

City of Athens

Athens County

Single Audit

January 1, 2004 through December 31, 2004

Fiscal Year Audited Under GAGAS: 2004

BALESTRA, HARR & SCHERER CPAs, INC.

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**Auditor of State
Betty Montgomery**

Mayor and City Council
City of Athens
Athens, Ohio

We have reviewed the *Independent Auditor's Report* of the City of Athens, Athens County, prepared by Balestra, Harr & Scherer CPAs, Inc., for the audit period January 1, 2004 through December 31, 2004. 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.

A handwritten signature in cursive script that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

November 2, 2005

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Member American Institute of Certified Public Accountants

Ohio Society of Certified Public Accountants

Independent Auditor's Report

City of Athens
Athens County
8 East Washington Street
Athens, Ohio 45701-2444

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, (the City), as of and for the year ended December 31, 2004, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund and street major special revenue 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 July 21, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 11 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

City Council
City of Athens
Independent Auditor's Report

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of federal awards expenditures is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Balestra, Harr & Scherer, CPAs, Inc.
July 21, 2005

City of Athens, Ohio
Management's Discussion and Analysis
For the Year Ended December 31, 2004
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, 2004. 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 increased \$242,246; net assets of the governmental activities increased \$718,694; and net assets of the business-type activities decreased (\$476,448).
2. The General Fund fund balance of \$1,404,027 increased \$46,541 or 3.31% from the previous year's balance of \$1,357,486.

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.

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

City of Athens, Ohio
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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, Street Rehabilitation Fund, and East State Street/ARC Fund, which are considered to be major funds. Data from the other 36 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
Management's Discussion and Analysis
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Table 1 provides a summary of the City's net assets for 2004 compared to 2003:

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2004	2003*	2004	2003	2004	2003
Assets:						
Current and Other Assets	\$11,503,807	\$12,793,314	\$1,975,412	\$2,145,279	\$13,479,219	\$14,938,593
Capital Assets, Net	21,490,125	21,093,688	21,243,075	20,384,384	42,733,200	41,478,072
Total Assets	32,993,932	33,887,002	23,218,487	22,529,663	56,212,419	56,416,665
Liabilities:						
Current and Other Liabilities	4,440,731	5,905,224	1,877,948	1,792,489	6,318,679	7,697,713
<i>Long-Term Liabilities:</i>						
Due Within One Year	798,336	790,068	507,025	514,369	1,305,361	1,304,437
Due in More Than One Year	5,359,290	5,514,829	5,461,742	4,374,585	10,821,032	9,889,414
Total Liabilities	10,598,357	12,210,121	7,846,715	6,681,443	18,445,072	18,891,564
Net Assets:						
Invested in Capital Assets, Net of Related Debt	13,255,125	12,008,688	14,007,053	14,917,892	27,262,178	26,926,580
Restricted	7,993,105	8,612,860	0	0	7,993,105	8,612,860
Unrestricted	1,147,345	1,055,333	1,364,719	930,328	2,512,064	1,985,661
Total Net Assets	\$22,395,575	\$21,676,881	\$15,371,772	\$15,848,220	\$37,767,347	\$37,525,101

* - Restated - see note 4

Current assets decreased due to a decrease in cash and cash equivalents, which is the result of construction and debt payments made during 2004.

Capital assets decreased due to the depreciation incurred for 2004 which is partially offset by the construction activity during 2004. Current and other liabilities decreased as the result of a reduction in contracts payable related to construction.

Long-term liabilities increased due to the addition of loans payable in the business-type activities, which is partially offset by the debt payments made during 2004.

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 (72.18%) 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

City of Athens, Ohio
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resources that are subject to restrictions on how they can be used. These resources accounted for 21.16% of total assets. The remaining balance of \$2,512,064 or 6.65% 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 increased from \$37,525,101 in 2003 to \$37,767,347 in 2004, a change of \$242,246 or 0.6%.

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 2004 compared to 2003:

Table 2
Changes in Net Assets

	Governmental Activities		Business-Type Activities		Total	Total
	2004	2003*	2004	2003	2004	2003
Revenues:						
<i>Program Revenues:</i>						
Charges for Services	\$3,075,646	\$3,002,612	\$5,825,786	\$6,108,066	\$8,901,432	\$9,110,678
Operating Grants and Contributions	1,763,823	1,563,635	0	0	1,763,823	1,563,635
Capital Grants and Contributions	298,544	687,090	0	0	298,544	687,090
Total Program Revenues	5,138,013	5,253,337	5,825,786	6,108,066	10,963,799	11,361,403
<i>General Revenues:</i>						
Property Taxes	738,648	721,711	0	0	738,648	721,711
Income Taxes	8,216,780	8,604,331	0	0	8,216,780	8,604,331
Lodging Taxes	179,463	190,679	0	0	179,463	190,679
Grants and Entitlements	1,141,866	1,003,946	0	0	1,141,866	1,003,946
Investment Earnings	107,612	205,459	18,217	23,792	125,829	229,251
Miscellaneous	617,583	656,486	39,948	23,203	657,531	679,689
Total General Revenues	11,001,952	11,382,612	58,165	46,995	11,060,117	11,429,607
Total Revenues	16,139,965	16,635,949	5,883,951	6,155,061	22,023,916	22,791,010
Expenses:						
General Government	4,860,938	4,806,291	0	0	4,860,938	4,806,291
<i>Security of Persons and Property:</i>						
Police	2,788,756	2,624,776	0	0	2,788,756	2,624,776
Fire	2,097,897	2,045,002	0	0	2,097,897	2,045,002
Transportation	2,897,757	1,322,646	0	0	2,897,757	1,322,646
Community Environment	857,121	799,645	0	0	857,121	799,645
Leisure Time Activities	1,497,928	1,922,895	0	0	1,497,928	1,922,895

* Restated - See Note 4

City of Athens, Ohio
Management's Discussion and Analysis
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	Governmental Activities		Business-Type Activities		Totals	
	2004	2003*	2004	2003	2004	2003
Interest and Fiscal Charges	336,571	369,079	0	0	336,571	369,079
Garbage	0	0	885,558	880,153	885,558	880,153
Parking Garage	0	0	90,547	216,469	90,547	216,469
Water	0	0	2,518,537	2,914,622	2,518,537	2,914,622
Sewer	0	0	2,950,060	2,921,678	2,950,060	2,921,678
Total Expenses	15,336,968	13,890,334	6,444,702	6,932,922	21,781,670	20,823,256
Increase (Decrease) in Net Assets Before Transfers	802,997	2,745,615	(560,751)	(777,861)	242,246	1,967,754
Transfers	(84,303)	(119,390)	84,303	119,390	0	0
Change in Net Assets	718,694	2,626,225	(476,448)	(658,471)	242,246	1,967,754
Net Assets at Beginning of Year	21,676,881	19,050,656	15,848,220	16,506,691	37,525,101	35,557,347
Net Assets at End of Year	<u>\$22,395,575</u>	<u>\$21,676,881</u>	<u>\$15,371,772</u>	<u>\$15,848,220</u>	<u>\$37,767,347</u>	<u>\$37,525,101</u>

* Restated - See Note 4

Governmental Activities

The most significant program expenses for the City are Transportation, General Government, Police, and Fire. These programs account for 82.45% of the total governmental activities. Transportation, which accounts for 18.89% of the total, represents costs associated with maintaining and improving the City's streets and operating the bus transit system. General Government, which accounts for 31.69% of the total, represents costs associated with the general administration of city government including the City Council, Mayor, City Auditor, and Municipal Court. Police, which accounts for 18.18% of the total, represents costs associated with the operation of the Police Department. Fire, which accounts for 13.67% of the total, represents costs associated with providing firefighting and emergency medical services.

Funding for the most significant programs indicated above is from income taxes and charges for services. The income tax revenue for 2004 was \$8,216,780. Of the \$16,139,965 in total revenues, income tax accounts for 50.91% of that total. Charges for services of \$3,075,646 accounts for 19.06% of total revenues. Operating and capital grants and contributions account for 12.78% of the total and grants and entitlements, property taxes, interest, and other revenue make up the remaining 17.26%.

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

City of Athens, Ohio
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Business-Type Activities

The City's business-type activities include the City's water, sewer, garbage, and parking garage operations. Net assets did decrease by \$476,448 or 3% for 2004. The majority of this decrease is due to an increase in long-term liabilities during 2004.

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	
	2004	2003	2004	2003
General Government	\$4,860,938	\$4,806,291	\$3,064,394	\$1,968,044
<i>Security of Persons and Property:</i>				
Police	2,788,756	2,624,776	2,574,396	2,538,788
Fire	2,097,897	2,045,002	2,097,897	2,045,002
Transportation	2,897,757	1,322,646	1,258,804	147,506
Community Environment	857,121	799,645	19,949	482,936
Leisure Time Activities	1,497,928	1,922,895	846,944	1,085,642
Interest and Fiscal Charges	336,571	369,079	336,571	369,079
Total Expenses	<u>\$15,336,968</u>	<u>\$13,890,334</u>	<u>\$10,198,955</u>	<u>\$8,636,997</u>

It should be noted that 33.51% 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 \$10,198,955, 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
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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 2004, the total fund balance for the General Fund was \$1,404,027, of which \$1,325,812 unreserved. During the current year, the fund balance of the City's General Fund increased by \$46,541 or 3.42%. The increase in the General Fund balance is due primarily to transfers received from other funds.

For the other major funds of the City, the Street fund balance decreased by \$128,041 due to a slight increase in expenditures. The Street Rehabilitation fund balance decreased by \$34,962 as transfers out of this fund were not as much as originally anticipated. The East State Street/ARC Grant fund balance increased by \$118,877 due to additional transfers in for 2004.

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 \$189,891 or 11.77%, which is slightly better than last year. The City provides water and sewer services to city residents. Net assets in the Water Fund decreased by \$119,265 or 1.66%, which is similar to last year. Net assets in the Sewer Fund decreased by \$450,432 or 6.53% , which is the result of an increase in long-term liabilities.

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 \$8,506,515 representing a \$136,140 decrease from the original budgeted estimates of \$8,642,619. The final budget reflected a 1.57% decrease from the original budgeted amount. Most of this is due to the decrease of estimates for municipal income tax receipts and fines and forfeitures which are partially offset by increases in intergovernmental receipts and other receipts.

For the General Fund, the final budget basis expenditures were \$9,677,919 representing a decrease of only \$35,711 or 0.36% from the original budget. There was a 4.31% 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 \$1,715,450 which was the same as the original budgeted revenues. The actual revenues received amounted to \$27,313 less than the final budget, due primarily to the income tax receipts.

For the Street Fund, the final budget basis expenditures were \$2,120,249, which represented an increase of \$477,794 or 29.09% over the original budgeted expenditures. However, the actual expenditures amounted to \$1,942,083 which was \$178,166 less than the final budgeted amount.

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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, 2004, amounts to \$27,262,178 (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 2004 were \$21,490,125 or \$396,437 more than in 2003. This increase was mostly due to the construction projects during 2004, partially offset by annual depreciation expense.

The increase in business-type activities of \$858,691 to \$21,243,075 as of December 31, 2004 was due primarily to the construction in progress.

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, 2004, the City of Athens had \$10,996,022 in bonds and loans outstanding with \$666,099 within one year. The City's long-term debt increased by \$844,530 during 2004.

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

Ohio University continues to play an important role in the economic development of the City of Athens. As the City's largest employer, the City's income tax receipts fluctuate according to the University's activities, enrollment, and policies. Ohio University instituted a hiring freeze in 2003 while continuing to increase enrollment. The University also continues to implement capital improvement projects. In the Spring of 2004, they began construction on the new John Calhoun Baker Student Center, estimated to cost four million dollars.

While the City of Athens has had significant new commercial construction, such as Lowes, Petland, Holzer Medical Clinic, and the Richard F. Castrop Medical Facility, the City has also experienced several major business closings including Ames, Hardees, Payless Shoes and Fashion Bug. The City has lost some manufacturing jobs due to the closing of the local T.S. Trim factory, which was finalized in September 2004. Also, the announced closing of another business, which is one of the top five withholding accounts in the City, will have a major impact on our income tax receipts.

There have been several major roadway improvements in the City of Athens done by the City and the Ohio Department of Transportation which are now completed.

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In spite of the recent decline in the economy, the City of Athens continues to see some growth in the area. A new theater complex should be open in November 2005. In response to a 60% collection rate for parking tickets, the police department has implemented a new system which will increase collection rates to 80-90%. The City also instituted a Tax Incremental Funding system which will be used to reduce long-term debt.

Cuts in local and state funding are still a cause of concern for the community. The loss of taxability of Section 125 plans has affected our revenue. Beginning January 1, 2004, the City income tax rate went down 0.1%. Factoring out this rate decrease, which was earmarked for a major street improvement project, the City's tax receipts declined 5.54%. Receipts for 2005 are more encouraging, but the final amounts are unknown.

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, 2004

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Assets:			
Equity in Pooled Cash & Cash Equivalents	\$7,385,066	\$1,620,021	\$9,005,087
Cash and Cash Equivalents in Segregated Accounts	64,976	0	64,976
Accrued Interest Receivable	9,433	2,071	11,504
Accounts Receivable	78,714	208,166	286,880
Internal Balances	120,000	(120,000)	0
Intergovernmental Receivable	1,358,274	0	1,358,274
Income Taxes Receivable	961,146	0	961,146
Property Taxes Receivable	868,536	0	868,536
Other Local Taxes Receivable	38,714	0	38,714
Notes Receivable	13,230	0	13,230
Loans Receivable	492,335	0	492,335
Special Assessments Receivable	13,179	27,551	40,730
Materials and Supplies Inventory	47,395	217,570	264,965
Prepaid Items	52,809	20,033	72,842
Nondepreciable Capital Assets	3,622,583	2,799,108	6,421,691
Depreciable Capital Assets, Net	17,867,542	18,443,967	36,311,509
<i>Total Assets</i>	<u>32,993,932</u>	<u>23,218,487</u>	<u>56,212,419</u>
Liabilities:			
Accounts Payable	79,143	47,523	126,666
Contracts Payable	102,832	105,639	208,471
Accrued Wages Payable	206,936	67,282	274,218
Matured Compensated Absences Payable	49,797	0	49,797
Intergovernmental Payable	199,943	43,456	243,399
Accrued Interest Payable	56,566	136,803	193,369
Claims Payable	89,050	0	89,050
Deferred Revenue	656,464	2,245	658,709
Notes Payable	3,000,000	1,475,000	4,475,000
<i>Long-Term Liabilities:</i>			
Due within One Year	798,336	507,025	1,305,361
Due in More Than One Year	5,359,290	5,461,742	10,821,032
<i>Total Liabilities</i>	<u>10,598,357</u>	<u>7,846,715</u>	<u>18,445,072</u>
Net Assets:			
Investments in Capital Assets, Net of Related Debt	13,255,125	14,007,053	27,262,178
<i>Restricted for:</i>			
Street Maintenance and Repair	767,157	0	767,157
Capital Projects	3,796,312	0	3,796,312
Other Purposes	3,429,636	0	3,429,636
Unrestricted	1,147,345	1,364,719	2,512,064
<i>Total Net Assets</i>	<u>\$22,395,575</u>	<u>\$15,371,772</u>	<u>\$37,767,347</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
Statement of Activities
For the Year Ended December 31, 2004

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
General Government	\$4,860,938	\$1,537,622	\$258,922	\$0
<i>Security of Persons and Property:</i>				
Police	2,788,756	123,782	90,578	0
Fire	2,097,897	0	0	0
Transportation	2,897,757	763,258	875,695	0
Community Environment	857,121	0	538,628	298,544
Leisure Time Activities	1,497,928	650,984	0	0
Interest and Fiscal Charges	336,571	0	0	0
<i>Total Governmental Activities</i>	<u>15,336,968</u>	<u>3,075,646</u>	<u>1,763,823</u>	<u>298,544</u>
Business-Type Activities:				
Garbage	885,558	779,879	0	0
Parking Garage	90,547	247,688	0	0
Water	2,518,537	2,329,756	0	0
Sewer	2,950,060	2,468,463	0	0
<i>Total Business-Type Activities</i>	<u>6,444,702</u>	<u>5,825,786</u>	<u>0</u>	<u>0</u>
<i>Totals</i>	<u>\$21,781,670</u>	<u>\$8,901,432</u>	<u>\$1,763,823</u>	<u>\$298,544</u>

General Revenues:

Property Taxes Levied for:

 General Purposes

Municipal Income Taxes Levied for:

 General Purposes

 Capital Outlay

Lodging 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.

Net (Expense) Revenue and
Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
(\$3,064,394)	\$0	(\$3,064,394)
(2,574,396)	0	(2,574,396)
(2,097,897)	0	(2,097,897)
(1,258,804)	0	(1,258,804)
(19,949)	0	(19,949)
(846,944)	0	(846,944)
(336,571)	0	(336,571)
<u>(10,198,955)</u>	<u>0</u>	<u>(10,198,955)</u>
0	(105,679)	(105,679)
0	157,141	157,141
0	(188,781)	(188,781)
0	(481,597)	(481,597)
<u>0</u>	<u>(618,916)</u>	<u>(618,916)</u>
<u>(10,198,955)</u>	<u>(618,916)</u>	<u>(10,817,871)</u>
738,648	0	738,648
7,045,214	0	7,045,214
1,171,566	0	1,171,566
179,463	0	179,463
1,141,866	0	1,141,866
107,612	18,217	125,829
617,583	39,948	657,531
11,001,952	58,165	11,060,117
<u>(84,303)</u>	<u>84,303</u>	<u>0</u>
<u>10,917,649</u>	<u>142,468</u>	<u>11,060,117</u>
718,694	(476,448)	242,246
<u>21,676,881</u>	<u>15,848,220</u>	<u>37,525,101</u>
<u>\$22,395,575</u>	<u>\$15,371,772</u>	<u>\$37,767,347</u>

CITY OF ATHENS, OHIO

*Balance Sheet
Governmental Funds
December 31, 2004*

	General	Street	Street Rehabilitation	East State Street/ARC Grant	Other Governmental Funds	Total Governmental Funds
Assets:						
Equity in Pooled Cash and Cash Equivalents	\$707,501	\$582,087	\$871,221	\$1,054,126	\$3,906,975	\$7,121,910
Cash and Cash Equivalents in Segregated Accounts	0	0	0	0	64,976	64,976
Accrued Interest Receivable	961	730	1,506	1,317	4,583	9,097
Accounts Receivable	27,125	3,738	0	0	41,481	72,344
Interfund Receivable	0	0	0	0	120,000	120,000
Intergovernmental Receivable	537,397	155,550	0	0	665,327	1,358,274
Income Taxes Receivable	592,459	163,106	58,246	0	147,335	961,146
Property Taxes Receivable	868,536	0	0	0	0	868,536
Other Local Taxes Receivable	0	0	0	0	38,714	38,714
Notes Receivable	0	0	0	0	13,230	13,230
Loans Receivable	0	0	0	0	492,335	492,335
Special Assessments Receivable	764	0	0	0	12,415	13,179
Materials and Supplies Inventory	17,263	30,132	0	0	0	47,395
Prepaid Items	37,675	2,633	0	0	12,270	52,578
<i>Total Assets</i>	<u>\$2,789,681</u>	<u>\$937,976</u>	<u>\$930,973</u>	<u>\$1,055,443</u>	<u>\$5,519,641</u>	<u>\$11,233,714</u>
Liabilities:						
Accounts Payable	\$35,907	\$15,448	\$0	\$0	\$27,788	\$79,143
Contracts Payable	20,782	19,895	4,100	0	42,407	87,184
Accrued Wages and Benefits	156,493	27,609	0	0	18,012	202,114
Compensated Absences Payable	19,521	10,451	0	0	0	29,972
Accrued Interest Payable	0	0	0	34,196	0	34,196
Intergovernmental Payable	9,189	2,685	0	0	8,352	20,226
Deferred Revenue	1,143,762	103,130	10,283	0	535,667	1,792,842
Notes Payable	0	0	0	3,000,000	0	3,000,000
<i>Total Liabilities</i>	<u>1,385,654</u>	<u>179,218</u>	<u>14,383</u>	<u>3,034,196</u>	<u>632,226</u>	<u>5,245,677</u>
Fund Balances:						
Reserved for Encumbrances	78,215	80,122	128,938	2,654,917	228,285	3,170,477
Reserved for Notes Receivable	0	0	0	0	8,204	8,204
Reserved for Loans Receivable	0	0	0	0	373,030	373,030
<i>Unreserved, Undesignated, Reported in:</i>						
General Fund	1,325,812	0	0	0	0	1,325,812
Special Revenue Funds	0	678,636	0	0	2,462,191	3,140,827
Debt Service Funds	0	0	0	0	14,570	14,570
Capital Projects Funds	0	0	787,652	(4,633,670)	1,801,135	(2,044,883)
<i>Total Fund Balances</i>	<u>1,404,027</u>	<u>758,758</u>	<u>916,590</u>	<u>(1,978,753)</u>	<u>4,887,415</u>	<u>5,988,037</u>
<i>Total Liabilities and Fund Balances</i>	<u>\$2,789,681</u>	<u>\$937,976</u>	<u>\$930,973</u>	<u>\$1,055,443</u>	<u>\$5,519,641</u>	<u>\$11,233,714</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
*Reconciliation of Total Governmental Fund Balances to
 Net Assets of Governmental Activities
 December 31, 2004*

Total Governmental Funds Balances		\$5,988,037
<i>Amounts reported for governmental activities in the statement of net assets are different because:</i>		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		21,490,125
Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds:		
Taxes	318,493	
Intergovernmental Revenue	817,885	
Total		1,136,378
Intergovernmental payables include contractually required pension contributions not expected to be paid with expendable available financial resources and therefore are not reported in the funds.		(175,587)
In the statement of activities, interest is accrued on outstanding debt, whereas in the governmental funds, an interest expenditure is reported reported when due.		(22,370)
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	(5,235,000)	
Landfill Postclosure Care Obligations	(33,339)	
Compensated Absences Payable	(880,744)	
Total		(6,149,083)
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.		128,075
<i>Net Assets of Governmental Activities</i>		\$22,395,575

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Street	Street Rehabilitation	East State Street/ARC Grant	All Other Governmental Funds	Total Governmental Funds
Revenues:						
Property Taxes	\$717,681	\$0	\$0	\$0	\$0	\$717,681
Municipal Income Taxes	4,983,208	1,394,761	454,318	0	1,342,937	8,175,224
Other Local Taxes	0	0	0	0	179,463	179,463
Charges for Services	810,830	0	0	0	688,179	1,499,009
Licenses and Permits	472,574	0	0	0	79,114	551,688
Fines and Forfeitures	793,023	0	0	0	224,528	1,017,551
Intergovernmental	1,265,017	343,056	0	0	1,504,722	3,112,795
Special Assessments	584	0	5,451	0	1,363	7,398
Interest	9,469	8,075	16,955	14,519	56,147	105,165
Other	114,454	7,259	175,058	24,919	295,893	617,583
<i>Total Revenues</i>	<u>9,166,840</u>	<u>1,753,151</u>	<u>651,782</u>	<u>39,438</u>	<u>4,372,346</u>	<u>15,983,557</u>
Expenditures:						
<i>Current:</i>						
General Government	3,838,274	0	0	0	652,558	4,490,832
<i>Security of Persons and Property:</i>						
Police	2,596,558	0	0	0	131,384	2,727,942
Fire	1,973,797	0	0	0	0	1,973,797
Transportation	309,715	1,826,020	0	0	696,879	2,832,614
Leisure Time Services	0	0	0	0	1,224,843	1,224,843
Community Environment	492,175	0	0	0	366,660	858,835
Capital Outlay	0	0	278,532	256,900	677,825	1,213,257
<i>Debt Service:</i>						
Principal Retirement	0	0	0	0	250,000	250,000
Interest and Fiscal Charges	0	0	0	71,873	273,933	345,806
<i>Total Expenditures</i>	<u>9,210,519</u>	<u>1,826,020</u>	<u>278,532</u>	<u>328,773</u>	<u>4,274,082</u>	<u>15,917,926</u>
<i>Excess of Revenues Over (Under) Expenditures</i>	<u>(43,679)</u>	<u>(72,869)</u>	<u>373,250</u>	<u>(289,335)</u>	<u>98,264</u>	<u>65,631</u>
Other Financing Sources (Uses):						
Transfers In	111,220	33,178	0	645,228	51,315	840,941
Transfers Out	(21,000)	(88,350)	(645,228)	0	(170,666)	(925,244)
<i>Total Other Financing Sources (Uses)</i>	<u>90,220</u>	<u>(55,172)</u>	<u>(645,228)</u>	<u>645,228</u>	<u>(119,351)</u>	<u>(84,303)</u>
<i>Net Change in Fund Balances</i>	46,541	(128,041)	(271,978)	355,893	(21,087)	(18,672)
<i>Fund Balances at Beginning of Year - As Restated (See Note 4)</i>	1,357,486	886,799	1,188,568	(2,334,646)	4,908,502	6,006,709
<i>Fund Balances at End of Year</i>	<u>\$1,404,027</u>	<u>\$758,758</u>	<u>\$916,590</u>	<u>(\$1,978,753)</u>	<u>\$4,887,415</u>	<u>\$5,988,037</u>

See accompanying notes to the basic financial statements.

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, 2004*

Net Change in Fund Balances - Total Governmental Funds (\$18,672)

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

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	904,823	
Current Year Depreciation	<u>(508,386)</u>	
Total		396,437

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Property Taxes	190,370	
Intergovernmental Revenue	<u>(42,168)</u>	
Total		148,202

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. 250,000

In the statement of activities, interest is accrued on outstanding bonds, whereas

in governmental funds, an interest expenditure is reported when due. 9,235

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	(150,530)	
Landfill Postclosure Care	2,778	
Intergovernmental Payable	<u>(92,802)</u>	
Total		(240,554)
Intergovernmental Payable		

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. 174,046

Change in Net Assets of Governmental Activities \$718,694

See accompanying notes to the basic financial statements.

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Property Taxes	\$569,500	\$569,500	\$717,681	\$148,181
Municipal Income Taxes	5,120,697	4,960,697	4,952,344	(8,353)
Charges for Services	452,050	452,050	458,930	6,880
Licenses and Permits	442,310	442,310	466,597	24,287
Fines and Forfeitures	920,000	800,000	788,524	(11,476)
Intergovernmental	1,083,450	1,162,239	1,156,835	(5,404)
Special Assessments	1,000	1,000	584	(416)
Interest	20,000	10,000	11,155	1,155
Other	33,612	108,719	111,675	2,956
<i>Total Revenues</i>	8,642,619	8,506,515	8,664,325	157,810
Expenditures:				
<i>Current:</i>				
General Government	4,084,969	4,098,219	3,851,561	246,658
<i>Security of Persons and Property:</i>				
Police	2,677,359	2,672,525	2,596,657	75,868
Fire	2,031,457	2,031,081	1,990,203	40,878
Transportation	367,869	528,325	320,436	207,889
Community Environment	551,976	347,769	501,433	(153,664)
<i>Total Expenditures</i>	9,713,630	9,677,919	9,260,290	417,629
<i>Excess of Revenues Over (Under) Expenditures</i>	(1,071,011)	(1,171,404)	(595,965)	575,439
Other Financing Sources (Uses):				
Transfers - In	463,120	463,120	463,120	0
Transfers - Out	(86,970)	(86,970)	(86,970)	0
<i>Total Other Financing Sources (Uses)</i>	376,150	376,150	376,150	0
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(694,861)	(795,254)	(219,815)	575,439
Fund Balances (Deficit) at Beginning of Year	695,377	695,377	695,377	0
Prior Year Encumbrances Appropriated	135,878	135,878	135,878	0
Fund Balances (Deficit) at End of Year	\$136,394	\$36,001	\$611,440	\$575,439

See accompanying notes to the basic financial statements.

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, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Income Taxes	\$1,442,450	\$1,442,450	\$1,370,678	(\$71,772)
Intergovernmental	258,000	258,000	303,904	45,904
Interest	14,000	14,000	10,034	(3,966)
Other	1,000	1,000	3,521	2,521
<i>Total Revenues</i>	1,715,450	1,715,450	1,688,137	(27,313)
Expenditures:				
<i>Current:</i>				
Transportation	1,642,455	2,120,249	1,942,083	178,166
<i>Total Expenditures</i>	1,642,455	2,120,249	1,942,083	178,166
<i>Excess of Revenues Over (Under) Expenditures</i>	72,995	(404,799)	(253,946)	150,853
Other Financing Sources (Uses):				
Transfers - In	0	0	33,178	33,178
Transfers - Out	(114,560)	(172,910)	(172,910)	0
<i>Total Other Financing Sources (Uses)</i>	(114,560)	(172,910)	(139,732)	33,178
<i>Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses</i>	(41,565)	(577,709)	(393,678)	184,031
Fund Balances (Deficit) at Beginning of Year	731,125	731,125	731,125	0
Prior Year Encumbrances Appropriated	114,249	114,249	114,249	0
Fund Balances (Deficit) at End of Year	\$803,809	\$267,665	\$451,696	\$184,031

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
Statement of Fund Net Assets
Proprietary Funds
December 31, 2004

	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	\$172,341	\$714,141	\$646,593	\$86,946	\$1,620,021	\$263,156
Accounts Receivable	3,408	86,323	109,244	9,191	208,166	6,370
Special Assessments Receivable	0	27,551	0	0	27,551	0
Materials and Supplies Receivable	1,766	191,694	22,912	1,198	217,570	0
Accrued Interest Receivable	259	873	828	111	2,071	336
Prepaid Items	1,977	12,664	5,302	90	20,033	231
<i>Noncurrent:</i>						
Nondepreciable Capital Assets	295,774	129,248	2,359,411	14,675	2,799,108	0
Depreciable Capital Assets, Net	1,981,474	6,769,214	9,673,183	20,096	18,443,967	0
<i>Total Assets</i>	<u>2,456,999</u>	<u>7,931,708</u>	<u>12,817,473</u>	<u>132,307</u>	<u>23,338,487</u>	<u>270,093</u>
Liabilities:						
<i>Current:</i>						
Accounts Payable	2,197	21,788	23,538	0	47,523	0
Contracts Payable	0	5,076	35,258	65,305	105,639	15,648
Accrued Wages Payable	0	37,298	29,762	222	67,282	4,822
Compensated Absences Payable	0	65,008	50,575	343	115,926	19,825
Intergovernmental Payable	0	22,303	20,947	206	43,456	4,130
Accrued Interest Payable	0	11,048	125,755	0	136,803	0
Interfund Payable	0	0	120,000	0	120,000	0
Claims Payable	0	0	0	0	0	89,050
Deferred Revenue	2,245	0	0	0	2,245	0
Notes Payable	650,000	525,000	300,000	0	1,475,000	0
OWDA Loans Payable	0	66,400	324,699	0	391,099	0
<i>Noncurrent:</i>						
Compensated Absences Payable	0	47,495	43,784	540	91,819	8,543
OWDA Loans Payable	0	70,516	5,299,407	0	5,363,923	0
<i>Total Liabilities</i>	<u>654,442</u>	<u>871,932</u>	<u>6,373,725</u>	<u>66,616</u>	<u>7,960,715</u>	<u>142,018</u>
Net Assets:						
Investments in Capital Assets, Net of Related Debt Unrestricted	1,627,248 175,309	6,236,546 823,230	6,108,488 335,260	34,771 30,920	14,007,053 1,364,719	0 128,075
<i>Total Net Assets</i>	<u>\$1,802,557</u>	<u>\$7,059,776</u>	<u>\$6,443,748</u>	<u>\$65,691</u>	<u>\$15,371,772</u>	<u>\$128,075</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
*Statement of Revenues, Expenses and
Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004*

	Business-Type Activities				Governmental	
	Parking Garage	Water	Sewer	All Other Enterprise Funds	Totals	Internal Service Funds
Operating Revenues:						
Charges for Services	\$247,688	\$2,329,756	\$2,468,463	\$779,879	\$5,825,786	\$2,197,135
Other	5,518	922	2,013	7,286	15,739	0
<i>Total Operating Revenues</i>	<u>253,206</u>	<u>2,330,678</u>	<u>2,470,476</u>	<u>787,165</u>	<u>5,841,525</u>	<u>2,197,135</u>
Operating Expenses:						
Personal Services	0	757,359	745,854	7,238	1,510,451	147,342
Fringe Benefits	0	331,234	328,898	3,327	663,459	73,635
Contractual Services	22,382	421,543	478,067	844,365	1,766,357	383,523
Materials and Supplies	2,520	276,177	522,883	19,532	821,112	18,694
Utilities	17,517	190,120	196,950	0	404,587	0
Claims	0	0	0	0	0	1,458,633
Depreciation	38,256	511,328	374,916	10,676	935,176	0
<i>Total Operating Expenses</i>	<u>80,675</u>	<u>2,487,761</u>	<u>2,647,568</u>	<u>885,138</u>	<u>6,101,142</u>	<u>2,081,827</u>
<i>Operating Income (Loss)</i>	<u>172,531</u>	<u>(157,083)</u>	<u>(177,092)</u>	<u>(97,973)</u>	<u>(259,617)</u>	<u>115,308</u>
Non-Operating Revenues (Expenses):						
Interest Income	2,607	8,311	6,084	1,215	18,217	2,447
Other Non-Operating Revenues	14,774	1,305	7,594	536	24,209	64,624
Interest and Fiscal Charges	(9,787)	(29,967)	(300,992)	0	(340,746)	0
Other Non-Operating Expenses	(85)	(809)	(1,500)	(420)	(2,814)	(8,333)
<i>Total Non-Operating Revenues (Expenses)</i>	<u>7,509</u>	<u>(21,160)</u>	<u>(288,814)</u>	<u>1,331</u>	<u>(301,134)</u>	<u>58,738</u>
<i>Income (Loss) Before Transfers</i>	<u>180,040</u>	<u>(178,243)</u>	<u>(465,906)</u>	<u>(96,642)</u>	<u>(560,751)</u>	<u>174,046</u>
Transfers - In	21,000	58,978	15,474	0	95,452	0
Transfers - Out	(11,149)	0	0	0	(11,149)	0
<i>Change in Net Assets</i>	<u>189,891</u>	<u>(119,265)</u>	<u>(450,432)</u>	<u>(96,642)</u>	<u>(476,448)</u>	<u>174,046</u>
Net Assets at Beginning of Year	1,612,666	7,179,041	6,894,180	162,333	15,848,220	(45,971)
Net Assets at End of Year	<u>\$1,802,557</u>	<u>\$7,059,776</u>	<u>\$6,443,748</u>	<u>\$65,691</u>	<u>\$15,371,772</u>	<u>\$128,075</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities					Governmental Activities
	Parking Garage	Water	Sewer	All Other Enterprise	Totals	Internal Service Funds
				Funds		
Cash Flows from Operating Activities:						
Cash Received from Customers	\$245,963	\$2,467,630	\$2,598,264	\$843,943	\$6,155,800	\$2,210,102
Cash from Other Receipts	5,470	922	2,013	7,286	15,691	0
Cash Payments to Employees	0	(1,086,634)	(1,059,632)	(9,814)	(2,156,080)	(215,797)
Cash Payments for Contractual Services	(93,106)	(635,061)	(1,003,602)	(844,128)	(2,575,897)	(388,047)
Cash Payments for Insurance Claims	0	0	0	0	0	(1,537,009)
Cash Payments for Supplies and Materials	(4,286)	(325,017)	(190,264)	(19,332)	(538,899)	(18,694)
<i>Net Cash from Operating Activities</i>	<u>154,041</u>	<u>421,840</u>	<u>346,779</u>	<u>(22,045)</u>	<u>900,615</u>	<u>50,555</u>
Cash Flows from Noncapital Financing Activities:						
Other Nonoperating Receipts	14,774	1,305	7,594	536	24,209	64,624
Other Nonoperating Payments	(85)	(809)	(1,500)	(420)	(2,814)	(8,333)
Advances - Out to Other Funds	0	0	(120,000)	0	(120,000)	0
Transfers - In from Other Funds	21,000	58,978	15,474	0	95,452	0
Transfers - Out to Other Funds	(11,149)	0	0	0	(11,149)	0
<i>Net Cash from Noncapital Financing Activities</i>	<u>24,540</u>	<u>59,474</u>	<u>(98,432)</u>	<u>116</u>	<u>(14,302)</u>	<u>56,291</u>
Cash Flows from Capital and Related Financing Activities:						
Proceeds Received from Notes	650,000	525,000	1,866,293	0	3,041,293	0
Interest Paid on Notes and Loans	(15,759)	(26,879)	(261,276)	0	(303,914)	0
Principal Paid on Notes and Loans	(800,000)	(629,979)	(410,522)	0	(1,840,501)	0
Cash Paid to Acquire/Construct Capital Assets	(1,813)	(178,503)	(1,589,089)	(24,462)	(1,793,867)	0
Cash Received from Special Assessments	0	9,890	0	0	9,890	0
<i>Net Cash from Capital and Related Financing Activities</i>	<u>(167,572)</u>	<u>(300,471)</u>	<u>(394,594)</u>	<u>(24,462)</u>	<u>(887,099)</u>	<u>0</u>
Cash Flows from Investing Activities:						
Interest Received on Investments	2,919	9,035	7,751	1,523	21,228	2,578
<i>Net Cash from Investing Activities</i>	<u>2,919</u>	<u>9,035</u>	<u>7,751</u>	<u>1,523</u>	<u>21,228</u>	<u>2,578</u>
<i>Net Increase (Decrease) in Cash and Cash Equivalents</i>	13,928	189,878	(138,496)	(44,868)	20,442	109,424
Cash and Cash Equivalents at Beginning of Year	<u>158,413</u>	<u>524,263</u>	<u>785,089</u>	<u>131,814</u>	<u>1,599,579</u>	<u>153,732</u>
Cash and Cash Equivalents at End of Year	<u>\$172,341</u>	<u>\$714,141</u>	<u>\$646,593</u>	<u>\$86,946</u>	<u>\$1,620,021</u>	<u>\$263,156</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Business-Type Activities				Governmental Activities	
	Parking Garage	Water	Sewer	All Other Enterprise Funds	Totals	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities:						
Operating Income (Loss)	\$172,531	(\$157,083)	(\$177,092)	(\$97,973)	(\$259,617)	\$115,308
Adjustments to Reconcile Operating Income (Loss) to Net Cash from Operating Activities:						
Depreciation Expense	38,256	511,328	374,916	10,676	935,176	0
Changes in Assets and Liabilities:						
(Increase) Decrease in Accounts Receivable	(303)	137,874	129,801	64,064	331,436	12,967
(Increase) Decrease in Material and Supply Inventory	(1,766)	(28,527)	(2,422)	200	(32,515)	0
(Increase) Decrease in Prepaid Items	30	(799)	(737)	(7)	(1,513)	(51)
Increase (Decrease) in Accounts Payable	(1,623)	(48,752)	(8,834)	0	(59,209)	0
Increase (Decrease) in Contracts Payable	0	5,075	17,435	244	22,754	(4,473)
Increase (Decrease) in Accrued Wages and Benefits	0	6,740	3,358	118	10,216	(483)
Increase (Decrease) in Compensated Absences	0	(15,939)	795	427	(14,717)	3,286
Increase (Decrease) in Intergovernmental Payable	(51,614)	11,923	9,559	206	(29,926)	2,377
Increase (Decrease) in Deferred Revenue	(1,470)	0	0	0	(1,470)	0
Increase (Decrease) in Claims and Judgements Payable	0	0	0	0	0	(78,376)
<i>Net Cash from Operating Activities</i>	<u>\$154,041</u>	<u>\$421,840</u>	<u>\$346,779</u>	<u>(\$22,045)</u>	<u>\$900,615</u>	<u>\$50,555</u>

See accompanying notes to the basic financial statements.

CITY OF ATHENS, OHIO
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
December 31, 2004

	<u>Agency</u>
Assets:	
Equity in Pooled Cash & Cash Equivalents	\$5,709
Cash and Cash Equivalents in Segregated Accounts	<u>191,333</u>
<i>Total Assets</i>	<u>197,042</u>
Liabilities:	
Deposits Held and Due to Others	<u>197,042</u>
<i>Total Liabilities</i>	<u><u>\$197,042</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, 2004

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 combined 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, 2004

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 after November 30, 1989, to its business-type activities and to its enterprise funds provided they do not conflict with or contradict GASB pronouncements. 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, 2004

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.

Street Rehabilitation Fund: This fund accounts for that portion of the municipal income tax earmarked for City street improvement projects.

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, 2004

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, 2004

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, 2004, but which were levied to finance fiscal year 2005 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, 2004

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 on the budgetary statement reflect the amounts in the final amended official certificate of estimated resources issued during 2004.

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 2004, the City's funds were invested in interest bearing demand accounts and certificates of deposit with commercial banks. For purposes of the combined 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 2004, the General Fund earned interest revenue of \$9,469, of which \$520 was assigned from other funds.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2004 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.

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 five hundred 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 prior to 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:

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, notes 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.

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.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 2004.

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).
- (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	(\$219,815)	(\$393,678)
<i>Adjustments:</i>		
Revenue Accruals	502,515	65,014
Expenditure Accruals and Encumbrances	49,771	116,063
Other Financing Sources (Uses)	(285,930)	84,560
GAAP Basis	\$46,541	(\$128,041)

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 4 - PRIOR PERIOD ADJUSTMENT

At December 31, 2003, it was determined that deferred revenue, relating to property tax revenue, on the full accrual basis for governmental activities was overstated by \$127,847. In addition, it was determined that both intergovernmental revenue and intergovernmental receivable were understated due to the improper posting of an audit adjustment in the prior year.

	Nonmajor Governmental Funds	Governmental Activities
Fund Balance/Net Assets at December 31, 2003	\$4,901,927	\$21,542,459
Understatement of Intergovernmental Revenue	6,575	6,575
Overstatement of Deferred Revenue	0	127,847
Adjusted Fund Balance/Net Assets at December 31, 2003	<u>\$4,908,502</u>	<u>\$21,676,881</u>

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.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

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;
- (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); and
- (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.

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;
- (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.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

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.

The amounts available for deposit and investment are as follows:

* Cash and Cash Equivalents (Carrying Amount)	\$9,010,796
* Cash and Cash Equivalents in Segregated Accounts (Carrying Amount)	256,309
* Reconciling Items (Net) to Arrive at Bank Balances of Deposits	<u>334,595</u>
Total Available for Deposit and Investment (Bank Balance of Deposits/Carrying Amount of Investments)	<u><u>\$9,601,700</u></u>

Any depository that receives a City deposit or investment is required to pledge to the investing authority as collateral eligible securities of aggregate fair value that, when added to the portion of the deposit by the Federal Deposit Insurance Corporation, equals or exceeds the amount of City funds deposited.

A public depository may, at its option, pledge a single pool of eligible securities to secure the repayment of all public monies held by the depository. The pool of securities so pledged must have a current fair value at least equal to 105% of all public monies on deposit with the depository including the amount covered by federal insurance. GASB Statement No. 9 requires the City to report cash flows for its proprietary funds. For purposes of the Statement of Cash Flows, proprietary fund participation in the State Treasurer's Investment Pool (STAR Ohio) is treated as a demand account and reported as a cash equivalent on the Balance Sheet. In addition, all highly liquid investments held with a maturity of three months or less when purchased, are considered cash equivalents. Only separate investments with a maturity of greater than three months are reported as investments on the Balance Sheet.

The Governmental Accounting Standards Board (GASB Statement No. 3) has established credit risk categories for deposits and investments as follows:

Category 1: Deposits that are insured or collateralized with securities held by the City or its agent in the City's name;

Investments that are insured or registered, or securities held by the City or its agent in the City's name;

Category 2: Deposits that are collateralized with securities held by the pledging financial institution's trust department or agent in the City's name;

Investments that are uninsured and unregistered, with securities held by the counter-party's trust department or agent in the City's name;

Category 3: Deposits that are uncollateralized or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the City's name;

Investments that are uninsured and unregistered, with securities held by the counter-party or its trust department or agent but not in the City's name.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 5 - CASH, DEPOSITS AND INVESTMENTS (Continued)

Based on the above criteria, the City's deposits and investments at December 31, 2004 are classified as follows:

	Category			Bank Balance	Carrying Amount
	1	2	3		
<i>Deposits:</i>					
Demand Deposits	\$564,976	\$0	\$8,036,724	\$8,601,700	\$8,267,105
Certificates of Deposit	0	0	1,000,000	1,000,000	1,000,000
Total Deposits	\$564,976	\$0	\$9,036,724	\$9,601,700	\$9,267,105

The classification of cash and cash equivalents, and investments on the combined financial statements is based on criteria set forth in GASB Statement No. 9. The classification of cash and cash equivalents (deposits) for purposes of this note is based on criteria set forth in GASB Statement No. 3. For the City, there are no differences between the classification of cash and cash equivalents on the combined financial statements and the classifications of deposits per GASB Statement No. 3.

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.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 6 - PROPERTY TAXES - Continued

The assessed value upon which the 2004 taxes were collected was \$262,140,186. The full tax rate for all City operations that was applied to real property for the year ended December 31, 2004 was \$2.60 per \$1,000 of assessed valuation for City residents in Athens Township, and \$2.40 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.

Real Property - 2003 Valuation:

Residential/Agricultural	\$136,086,020
Commercial/Industrial	93,896,850
Total Real Property	<u>229,982,870</u>

Tangible Personal Property - 2003 Valuation:

General	23,015,746
Public Utilities	9,141,570
Total Personal Property	<u>32,157,316</u>
Total Assessed Valuation	<u><u>\$262,140,186</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, 2004. 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 2004 operations. The receivable is therefore offset by a credit to deferred revenue.

NOTE 7 - INCOME TAX REVENUE

The City levies a tax of 1.64% 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 2004, the income tax generated a total of \$8,175,224 in income tax revenue.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 8 - INTERFUND ACTIVITY

As of December 31, 2004, receivables and payables that resulted from various interfund transactions were as follows:

	Interfund Receivables	Interfund Payables
<i>Governmental Fund:</i>		
Capital Improvement Fund	\$120,000	\$0
<i>Enterprise Fund:</i>		
Sewer Fund	0	120,000
Total - All Funds	\$120,000	\$120,000

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 2004 were as follows:

Fund	Transfers In	Transfers Out
<i>Governmental Funds:</i>		
General Fund	\$111,220	\$21,000
Street Fund	33,178	88,350
Street Rehabilitation Fund	0	645,228
East State Street/ARC Grant Fund	645,228	0
Other Nonmajor Governmental Funds	51,315	170,666
<i>Enterprise Funds:</i>		
Parking Garage Fund	21,000	11,149
Water Fund	58,978	0
Sewer Fund	15,474	0
Total - All Funds	\$936,393	\$936,393

In fiscal year 2004, the City made a transfer of \$645,228 from the Street Rehabilitation Fund to the East State Street/ARC Grant Fund for payment of notes. The City also made a transfer from the Street Fund to the EPA Litigation Fund of \$58,350 for payment of notes. A transfer was made from the Street Fund the Transportation Assistance Fund for \$30,000 to meet the federal local match requirement. A transfer was made from the Underage Drinkers Fund to the Municipal Drug Court Fund for \$21,315 for the City's share of the Drug Court grant. A transfer of \$21,000 was made from the General Fund to the Parking Garage Fund to pay for employee parking for the year. The remaining transfers were for expenses paid out of certain funds to be reimbursed by others, such as for employees salaries or project expenses.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 9 - INTERGOVERNMENTAL RECEIVABLE

Receivables at December 31, 2004 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	\$497,491
Grants and Other Revenue	39,906
<i>Total General Fund</i>	<u>537,397</u>
 <i>Street Fund:</i>	
Street Maintenance Distributions	155,550
Nonmajor Special Revenue Funds	664,169
Nonmajor Capital Projects Funds	1,158
Total Nonmajor Governmental Funds	<u>665,327</u>
 Total Intergovernmental Receivable	 <u><u>\$1,358,274</u></u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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, 2004	Additions	Deletions	Balance December 31, 2004
<i>Governmental Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$2,699,487	\$395,848	\$0	\$3,095,335
Construction in Progress	4,150,533	0	(3,623,285)	527,248
Total Nondepreciable Capital Assets	6,850,020	395,848	(3,623,285)	3,622,583
<i>Depreciable Capital Assets:</i>				
Buildings	12,049,909	12,929	(7,197)	12,055,641
Machinery, Equipment and Vehicles	7,424,023	496,046	0	7,920,069
Infrastructure	5,211,457	3,623,285	0	8,834,742
Total Depreciable Capital Assets	24,685,389	4,132,260	(7,197)	28,810,452
Less Accumulated Depreciation				
Buildings	(2,445,397)	(113,111)	0	(2,558,508)
Machinery, Equipment and Vehicle	(7,869,087)	(223,830)	7,197	(8,085,720)
Infrastructure	(127,237)	(171,445)	0	(298,682)
Total Accumulated Depreciation	(10,441,721)	(508,386)	7,197	(10,942,910)
Total Depreciable Capital Assets, Net	14,243,668	3,623,874	0	17,867,542
Governmental Activities Capital Assets, Net	\$21,093,688	\$4,019,722	(\$3,623,285)	\$21,490,125

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

Governmental Activities	
General Government	\$161,260
<i>Security of Persons and Property:</i>	
Police	30,452
Fire	63,701
Transportation	64,565
Community Environment	3,965
Leisure Time Activities	184,443
Governmental Activities Depreciation Expense	<u>\$508,386</u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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, 2004	Additions	Deletions	Balance December 31, 2004
<i>Business-Type Activities:</i>				
<i>Nondepreciable Capital Assets:</i>				
Land	\$451,269	\$0	\$0	\$451,269
Construction in Progress	1,205,349	1,658,431	(515,941)	2,347,839
Total Nondepreciable Capital Assets	1,656,618	1,658,431	(515,941)	2,799,108
<i>Depreciable Capital Assets:</i>				
Buildings	12,128,277	0	0	12,128,277
Machinery, Equipment and Vehicles	2,558,775	135,436	(253)	2,693,958
Infrastructure	20,690,801	515,941	0	21,206,742
Total Depreciable Capital Assets	35,377,853	651,377	(253)	36,028,977
Less Accumulated Depreciation				
Buildings	(4,547,917)	(191,444)	0	(4,739,361)
Machinery, Equipment and Vehicle	(2,304,700)	(296,907)	253	(2,601,354)
Infrastructure	(9,797,470)	(446,825)	0	(10,244,295)
Total Accumulated Depreciation	(16,650,087)	(935,176)	253	(17,585,010)
Total Depreciable Capital Assets, Net	18,727,766	(283,799)	0	18,443,967
Governmental Activities Capital Assets, Net	\$20,384,384	\$1,374,632	(\$515,941)	\$21,243,075

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, 2004

NOTE 11 - NOTES PAYABLE - (Continued)

The following is a summary of the City's note obligation activity for the year ended December 31, 2004:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
<u>Governmental Activities:</u>						
<i>Notes Payable:</i>						
East State Street	2004	1.60%	\$3,600,000	\$0	\$3,600,000	\$0
East State Street	2005	2.75%	0	3,000,000	0	3,000,000
Governmental Activities Notes Payable			<u>\$3,600,000</u>	<u>\$3,000,000</u>	<u>\$3,600,000</u>	<u>\$3,000,000</u>
<u>Business-Type Activities:</u>						
<i>Notes Payable:</i>						
Parking Garage Facility	2004	1.60%	\$800,000	\$0	\$800,000	\$0
Parking Garage Facility	2005	2.75%	0	650,000	0	650,000
EPA Litigation	2004	1.00%	568,738	0	568,738	0
EPA Litigation	2005	1.68%	0	525,000	0	525,000
OWDA Sewer	2005	1.50%	0	300,000	0	300,000
Business-Type Activities Notes Payable			<u>\$1,368,738</u>	<u>\$1,475,000</u>	<u>\$1,368,738</u>	<u>\$1,475,000</u>

NOTE 12 - LONG-TERM DEBT AND OTHER OBLIGATIONS

The City's long-term obligations activity for the year ended December 31, 2004, was as follows:

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	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%	\$5,485,000	\$0	\$250,000	\$5,235,000	\$275,000
<i>Other Long-Term Obligations:</i>							
Compensated Absences			783,780	424,335	318,828	889,287	519,336
Landfill Postclosure Care			36,117	0	2,778	33,339	4,000
Governmental Activities Long-Term Obligations			<u>\$6,304,897</u>	<u>\$424,335</u>	<u>\$571,606</u>	<u>\$6,157,626</u>	<u>\$798,336</u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

Purpose/ Description	Maturity Date	Interest Rate	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	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%	\$83,606	\$0	\$31,453	\$52,153	\$34,274
Loan No. 1462 Original Issue Date - 1986 Original Issue Amount - \$384,827	2007	7.00%	114,547	0	29,784	84,763	32,126
Loan No. 2669 Original Issue Date - 1991 Original Issue Amount - \$3,943,837	2011	5.00%	2,051,083	0	214,307	1,836,776	225,156
Loan No. 2670 Original Issue Date - 1992 Original Issue Amount - \$1,282,133	2013	5.02%	802,095	0	62,978	739,117	66,295
Loan No. 2672/2673 Original Issue Dates - 1995 & 1996 Original Issue Amount - \$908,787	2016	4.16%	669,692	0	39,786	629,906	33,248
Loan No. 3873 Original Issue Date - 2003 Original Issue Amount - to be determined	2024	3.53%	945,469	1,566,293	93,455	2,418,307	0
<i>Other Long-Term Obligations:</i>							
Compensated Absences			222,462	140,325	155,042	207,745	115,926
Business-Type Activities Long-Term Obligations			<u>\$4,888,954</u>	<u>\$1,706,618</u>	<u>\$626,805</u>	<u>\$5,968,767</u>	<u>\$507,025</u>

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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

The City's long-term debt requirements as of December 31, 2004, are as follows:

Governmental Activities	
Year Ending December 31	General Obligation Bonds
2005	537,662
2006	550,150
2007	561,350
2008	571,075
2009	582,497
2010 - 2014	3,145,838
2015 - 2016	1,262,170
Total	7,210,742
Less: Amount Representing Interest	1,975,742
Principal Balance	\$5,235,000

Business-Type Activities	
Year Ending December 31	OWDA Loans
2005	561,261
2006	542,737
2007	504,517
2008	485,277
2009	485,278
2010 - 2014	1,379,864
2015 - 2016	134,368
Total	4,093,302
Less: Amount Representing Interest	750,587
Principal Balance	\$3,342,715

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 \$2,418,307 of this loan has been drawn out as of December 31, 2004, 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 First Star Bank, Cincinnati, Ohio and as of December 31, 2004 there was \$1,114,417 held in trust with the Bank.

The amount of debt considered to be defeased for the Sewer Mortgage Revenue Bonds at December 31, 2004 is \$1,110,000. 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, 2004

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 8.5% for employees other than law enforcement and for 2004, the City is required to contribute 13.55%. In January 2001, House Bill 416 divided the OPERS law enforcement program into two separate division 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, 2004, 2003 and 2002 were \$524,605, \$465,001, and \$464,416, respectively; 90.26% has been contributed for 2004, 90.22% for 2003 and 100% for year 2002. Of the 2004 amount, \$51,103 was unpaid at December 31, 2004 and is recorded as a liability within the respective funds.

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 2004 employer contribution rate for local government employer units was 13.55% of covered payroll; 4% was the portion that was used to fund health care for the year 2004. The 2004 employer rate was 16.7% and 4% 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 2004, \$219,730 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, 2003. 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 2003 was 8%. 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, 2004, the number of active contributing participants was 369,885. The actuarial value of the Retirement System's net assets available for OPEB at December 31, 2003 was \$10.5 billion. The actuarially accrued liability and the unfunded actuarial accrued liability, based on the actuarial cost method used, were \$26.9 billion and \$16.4 billion, respectively.

On September 9, 2004, the OPERS Retirement Board adopted a Health Care Preservation Plan (HCCP) with an effective date of January 1, 2007. The HCCP restructures OPERS' health care coverage to improve the financial solvency of the fund in response to skyrocketing health care costs. Under the HCCP, 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, 2004

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, 2004, 2003 and 2002 were \$160,742, \$161,930, and \$164,260, for police officers; and \$198,683, \$196,355, and \$201,988, for firefighters, respectively; 67.47% has been contributed for 2004, and 100% for 2003 and 2002 for police officers; and 67.96% has been contributed for 2004, and 100% for year 2003 and 2002 for firefighters. Of the 2004 amount, \$52,283 for police officers and \$63,651 for firefighters was unpaid at December 31, 2004 and is recorded as a liability within the respective funds.

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% and 7.75% of covered payroll in 2003 and 2004, respectively. The portion of the 2004 covered payroll that was used to fund postemployment health care benefits was \$106,021 for police officers and \$94,757 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, 2003 the number of participants eligible to receive health care benefits was 13,662 for police and 10,474 for firemen. The Fund's total health care expenses for the year ended December 31, 2003 were \$150,853,148.

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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 Medical Mutual 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, 2004

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 \$71,834,303. Other property insurance includes the following: \$677,033 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 Guarantee Life and Mutual Company 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 2003 and 2004 were as follows:

	Beginning Year Balance	Current Year Claims	Claim Payments	Ending Year Balance
2003	\$133,566	\$1,571,062	\$1,537,202	\$167,426
2004	167,426	1,458,633	1,537,009	89,050

CITY OF ATHENS, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

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.

The City participates in the Workers' Compensation Group Rating Plan sponsored by the Ohio Municipal League. Eligibility and continued participation of member municipalities is determined annually based on the members' claims. It is a rating plan only with no risk assumed directly by the City. Claims are paid directly by the Ohio Bureau of Workers' Compensation. The savings under this plan totaled \$27,023 for 2004, compared to the regular premium rates.

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 2005 are expected to be \$4,000. The City has projected costs, with built-in inflation, for the remaining 15 years.

The City has recorded a liability of \$33,339 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, 2004:

East State Street/ARC Grant Fund	\$1,978,753
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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.

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, OHIO
Notes to the Basic Financial Statements
For the Year Ended December 31, 2004

NOTE 19 - SUBSEQUENT EVENTS

In July 2004, the City issued General Obligation Bond Anticipation Notes for the East State Street improvement project and Parking Garage Facility improvement project to pay retiring notes. These notes were automatically renewed in July 2005 at a reduced principal amount and will continue to be renewed annually at reduced principal amounts so that they will be retired entirely over the next several years.

City of Athens
Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2004

Federal Grantor/ Pass Through Grantor/ Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements
UNITED STATES DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
<i>Passed through the Ohio Department of Development</i>			
Community Development Block Grants	A-F-02-086-1	14.228	\$87,869
Community Development Block Grants	A-F-03-086-1	14.228	111,920
Total Community Development Block Grants			<u>199,789</u>
Emergency Shelter Grant Program	A-L-03-086-1	14.231	42,975
Emergency Shelter Grant Program	A-L-04-086-1	14.231	15,825
Total Emergency Shelter Grant Program			<u>58,800</u>
HOME Investments Partnership Program	A-C-03-086-2	14.239	<u>132,028</u>
Total United States Department of Housing and Urban Development			390,617
UNITED STATES DEPARTMENT OF JUSTICE			
<i>Passed through the Governor's Office of Criminal Justice Services</i>			
Violence Against Women Formula Grants	03-WF-VA8-8414	16.588	<u>50,000</u>
Total United States Department of Justice			50,000
UNITED STATES DEPARTMENT OF TRANSPORTATION			
<i>Passed through Ohio Department of Transportation</i>			
Formula Grants for Other Than Urbanized Areas	RPT-4005-021-041	20.509	286,136
Formula Grants for Other Than Urbanized Areas	RPT-0005-023-042	20.509	39,200
Total Public Transportation for Non-urbanized Areas			<u>325,336</u>
Highway Planning and Construction	N/A	20.205	<u>82,775</u>
Total United States Department of Transportation			408,111
UNITED STATES DEPARTMENT OF HOMELAND SECURITY			
<i>Passed through Ohio Emergency Management Agency</i>			
Public Assistance Grants	N/A	97.036	<u>49,280</u>
Total United States Department of Homeland Security			<u>49,280</u>
Total Federal Financial Assistance			<u><u>\$898,008</u></u>

N/A = Pass through entity number could not be located.
See Notes to the Schedule of Federal Awards Expenditures.

City of Athens
Notes to the Schedule of Federal Awards Expenditures
For the Year Ended December 31, 2004

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, 2004, the gross amount of loans outstanding under this program was \$492,335.

NOTE D – MATCHING REQUIREMENTS

Certain Federal programs require that 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.

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based On an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

City of Athens
Athens County
8 East Washington Street
Athens, Ohio 45701-2444

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, (the City), as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated July 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

We noted certain matters that we reported to the management of the City in a separate letter dated July 21, 2005.

City Council
City of Athens

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance With *Government Auditing Standards*

Page 2

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



Balestra, Harr & Scherer, CPAs, Inc.

July 21, 2005

BALESTRA, HARR & SCHERER CPAs, INC.

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Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

City of Athens
Athens County
8 East Washington Street
Athens, Ohio 45701-2444

Compliance

We have audited the compliance of the City of Athens, Athens County, (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, 2004. The City's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City's management. 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 obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination 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 program for the year ended December 31, 2004.

Internal Control Over Compliance

The management of the City 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 have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

City Council
City of Athens

Report on Compliance With Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133
Page 2

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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



Balestra, Harr & Scherer, CPAs, Inc.
July 21, 2005

City of Athens
Schedule of Findings
OMB Circular A-133 Section .505
December 31, 2004

1. SUMMARY OF AUDITOR'S RESULTS

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

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

None

3. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

None



**Auditor of State
Betty Montgomery**

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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
NOVEMBER 15, 2005**