest should be recorded in accordance with revenue recognition policies. Bank transfers should be documented and approved.

Management's Response – The following response was submitted by Mary Ann McClure, City Treasurer:

In response to the above finding, I submit the following:

- The errors in cash reconciliations that occurred in the last months of 2006 were realized in a timely manner, however staff transitions and daily work requirements and the amount of research involved to locate all of the necessary documents for final resolution for all bank account balances delayed the actual correcting entries;
- Interest earned on Certificates of Deposit were entered, although there were corrections that needed to be made to the accounts that they were posted to;
- Transfers between accounts that reside at different banks are documented each time that a transfer takes place, and transfers between accounts within the same bank are tracked as well;
- Inaccurate postings for all of the above were a result of an employee's misrepresentation of their skill set at the time of hiring, and this situation was resolved as soon as this was clear to supervisory staff. The fact that this occurred during the last months of 2006 and the early part of 2007 created most of the problems that were resolved by the summer of 2007. In an office with a small staff, one employee has a greater impact than a larger office, and appropriate changes to hiring practices have taken place to protect against this type of situation happening again.

**CITY OF ATHENS
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)

FINDING NUMBER 2006-001 (Continued)

Managements Response (Continued)

It was our desire to reach a comprehensive solution to the errors noted above to insure that all accounts would then be correct at the completion of these corrections. This delayed the timing of the actual correcting entries. The fact that the Treasurer's position is a part-time position (.25 FTE) contributed to this delay, and the current Treasurer will be addressing this issue with City Council as they construct a budget for 2008.

The actual reconciliation of the cash balances to the financial statements was not able to be completed by the firm hired for this process due to miscommunication between that Auditor's and Treasurer's office regarding this firm's contact information. As a result, the Treasurer did not send the December 2006 reconciliations early enough for them to be included in the reports that were given to Perry and Associates, although Perry and Associates did have access to all of these records.

FINDING NUMBER 2006-002

Significant Deficiency

Policy Regarding Tuition Payments

During the audit period, the City provided tuition payments on behalf of two employees without a formal policy authorizing such payments. A lack of a formal policy could lead to inconsistencies as to who is eligible to receive this benefit.

The disbursement for tuition should be specified in a policy established by City Council. This policy should, at a minimum, identify those employees authorized to be reimbursed; guidelines for allowable course of study; the amount to be reimbursed; method of reimbursement; monitoring by appropriate levels of management; and other guidelines deemed appropriate by City Council.

If it is the intent of City Council to pay for/reimburse employees for tuition, we recommend the City Council establish a policy regarding tuition reimbursement and specify management who will be responsible for monitoring these expenditures to ensure they are in compliance with noted policy.

Management's Response – The following response was submitted by Richard Abel, Mayor:

Mayors have the authority to allow employees to participate in training programs that will enable the employee to be better informed at their job and also have the ability to broaden their academic interests, if they so desire. In a small city with limited staffing broad based knowledge that each employee has is important in the provision of city services. Education in its broadest sense provides broad based skills and knowledge that are an asset to both the individual and those they serve.

In this particular situation, the laboratory fees were approved as part of the class at Hocking College. In the roll of administrative assistant to the safety service director, that person's primary responsibility is to assist the safety service director in performing his duties including writing proposals, helping prepare technical reports, knowledge and skills of land projects as they relate to the Safety Service Director's duties as a member of the planning commission.

**CITY OF ATHENS
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

**2. FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS (Continued)**

FINDING NUMBER 2006-002 (Continued)

Management's Response (Continued)

In the academic sense, most people would equate archeology with the study of old cultures, but that is a narrow definition.

In my opinion, the broad based knowledge of archeology involves the knowledge of land that is for site development, expansion of infrastructure, waterways, etc. or a modification of these. This is cultural resource management that is indeed a valuable part of archeological studies. The attendee would have no use for these courses except for utilization in the performance of her duties with the City of Athens.

Local government officials and their officers are responsible for this land management as the city must deal with both state and federal departments of transportation, construction engineers, phase I and II environmental impact analysis, historical societies as well as other entities in the Athens community who have input into projects that range from hillside development, 100 year flood plain development, road projects, parks, housing subdivisions and bridges. This is especially true in this area that has land that may be considerable historically valuable.

This aspect allows smart growth and planning and that is one facet of community resource development that is part of archeology itself.

Many state and local laws govern historic preservation and regulation. It would be rare in a small or medium municipality to find one person that has detailed knowledge of this. While we are fortunate to have a large university in this town and we work with many knowledgeable people, we cannot be dependent upon them to provide the information or the services needed. However, if there is a staff member who has some working knowledge of the area, it is very helpful.

It is also helpful to have familiarity of the language and knowledge of the subject when writing proposals or reports regarding the issues being dealt with by the city and this is especially true in the jurisdiction of the safety service manager.

Prior to becoming mayor, I worked as an accountant and I can understand your question as to the allowance of this training. However, as a mayor responsible to the public, I must make good fiscal decisions that enhance the use of knowledge-based resources in making decisions that affect the growth of this community. Having educated personnel is an asset based resource in areas that are not my expertise.

I believe that not allowing a manager to make decisions based upon the needs of the job responsibilities to the public being served is an arbitrary one that does not involve a depth of understanding of what may be needed in the decision making process.

It is my belief that I have the power and authority to make such decisions as long as they do not infringe upon, or are not, in conflict with any law or policy governing the office and position of mayor. I respectfully request you accept this explanation and remove this matter as a proposed finding.

**CITY OF ATHENS
ATHENS COUNTY**

**SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2006**

3. FINDINGS FOR FEDERAL AWARDS

None.



Mary Taylor, CPA
Auditor of State

CITY OF ATHENS

ATHENS COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
DECEMBER 6, 2007**