

FINANCIAL REPORT
OF
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

WINNETT
*A*ssociates, PLLC

Certified Public Accountants and Consultants

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FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

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 City of Fayetteville, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fayetteville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fayetteville Public Utilities, which represent 99% of the assets, net assets, and revenues of the business-type activities. We also did not audit the Fayetteville School System which includes the school general fund, a major fund. The Fayetteville School System represent 5%, 4%, and 86%, respectively, of the assets, fund balances, and revenues of the aggregate remaining fund information and 37%, 42%, and 49%, respectively, of the assets, net assets, and revenues of the governmental activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for City of Fayetteville, Tennessee, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayetteville, Tennessee, as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and school general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 11, the City of Fayetteville, Tennessee adopted the provisions of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which changed its method of accounting for post-employment benefits effective for the year ended June 30, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2010, on our consideration of the City of Fayetteville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and schedules of funding process on pages 4 through 10, 57 and 58, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We, and the other auditors, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fayetteville, Tennessee's, basic financial statements. The supplementary information and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards and state financial assistance have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The other financial schedules and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Winnett Associates, LLC

February 13, 2010

CITY OF FAYETTEVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2009

Our discussion and analysis of the City of Fayetteville, Tennessee's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2009. We encourage readers to consider the information that we have furnished in the basic financial statements and the accompanying notes to those financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, fund financial statements tell how these services were financed in the short term, as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities of the City using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the City's net assets and changes in them. Net assets are the difference between assets and liabilities, which is one way to measure the City's financial health or financial position. Over time, increases and decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. Other factors to consider are changes in the City's property tax base and the condition of the City's infrastructure.

In the statement of Net Assets and the Statement of Activities, we separate the city activities as follows:

Governmental Activities – Most of the City’s basic services are reported in this category, including the general government (includes administration, codes enforcement, zoning, and planning), public safety (includes fire, police, and emergency communications), city court, recreation, highways and streets, housing and community development, and education. Property taxes, in lieu payments, sales taxes, alcoholic beverage taxes, franchise fees, state and federal grants, business taxes, and fines finance most of these activities.

Business-Type Activities

The City charges a fee to customers to help cover all or most of the costs of certain services it provides. The City’s sanitation, natural gas, electric, water and sewer, and telecommunications activities are reported in this category.

REPORT ON THE CITY’S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other money. The City’s two kinds of funds, governmental and proprietary, use different accounting approaches.

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. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the City’s general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City’s programs. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are explained in reconciliations included in the fund financial statement section.

Proprietary Funds – When the City charges customers for services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City’s enterprise funds are the same as the business-type activities reported in the Government –Wide Financial Statements but provide more detail and additional information, such as cash flows, for proprietary funds.

THE CITY AS A WHOLE

The analysis below focuses on the net assets of the City's governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 19,267,354	\$ 18,219,278	\$ 37,619,887	\$ 37,729,044	\$ 56,887,241	\$ 55,948,322
Capital assets	18,474,227	16,534,627	65,974,717	60,828,984	84,448,944	77,363,611
Total assets	\$ 37,741,581	\$ 34,753,905	\$ 103,594,604	\$ 98,558,028	\$ 141,336,185	\$ 133,311,933
Long-term debt outstanding	3,329,424	2,039,131	34,152,982	33,236,466	37,482,406	35,275,597
Other liabilities	3,297,121	2,504,839	7,906,118	7,796,169	11,203,239	10,301,008
Total liabilities	\$ 6,626,545	\$ 4,543,970	\$ 42,059,100	\$ 41,032,635	\$ 48,685,645	\$ 45,576,605
Net Assets						
Invested in capital assets	17,521,558	16,260,960	34,843,452	37,074,230	52,365,010	53,335,190
Restricted	6,801,362	5,190,884	5,886,640	5,898,526	12,688,002	11,089,410
Unrestricted	6,792,116	8,758,091	20,805,412	14,552,637	27,597,528	23,310,728
Total net assets	\$ 31,115,036	\$ 30,209,935	\$ 61,535,504	\$ 57,525,393	\$ 92,650,540	\$ 87,735,328

Net assets of the City's governmental activities increased 3.0 percent in the fiscal year 2009. Net assets of the City's business-type activities increased 7.0 percent in the fiscal year 2009.

The analysis below focuses on the changes in net assets of the City's governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Revenues						
Program Revenues:						
Charges for services	\$ 871,738	\$ 650,387	\$ 61,042,785	\$ 56,538,686	\$ 61,914,523	\$ 57,189,073
Operating grants and contributions	6,264,910	5,911,615	-	-	6,264,910	5,911,615
Capital grants and contributions	1,476,245	38,072	675,789	582,003	2,152,034	620,075
General revenues:						
Property taxes	2,840,644	2,734,725	-	-	2,840,644	2,734,725
Other taxes	4,030,424	4,256,173	-	-	4,030,424	4,256,173
Other general revenues	484,809	681,345	802,042	1,032,229	1,286,851	1,713,574
Total revenues	\$ 15,968,770	\$ 14,272,317	\$ 62,520,616	\$ 58,152,918	\$ 78,489,386	\$ 72,425,235
Program Expenses:						
General government	\$ 870,070	\$ 701,459	\$ -	\$ -	\$ 870,070	\$ 701,459
Public safety	3,563,177	3,470,893	-	-	3,563,177	3,470,893
Judicial	53,065	48,997	-	-	53,065	48,997
Recreation	574,620	586,042	-	-	574,620	586,042
Highways and streets	1,280,647	1,276,864	-	-	1,280,647	1,276,864
Sanitation	15,228	11,277	452,789	430,149	468,017	441,426
Housing and community development	974,007	359,627	-	-	974,007	359,627
Education	8,517,784	7,881,326	-	-	8,517,784	7,881,326
Interest on long-term debt	22,013	62,361	-	-	22,013	62,361
Electric, telecom, water and gas	-	-	57,271,810	52,905,163	57,271,810	52,905,163
Total expenses	\$ 15,870,611	\$ 14,398,846	\$ 57,724,599	\$ 53,335,312	\$ 73,595,210	\$ 67,734,158
Excess (deficiency) before transfers	\$ 98,159	\$ (126,529)	\$ 4,796,017	\$ 4,817,606	\$ 4,894,176	\$ 4,691,077
Transfers	1,044,040	991,793	(1,044,040)	(991,793)	-	-
Increase in net assets	\$ 1,142,199	\$ 865,264	\$ 3,751,977	\$ 3,825,813	\$ 4,894,176	\$ 4,691,077

The City's total revenues increased 8.37 percent from the fiscal year ended June 30, 2008 to the fiscal year ended June 30, 2009, while total expenses increased 8.65 percent.

THE CITY'S FUNDS

The following is an analysis of balances in the City's major individual funds.

Governmental Activities

The information below details the costs and net expenditures (expenditures less program revenues) of the City's governmental activities for the fiscal years ended June 30, 2009 and 2008. The net costs show the financial burden that was placed on the City's taxpayers by each of these functions.

Total Costs and Net Expenditures By Function

	Total Costs of Services		Net Costs of Services	
	2009	2008	2009	2008
General government	\$ 870,070	\$ 701,459	\$ 824,844	\$ 629,132
Public safety	3,563,177	3,470,893	3,370,450	3,165,992
Judicial	53,065	48,997	(98,813)	(87,281)
Recreation	574,620	586,042	490,445	532,937
Highways and street	1,280,647	1,276,864	77,042	1,080,287
Sanitation	15,228	11,277	21,541	11,277
Housing and community development	974,007	359,627	334,717	341,941
Education	8,517,784	7,881,326	2,452,577	2,062,126
Interest on long-term debt	22,013	62,361	22,013	62,361
Total Net Expenditures	<u>\$ 15,870,611</u>	<u>\$ 14,398,846</u>	<u>\$ 7,494,816</u>	<u>\$ 7,798,772</u>

The information below details general revenues of the City's governmental activities for the fiscal years ended June 30, 2009 and 2008. These revenues are required to cover the net expenditures listed above.

Revenues by Source

	2009	2008
Property taxes	\$ 2,840,644	\$ 2,734,725
In lieu of taxes	364,838	371,525
Sales taxes	2,297,985	2,238,533
Alcoholic beverage taxes	461,021	450,977
Other local taxes	288,845	327,417
Other state taxes	617,735	771,835
Other	90,922	95,886
Unrestricted investment earnings	393,887	661,559
Gain / (Loss) on sale of assets	-	19,786
Transfers	1,044,040	991,793
Total General Revenues	<u>\$ 8,399,917</u>	<u>\$ 8,664,036</u>

Proprietary Funds

The City's major proprietary funds consist of the natural gas, electric, water and sewer, and telecommunications services provided to the residents of Fayetteville and Lincoln County and sanitation services provided to the residents of Fayetteville. The basic financial statements for the major funds are included in this report. Because the focus on proprietary funds is a cost of service measurement or capital maintenance, we have included these funds in the table below, which demonstrates return on ending assets and return on ending net assets.

	Gas	Electric	Water	Telecom	Sanitation	Total
Fiscal Year Ended June 30, 2009						
Total Assets	\$ 17,993,401	\$ 66,626,234	\$ 16,391,108	\$ 4,917,237	\$ 776,798	\$ 106,704,778
Net Assets	12,274,963	39,429,160	11,634,163	(2,472,667)	669,885	61,535,504
Change in Net Assets	541,050	2,947,358	243,125	120,417	(99,973)	3,751,977
Return on Ending Total Assets	3.01%	4.42%	1.48%	2.45%	-12.87%	3.52%
Return on Ending Net Assets	4.41%	7.48%	2.09%	n/a	-14.92%	6.10%
Fiscal Year Ended June 30, 2008						
Total Assets	\$ 17,946,479	\$ 64,265,926	\$ 13,507,296	\$ 5,096,473	\$ 822,873	\$ 101,639,047
Net Assets	11,733,913	36,481,802	11,391,038	(2,593,084)	769,858	57,783,527
Change in Net Assets	478,305	3,045,893	306,847	54,074	(59,306)	3,825,813
Return on Ending Total Assets	2.67%	4.74%	2.27%	1.06%	-7.21%	3.76%
Return on Ending Net Assets	4.08%	8.35%	2.69%	n/a	-7.70%	6.62%

CAPITAL ASSETS

As of June 30, 2009, the City has \$88 million invested in capital assets (after depreciation) including police and fire equipment, buildings, park facilities, street and sanitation equipment, roads, bridges, and other infrastructure, and water, sewer, gas, electric, telecommunication lines and equipment. This represents a net increase of \$7,085,333, or 9.96 percent, over last year.

The following is a summary of capital assets for fiscal years ended June 30, 2009 and 2008, for governmental and business-type activities.

	Government Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Governmental Activities:						
Land	\$ 2,524,821	\$ 2,524,820	\$ 1,074,992	\$ 1,074,962	\$ 3,599,813	\$ 3,599,782
Buildings	12,402,422	12,354,190	3,579,997	3,602,711	15,982,419	15,956,901
Improvements other than buildings	1,248,607	1,145,862	-	-	1,248,607	1,145,862
Machinery and equipment	7,144,896	6,812,545	104,398,711	98,893,469	111,543,607	105,706,014
Infrastructure	2,241,990	2,279,334	565,397	541,788	2,807,387	2,821,122
Total plane and equipment in service	\$ 25,562,736	\$ 25,116,751	\$ 109,619,097	\$ 104,112,930	\$ 135,181,833	\$ 129,229,681
Construction work in progress	2,114,523	129,891	4,937,491	3,146,143	7,052,014	3,276,034
	\$ 27,677,259	\$ 25,246,642	\$ 114,556,588	\$ 107,259,073	\$ 142,233,847	\$ 132,505,715
Less accumulated depreciation	(9,203,032)	(8,712,015)	(48,581,871)	(46,430,089)	(57,784,903)	(55,142,104)
Total Governmental Activities	\$ 18,474,227	\$ 16,534,627	\$ 65,974,717	\$ 60,828,984	\$ 84,448,944	\$ 77,363,611

DEBT ADMINISTRATION

Debt, considered a liability of governmental and business-type activities, increased in fiscal year 2009 by \$1,613,363. On June 15, 2009, the City issued \$10,100,000 in General Obligation Bonds to currently refund \$9,005,000 of bonded debt.

	Government Activities		Business-type Activities		Total Primary Government	
	2009	2008	2009	2008	2009	2008
Bonds						
General Obligation	\$ 1,915,000	\$ 925,000	\$ 8,185,000	\$ -	\$ 10,100,000	\$ 925,000
Revenue and tax	-	-	-	6,792,115	-	6,792,115
Revenue	-	-	24,155,000	25,780,000	24,155,000	25,780,000
Less deferred amounts	(29,811)	-	(92,268)	(186,430)	(122,079)	(186,430)
Total Bonds	\$ 1,885,189	\$ 925,000	\$ 32,247,732	\$ 32,385,685	\$ 34,132,921	\$ 33,310,685
Loans						
Tennessee municipal bond fund	\$ 187,000	\$ 273,000	\$ -	\$ -	\$ 187,000	\$ 273,000
Tennessee energy efficiency	173,448	-	-	-	173,448	-
Tennessee utility relocation loan	-	-	-	58,613	-	58,613
Bond anticipation note	-	-	807,292	-	807,292	-
RUS economic development loan	-	-	221,250	266,250	221,250	266,250
Total Loans	\$ 360,448	\$ 273,000	\$ 1,028,542	\$ 324,863	\$ 1,388,990	\$ 597,863
Totals	\$ 2,245,637	\$ 1,198,000	\$ 33,276,274	\$ 32,710,548	\$ 35,521,911	\$ 33,908,548

This debt payable for governmental activities does not include compensated absences of \$417,769, accrued landfill closing costs of \$269,513, and post-employment benefit obligation of \$159,407 as of June 30, 2009. The debt payable for business-type activities does not include compensated absences of \$800,605 and post-employment benefit obligation of \$76,103 as of June 30, 2009.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the last year, budget amendments approved by the board of Mayor and Alderman totaled \$534,084. These amendments include two major items: \$336,503 for the purchase of a new pumper truck for the fire department and \$143,000 for enhancing River Road. The skateboard park was finished during the 2008 – 2009 fiscal year and maintenance on the baby pool at the recreation center was completed. The City continues the policy of rewarding departments by returning one-half of their savings (budgeted expenses less actual expenditures) to their next year's budget to effectively manage their budgets.

As the City closed fiscal year 2009, the financial condition of the City is solid due to the management approach of the Board of Mayor and Alderman, administration, and the departments. This approach has resulted in a stable tax rate with only three tax increases since 1985.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The 2010 general fund budget was negatively impacted by the projected decrease due to the downturn in the economy. Personnel benefits, retirement and health insurance costs continue to escalate. The City has now taken an active role in trying to decrease health insurance cost by changing the employees to a high deductible plan with a health savings account to supplement the deductible. The City is hopeful this change will help control the increasing cost of health insurance. The City will spend a substantial amount on building an access road off highway 231/ 431. This access road will service a new hotel development in the City and a fast food restaurant. The City will also take on a street paving project in the fiscal year 2010. This project will include milling streets and repaving the streets. The City has also received a grant for bullet proof vests. The City has discontinued construction on the Greenway Trail, which was to connect South Elk Avenue to Stone Bridge Park.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 any questions about this report or need any additional financial information, contact the City Finance office at 110 South Elk Avenue, Fayetteville, Tennessee, 37334, phone number 931-433-6154, or e-mail tsteelman@fpunet.com.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 14,981,371	\$ 15,335,274	\$ 30,316,645
Accounts receivable	3,131,591	5,362,175	8,493,766
Internal balances	77,941	(77,941)	-
Inventory	46,765	1,895,532	1,942,297
Prepaid expenses	90,360	301,962	392,322
Restricted assets	939,326	12,949,417	13,888,743
Other assets	-	1,853,468	1,853,468
Capital assets (net of accumulated depreciation)			
Land	2,524,821	1,074,992	3,599,813
Buildings	7,858,694	2,217,131	10,075,825
Improvements other than buildings	936,445	-	936,445
Machinery and equipment	3,919,682	57,681,798	61,601,480
Infrastructure	1,120,062	63,305	1,183,367
Construction in progress	2,114,523	4,937,491	7,052,014
TOTAL ASSETS	<u>\$ 37,741,581</u>	<u>\$ 103,594,604</u>	<u>\$ 141,336,185</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 522,937	\$ 6,502,629	\$ 7,025,566
Accrued interest payable	-	152,339	152,339
Deferred revenues	2,008,515	-	2,008,515
Deposits	-	1,137,690	1,137,690
Liabilities payable from restricted assets			
Long-term debt	-	202,500	202,500
Accrued employee benefits	-	113,460	113,460
Accounts payable	765,669	-	765,669
Noncurrent liabilities:			
Due in one year	322,572	2,383,210	2,705,782
Due in more than one year	2,769,754	31,567,272	34,337,026
TOTAL LIABILITIES	<u>\$ 6,389,447</u>	<u>\$ 42,059,100</u>	<u>\$ 48,448,547</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 17,521,558	\$ 34,843,452	\$ 52,365,010
Restricted for:			
Debt service	-	5,856,867	5,856,867
Improvements and construction	939,326	29,773	969,099
Drug education and enforcement	91,052	-	91,052
Community development	441,565	-	441,565
Education	5,329,419	-	5,329,419
Unrestricted	7,029,214	20,805,412	27,834,626
TOTAL NET ASSETS	<u>\$ 31,352,134</u>	<u>\$ 61,535,504</u>	<u>\$ 92,887,638</u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF ACTIVITIES
CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2009

Function/ Program	PROGRAM REVENUES				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Changes in Net Assets	
					Governmental Activities	Business-type Activities
<u>Governmental activities:</u>						
General government	\$ 870,070	\$ 66,952	\$ -	\$ -	\$ (803,118)	\$ (803,118)
Public safety	3,563,177	-	357,545	-	(3,205,632)	(3,205,632)
Judicial	53,065	151,979	-	-	98,914	98,914
Recreation	574,620	50,974	-	42,179	(481,467)	(481,467)
Highways and streets	1,280,647	-	185,814	1,052,953	(41,880)	(41,880)
Sanitation	15,228	-	-	-	(15,228)	(15,228)
Housing and community development	974,007	251,847	6,330	381,113	(334,717)	(334,717)
Education	8,517,784	349,986	5,715,221	-	(2,452,577)	(2,452,577)
Interest on long-term debt	22,013	-	-	-	(22,013)	(22,013)
Total governmental activities	\$ 15,870,611	\$ 871,738	\$ 6,264,910	\$ 1,476,245	\$ (7,257,718)	\$ (7,257,718)
<u>Business-type activities:</u>						
Electric, telecom, water and gas	\$ 57,271,810	\$ 60,558,576	\$ -	\$ 675,789	\$ -	\$ 3,962,555
Sanitation	452,789	484,209	-	-	31,420	31,420
Total business-type activities	\$ 57,724,599	\$ 61,042,785	\$ -	\$ 675,789	\$ 3,993,975	\$ 3,993,975
Total Government	\$ 73,595,210	\$ 61,914,523	\$ 6,264,910	\$ 2,152,034	\$ (7,257,718)	\$ (3,263,743)
General revenues:						
Property taxes		\$ 2,840,644	\$ -	\$ -	\$ 2,840,644	\$ 2,840,644
Business taxes		201,662	-	-	201,662	201,662
In lieu of tax		364,838	-	-	364,838	364,838
Sales taxes		2,297,985	-	-	2,297,985	2,297,985
Alcoholic beverage taxes		461,021	-	-	461,021	461,021
Franchise taxes		86,602	-	-	86,602	86,602
Other local taxes		581	-	-	581	581
State shared revenues		617,735	-	-	617,735	617,735
Other		90,922	-	130,208	221,130	221,130
Unrestricted investment earnings		393,887	-	671,834	1,065,721	1,065,721
Transfers		1,044,040	-	(1,044,040)	-	-
Total general revenues and transfers		\$ 8,399,917	\$ (241,998)	\$ -	\$ 8,157,919	\$ 8,157,919
Change in net assets		1,142,199	-	3,751,977	4,894,176	4,894,176
Net assets - beginning, restated		30,209,935	-	57,783,527	87,993,462	87,993,462
Net assets - ending		\$ 31,352,134	\$ 61,535,504	\$ -	\$ 92,887,638	\$ 92,887,638

The accompanying notes are an integral part of this financial statement.

BALANCE SHEET
GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2009

	General	School General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash	\$ 4,984,621	\$ 5,274,806	\$ 4,721,944	\$ 14,981,371
Investments - restricted	939,326	-	-	939,326
Receivables	2,155,189	251	44,615	2,200,055
Due from other funds	77,941	90	589	78,620
Due from other governments	686,017	244,650	869	931,536
Inventory	25,606	-	21,159	46,765
Prepaid expenses	92,407	-	-	92,407
TOTAL ASSETS	<u>\$ 8,961,107</u>	<u>\$ 5,519,797</u>	<u>\$ 4,789,176</u>	<u>\$ 19,270,080</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 103,143	\$ 88,425	\$ 43,190	\$ 234,758
Other accrued expenses	44,377	213,715	27,307	285,399
Deferred revenue	2,458,891	78,137	70,527	2,607,555
Due to other funds	589	-	90	679
Payable from restricted assets	765,669	-	-	765,669
TOTAL LIABILITIES	<u>\$ 3,372,669</u>	<u>\$ 380,277</u>	<u>\$ 141,114</u>	<u>\$ 3,894,060</u>
Fund balances:				
Reserved for				
Inventory and prepayments	\$ 118,013	\$ -	\$ 21,159	\$ 139,172
FAST program	-	96,590	-	96,590
Career ladder	-	2,012	-	2,012
Public safety	-	-	91,052	91,052
Unreserved				
Designated for debt service	-	-	365,523	365,523
Designated for capital projects	-	-	3,584,899	3,584,899
Designated for health benefits	173,875	-	-	173,875
Unreserved, reported in:				
General fund	5,296,550	-	-	5,296,550
School general	-	5,040,918	-	5,040,918
Special revenue funds	-	-	143,864	143,864
Capital projects funds	-	-	441,565	441,565
TOTAL FUND BALANCES	<u>\$ 5,588,438</u>	<u>\$ 5,139,520</u>	<u>\$ 4,648,062</u>	<u>\$ 15,376,020</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,961,107</u>	<u>\$ 5,519,797</u>	<u>\$ 4,789,176</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

18,474,227

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

599,040

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

(3,097,153)

Net assets of governmental activities

\$ 31,352,134

The accompanying notes are an integral part of this financial statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS**

CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2009

	General	School General	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Property	\$ 1,963,560	\$ -	\$ -	\$ 1,963,560
Business	201,662	-	-	201,662
Wholesale beer	307,680	-	-	307,680
Alcoholic beverage	128,022	-	-	128,022
Sales	1,671,646	-	-	1,671,646
Tax equivalency	364,838	-	-	364,838
Licenses and permits	33,157	-	-	33,157
Fines	121,406	-	30,573	151,979
Franchise fees	76,520	-	-	76,520
Intergovernmental	1,447,539	6,300,732	1,011,254	8,759,525
Charges for services and use of property	285,642	165,204	202,320	653,166
Investment earnings	148,336	148,782	96,769	393,887
Recreation activities	50,974	-	-	50,974
Other revenue	51,426	18,544	15,576	85,546
TOTAL REVENUES	<u>\$ 6,852,408</u>	<u>\$ 6,633,262</u>	<u>\$ 1,356,492</u>	<u>\$ 14,842,162</u>
EXPENDITURES				
Current				
General government	\$ 738,968	\$ -	\$ 4,455	\$ 743,423
Public safety	3,380,253	-	12,540	3,392,793
Judicial	51,939	-	-	51,939
Recreation	521,891	-	-	521,891
Highways and streets	1,078,198	-	-	1,078,198
Sanitation	-	-	32,270	32,270
Housing and community development	966,486	-	-	966,486
Education	-	6,953,331	1,112,690	8,066,021
Debt service				
Principal	-	86,000	25,000	111,000
Interest	-	6,381	12,852	19,233
Bond issue costs	-	-	48,107	48,107
Capital outlay	894,048	342,530	668,256	1,904,834
TOTAL EXPENDITURES	<u>\$ 7,631,783</u>	<u>\$ 7,388,242</u>	<u>\$ 1,916,170</u>	<u>\$ 16,936,195</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES				
	<u>\$ (779,375)</u>	<u>\$ (754,980)</u>	<u>\$ (559,678)</u>	<u>\$ (2,094,033)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,016,040	\$ 674,231	\$ 1,449,697	\$ 3,139,968
Transfers out	(935,184)	(2,095)	(1,158,649)	(2,095,928)
Proceeds from disposition of capital assets	22,321	7,000	895	30,216
Debt issuance	-	-	2,088,448	2,088,448
Premium on bond issuance	-	-	18,296	18,296
Refunded bonds	-	-	(900,000)	(900,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 103,177</u>	<u>\$ 679,136</u>	<u>\$ 1,498,687</u>	<u>\$ 2,281,000</u>
NET CHANGE IN FUND BALANCES				
	<u>(676,198)</u>	<u>(75,844)</u>	<u>939,009</u>	<u>186,967</u>
Fund balance - beginning	6,071,530	5,215,364	3,709,053	14,995,947
Prior period adjustment	193,106	-	-	193,106
Fund balance - ending	<u>\$ 5,588,438</u>	<u>\$ 5,139,520</u>	<u>\$ 4,648,062</u>	<u>\$ 15,376,020</u>

The accompanying notes are an integral part of this financial statement.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2009

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

Net change in fund balances - total governmental funds	\$ 186,967
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 and reported as depreciation expense. This is the amount by which which capital outlays exceeded depreciation in the current period.	1,009,795
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	929,805
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	73,655
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the differences in the treatment of long-term debt and related items.	(1,047,637)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(10,386)
Change in net assets of governmental activities	<u><u>\$ 1,142,199</u></u>

The accompanying notes are an integral part of this financial statement.

**STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 CITY OF FAYETTEVILLE, TENNESSEE
 Year ended June 30, 2009**

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
<u>ASSETS</u>			
Current Assets			
Cash for general use	\$ 14,941,160	\$ 394,114	\$ 15,335,274
Accounts receivable	5,020,980	37,817	5,058,797
Other receivables	303,378	-	303,378
Inventories	1,895,532	-	1,895,532
Prepaid expenses	301,962	-	301,962
Total current assets	<u>\$ 22,463,012</u>	<u>\$ 431,931</u>	<u>\$ 22,894,943</u>
Restricted Funds	12,949,417	-	12,949,417
Capital Assets, net of accumulated depreciation	65,629,850	344,867	65,974,717
Other Assets	1,853,468	-	1,853,468
TOTAL ASSETS	<u>\$ 102,895,747</u>	<u>\$ 776,798</u>	<u>\$ 103,672,545</u>
<u>LIABILITIES</u>			
Current Liabilities			
Current maturities of long-term debt payable from current assets	\$ 2,157,500	\$ -	\$ 2,157,500
Accounts payable	5,689,786	21,431	5,711,217
Due to other funds	-	77,941	77,941
Customer deposits	1,137,690	-	1,137,690
Accrued interest	152,339	-	152,339
Other accrued liabilities	682,038	999	683,037
Total current liabilities	<u>\$ 9,819,353</u>	<u>\$ 100,371</u>	<u>\$ 9,919,724</u>
Other Liabilities			
Advances from TVA	\$ 334,085	\$ -	\$ 334,085
Long-term debt payable from restricted funds	202,500	-	202,500
Accrued employee benefits	113,460	-	113,460
OPEB liabilities, net	76,103	-	76,103
Compensated absences	568,353	6,542	574,895
Total Other Liabilities	<u>\$ 1,294,501</u>	<u>\$ 6,542</u>	<u>\$ 1,301,043</u>
Long-Term Debt	30,916,274	-	30,916,274
TOTAL LIABILITIES	<u>\$ 42,030,128</u>	<u>\$ 106,913</u>	<u>\$ 42,137,041</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 34,498,585	\$ 344,867	\$ 34,843,452
Restricted for debt service	5,856,867	-	5,856,867
Restricted for improvements and construction	29,773	-	29,773
Unrestricted	20,480,394	325,018	20,805,412
TOTAL NET ASSETS	<u>\$ 60,865,619</u>	<u>\$ 669,885</u>	<u>\$ 61,535,504</u>

The accompanying notes are an integral part of this financial statement.

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2009

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Funds	Totals
<u>OPERATING REVENUES</u>			
Charges for services	\$ 59,130,299	\$ 481,915	\$ 59,612,214
Other	1,428,277	2,294	1,430,571
TOTAL OPERATING REVENUE	<u>\$ 60,558,576</u>	<u>\$ 484,209</u>	<u>\$ 61,042,785</u>
<u>OPERATING EXPENSES</u>			
Cost of utility services	\$ 43,052,474	\$ -	\$ 43,052,474
Pumping, distribution and collection	5,344,086	418,743	5,762,829
Customer billing and collecting	1,296,769	-	1,296,769
General and administrative	2,116,508	-	2,116,508
Taxes and tax equivalents	313,117	-	313,117
Provision for depreciation	3,548,592	24,971	3,573,563
Other	305,188	-	305,188
TOTAL OPERATING EXPENSES	<u>\$ 55,976,734</u>	<u>\$ 443,714</u>	<u>\$ 56,420,448</u>
INCOME FROM OPERATIONS	<u>\$ 4,581,842</u>	<u>\$ 40,495</u>	<u>\$ 4,622,337</u>
<u>OTHER INCOME AND EXPENSE</u>			
Interest income	\$ 665,227	\$ 6,607	\$ 671,834
Interest expense	(1,186,330)	-	(1,186,330)
Amortization	(108,746)	-	(108,746)
Loss on disposal of capital assets	-	(9,075)	(9,075)
Miscellaneous	130,208	-	130,208
Other Income (Expense) -net	<u>\$ (499,641)</u>	<u>\$ (2,468)</u>	<u>\$ (502,109)</u>
Income before contributions and transfers	\$ 4,082,201	\$ 38,027	\$ 4,120,228
Capital contributions in aid of construction	675,789	-	675,789
Transfers out	<u>(906,040)</u>	<u>(138,000)</u>	<u>(1,044,040)</u>
CHANGE IN NET ASSETS	<u>\$ 3,851,950</u>	<u>\$ (99,973)</u>	<u>\$ 3,751,977</u>
TOTAL NET ASSETS, BEGINNING OF YEAR, RESTATED	<u>57,013,669</u>	<u>769,858</u>	<u>57,783,527</u>
NET ASSETS, END OF YEAR	<u><u>\$ 60,865,619</u></u>	<u><u>\$ 669,885</u></u>	<u><u>\$ 61,535,504</u></u>

The accompanying notes are an integral part of this financial statement.

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2009

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 60,852,309	\$ 485,376	\$ 61,337,685
Payments to suppliers and others	(47,416,604)	(248,599)	(47,665,203)
Payments to employees	(3,862,979)	(116,247)	(3,979,226)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,572,726</u>	<u>\$ 120,530</u>	<u>\$ 9,693,256</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Collections on loans to other organizations	\$ 45,000	\$ -	\$ 45,000
Transfers (to) from other funds	(906,040)	(138,000)	(1,044,040)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>\$ (861,040)</u>	<u>\$ (138,000)</u>	<u>\$ (999,040)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to capital assets, net	\$ (8,582,229)	\$ -	\$ (8,582,229)
Removal costs of capital assets	(356,141)	-	(356,141)
Capital contributions received	675,789	-	675,789
Proceeds from disposal of assets	32,936	-	32,936
Long-term borrowings, net	2,560,177	-	2,560,177
Borrowings repaid	(2,168,613)	-	(2,168,613)
Interest paid, net	(1,195,317)	-	(1,195,317)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>\$ (9,033,398)</u>	<u>\$ -</u>	<u>\$ (9,033,398)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	\$ 680,840	\$ 6,607	\$ 687,447
Other nonoperating income, net	113,095	-	113,095
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 793,935</u>	<u>\$ 6,607</u>	<u>\$ 800,542</u>
INCREASE (DECREASE) IN CASH, NET	472,223	(10,863)	461,360
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,418,354	404,977	27,823,331
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 27,890,577</u>	<u>\$ 394,114</u>	<u>\$ 28,284,691</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 4,581,842	\$ 40,495	\$ 4,622,337
Adjustments to reconcile income from operations to net cash provided by operating activities -			
Depreciation, including amounts capitalized	3,789,121	24,971	3,814,092
Loss on disallowance of plant	473,841	-	473,841
Conservation loans advanced - customers	(213,882)	-	(213,882)
Conservation loans collected - customers	86,883	-	86,883
Conservation advances from TVA	236,321	-	236,321
Conservation advances repaid to TVA	(98,235)	-	(98,235)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	818,902	1,167	820,069
Inventories	212,733	-	212,733
Prepaid expenses and other assets	(379,257)	-	(379,257)
Accounts payable	(238,864)	3,103	(235,761)
Customer deposits	43,340	-	43,340
Due to other funds	-	48,772	48,772
Other current liabilities and compensated absences	259,981	2,022	262,003
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 9,572,726</u>	<u>\$ 120,530</u>	<u>\$ 9,693,256</u>
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:			
Gas and Water series A-6-B, A-9-B, and Z-3-A revenue bonds refunded	\$ (8,105,000)		
Series 2009 bond proceeds used to refund A-6-B, A-9-B, and Z-3-A bonds	8,185,000		
Issue costs paid from Series 2009 refunding bonds	(195,772)		

The accompanying notes are an integral part of this financial statement.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2009

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes				
Property	\$ 1,830,000	\$ 1,830,000	\$ 1,963,560	\$ 133,560
Business	205,000	205,000	201,662	(3,338)
Wholesale beer	290,000	290,000	307,680	17,680
Alcoholic beverage	130,000	130,000	128,022	(1,978)
Sales	1,635,000	1,635,000	1,671,646	36,646
Tax equivalency	360,674	360,674	364,838	4,164
Licenses and permits	28,000	28,000	33,157	5,157
Fines	100,000	100,000	121,406	21,406
Franchise fees	80,000	80,000	76,520	(3,480)
Intergovernmental				
State sales tax allocation	517,000	517,000	465,474	(51,526)
State income tax allocation	75,000	75,000	48,778	(26,222)
State beer tax allocation	3,700	3,700	3,676	(24)
State mixed drink tax allocation	22,000	22,000	23,915	1,915
State gasoline and motor fuel tax allocation	202,000	202,000	185,281	(16,719)
State city streets and transportation system	15,275	15,275	15,143	(132)
State excise tax allocation	43,000	43,000	71,097	28,097
Lincoln County Emergency Communication:	381,885	381,885	253,062	(128,823)
Federal grant funds	375,000	375,000	381,113	6,113
Charges for services and use of property	353,000	353,000	285,642	(67,358)
Investment earnings	118,251	118,251	148,336	30,085
Recreation activities	48,000	48,000	50,974	2,974
Other revenue	57,550	57,550	51,426	(6,124)
TOTAL REVENUES	<u>\$ 6,870,335</u>	<u>\$ 6,870,335</u>	<u>\$ 6,852,408</u>	<u>\$ (17,927)</u>
Expenditures:				
General government				
Salaries	\$ 388,318	\$ 378,842	\$ 378,842	\$ -
Supplies	10,685	8,785	8,785	-
Utilities	35,050	40,834	40,834	-
Repairs and maintenance	5,950	6,612	6,612	-
Health insurance	111,955	62,668	62,668	-
Workers compensation	4,156	4,556	4,556	-
Payroll taxes	32,317	30,718	30,718	-
Employee education	13,825	6,125	6,125	-
Professional services	33,300	42,865	42,865	-
Travel	22,250	10,434	10,434	-
Retirement	31,284	28,397	28,397	-
Other insurance	17,919	17,754	17,754	-
Purchasing	52,099	6,138	6,138	-
Other general government	91,169	94,240	94,240	-
	<u>\$ 850,277</u>	<u>\$ 738,968</u>	<u>\$ 738,968</u>	<u>\$ -</u>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND (CONT'D)**

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Public safety				
Salaries	\$ 2,112,366	\$ 2,203,005	\$ 2,203,005	\$ -
Supplies	34,350	32,068	32,068	-
Utilities	82,875	80,936	80,936	-
Repairs and maintenance	30,400	23,040	23,040	-
Health insurance	331,798	342,974	342,974	-
Workers compensation	44,410	63,770	63,770	-
Payroll taxes	165,321	164,894	164,894	-
Employee education	12,750	11,720	11,720	-
Travel	7,300	3,774	3,774	-
Retirement	176,615	176,678	176,678	-
Other insurance	53,100	58,711	58,711	-
Fuel	88,500	61,869	61,869	-
Purchasing	-	26,574	26,574	-
Garage	-	84,087	84,087	-
Other public safety	55,859	46,153	46,153	-
	<u>\$ 3,195,644</u>	<u>\$ 3,380,253</u>	<u>\$ 3,380,253</u>	<u>\$ -</u>
Judicial				
Salaries	\$ 28,183	\$ 27,065	\$ 27,065	\$ -
Health insurance	15,926	18,248	18,248	-
Payroll taxes	2,196	1,552	1,552	-
Retirement	2,320	2,227	2,227	-
Other judicial	2,786	2,847	2,847	-
	<u>\$ 51,411</u>	<u>\$ 51,939</u>	<u>\$ 51,939</u>	<u>\$ -</u>
Recreation				
Salaries	\$ 251,062	\$ 250,399	\$ 250,399	\$ -
Supplies	32,950	29,430	29,430	-
Utilities	49,075	56,481	56,481	-
Repairs and maintenance	20,225	15,869	15,869	-
Health insurance	38,489	38,489	38,489	-
Workers compensation	5,111	5,750	5,750	-
Payroll taxes	20,025	19,410	19,410	-
Professional services	22,550	22,835	22,835	-
Travel	1,775	2,089	2,089	-
Retirement	18,609	19,388	19,388	-
Other insurance	9,669	10,062	10,062	-
Fuel	15,240	9,657	9,657	-
Other recreation	31,399	42,032	42,032	-
	<u>\$ 516,179</u>	<u>\$ 521,891</u>	<u>\$ 521,891</u>	<u>\$ -</u>

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND (CONT'D)
CITY OF FAYETTEVILLE, TENNESSEE
For the year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Highways and streets				
Salaries	\$ 513,592	\$ 472,312	\$ 472,312	\$ -
Supplies	12,925	13,848	13,848	-
Utilities	25,200	27,683	27,683	-
Repairs and maintenance	23,700	28,150	28,150	-
Health insurance	105,185	119,310	119,310	-
Workers compensation	15,683	22,111	22,111	-
Payroll taxes	39,690	34,989	34,989	-
Professional services	1,000	-	-	-
Retirement	42,269	37,453	37,453	-
Other insurance	7,780	8,466	8,466	-
Fuel	58,000	45,092	45,092	-
Street lighting	142,000	157,654	157,654	-
Garage	204,031	67,270	67,270	-
Roads and streets	150,000	16,861	16,861	-
Other highways and streets	23,545	26,999	26,999	-
	<u>\$ 1,364,600</u>	<u>\$ 1,078,198</u>	<u>\$ 1,078,198</u>	<u>\$ -</u>
Housing and community development				
Nonprofit allocations	\$ 194,567	\$ 195,884	\$ 195,884	\$ -
Home grant	375,000	381,113	381,113	-
Fuel	309,500	240,574	240,574	-
Industrial development	90,000	90,000	90,000	-
Other housing and community development	14,155	58,915	58,915	-
	<u>\$ 983,222</u>	<u>\$ 966,486</u>	<u>\$ 966,486</u>	<u>\$ -</u>
Capital outlay	<u>\$ -</u>	<u>\$ 894,048</u>	<u>\$ 894,048</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ 6,961,333</u>	<u>\$ 7,631,783</u>	<u>\$ 7,631,783</u>	<u>\$ -</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (90,998)</u>	<u>\$ (761,448)</u>	<u>\$ (779,375)</u>	<u>\$ (17,927)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,005,916	\$ 1,005,916	\$ 1,016,040	\$ 10,124
Transfers out	(942,231)	(942,231)	(935,184)	7,047
Sale of capital assets	20,000	20,000	22,321	2,321
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 83,685</u>	<u>\$ 83,685</u>	<u>\$ 103,177</u>	<u>\$ 19,492</u>
NET CHANGE IN FUND BALANCES	<u>(7,313)</u>	<u>(677,763)</u>	<u>(676,198)</u>	<u>1,565</u>
Fund balance - beginning, restated	6,264,636	6,264,636	6,264,636	-
Fund balance - ending	<u>\$ 6,257,323</u>	<u>\$ 5,586,873</u>	<u>\$ 5,588,438</u>	<u>\$ 1,565</u>

The accompanying notes are in integral part of these financial statements.

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SCHOOL GENERAL FUND**

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2009

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Intergovernmental				
Lincoln County	\$ 1,441,900	\$ 1,441,900	\$ 1,542,176	\$ 100,276
State of Tennessee	4,669,590	4,669,590	4,728,739	59,149
Federal	23,750	23,750	29,817	6,067
Charges for services and use of property	205,365	205,365	165,204	(40,161)
Investment earnings	120,000	120,000	148,782	28,782
Other revenue	11,000	11,000	18,544	7,544
TOTAL REVENUES	<u>\$ 6,471,605</u>	<u>\$ 6,471,605</u>	<u>\$ 6,633,262</u>	<u>\$ 161,657</u>
EXPENDITURES				
Instruction				
Regular instruction program	\$ 3,899,364	\$ 3,902,364	\$ 3,732,928	\$ 169,436
Special education program	343,506	343,506	305,403	38,103
Support services				
Attendance	57,580	57,580	55,674	1,906
Health services	162,903	162,903	148,472	14,431
Other student support	185,147	185,147	177,722	7,425
Regular instruction program	399,701	407,201	379,141	28,060
Special education program	40,575	40,575	40,548	27
Board of education	157,495	157,495	135,064	22,431
Office of the superintendent	162,813	162,813	153,895	8,918
Office of the principal	545,526	545,526	526,825	18,701
Fiscal services	98,743	98,743	94,444	4,299
Operation of plant	556,432	556,432	494,547	61,885
Maintenance of plant	135,481	135,481	102,681	32,800
Transportation	212,846	212,846	180,563	32,283
Community services	194,339	194,339	141,426	52,913
Early childhood education	289,263	289,263	283,998	5,265
Debt service				
Principal	86,000	86,000	86,000	-
Interest	13,000	13,000	6,381	6,619
Capital outlay	125,000	364,500	342,530	21,970
TOTAL EXPENDITURES	<u>\$ 7,665,714</u>	<u>\$ 7,915,714</u>	<u>\$ 7,388,242</u>	<u>\$ 527,472</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,194,109)</u>	<u>\$ (1,444,109)</u>	<u>\$ (754,980)</u>	<u>\$ 689,129</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 674,231	\$ 674,231	\$ 674,231	\$ -
Transfers out	-	-	(2,095)	(2,095)
Sale of capital assets	-	2,500	7,000	4,500
Total Other Financing Sources (Uses)	<u>\$ 674,231</u>	<u>\$ 676,731</u>	<u>\$ 679,136</u>	<u>\$ 2,405</u>
Net changes in fund balances	(519,878)	(767,378)	(75,844)	691,534
Fund balance - beginning	5,215,364	5,215,364	5,215,364	-
Fund balance - ending	<u>\$ 4,695,486</u>	<u>\$ 4,447,986</u>	<u>\$ 5,139,520</u>	<u>\$ 691,534</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO FINANCIAL STATEMENTS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Fayetteville, Tennessee (the "City") have been prepared in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America. GAAP include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The financial statements have incorporated all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on accounting procedures issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

(A) Reporting Entity

The City of Fayetteville, Tennessee is a municipal corporation governed by an elected mayor and a six member board of aldermen. The accompanying financial statements present only the City of Fayetteville. There are no component units for which the City is considered financially accountable to be blended in accordance with GASB Statement No. 14, The Financial Reporting Entity.

(B) Basic Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes as well as utility charges provided to City departments. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Separate fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

GASB Statement No. 34, Basic Financial Statements and Management Discussion and Analysis for State and Local Governments, sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either the fund category or the governmental and enterprise funds combined) for the determination of major funds. The nonmajor funds are combined in the "Other Governmental Funds" column in the fund financial statements and detailed in the supplementary section.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

1. Economic Resources Measurement Focus and Accrual Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. This means that revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Fayetteville Public Utilities are charges to customers for sales and services related to utilities. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and overheads, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (cont'd)

2. Modified Accrual

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. "Available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within thirty (30) days of the end of the current fiscal period. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they are imposed. If the period of use is not specified, they are recognized as revenue when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include debt service expenditures as well as expenditures related to compensated absences which are recorded only when payment is due.

In applying the "susceptible to accrual" concept to intergovernmental revenues pursuant to GASB Statement No. 33, Accounting and Financial Reporting for Nonexchange Transactions as amended by GASB Statement No 35, Recipient Reporting of Certain Shared Nonexchange Revenues (the City may act as either provider or recipient), the provider should recognize liabilities and expenses and the recipient should recognize receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met should, under most circumstances, be reported as advances by the provider and deferred revenue by the recipient.

The government reports the following major governmental funds:

The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The general school special revenue fund accounts for the financial resources used for general education activities.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation (cont'd)

2. Modified Accrual (cont'd)

The government reports the following major proprietary funds:

The Fayetteville Public Utilities (FPU) fund accounts for the activities of the electric, gas, water and sewer, and telecommunications divisions.

The Sanitation Fund accounts for the activities of the City's garbage collection and disposal.

(D) Assets, Liabilities and Fund Equity

1. Cash and cash equivalents

Cash and cash equivalents represents all investments that are short term, highly liquid, and readily convertible to a specified cash value. These investments generally have original maturities of three months or less. Cash equivalents consist of cash in bank and on hand.

2. Investments

Investments are stated at cost which approximates fair value.

3. Interfund Receivables and Payables

During the course of operations, transactions occur between individual funds that may result in amounts owed between funds. Short-term interfund loans are reported as "due to and from other funds." Due to and from other funds are eliminated in the Statement of Net Assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Receivables

Receivables consist of trade receivables, due from other governments and interest receivable and are recorded net of allowance for doubtful accounts. The allowance is based on historical collection experience and a review of the current status of the existing receivables.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(D) Assets, Liabilities and Fund Equity (cont'd)

5. Inventory

Inventories are comprised of materials and supplies and natural gas utility reserves. Cost for materials and supplies is determined substantially by the moving average method of inventory valuation. Natural gas utility reserves are stated at the lower of cost or market.

6. Restricted Assets

Governmental Activities – The City maintains a separate account for deposits in a local government investment pool for the City's portion of the cost of a bridge widening project. The balance of this account at June 30, 2009, is \$939,326. This amount has been classified as restricted on the statement of net assets and governmental funds balance sheet.

Business-type Activities - Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants. Other funds are designated for specific purposes either by the enterprise fund board or by management. Those include funds for equipment, system improvements and employee benefits.

7. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, and infrastructure assets (e.g., roads, bridges, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets used in governmental-type activities are defined by the City as assets with an initial, individual cost of more than \$5,000 (\$25,000 for buildings) and an estimated useful life in excess of one year. Capital assets used in business-type activities are defined as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost, if purchased, and at fair market value at date of gift, if donated.

Major additions are capitalized while maintenance and repairs that do not improve or extend the life of the respective assets are charged to expense.

Capital assets depreciation is recognized using the straight line method over the estimated useful lives as follows:

<u>Classification</u>	<u>Range of Lives</u>
Buildings	20-40 years
Public domain infrastructure	40-50 years
Improvements other than building	10-20 years
Machinery, equipment and other	5-15 years

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(D) Assets, Liabilities and Fund Equity (cont'd)

8. Compensated Absences

The City's policies regarding leave time permit employees to accumulate earned but unused vacation leave and sick leave benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements, while the proprietary funds report the liability as it is incurred.

9. Long-Term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bonds payable are recorded net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the life of the related debt. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a method that approximates the interest method. In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as debt issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Included in general fund designated fund balance are amounts set aside to pay postemployment health benefits totaling \$173,875. Also, at June 30, 2009, \$3,584,899 was set aside in capital projects funds to fund capital projects as well as \$365,523 for debt service.

11. Estimates

In preparing the City of Fayetteville's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(D) Assets, Liabilities and Fund Equity (cont'd)

12. Capitalized Interest

Interest cost incurred, net of interest earned, on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest expense of \$24,829 was capitalized during the year ended June 30, 2009.

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(A) Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that “long-term liabilities, including bonds and loans payable are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$3,097,153 difference are identified as follows:

Bonds and notes payable	\$ 2,275,448
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(48,107)
Add: Issuance premium (to be amortized as Interest income)	18,296
Accrued interest payable	2,780
Compensated absences	417,769
Net OPEB obligation	161,454
Landfill post closure costs	<u>269,513</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 3,097,153</u>

(B) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that “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 and reported as depreciation expense.” The details of this \$1,009,795 difference are as follows:

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

(B) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (cont'd)

Capital outlay	\$ 1,790,147
Depreciation expense	<u>(780,352)</u>
 Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 1,009,795</u>

Another element of that reconciliation explains that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$(10,386) difference are as follows:

Compensated absences	\$ (145,684)
Net OPEB obligation	161,454
Accrued interest	2,781
Landfill post closure costs	<u>(8,165)</u>
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ (10,386)</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of this \$929,805 difference are as follows:

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	\$ (123,148)
 Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	 <u>1,052,953</u>
 Net adjustment to increase net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 929,805</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONT'D)

(B) Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities. (cont'd)

Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$1,047,637 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation bonds	\$ 1,915,000
Bond issuance costs	(48,107)
Add premium	18,296
Energy efficiency loan	173,448
Principal repayment on general obligation debt	(111,000)
Current refunding of general obligation debt	<u>(900,000)</u>
 Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 1,047,637</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The City follows the procedures below in establishing the budgetary data reflected in the financial statements:

1. Prior to May 1, the City Administrator submits to the Board of Aldermen a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally enacted through passage of an ordinance.
4. The City Administrator is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Board of Mayor and Aldermen.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, and Other Governmental Funds including: Special Revenue Funds, Debt Service, and Capital Projects Funds.
6. Budgets for the General and Other Governmental Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONT'D)

Budgeted amounts are as originally adopted, or as amended by the City Board of Mayor and Aldermen.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

(A) Deposits and investments

The following is a summary of cash and investments as of June 30, 2009:

General use:			
On deposit and on hand		\$ 29,412,849	
On hand		3,804	
U.S Government securities		899,992	\$ 30,316,645
Restricted:			
On deposit		12,949,417	
Local Government Investment Pool (LGIP)		939,326	13,888,743
Total			<u>\$ 44,205,388</u>

The restricted assets shown on deposit above are maintained in the City's Fayetteville Public Utilities enterprise fund. These assets represent amounts which are required to be maintained pursuant to ordinances relating to bond indebtedness (construction, reserve and sinking funds), and amounts restricted by the Board of the enterprise fund for designated purposes. At June 30, 2009, the following restricted funds were maintained;

Externally restricted:			
Sinking and reserve fund			\$ 3,628,077
Renewal and extension fund			2,228,790
Improvements and construction fund			<u>1,229,773</u>
			\$ 7,086,640
Other board restricted funds			<u>5,862,777</u>
Total			<u>\$ 12,949,417</u>

Legal provisions - State law limits investments by municipalities to federal obligations, certain other federally guaranteed obligations, certificates of deposit, the Local Government Investment Pool (LGIP) and certain other highly rated instruments. The City has no investment policy that would further limit its investment choices.

Interest rate risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment or a deposit. The City's risk is mitigated through the limited maturities of investments and time deposits.

Credit risk: This is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. U.S. obligations are implicitly guaranteed by the U.S. government and therefore not considered to have credit risk. Governmental accounting standards require disclosure of credit quality ratings for external investment pools; however, the Local Government Investment Pool is unrated.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 4 - DETAILED NOTES ON ALL FUNDS (CONT'D)

(A) Deposits and investments (cont'd)

Custodial credit risk – deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At June 30, 2009, certain deposits are held in financial institutions, which are members of the Tennessee Bank Collateral Pool (the pool). The pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. Other deposits are adequately insured either by collateral securities held by the City's agent in the City's name or Federal Depository Insurance.

At June 30, 2009, the City's cash consists of deposits in financial institutions with bank balances of \$42,820,539 and carrying amounts of \$42,362,266 plus cash on hand of \$3,804. Of the amounts on deposit, \$30,566,402 are fully insured by the FDIC or the Tennessee Bank Collateral Pool. The remaining \$11,795,864 is collateralized by securities pledged by financial institutions in the name of the City.

Custodial credit risk – investments – For an investment, this is the risk that, in the event of the failure of a counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City does not have an investment policy for custodial credit risk. None of the City's investments are considered exposed to custodial credit risk.

(B) Receivables

Revenues of the Fayetteville Public Utilities are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$261,817.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Property taxes receivable	\$ 2,005,917	\$ -	\$ 2,005,917
Other taxes receivable	320,274	-	320,274
Operating grants received but unspent	-	22,847	22,847
Capital grants received but unspent	-	16,198	16,198
Other	210,837	31,482	242,319
	<u>\$ 2,537,028</u>	<u>\$ 70,527</u>	<u>\$ 2,607,555</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 4 - DETAILED NOTES ON ALL FUNDS (CONT'D)

(B) Receivables (cont'd)

Receivables at year end for the government's individual major funds and nonmajor funds in the aggregate, including applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>School General</u>	<u>Fayetteville Public Utilities</u>	<u>Sanitation Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Receivables:						
Interest	\$ 38,209	\$ -	\$ 9,616	\$ -	\$ 32,684	\$ 80,509
Taxes	2,116,281	-	5,334,130	37,817	-	7,488,228
Accounts	35,853	251	-	-	11,931	48,035
Intergovernmental	<u>686,018</u>	<u>244,650</u>	<u>-</u>	<u>-</u>	<u>869</u>	<u>931,537</u>
Gross receivables	\$2,876,361	\$ 244,901	\$ 5,343,746	\$ 37,817	\$ 45,484	\$ 8,548,309
Less: Allowance for Uncollectibles	<u>(35,155)</u>	<u>-</u>	<u>(19,388)</u>	<u>-</u>	<u>-</u>	<u>(54,543)</u>
Net total receivables	<u>\$2,841,206</u>	<u>\$ 244,901</u>	<u>\$ 5,324,358</u>	<u>\$ 37,817</u>	<u>\$ 45,484</u>	<u>\$ 8,493,766</u>

(C) Capital assets

Capital asset activity for the year ended June 30, 2009 for governmental activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,524,821	\$ -	\$ -	\$ 2,524,821
Construction in progress	<u>129,891</u>	<u>2,084,555</u>	<u>(99,923)</u>	<u>2,114,523</u>
Total capital assets, not being depreciated	\$ 2,654,712	\$ 2,084,555	\$ (99,923)	\$ 4,639,344
Capital assets, being depreciated:				
Buildings	\$ 12,354,190	\$ 48,232	\$ -	\$ 12,402,422
Improvements other than buildings	1,145,861	102,746	-	1,248,607
Machinery and equipment	6,812,545	677,967	(345,616)	7,144,896
Infrastructure	<u>2,279,334</u>	<u>29,523</u>	<u>(66,867)</u>	<u>2,241,990</u>
Total capital assets being depreciated	\$ 22,591,930	\$ 858,468	\$ (412,483)	\$ 23,037,915
Less accumulated depreciation for:				
Buildings	\$ (4,283,669)	\$ (260,059)	\$ -	\$ (4,543,728)
Improvements other than buildings	(287,964)	(47,103)	22,905	(312,162)
Machinery and equipment	(3,070,211)	(417,441)	262,438	(3,225,214)
Infrastructure	<u>(1,070,171)</u>	<u>(55,749)</u>	<u>3,992</u>	<u>(1,121,928)</u>
Total accumulated depreciation	\$ (8,712,015)	\$ (780,352)	\$ 289,335	\$ (9,203,032)
Total capital assets, being depreciated, net	\$ 13,879,915	\$ 78,116	\$ (123,148)	\$ 13,834,883
Governmental activities capital assets, net	<u>\$ 16,534,627</u>	<u>\$ 2,162,671</u>	<u>\$ (223,071)</u>	<u>\$ 18,474,227</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONT'D)

(C) Capital assets (cont'd)

Depreciation expense was charged to government functions / programs as follows:

Governmental Activities		
General government		\$ 30,978
Public safety		158,895
Recreation		61,554
Highways and streets		160,919
Housing and community development		7,521
Education		<u>360,485</u>
Total depreciation expense – governmental activities		<u>\$ 780,352</u>

Capital asset activity for the year ended June 30, 2009 for business-type activities is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,074,962	\$ 30	\$ -	\$ 1,074,992
Construction in progress	<u>3,146,143</u>	<u>7,287,691</u>	<u>(5,496,343)</u>	<u>4,937,491</u>
Total capital assets, not being depreciated	<u>\$ 4,221,105</u>	<u>\$ 7,287,721</u>	<u>\$ (5,496,343)</u>	<u>\$ 6,012,483</u>
Capital assets, being depreciated				
Structures and improvements	\$ 3,602,711	\$ 97,331	\$ (120,045)	\$ 3,579,997
Machinery and equipment	99,612,967	6,274,594	(1,488,850)	104,398,711
Infrastructure	<u>541,788</u>	<u>58,324</u>	<u>(34,715)</u>	<u>565,397</u>
Total capital assets being depreciated	<u>\$ 103,757,466</u>	<u>\$ 6,430,249</u>	<u>\$ (1,643,610)</u>	<u>\$ 108,544,105</u>
Less accumulated depreciation for:				
Structures and improvements	\$ (1,298,706)	\$ (70,400)	\$ 6,240	\$ (1,362,866)
Machinery and equipment	(44,853,107)	(3,677,239)	1,813,433	(46,716,913)
Infrastructure	<u>(477,581)</u>	<u>(66,453)</u>	<u>41,942</u>	<u>(502,092)</u>
Total accumulated depreciation	<u>\$ (46,629,394)</u>	<u>\$ (3,814,092)</u>	<u>\$ 1,861,615</u>	<u>\$ (48,581,871)</u>
Total capital assets, being depreciated, net	<u>\$ 57,128,072</u>	<u>\$ 2,616,157</u>	<u>\$ 218,005</u>	<u>\$ 59,962,234</u>
Business-type activities capital assets, net	<u>\$ 61,349,177</u>	<u>\$ 9,903,878</u>	<u>\$ (5,278,338)</u>	<u>\$ 65,974,717</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONT'D)

(C) Capital assets (cont'd)

Depreciation expense was charged to business-type activities of the government as follows:

Business-type Activities	
Public utilities	\$ 3,789,121
Sanitation fund	<u>24,971</u>
Total depreciation expense – business-type activities	<u>\$ 3,814,092</u>

The amount of \$240,529 of electric division depreciation expense related to transportation equipment is allocated to utility plant and operating expenses based on usage.

Construction commitments

The City's Fayetteville Public Utilities (FPU) enterprise fund had outstanding construction contract commitments totaling \$896,026. In addition, FPU's water and sewer division has an active construction project commitment for the relocation of water and sewer lines due to a highway construction project which it expects to partially finance through the Tennessee Department of Transportation (TDOT) Utility Relocation Loan Program as described in Note 6(D). TDOT is funding the project costs through completion at which time the FPU will reimburse TDOT through the loan program and other financing sources. At June 30, 2009, TDOT had incurred approximately \$2,779,871 in costs for this project.

(D) Interfund receivables, payables, and transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be liquidated within one year. The composition of interfund balances as of June 30, 2009, is as follows:

	Due from			<u>Total</u>
	<u>General Fund</u>	Other <u>Governmental Funds</u>	<u>Sanitation Fund</u>	
Due to:				
General fund	\$ -	\$ -	\$ 77,941	\$ 77,941
Other governmental funds	589	-	-	589
School general fund	-	90	-	90
	<u>\$ 589</u>	<u>\$ 90</u>	<u>\$ 77,941</u>	<u>\$ 78,620</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 4 – DETAILED NOTES ON ALL FUNDS (CONT'D)

(D) Interfund receivables, payables, and transfers (cont'd)

Transfers are used to move receipts for funding of capital projects and to finance various programs accounted for in other funds using unrestricted revenues collected in the general fund in accordance with budgetary authorizations. The following is a schedule of interfund transfers of governmental funds for the year ended June 30, 2009:

	Transfers In			<u>Total</u>
	<u>General Fund</u>	<u>School General Fund</u>	<u>Other Governmental Funds</u>	
Transfers Out:				
General fund	\$ -	\$ 674,231	\$ 260,953	\$ 935,184
School general fund	-	-	2,095	2,095
Other governmental funds	-	-	<u>1,158,649</u>	<u>1,158,649</u>
Subtotal – governmental funds	<u>\$ -</u>	<u>\$ 674,231</u>	<u>\$ 1,421,697</u>	<u>\$ 2,095,928</u>
Fayetteville Public Utilities	\$ 906,040	\$ -	\$ -	\$ 906,040
Sanitation fund	<u>110,000</u>	<u>-</u>	<u>28,000</u>	<u>138,000</u>
Subtotal – proprietary funds	<u>\$ 1,016,040</u>	<u>\$ -</u>	<u>\$ 28,000</u>	<u>\$ 1,044,040</u>
	<u>\$ 1,016,040</u>	<u>\$ 674,231</u>	<u>\$ 1,449,697</u>	<u>\$ 3,139,968</u>

Significant nonroutine transfers included \$1,158,649 transferred from the debt service fund to the internal capital projects fund. These amounts originated with the current refunding of existing bonds and were then transferred to fund future capital projects.

NOTE 5 - PROPERTY TAXES

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable October 1. Property taxes become delinquent March 1 of the following year.

NOTE 6 – LONG-TERM DEBT

(A) General Obligation Bonds

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

General obligation bonds currently outstanding are as follows:

Series 2009, \$10,100,000 general obligation bonds, issued June 2009 to refund revenue bonds totaling \$8,105,000 and general obligation bonds totaling \$915,000 maturing serially at annual interest rates ranging from 3.00% to 4.125% with final maturity in 2025. The bonds are subject to redemption prior to maturity beginning in 2018 at a redemption price of 100%.

\$10,100,000

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 6 – LONG-TERM DEBT (CONT'D)

(A) General Obligation Bonds (cont'd)

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year ending <u>June 30,</u>	Total <u>Bonds</u>	Total <u>Interest</u>	Year Ending <u>June 30,</u>	Total <u>Bonds</u>	Total <u>Interest</u>
2010	\$ 535,000	\$ 324,712	2019	\$ 785,000	\$ 145,948
2011	635,000	321,798	2020	780,000	120,437
2012	660,000	302,751	2021	460,000	93,136
2013	690,000	282,948	2022	465,000	76,464
2014	710,000	262,249	2023	480,000	59,026
2015	710,000	240,951	2024	480,000	39,826
2016	730,000	219,652	2025	<u>500,000</u>	<u>20,626</u>
2017	730,000	197,748		<u>\$ 10,100,000</u>	<u>\$ 2,880,474</u>
2018	750,000	172,202			

(B) Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of these outstanding revenue bonds issued in prior years was \$33,060,000. Revenue bonds outstanding at June 30, 2009 are as follows:

Fayetteville Public Utilities (Electric Division):

Series 1998, \$2,500,000 revenue bonds, maturing serially at annual interest rates ranging from 4.50% to 4.60% with final maturity in 2012. The bonds are subject to redemption prior to maturity beginning 2005 through 2011 at redemption prices ranging from 101% to 102%. \$ 680,000

Series 2001, \$4,500,000 revenue bonds, maturing serially at annual interest rates ranging from 4.20% to 4.35% with final maturity in 2012. The bonds are subject to redemption prior to maturity beginning 2006 through 2010 at redemption prices ranging from 101% to 102%. 2,310,000

Series 2003, \$10,550,000 revenue bonds, maturing serially at variable interest rates which are now reset weekly (currently .630%) with final maturity in 2024. The bonds are subject to redemption prior to maturity at a redemption price of 100%. 7,050,000

Series 2007 Revenue bonds in the original amount of \$9,950,000 issued in December 2007. The bonds mature serially at annual interest rates ranging from 4.00% to 4.25% with final maturity in 2028. The bonds are subject to redemption prior to maturity at a redemption price of 100%. 9,950,000

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 6 – LONG-TERM DEBT (CONT'D)

(B) Revenue Bonds (cont'd)

Fayetteville Public Utilities (Telecom Division):

Series 2000, \$5,560,000 Revenue bonds, maturing serially at annual interest rates ranging from 6.4% to 6.5% with final maturity in 2020.

The bonds are subject to redemption prior to maturity beginning 2008 through 2010 at redemption prices ranging from 100.5% to 101%.

	\$ 4,165,000
Total revenue bonds	<u>\$ 24,155,000</u>

Revenue bond debt service requirements to maturity are as follows:

<u>Year ending</u> <u>June 30,</u>	<u>Total</u> <u>Bonds</u>	<u>Total</u> <u>Interest</u>	<u>Year Ending</u> <u>June 30,</u>	<u>Total</u> <u>Bonds</u>	<u>Total</u> <u>Interest</u>
2010	\$1,810,000	\$ 857,062	2020	\$ 955,000	\$ 462,603
2011	1,975,000	810,685	2021	1,250,000	426,930
2012	2,130,000	750,583	2022	1,300,000	392,937
2013	650,000	659,912	2023	1,375,000	356,519
2014	675,000	636,739	2024	1,450,000	317,483
2015	720,000	611,930	2025	1,525,000	276,050
2016	770,000	585,662	2026	1,600,000	212,762
2017	795,000	557,625	2027	1,675,000	145,562
2018	850,000	527,950	2028	<u>1,750,000</u>	<u>74,375</u>
2019	900,000	496,167		<u>\$ 24,155,000</u>	<u>\$ 9,159,536</u>

(C) Loans

The City has the following loans outstanding at June 30, 2009:

City of Fayetteville:

State of Tennessee Local Government Energy Efficiency Loan Program loan, with seven year term, no interest, and payable annually in principal installments of \$24,778.

\$ 173,448

Fayetteville Public Utilities (Electric Division):

RUS Rural Economic Development Loan, 2004, no interest with ten year term, pass through loan to South Central Human Resource Agency.

221,250

Fayetteville City School System

Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program, Series 1995 due in annual principal installments of \$91,000 to \$96,000 through fiscal year 2011 at variable interest rates (currently .58%).

187,000

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 6 – LONG-TERM DEBT (CONT'D)

(C) Loans (cont'd)

Fayetteville Public Utilities (Water Division)

State of Tennessee Utility Relocation Loan, 2005, with 15 year term, interest at 1.85%. See Note 4(C) for further discussion of this loan program. (No funds drawn at June 30, 2009)

\$ -

Loan with local financial institution in the amount of \$3,350,000 maturing October, 2010 and bearing interest at 3.89%. Balance represents amount of advances through June 30, 2009.

807,292

Total Loans

\$ 1,388,990

Debt service requirements to maturity on these loans are as follows:

Year ending June 30,	Total Bonds	Total Interest	Year Ending June 30,	Total Bonds	Total Interest
2010	\$ 160,778	\$ 32,437	2014	\$ 66,028	\$ -
2011	973,070	10,310	2015	24,779	-
2012	69,778	-	2016	24,779	-
2013	69,778	-		<u>\$ 1,388,990</u>	<u>\$ 42,747</u>

(D) Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds payable:					
General obligation bonds – variable rate	\$ 925,000	\$ -	\$ (925,000)	\$ -	\$ -
General obligation bonds – fixed rate	-	1,915,000	-	1,915,000	30,000
Less deferred amounts:					
Refunding costs	-	(48,107)	-	(48,107)	-
Unamortized bond premium	-	18,296	-	18,296	-
Total bonds payable	<u>\$ 925,000</u>	<u>\$ 1,885,189</u>	<u>\$ (925,000)</u>	<u>\$ 1,885,189</u>	<u>\$ 30,000</u>
Loans:					
Tennessee Municipal Bond Fund					
Loan Program	273,000	-	(86,000)	187,000	91,000
Tennessee Energy Efficiency Loan	-	173,448	-	173,448	24,778
Landfill postclosure costs	277,678	-	(8,165)	269,513	8,000
Post-employment benefit obligation	-	221,743	(62,336)	159,407	-
Compensated absences	563,453	81,971	(227,655)	417,769	168,794
Governmental Activity Long-Term Liability	<u>\$ 2,039,131</u>	<u>\$ 2,362,351</u>	<u>\$(1,309,156)</u>	<u>\$ 3,092,326</u>	<u>\$ 322,572</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 6 – LONG-TERM DEBT (CONT'D)

(C) Changes in long-term liabilities (cont'd)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
Business-type Activities:					
Bonds payable:					
Revenue and tax bonds	\$ 6,792,115	\$ 1,752,885	\$ (8,545,000)	\$ -	\$ -
Revenue bonds	25,780,000	-	(1,625,000)	24,155,000	1,810,000
General obligation	-	8,185,000	-	8,185,000	505,000
Less deferred amounts:					
Unamortized bond discount	(65,531)	-	9,670	(55,861)	-
Unamortized bond premium	-	115,772	-	115,772	-
Loss on refunding	<u>(120,899)</u>	<u>(71,996)</u>	<u>40,716</u>	<u>(152,179)</u>	<u>-</u>
Total bonds payable	\$ 32,385,685	\$ 9,981,661	\$ (10,119,614)	\$ 32,247,732	\$ 2,315,000
Loans:					
Tennessee utility relocation loan	58,613	-	(58,613)	-	-
RUS economic development loan	-	-	(45,000)	221,250	45,000
Bond anticipation note	-	807,292	-	807,292	-
Post-employment benefit obligation	-	76,103	-	76,103	-
Compensated absences	<u>719,668</u>	<u>256,518</u>	<u>(175,581)</u>	<u>800,605</u>	<u>228,353</u>
Business-type Activity Long-Term Liabilities	<u>\$ 33,430,216</u>	<u>\$ 11,121,574</u>	<u>\$ (10,398,808)</u>	<u>\$ 34,152,982</u>	<u>\$ 2,585,710</u>

Certain of the City's bonds require establishment of sinking funds and compliance with various covenants. The City was compliance with these requirements at June 30, 2009.

On June 15, 2009, the City issued \$10,100,000 in General Obligation Bonds to currently refund \$3,350,000 of water division revenue bonds, \$4,755,000 of gas division revenue bonds, and \$900,000 of general obligation bonds. The refunding was undertaken to reduce exposure to variations in interest rates borne by the refunded bonds. Economic gain or loss on the refunding isn't determinable due to the uncertainty of the future debt service requirements of the refunded debt. The reacquisition price exceeded the net carrying amount of the old debt by \$120,103. This amount is being netted against the new debt and amortized over the refunding debt's life which is the same as the refunded debt.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 6 – LONG-TERM DEBT (CONT'D)

(C) Changes in long-term liabilities (cont'd)

From time to time, the City has issued Industrial Development Revenue Bonds (IDRB) to provide assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

At June 30, 2009, there were two series of IDRB outstanding. The aggregate principal amount payable was \$13,470,000. The original issue amounts totaled \$15,615,000.

NOTE 7 – SEGMENT INFORMATION

The City's Board of Public Utilities has issued revenue bonds to finance its various divisions. The investors in the revenue bonds rely solely on the revenue generated by the individual divisions for repayment. Summary financial information for each division is presented below.

<u>Condensed Balance Sheet</u>	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>
Assets				
Current assets	\$ 17,930,082	\$ 3,719,984	\$ 243,773	\$ 569,173
Special funds	7,541,421	2,042,286	690,138	2,675,572
Capital assets	36,687,780	12,052,536	3,880,301	13,009,233
Other assets	1,434,718	178,595	103,025	137,130
Due from other divisions	<u>3,032,233</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 66,626,234</u>	<u>\$ 17,993,401</u>	<u>\$ 4,917,237</u>	<u>\$ 16,391,108</u>
Liabilities				
Current liabilities	\$ 7,598,922	\$ 1,082,759	\$ 423,741	\$ 713,931
Other liabilities	1,047,085	63,127	99,791	84,498
Long term debt	18,551,067	4,572,552	3,834,139	3,958,516
Due to other divisions	<u>-</u>	<u>-</u>	<u>3,032,233</u>	<u>-</u>
	<u>\$ 27,197,074</u>	<u>\$ 5,718,438</u>	<u>\$ 7,389,904</u>	<u>\$ 4,756,945</u>
Net Assets (Deficit)				
Invested in capital assets, net of related debt	\$ 18,391,638	\$ 7,342,841	\$ (144,299)	\$ 8,908,405
Restricted	5,068,610	-	684,138	133,892
Unrestricted	<u>15,968,912</u>	<u>4,932,122</u>	<u>(3,012,506)</u>	<u>2,591,866</u>
	<u>\$ 39,429,160</u>	<u>\$ 12,274,963</u>	<u>\$ (2,472,667)</u>	<u>\$ 11,634,163</u>
	<u>\$ 66,626,234</u>	<u>\$ 17,993,401</u>	<u>\$ 4,917,237</u>	<u>\$ 16,391,108</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 7 – SEGMENT INFORMATION (CONT'D)

<u>Condensed Statement of Revenues</u>	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>
<u>Expenses, and Changes in Net Assets</u>				
Operating revenues	\$ 43,684,776	\$ 10,455,732	\$ 2,879,312	\$ 3,538,756
Depreciation expense	1,768,154	543,060	505,246	732,132
Other operating expenses	<u>38,765,500</u>	<u>9,125,178</u>	<u>1,856,694</u>	<u>2,680,770</u>
Operating income	\$ 3,151,122	\$ 787,494	\$ 517,372	\$ 125,854
Nonoperating revenue (expenses):				
Investment income	525,107	74,290	20,560	45,270
Interest expense	(575,462)	(135,430)	(425,096)	(50,342)
Other	3,374	14,560	7,581	(4,053)
Contributions/Transfers – net	<u>(156,783)</u>	<u>(199,864)</u>	<u>-</u>	<u>126,396</u>
Change in net assets	\$ 2,947,358	\$ 541,050	\$ 120,417	\$ 243,125
Beginning net assets (deficit)	<u>36,481,802</u>	<u>11,733,913</u>	<u>(2,593,084)</u>	<u>11,391,038</u>
Ending net assets (deficit)	<u>\$ 39,429,160</u>	<u>\$ 12,274,963</u>	<u>\$ (2,472,667)</u>	<u>\$ 11,634,163</u>
 <u>Condensed Statement of Cash Flows</u>				
Net cash provided (used) by:				
Operating activities	\$ 6,467,752	\$ 1,500,424	\$ 1,005,997	\$ 598,553
Noncapital financing activities	(566,032)	(200,392)	(19,618)	(74,998)
Capital and related financing activities	(7,616,081)	(701,865)	(1,019,257)	303,805
Investing activities	<u>620,049</u>	<u>86,512</u>	<u>41,638</u>	<u>45,736</u>
Net increase (decrease)	\$ (1,094,312)	\$ 684,679	\$ 8,760	\$ 873,096
Beginning cash and cash equivalents	<u>21,303,744</u>	<u>3,592,925</u>	<u>681,378</u>	<u>1,840,307</u>
Ending cash and cash equivalents	<u>\$ 20,209,432</u>	<u>\$ 4,277,604</u>	<u>\$ 690,138</u>	<u>\$ 2,713,403</u>

NOTE 8 – RISK MANAGEMENT

The City is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City maintains commercial insurance coverage covering each of the above risks of loss. Management believes that the coverage is adequate to preclude any significant uninsured risk exposure to the City. Settled claims in the past three years have not exceeded the coverages. There has not been a significant reduction in insurance coverage in the past fiscal year.

The City and its Fayetteville Public Utilities (FPU) enterprise fund have been named as defendants in various civil actions. The City and FPU are defending these actions vigorously. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, resolution of these matters will not have a material adverse effect on the financial condition of the City. At June 30, 2009, FPU had been named as defendant in a civil action seeking \$750,000 in damages. This suit was settled subsequent to year end. FPU's exposure in this matter is limited to its insurance deductible in the amount of \$7,500.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 9 – CONTINGENT LIABILITIES

The City participates in a number of federally assisted grant programs, principal of which are the Federal Emergency Management Agency, Community Development Block Grant, Education Grants and Local Public Works programs. These programs are subject to program compliance audits by the grantors or their representatives. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City expects such amounts, if any, will not have a material effect upon the City's financial condition.

The Fayetteville Public Utilities Electric Division operates under a power contract with Tennessee Valley Authority whereby restrictions are placed upon utilization of revenues collected by the System. Among other provisions this contract restricts the use of revenues for the following purposes:

- (a) Gross revenues from electric operations will be used for (1) current electric system operating expenses, (2) current debt service payments, including sinking fund payments, when due; (3) provision of reasonable reserves for renewals, replacements, and contingencies; and working capital adequate to cover operating expenses for a reasonable number of weeks, and ; (4) to pay tax equivalent payments into the City of Fayetteville, Tennessee's general funds, within certain guidelines established by TVA, from any revenues then remaining.
- (b) All revenues remaining over and above the requirements stipulated are considered surplus revenues. These revenues may be used for new electric system construction or for the retirement of System indebtedness prior to maturity with consideration that resale rates and charges will be reduced from time to time to the lowest practicable levels.

The City of Fayetteville and Lincoln County, Tennessee, operated a landfill as a joint venture for the residents of the county that was closed in February 1995. The City acts as administrator of the fund. Total remaining closure and postclosure care costs are estimated to be \$539,025 at June 30, 2009. These costs will be shared equally by the City of Fayetteville and Lincoln County, Tennessee. The City's share of this estimated liability (\$269,512) is included as a liability in the Statement of Net Assets. The City's current year share of required funding was \$32,270 and is reported as an expenditure in the Internal Capital Projects Fund.

Financial assurance requirements are being met through use of a municipal contract in lieu of performance bond with the State of Tennessee. Both the City and County are named in this agreement.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 10 – PENSION AND BENEFIT PLANS

PLAN DESCRIPTION

General government and Fayetteville City Board of Education employees are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statues are amended by the Tennessee General Assembly. Political subdivisions such as Fayetteville participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

FUNDING POLICY

The City of Fayetteville, Tennessee requires employees to contribute 5.0 percent of earnable compensation.

The City of Fayetteville, Tennessee is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009, was 8.23% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Fayetteville is established and may be amended by the TCRS Board of Trustees.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 10 – PENSION AND BENEFIT PLANS (CONT'D)

ANNUAL PENSION COST

For the year ending June 30, 2009, the City of Fayetteville’s annual pension cost of \$363,169 to TCRS was equal to Fayetteville’s required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include, (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City of Fayetteville’s unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 8 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

TREND INFORMATION

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost</u>	Percentage Of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
6/30/09	\$363,169	100.00%	\$0.00
6/30/08	\$364,741	100.00%	\$0.00
6/30/07	\$355,347	100.00%	\$0.00

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2007, the most recent actuarial valuation date, the plan was 90.04 percent funded. The actuarial accrued liability for benefits was \$13.54 million, and the actuarial value of assets was \$12.19 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$1.35 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4 million, and the ratio of the UAAL to the covered payroll was 35.64 percent.

The schedules of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 10 – PENSION AND BENEFIT PLANS (CONT'D)

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
7/1/07	\$12,198	\$13,547	\$1,349	90.04%	\$3,785	35.64%

FAYETTEVILLE CITY SCHOOLS-TEACHERS PLAN

PLAN DESCRIPTION

The Fayetteville City Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing multiple employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

FUNDING POLICY

Most teachers are required by state statute to contribute 5 percent of salary to the plan. The employer contribution rate for Fayetteville City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2009 was 6.42 percent of annual covered payroll. The employer contribution requirement for Fayetteville City

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 10 – PENSION AND BENEFIT PLANS (CONT'D)

FUNDING POLICY (cont'd)

Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2009, 2008, and 2007 were \$271,194, \$244,347, and \$225,556, respectively, equal to the required contributions for each year.

FAYETTEVILLE PUBLIC UTILITIES

Substantially all employees of the System are participants in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. The System's total payroll for the fiscal year 2009 was \$5,261,008 of which \$4,471,172 was paid to members participating in this plan.

All members age 21 years and older with one year of completed service are eligible to participate. Benefits are determined by a formula using the member's high five-year average salary, years of service and benefit rate of 1.7%. Members become eligible to retire at the age of 62. A reduced retirement benefit is available to vested members at age 55. Disability benefits are available to active members who become totally disabled. Members become vested after five years of service.

The plan does not require member contributions. The System is required to contribute an actuarially determined normal cost annually, a past service adjustment cost which provides for crediting retirement benefits for past service on a uniform basis for all participants, and a past service cost which provides a cost-of-living adjustment for retirement benefits paid as annuities to participants.

The System's contributions based on the payroll of eligible participants for the years ended June 30, 2009, 2008, and 2007 were \$682,529, \$581,293, and \$573,973, respectively.

The plan (a master multiple-employer plan) does not make separate measurements of assets and pension benefit obligation for individual employers. Information concerning the plan's total net assets available for benefits, total pension benefit obligation and ten-year historical trend data is disclosed at the NRECA level. That information may be obtained by writing to Retirement Safety & Insurance Department, National Rural Electric Cooperative Association, 4301 Wilson Boulevard, Arlington, Virginia 22203-1860 or by calling (703) 907-5500.

The System also has a defined contribution plan, under section 401(k) of the Internal Revenue Code, covering all employees who have completed six months of service. Under the Plan, the System matches employee contributions up to 1.25% of the employees' base pay. The employee must contribute 1.25% of their base pay in order to receive the System's matching contribution. After-tax Roth 410K employee contributions are permitted by the Plan up to limits imposed by the Internal Revenue Code. Employer and employee contributions to the Plan totaled \$54,900 and \$51,995 and \$179,733 and \$148,128 for the years ended June 30, 2009 and 2008, respectively.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The City maintains two separate single-employer defined post-employment healthcare plans. One covers the general government while the other covers employees of Fayetteville Public Utilities. During the fiscal year ended June 30, 2009, the City, including Fayetteville Public Utilities, implemented Governmental Accounting Standards Board (GASB) Statement 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions on a prospective basis with a zero net OPEB obligation at transition.

The following is a summary of each of these plans:

PLAN DESCRIPTION-FAYETTEVILLE PUBLIC UTILITIES

The System administers a single-employer defined benefit healthcare plan which provides postemployment healthcare benefits for employees that retire from service who have attained the age of 62 years with a minimum of 10 years of service with the System or who have 30 years in the retirement plan. The City pays the full cost of coverage for these benefits through private insurers for the shorter of three years or until the retiree qualifies for Medicare coverage. Also, the System's retirees can purchase coverage for their dependents at the System's group rates. The Board of Public Utilities may amend the benefit provisions. A separate report was not issued for the plan.

PLAN DESCRIPTION-GENERAL GOVERNMENT

The City administers a single-employer defined benefit healthcare plan which provides postemployment healthcare and life insurance benefits for employees that retire from service who have attained the age of 60 years with a minimum of 5 years of service or completion of 30 years of service. The System pays the full cost of coverage for these benefits through private insurers for the shorter of the attainment of age 65 or receipt of Medicare benefits. Also, if included in the plan, the retiree's spouses are required to make annual contributions of \$7,288. The Board Mayor and Alderman may amend the benefit provisions. A separate report was not issued for the plan.

FUNDING POLICY

Retirees are not required to make any contributions to either postretirement benefit plan. The benefits of the postretirement benefit plans are unfunded and no assets have been segregated and restricted to provide for postretirement medical or life insurance benefits. For the year ended June 30, 2009, the System contributed \$12,581 and the City contributed \$25,401 to fund premiums for retirees receiving benefits.

ANNUAL OPEB COST, NET OPEB OBLIGATION AND FUNDED STATUS

Both plans' annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONT'D)

The following table shows the components of OPEB cost for the year, the amount actually contributed to the plans, and changes in the net OPEB obligation:

	<u>FPU</u>	<u>City</u>
Annual required contribution	\$ 88,684	\$ 133,390
Interest on net OPEB obligation	-	-
Adjustment to annual required contribution	<u>-</u>	<u>-</u>
Annual OPEB cost (expense)	\$ 88,684	\$ 133,390
Contributions made	<u>(12,581)</u>	<u>(27,244)</u>
Increase in net OPEB obligation	\$ 76,103	\$ 106,146
Net OPEB obligation, beginning of year	<u>-</u>	<u>-</u>
Net OPEB obligation, end of year	<u>\$ 76,103</u>	<u>\$ 106,146</u>

The percentage of annual OPEB cost contributed to the plan for the fiscal year ended June 30, 2009, was as follows:

<u>FPU</u>	<u>City</u>
14.2%	20.4%

As of July 1, 2008, the most recent actuarial valuation date, both plans were 0% funded.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The actuarial accrued unfunded liability (UAAL) for benefits at June 30, 2009, as well as actuarial methods and assumptions for both plans, was as follows:

	<u>FPU</u>	<u>City</u>
Actuarial valuation date	7/01/2008	7/01/2008
UAAL	\$ 882,763	\$ 1,444,892
Covered payroll	\$ 5,230,532	\$ 3,361,174
Ratio of UAAL to covered payroll	16.9%	43.0%
Actuarial valuation method	Projected unit credit	Entry age normal
Amortization period	30 yrs	30 yrs
Actuarial assumptions:		
Discount rate	6.0%	4.5%
Projected salary increases	not available	4.0%

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONT'D)

ACTUARIAL METHODS AND ASSUMPTIONS (cont'd)

The actuarial assumptions include an annual medical cost trend increase of 8% initially with future annual increases assumed to grade uniformly to 5% over a 5 year period. The valuation did not include an investment rate of return on plan assets as there were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of projected payroll on an open basis.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historic pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

FAYETTEVILLE CITY SCHOOLS

PLAN DESCRIPTION

Fayetteville City Schools participates in the state-administered Teacher Group Insurance Plan and Medicare Supplement Plan for healthcare benefits. For accounting purposes, the plans are agent multiple-employer defined benefit OPEB plans. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302 (teachers) or TCA 8-27-701 (Medicare Supplement). Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

FUNDING POLICY

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides a partial subsidy to Local education Agency pre-65 teachers and a full subsidy based on years of service for post-64 teachers in the Medicare Supplement Plan. For active plan members electing family coverage, plan members contribute on average 41% of premiums and the System contributes on average 59% of premiums. For active plan members selecting single coverage, plan members contribute on average 14% of premiums and the System contributes on average 86% of premiums. The System makes no contributions for premiums for retired plan members.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONT'D)

FUNDING POLICY (cont'd)

<u>Annual OPEB cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>
Annual required contribution	\$ 88,353
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	\$ 88,353
Contributions made	<u>(35,092)</u>
Increase in net OPEB obligation	\$ 53,261
Net OPEB obligation, beginning of year	-
Net OPEB obligation, end of year	<u>\$ 53,261</u>

<u>Plan</u>	<u>Year end</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Teacher Group	6/30/2009	\$ 88,353	39.7%	\$ 53,261

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of June 30, 2009, was as follows (dollars in thousands):

	<u>Teacher Group Plan</u>
Actuarial valuation date	6/30/2008
Actuarial accrued liability (AAL)	\$ 787,795
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	787,795
Actuarial value of assets as a % of the AAL	0.0%
Covered payroll (active plan members)	3,673,088
UAAL as a percentage of covered payroll	21.4%

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

ACTUARIAL METHODS AND ASSUMPTIONS

Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 11 – OTHER POST-EMPLOYMENT BENEFITS (OPEB) (CONT'D)

ACTUARIAL METHODS AND ASSUMPTIONS (cont'd)

In the June 30, 2009 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 11 percent initially, reduced by decrements to an ultimate rate of 6 percent after ten years. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2009.

NOTE 12 – STATE STREET AID FUNDS

The City was granted permission by the State of Tennessee in prior years to combine the municipal street aid fund with the general fund. State street revenue for the year ended June 30, 2009, related to these funds is shown below.

Intergovernmental revenue	
Gasoline and motor fuel tax	\$ 185,281
City street and transportation	<u>15,143</u>
Total	<u>\$ 200,424</u>

NOTE 13 – JOINT VENTURES

The City participates with Lincoln County, Tennessee in joint venture arrangements to provide air travel, library services, industrial development and landfill services for Lincoln County and Fayetteville, Tennessee. The City and County fund an equal amount annually to these organizations. The organizations collect additional revenues from user fees, state grants and donations. Summary financial information for these organizations is shown below.

	<u>Fayetteville – Lincoln County</u>		
	<u>Airport</u>	<u>Public Library</u>	<u>Industrial Development Board</u>
Total assets	\$ 4,408,785	\$ 3,668,079	\$ 4,011,496
Total liabilities	<u>56,840</u>	<u>14,851</u>	<u>1,501,707</u>
Net assets	<u>\$ 4,351,945</u>	<u>\$ 3,653,228</u>	<u>\$ 2,509,789</u>
Revenues	\$ 161,811	\$ 521,578	\$ 348,153
Expenditures	<u>254,212</u>	<u>317,403</u>	<u>333,145</u>
Increase (decrease) in net assets	<u>\$ (92,401)</u>	<u>204,175</u>	<u>15,008</u>

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 13 – JOINT VENTURES (CONT'D)

Additional financial information for these organizations may be obtained by contacting the following:

Fayetteville Lincoln County Public Library
400 Rocky Knob Lane
Fayetteville, TN 37334

Fayetteville Lincoln County Industrial Development Board
110 South Elk Avenue
Fayetteville, TN 37334

Fayetteville Lincoln County Airport
37 Airport Road
Fayetteville, TN 37334

NOTE 14 – PLEDGED REVENUES

The City's Fayetteville Public Utilities enterprise fund has pledged the respective revenues of each division to secure certain revenue bonds as described in Note 6. The current year revenues, debt service, and future pledge commitment are as follows:

<u>Division</u>	<u>Operating Revenues</u>	<u>Current Year Principal and Interest Paid on Revenue Bonds</u>	<u>Percent of Current Revenue</u>	<u>Remaining Pledge Based on Future Principal and Interest Requirements</u>	<u>Commitment Period through Fiscal year</u>
Electric	\$ 43,684,776	\$ 2,235,173	5.1%	\$ 27,365,116	2028
Gas	10,455,732	360,806	3.5%	6,353,819	2025
Telecom	2,879,312	538,910	18.7%	5,949,420	2020
Water & Sewer	<u>3,538,756</u>	<u>231,208</u>	<u>6.5%</u>	<u>4,902,675</u>	2020
	<u>\$ 60,558,576</u>	<u>\$ 3,366,097</u>	<u>5.6%</u>	<u>\$ 44,571,030</u>	

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to June 30, 2009, Fayetteville Public Utilities issued \$12,525,000 fixed rate revenue bonds of which \$7,475,000, along with internal funds, was used to refund \$10,040,000 Electric Division Series 1998, 2001, and 2003 revenue bonds. The remaining \$5,050,000 will be used to finance various Electric Division utility work plan projects.

NOTE 16 – PRIOR PERIOD ADJUSTMENT

The beginning fund balance of the City's general fund was increased by \$193,106 in order to properly reflect its fund balance at July 1, 2008. This adjustment was necessary to remove the amount of the liability for compensated absences for vacation pay that had not matured.

NOTES TO FINANCIAL STATEMENTS (CONT'D)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

NOTE 16 – PRIOR PERIOD ADJUSTMENT (CONT'D)

During the current year Fayetteville Public Utilities became aware of a commercial gas customer whose meter had been set with an incorrect multiplier which resulted in over billing to this account for the past several years. Current year earnings of the gas division were reduced by \$23,060 and earnings of the preceding year would have been \$34,101 less than reported. The impact to all prior years totaling \$262,059 has been reflected as an adjustment to beginning net assets. The total liability due back to the customer is included in accounts payable on the balance sheet.

Also in the current year, Fayetteville Public Utilities recorded the estimated value less accumulated depreciation of various water and sewer utility lines which had been installed by various contractors as part of residential developments in prior years. Current year earnings of the water division were reduced \$21,171 and earnings of the preceding year would have been \$18,660 less than reported due to additional depreciation. The effect on prior years of the original contribution of capital less accumulated depreciation is reflected as an adjustment to beginning net assets.

A summary of the above corrections to beginning net assets is as follows:

	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water & Sewer</u>	<u>Total</u>
Net assets June 30, 2008 as previously reported	\$ 36,481,802	\$ 11,995,972	\$(2,593,084)	\$ 10,870,845	\$56,755,535
Over billing resulting from incorrect meter multiplier	-	(262,059)	-	-	(262,059)
Contractor donated plant	-	-	-	719,498	719,498
Less accum. depreciation through June 30, 2008	<u>-</u>	<u>-</u>	<u>-</u>	<u>(199,305)</u>	<u>(199,305)</u>
Net assets June 30, 2008, Restated	<u>\$ 36,481,802</u>	<u>\$ 11,733,913</u>	<u>\$(2,593,084)</u>	<u>\$ 11,391,038</u>	<u>\$57,013,669</u>

NOTE 17 – NONEXCHANGE TRANSACTION

The City receives shared revenue from the State of Tennessee for a tax the state assesses on the earnings of certain financial institutions. The City is required to recognize receivables and deferred revenues as the banks earn the income. However, the banks file at different times of the year, and it is difficult to follow state statutes' guidance concerning what time period is being filed on. Therefore, the receivable and deferred revenue at June 30, 2009, is not reasonably estimable and is not included in these financial statements. During the year ended June 30, 2009, the City received \$71,097 from the State of Tennessee for this shared revenue.

REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

Teacher Goup Insurance Plan and Medicare Supplement Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
June 30, 2008	\$ -	\$ 787,795	\$ 787,795	0.0%	3,673,088	21.45%

Fayetteville Public Utilities retiree health care plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 882,763	\$ 882,763	0.0%	5,230,532	16.9%

City of Fayetteville post-employment health and life insurance benefits plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 1,444,892	\$ 1,444,892	0.0%	3,361,174	43.0%

Note: Two additional years will be reported as data becomes available.

REQUIRED SUPPLEMENTARY INFORMATION
PENSION BENEFITS
SCHEDULE OF FUNDING PROGRESS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

City of Fayetteville Political Subdivision Pension Plan (PSPP)
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2007	\$ 12,198	\$ 13,547	\$ 1,349	90.04%	3,785	35.64%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method was a change made during the year and therefore only the most current year is presented.

NONMAJOR GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2009

Special Revenue Funds

Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes.

- School Title Fund
- School Cafeteria Fund
- Drug Fund

Debt Service Fund

The debt service fund is used to account for the receipt of special assessments and the associated repayment of debt.

Capital Projects Funds

Capital projects funds are used to account for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

- Industrial Park Fund
- CDBG Fund
- UDAG Fund
- Internal Capital Projects

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2009

Special Revenue Funds					
	School <u>Title</u>	School <u>Cafeteria</u>	Drug	Total <u>Special Revenue</u>	Debt <u>Service Fund</u>
Assets:					
Cash in bank	\$ 59,701	\$ 143,864	\$ 91,602	\$ 295,167	\$ 348,446
Investments	-	-	-	-	-
Receivables	-	-	-	-	17,077
Due from other funds	-	-	-	-	-
Due from other governments	869	-	-	869	-
Inventory	-	21,159	-	21,159	-
TOTAL ASSETS	<u>\$ 60,570</u>	<u>\$ 165,023</u>	<u>\$ 91,602</u>	<u>\$ 317,195</u>	<u>\$ 365,523</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 10,326	\$ -	\$ 550	\$ 10,876	\$ -
Due to other funds	90	-	-	90	-
Other accrued expenses	27,307	-	-	27,307	-
Deferred revenues	22,847	-	-	22,847	-
TOTAL LIABILITIES	<u>\$ 60,570</u>	<u>\$ -</u>	<u>\$ 550</u>	<u>\$ 61,120</u>	<u>\$ -</u>
Fund balances:					
Reserved for:					
Inventory and prepayments	\$ -	\$ 21,159	\$ -	\$ 21,159	\$ -
Public Safety	-	-	91,052	91,052	-
Unreserved, undesignated	-	143,864	-	143,864	-
Unreserved					
Designated for debt service	-	-	-	-	365,523
Designated for capital projects	-	-	-	-	-
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 165,023</u>	<u>\$ 91,052</u>	<u>\$ 256,075</u>	<u>\$ 365,523</u>
Total liabilities and fund balances	<u>\$ 60,570</u>	<u>\$ 165,023</u>	<u>\$ 91,602</u>	<u>\$ 317,195</u>	<u>\$ 365,523</u>

COMBINING BALANCE SHEET (CONT'D)
NONMAJOR GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	Capital Projects Funds				Total Capital Projects	Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects		
Assets:						
Cash in bank	\$ 218,600	\$ 48,507	\$ 389,509	\$ 2,436,514	\$ 3,093,130	\$ 3,736,743
Investments	-	-	-	985,201	985,201	985,201
Receivables	1,151	-	3,549	22,838	27,538	44,615
Due from (to) other funds	-	-	-	589	589	589
Due from other governments	-	-	-	-	-	869
Inventory	-	-	-	-	-	21,159
TOTAL ASSETS	<u>\$ 219,751</u>	<u>\$ 48,507</u>	<u>\$ 393,058</u>	<u>\$ 3,445,142</u>	<u>\$ 4,106,458</u>	<u>\$ 4,789,176</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 32,314	\$ 32,314	\$ 43,190
Due to other funds	-	-	-	-	-	90
Other accrued expenses	-	-	-	-	-	27,307
Deferred revenues	-	-	-	47,680	47,680	70,527
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79,994</u>	<u>\$ 79,994</u>	<u>\$ 141,114</u>
Fund balances:						
Reserved for:						
Inventory and prepayments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,159
Public safety	-	-	-	-	-	91,052
Unreserved, undesignated	-	48,507	393,058	-	441,565	585,429
Unreserved						
Designated for debt service	-	-	-	-	-	365,523
Designated for capital projects	219,751	-	-	3,365,148	3,584,899	3,584,899
TOTAL FUND BALANCES	<u>\$ 219,751</u>	<u>\$ 48,507</u>	<u>\$ 393,058</u>	<u>\$ 3,365,148</u>	<u>\$ 4,026,464</u>	<u>\$ 4,648,062</u>
Total liabilities and fund balances	<u>\$ 219,751</u>	<u>\$ 48,507</u>	<u>\$ 393,058</u>	<u>\$ 3,445,142</u>	<u>\$ 4,106,458</u>	<u>\$ 4,789,176</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS**

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2009

	Special Revenue Funds				
	School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Revenues:					
Intergovernmental	\$ 670,258	\$ 298,817	\$ -	\$ 969,075	\$ -
Charges for services	-	202,320	-	202,320	-
Investment earnings	-	692	1,708	2,400	7,565
Fines	-	-	30,573	30,573	-
Other revenue	-	31	870	901	-
TOTAL REVENUES	\$ 670,258	\$ 501,860	\$ 33,151	\$ 1,205,269	\$ 7,565
Expenditures:					
Current:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 3,769
Public safety	-	-	12,540	12,540	-
Education	670,258	442,432	-	1,112,690	-
Sanitation	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	25,000
Interest	-	-	-	-	12,852
Bond issue costs	-	-	-	-	48,107
Capital outlay	-	-	3,020	3,020	-
TOTAL EXPENDITURES	\$ 670,258	\$ 442,432	\$ 15,560	\$ 1,128,250	\$ 89,728
Excess (deficiency) of revenues over expenditures	\$ -	\$ 59,428	\$ 17,591	\$ 77,019	\$ (82,163)
Other Financing Sources (Uses):					
Transfers in	\$ -	\$ 2,095	\$ -	\$ 2,095	\$ 50,953
Transfers out	-	-	-	-	(1,158,649)
Proceeds from sale of capital assets	-	-	895	895	-
Bond issuance	-	-	-	-	2,088,448
Premium on bond issuance	-	-	-	-	18,296
Refunded bonds	-	-	-	-	(900,000)
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ 2,095	\$ 895	\$ 2,990	\$ 99,048
Net change in fund balances	\$ -	\$ 61,523	\$ 18,486	\$ 80,009	\$ 16,885
Fund balances - July 1, 2008	-	103,500	72,566	176,066	348,638
Fund balances - June 30, 2009	\$ -	\$ 165,023	\$ 91,052	\$ 256,075	\$ 365,523

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONT'D)
NONMAJOR GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
For the year ended June 30, 2009

	Capital Projects Funds					Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
Revenues:						
Intergovernmental	\$ -	\$ -	\$ -	\$ 42,179	\$ 42,179	\$ 1,011,254
Charges for services	-	-	-	-	-	202,320
Investment earnings	5,862	1,132	9,622	70,188	86,804	96,769
Fines	-	-	-	-	-	30,573
Other Revenue	-	-	-	14,675	14,675	15,576
TOTAL REVENUES	\$ 5,862	\$ 1,132	\$ 9,622	\$ 127,042	\$ 143,658	\$ 1,356,492
Expenditures:						
Current:						
General government	\$ 686	\$ -	\$ -	\$ -	\$ 686	\$ 4,455
Public Safety	-	-	-	-	-	12,540
Education	-	-	-	-	-	1,112,690
Sanitation	-	-	-	32,270	32,270	32,270
Debt Service:						
Principal	-	-	-	-	-	25,000
Interest	-	-	-	-	-	12,852
Bond issue costs	-	-	-	-	-	48,107
Capital outlay	-	-	-	665,236	665,236	668,256
TOTAL EXPENDITURES	\$ 686	\$ -	\$ -	\$ 697,506	\$ 698,192	\$ 1,916,170
Excess (deficiency) of revenues over expenditures	\$ 5,176	\$ 1,132	\$ 9,622	\$ (570,464)	\$ (554,534)	\$ (559,678)
Other Financing Sources:						
Transfers in	\$ -	\$ -	\$ -	\$ 1,396,649	\$ 1,396,649	\$ 1,449,697
Transfers out	-	-	-	-	-	(1,158,649)
Proceeds from sale of capital assets	-	-	-	-	-	895
Debt issuance	-	-	-	-	-	2,088,448
Premium on bond issuance	-	-	-	-	-	18,296
Refunded bonds	-	-	-	-	-	(900,000)
TOTAL OTHER FINANCING SOURCES	\$ -	\$ -	\$ -	\$ 1,396,649	\$ 1,396,649	\$ 1,498,687
Net change in fund balances	\$ 5,176	\$ 1,132	\$ 9,622	\$ 826,185	\$ 842,115	\$ 939,009
Fund balances - July 1, 2008	214,575	47,375	383,436	2,538,963	3,184,349	3,709,053
Fund balances - June 30, 2009	\$ 219,751	\$ 48,507	\$ 393,058	\$ 3,365,148	\$ 4,026,464	\$ 4,648,062

**BUDGETARY COMPARISON SCHEDULE
SCHOOL TITLE SPECIAL REVENUE FUND
CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
NCLB Title programs	\$ 374,152	\$ 442,550	\$ 442,550	\$ -
Special education programs	211,758	227,708	227,708	-
Total Revenues	<u>\$ 585,910</u>	<u>\$ 670,258</u>	<u>\$ 670,258</u>	<u>\$ -</u>
Expenditures:				
Current:				
Regular instruction program	\$ 360,487	\$ 442,550	\$ 442,550	\$ -
Special education program	209,067	208,666	208,666	-
Health services	13,665	15,814	15,814	-
Transportation	2,691	3,228	3,228	-
Total Expenditures	<u>\$ 585,910</u>	<u>\$ 670,258</u>	<u>\$ 670,258</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balances - beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

**SCHOOL CAFETERIA SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental				
National school lunch program	\$ 214,170	\$ 214,170	\$ 213,011	\$ (1,159)
School breakfast program	55,000	55,000	79,619	24,619
Other	5,592	5,592	6,187	595
Charges for services	247,895	247,895	202,320	(45,575)
Investment earnings	1,800	1,800	692	(1,108)
Other revenues	3,000	3,000	31	(2,969)
Total Revenues	<u>\$ 527,457</u>	<u>\$ 527,457</u>	<u>\$ 501,860</u>	<u>\$ (25,597)</u>
EXPENDITURES				
Current:				
Salaries and benefits	\$ 276,557	\$ 247,057	\$ 221,497	\$ 25,560
Repairs and maintenance	5,000	5,000	1,543	3,457
Travel	1,200	1,600	1,263	337
Contracted services	9,000	9,000	7,540	1,460
Food and preparation supplies	230,000	259,100	206,520	52,580
Supplies	1,000	1,000	360	640
Other	4,700	4,700	3,709	991
Total Expenditures	<u>\$ 527,457</u>	<u>\$ 527,457</u>	<u>\$ 442,432</u>	<u>\$ 85,025</u>
Excess of Revenues over Expenditures	\$ -	\$ -	\$ 59,428	\$ 59,428
OTHER FINANCING SOURCES				
Transfers in	-	-	2,095	2,095
Net Change in Fund Balance	\$ -	\$ -	\$ 61,523	\$ 61,523
Fund Balance - beginning	<u>103,500</u>	<u>103,500</u>	<u>103,500</u>	<u>-</u>
Fund Balance - ending	<u>\$ 103,500</u>	<u>\$ 103,500</u>	<u>\$ 165,023</u>	<u>\$ 61,523</u>

**DRUG SPECIAL REVENUE FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 1,800	\$ 1,800	\$ 1,708	\$ (92)
Fines	10,000	10,000	30,573	20,573
Other	-	-	870	870
Total Revenues	<u>\$ 11,800</u>	<u>\$ 11,800</u>	<u>\$ 33,151</u>	<u>\$ 21,351</u>
EXPENDITURES				
Current:				
Operating				
Salaries	\$ 2,000	\$ 2,000	\$ 2,722	\$ (722)
Travel	2,000	2,000	2,046	(46)
Supplies	4,500	4,500	630	3,870
Repairs and maintenance	4,000	4,000	1	3,999
Other drug fund	12,100	12,100	7,141	4,959
Capital outlay	4,000	4,000	3,020	980
Total Expenditures	<u>\$ 28,600</u>	<u>\$ 28,600</u>	<u>\$ 15,560</u>	<u>\$ 13,040</u>
Excess of Revenues over Expenditures	\$ (16,800)	\$ (16,800)	\$ 17,591	\$ 34,391
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	4,000	4,000	895	(3,105)
Net Change in Fund Balance	\$ (12,800)	\$ (12,800)	\$ 18,486	\$ 31,286
Fund Balance - beginning	72,566	72,566	72,566	-
Fund Balance - ending	<u>\$ 59,766</u>	<u>\$ 59,766</u>	<u>\$ 91,052</u>	<u>\$ 31,286</u>

**DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 13,500	\$ 13,500	\$ 7,565	\$ (5,935)
Total Revenues	<u>\$ 13,500</u>	<u>\$ 13,500</u>	<u>\$ 7,565</u>	<u>\$ (5,935)</u>
EXPENDITURES				
Current:				
Operating - agent fees	\$ 4,500	\$ 3,769	\$ 3,769	\$ -
Debt Service:				
Principal	25,000	25,000	25,000	-
Interest	42,000	12,852	12,852	-
Bond issuance costs	-	48,107	48,107	-
Total Expenditures	<u>\$ 71,500</u>	<u>\$ 89,728</u>	<u>\$ 89,728</u>	<u>\$ -</u>
(Deficiency) of revenues over expenditures	\$ (58,000)	\$ (76,228)	\$ (82,163)	\$ (5,935)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 58,000	\$ 50,953	\$ 50,953	\$ -
Transfers out	-	(1,158,649)	(1,158,649)	-
Bond issuance	-	2,088,448	2,088,448	-
Premium on bond issuance	-	18,296	18,296	-
Refunded bonds	-	(900,000)	(900,000)	-
	<u>\$ 58,000</u>	<u>\$ 99,048</u>	<u>\$ 99,048</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ -	\$ -	\$ 16,885	\$ (5,935)
Fund Balance - beginning	<u>348,638</u>	<u>348,638</u>	<u>348,638</u>	<u>-</u>
Fund Balance - ending	<u>\$ 348,638</u>	<u>\$ 371,458</u>	<u>\$ 365,523</u>	<u>\$ (5,935)</u>

**INDUSTRIAL PARK CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services and use of property	\$ -	\$ -	\$ -	\$ -
Investment earnings	5,600	5,600	5,862	262
Total Revenues	<u>\$ 5,600</u>	<u>\$ 5,600</u>	<u>\$ 5,862</u>	<u>\$ 262</u>
EXPENDITURES				
Current:				
Travel	\$ 1,500	\$ 1,500	\$ 520	\$ 980
Professional services	1,000	1,000	166	834
Total Expenditures	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 686</u>	<u>\$ 1,814</u>
Net Change in Fund Balance	\$ 3,100	\$ 3,100	\$ 5,176	\$ 2,076
Fund Balance - beginning	<u>214,575</u>	<u>214,575</u>	<u>214,575</u>	<u>-</u>
Fund Balance - ending	<u>\$ 217,675</u>	<u>\$ 217,675</u>	<u>\$ 219,751</u>	<u>\$ 2,076</u>

**CDBG CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 1,150	\$ 1,150	\$ 1,132	\$ (18)
Total Revenues	<u>\$ 1,150</u>	<u>\$ 1,150</u>	<u>\$ 1,132</u>	<u>\$ (18)</u>
EXPENDITURES				
Current:				
Operating	\$ 47,524	\$ 47,524	\$ -	\$ 47,524
Total Expenditures	<u>\$ 47,524</u>	<u>\$ 47,524</u>	<u>\$ -</u>	<u>\$ 47,524</u>
Net Change in Fund Balance	\$ (46,374)	\$ (46,374)	\$ 1,132	\$ 47,506
Fund Balance - beginning	<u>47,375</u>	<u>47,375</u>	<u>47,375</u>	<u>-</u>
Fund Balance - ending	<u><u>\$ 1,001</u></u>	<u><u>\$ 1,001</u></u>	<u><u>\$ 48,507</u></u>	<u><u>\$ 47,506</u></u>

**UDAG CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2009**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 10,000	\$ 10,000	\$ 9,622	\$ (378)
Total Revenues	<u>\$ 10,000</u>	<u>\$ 10,000</u>	<u>\$ 9,622</u>	<u>\$ (378)</u>
EXPENDITURES				
Current:				
Operating	\$ 1,000	\$ 1,000	\$ -	\$ 1,000
Total Expenditures	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 1,000</u>
Net Change in Fund Balance	\$ 9,000	\$ 9,000	\$ 9,622	\$ 622
Fund Balance - beginning	<u>383,436</u>	<u>383,436</u>	<u>383,436</u>	<u>-</u>
Fund Balance - ending	<u>\$ 392,436</u>	<u>\$ 392,436</u>	<u>\$ 393,058</u>	<u>\$ 622</u>

**INTERNAL CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 42,179	\$ 42,179
Investment earnings	73,000	73,000	70,188	(2,812)
Other revenues	-	-	14,675	14,675
Total Revenues	<u>\$ 73,000</u>	<u>\$ 73,000</u>	<u>\$ 127,042</u>	<u>\$ 54,042</u>
EXPENDITURES				
Current:				
Operating - landfill	\$ 10,000	\$ 10,000	\$ 32,270	\$ (22,270)
Capital outlay	338,053	724,508	665,236	59,272
Total Expenditures	<u>\$ 348,053</u>	<u>\$ 734,508</u>	<u>\$ 697,506</u>	<u>\$ 37,002</u>
(Deficiency) of Revenues over Expenditures	<u>\$ (275,053)</u>	<u>\$ (661,508)</u>	<u>\$ (570,464)</u>	<u>\$ 91,044</u>
OTHER FINANCING SOURCES				
Transfers in	\$ 238,500	\$ 238,500	\$ 1,396,649	\$ 1,158,149
Total Other Financing Sources	<u>\$ 238,500</u>	<u>\$ 238,500</u>	<u>\$ 1,396,649</u>	<u>\$ 1,158,149</u>
Net Change in Fund Balance	\$ (36,553)	\$ (423,008)	\$ 826,185	\$ 1,249,193
Fund Balance - beginning	<u>2,538,963</u>	<u>2,538,963</u>	<u>2,538,963</u>	<u>-</u>
Fund Balance - ending	<u>\$ 2,502,410</u>	<u>\$ 2,115,955</u>	<u>\$ 3,365,148</u>	<u>\$ 1,249,193</u>

FAYETTEVILLE PUBLIC UTILITIES
COMPARATIVE SCHEDULES OF ASSETS, LIABILITIES, AND NET ASSETS
CITY OF FAYETTEVILLE, TENNESSEE

June 30,

	Electric	Gas	Telecom	Water & Sewer	2009 Total	2008 Total	Increase (Decrease)
ASSETS							
Current Assets:							
Cash for general use	\$ 12,668,011	\$ 2,235,318	\$ -	\$ 37,831	\$ 14,941,160	\$ 10,936,186	\$ 4,004,974
Customer receivables, net	4,118,874	446,538	121,603	333,965	5,020,980	5,856,333	(835,353)
Other receivables	228,732	7,979	1,032	56,019	293,762	277,311	16,451
Interest receivable	8,210	577	628	201	9,616	25,229	(15,613)
Inventories	741,664	993,281	72,986	87,601	1,895,532	2,108,265	(212,733)
Prepaid expenses	164,591	36,291	47,524	53,556	301,962	364,215	(62,253)
	<u>\$ 17,930,082</u>	<u>\$ 3,719,984</u>	<u>\$ 243,773</u>	<u>\$ 569,173</u>	<u>\$ 22,463,012</u>	<u>\$ 19,567,539</u>	<u>\$ 2,895,473</u>
Special Funds	7,541,421	2,042,286	690,138	2,675,572	12,949,417	16,482,168	(3,532,751)
Capital assets, net of accumulated depreciation	36,687,780	12,052,536	3,880,301	13,009,233	65,629,850	60,450,072	5,179,778
Other Assets	1,434,718	178,595	103,025	137,130	1,853,468	1,264,544	588,924
Due (to)/from other divisions	3,032,233	-	(3,032,233)	-	-	-	-
	<u>\$ 66,626,234</u>	<u>\$ 17,993,401</u>	<u>\$ 1,885,004</u>	<u>\$ 16,391,108</u>	<u>\$ 102,895,747</u>	<u>\$ 97,764,323</u>	<u>\$ 5,131,424</u>
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Current maturities of long-term debt	\$ 1,446,250	\$ 255,000	\$ 206,250	\$ 250,000	\$ 2,157,500	\$ 1,974,863	\$ 182,637
Accounts payable	4,643,086	684,489	79,406	282,805	5,689,786	5,666,591	23,195
Customer deposits	906,043	103,455	-	128,192	1,137,690	1,094,350	43,340
Accrued interest	67,141	7,321	67,025	10,852	152,339	161,326	(8,987)
Other accrued liabilities	536,402	32,494	71,060	42,082	682,038	669,679	12,359
	<u>\$ 7,598,922</u>	<u>\$ 1,082,759</u>	<u>\$ 423,741</u>	<u>\$ 713,931</u>	<u>\$ 9,819,353</u>	<u>\$ 9,566,809</u>	<u>\$ 252,544</u>
Other Liabilities:							
Advance from TVA	\$ 334,085	\$ -	\$ -	\$ -	\$ 334,085	\$ 196,000	\$ 138,085
Long-term debt payable from special funds	133,750	-	68,750	-	202,500	193,750	8,750
Accrued employee benefits	113,460	-	-	-	113,460	113,372	88
OPEB liabilities, net	38,552	13,838	5,689	18,024	76,103	-	76,103
Compensated absences	427,238	49,289	25,352	66,474	568,353	396,922	171,431
	<u>\$ 1,047,085</u>	<u>\$ 63,127</u>	<u>\$ 99,791</u>	<u>\$ 84,498</u>	<u>\$ 1,294,501</u>	<u>\$ 900,044</u>	<u>\$ 394,457</u>
Long-term debt	<u>\$ 18,551,067</u>	<u>\$ 4,572,552</u>	<u>\$ 3,834,139</u>	<u>\$ 3,958,516</u>	<u>\$ 30,916,274</u>	<u>\$ 30,541,935</u>	<u>\$ 374,339</u>
Total Liabilities	<u>\$ 27,197,074</u>	<u>\$ 5,718,438</u>	<u>\$ 4,357,671</u>	<u>\$ 4,756,945</u>	<u>\$ 42,030,128</u>	<u>\$ 41,008,788</u>	<u>\$ 1,021,340</u>
Net assets (Deficit):							
Invested in capital assets-net	18,391,638	7,342,841	(144,299)	8,908,405	34,498,585	36,695,318	(2,196,733)
Restricted for debt service	5,068,610	-	684,138	104,119	5,856,867	5,898,526	(41,659)
Restricted for improvements and construction	-	-	-	29,773	29,773	-	29,773
Unrestricted	15,968,912	4,932,122	(3,012,506)	2,591,866	20,480,394	14,161,691	6,318,703
	<u>\$ 66,626,234</u>	<u>\$ 17,993,401</u>	<u>\$ 1,885,004</u>	<u>\$ 16,391,108</u>	<u>\$ 102,895,747</u>	<u>\$ 97,764,323</u>	<u>\$ 5,131,424</u>

FAYETTEVILLE PUBLIC UTILITIES
COMPARATIVE SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

CITY OF FAYETTEVILLE

Years ended June 30,

	Electric	Gas	Telecom	Water & Sewer	2009 Total	2008 Total	Increase (Decrease)
Operating Revenues:							
Charges for services	\$ 42,812,162	\$ 10,385,867	\$ 2,499,845	\$ 3,432,425	\$ 59,130,299	\$ 54,732,126	\$ 4,398,173
Other	872,614	69,865	379,467	106,331	1,428,277	1,314,848	113,429
TOTAL OPERATING REVENUES	\$ 43,684,776	\$ 10,455,732	\$ 2,879,312	\$ 3,538,756	\$ 60,558,576	\$ 56,046,974	\$ 4,511,602
Operating Expenses:							
Cost of utility services	\$ 33,209,968	\$ 7,623,061	\$ 942,056	\$ 1,277,389	\$ 43,052,474	\$ 38,222,630	\$ 4,829,844
Pumping, distribution, and collection	3,573,007	700,625	418,950	651,504	5,344,086	4,670,631	673,455
Customer billing and collecting	754,473	240,221	124,262	177,813	1,296,769	909,498	387,271
General and administrative	873,477	484,920	211,376	546,735	2,116,508	3,323,603	(1,207,095)
Taxes and tax equivalents	185,013	-	128,104	-	313,117	581,387	(268,270)
Provision for depreciation	1,768,154	543,060	505,246	732,132	3,548,592	3,427,520	121,072
Other	169,562	76,351	31,946	27,329	305,188	228,837	76,351
TOTAL OPERATING EXPENSES	\$ 40,533,654	\$ 9,668,238	\$ 2,361,940	\$ 3,412,902	\$ 55,976,734	\$ 51,364,106	\$ 4,612,628
INCOME FROM OPERATIONS	\$ 3,151,122	\$ 787,494	\$ 517,372	\$ 125,854	\$ 4,581,842	\$ 4,682,868	\$ (101,026)
Non-operating revenues and (expense):							
Interest Income	\$ 525,107	\$ 74,290	\$ 20,560	\$ 45,270	\$ 665,227	\$ 1,015,098	\$ (349,871)
Interest expense	(575,462)	(135,430)	(425,096)	(50,342)	(1,186,330)	(1,366,878)	180,548
Amortization	(90,218)	(3,120)	(12,981)	(2,427)	(108,746)	(104,489)	(4,257)
Miscellaneous	93,592	17,680	20,562	(1,626)	130,208	(69,690)	199,898
NON-OPERATING REVENUES (EXPENSE)-NET	\$ (46,981)	\$ (46,580)	\$ (396,955)	\$ (9,125)	\$ (499,641)	\$ (525,959)	\$ 26,318
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	\$ 3,104,141	\$ 740,914	\$ 120,417	\$ 116,729	\$ 4,082,201	\$ 4,156,909	\$ (74,708)
Capital contributions in aid of construction	473,841	554	-	201,394	675,789	582,003	93,786
Transfers out-taxes and tax equivalents	(630,624)	(200,418)	-	(74,998)	(906,040)	(853,793)	(52,247)
CHANGE IN NET ASSETS	\$ 2,947,358	\$ 541,050	\$ 120,417	\$ 243,125	\$ 3,851,950	\$ 3,885,119	\$ (33,169)
TOTAL NET ASSETS (DEFICIT), AT BEGINNING OF YEAR, RESTATED	36,481,802	11,733,913	(2,593,084)	11,391,038	57,013,669	52,870,416	4,143,253
TOTAL NET ASSETS (DEFICIT), AT END OF YEAR	\$ 39,429,160	\$ 12,274,963	\$ (2,472,667)	\$ 11,634,163	\$ 60,865,619	\$ 56,755,535	\$ 4,110,084

FAYETTEVILLE PUBLIC UTILITIES
COMPARATIVE SCHEDULES OF CASH FLOWS
CITY OF FAYETTEVILLE, TENNESSEE

Years ended June 30,

	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>	<u>2009 Total</u>	<u>2008 Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 43,622,301	\$ 10,833,485	\$ 2,903,824	\$ 3,492,699	\$ 60,852,309	\$ 55,201,701
Payments to suppliers and others	(35,371,583)	(8,569,925)	(1,562,824)	(1,912,272)	(47,416,604)	(41,194,141)
Payments to employees	(1,782,966)	(763,136)	(335,003)	(981,874)	(3,862,979)	(3,898,177)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,467,752	\$ 1,500,424	\$ 1,005,997	\$ 598,553	\$ 9,572,726	\$ 10,109,383
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Loans (to)/ from other divisions	\$ 19,592	\$ 26	\$ (19,618)	\$ -	\$ -	\$ -
Collections on loans to other organizations	45,000	-	-	-	45,000	45,000
Transfers to other funds-tax equivalents	(630,624)	(200,418)	-	(74,998)	(906,040)	(853,793)
NET CASH (USED) BY NON-CAPITAL FINANCING ACTIVITIES	\$ (566,032)	\$ (200,392)	\$ (19,618)	\$ (74,998)	\$ (861,040)	\$ (808,793)
CASH FLOWS FROM CAPITAL AND OTHER RELATED FINANCING ACTIVITIES:						
Additions to capital assets, net	\$ (5,897,150)	\$ (328,447)	\$ (335,208)	\$ (2,134,663)	\$ (8,695,468)	\$ (6,511,090)
Removal costs of capital assets	(335,907)	(20,234)	-	-	(356,141)	(471,566)
Materials salvaged from retirements of capital assets	113,239	-	-	-	113,239	147,613
Proceeds from disposal of assets	25,868	7,068	-	-	32,936	461,324
Capital contributions received	473,841	554	-	201,394	675,789	582,003
Long-term borrowings, net	-	-	-	2,560,177	2,560,177	10,773,940
Borrowings repaid	(1,415,000)	(215,000)	(255,000)	(283,613)	(2,168,613)	(2,221,365)
Issue costs paid	-	-	-	-	-	(209,447)
Interest paid, net	(580,972)	(145,806)	(429,049)	(39,490)	(1,195,317)	(1,350,208)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (7,616,081)	\$ (701,865)	\$ (1,019,257)	\$ 303,805	\$ (9,033,398)	\$ 1,201,204
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	\$ 536,870	\$ 75,900	\$ 21,076	\$ 46,994	\$ 680,840	\$ 1,023,989
Other non-operating income (expense), net	83,179	10,612	20,562	(1,258)	113,095	44,936
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 620,049	\$ 86,512	\$ 41,638	\$ 45,736	\$ 793,935	\$ 1,068,925
INCREASE (DECREASE) IN CASH, NET	\$ (1,094,312)	\$ 684,679	\$ 8,760	\$ 873,096	\$ 472,223	\$ 11,570,719
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	21,303,744	3,592,925	681,378	1,840,307	27,418,354	15,847,635
CASH AND CASH EQUIVALENTS, AT END OF YEAR	\$ 20,209,432	\$ 4,277,604	\$ 690,138	\$ 2,713,403	\$ 27,890,577	\$ 27,418,354
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Income from operations	\$ 3,151,122	\$ 787,494	\$ 517,372	\$ 125,854	\$ 4,581,842	\$ 4,682,868
Adjustments to reconcile income from operations to net cash provided by operating activities						
Depreciation, including amounts capitalized	2,008,683	543,060	505,246	732,132	3,789,121	3,645,293
Depreciation allocated to / (from) other divisions	47,103	(14,743)	(14,617)	(17,743)	-	-
Loss on disallowance of plant	473,841	-	-	-	473,841	567,285
Conservation loans advanced - customers	(213,882)	-	-	-	(213,882)	(153,693)
Conservation loans collected - customers	86,883	-	-	-	86,883	50,418
Conservation advances from TVA	236,321	-	-	-	236,321	166,679
Conservation advances repaid to TVA	(98,235)	-	-	-	(98,235)	(61,983)
Changes in operating assets and liabilities:						
Accounts and other receivables, net	357,160	416,946	34,781	10,015	818,902	(733,764)
Inventories	43,941	172,217	(722)	(2,703)	212,733	(108,853)
Prepaid expenses and other assets	(275,291)	(63,246)	(9,865)	(30,855)	(379,257)	44,440
Accounts payable	373,725	(367,580)	(23,865)	(221,144)	(238,864)	1,913,363
Accrued employee benefits	38,640	13,838	5,689	18,024	76,191	(1,971)
Customer deposits	29,023	15,420	-	(1,103)	43,340	20,674
Other current liabilities and compensated absences	208,718	(2,982)	(8,022)	(13,924)	183,790	78,627
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 6,467,752	\$ 1,500,424	\$ 1,005,997	\$ 598,553	\$ 9,572,726	\$ 10,109,383

**FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF PLANT AND EQUIPMENT-ELECTRIC
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

	COST				Depr. Rates	ACCUMULATED DEPRECIATION					
	Balance 06/30/08	Additions	Retirements	Reclassifications		Balance 06/30/09	Balance 06/30/08	Provisions	Other Adjustments	Reclassifications	Balance 06/30/09
Transmission Plant:											
Land and land rights	\$ 1,726	\$ -	\$ -	\$ -	1,726	\$ 22,467	\$ -	\$ -	\$ -	\$ 22,467	
Substation equipment	24,758	-	-	-	24,758	-	-	-	-	-	
Tower and fixtures	-	-	-	-	-	-	-	-	-	-	
Overhead conductors and devices	418,951	-	-	-	418,951	116,863	8,379	-	-	125,242	
TOTAL TRANSMISSION PLANT	\$ 445,435	\$ -	\$ -	\$ -	\$ 445,435	\$ 139,330	\$ 8,379	\$ -	\$ -	\$ 147,709	
Distribution plant:											
Land and land rights	\$ 266,922	\$ -	\$ -	\$ -	266,922	\$ 86,562	\$ 4,895	\$ -	\$ -	\$ 91,457	
Structures and improvements	122,390	-	-	-	122,390	7,374,205	438,353	3,923	-	7,808,635	
Station equipment	10,212,110	180,773	4,033	-	10,388,850	5,283,916	521,209	500,805	-	5,304,320	
Poles and fixtures	14,541,268	1,065,163	321,578	-	15,288,853	1,738,155	125,520	232,474	-	1,631,201	
Overhead lines	6,214,488	432,789	202,956	-	6,444,321	76,856	6,837	-	-	83,693	
Underground conduit	223,988	7,700	-	-	231,688	180,273	20,811	1,516	-	199,568	
Underground conductor	686,071	17,298	1,299	-	702,070	1,814,569	151,914	77,732	-	1,888,751	
Line transformers	7,500,914	391,606	77,112	-	7,815,408	1,275,912	137,406	29,543	-	1,383,775	
Services	2,810,052	196,626	20,516	-	2,986,162	443,176	75,078	66,722	-	451,532	
Meters and meter equipment	2,698,966	127,565	49,166	-	2,777,365	538,815	126,163	158,167	-	526,811	
Consumer security lights	1,256,246	158,085	133,493	-	1,280,838	477,581	66,453	41,942	-	502,092	
Street lighting and signal systems	541,788	58,324	34,715	-	565,397	19,310,020	1,674,639	1,112,824	-	19,871,835	
TOTAL DISTRIBUTION PLANT	\$ 47,075,203	\$ 2,635,929	\$ 844,868	\$ -	\$ 48,866,264	\$ 19,310,020	\$ 1,674,639	\$ 1,112,824	\$ -	\$ 19,871,835	
General plant:											
Land and land rights	\$ 327,330	\$ -	\$ -	\$ -	327,330	\$ 1,095,398	\$ 73,812	\$ -	\$ -	\$ 1,169,210	
Structures and improvements	2,795,177	97,331	-	-	2,892,508	916,475	45,877	6,240	-	956,112	
Office furniture and fixtures	1,013,646	315,134	6,390	-	1,322,390	1,164,678	240,527	377,739	-	1,027,466	
Transportation equipment	2,465,227	433,313	438,335	-	2,460,205	94,346	-	-	-	94,346	
Stores equipment	103,526	-	-	-	103,526	246,093	-	-	-	246,093	
Tools, shop and garage equipment	269,365	-	-	-	269,365	107,026	-	-	-	107,026	
Laboratory equipment	118,762	-	-	-	118,762	321,221	9,950	-	-	331,171	
Communications equipment	355,404	66,331	-	-	421,735	24,699	2,600	-	-	27,299	
Miscellaneous equipment	32,498	-	-	-	32,498	3,969,936	372,766	383,979	-	3,958,723	
TOTAL GENERAL PLANT	\$ 7,480,935	\$ 912,109	\$ 444,725	\$ -	\$ 7,948,319	\$ 23,419,286	\$ 2,055,784	\$ 1,496,803	\$ -	\$ 23,978,267	
TOTAL PLANT IN SERVICE	\$ 55,001,573	\$ 3,548,038	\$ 1,289,593	\$ -	\$ 57,260,018						
Construction in progress	1,530,758	4,988,786	3,113,515	-	3,406,029						
TOTAL	\$ 56,532,331	\$ 8,536,824	\$ 4,403,108	\$ -	\$ 60,666,047						

**FAYETTEVILLE PUBLIC UTILITIES
 SCHEDULE OF PLANT AND EQUIPMENT - GAS
 CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

	<u>Balance</u> 06/30/08	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> 06/30/09
UTILITY PLANT AND EQUIPMENT IN SERVICE:				
Land and land rights	\$ 181,989	\$ -	-	\$ 181,989
Structure and improvements	571,252	-	-	571,252
Propane plant	907,880	-	-	907,880
Mains	11,801,117	88,364	13,099	11,876,382
Pumping and regulating equipment	233,110	-	-	233,110
Services	1,718,915	71,151	21,576	1,768,490
Meters	1,268,118	49,732	-	1,317,850
Office furniture and equipment	69,521	-	-	69,521
Computer equipment	132,850	1,926	-	134,776
Transportation	362,259	103,796	33,857	432,198
Tools and work equipment	545,748	21,057	-	566,805
Communication equipment	49,945	32,310	-	82,255
	<u>\$ 17,842,704</u>	<u>\$ 368,336</u>	<u>\$ 68,532</u>	<u>\$ 18,142,508</u>
ACCUMULATED DEPRECIATION	<u>(5,736,791)</u>			<u>(6,176,341)</u>
	<u>\$ 12,105,913</u>			<u>\$ 11,966,167</u>
CONSTRUCTION IN PROGRESS	126,258			86,369
	<u>\$ 12,232,171</u>			<u>\$ 12,052,536</u>
TOTAL UTILITY PLANT AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION				

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF PLANT AND EQUIPMENT-TELECOM
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	COST			ACCUMULATED DEPRECIATION				
	Balance 06/30/08	Additions	Retirements	Balance 06/30/09	Balance 06/30/08	Provisions	Other Adjustments	Balance 06/30/09
Distribution plant:								
Aerial hdwe., broadband hdwe., eng. & design	\$ 3,471,441	\$ 5,470	\$ -	\$ 3,476,911	\$ 826,111	\$ 124,297	\$ -	\$ 950,408
Customer equip., installation labor, and materials	1,079,514	135,999	9,466	1,206,047	663,272	157,875	9,466	811,681
Headend electronics, equip., and production equip.	1,630,106	93,233	39,243	1,684,096	1,057,811	164,871	39,243	1,183,439
Headend site, towers, antennae, and earth stns.	415,960	-	-	415,960	91,902	12,935	-	104,837
Vehicles	137,773	71,026	39,250	169,549	104,180	11,548	39,250	76,478
TOTAL DISTRIBUTION PLANT	\$ 6,734,794	\$ 305,728	\$ 87,959	\$ 6,952,563	\$ 2,743,276	\$ 471,526	\$ 87,959	\$ 3,126,843
General plant:								
Tools and test equipment	\$ 81,051	\$ -	\$ -	\$ 81,051	\$ 58,416	\$ 8,105	\$ -	\$ 66,521
Communications equipment	-	10,221	-	10,221	-	1,533	-	1,533
Office furniture and fixtures	280,839	17,364	2,350	295,853	272,238	9,465	2,350	279,353
TOTAL GENERAL PLANT	\$ 361,890	\$ 27,585	\$ 2,350	\$ 387,125	\$ 330,654	\$ 19,103	\$ 2,350	\$ 347,407
TOTAL PLANT IN SERVICE	\$ 7,096,684	\$ 333,313	\$ 90,309	\$ 7,339,688	\$ 3,073,930	\$ 490,629	\$ 90,309	\$ 3,474,250
Construction/(retirements) in progress	12,968	84,157	82,262	14,863				
	\$ 7,109,652	\$ 417,470	\$ 172,571	\$ 7,354,551				

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF PLANT AND EQUIPMENT-WATER AND SEWER
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	COST				ACCUMULATED DEPRECIATION				
	Balance 06/30/08	Additions	Retirements	Balance 06/30/09	Depr. Rates	Balance 06/30/08	Provisions	Other Adjustments	Balance 06/30/09
<u>General</u>									
Land and land rights	\$ 69,340	\$ 30	-	\$ 69,370		\$ 927,398	\$ 73,740	\$ 185,707	\$ 815,431
Equipment	1,406,612	49,349	186,075	1,269,886	5 - 20%	47,261	6,007	-	53,268
Buildings	106,051	-	-	106,051	3 - 4				
<u>Water Facilities</u>									
Treatment	3,656,262	57,799	-	3,714,061	5 - 7	2,625,897	86,177	-	2,712,074
Transmission	-	-	-	-	7 - 10	-	-	-	-
Storage	1,192,903	35,340	-	1,228,243	2.5 - 4	791,587	30,123	-	821,710
Distribution	7,894,175	149,105	-	8,043,280	2.5 - 4	3,847,251	221,927	-	4,069,178
<u>Sewer Facilities</u>									
Land and land rights	17,030	-	-	17,030					
Collection	4,767,592	1,881,766	-	6,649,358	2 - 2.5	2,516,817	147,755	-	2,664,572
Treatment	5,113,315	7,203	-	5,120,518	3.3 - 5	3,353,901	148,660	-	3,502,561
	<u>\$ 24,223,280</u>	<u>\$ 2,180,592</u>	<u>\$ 186,075</u>	<u>\$ 26,217,797</u>		<u>\$ 14,110,112</u>	<u>\$ 714,389</u>	<u>\$ 185,707</u>	<u>\$ 14,638,794</u>
Construction in progress	1,476,159	1,997,879	2,043,808	1,430,230					
	<u>\$ 25,699,439</u>	<u>\$ 4,178,471</u>	<u>\$ 2,229,883</u>	<u>\$ 27,648,027</u>					

SANITATION FUND
 SCHEDULE OF PLANT AND EQUIPMENT
 CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	COST				ACCUMULATED DEPRECIATION				
	Balance 06/30/08	Additions	Retirements	Balance 06/30/09	Depr. Rates	Balance 06/30/08	Provisions	Other Adjustments	Balance 06/30/09
Land	\$ 210,625	\$ -	\$ -	\$ 210,625					
Improvements other than buildings	7,841	-	-	7,841	5.00%	5,195	392	-	5,587
Machinery and equipment	449,721		9,101	440,620	8.33	284,079	24,579	26	308,632
Totals	\$ 668,187	\$ -	\$ 9,101	\$ 659,086		\$ 289,274	\$ 24,971	\$ 26	\$ 314,219

**SCHEDULE OF COMBINED LONG-TERM DEBT, PRINCIPAL AND INTEREST REQUIREMENTS
CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2009

	General Debt		Electric Division		Gas Division		Telecom Division		Water & Sewer Division		Total Principal	Total Interest	Total
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest			
2010	\$ 121,000	\$ 64,773	\$ 1,580,000	\$ 588,962	\$ 255,000	\$ 158,313	\$ 275,000	\$ 268,100	\$ 250,000	\$ 134,063	\$ 2,481,000	\$ 1,214,211	\$ 3,695,211
2011	201,000	65,920	1,730,000	559,635	260,000	157,068	290,000	251,050	1,077,292	109,120	3,558,292	1,142,793	4,701,085
2012	105,000	62,269	1,865,000	517,513	285,000	149,268	310,000	233,070	270,000	91,214	2,835,000	1,053,334	3,888,334
2013	110,000	59,118	370,000	446,062	290,000	140,718	325,000	213,850	290,000	83,112	1,385,000	942,860	2,327,860
2014	110,000	55,819	366,250	444,014	290,000	132,018	350,000	192,725	310,000	74,412	1,426,250	898,988	2,325,238
2015	115,000	52,519	350,000	441,955	290,000	123,318	370,000	169,975	305,000	65,114	1,430,000	852,881	2,282,881
2016	115,000	49,070	375,000	439,737	295,000	114,620	395,000	145,925	320,000	55,962	1,500,000	805,314	2,305,314
2017	115,000	45,618	375,000	437,375	300,000	105,768	420,000	120,250	315,000	46,362	1,525,000	755,373	2,280,373
2018	115,000	41,594	400,000	435,000	300,000	95,270	450,000	92,950	335,000	35,338	1,600,000	700,152	2,300,152
2019	120,000	37,568	425,000	432,467	310,000	84,768	475,000	63,700	355,000	23,612	1,685,000	642,115	2,327,115
2020	120,000	33,669	450,000	429,778	315,000	74,694	505,000	32,825	345,000	12,074	1,735,000	583,040	2,318,040
2021	150,000	29,468	1,250,000	426,930	310,000	63,668	-	-	-	-	1,710,000	520,066	2,230,066
2022	145,000	24,032	1,300,000	392,937	320,000	52,432	-	-	-	-	1,765,000	469,401	2,234,401
2023	150,000	18,594	1,375,000	356,519	330,000	40,432	-	-	-	-	1,855,000	415,545	2,270,545
2024	155,000	12,594	1,450,000	317,483	325,000	27,232	-	-	-	-	1,930,000	357,309	2,287,309
2025	155,000	6,394	1,525,000	276,050	345,000	14,232	-	-	-	-	2,025,000	296,676	2,321,676
2026	-	-	1,600,000	212,762	-	-	-	-	-	-	1,600,000	212,762	1,812,762
2027	-	-	1,675,000	145,562	-	-	-	-	-	-	1,675,000	145,562	1,820,562
2028	-	-	1,750,000	74,375	-	-	-	-	-	-	1,750,000	74,375	1,824,375
	<u>\$ 2,102,000</u>	<u>\$ 659,019</u>	<u>\$ 20,211,250</u>	<u>\$ 7,375,116</u>	<u>\$ 4,820,000</u>	<u>\$ 1,533,819</u>	<u>\$ 4,165,000</u>	<u>\$ 1,784,420</u>	<u>\$ 4,172,292</u>	<u>\$ 730,383</u>	<u>\$ 35,470,542</u>	<u>\$ 12,082,757</u>	<u>\$ 47,553,299</u>

SCHEDULE OF GENERAL LONG-TERM DEBT, PRINCIPAL AND INTEREST REQUIREMENTS

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

Year Ending June 30,	Tennessee Municipal		General		Total General	
	Loan Program		Obligation Bonds		Total General	
	Series 1995		Series 2009		Total	Total
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 91,000	\$ 1,033	\$ 30,000	\$ 63,740	\$ 121,000	\$ 64,773
2011	96,000	502	105,000	65,418	201,000	65,920
2012			105,000	62,269	105,000	62,269
2013			110,000	59,118	110,000	59,118
2014			110,000	55,819	110,000	55,819
2015			115,000	52,519	115,000	52,519
2016			115,000	49,070	115,000	49,070
2017			115,000	45,618	115,000	45,618
2018			115,000	41,594	115,000	41,594
2019			120,000	37,568	120,000	37,568
2020			120,000	33,669	120,000	33,669
2021			150,000	29,468	150,000	29,468
2022			145,000	24,032	145,000	24,032
2023			150,000	18,594	150,000	18,594
2024			155,000	12,594	155,000	12,594
2025			155,000	6,394	155,000	6,394
	<u>\$ 187,000</u>	<u>\$ 1,535</u>	<u>\$ 1,915,000</u>	<u>\$ 657,484</u>	<u>\$ 2,102,000</u>	<u>\$ 659,019</u>

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST REQUIREMENTS-ELECTRIC
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

Fiscal Year Ending June 30,	Series 1998		Series 2001		Series 2007		Public Improvement Revenue Series IV-B1		RUS Rural Economic Development Loan (SCHRA)		Total Electric	
	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Total Bonds	Total Interest
2010	\$ 215,000	\$ 30,953	\$ 320,000	\$ 99,370	\$ -	\$ 414,725	\$ 1,000,000	\$ 43,914	\$ 45,000	\$ -	\$ 1,580,000	\$ 588,962
2011	225,000	21,278	635,000	85,930	-	414,725	825,000	37,702	45,000	-	1,730,000	559,635
2012	240,000	11,040	1,355,000	58,943	-	414,725	225,000	32,805	45,000	-	1,865,000	517,513
2013	-	-	-	-	-	414,725	325,000	31,337	45,000	-	370,000	446,062
2014	-	-	-	-	-	414,725	325,000	29,289	41,250	-	366,250	444,014
2015	-	-	-	-	-	414,725	350,000	27,230	-	-	350,000	441,955
2016	-	-	-	-	-	414,725	375,000	25,012	-	-	375,000	439,737
2017	-	-	-	-	-	414,725	375,000	22,650	-	-	375,000	437,375
2018	-	-	-	-	-	414,725	400,000	20,275	-	-	400,000	435,000
2019	-	-	-	-	-	414,725	425,000	17,742	-	-	425,000	432,467
2020	-	-	-	-	-	414,725	450,000	15,053	-	-	450,000	429,778
2021	-	-	-	-	775,000	414,725	475,000	12,205	-	-	1,250,000	426,930
2022	-	-	-	-	825,000	383,725	475,000	9,212	-	-	1,300,000	392,937
2023	-	-	-	-	875,000	350,312	500,000	6,207	-	-	1,375,000	356,519
2024	-	-	-	-	925,000	314,438	525,000	3,045	-	-	1,450,000	317,483
2025	-	-	-	-	1,525,000	276,050	-	-	-	-	1,525,000	276,050
2026	-	-	-	-	1,600,000	212,762	-	-	-	-	1,600,000	212,762
2027	-	-	-	-	1,675,000	145,562	-	-	-	-	1,675,000	145,562
2028	-	-	-	-	1,750,000	74,375	-	-	-	-	1,750,000	74,375
	\$ 680,000	\$ 63,271	\$ 2,310,000	\$ 244,243	\$ 9,950,000	\$ 6,733,924	\$ 7,050,000	\$ 333,678	\$ 221,250	\$ -	\$ 20,211,250	\$ 7,375,116

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF LONG-TERM DEBT, PRINCIPAL AND INTEREST REQUIREMENTS -WATER
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

Year Ending <u>June 30,</u>	Bond Anticipation Notes		Series 2009		Total Water	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ -	\$ 31,404	\$ 250,000	\$ 102,659	\$ 250,000	\$ 134,063
2011	807,292	9,808	270,000	99,312	1,077,292	109,120
2012	-	-	270,000	91,214	270,000	91,214
2013	-	-	290,000	83,112	290,000	83,112
2014	-	-	310,000	74,412	310,000	74,412
2015	-	-	305,000	65,114	305,000	65,114
2016	-	-	320,000	55,962	320,000	55,962
2017	-	-	315,000	46,362	315,000	46,362
2018	-	-	335,000	35,338	335,000	35,338
2019	-	-	355,000	23,612	355,000	23,612
2020	-	-	345,000	12,074	345,000	12,074
	<u>\$ 807,292</u>	<u>\$ 41,212</u>	<u>\$ 3,365,000</u>	<u>\$ 689,171</u>	<u>\$ 4,172,292</u>	<u>\$ 730,383</u>

**FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF ELECTRIC UTILITY RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

No fuel cost adjustment added

Residential

Customer Charge	\$13.77 per month
Energy Charge	8.439 cents per KWH per month first 800 KWH 7.709 cents per KWH per month for additional KWH
Minimum Bill	\$14.50

General Services

	<u>LESS THAN 50 KW</u>
Customer Charge	\$19.89 per month
Energy Charge	9.466 cents per KWH
	<u>51 KW TO 1,000 KW</u>
Customer Charge	\$90.79 per month
Demand Charge	First 50 KW of billing demand per month, no demand charge, excess over 50 KW at \$14.34 per KW
Energy Charge	First 15,000 KWH at 9.453 cents per KWH. Additional KWH at 4.782 cents per KWH
	<u>1,001 KW to 5,000 KW</u>
Customer Charge	\$122.42 per month
Demand Charge	First 1,000 KW of metered demand at \$14.27 per KW, excess over 1,000 KW of billing demand per month at \$15.97, plus an additional \$15.97 per KW per month for each KW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 KW or its contract demand.
Energy Charge	4.855 cents per KWH
	<u>5,001 KW TO 15,000 KW</u>
Customer Charge	\$1,500 per delivery point
Demand Charge	\$14.21 per KW of metered demand, plus and additional \$14.21 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.791 cents per KWH per first 620 hours use of metered demand per month 3.094 cents per KWH for additional KWH per month.

General Services Manufacturing Rates

	<u>5,001 KW TO 15,000 KW</u> (Actual metered demand <5,000 KW)
Customer Charge	\$1,500 per delivery point
Demand Charge	\$12.26 per KW of metered demand, plus and additional \$12.26 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.228 cents per KWH per first 620 hours use of metered demand per month 2.634 cents per KWH for additional KWH per month.
	<u>5,001KW TO 15,000 KW</u>
Customer Charge	\$1,500 per delivery point
Demand Charge	\$11.63 per KW of billing demand, plus and additional \$11.63 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.065 cents per KWH for first 620 hours use of metered demand per month. 2.503 cents per KWH for additional KWH per month.

**FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF GAS UTILITY RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

Residential

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.38

General Commercial and Industrial (average usage under 500 ccf per day)

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.43

General Commercial and Industrial

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.287

Housing Authority

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.277

Interruptible Service

Per ccf consumed per month	\$ 0.508
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Note: ccf represents 100 cubic feet.

**FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF TELECOM RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

Cable TV Service

Budget Basic	\$ 15.59
Basic Plus	44.85
Basic Digital Tier	9.95

Digital Premium Channels

HBO	12.95
Cinemax	10.95
HBO/Cinemax package	19.95
Showtime/Movie Channel Package	14.95
Encore	7.95
Encore/Starz package	11.95

Hometown package	66.22
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Internet Services

1-2 computers	\$ 37.95
3-5 computers	57.05
6-9 computers	69.78
10-12 computers	92.24
More than 12 computers	Bulk pricing arrangements
Dial up Internet	14.95

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF WATER AND SEWER UTILITY RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	<u>RESIDENTIAL</u>		<u>COMMERCIAL</u>		<u>WHOLESALE</u>	
	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>	<u>With Contracts</u>	<u>Without Contracts</u>
<u>Water Rates</u>						
First 100 cubic feet	\$ 7.00	\$ 9.10	\$ 8.00	\$ 10.40	\$ 8.00	\$ 8.20
All over 100 cubic feet*	2.82	3.67				
Next 900 cubic feet*			2.82	3.67	2.82	3.02
All over 1,000 cubic feet*			2.35	3.06		
Next 59,000 cubic feet*					2.35	2.55
All over 60,000 cubic feet*					2.20	2.40
Next 119,000 cubic feet*						
All over 120,000 cubic feet*					2.20	2.40
					2.20	
					1.70	
<u>Sewer Rates</u>						
First 100 cubic feet	7.00	8.40	8.00		8.00	
All over 100 cubic feet*	3.45	4.14	3.50		3.25	

*Per 100 cubic feet

Number of water division customers at June 30,

	<u>2009</u>	<u>2008</u>
\$	4,377	\$ 4,452
Water	3,360	3,459
Sewer		

**FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF SANITATION RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

Residential

Per household	\$ 10
Per apartment	10

Commercial and Industrial

1 yd.	Twice/wk	30
	Once/wk	15
2 yd.	Twice/wk	52
	Once/wk	28
3 yd	Twice/wk	79
	Once/wk	44
4 yd	Twice/wk	100
	Once/wk	55
6 yd	Twice/wk	150
	Once/wk	80
8 yd	Twice/wk	200
	Once/wk	110

Minimum commercial charge for once per week pickup
is \$15.00 for up to three 32 gallon cans

SCHEDULE OF NUMBER OF UTILITY CUSTOMERS

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

	June 30,	
	<u>2009</u>	<u>2008</u>
Electric	17,821	17,835
Gas	5,904	5,969
Telecom division -Cable	3,162	3,203
Telecom division -Internet	1,698	1,689
Water	4,377	4,452
Sewer	3,360	3,459
Sanitation	2,580	2,603

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

<u>Year</u>	<u>Balance</u> <u>June 30,2008</u>	<u>Taxes</u> <u>Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Total</u>
2009	\$ -	\$ 1,941,872	\$ -	\$ -	\$ 1,941,872
2008	1,941,978	-	2,288	(1,877,343)	66,923
2007	59,580	-	7,129	(46,400)	20,309
2006	21,749	-	(2,631)	(10,491)	8,627
2005	6,064	-	1,921	(4,627)	3,358
2004	5,068	-	8	(3,946)	1,130
2003	9,252	-	-	(3,946)	5,306
2002	9,163	-	(447)	(3,746)	4,970
2001	3,841	-	-	(3,015)	826
	<u>\$ 2,056,695</u>	<u>\$ 1,941,872</u>	<u>\$ 8,268</u>	<u>\$ (1,953,514)</u>	<u>\$ 2,053,321</u>
Less allowance for uncollectible taxes					(35,155)
Balance, end of year, net of allowance					<u>\$ 2,018,166</u>

Delinquent taxes filed with county trustee at June 30,2009 are as follows:

<u>Year</u>	<u>Amount</u>
2007	\$ 20,309
2006	8,627
2005	3,358
2004	1,130
2003	5,306
2002	4,970
2001	826
	<u>\$ 44,526</u>

DIRECTORY OF OFFICIALS AND SCHEDULE OF SALARIES

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

Mayor Gwendolyn Shelton	\$	10,870
Board of Alderman		
Joe Askins		5,035
Richard Bolles		2,200
Danny Bryant		4,037
Carolyn Denton		2,750
Pat Fraley		4,037
Marty Pepper		6,635
Walter Sloan		2,550
Dorothy Small		6,635
Michael Stewart		4,037
City Administrator - Kevin Helms (resigned 12/10/2008)		82,995
City Administrator - Jim Lee (hired 3/16/2009)		52,997
Director of Schools - Billy J. Evans		115,569
Fayetteville Public Utilities		
General Manager - Britt Dye		113,205
Manager of Finance - Kim Posey		72,409
Administrative Assistant -Pam Gentry		66,784
Manager of Water / Wastewater Dept. Operations - Jack Atchley		63,898

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2009

Federal Grantor / Pass - Through Grantor	CFDA Number	Contract Number	Beginning		Cash Receipts	Expenditures	Ending (Accrued) Deferred
			(Accrued) Deferred				
<u>FEDERAL AWARDS</u>							
U.S. Department of Housing and Urban Development	14.239	HM-07-17	\$ -	\$ 379,113	\$ 379,113	\$ -	\$ -
U.S. Department of Transportation	20.219	Z-07-036643-00	-	1,374	1,374	-	-
		TOTAL FEDERAL AWARDS	\$ -	\$ 380,487	\$ 380,487	\$ -	\$ -
<u>STATE FINANCIAL ASSISTANCE</u>							
TN Department of Environment and Conservation	n/a	Z-07-031373-00	\$ -	\$ 42,805	\$ 42,805	\$ -	\$ -
TN Department of Economic and Community Development	n/a	L112	-	173,448	-	173,448	173,448
		TOTAL STATE AWARDS	\$ -	\$ 216,253	\$ 42,805	\$ 173,448	\$ 173,448
		TOTAL FEDERAL AND STATE AWARDS	\$ -	\$ 596,740	\$ 423,292	\$ 173,448	\$ 173,448

Basis of Presentation:

Note 1: This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of City of Fayetteville under programs of the federal and state governments for the year ended June 30, 2009. The schedule is presented using the modified accrual basis of accounting.

STATISTICAL SECTION

STATISTICAL SECTION

This part of the City of Fayetteville's annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. Trend data is presented for the number of years for which data is available up to ten years.

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	96
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	100
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	104
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	111
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	113

Sources: Unless otherwise noted, the information in these schedules is derived from financial reports from previous relevant years and information maintained by the City Administrator's office.

NET ASSETS BY CATEGORY
LAST FIVE FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE
Year Ending June 30,

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 15,586,315	\$ 16,082,964	\$ 16,524,034	\$ 16,260,960	\$ 17,521,558
Restricted	4,826,109	5,003,081	4,794,880	5,190,884	6,801,362
Unrestricted	<u>7,663,610</u>	<u>7,952,605</u>	<u>8,025,757</u>	<u>8,758,091</u>	<u>7,029,214</u>
Subtotal governmental activities	<u>\$ 28,076,034</u>	<u>\$ 29,038,650</u>	<u>\$ 29,344,671</u>	<u>\$ 30,209,935</u>	<u>\$ 31,352,134</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 34,722,150	\$ 35,483,914	\$ 35,494,073	\$ 37,074,230	\$ 34,843,452
Restricted	5,528,509	5,856,753	5,787,918	5,898,526	5,886,640
Unrestricted	<u>8,937,186</u>	<u>9,077,942</u>	<u>12,417,589</u>	<u>14,552,637</u>	<u>20,805,412</u>
Subtotal business-type activities	<u>\$ 49,187,845</u>	<u>\$ 50,418,609</u>	<u>\$ 53,699,580</u>	<u>\$ 57,525,393</u>	<u>\$ 61,535,504</u>
Primary government					
Invested in capital assets, net of related debt	\$ 50,308,465	\$ 51,566,878	\$ 52,018,107	\$ 53,335,190	\$ 52,365,010
Restricted	10,354,618	10,859,834	10,582,798	11,089,410	12,688,002
Unrestricted	<u>16,600,796</u>	<u>17,030,547</u>	<u>20,443,346</u>	<u>23,310,728</u>	<u>27,834,626</u>
Total primary government	<u>\$ 77,263,879</u>	<u>\$ 79,457,259</u>	<u>\$ 83,044,251</u>	<u>\$ 87,735,328</u>	<u>\$ 92,887,638</u>

**CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE
Year Ending June 30,**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental activities					
Program revenues					
Charges for services	\$ 625,556	\$ 628,549	\$ 628,216	\$ 650,387	\$ 871,738
Operating grants and contributions	4,682,907	4,852,676	5,301,731	5,911,615	6,264,910
Capital grants and contributions	327,597	533,418	26,492	38,072	1,476,245
	<u>\$ 5,636,060</u>	<u>\$ 6,014,643</u>	<u>\$ 5,956,439</u>	<u>\$ 6,600,074</u>	<u>\$ 8,612,893</u>
Expenses by function					
General government	\$ 594,452	\$ 703,663	\$ 750,922	\$ 701,459	\$ 870,070
Public safety	2,877,777	3,219,048	3,237,349	3,470,893	3,563,177
Judicial	47,074	48,276	49,358	48,997	53,065
Recreation	576,825	542,060	547,999	586,042	574,620
Highways and streets	1,107,653	1,230,830	1,156,670	1,276,864	1,280,647
Sanitation	5,055	11,616	12,524	11,277	15,228
Housing and community development	520,575	466,050	802,627	359,627	974,007
Education	6,516,140	6,863,953	7,357,688	7,881,326	8,517,784
Interest on long-term debt	30,729	42,608	69,855	62,361	22,013
	<u>\$ 12,276,280</u>	<u>\$ 13,128,104</u>	<u>\$ 13,984,992</u>	<u>\$ 14,398,846</u>	<u>\$ 15,870,611</u>
Net revenue (expense)	\$ (6,640,220)	\$ (7,113,461)	\$ (8,028,553)	\$ (7,798,772)	\$ (7,257,718)
General revenues	6,525,165	7,080,152	7,363,948	7,672,243	7,355,877
Transfers in (out)	976,958	995,925	970,626	991,793	1,044,040
Change in net assets	<u>\$ 861,903</u>	<u>\$ 962,616</u>	<u>\$ 306,021</u>	<u>\$ 865,264</u>	<u>\$ 1,142,199</u>
Business-type activities					
Program revenues					
Charges for services	\$ 45,074,713	\$ 52,747,369	\$ 53,444,868	\$ 56,538,686	\$ 61,042,785
Capital grants and contribution	505,568	376,238	1,016,900	582,003	675,789
	<u>\$ 45,580,281</u>	<u>\$ 53,123,607</u>	<u>\$ 54,461,768</u>	<u>\$ 57,120,689</u>	<u>\$ 61,718,574</u>
Expense by function					
Electric, telecom, water, and gas	\$ 43,545,990	\$ 51,177,843	\$ 50,802,521	\$ 52,905,163	\$ 57,271,810
Sanitation	450,437	376,771	426,391	430,149	452,789
	<u>\$ 43,996,427</u>	<u>\$ 51,554,614</u>	<u>\$ 51,228,912</u>	<u>\$ 53,335,312</u>	<u>\$ 57,724,599</u>
Net revenue (expense)	\$ 1,583,854	\$ 1,568,993	\$ 3,232,856	\$ 3,785,377	\$ 3,993,975
General revenues	462,274	657,696	1,018,741	1,032,229	802,042
Transfers in (out)	(976,958)	(995,925)	(970,626)	(991,793)	(1,044,040)
Change in net assets	<u>\$ 1,069,170</u>	<u>\$ 1,230,764</u>	<u>\$ 3,280,971</u>	<u>\$ 3,825,813</u>	<u>\$ 3,751,977</u>

**GOVERNMENTAL FUND BALANCE BY TYPE
LAST FIVE FISCAL YEARS**

CITY OF FAYETTEVILLE, TENNESSEE

Year Ended June 30.

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
General fund										
Reserved	\$ 339,061	\$ 278,941	\$ 271,214	\$ 36,255	\$ 55,746	\$ 1,056,605	\$ 913,038	\$ 1,128,758	\$ 1,037,577	\$ 118,013
Unreserved	3,129,158	2,843,322	2,905,462	3,509,698	3,758,624	4,418,379	5,027,019	4,848,188	5,033,953	5,470,425
Total general fund	\$ 3,468,219	\$ 3,122,263	\$ 3,176,676	\$ 3,545,953	\$ 3,814,370	\$ 5,474,984	\$ 5,940,057	\$ 5,976,946	\$ 6,071,530	\$ 5,588,438
Other governmental funds										
Reserved	\$ 7,355,695	\$ 5,953,642	\$ 5,803,113	\$ 5,996,604	\$ 6,180,830	\$ 5,679,534	\$ 5,769,200	\$ 5,473,978	\$ 5,822,241	\$ 210,813
Unreserved	3,926,496	4,138,019	4,117,352	3,749,893	3,690,253	3,629,844	3,416,950	3,130,712	3,102,177	9,576,769
Total all other governmental funds	\$ 11,282,191	\$ 10,091,661	\$ 9,920,465	\$ 9,746,497	\$ 9,871,083	\$ 9,309,378	\$ 9,186,150	\$ 8,604,690	\$ 8,924,418	\$ 9,787,582

CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE

Year Ended June 30,

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Revenues										
Taxes	\$ 5,093,457	\$ 5,024,918	\$ 5,264,439	\$ 3,874,713	\$ 3,978,584	\$ 4,014,836	\$ 4,275,898	\$ 4,331,981	\$ 4,541,220	\$ 4,637,408
Licenses and permits	84,341	105,605	121,299	16,768	24,395	25,151	31,775	43,530	34,880	33,157
Use of facilities	31,716	45,936	38,224	36,536	39,741	46,562	42,960	39,809	37,447	33,795
Intergovernmental	8,790,543	5,589,969	6,576,387	6,144,875	6,587,502	7,092,572	7,331,856	7,387,939	8,124,991	8,759,525
Miscellaneous	1,627,728	1,818,053	1,550,878	960,532	878,907	996,983	1,141,806	1,378,726	1,437,428	1,378,277
	<u>\$ 15,627,785</u>	<u>\$ 12,584,481</u>	<u>\$ 13,551,227</u>	<u>\$ 11,033,424</u>	<u>\$ 11,509,129</u>	<u>\$ 12,176,104</u>	<u>\$ 12,824,295</u>	<u>\$ 13,181,985</u>	<u>\$ 14,175,966</u>	<u>\$ 14,842,162</u>
Expenditures										
General government	\$ 777,022	\$ 557,876	\$ 639,037	\$ 513,763	\$ 517,734	\$ 549,856	\$ 651,292	\$ 731,687	\$ 663,250	\$ 743,423
Public safety	1,950,555	1,983,151	2,110,359	2,271,274	2,627,339	2,739,812	2,883,583	3,111,763	3,264,973	3,392,793
Streets and sanitation	1,617,556	1,297,275	1,652,478	876,751	1,160,983	925,751	1,071,816	1,129,585	1,184,998	1,110,468
Recreation	403,852	370,342	512,112	438,340	425,284	457,072	478,341	494,842	519,668	521,891
Education	5,424,928	5,840,288	6,027,010	6,085,816	5,853,147	7,183,418	7,013,594	6,994,692	7,490,725	8,066,021
Judicial	22,233	30,027	33,017	37,730	45,069	47,074	48,276	49,358	48,997	51,939
Public service	32,140	32,057	40,104	-	-	-	-	-	-	-
Special contributions and other expenses	957,707	986,709	450,286	345,029	309,524	509,641	310,604	645,944	311,566	966,486
Debt service	263,875	265,025	261,665	207,135	240,927	255,729	305,608	340,531	496,934	178,340
Capital outlay	732,267	2,697,432	1,876,014	336,752	581,903	385,800	715,261	1,335,846	795,153	1,904,834
	<u>\$ 12,182,135</u>	<u>\$ 14,060,182</u>	<u>\$ 13,602,082</u>	<u>\$ 11,112,590</u>	<u>\$ 11,761,910</u>	<u>\$ 13,054,153</u>	<u>\$ 13,478,375</u>	<u>\$ 14,834,248</u>	<u>\$ 14,776,264</u>	<u>\$ 16,936,195</u>
Other financing sources (uses)										
Transfers in	\$ 1,167,913	\$ 1,344,658	\$ 1,042,478	\$ 2,020,169	\$ 1,881,529	\$ 2,422,304	\$ 2,014,878	\$ 2,021,894	\$ 2,088,334	\$ 3,139,968
Transfers out	(1,167,913)	(1,344,658)	(1,109,753)	(1,157,971)	(1,235,745)	(1,445,346)	(1,018,953)	(1,051,268)	(1,096,541)	(2,095,928)
Refunding bonds issued	-	-	-	1,115,000	-	-	-	-	-	1,915,000
Bonds issued	-	-	-	-	-	1,000,000	-	-	-	-
Other debt issuance	-	-	-	-	-	-	-	-	-	173,448
Payment to refunded bond escrow agent	-	-	-	(1,100,000)	-	-	-	-	-	(900,000)
Bond premium (discount)	-	-	-	(5,017)	-	-	-	-	-	18,296
Sale of capital assets	-	-	-	-	-	-	-	137,066	22,817	30,216
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (67,275)</u>	<u>\$ 872,181</u>	<u>\$ 645,784</u>	<u>\$ 1,976,958</u>	<u>\$ 995,925</u>	<u>\$ 1,107,692</u>	<u>\$ 1,014,610</u>	<u>\$ 2,281,000</u>
Net change in fund balance	<u>\$ 3,445,650</u>	<u>\$ (1,475,701)</u>	<u>\$ (118,130)</u>	<u>\$ 793,015</u>	<u>\$ 393,003</u>	<u>\$ 1,098,909</u>	<u>\$ 341,845</u>	<u>\$ (544,571)</u>	<u>\$ 414,312</u>	<u>\$ 186,967</u>

ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE

Year Ending June 30,	REAL PROPERTY					Personal Property	Total Assessed Value	City Property Tax Rate	Total Appraised Value	Assessed Value as a Percentage of Actual Value
	Residential	Industrial & Commercial	Farm & Agricultural							
2000	N/A	N/A	N/A	N/A	N/A	\$ 89,474,235	\$ 1.79	\$ 276,150,569	32.40 %	
2001	N/A	N/A	N/A	N/A	N/A	87,674,658	1.79	276,933,141	31.66	
2002	N/A	N/A	N/A	N/A	N/A	108,931,646	1.49	334,019,155	32.61	
2003	N/A	N/A	N/A	N/A	N/A	112,676,987	1.49	342,900,198	32.86	
2004	N/A	N/A	N/A	N/A	N/A	111,494,950	1.54	343,145,058	32.49	
2005	\$ 39,227,125	\$ 57,080,280	\$ 395,075	\$ 13,928,977		110,631,457	1.54	350,938,007	31.52	
2006	39,581,775	57,835,760	439,725	13,697,823		111,555,083	1.54	358,728,331	31.10	
2007	51,277,075	70,870,680	725,400	17,216,798		140,089,953	1.54	442,575,801	31.65	
2008	53,938,875	71,394,160	1,606,675	16,802,970		143,742,680	1.3195	456,677,406	31.48	
2009	56,150,325	71,611,120	1,275,425	14,716,116		143,752,986	1.3195	460,783,339	31.20	

N/A - Not available

**PROPERTY TAX RATES
DIRECT AND OVERLAPPING GOVERNMENTS
LAST TEN FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE**

<u>Year Ending June 30,</u>	<u>Direct Rate City of Fayetteville</u>	<u>Overlapping Rate Lincoln County</u>	<u>Total Direct & Overlapping Rates</u>
2000	\$ 1.79	\$ 2.53	\$ 4.32
2001	1.79	2.03	3.82
2002	1.49	2.03	3.52
2003	1.49	2.23	3.72
2004	1.54	2.23	3.77
2005	1.54	2.23	3.77
2006	1.54	2.23	3.77
2007	1.54	1.7918	3.3318
2008	1.3195	1.7918	3.1113
2009	1.3195	1.7918	3.1113

**PRINCIPAL PROPERTY TAXPAYERS
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2009

Taxpayer	Year Ended June 30, 2009			Year Ended June 30, 1999		
	Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Goodman Co.(formerly Amana,Inc.)	\$ 13,588,610	1	9.45%	\$ 13,426,394	1	15.01%
BC Wood Inv. Fund II, LLC	3,977,400	2	2.77%			
Wal Mart	3,928,320	3	2.73%	3,238,193	2	3.62%
Bellsouth	2,222,735	4	1.55%	2,492,427	3	2.79%
Copperweld	1,786,399	5	1.24%	2,942,336	4	3.29%
Parsons Oil	1,775,474	6	1.24%			
First National Bank	1,310,647	7	0.91%			
Bank of Lincoln County	1,257,978	8	0.88%			
Federal Limited	1,114,407	9	0.78%	1,299,348	5	1.45%
Lincoln Medical Center.	1,110,160	10	0.77%			
David Hutton				2,079,010	6	2.32%
Ronnie Wallace				1,829,793	7	2.05%
Lincoln County Bank				922,525	8	1.03%
Del-Met				905,030	9	1.01%
First Union				811,287	10	0.91%

PROPERTY TAX LEVIES AND COLLECTIONS
CITY OF FAYETTEVILLE, TENNESSEE
LAST TEN FISCAL YEARS

Year Ended <u>June 30,</u>	Total <u>Tax Levy</u>	<u>Collected Within the</u> <u>Fiscal Year of the Levy</u>		Delinquent Tax <u>Collections</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2000	\$ 1,603,629	\$ 1,520,205	0.948	\$ 81,215	\$ 1,601,420	99.9%
2001	1,568,483	1,423,233	0.907	143,158	1,566,391	99.9%
2002	1,619,825	1,533,276	0.947	83,688	1,616,964	99.8%
2003	1,675,523	1,599,122	0.954	69,113	1,668,235	99.6%
2004	1,721,195	1,624,736	0.944	85,665	1,710,401	99.4%
2005	1,717,740	1,647,929	0.959	68,081	1,716,010	99.9%
2006	1,755,185	1,689,457	0.963	64,189	1,753,646	99.9%
2007	1,763,851	1,704,979	0.967	48,065	1,753,044	99.4%
2008	1,890,126	1,830,546	0.968	46,400	1,876,946	99.3%
2009	1,941,698	1,877,343	0.967	-	1,877,343	96.7%

**RATIOS OF OUTSTANDING DEBT BY TYPE
CITY OF FAYETTEVILLE, TENNESSEE**

LAST TEN FISCAL YEARS

Fiscal Year Ended June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>			Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General Obligation <u>Bonds</u>	<u>Loans</u>	General Obligation <u>Bonds</u>	Revenue <u>Bonds</u>	<u>Loans</u>				
2000	\$ 1,485,000	\$ 818,000	\$ 3,260,000	\$ 19,018,785	\$ 1,012,208	\$ 25,593,993	N/A	\$ 3,483	
2001	1,295,000	762,000	2,655,000	22,497,895	878,386	28,088,281	N/A	3,758	
2002	1,100,000	703,000	2,020,000	21,049,214	744,565	25,616,779	N/A	3,663	
2003	970,000	641,000	5,025,000	24,529,779	610,744	31,776,523	N/A	4,543	
2004	820,000	575,000	6,600,000	22,144,523	951,815	31,091,338	21.08%	4,437	
2005	1,665,000	505,000	10,070,000	20,963,462	795,929	33,999,391	21.36%	4,852	
2006	1,475,000	432,000	9,375,000	19,261,266	642,287	31,185,553	18.35%	4,451	
2007	1,280,000	355,000	6,398,175	17,463,660	482,568	25,979,403	14.51%	3,708	
2008	925,000	273,000	6,792,115	25,780,000	324,863	34,094,978	18.38%	4,866	
2009	1,915,000	187,000	6,735,000	24,155,000	408,250	33,400,250	16.64%	4,739	

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹ See the Schedule of Demographic and Economic Statistics on page 111 for personal income and population data.

**RATIOS OF GENERAL BONDED DEBT OUTSTANDING
CITY OF FAYETTEVILLE, TENNESSEE
LAST TEN FISCAL YEARS**

Fiscal Year Ended	General Obligation	Percentage of Estimated Actual Taxable Value ¹ of Property	Per Capita ²
<u>June 30,</u>	<u>Bonds</u>		
2000	\$ 1,485,000	0.54%	\$ 202.07
2001	1,295,000	0.47%	173.24
2002	1,100,000	0.33%	157.28
2003	970,000	0.28%	138.69
2004	820,000	0.24%	117.03
2005	1,665,000	0.47%	237.62
2006	1,475,000	0.41%	210.50
2007	1,280,000	0.29%	182.67
2008	925,000	0.20%	132.01
2009	1,915,000	0.42%	271.71

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

¹See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 100 for property value data.

²Population data can be found in the Schedule of Demographic and Economic Statistics on page 111.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
CITY OF FAYETTEVILLE, TENNESSEE

as of June 30, 2009

<u>Governmental Unit</u>	<u>Debt</u> <u>Outstanding</u>	<u>Estimated</u> <u>Percentage</u> <u>Applicable¹</u>	<u>Estimated</u> <u>Share of</u> <u>Overlapping</u> <u>Debt</u>
Debt repaid with property taxes: Lincoln County	\$ 17,105,000	24.08%	\$ 4,118,884
Subtotal, overlapping debt			4,118,884
City of Fayetteville direct debt			2,102,000
Total direct and overlapping debt			\$ 6,220,884

Sources: Appraised value data used to estimate applicable percentages and debt outstanding provided by Lincoln County Finance Department.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the city. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Fayetteville. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt, of each overlapping government.

¹The percentage of overlapping debt applicable is estimated using appraised values for property tax purposes. Applicable percentages were estimated by determining the portion of the county's appraised property value that is within the city's boundaries and dividing it by the county's total appraised property values.

**FAYETTEVILLE PUBLIC UTILITIES - ELECTRIC DIVISION
 PLEDGED REVENUE COVERAGE
 CITY OF FAYETTEVILLE, TENNESSEE
 LAST TEN FISCAL YEARS**

Electric Revenue Bonds and Loans

Year Ended <u>June 30,</u>	Electric Charges <u>and Other</u>	Direct Operating <u>Expense¹</u>	Net Revenue Available for Debt <u>Service</u>	Debt Service			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2000	\$ 27,013,690	\$ 23,512,122	\$ 3,501,568	\$ 840,616	\$ 631,912	\$ 1,472,528	2.38
2001	28,517,616	24,954,877	3,562,739	870,890	590,347	1,461,237	2.44
2002	27,275,139	24,417,911	2,857,228	1,288,681	806,377	2,095,058	1.36
2003	28,848,711	25,763,596	3,085,115	1,193,800	665,929	1,859,729	1.66
2004	30,033,774	26,961,622	3,072,152	2,060,256	524,022	2,584,278	1.19
2005	30,238,592	28,049,257	2,189,335	839,811	425,829	1,265,640	1.73
2006	34,133,491	31,575,424	2,558,067	1,337,196	542,694	1,879,890	1.36
2007	37,037,016	33,974,845	3,062,171	1,402,606	612,746	2,015,352	1.52
2008	39,361,070	35,259,199	4,101,871	1,438,660	812,690	2,251,350	1.82
2009	43,778,368	39,396,124	4,382,244	1,415,000	865,173	2,280,173	1.92

¹Depreciation and other non-cash items not included.

**FAYETTEVILLE PUBLIC UTILITIES - GAS DIVISION
 PLEDGED REVENUE COVERAGE
 CITY OF FAYETTEVILLE, TENNESSEE
 LAST TEN FISCAL YEARS**

Gas Revenue and Tax Bonds

Year Ended	Gas Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2000	\$ 4,449,924	\$ 3,935,291	\$ 514,633	\$ 110,000	\$ 27,772	\$ 137,772	3.74
2001	8,914,809	7,193,502	1,721,307	115,000	21,668	136,668	12.59
2002	6,285,910	5,203,105	1,082,805	125,000	15,113	140,113	7.73
2003	7,819,290	6,948,829	870,461	285,000	51,675	336,675	2.59
2004	8,653,816	7,543,785	1,110,031	135,000	51,521	186,521	5.95
2005	9,501,124	8,672,582	828,542	190,000	115,219	305,219	2.71
2006	12,683,627	12,121,474	562,153	195,000	184,530	379,530	1.48
2007	10,089,168	8,922,338	1,166,830	200,000	217,663	417,663	2.79
2008	10,173,359	9,063,523	1,109,836	205,000	207,388	412,388	2.69
2009	10,473,412	9,325,596	1,147,816	215,000	145,806	360,806	3.18

¹Depreciation and other non-cash items not included.

**FAYETTEVILLE PUBLIC UTILITIES - TELECOM DIVISION
 PLEDGED REVENUE COVERAGE
 CITY OF FAYETTEVILLE, TENNESSEE
 LAST NINE FISCAL YEARS**

Telecommunications Revenue Bonds

Year Ended <u>June 30,</u>	Telecom Charges <u>and Other</u>	Direct Operating <u>Expense¹</u>	Net Revenue Available for Debt <u>Service</u>	Debt Service			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2001	\$ 50,235	\$ 134,199	\$ (83,964)	\$ -	\$ 86,648	\$ 86,648	(0.97)
2002	955,443	831,426	124,017	-	346,590	346,590	0.36
2003	1,224,181	1,129,815	94,366	100,000	345,340	445,340	0.21
2004	1,647,078	1,355,420	291,658	150,000	389,059	539,059	0.54
2005	1,923,375	1,439,501	483,874	205,000	399,815	604,815	0.80
2006	2,242,470	1,533,993	708,477	215,000	422,481	637,481	1.11
2007	2,525,695	1,645,209	880,486	230,000	548,040	778,040	1.13
2008	2,834,942	1,809,328	1,025,614	240,000	475,206	715,206	1.43
2009	2,899,874	1,856,694	1,043,180	255,000	429,049	684,049	1.53

¹Depreciation and other non-cash items not included.

FAYETTEVILLE PUBLIC UTILITIES - WATER & SEWER DIVISION
PLEDGED REVENUE COVERAGE
CITY OF FAYETTEVILLE, TENNESSEE
LAST TEN FISCAL YEARS

Water & Sewer Revenue Bonds and Loans

Year Ended June 30,	Water and Sewer Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2000	\$ 2,425,582	\$ 1,433,976	\$ 991,606	\$ 773,821	\$ 219,099	\$ 992,920	1.00
2001	2,426,153	1,573,649	852,504	773,822	190,250	964,072	0.88
2002	2,694,675	1,726,493	968,182	803,821	160,165	963,986	1.00
2003	2,774,738	1,836,236	938,502	700,000	92,269	792,269	1.18
2004	2,806,471	2,049,232	757,239	833,821	83,608	917,429	0.83
2005	2,974,469	1,963,397	1,011,072	632,136	53,618	685,754	1.47
2006	3,190,509	2,161,896	1,028,613	803,642	68,287	871,929	1.18
2007	3,301,512	2,261,356	1,040,156	524,719	59,474	584,193	1.78
2008	3,607,913	2,658,329	949,584	337,705	63,834	401,539	2.36
2009	3,537,130	2,755,768	781,362	283,613	29,293	312,906	2.50

¹Depreciation and other non-cash items not included.

DEMOGRAPHIC AND ECONOMIC STATISTICS
CITY OF FAYETTEVILLE, TENNESSEE
LAST TEN FISCAL YEARS

Year Ended <u>June 30,</u>	<u>Population</u>	Personal <u>Income</u>	Per Capita Personal <u>Income</u>	Unemployment <u>Rate</u>
2000	7,349	N/A	N/A	2.90%
2001	7,475	N/A	N/A	3.70%
2002	6,994	N/A	N/A	4.60%
2003	6,994	N/A	N/A	4.60%
2004	7,007	\$ 147,504,357	\$ 21,051	4.60%
2005	7,007	159,156,998	22,714	5.60%
2006	7,007	169,905,736	24,248	5.30%
2007	7,007	178,986,808	25,544	4.80%
2008	7,007	185,531,346	26,478	4.20%
2009	7,048	200,705,896	28,477	6.80%

N/A - Not available

Source: Middle Tennessee Industrial Development Association Community Data Profile.

PRINCIPAL EMPLOYERS
CITY OF FAYETTEVILLE, TENNESSEE
CURRENT YEAR AND NINE YEARS AGO

<u>Employer</u>	<u>Year Ended 6/30/2008</u>		<u>Year Ended 6/30/1999</u>	
	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
Goodman Co. LP (formerly Amana)	1,250	1	1,082	1
Lincoln County Board of Education	780	2	-	-
Lincoln County Health System	635	3	-	-
Frito-Lay, Inc.	500	4	420	2
Wal-Mart	323	5	-	-
Lincoln County	198	6	-	-
Fayetteville City School System	170	7	-	-
Copperweld Corp.	120	8	173	3
Franke Contract Group	140	9	135	5
Fayetteville Public Utilities	114	10	-	-
Lincoln County Mfg. Inc.	-	-	168	4
Del-Met	-	-	126	6
R&B Wire	-	-	81	7
VAW of America	-	-	78	8
Summa Technology	-	-	78	9
Averitt Express	-	-	53	10

Source: Middle Tennessee Industrial Development Association Community Data Profile.

FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
CITY OF FAYETTEVILLE, TENNESSEE
LAST THREE FISCAL YEARS

<u>Function / Program</u>	<u>Year Ended June 30,</u>		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
General Government			
- Administration	5	5	5
- Building & Codes	2	2	1
- Information Technology	-	1	1
Public Safety			
- Emergency Communications	9	9	11
- Fire Department	19	19	19
- Police	25	15	26
Recreation			
- Parks & Recreation	6	6	6
- Pool (Seasonal)	15	15	15
City Garage	4	4	4
Sanitation	4	4	4
Street Department	16	16	18
Fayetteville Public Utilities			
- Administration	32	43	42
- Electric division	35	37	36
- Gas division	15	13	13
- Telecommunications division	8	4	4
- Water & Sewer division	20	19	19
Fayetteville City Schools			
- Professional	83	88	83
- Support (includes cafeteria)	87	89	87

**OPERATING INDICATORS BY FUNCTION
LAST THREE FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2009

Function/Program	Year ended June 30,		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Police			
Arrests	66	1,015	821
Burglary	74	15	71
Traffic Control	866	1,041	797
Complaints	2,814	1,938	841
Fire			
Fire Calls	55	41	35
Medical Calls	755	748	683
Sanitation			
Solid Waste Collection - Garbage (tonnage)	4,842	4,761	4,552
Yard Waste Collection (tonnage)	2,625	2,758	2,875
Recreation			
Pool Admissions	6,295	4,987	4,393
Fayetteville Public Utilities			
Electric power sold (thousand kilowatt hours)	450,313	452,742	427,661
Natural gas sold (thousand cubic feet)	828,409	786,063	818,879
Water sold (thousand gallons)	590,046	632,111	563,738
Fayetteville City Schools			
Student enrollment			
Ralph Askins Elementary	418	429	513
Fayetteville Intermediate	292	303	291
Fayetteville Junior High	243	270	277

**CAPITAL ASSET STATISTICS BY FUNCTION
LAST THREE FISCAL YEARS**

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2009

Function/Program	Year ended June 30,		
	<u>2007</u>	<u>2008</u>	<u>2009</u>
Police			
Stations	1	1	1
Patrol Cars	28	28	28
Scooters	2	2	2
Fire			
Fire Trucks	4	4	4
Rescue Trucks	1	1	1
Public Works			
Garbage Trucks	4	4	4
Street Heavy Equipment Vehicles	10	10	10
Street Trucks	10	11	11
Recreation			
Pools	2	2	2
Baseball Fields	3	3	3
Softball Fields	5	5	5
Soccer Fields	7	7	7
Parks	7	7	7
Fayetteville Public Utilities			
Electric lines (miles)	1,849	1,883	1,893
Gas lines (miles)	426	431	246
Water lines (miles)	121	132	140
Wastewater lines (miles)	46	47	70
Telecommunication lines (miles)	190	183	191
Fayetteville City Schools			
Schools	3	3	3
Buses	8	8	8

N/A - Not available

INTERNAL CONTROL AND COMPLIANCE SECTION

**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***

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fayetteville, Tennessee, (the "City") as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements and have issued our report thereon, dated February 13, 2010. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of Fayetteville Public Utilities and Fayetteville City Schools, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the following deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting: 2009-1.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2009-2.

We noted certain matters that we reported to management of the City in a separate letter dated February 13, 2010.

The City's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit the City's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Mayor and Aldermen, the State Comptroller's office, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Winnett Assocater, LLC

February 13, 2010

SCHEDULE OF FINDINGS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2009

Finding 2009-1: Some information necessary to prepare GAAP based financial statements is not being prepared by management. Instead, as is common practice, the auditor has been relied upon to provide this information. This information pertains to schedules necessary to convert from the governmental fund basis to the government-wide basis, primarily in the areas of long-term debt and fixed assets. Recent industry literature has emphasized that the work of an external auditor cannot be considered a control of the auditee.

Recommendation: Personnel should be assigned to provide the schedules necessary to convert from the governmental funds basis to the government-wide presentation.

Management Response: The City has noted the deficiency and will provide the needed schedules for the next year. The City believes this issue will be addressed in the material covered in the Certified Municipal Finance Officers' classes the Finance Director is attending.

Finding 2009-2: During our audit we noted revenue from vending machines, as well as some other amounts deposited, appropriately included in the books of record. However, they were included in accounts net of some expenditures. These accounts were not budgeted.

Regarding revenues from vending operations the State Attorney General stated in Opinion U89-134, that these revenues are public funds and "should be handled in the same manner as other revenues of the governmental entity." Thus the expenditures are subject to budget appropriation, and it is not appropriate to net these amounts. We wish to emphasize that these expenditures, like all expenditures of the City, must further a valid municipal purpose.

Recommendation: Separate accounts should be used to record revenues and expenditures, and amounts should be budgeted.

Management Response: The City agrees that the amounts should be recorded to the revenue and expenditure accounts and the amounts should be budgeted. The City is addressing this issue in the fiscal year 2011 budget.

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

In planning our audit of the financial statements of City of Fayetteville, Tennessee as of and for the year ended June 30, 2009, in accordance with auditing standards generally accepted in the United States of America, we considered City of Fayetteville, Tennessee's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. A separate report dated February 13, 2010, contains our report on our consideration of the City of Fayetteville, Tennessee's internal controls. This letter does not affect our report dated February 13, 2010, on the financial statements of the City of Fayetteville, Tennessee.

Based on the procedures referred to above and on our auditing procedures performed, we offer the following comments and suggestions for your consideration:

HEALTH INSURANCE ESCROW ACCOUNT

It is our understanding that funds were set aside in a separate bank account(s) for the purpose of funding future postemployment health benefits. It is our understanding that a separate fund entitled "health insurance escrow account" was set up to account for the use of these funds. We noted that the activity, including the balances of the cash accounts, is also recorded in the general fund. We are unaware of the need for this double accounting. Creating the separate checking accounts for these funds appears to meet the purpose of setting aside these funds. Thus, to simplify the accounting of these transactions, we suggest closing the health insurance escrow account.

TIMING OF DEPOSITS

Our audit testing in the area of cash receipts revealed the City's procedure is to make deposits twice a week. This practice opens the City to the threat of a loss or theft of cash while it is on the premises. The City's current practice does appear to meet the State of Tennessee's laws concerning the timing of deposits. TCA 6-56-11 states, in part, "every municipal officer handling public funds shall be required to, as soon as practical, but no later than three working days after the receipt by such municipal official of any public funds, deposit the funds to the credit of such municipality's official bank account." It is our experience that the use of the word "practical" often applies to the accessibility of the bank or the size of the deposits. To strengthen internal controls in this area, we suggest making deposits daily. Alternatively, the City could consider changing its procedure to include making daily deposits during times of heavy cash inflow or set an amount by which a deposit will always be made if the receipts exceed that amount.

ALLOCATION OF GARAGE, BENEFITS AND PURCHASING EXPENDITURES

The current practice of the City is to allocate garage, postretirement benefits, and purchasing expenditures based on usage and/or payroll to the applicable department. This occurs after the books are closed and as part of the preparation of the GAAP based financial statements. To provide for more timely information concerning these allocations we suggest they be made monthly similar to that of gasoline usage. This would also require the budgeting of these expenses by department.

The comments and suggestions included above are not intended to reflect unfavorably on the abilities or integrity of any employee or official of the City of Fayetteville, Tennessee. Rather, they are made in recognition of our responsibilities as independent auditors and from a sincere desire to be helpful.

We appreciate this opportunity to be of service to the City of Fayetteville, Tennessee. If you have questions or wish to discuss the contents of this letter, we will be pleased to discuss them at your convenience. Thank you.

Winnett Associates, LLC

February 13, 2010