

Jim Lee

FINANCIAL REPORT
OF
CITY OF FAYETTEVILLE
FAYETTEVILLE, TENNESSEE
JUNE 30, 2008

PUTMAN & HANCOCK
CERTIFIED PUBLIC ACCOUNTANTS

CITY OF FAYETTEVILLE, TENNESSEE

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FINANCIAL SECTION

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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 the City of Fayetteville, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fayetteville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayetteville, Tennessee, as of June 30, 2008, and the respective changes in financial position and cash flows, where applicable, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 3, 2008 on our consideration of the City of Fayetteville, Tennessee's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 2 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fayetteville, Tennessee's basic financial statements. The supplementary information section, other financial schedules, statistical section and single audit section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal and state financial awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Fayetteville, Tennessee. The combining financial statements and individual budgetary comparison schedules in the supplementary information section and the schedule of expenditures of federal and state financial awards on pages 103 - 104 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, 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 in the audit of the basic financial statements and, accordingly, we express no opinion on them.



December 3, 2008

City of Fayetteville

Gwen Shelton, Mayor
Pat Fraley, Vice Mayor

Phone (931) 433-6154
Fax (931) 433-2557



Alderman:
Joe Askins
Danny Bryant
Marty Pepper
Michael Stewart
Dorothy Small

"Where Tradition Meets Tomorrow"

110 Elk Avenue South Fayetteville, TN 37334 www.fayettevilletn.com

MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED JUNE 30, 2008

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 ended June 30, 2008. 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 the 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 the 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.

REPORTING 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 statements 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 18,219,278	\$ 17,633,295	\$ 37,729,044	\$ 25,171,980	\$ 55,948,322	\$ 42,805,275
Capital assets	16,534,627	16,524,034	60,828,984	58,816,433	77,363,611	75,340,467
Total assets	<u>34,753,905</u>	<u>34,157,329</u>	<u>98,558,028</u>	<u>83,988,413</u>	<u>133,311,933</u>	<u>118,145,742</u>
Long-term debt outstanding	2,039,131	2,368,937	33,236,466	23,889,234	35,275,597	26,258,171
Other liabilities	2,504,839	2,443,721	7,796,169	6,399,599	10,301,008	8,843,320
Total liabilities	<u>4,543,970</u>	<u>4,812,658</u>	<u>41,032,635</u>	<u>30,288,833</u>	<u>45,576,605</u>	<u>35,101,491</u>
Net assets						
Invested in capital assets	16,260,960	16,524,034	37,074,230	35,494,073	53,335,190	52,018,107
Restricted	5,190,884	4,794,880	5,898,526	5,787,918	11,089,410	10,582,798
Unrestricted	<u>8,758,091</u>	<u>8,025,757</u>	<u>14,552,637</u>	<u>12,417,589</u>	<u>23,310,728</u>	<u>20,443,346</u>
Total net assets	<u>\$ 30,209,935</u>	<u>\$ 29,344,671</u>	<u>\$ 57,525,393</u>	<u>\$ 53,699,580</u>	<u>\$ 87,735,328</u>	<u>\$ 83,044,251</u>

Net assets of the City's governmental activities increased 1.03 percent in the fiscal year 2008. Net assets of the City's business-type activities increased 7.1 percent in the fiscal year 2008.

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	
	2008	2007	2008	2007	2008	2007
Revenues						
Program Revenues:						
Charges for services	\$ 650,387	\$ 628,216	\$ 56,538,686	\$ 53,444,868	\$ 57,189,073	\$ 54,073,084
Operating grants and contribution	5,911,615	5,301,731	-	-	5,911,615	5,301,731
Capital grants and contributions	38,072	26,492	582,003	1,016,900	620,075	1,043,392
General revenues:						
Property taxes	2,734,725	2,604,642	-	-	2,734,725	2,604,642
Other taxes	4,256,173	4,092,181	-	-	4,256,173	4,092,181
Other general revenues	<u>681,345</u>	<u>667,125</u>	<u>1,032,229</u>	<u>1,018,741</u>	<u>1,713,574</u>	<u>1,685,866</u>
Total revenues	14,272,317	13,320,387	58,152,918	55,480,509	72,425,235	68,800,896
Program Expenses:						
General government	701,459	750,922	-	-	701,459	750,922
Public safety	3,470,893	3,237,349	-	-	3,470,893	3,237,349
Judicial	48,997	49,358	-	-	48,997	49,358
Recreation	586,042	547,999	-	-	586,042	547,999
Highways and streets	1,276,864	1,156,670	-	-	1,276,864	1,156,670
Sanitation	11,277	12,524	430,149	426,391	441,426	438,915
Housing and community development	359,627	802,627	-	-	359,627	802,627
Education	7,881,326	7,357,688	-	-	7,881,326	7,357,688
Interest on long-term debt	62,361	69,855	-	-	62,361	69,855
Electric, telecom, water, and gas	-	-	52,905,163	50,802,521	52,905,163	50,802,521
Total expenses	<u>14,398,846</u>	<u>13,984,992</u>	<u>53,335,312</u>	<u>51,228,912</u>	<u>67,734,158</u>	<u>65,213,904</u>
Excess (deficiency) before transfers	(126,529)	(664,605)	4,817,606	4,251,597	4,691,077	3,586,992
Transfers	<u>991,793</u>	<u>970,626</u>	<u>(991,793)</u>	<u>(970,626)</u>	<u>-</u>	<u>-</u>
Increase in net assets	<u>\$ 865,264</u>	<u>\$ 306,021</u>	<u>\$ 3,825,813</u>	<u>\$ 3,280,971</u>	<u>\$ 4,691,077</u>	<u>\$ 3,586,992</u>

The City's total revenues increased 5.27 percent from the fiscal year ended June 30, 2007 to the fiscal year ended June 30, 2008, while total expenses increased 3.86 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, 2008 and 2007. 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	
	2008	2007	2008	2007
General government	\$ 701,459	\$ 750,922	\$ 629,132	\$ 667,583
Public safety	3,470,893	3,237,349	3,165,992	2,972,926
Judicial	48,997	49,358	(87,281)	(79,885)
Recreation	586,042	547,999	532,937	493,681
Highways and street	1,276,864	1,156,670	1,080,287	958,523
Sanitation	11,277	12,524	11,277	12,524
Housing and community development	359,627	802,627	341,941	785,127
Education	7,881,326	7,357,688	2,062,126	2,148,219
Interest on long-term debt	62,361	69,855	62,361	69,855
Total Net Expenditures	\$ 14,398,846	\$ 13,984,992	\$ 7,798,772	\$ 8,028,553

The information below details general revenues of the City's governmental activities for the fiscal years ended June 30, 2008 and 2007. These revenues are required to cover the net expenditures listed above.

Revenues by Source

	2008	2007
Property taxes	\$ 2,734,725	\$ 2,604,642
In lieu of taxes	371,525	377,234
Sales taxes	2,238,533	2,121,092
Alcoholic beverage taxes	450,977	437,795
Other local taxes	327,417	294,413
Other state taxes	771,835	710,810
Other	95,886	135,400
Unrestricted investment earnings	661,559	643,588
Gain/(Loss) on sale of assets	19,786	23,537
Transfers	991,793	970,626
Total General Revenues	\$ 8,664,036	\$ 8,319,137

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, 2008						
Total Assets	\$ 17,946,479	\$ 64,265,926	\$ 13,507,296	\$ 5,096,473	\$ 822,873	\$ 101,639,047
Net Assets	11,995,972	36,481,802	10,870,845	(2,593,084)	769,858	57,525,393
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	3.99%	8.35%	2.82%	n/a	-7.70%	6.65%
Fiscal Year Ended June 30, 2007						
Total Assets	\$ 17,468,870	\$ 51,080,504	\$ 12,415,495	\$ 5,359,474	\$ 933,298	\$ 87,257,641
Net Assets	11,517,667	33,435,909	10,563,998	(2,647,158)	829,164	53,699,580
Change in Net Assets	\$ 612,185	\$ 2,097,372	\$ 737,385	\$ (111,928)	\$ (54,044)	\$ 3,280,970
Return on Ending Total Assets	3.50%	4.11%	5.94%	-2.09%	-5.79%	3.76%
Return on Ending Net Assets	5.32%	6.27%	6.98%	n/a	-6.52%	6.11%

CAPITAL ASSETS

As of June 30, 2008, the City has \$77 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 \$2,023,144, or 2.69 percent, over last year.

The following is a summary of capital assets for fiscal years ended June 30, 2008 and 2007, for governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Governmental Activities:						
Land	\$ 2,524,820	\$ 2,524,820	\$ 1,074,962	\$ 1,011,755	\$ 3,599,782	\$ 3,536,575
Buildings	12,354,190	12,299,671	3,602,711	4,200,119	15,956,901	16,499,790
Improvements other than buildings	1,145,862	1,084,350	-	-	1,145,862	1,084,350
Machinery and equipment	6,812,545	6,494,626	98,893,469	96,056,875	105,706,014	102,551,501
Infrastructure	<u>2,279,334</u>	<u>2,157,776</u>	<u>541,788</u>	<u>513,858</u>	<u>2,821,122</u>	<u>2,671,634</u>
Total plant and equipment in service	25,116,751	24,561,243	104,112,930	101,782,607	129,229,681	126,343,850
Construction work in progress	<u>129,891</u>	<u>-</u>	<u>3,146,143</u>	<u>1,348,962</u>	<u>3,276,034</u>	<u>1,348,962</u>
	25,246,642	24,561,243	107,259,073	103,131,569	132,505,715	127,692,812
Less accumulated depreciation	<u>(8,712,015)</u>	<u>(8,037,209)</u>	<u>(46,430,089)</u>	<u>(44,315,136)</u>	<u>(55,142,104)</u>	<u>(52,352,345)</u>
Total Governmental Activities	<u>\$ 16,534,627</u>	<u>\$ 16,524,034</u>	<u>\$ 60,828,984</u>	<u>\$ 58,816,433</u>	<u>\$ 77,363,611</u>	<u>\$ 75,340,467</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental and business-type activities, increased in fiscal year 2008 by \$8,168,389. Fayetteville Public Utilities issued \$9,950,000 of revenue bond debt and \$823,940 of revenue and tax bond debt.

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2008	2007	2008	2007	2008	2007
Bonds						
General Obligation	\$ 925,000	\$ 1,280,000	\$ -	\$ -	\$ 925,000	\$ 1,280,000
Revenue and tax	-	-	6,792,115	6,398,175	6,792,115	6,398,175
Revenue	-	-	25,780,000	17,463,660	25,780,000	17,463,660
Less deferred amounts	<u>-</u>	<u>(2,427)</u>	<u>(186,430)</u>	<u>(236,817)</u>	<u>(186,430)</u>	<u>(239,244)</u>
Total Bonds	925,000	1,277,573	32,385,685	23,625,018	33,310,685	24,902,591
Loans						
Tennessee Municipal Bond Fund	273,000	355,000	-	-	273,000	355,000
Tennessee Utility Relocation Loan	-	-	58,613	171,318	58,613	171,318
RUS Economic Development Loan	<u>-</u>	<u>-</u>	<u>266,250</u>	<u>311,250</u>	<u>266,250</u>	<u>311,250</u>
Total Loans	273,000	355,000	324,863	482,568	597,863	837,568
Totals	<u>\$ 1,198,000</u>	<u>\$ 1,632,573</u>	<u>\$ 32,710,548</u>	<u>\$ 24,107,586</u>	<u>\$ 33,908,548</u>	<u>\$ 25,740,159</u>

This debt payable for governmental activities does not include compensated absences of \$563,453 and accrued landfill closing costs of \$277,678 as of June 30, 2008. The debt payable for business-type activities does not include compensated absences of \$719,668 as of June 30, 2008.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the last year, budget amendments approved by the Board of Mayor and Aldermen totaled \$602,232. These amendments include three major items: \$160,000 to upgrade windows, lights and doors of the municipal building, \$150,000 for early retirement of bonded debt, and \$85,000 for synchronization of traffic signals on the Huntsville Highway. The Board of Mayor and Alderman also approved \$20,000 during the last year for the purchase new lights on the inside portion of the square. The new lights which were purchased during fiscal year 2008 were actually a carryover from the previous budget year. 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.

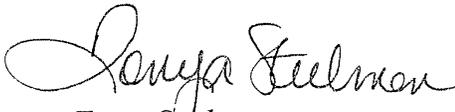
As the City closed fiscal year 2008, the financial condition of the City is solid due to the management approach of the Board of Mayor and Alderman, administration, and the departments. This approach has resulted in a stable tax rate with only three tax increases since 1985.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The 2009 general fund budget was positively impacted by the projected increase in property taxes due to growth and development within the City limits. 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 improvements to the Municipal Building to improve the building and make it more energy efficient. The City will also take on a street paving project in the fiscal year 2009. This project will include milling streets and repaving the streets. The Stonebridge Father's Memorial Walk was completed and the City has also received grants for bullet proof vests and the Home Grant. The City is continuing construction on the Greenway Trail, which will 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.



Tonya Steelman
Finance Director

BASIC FINANCIAL STATEMENTS

CITY OF FAYETTEVILLE, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	Governmental	Business-type	Total
	<u>Activities</u>	<u>Activities</u>	
Cash	\$ 13,985,205	\$ 11,341,163	\$ 25,326,368
Investments	924,333	-	924,333
Receivables	3,163,253	6,197,857	9,361,110
Internal balances	29,168	(29,168)	-
Inventory	21,660	2,108,265	2,129,925
Prepaid expenses	95,659	364,215	459,874
Restricted assets	-	16,482,168	16,482,168
Other assets	-	1,264,544	1,264,544
Capital assets (net of accumulated depreciation):			
Land	2,524,820	1,074,962	3,599,782
Buildings	8,070,522	2,304,005	10,374,527
Improvements other than buildings	857,898	-	857,898
Machinery and equipment	3,742,333	54,239,667	57,982,000
Infrastructure	1,209,163	64,207	1,273,370
Construction in progress	129,891	3,146,143	3,276,034
Total Assets	<u>34,753,905</u>	<u>98,558,028</u>	<u>133,311,933</u>
 LIABILITIES			
Accounts payable and accrued expenses	491,510	6,233,371	6,724,881
Accrued interest payable	-	161,326	161,326
Deferred revenues	2,013,329	-	2,013,329
Deposits	-	1,094,350	1,094,350
Liabilities payable from restricted assets:			
Long-term debt	-	193,750	193,750
Accrued employee benefits	-	113,372	113,372
Noncurrent liabilities:			
Due within one year	385,066	2,297,609	2,682,675
Due in more than one year	1,654,065	30,938,857	32,592,922
Total Liabilities	<u>4,543,970</u>	<u>41,032,635</u>	<u>45,576,605</u>
 NET ASSETS			
Invested in capital assets, net of related debt	16,260,960	37,074,230	53,335,190
Restricted for:			
Debt service	-	5,898,526	5,898,526
Public safety	72,566	-	72,566
Education	5,118,318	-	5,118,318
Unrestricted	8,758,091	14,552,637	23,310,728
Total Net Assets	<u>\$ 30,209,935</u>	<u>\$ 57,525,393</u>	<u>\$ 87,735,328</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

Function/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:							
General government	\$ 701,459	\$ 72,327	\$ -	\$ -	\$ (629,132)	\$ -	\$ (629,132)
Public safety	3,470,893	-	277,919	26,982	(3,165,992)	-	(3,165,992)
Judicial	48,997	136,278	-	-	87,281	-	87,281
Recreation	586,042	53,105	-	-	(532,937)	-	(532,937)
Highways and streets	1,276,864	-	196,577	-	(1,080,287)	-	(1,080,287)
Sanitation	11,277	-	-	-	(11,277)	-	(11,277)
Housing and community development	359,627	-	6,596	11,090	(341,941)	-	(341,941)
Education	7,881,326	388,677	5,430,523	-	(2,062,126)	-	(2,062,126)
Interest on long-term debt	62,361	-	-	-	(62,361)	-	(62,361)
Total governmental activities	14,398,846	650,387	5,911,615	38,072	(7,798,772)	-	(7,798,772)
Business-type activities:							
Electric, telecom, water, and gas	52,905,163	56,046,974	-	582,003	-	3,723,814	3,723,814
Sanitation	430,149	491,712	-	-	-	61,563	61,563
Total business-type activities	53,335,312	56,538,686	-	582,003	-	3,785,377	3,785,377
Total Government	\$ 67,734,158	\$ 57,189,073	\$ 5,911,615	\$ 620,075	(7,798,772)	3,785,377	(4,013,395)
General Revenues:							
Property taxes					2,734,725	-	2,734,725
In lieu of tax					371,525	-	371,525
Sales taxes					2,238,533	-	2,238,533
Alcoholic beverage taxes					450,977	-	450,977
Other local taxes					327,417	-	327,417
Other state taxes					771,835	-	771,835
Other					95,886	-	95,886
Unrestricted investment earnings					661,559	1,032,229	1,693,788
Gain on sale of assets					19,786	-	19,786
Transfers					991,793	(991,793)	-
Total General Revenues and Transfers					8,664,036	40,436	8,704,472
Changes in net assets					865,264	3,825,813	4,691,077
Net assets - beginning					29,344,671	53,699,580	83,044,251
Net assets - ending					\$ 30,209,935	\$ 57,525,393	\$ 87,735,328

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

CITY OF FAYETTEVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2008

	General	School General	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 4,890,776	\$ 5,295,253	\$ 3,799,176	\$ 13,985,205
Investments	924,333	-	-	924,333
Receivables	2,148,085	115	2,485	2,150,685
Due from other funds	29,168	3,334	(3,334)	29,168
Due from other governments	699,257	289,159	24,152	1,012,568
Inventory	14,961	-	6,699	21,660
Prepaid expenses	95,659	-	-	95,659
Total Assets	\$ 8,802,239	\$ 5,587,861	\$ 3,829,178	\$ 18,219,278
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 122,500	\$ 87,755	\$ 21,134	\$ 231,389
Other accrued expenses	225,825	205,589	21,813	453,227
Deferred revenues	2,382,384	79,153	77,177	2,538,714
Total Liabilities	2,730,709	372,497	120,124	3,223,330
 Fund Balances:				
Reserved for:				
Inventory and prepayments	110,620	-	6,699	117,319
Encumbrances	2,624	-	-	2,624
Education	-	5,215,364	96,801	5,312,165
Capital projects	924,333	-	430,811	1,355,144
Public safety	-	-	72,566	72,566
Unreserved:				
Designated for debt service	-	-	348,638	348,638
Designated for capital projects	-	-	2,753,539	2,753,539
Unreserved, reported in :				
General fund	5,033,953	-	-	5,033,953
Total Fund Balances	6,071,530	5,215,364	3,709,054	14,995,948
Total Liabilities and Fund Balances	\$ 8,802,239	\$ 5,587,861	\$ 3,829,178	

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.	16,534,627
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	525,385
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.	(1,846,025)
Net assets of governmental activities	\$ 30,209,935

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

CITY OF FAYETTEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2008

	General	School General	Other Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes:				
Property	\$ 1,891,416	\$ -	\$ -	\$ 1,891,416
Business	221,581	-	-	221,581
Wholesale beer	300,197	-	-	300,197
Alcoholic beverage	128,153	-	-	128,153
Sales	1,628,348	-	-	1,628,348
Tax equivalency	371,525	-	-	371,525
Licenses and permits	34,880	-	-	34,880
Fines	110,860	-	25,418	136,278
Franchise fees	105,316	-	-	105,316
Intergovernmental	1,137,430	6,087,418	900,143	8,124,991
Charges for services and use of property	37,447	190,074	198,603	426,124
Investment earnings	255,500	218,481	187,578	661,559
Recreation activities	53,105	-	-	53,105
Other revenue	65,635	8,198	18,660	92,493
	<u>6,341,393</u>	<u>6,504,171</u>	<u>1,330,402</u>	<u>14,175,966</u>
EXPENDITURES				
General government	658,011	-	5,239	663,250
Public safety	3,252,995	-	11,978	3,264,973
Judicial	48,997	-	-	48,997
Recreation	519,668	-	-	519,668
Highways and streets	1,171,809	-	-	1,171,809
Sanitation	-	-	13,189	13,189
Housing and community development	311,566	-	-	311,566
Education	-	6,411,635	1,079,090	7,490,725
Debt Service:				
Principal	-	82,000	355,000	437,000
Interest	-	13,375	46,559	59,934
Capital outlay	166,565	302,401	326,187	795,153
	<u>6,129,611</u>	<u>6,809,411</u>	<u>1,837,242</u>	<u>14,776,264</u>
Excess (deficiency) of revenues over expenditures	<u>211,782</u>	<u>(305,240)</u>	<u>(506,840)</u>	<u>(600,298)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	963,793	648,923	475,618	2,088,334
Transfers out	(1,096,541)	-	-	(1,096,541)
Proceeds from disposition of capital assets	15,550	-	7,267	22,817
Total Other Financing Sources (Uses)	<u>(117,198)</u>	<u>648,923</u>	<u>482,885</u>	<u>1,014,610</u>
Net changes in fund balances	94,584	343,683	(23,955)	414,312
Fund Balance - beginning	<u>5,976,946</u>	<u>4,871,681</u>	<u>3,733,009</u>	<u>14,581,636</u>
Fund Balance - ending	<u>\$ 6,071,530</u>	<u>\$ 5,215,364</u>	<u>\$ 3,709,054</u>	<u>\$ 14,995,948</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2008

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

Net change in fund balances - total governmental funds	\$ 414,312
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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 capital outlays exceeded depreciation in the current period.	13,624
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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.	(3,031)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	76,565
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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.	434,573
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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.	<u>(70,779)</u>
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Change in net assets of governmental activities	<u>\$ 865,264</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF FAYETTEVILLE, TENNESSE
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS	Enterprise Funds		
	Fayetteville	Sanitation	Totals
	Public Utilities	Fund	
Current Assets:			
Cash for general use	\$ 10,936,186	\$ 404,977	\$ 11,341,163
Accounts receivable	5,856,333	38,984	5,895,317
Other receivables	302,540	-	302,540
Inventories	2,108,265	-	2,108,265
Prepaid expenses	364,215	-	364,215
Total Current Assets	19,567,539	443,961	20,011,500
Restricted Funds	16,482,168	-	16,482,168
Capital Assets, net of accumulated depreciation	60,450,072	378,912	60,828,984
Other Assets	1,264,544	-	1,264,544
Total Assets	97,764,323	822,873	98,587,196
LIABILITIES			
Current Liabilities:			
Current maturities of long-term debt payable from current assets	1,974,863	-	1,974,863
Accounts payable	5,666,591	18,328	5,684,919
Due to other funds	-	29,168	29,168
Customer deposits	1,094,350	-	1,094,350
Accrued interest	161,326	-	161,326
Other accrued liabilities	669,679	5,519	675,198
Total Current Liabilities	9,566,809	53,015	9,619,824
Other Liabilities			
Advances from TVA	196,000	-	196,000
Long-term debt payable from restricted funds	193,750	-	193,750
Accrued employee benefits	113,372	-	113,372
Compensated absences	396,922	-	396,922
Total Other Liabilities	900,044	-	900,044
Long-Term Debt	30,541,935	-	30,541,935
Total Liabilities	41,008,788	53,015	41,061,803
NET ASSETS			
Invested in capital assets, net of related debt	36,695,318	378,912	37,074,230
Restricted for debt service	5,898,526	-	5,898,526
Unrestricted	14,161,691	390,946	14,552,637
Total Net Assets	\$ 56,755,535	\$ 769,858	\$ 57,525,393

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

CITY OF FAYETTEVILLE , TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
 Year Ended June 30, 2008

	Enterprise Funds		
	Fayetteville		Totals
	Public Utilities	Sanitation Fund	
OPERATING REVENUES			
Charges for services	\$ 54,732,126	\$ 491,712	\$ 55,223,838
Other	1,314,848	-	1,314,848
Total Operating Revenues	<u>56,046,974</u>	<u>491,712</u>	<u>56,538,686</u>
OPERATING EXPENSES			
Cost of utility services	38,222,630	-	38,222,630
Pumping, distribution and collection	4,670,631	393,012	5,063,643
Customer billing and collecting	909,498	-	909,498
General and administrative	3,323,603	-	3,323,603
Taxes and tax equivalents	581,387	-	581,387
Provision for depreciation	3,427,520	37,137	3,464,657
Other	228,837	-	228,837
Total Operating Expenses	<u>51,364,106</u>	<u>430,149</u>	<u>51,794,255</u>
Income From Operations	<u>4,682,868</u>	<u>61,563</u>	<u>4,744,431</u>
OTHER INCOME AND (EXPENSE)			
Interest income	1,015,098	17,131	1,032,229
Interest expense	(1,366,878)	-	(1,366,878)
Amortization	(104,489)	-	(104,489)
Miscellaneous	(69,690)	-	(69,690)
Other Income (Expense) -net	<u>(525,959)</u>	<u>17,131</u>	<u>(508,828)</u>
Income Before Contributions and Transfers	4,156,909	78,694	4,235,603
Capital contributions in aid of construction	582,003	-	582,003
Transfers out	(853,793)	(138,000)	(991,793)
Change in Net Assets	3,885,119	(59,306)	3,825,813
Total Net Assets, at beginning of year	<u>52,870,416</u>	<u>829,164</u>	<u>53,699,580</u>
Total Net Assets, at end of year	<u>\$ 56,755,535</u>	<u>\$ 769,858</u>	<u>\$ 57,525,393</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 Year Ended June 30, 2008

	Enterprise Funds		
	Fayetteville		Totals
	Public	Sanitation	
	<u>Utilities</u>	<u>Fund</u>	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 55,201,701	\$ 492,270	\$ 55,693,971
Payments to suppliers and others	(41,194,141)	(274,486)	(41,468,627)
Payments to employees	(3,898,177)	(109,746)	(4,007,923)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10,109,383</u>	<u>108,038</u>	<u>10,217,421</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Collections on loans to other organizations	45,000	-	45,000
Due to (from) other funds	-	(59,900)	(59,900)
Transfers (to) from other funds	(853,793)	(138,000)	(991,793)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(808,793)</u>	<u>(197,900)</u>	<u>(1,006,693)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Additions to capital assets	(6,511,090)	(3,172)	(6,514,262)
Removal costs of capital assets	(471,566)	-	(471,566)
Materials salvaged from retirements of capital assets	147,613	-	147,613
Capital contributions received, net	582,003	-	582,003
Proceeds from disposal of assets	461,324	-	461,324
Long-term borrowings, net	10,773,940	-	10,773,940
Borrowings repaid	(2,221,365)	-	(2,221,365)
Issue costs paid	(209,447)	-	(209,447)
Interest paid, net	(1,350,208)	-	(1,350,208)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>1,201,204</u>	<u>(3,172)</u>	<u>1,198,032</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	1,023,989	17,131	1,041,120
Other nonoperating income, net	44,936	-	44,936
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,068,925</u>	<u>17,131</u>	<u>1,086,056</u>
INCREASE (DECREASE) IN CASH, NET	11,570,719	(75,903)	11,494,816
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	15,847,635	480,880	16,328,515
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u>\$ 27,418,354</u>	<u>\$ 404,977</u>	<u>\$ 27,823,331</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:			
Income from operations	\$ 4,682,868	\$ 61,563	\$ 4,744,431
Adjustments to reconcile income from operations to net cash provided by operating activities -			
Depreciation, including amounts capitalized	3,645,293	37,137	3,682,430
Loss on disallowance of plant	567,285	-	567,285
Conservation loans advanced - customers	(153,693)	-	(153,693)
Conservation loans collected - customers	50,418	-	50,418
Conservation advances from TVA	166,679	-	166,679
Conservation advances repaid to TVA	(61,983)	-	(61,983)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(733,764)	557	(733,207)
Inventories	(108,853)	-	(108,853)
Prepaid expenses and other assets	44,440	-	44,440
Accounts payable	1,913,363	8,172	1,921,535
Accrued employee benefits	(1,971)	-	(1,971)
Customer deposits	20,674	-	20,674
Other current liabilities and compensated absences	78,627	609	79,236
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10,109,383</u>	<u>\$ 108,038</u>	<u>\$ 10,217,421</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND
Year Ended June 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final budget- Positive (Negative)
	Original	Final		
REVENUES:				
Taxes:				
Property	\$ 1,765,000	\$ 1,765,000	\$ 1,891,416	\$ 126,416
Business	185,000	185,000	221,581	36,581
Wholesale beer	273,000	280,000	300,197	20,197
Alcoholic beverage	120,000	120,000	128,153	8,153
Sales	1,572,000	1,572,000	1,628,348	56,348
Tax equivalency	378,742	393,102	371,525	(21,577)
Licenses and permits	41,500	41,500	34,880	(6,620)
Fines	125,000	125,000	110,860	(14,140)
Franchise fees	73,000	73,000	105,316	32,316
Intergovernmental	1,140,410	1,140,410	1,137,430	(2,980)
Charges for services and use of property	39,000	39,000	37,447	(1,553)
Investment earnings	220,004	220,004	255,500	35,496
Recreation activities	46,950	46,950	53,105	6,155
Other revenue	34,850	34,850	65,635	30,785
Total Revenues	6,014,456	6,035,816	6,341,393	305,577
EXPENDITURES				
General government	647,652	658,011	658,011	-
Public safety	3,151,562	3,252,995	3,252,995	-
Judicial	48,842	50,598	48,997	1,601
Recreation	501,851	519,668	519,668	-
Highways and streets	1,220,661	1,255,042	1,171,809	83,233
Housing and community development	287,974	311,566	311,566	-
Capital outlay	-	166,565	166,565	-
Total Expenditures	5,858,542	6,214,445	6,129,611	84,834
Excess of revenues over expenditures	155,914	(178,629)	211,782	390,411
OTHER FINANCING SOURCES (USES)				
Transfers in	962,981	962,981	963,793	812
Transfers out	(1,110,048)	(1,110,048)	(1,096,541)	13,507
Sale of capital assets	10,000	10,000	15,550	5,550
Total Other Financing Sources (Uses)	(137,067)	(137,067)	(117,198)	19,869
Net changes in fund balances	18,847	(315,696)	94,584	410,280
Fund Balance - beginning	5,976,946	5,976,946	5,976,946	-
Fund Balance - ending	<u>\$ 5,995,793</u>	<u>\$ 5,661,250</u>	<u>\$ 6,071,530</u>	<u>\$ 410,280</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
SCHOOL GENERAL FUND
Year Ended June 30, 2008

	Budget Amounts		Actual Amounts	Variance with Final budget- Positive (Negative)
	Original	Final		
REVENUES:				
Intergovernmental:				
Lincoln County	\$ 1,413,902	\$ 1,414,802	\$ 1,468,964	\$ 54,162
State of Tennessee	4,311,290	4,458,932	4,590,737	131,805
Federal	23,750	23,750	27,717	3,967
Charges for services and use of property	203,365	203,365	190,074	(13,291)
Investment earnings	150,000	150,000	218,481	68,481
Other revenue	11,000	11,000	8,198	(2,802)
Total Revenues	6,113,307	6,261,849	6,504,171	242,322
EXPENDITURES				
Instruction:				
Regular instruction program	3,565,422	3,591,422	3,507,172	84,250
Special education program	305,551	305,551	291,299	14,252
Support services:				
Attendance	40,617	44,617	38,188	6,429
Health services	137,975	151,527	143,602	7,925
Other student support	172,417	172,417	160,718	11,699
Regular instruction program	377,688	379,688	351,085	28,603
Special education program	39,449	39,449	37,604	1,845
Board of education	156,245	156,245	122,780	33,465
Office of the superintendant	153,901	153,901	146,362	7,539
Office of the principal	505,841	511,791	497,884	13,907
Fiscal services	90,154	90,154	82,435	7,719
Operation of plant	544,633	544,633	451,343	93,290
Maintenance of plant	135,747	135,747	104,953	30,794
Transportation	117,601	121,601	101,282	20,319
Community services	188,161	188,161	151,153	37,008
Early childhood education	174,860	267,000	223,775	43,225
Debt service:				
Principal	82,000	82,000	82,000	-
Interest	21,085	21,085	13,375	7,710
Capital outlay	250,000	320,000	302,401	17,599
Total Expenditures	7,059,347	7,276,989	6,809,411	467,578
Excess (deficiency) of revenues over expenditures	(946,040)	(1,015,140)	(305,240)	709,900
OTHER FINANCING SOURCES (USES)				
Transfers in	646,403	646,403	648,923	2,520
Transfers out	-	-	-	-
Total Other Financing Sources (Uses)	646,403	646,403	648,923	2,520
Net changes in fund balances	(299,637)	(368,737)	343,683	712,420
Fund Balance - beginning	4,871,681	4,871,681	4,871,681	-
Fund Balance - ending	<u>\$ 4,572,044</u>	<u>\$ 4,502,944</u>	<u>\$ 5,215,364</u>	<u>\$ 712,420</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 statements 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 changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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.

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 the 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.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 is 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.

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 City 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

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

recognized as revenues 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 principal and interest on general long-term debt which is recognized when 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 36, 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.

The government reports the following major proprietary funds:

The *Fayetteville Public Utilities 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.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Fund Equity (Continued)

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.

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 of market.

6. Restricted Assets

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, building, 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.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Fund Equity (Continued)

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

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, governmental funds report only the compensated absence liability payable from expendable available financial resources, 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

Reserves of fund balance represent those portions of fund equity not available for expenditures (inventory and prepayments, post-employment benefits, education, and capital projects) or legally segregated for a specific future use. Designations of fund balance represent amounts the City has tentatively allocated to future financial resource utilization for capital projects, sanitation, and debt service.

CITY OF FAYETTEVILLE, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Assets, Liabilities and Fund Equity (Continued)

11. Use of 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.

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 \$34,493 was capitalized during the year ended June 30, 2008.

13. Reclassifications

Certain reclassifications have been made to the June 30, 2007 financial statements to conform to the June 30, 2008 financial statement presentation. Such reclassifications have had no effect on net income as previously reported.

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. An 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 \$1,846,025 difference are identified as follows:

Bonds payable	\$ 1,198,000
Compensated absences	370,347
Landfill post closure costs	<u>277,678</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	<u>\$ 1,846,025</u>

CITY OF FAYETTEVILLE, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

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 “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 the \$70,779 difference are as follows:

Compensated absences	\$ 76,199
Landfill post closure costs	<u>(5,420)</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	<u>\$ 70,779</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).

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

CITY OF FAYETTEVILLE, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 4 - 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 5 - DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

The following is a summary of cash and investments as of June 30, 2008:

General use:		
On deposit	\$ 25,322,569	
State investment pool	924,333	
On hand	<u>3,799</u>	\$ 26,250,701
Restricted:		
On deposit		<u>16,482,168</u>
Total		<u>\$ 42,732,869</u>

The restricted assets shown 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, 2008 the following restricted funds were maintained:

Externally restricted:		
Principal and interest sinking fund	\$ 178,083	
Sinking fund reserve	3,820,675	
Renewal and replacement fund	1,899,768	
Improvements and construction fund	<u>8,060,974</u>	
		13,959,500
Other board restricted funds		<u>2,522,668</u>
Total		<u>\$ 16,482,168</u>

The City's cash consists of deposits in financial institutions with bank balances of \$42,055,072 and carrying amounts of \$41,804,737 plus cash on hand of \$3,799. Of the amounts on deposit, \$31,351,901 are fully insured by the Federal Deposit Insurance Corporation (FDIC) or the Tennessee Bank Collateral Pool. The remaining \$10,452,836 is collateralized by securities pledged by financial institutions in the name of the City.

Temporary investments consist of \$924,333 in the State sponsored Local Government Investment Pool (LGIP). The LGIP maintains a ninety day or less weight average maturity. The City's carrying value of this investment (at cost) approximates fair value at June 30, 2008. The LGIP investment is subject to certain risks as described below.

Interest Rate Risk: The City's investments are exposed to declines in fair values due to interest rate changes. The City's risk is mitigated through the limited maturities of the investments.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

A. Deposits and investments (Continued)

Credit Risk: State law limits investments by municipalities to federal obligations, certain other federally guaranteed obligations, certificates of deposit, the LGIP and certain other highly rated instruments. The City has no investment policy that would further limit its investment choices. The LGIP requires that underlying investments other than federal obligations be rated in the highest category by at least two nationally recognized rating services. Other investments in the pool including certificates of deposit must be 100% collateralized.

B. Receivables

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	\$ 10,552	\$ -	\$ 25,229	\$ -	\$ 1,636	\$ 37,417
Taxes	2,096,768	-	-	-	-	2,096,768
Accounts	87,122	115	6,161,514	38,984	849	6,288,584
Intergovernmental	<u>699,257</u>	<u>289,159</u>	<u>-</u>	<u>-</u>	<u>24,152</u>	<u>1,012,568</u>
Gross receivables	2,893,699	289,274	6,186,743	38,984	26,637	9,435,337
Less: Allowance for Uncollectibles	<u>(46,357)</u>	<u>-</u>	<u>(27,870)</u>	<u>-</u>	<u>-</u>	<u>(74,227)</u>
Net total receivables	<u>\$ 2,847,342</u>	<u>\$ 289,274</u>	<u>\$ 6,158,873</u>	<u>\$ 38,984</u>	<u>\$ 26,637</u>	<u>\$ 9,361,110</u>

Revenues of the Fayetteville Public Utilities are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$60,852.

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	\$ 2,007,690	\$ -	\$ 2,007,690
Other taxes receivable	353,825	-	353,825
Operating grants received but unspent	-	15,411	15,411
Capital grants received but unspent	-	37,500	37,500
Other	<u>100,023</u>	<u>24,265</u>	<u>124,288</u>
	<u>\$ 2,461,538</u>	<u>\$ 77,176</u>	<u>\$ 2,538,714</u>

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets

Capital asset activity for the year ended June 30, 2008 for governmental activities follows:

	Beginning <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	Ending <u>Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 2,524,820	\$ -	\$ -	\$ 2,524,820
Construction in progress	<u>-</u>	<u>129,891</u>	<u>-</u>	<u>129,891</u>
Total capital assets, not being depreciated	<u>2,524,820</u>	<u>129,891</u>	<u>-</u>	<u>2,654,711</u>
Capital assets, being depreciated:				
Buildings	12,299,671	54,519	-	12,354,190
Improvements other than buildings	1,084,350	61,512	-	1,145,862
Machinery and equipment	6,494,626	422,652	(104,733)	6,812,545
Infrastructure	<u>2,157,776</u>	<u>121,558</u>	<u>-</u>	<u>2,279,334</u>
Total capital assets being depreciated	<u>22,036,423</u>	<u>660,241</u>	<u>(104,733)</u>	<u>22,591,931</u>
Less accumulated depreciation for:				
Buildings	(4,021,120)	(262,548)	-	(4,283,668)
Improvements other than buildings	(244,256)	(43,708)	-	(287,964)
Machinery and equipment	(2,760,183)	(411,731)	101,702	(3,070,212)
Infrastructure	<u>(1,011,650)</u>	<u>(58,521)</u>	<u>-</u>	<u>(1,070,171)</u>
Total accumulated depreciation	<u>(8,037,209)</u>	<u>(776,508)</u>	<u>101,702</u>	<u>(8,712,015)</u>
Total capital assets, being depreciated, net	<u>13,999,214</u>	<u>(116,267)</u>	<u>(3,031)</u>	<u>13,879,916</u>
Governmental activities capital assets, net	<u>\$ 16,524,034</u>	<u>\$ 13,624</u>	<u>\$ (3,031)</u>	<u>\$ 16,534,627</u>

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

Governmental Activities:	
General government	\$ 32,565
Public safety	154,856
Recreation	60,894
Highways and streets	165,750
Housing and community development	9,534
Education	<u>352,909</u>
Total depreciation expense - governmental activities	<u>\$ 776,508</u>

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets (Continued)

Capital asset activity for the year ended June 30, 2008 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	\$ 1,011,755	\$ 128,760	\$ (65,553)	\$ 1,074,962
Construction in progress	1,348,962	4,366,586	(2,569,405)	3,146,143
Total capital assets, not being depreciated	<u>2,360,717</u>	<u>4,495,346</u>	<u>(2,634,958)</u>	<u>4,221,105</u>
Capital assets, being depreciated:				
Structures and improvements	4,200,119	353,566	(950,974)	3,602,711
Machinery and equipment	96,056,875	3,618,936	(782,342)	98,893,469
Infrastructure	513,858	48,534	(20,604)	541,788
Total capital assets being depreciated	<u>100,770,852</u>	<u>4,021,036</u>	<u>(1,753,920)</u>	<u>103,037,968</u>
Less accumulated depreciation for:				
Structures and improvements	(1,661,345)	(102,959)	465,598	(1,298,706)
Machinery and equipment	(42,194,411)	(3,533,878)	1,074,487	(44,653,802)
Infrastructure	(459,380)	(45,592)	27,391	(477,581)
Total accumulated depreciation	<u>(44,315,136)</u>	<u>(3,682,429)</u>	<u>1,567,476</u>	<u>(46,430,089)</u>
Total capital assets, being depreciated, net	<u>56,455,716</u>	<u>338,607</u>	<u>(186,444)</u>	<u>56,607,879</u>
Business-type activities capital assets, net	<u>\$ 58,816,433</u>	<u>\$ 4,833,953</u>	<u>\$ (2,821,402)</u>	<u>\$ 60,828,984</u>

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

Business-type Activities:	
Public utilities	\$ 3,645,293
Sanitation fund	<u>37,137</u>
Total depreciation expense - business-type activities	<u>\$ 3,682,430</u>

The amount of \$217,773 of electric division depreciation expense related to transportation equipment is allocated to utility plant and operating expenses based on usage.

Construction commitments

At June 30, 2008, the City had various contract commitments totaling \$1,272,240 most of which relates to a street and bridge widening project. The City's Fayetteville Public Utilities (FPU) enterprise fund had outstanding construction contract commitments totaling \$1,863,736. 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

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 - DETAILED NOTES ON ALL FUNDS (CONTINUED)

C. Capital assets (Continued)

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. At June 30, 2008, 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, 2008, is as follows:

	Due from		
	Other		
	Governmental Funds	Sanitation Fund	Total
Due to:			
General fund	\$ -	\$ 29,168	\$ 29,168
School general fund	3,334	-	3,334
	\$ 3,334	\$ 29,168	\$ 32,502

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, 2008:

	Transfers In			
			Other	
	General Fund	School General Fund	Governmental Funds	Total
Transfers Out:				
General fund	\$ -	\$ 648,923	\$ 447,618	\$ 1,096,541
Fayetteville Public Utilities	853,793	-	-	853,793
Sanitation fund	110,000	-	28,000	138,000
Subtotal - proprietary funds	963,793	-	28,000	991,793
	\$ 963,793	\$ 648,923	\$ 475,618	\$ 2,088,334

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 Z-3-A, \$1,000,000 general obligation bonds, maturing serially at variable interest rates which are now reset weekly (currently 2.713%) with final maturity in 2025. The bonds are subject to redemption prior to maturity at a redemption price of 100%.

\$925,000

Total General Obligation Bonds \$925,000

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>
2009	\$ 25,000	\$ 25,039	2018	\$ 50,000	\$ 14,130
2010	25,000	24,360	2019	50,000	12,774
2011	50,000	23,626	2020	50,000	11,417
2012	50,000	22,269	2021	75,000	10,004
2013	50,000	20,913	2022	75,000	7,969
2014	50,000	19,556	2023	75,000	5,935
2015	50,000	18,200	2024	75,000	3,900
2016	50,000	16,843	2025	75,000	1,865
2017	50,000	15,487		<u>\$ 925,000</u>	<u>\$ 254,287</u>

B. Revenue and Tax Bonds

The City also issues bonds which call for debt service payments from income derived from the acquired or constructed assets and which pledge the full faith and credit of the City. Revenue and tax bonds outstanding at June 30, 2008 are as follows:

Fayetteville Public Utilities (Gas Division):

Series 2002, \$3,800,000 Revenue bonds, maturing serially at variable interest rates which are now reset weekly (currently 2.25%) with final maturity in 2022. The bonds are subject to redemption prior to maturity at a redemption price of 100%.

\$2,920,000

Series 2004, \$2,250,000 Revenue bonds, maturing serially at variable interest rates which are now reset weekly (currently 2.25%) with final maturity in 2025. The bonds are subject to redemption prior to maturity at a redemption price of 100%.

2,050,000

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

B. Revenue and Tax Bonds (Continued)

Fayetteville Public Utilities (Water Division):

Series Z-3-A, \$4,000,000 Revenue bonds, maturing serially at variable interest rates which are now reset weekly (currently 2.713%) with final maturity in 2020. At June 30, 2008, \$1,752,885 was available for draw by the System. The bonds are subject to redemption prior to maturity at a redemption price of 100%.

\$1,822,115

Total Revenue and Tax Bonds

\$6,792,115

Annual debt service requirements to maturity for revenue and tax bonds are as follows:

Year Ending	Total	Total	Year Ending	Total	Total
<u>June 30,</u>	<u>Bonds</u>	<u>Interest</u>	<u>June 30,</u>	<u>Bonds</u>	<u>Interest</u>
2009	\$ 440,000	\$ 160,389	2018	\$ 300,000	\$ 59,426
2010	445,000	149,439	2019	310,000	52,658
2011	475,000	138,322	2020	320,000	45,666
2012	505,000	126,424	2021	325,000	38,457
2013	540,000	113,831	2022	335,000	31,126
2014	570,000	100,345	2023	350,000	23,562
2015	572,115	86,128	2024	350,000	15,686
2016	285,000	72,503	2025	375,000	7,767
2017	295,000	66,072		<u>\$ 6,792,115</u>	<u>\$ 1,287,801</u>

C. 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 outstanding revenue bonds issued in prior years was \$23,110,000. The original amount of revenue bonds issued in the current year is \$9,950,000. Revenue bonds outstanding at June 30, 2008 are as follows:

Fayetteville Public Utilities (Electric Division):

Series 1998, \$2,500,000 Revenue bonds, maturing serially at annual interest rates ranging from 4.40% 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%.

\$885,000

Series 2001, \$4,500,000 Revenue bonds, maturing serially at annual interest rates ranging from 4.00% 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%.

2,625,000

Series 2003, \$10,550,000 Revenue bonds, maturing serially at variable interest rates which are now reset weekly (currently 2.905%) with final maturity in 2024. The bonds are subject to redemption prior to maturity at a redemption price of 100%.

7,900,000

CITY OF FAYETTEVILLE, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

C. Revenue Bonds (Continued)

Fayetteville Public Utilities (Electric Division) (Continued):

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

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%.

4,420,000

Total Revenue Bonds

\$25,780,000

Revenue bond debt service requirements to maturity 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>
2009	\$ 1,625,000	\$ 1,078,528	2020	\$ 955,000	\$ 516,957
2010	1,810,000	1,015,643	2021	1,250,000	471,002
2011	1,975,000	946,832	2022	1,300,000	426,204
2012	2,130,000	869,045	2023	1,375,000	378,934
2013	650,000	773,075	2024	1,450,000	328,478
2014	675,000	742,508	2025	1,525,000	276,050
2015	720,000	710,259	2026	1,600,000	212,762
2016	770,000	675,985	2027	1,675,000	145,562
2017	795,000	639,415	2028	1,750,000	74,375
2018	850,000	601,164		<u>\$ 25,780,000</u>	<u>\$ 11,443,014</u>
2019	900,000	560,236			

D. Loans

The City has the following loans outstanding at June 30, 2008:

Fayetteville Public Utilities (Water Division):

State of Tennessee Utility Relocation Loan, 1996, with ten year term, interest at the Utility Relocation Loan program interest rate, currently 3.55%.

\$58,613

State of Tennessee Utility Relocation Loan, 2005, with 15 year term, interest at 1.85%. See Note 5.C for further discussion of this loan program. (No funds drawn at June 30, 2008.)

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CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

D. Loans (Continued)

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. \$266,250

Fayetteville City School System

Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program, Series 1995 due in annual principal installments of \$82,000 to \$96,000 through fiscal year 2011 at variable interest rates (currently 1.39%). 273,000

Total Loans \$597,863

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

Year Ending	Total	Total	Year Ending	Total	Total
<u>June 30,</u>	<u>Bonds</u>	<u>Interest</u>	<u>June 30,</u>	<u>Bonds</u>	<u>Interest</u>
2009	\$ 189,613	\$ 15,624	2013	\$ 45,000	\$ -
2010	136,000	10,285	2014	41,250	-
2011	141,000	5,280		<u>\$ 597,863</u>	<u>\$ 31,189</u>
2012	45,000	-			

E. Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2008, was as follows:

	Beginning	Additions	Reductions	Ending	Due
	<u>Balance</u>			<u>Balance</u>	<u>Within</u>
					<u>One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds - variable rate	\$ 1,280,000	\$ -	\$ (355,000)	\$ 925,000	\$ 25,000
Less deferred amounts:					
For issuance discount	(1,485)	-	1,485	-	-
Loss on refunding	(942)	-	942	-	-
Total bonds payable	<u>1,277,573</u>	<u>-</u>	<u>(352,573)</u>	<u>925,000</u>	<u>25,000</u>
Loans:					
Tennessee Municipal Bond Fund Pooled					
Loan Program	355,000	-	(82,000)	273,000	86,000
Landfill postclosure costs	283,098	-	(5,420)	277,678	5,500
Compensated absences	453,266	326,233	(216,046)	563,453	268,566
Governmental Activity Long-Term Liability	<u>\$ 2,368,937</u>	<u>\$ 326,233</u>	<u>\$ (656,039)</u>	<u>\$ 2,039,131</u>	<u>\$ 385,066</u>

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 - LONG-TERM DEBT (CONTINUED)

E. Changes in long-term liabilities (Continued)

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Business-type Activities:					
Bonds payable:					
Revenue and tax bonds	\$ 6,398,175	\$ 823,940	\$ (430,000)	\$ 6,792,115	\$ 440,000
Revenue bonds	17,463,660	9,950,000	(1,633,660)	25,780,000	1,625,000
Less deferred amounts:					
For issuance discount	(75,203)	-	9,672	(65,531)	-
Loss on refunding	(161,614)	-	40,715	(120,899)	-
Total bonds payable	<u>23,625,018</u>	<u>10,773,940</u>	<u>(2,013,273)</u>	<u>32,385,685</u>	<u>2,065,000</u>
Loans:					
Tennessee Utility Relocation Loan	171,318	-	(112,705)	58,613	58,613
RUS economic development loan	311,250	-	(45,000)	266,250	45,000
Compensated absences	701,711	597,788	(579,831)	719,668	322,746
Business-type Activity Long-Term Liabilities	<u>\$ 24,809,297</u>	<u>\$ 11,371,728</u>	<u>\$ (2,750,809)</u>	<u>\$ 33,430,216</u>	<u>\$ 2,491,359</u>

Certain of the City's bonds require establishment of sinking funds and compliance with various covenants. The City was in compliance with these requirements at June 30, 2008.

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, 2008, there were two series of IDRB outstanding. The aggregate principal amount payable was \$9,265,000. The original issue amounts totaled \$15,490,000.

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 on the following page.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 7 - SEGMENT INFORMATION (CONTINUED)

	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>
<u>Condensed Balance Sheet</u>				
Assets				
Current Assets	\$ 12,819,531	\$ 4,766,372	\$ 278,753	\$ 1,702,883
Special funds	14,205,516	893,359	681,378	701,915
Capital assets	33,113,045	12,232,171	4,035,722	11,069,134
Other Assets	1,076,009	54,551	100,620	33,364
Due from other divisions	3,051,825	26	-	-
	<u>\$ 64,265,926</u>	<u>\$ 17,946,479</u>	<u>\$ 5,096,473</u>	<u>\$ 13,507,296</u>
Liabilities				
Current liabilities	6,942,124	1,166,332	450,344	1,008,009
Other liabilities	756,202	29,175	83,340	31,327
Long term debt	20,085,798	4,755,000	4,104,022	1,597,115
Due to other divisions	-	-	3,051,851	-
	<u>27,784,124</u>	<u>5,950,507</u>	<u>7,689,557</u>	<u>2,636,451</u>
Net Assets (Deficit)				
Invested in capital assets net of related debt	20,398,095	7,310,596	(230,897)	9,217,524
Restricted	5,113,029	-	681,378	104,119
Unrestricted	10,970,678	4,685,376	(3,043,565)	1,549,202
	<u>36,481,802</u>	<u>11,995,972</u>	<u>(2,593,084)</u>	<u>10,870,845</u>
	<u>\$ 64,265,926</u>	<u>\$ 17,946,479</u>	<u>\$ 5,096,473</u>	<u>\$ 13,507,296</u>
<u>Condensed Statement of Revenues, Expenses, and Changes in Net Assets</u>				
Operating revenues	\$ 39,355,315	\$ 10,164,921	\$ 2,813,185	\$ 3,713,553
Depreciation expense	1,689,911	525,248	518,418	693,943
Other operating expenses	<u>34,673,856</u>	<u>8,868,132</u>	<u>1,809,328</u>	<u>2,585,270</u>
Operating income	2,991,548	771,541	485,439	434,340
Nonoperating revenue (expenses):				
Investment income	777,150	99,136	31,345	107,467
Interest expense	(624,541)	(207,017)	(471,486)	(63,834)
Other	(80,206)	5,318	8,776	(108,067)
Contributions/Transfers - net	<u>(18,058)</u>	<u>(190,673)</u>	<u>-</u>	<u>(63,059)</u>
Change in net assets	3,045,893	478,305	54,074	306,847
Beginning net assets (deficit)	<u>33,435,909</u>	<u>11,517,667</u>	<u>(2,647,158)</u>	<u>10,563,998</u>
Ending net assets (deficit)	<u>\$ 36,481,802</u>	<u>\$ 11,995,972</u>	<u>\$ (2,593,084)</u>	<u>\$ 10,870,845</u>
<u>Condensed Statement of Cash Flows</u>				
Net cash provided (used) by:				
Operating activities	\$ 6,468,003	\$ 1,309,492	\$ 976,538	\$ 1,355,350
Noncapital financing activities	(413,504)	(194,585)	(127,859)	(72,845)
Capital and related financing activities	3,617,465	(326,196)	(899,284)	(1,190,781)
Investing activities	<u>784,470</u>	<u>113,557</u>	<u>53,485</u>	<u>117,413</u>
Net increase (decrease)	10,456,434	902,268	2,880	209,137
Beginning cash and cash equivalents	<u>10,847,310</u>	<u>2,690,657</u>	<u>678,498</u>	<u>1,631,170</u>
Ending cash and cash equivalents	<u>\$ 21,303,744</u>	<u>\$ 3,592,925</u>	<u>\$ 681,378</u>	<u>\$ 1,840,307</u>

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

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 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.

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) 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. All revenues remaining over and above the requirements stipulated are considered surplus revenues.

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 \$555,356 at June 30, 2008. These costs will be shared equally by the City of Fayetteville and Lincoln County, Tennessee. The City's share of this estimated liability (\$277,678) is included as a liability in the Statement of Net Assets. The City's current year share of required funding was \$13,189 that is reported as an expenditure in the Internal Capital Projects Fund.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10 - PENSION AND BENEFIT PLANS

PLAN DESCRIPTION

General government and Fayetteville City Board of Education employees are members of the City of Fayetteville, Tennessee's 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, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes 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://treasury.state.tn.us/tcrs/PS/>.

FUNDING POLICY

The City of Fayetteville, Tennessee's pension plan is contributory whereby most employees 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, 2007 was 9.11% 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.

ANNUAL PENSION COST

For the year ending June 30, 2008, the City of Fayetteville's annual pension cost of \$364,741 to TCRS was equal to Fayetteville's required and actual contributions. The required contribution was determined as part of the July 1, 2005 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

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 10 - PENSION AND BENEFIT PLANS (CONTINUED)

(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, 2005 was 10 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/08	\$364,741	100.00%	\$0.00
6/30/07	\$355,347	100.00%	\$0.00
6/30/06	\$228,741	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 \$13.55 million, and the actuarial value of assets was \$12.20 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 \$3.79 million, and the ratio of the UAAL to the covered payroll was 35.65 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.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of 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)
7/1/07	\$12,198	\$13,547	\$1,349	90.04%	\$3,785	35.65%

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - PENSION AND BENEFIT PLANS (CONTINUED)

FAYETTEVILLE CITY SCHOOLS

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 SETHHEPP. 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, 2008 was 6.24 percent of annual covered payroll. The employer contribution requirement for Fayetteville City 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, 2008, 2007, and 2006 were \$244,347, \$225,556, and \$191,718, 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 2008 was \$4,940,375 of which \$4,104,117 was paid to members participating in this plan.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 10 - PENSION AND BENEFIT PLANS (CONTINUED)

FAYETTEVILLE PUBLIC UTILITIES (CONTINUED)

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 contribution based on the payroll of eligible participants for the years ended June 30, 2008, 2007, and 2006 were \$581,293, \$573,973, and \$545,416, 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 401K employee contributions are permitted by the Plan up to limits imposed by the Internal Revenue Code. Employer and employee contributions to the Plan totaled \$51,995 and \$51,979 and \$159,239 and \$165,748 for the years ended June 30, 2008 and 2007, respectively.

OTHER POST-EMPLOYMENT BENEFITS

The City and the Fayetteville Public Utilities provide post-employment benefits for health insurance to their eligible employees. The criteria to determine eligibility include: years of service, employee age and for the general government employees retirement eligibility in the TCRS plan. Funding for benefits for the general government employees is on a pay-as-you-go basis; whereas, the Fayetteville Public Utilities' plan is advanced funded. Benefit payments equal 100 percent of costs for general government retirees and 50 percent of costs for Fayetteville Public Utilities retirees. For the current year the City and the Fayetteville Public Utilities incurred costs under the plans totaling \$26,140 and \$2,557, respectively.

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE 11 - 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 and expenses for the year ended June 30, 2008 related to these funds are shown below.

Intergovernmental - Revenue	
Gasoline and motor fuel tax	\$ 198,697
City street and transportation	15,288
Total	<u>\$ 213,985</u>
Street Repair - Expenditures	
Street lighting	\$ 144,339
Street salaries	56,151
Street repairs	13,495
Total	<u>\$ 213,985</u>

NOTE 12 - 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 government-wide financial information for the Fayetteville Lincoln County Airport and Fayetteville Lincoln County Public Library as of June 30, 2008 and for the year then are shown below. Audited financial statements for the Fayetteville Lincoln County Industrial Development Board were not available as of the date this report was issued.

	<u>Fayetteville - Lincoln County</u>	
	<u>Airport</u>	<u>Public Library</u>
Total Assets	\$ 4,513,212	\$ 3,495,611
Total Liabilities	68,866	46,559
Net Assets	<u>\$ 4,444,346</u>	<u>\$ 3,449,052</u>
Revenues	\$ 711,647	\$ 1,213,614
Expenditures	223,957	172,963
Increase (decrease) in Net Assets	<u>\$ 487,690</u>	<u>\$ 1,040,651</u>

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

CITY OF FAYETTEVILLE, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

NOTE 13 - PLEDGED REVENUES

The City's FPU 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	\$ 39,355,315	\$ 2,206,449	5.6%	\$ 30,734,684	2028
Gas	10,164,921	412,387	4.1%	6,053,375	2025
Telecom	2,813,185	538,790	19.2%	6,488,330	2020
Water & Sewer	3,713,553	282,483	7.6%	2,026,541	2015
	<u>\$ 56,046,974</u>	<u>\$ 3,440,109</u>	<u>6.1%</u>	<u>\$ 45,302,930</u>	

REQUIRED SUPPLEMENTARY INFORMATION SECTION

CITY OF FAYETTEVILLE, TENNESSEE
 POLITICAL SUBDIVISION PENSION PLAN (PSPP)
 SCHEDULE OF FUNDING PROGRESS
 June 30, 2008

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Plan 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)
July 1, 2007	\$ 12,198	\$ 13,547	\$ 1,349	90.04%	\$ 3,785	35.65%

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.

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.

SUPPLEMENTARY INFORMATION SECTION

CITY OF FAYETTEVILLE, TENNESSEE
NONMAJOR GOVERNMENTAL FUNDS

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

CITY OF FAYETTEVILLE, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2008

	Special Revenue Funds			Total Special Revenue	Debt Service Fund
	School Title	School Cafeteria	Drug		
ASSETS					
Cash	\$ 46,896	\$ 75,888	\$ 77,427	\$ 200,211	\$ 348,157
Receivables	-	2	-	2	481
Due from other governments	-	23,006	1,146	24,152	-
Inventory	-	6,699	-	6,699	-
Total Assets	<u>\$ 46,896</u>	<u>\$ 105,595</u>	<u>\$ 78,573</u>	<u>\$ 231,064</u>	<u>\$ 348,638</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,433	\$ -	\$ 6,007	\$ 14,440	\$ -
Due to other funds	1,239	2,095	-	3,334	-
Accrued wages	21,813	-	-	21,813	-
Deferred revenues	15,411	-	-	15,411	-
Total Liabilities	<u>46,896</u>	<u>2,095</u>	<u>6,007</u>	<u>54,998</u>	<u>-</u>
Fund Balances:					
Reserved for:					
Inventory and prepayments	-	6,699	-	6,699	-
Education	-	96,801	-	96,801	-
Public safety	-	-	72,566	72,566	-
Unreserved:					
Designated for Debt Service	-	-	-	-	348,638
Total Fund Balances	<u>-</u>	<u>103,500</u>	<u>72,566</u>	<u>176,066</u>	<u>348,638</u>
Total Liabilities and Fund Balances	<u>\$ 46,896</u>	<u>\$ 105,595</u>	<u>\$ 78,573</u>	<u>\$ 231,064</u>	<u>\$ 348,638</u>

CITY OF FAYETTEVILLE, TENNESSEE
 COMBINING BALANCE SHEET (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2008

	Capital Projects Funds					Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
ASSETS						
Cash	\$ 214,313	\$ 47,375	\$ 383,436	\$ 2,605,684	\$ 3,250,808	\$ 3,799,176
Receivables	263		-	1,739	2,002	2,485
Due from other governments	-	-	-	-	-	24,152
Inventory	-	-	-	-	-	6,699
Total Assets	<u>\$ 214,576</u>	<u>\$ 47,375</u>	<u>\$ 383,436</u>	<u>\$ 2,607,423</u>	<u>\$ 3,252,810</u>	<u>\$ 3,832,512</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 6,694	\$ 6,694	\$ 21,134
Due to other funds	-	-	-	-	-	3,334
Accrued wages	-	-	-	-	-	21,813
Deferred revenues	-	-	-	61,766	61,766	77,177
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>68,460</u>	<u>68,460</u>	<u>123,458</u>
Fund Balances:						
Reserved for:						
Inventory and prepayments	-	-	-	-	-	6,699
Education	-	-	-	-	-	96,801
Capital projects	-	47,375	383,436	-	430,811	430,811
Public safety	-	-	-	-	-	72,566
Unreserved:						
Designated for Debt Service	-	-	-	-	-	348,638
Designated for Capital Projects	214,576	-	-	2,538,963	2,753,539	2,753,539
Total Fund Balances	<u>214,576</u>	<u>47,375</u>	<u>383,436</u>	<u>2,538,963</u>	<u>3,184,350</u>	<u>3,709,054</u>
Total Liabilities and Fund Balances	<u>\$ 214,576</u>	<u>\$ 47,375</u>	<u>\$ 383,436</u>	<u>\$ 2,607,423</u>	<u>\$ 3,252,810</u>	<u>\$ 3,832,512</u>

CITY OF FAYETTEVILLE, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2008

	Special Revenue Funds				Debt Service Fund
	School Title	School Cafeteria	Drug	Total Special Revenue	
REVENUES					
Intergovernmental	\$ 636,536	\$ 253,429	\$ -	\$ 889,965	\$ -
Charges for services	-	198,603	-	198,603	-
Investment earnings	-	1,031	2,046	3,077	22,568
Fines	-	-	25,418	25,418	-
Other revenue	-	-	8,766	8,766	-
Total Revenues	<u>636,536</u>	<u>453,063</u>	<u>36,230</u>	<u>1,125,829</u>	<u>22,568</u>
EXPENDITURES					
Current:					
General government	-	-	-	-	5,022
Public safety	-	-	11,978	11,978	-
Education	636,536	442,554	-	1,079,090	-
Sanitation	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	355,000
Interest	-	-	-	-	46,559
Capital outlay	-	-	30,695	30,695	-
Total Expenditures	<u>636,536</u>	<u>442,554</u>	<u>42,673</u>	<u>1,121,763</u>	<u>406,581</u>
Excess (deficiency) of revenues over expenditures	<u>-</u>	<u>10,509</u>	<u>(6,443)</u>	<u>4,066</u>	<u>(384,013)</u>
OTHER FINANCING SOURCES					
Transfers in	-	-	-	-	219,618
Insurance proceeds on capital asset	-	-	-	-	-
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>219,618</u>
Net Change in Fund Balances	-	10,509	(6,443)	4,066	(164,395)
Fund Balances - beginning	-	92,991	79,009	172,000	513,033
Fund Balances - ending	<u>\$ -</u>	<u>\$ 103,500</u>	<u>\$ 72,566</u>	<u>\$ 176,066</u>	<u>\$ 348,638</u>

CITY OF FAYETTEVILLE, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (CONTINUED)
 NONMAJOR GOVERNMENTAL FUNDS
 Year Ended June 30, 2008

	Capital Projects Funds					Total Other Governmental Funds
	Industrial			Internal	Total	
	Park	CDBG	UDAG	Capital Projects	Capital Projects	
REVENUES						
Intergovernmental	\$ -	\$ -	\$ -	\$ 10,178	\$ 10,178	\$ 900,143
Charges for services and use of property	-	-	-	-	-	198,603
Investment earnings	10,588	1,941	18,829	130,575	161,933	187,578
Fines	-	-	-	-	-	25,418
Other revenue	-	-	-	9,894	9,894	18,660
Total Revenues	<u>10,588</u>	<u>1,941</u>	<u>18,829</u>	<u>150,647</u>	<u>182,005</u>	<u>1,330,402</u>
EXPENDITURES						
Current						
General government	217	-	-	-	217	5,239
Public safety	-	-	-	-	-	11,978
Education	-	-	-	-	-	1,079,090
Sanitation	-	-	-	13,189	13,189	13,189
Debt Service:						
Principal	-	-	-	-	-	355,000
Interest	-	-	-	-	-	46,559
Capital outlay	-	-	-	295,492	295,492	326,187
Total Expenditures	<u>217</u>	<u>-</u>	<u>-</u>	<u>308,681</u>	<u>308,898</u>	<u>1,837,242</u>
Excess (deficiency) of revenues over expenditures	<u>10,371</u>	<u>1,941</u>	<u>18,829</u>	<u>(158,034)</u>	<u>(126,893)</u>	<u>(506,840)</u>
OTHER FINANCING SOURCES						
Transfers in	-	-	-	256,000	256,000	475,618
Insurance proceeds on capital asset	-	-	-	7,267	7,267	7,267
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>263,267</u>	<u>263,267</u>	<u>482,885</u>
Net Change in Fund Balances	<u>10,371</u>	<u>1,941</u>	<u>18,829</u>	<u>105,233</u>	<u>136,374</u>	<u>(23,955)</u>
Fund Balances - beginning	204,205	45,434	364,607	2,433,730	3,047,976	3,733,009
Fund Balances - ending	<u>\$ 214,576</u>	<u>\$ 47,375</u>	<u>\$ 383,436</u>	<u>\$ 2,538,963</u>	<u>\$ 3,184,350</u>	<u>\$ 3,709,054</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 SCHOOL TITLE SPECIAL REVENUE FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 636,536	\$ 636,536	\$ 636,536	\$ -
Total Revenues	<u>636,536</u>	<u>636,536</u>	<u>636,536</u>	<u>-</u>
EXPENDITURES				
Current:				
Operating	<u>636,536</u>	<u>636,536</u>	<u>636,536</u>	<u>-</u>
Total Expenditures	<u>636,536</u>	<u>636,536</u>	<u>636,536</u>	<u>-</u>
Net Change in Fund Balance	-	-	-	-
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 SCHOOL CAFETERIA SPECIAL REVENUE FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance wth Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ 227,613	\$ 227,613	\$ 253,429	\$ 25,816
Charges for services	226,858	226,858	198,603	(28,255)
Investment earnings	1,800	1,800	1,031	(769)
Other revenue	3,000	3,000	-	(3,000)
Total Revenues	<u>459,271</u>	<u>459,271</u>	<u>453,063</u>	<u>(6,208)</u>
EXPENDITURES				
Current:				
Operating	459,271	459,271	442,554	16,717
Total Expenditures	<u>459,271</u>	<u>459,271</u>	<u>442,554</u>	<u>16,717</u>
Excess of Revenues over Expenditures	-	-	10,509	10,509
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Net Change in Fund Balance	-	-	10,509	10,509
Fund Balances - beginning	92,991	92,991	92,991	-
Fund Balances - ending	<u>\$ 92,991</u>	<u>\$ 92,991</u>	<u>\$ 103,500</u>	<u>\$ 10,509</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 DRUG SPECIAL REVENUE FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance wth</u> <u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 188	\$ 188	\$ 2,046	\$ 1,858
Fines	8,000	8,000	25,418	17,418
Other	4,000	4,000	8,766	4,766
Total Revenues	<u>12,188</u>	<u>12,188</u>	<u>36,230</u>	<u>24,042</u>
EXPENDITURES				
Current:				
Operating	29,900	29,900	11,978	17,922
Capital outlay	35,750	35,750	30,695	5,055
Total Expenditures	<u>65,650</u>	<u>65,650</u>	<u>42,673</u>	<u>22,977</u>
Net Change in Fund Balance	(53,462)	(53,462)	(6,443)	47,019
Fund Balances - beginning	<u>79,009</u>	<u>79,009</u>	<u>79,009</u>	<u>-</u>
Fund Balances - ending	<u>\$ 25,547</u>	<u>\$ 25,547</u>	<u>\$ 72,566</u>	<u>\$ 47,019</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 DEBT SERVICE FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 23,175	\$ 23,175	\$ 22,568	\$ (607)
Total Revenues	<u>23,175</u>	<u>23,175</u>	<u>22,568</u>	<u>(607)</u>
EXPENDITURES				
Current:				
Operating	5,600	5,600	5,022	578
Debt Service:				
Principal	205,000	355,000	355,000	-
Interest	45,700	46,559	46,559	-
Total Expenditures	<u>256,300</u>	<u>407,159</u>	<u>406,581</u>	<u>578</u>
 (Deficiency) of revenues over expenditures	 (233,125)	 (383,984)	 (384,013)	 (29)
OTHER FINANCING SOURCES				
Transfers in	<u>233,125</u>	<u>233,125</u>	<u>219,618</u>	<u>(13,507)</u>
 Net Change in Fund Balance	 -	 (150,859)	 (164,395)	 (13,536)
Fund Balances - beginning	<u>513,033</u>	<u>513,033</u>	<u>513,033</u>	<u>-</u>
Fund Balances - ending	<u>\$ 513,033</u>	<u>\$ 362,174</u>	<u>\$ 348,638</u>	<u>\$ (13,536)</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 INDUSTRIAL PARK CAPITAL PROJECTS FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance wth Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Charges for services and use of property	\$ -	\$ -	\$ -	\$ -
Investment earnings	9,500	9,500	10,588	1,088
Total Revenues	<u>9,500</u>	<u>9,500</u>	<u>10,588</u>	<u>1,088</u>
EXPENDITURES				
Current:				
Operating	2,500	2,500	217	2,283
Total Expenditures	<u>2,500</u>	<u>2,500</u>	<u>217</u>	<u>2,283</u>
Net Change in Fund Balance	7,000	7,000	10,371	3,371
Fund Balances - beginning	<u>204,205</u>	<u>204,205</u>	<u>204,205</u>	<u>-</u>
Fund Balances - ending	<u>\$ 211,205</u>	<u>\$ 211,205</u>	<u>\$ 214,576</u>	<u>\$ 3,371</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 CDBG CAPITAL PROJECTS FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance wth Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 750	\$ 750	\$ 1,941	\$ 1,191
Total Revenues	<u>750</u>	<u>750</u>	<u>1,941</u>	<u>1,191</u>
EXPENDITURES				
Current:				
Operating	<u>45,750</u>	<u>45,750</u>	-	<u>45,750</u>
Total Expenditures	<u>45,750</u>	<u>45,750</u>	-	<u>45,750</u>
Net Change in Fund Balance	(45,000)	(45,000)	1,941	46,941
Fund Balances - beginning	<u>45,434</u>	<u>45,434</u>	<u>45,434</u>	<u>-</u>
Fund Balances - ending	<u>\$ 434</u>	<u>\$ 434</u>	<u>\$ 47,375</u>	<u>\$ 46,941</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 UDAG CAPITAL PROJECTS FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance wth Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment earnings	\$ 16,000	\$ 16,000	\$ 18,829	\$ 2,829
Total Revenues	<u>16,000</u>	<u>16,000</u>	<u>18,829</u>	<u>2,829</u>
EXPENDITURES				
Current:				
Operating	<u>1,000</u>	<u>1,000</u>	-	<u>1,000</u>
Total Expenditures	<u>1,000</u>	<u>1,000</u>	-	<u>1,000</u>
Net Change in Fund Balance	15,000	15,000	18,829	3,829
Fund Balances - beginning	<u>364,607</u>	<u>364,607</u>	<u>364,607</u>	<u>-</u>
Fund Balances - ending	<u>\$ 379,607</u>	<u>\$ 379,607</u>	<u>\$ 383,436</u>	<u>\$ 3,829</u>

CITY OF FAYETTEVILLE, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 INTERNAL CAPITAL PROJECTS FUND
 Year Ended June 30, 2008

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance wth Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 10,178	\$ 10,178
Investment earnings	113,000	113,000	130,575	17,575
Other revenue	-	-	9,894	9,894
Total Revenues	<u>113,000</u>	<u>113,000</u>	<u>150,647</u>	<u>37,647</u>
EXPENDITURES				
Current:				
Operating	8,500	13,189	13,189	-
Capital outlay	294,750	295,492	295,492	-
Total Expenditures	<u>303,250</u>	<u>308,681</u>	<u>308,681</u>	<u>-</u>
 (Deficiency) of Revenues over Expenditures	<u>(190,250)</u>	<u>(195,681)</u>	<u>(158,034)</u>	<u>37,647</u>
OTHER FINANCING SOURCES				
Transfers in	238,500	238,500	256,000	17,500
Insurance proceeds on capital asset	-	-	7,267	7,267
Total Other Financing Sources	<u>238,500</u>	<u>238,500</u>	<u>263,267</u>	<u>24,767</u>
 Net Change in Fund Balance	48,250	42,819	105,233	62,414
Fund Balances - beginning	<u>2,433,730</u>	<u>2,433,730</u>	<u>2,433,730</u>	<u>-</u>
Fund Balances - ending	<u>\$ 2,481,980</u>	<u>\$ 2,476,549</u>	<u>\$ 2,538,963</u>	<u>\$ 62,414</u>

OTHER FINANCIAL SCHEDULES

CITY OF FAYETTEVILLE, TENNESSEE
 FAYETTEVILLE PUBLIC UTILITIES
 COMPARATIVE SCHEDULES OF ASSETS, LIABILITIES, AND NET ASSETS
 June 30,

	Electric	Gas	Telecom	Water & Sewer	2008 Total	2007 Total	Increase (Decrease)
ASSETS							
Current Assets:							
Cash for general use	\$ 7,098,228	\$ 2,699,566	\$ -	\$ 1,138,392	\$ 10,936,186	\$ 8,679,477	\$ 2,256,709
Customer receivables, net	4,477,242	843,088	143,960	392,043	5,856,333	4,935,694	920,639
Other receivables	227,524	28,375	13,456	7,956	277,311	464,186	(186,875)
Interest receivable	19,973	2,187	1,144	1,925	25,229	34,120	(8,891)
Inventories	785,605	1,165,498	72,264	84,898	2,108,265	1,999,412	108,853
Prepaid expenses	210,959	27,658	47,929	77,669	364,215	437,564	(73,349)
	<u>12,819,531</u>	<u>4,766,372</u>	<u>278,753</u>	<u>1,702,883</u>	<u>19,567,539</u>	<u>16,550,453</u>	<u>3,017,086</u>
Special Funds	14,205,516	893,359	681,378	701,915	16,482,168	7,168,158	9,314,010
Capital assets, net of accumulated depreciation	33,113,045	12,232,171	4,035,722	11,069,134	60,450,072	58,403,556	2,046,516
Other Assets	1,076,009	54,551	100,620	33,364	1,264,544	1,022,016	242,528
Due (to)/from other divisions	<u>3,051,825</u>	<u>26</u>	<u>(3,051,851)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 64,265,926</u>	<u>\$ 17,946,479</u>	<u>\$ 2,044,622</u>	<u>\$ 13,507,296</u>	<u>\$ 97,764,323</u>	<u>\$ 83,144,183</u>	<u>\$ 14,620,140</u>
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Current maturities of long-term debt	\$ 1,285,000	\$ 215,000	\$ 191,250	\$ 283,613	\$ 1,974,863	\$ 2,002,987	\$ (28,124)
Accounts payable	4,269,361	790,010	103,271	503,949	5,666,591	3,753,228	1,913,363
Customer deposits	877,020	88,035	-	129,295	1,094,350	1,073,676	20,674
Accrued interest	72,651	17,697	70,978	-	161,326	144,656	16,670
Other accrued liabilities	438,092	55,590	84,845	91,152	669,679	694,741	(25,062)
	<u>6,942,124</u>	<u>1,166,332</u>	<u>450,344</u>	<u>1,008,009</u>	<u>9,566,809</u>	<u>7,669,288</u>	<u>1,897,521</u>
Other Liabilities:							
Advances from TVA	196,000	-	-	-	196,000	91,305	104,695
Long-term debt payable from special funds	130,000	-	63,750	-	193,750	218,352	(24,602)
Accrued employee benefits	113,372	-	-	-	113,372	115,343	(1,971)
Compensated absences	316,830	29,175	19,590	31,327	396,922	293,232	103,690
	<u>756,202</u>	<u>29,175</u>	<u>83,340</u>	<u>31,327</u>	<u>900,044</u>	<u>718,232</u>	<u>181,812</u>
Long-term debt	20,085,798	4,755,000	4,104,022	1,597,115	30,541,935	21,886,247	8,655,688
Total Liabilities	<u>27,784,124</u>	<u>5,950,507</u>	<u>4,637,706</u>	<u>2,636,451</u>	<u>41,008,788</u>	<u>30,273,767</u>	<u>10,735,021</u>
Net Assets (Deficit):							
Invested in capital assets - net	20,398,095	7,310,596	(230,897)	9,217,524	36,695,318	35,081,196	1,614,122
Restricted for debt service	5,113,029	-	681,378	104,119	5,898,526	5,787,918	110,608
Unrestricted	10,970,678	4,685,376	(3,043,565)	1,549,202	14,161,691	12,001,302	2,160,389
	<u>\$ 64,265,926</u>	<u>\$ 17,946,479</u>	<u>\$ 2,044,622</u>	<u>\$ 13,507,296</u>	<u>\$ 97,764,323</u>	<u>\$ 83,144,183</u>	<u>\$ 14,620,140</u>

CITY OF FAYETTEVILLE, TENNESSEE
FAYETTEVILLE PUBLIC UTILITIES
COMPARATIVE SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
Years Ended June 30,

	Electric	Gas	Telecom	Water & Sewer	2008 Total	2007 Total	Increase (Decrease)
Operating Revenues:							
Charges for services	\$ 38,567,062	\$ 10,103,574	\$ 2,461,176	\$ 3,600,314	\$ 54,732,126	\$ 51,646,639	\$ 3,085,487
Other	788,253	61,347	352,009	113,239	1,314,848	1,269,039	45,809
TOTAL OPERATING REVENUES	39,355,315	10,164,921	2,813,185	3,713,553	56,046,974	52,915,678	3,131,296
Operating Expenses:							
Cost of utility services	28,919,735	7,461,607	883,175	958,113	38,222,630	36,424,674	1,797,956
Pumping, distribution, and collection	3,332,027	439,745	353,349	545,510	4,670,631	4,623,991	46,640
Customer billing and collecting	514,498	172,606	96,068	126,326	909,498	755,206	154,292
General and administrative	1,394,078	738,218	305,756	885,551	3,323,603	3,333,362	(9,759)
Taxes and tax equivalents	351,688	40,023	126,703	62,973	581,387	562,478	18,909
Provision for depreciation	1,689,911	525,248	518,418	693,943	3,427,520	3,300,092	127,428
Other	161,830	15,933	44,277	6,797	228,837	271,911	(43,074)
TOTAL OPERATING EXPENSES	36,363,767	9,393,380	2,327,746	3,279,213	51,364,106	49,271,714	2,092,392
INCOME FROM OPERATIONS	2,991,548	771,541	485,439	434,340	4,682,868	3,643,964	1,038,904
Nonoperating revenues and (expense):							
Interest income	777,150	99,136	31,345	107,467	1,015,098	999,371	15,727
Interest expense	(624,541)	(207,017)	(471,486)	(63,834)	(1,366,878)	(1,429,672)	62,794
Amortization	(85,961)	(3,120)	(12,981)	(2,427)	(104,489)	(101,135)	(3,354)
Miscellaneous	5,755	8,438	21,757	(105,640)	(69,690)	37,713	(107,403)
NONOPERATING REVENUES (EXPENSE) - NET	72,403	(102,563)	(431,365)	(64,434)	(525,959)	(493,723)	(32,236)
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	3,063,951	668,978	54,074	369,906	4,156,909	3,150,241	1,006,668
Capital contributions in aid of construction	567,285	4,718	-	10,000	582,003	1,016,900	(434,897)
Transfers out - taxes and tax equivalents	(585,343)	(195,391)	-	(73,059)	(853,793)	(832,126)	(21,667)
CHANGE IN NET ASSETS	3,045,893	478,305	54,074	306,847	3,885,119	3,335,015	550,104
TOTAL NET ASSETS (DEFICIT), AT BEGINNING OF YEAR	33,435,909	11,517,667	(2,647,158)	10,563,998	52,870,416	49,535,401	3,335,015
TOTAL NET ASSETS (DEFICIT), AT END OF YEAR	\$ 36,481,802	\$ 11,995,972	\$ (2,593,084)	\$ 10,870,845	\$ 56,755,535	\$ 52,870,416	\$ 3,885,119

CITY OF FAYETTEVILLE, TENNESSEE
 FAYETTEVILLE PUBLIC UTILITIES
 COMPARATIVE SCHEDULES OF CASH FLOWS
 Years Ended June 30,

	Electric	Gas	Telecom	Water	2008 Total	2007 Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 38,840,967	\$ 9,973,781	\$ 2,734,172	\$ 3,652,781	\$ 55,201,701	\$ 52,467,746
Payments to suppliers and others	(30,498,332)	(7,985,590)	(1,381,609)	(1,328,610)	(41,194,141)	(41,463,607)
Payments to employees	(1,874,632)	(678,699)	(376,025)	(968,821)	(3,898,177)	(4,251,225)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>6,468,003</u>	<u>1,309,492</u>	<u>976,538</u>	<u>1,355,350</u>	<u>10,109,383</u>	<u>6,752,914</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Loans (to)/from other divisions	126,839	806	(127,859)	214	-	-
Collections on loans to other organizations	45,000	-	-	-	45,000	45,000
Transfers to other funds - taxes and tax equivalents	(585,343)	(195,391)	-	(73,059)	(853,793)	(832,126)
NET CASH (USED) BY NONCAPITAL FINANCING ACTIVITIES	<u>(413,504)</u>	<u>(194,585)</u>	<u>(127,859)</u>	<u>(72,845)</u>	<u>(808,793)</u>	<u>(787,126)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:						
Additions to capital assets, net	(4,328,205)	(258,901)	(184,078)	(1,739,906)	(6,511,090)	(4,649,496)
Removal costs of capital assets	(467,341)	(4,225)	-	-	(471,566)	(198,914)
Materials salvaged from retirements of capital assets	147,613	-	-	-	147,613	82,998
Proceeds from disposal of assets	-	344,600	-	116,724	461,324	31,297
Capital contributions received	567,285	4,718	-	10,000	582,003	1,016,900
Long-term borrowings, net	9,950,000	-	-	823,940	10,773,940	307,428
Borrowings repaid	(1,438,660)	(205,000)	(240,000)	(337,705)	(2,221,365)	(2,357,325)
Issue costs paid	(209,447)	-	-	-	(209,447)	-
Interest paid, net	(603,780)	(207,388)	(475,206)	(63,834)	(1,350,208)	(1,437,823)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>3,617,465</u>	<u>(326,196)</u>	<u>(899,284)</u>	<u>(1,190,781)</u>	<u>1,201,204</u>	<u>(7,204,935)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	778,715	105,119	31,728	108,427	1,023,989	1,026,251
Other nonoperating income (expense), net	5,755	8,438	21,757	8,986	44,936	34,450
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>784,470</u>	<u>113,557</u>	<u>53,485</u>	<u>117,413</u>	<u>1,068,925</u>	<u>1,060,701</u>
INCREASE (DECREASE) IN CASH, NET	10,456,434	902,268	2,880	209,137	11,570,719	(178,446)
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	10,847,310	2,690,657	678,498	1,631,170	15,847,635	16,026,081
CASH AND CASH EQUIVALENTS, AT END OF YEAR	<u>\$ 21,303,744</u>	<u>\$ 3,592,925</u>	<u>\$ 681,378</u>	<u>\$ 1,840,307</u>	<u>\$ 27,418,354</u>	<u>\$ 15,847,635</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Income from operations	\$ 2,991,548	\$ 771,541	\$ 485,439	\$ 434,340	\$ 4,682,868	\$ 3,643,964
Adjustments to reconcile income from operations to net cash provided by operating activities -						
Depreciation, including amounts capitalized	1,907,684	525,248	518,418	693,943	3,645,293	3,516,206
Depreciation allocated to / (from) other divisions	28,624	(8,094)	(10,433)	(10,097)	-	-
Loss on disallowance of plant	567,285	-	-	-	567,285	602,568
Conservation loans advanced - customers	(153,693)	-	-	-	(153,693)	-
Conservation loans collected - customers	50,418	-	-	-	50,418	32,640
Conservation advances from TVA	166,679	-	-	-	166,679	8,897
Conservation advances repaid to TVA	(61,983)	-	-	-	(61,983)	(48,040)
Changes in operating assets and liabilities:						
Accounts and other receivables, net	(395,175)	(197,344)	(75,562)	(65,683)	(733,764)	(475,382)
Inventories	(70,483)	(52,902)	17,525	(2,993)	(108,853)	(223,522)
Prepaid expenses and other assets	(20,815)	66,368	(8,236)	7,123	44,440	(237,520)
Accounts payable	1,423,679	179,415	13,356	296,913	1,913,363	77,407
Accrued employee benefits	(1,971)	-	-	-	(1,971)	(6,534)
Customer deposits	7,593	10,555	-	2,526	20,674	76,831
Other current liabilities and compensated absences	28,613	14,705	36,031	(722)	78,627	(214,601)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 6,468,003</u>	<u>\$ 1,309,492</u>	<u>\$ 976,538</u>	<u>\$ 1,355,350</u>	<u>\$ 10,109,383</u>	<u>\$ 6,752,914</u>

CITY OF FAYETTEVILLE, TENNESSEE
 CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
 SCHEDULE BY FUNCTION AND ACTIVITY
 June 30, 2008

Function and Activity	<u>Land</u>	<u>Buildings</u>	<u>Improvements Other than Buildings</u>	<u>Machinery and Equipment</u>	<u>Infrastructure</u>	<u>Totals</u>
General government:	\$ 120,000	\$ 1,223,723	\$ -	\$ 143,620	\$ -	\$ 1,487,343
Public safety:						-
Police	21,500	157,500	6,000	736,551	-	921,551
Fire	7,740	667,489	38,000	1,468,078	-	2,181,307
Emergency communications	-	-	18,651	19,186	-	37,837
	<u>29,240</u>	<u>824,989</u>	<u>62,651</u>	<u>2,223,815</u>	<u>-</u>	<u>3,140,695</u>
Recreation	1,109,395	534,051	433,479	393,259	83,856	2,554,040
Education	27,867	9,103,118	568,699	2,255,427	-	11,955,111
Highways and streets	155,017	552,479	-	1,715,884	2,195,478	4,618,858
Garage	47,500	28,080	-	20,165	-	95,745
Community development	881,282	-	81,033	-	-	962,315
Non-departmental	<u>154,519</u>	<u>87,750</u>	<u>-</u>	<u>60,375</u>	<u>-</u>	<u>302,644</u>
Total governmental funds capital assets allocated to functions	<u>\$ 2,524,820</u>	<u>\$ 12,354,190</u>	<u>\$ 1,145,862</u>	<u>\$ 6,812,545</u>	<u>\$ 2,279,334</u>	<u>\$ 25,116,751</u>

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

June 30, 2008

	COST					Depr. Rates	ACCUMULATED DEPRECIATION				
	Balance 6/30/2007	Additions	Retirements	Reclassi- fications	Balance 6/30/2008		Balance 6/30/2007	Provisions	Other Adjustments	Reclassi- fications	Balance 6/30/2008
Transmission plant:											
Land and land rights	\$ 1,726	\$ -	\$ -	\$ -	\$ 1,726		\$ -	\$ -	\$ -	\$ -	\$ -
Substation equipment	24,758	-	-	-	24,758	4%	22,467	-	-	-	22,467
Tower and fixtures	1,021,533	24,277	4,634	(1,041,176)	-	4	310,194	27,571	6,381	(331,384)	-
Overhead conductors and devices	452,369	-	-	(33,418)	418,951	2	117,136	8,825	-	(9,098)	116,863
TOTAL TRANSMISSION PLANT	1,500,386	24,277	4,634	(1,074,594)	445,435		449,797	36,396	6,381	(340,482)	139,330
Distribution plant:											
Land and land rights	266,922	-	-	-	266,922		-	-	-	-	-
Structures and improvements	122,390	-	-	-	122,390	4	81,666	4,896	-	-	86,562
Station equipment	10,077,483	134,627	-	-	10,212,110	4	6,946,713	427,492	-	-	7,374,205
Poles and fixtures	12,823,059	856,636	179,737	1,041,310	14,541,268	4	4,728,493	471,618	247,613	331,418	5,283,916
Overhead lines	5,685,125	403,762	89,480	215,081	6,214,488	2	1,644,351	118,381	78,515	53,938	1,738,155
Underground conduit	198,064	7,962	140	18,102	223,988	3	65,956	6,216	234	4,918	76,856
Underground conductor	638,422	66,550	3,544	(15,357)	686,071	3	168,587	19,720	3,785	(4,249)	180,273
Line transformers	7,396,652	300,300	9,521	(186,517)	7,500,914	2	1,765,037	149,479	53,921	(46,026)	1,814,569
Services	2,594,059	238,221	22,228	-	2,810,052	5	1,173,821	127,903	25,812	-	1,275,912
Meters and meter equipment	2,538,485	161,750	2,756	1,487	2,698,966	2.5	375,109	71,853	4,193	407	443,176
Consumer security lights	1,287,357	124,426	156,025	488	1,256,246	10	597,359	128,640	167,260	76	558,815
Street lighting and signal systems	513,858	48,534	20,604	-	541,788	12	459,380	45,592	27,391	-	477,581
TOTAL DISTRIBUTION PLANT	44,141,876	2,342,768	484,035	1,074,594	47,075,203		18,006,472	1,571,790	608,724	340,482	19,310,020
General plant:											
Land and land rights	198,570	128,760	-	-	327,330		-	-	-	-	-
Structures and improvements	2,467,306	327,871	-	-	2,795,177	2.5 & 4	1,030,036	65,362	-	-	1,095,398
Office furniture and fixtures	1,002,673	13,943	2,970	-	1,013,646	4, 10, 14.5	884,809	34,637	2,971	-	916,475
Transportation equipment	2,315,016	256,274	106,063	-	2,465,227	20	1,246,487	217,773	299,582	-	1,164,678
Stores equipment	103,526	-	-	-	103,526	4 & 10	94,346	-	-	-	94,346
Tools, shop and garage equipment	282,715	-	13,350	-	269,365	10	259,215	-	13,122	-	246,093
Laboratory equipment	118,762	-	-	-	118,762	8	99,109	7,917	-	-	107,026
Communications equipment	349,829	5,575	-	-	355,404	15	321,221	-	-	-	321,221
Miscellaneous equipment	26,475	6,023	-	-	32,498	10	22,267	2,432	-	-	24,699
TOTAL GENERAL PLANT	6,864,872	738,446	122,383	-	7,480,935		3,957,490	328,121	315,675	-	3,969,936
TOTAL PLANT IN SERVICE	52,507,134	3,105,491	611,052	-	55,001,573		\$ 22,413,759	\$ 1,936,307	\$ 930,780	\$ -	\$ 23,419,286
Construction in progress	875,329	2,555,949	1,900,520	-	1,530,758						
\$ 53,382,463	\$ 5,661,440	\$ 2,511,572	\$ -	\$ 56,532,331							

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

June 30, 2008

	6/30/2007		ADDITIONS	RETIREMENTS	6/30/2008	
	CITY	COUNTY			CITY	COUNTY
UTILITY PLANT AND EQUIPMENT IN SERVICE:						
Land and land rights	\$ 70,273	\$ -	\$ -	\$ 65,553	\$ 4,720	\$ -
Land and land rights	-	177,269	-	-	-	177,269
Structure and improvements	1,068,609	-	12,941	510,298	571,252	-
Propane plant	907,880	-	-	-	907,880	-
Mains	4,895,747	-	16,720	-	4,912,467	-
Mains	-	6,880,235	8,415	-	-	6,888,650
Pumping and regulating equipment	157,026	-	-	-	157,026	-
Pumping and regulating equipment	-	76,084	-	-	-	76,084
Services	656,665	-	16,466	10,602	662,529	-
Services	-	1,023,702	37,222	4,538	-	1,056,386
Meters	1,131,371	-	90,639	-	1,222,010	-
Meters	-	46,108	-	-	-	46,108
Office furniture and equipment	69,521	-	-	-	69,521	-
Computer equipment	128,524	-	4,326	-	132,850	-
Transportation	395,564	-	-	33,305	362,259	-
Tools and work equipment	543,612	-	2,136	-	545,748	-
Communication equipment	42,432	-	7,513	-	49,945	-
	<u>\$ 10,067,224</u>	<u>8,203,398</u>	<u>\$ 196,378</u>	<u>\$ 624,296</u>	<u>\$ 9,598,207</u>	<u>8,244,497</u>
		<u>10,067,224</u>				<u>9,598,207</u>
TOTAL UTILITY PLANT AND EQUIPMENT IN SERVICE		18,270,622				17,842,704
ACCUMULATED DEPRECIATION		<u>(5,503,556)</u>				<u>(5,736,791)</u>
		12,767,066				12,105,913
CONSTRUCTION IN PROGRESS		<u>63,735</u>				<u>126,258</u>
TOTAL UTILITY PLANT AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION		<u>\$ 12,830,801</u>				<u>\$ 12,232,171</u>

CITY OF FAYETTEVILLE, TENNESSEE
FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF PLANT AND EQUIPMENT - TELECOM

June 30, 2008

	COST				Depr. Rates	ACCUMULATED DEPRECIATION			
	Balance 6/30/2007	Additions	Retirements	Balance 6/30/2008		Balance 6/30/2007	Provisions	Other Adjustments	Balance 6/30/2008
Distribution plant:									
Aerial hdwe., broadband hdwe., eng. & design	\$ 3,453,787	\$ 17,654	\$ -	\$ 3,471,441	2.5 & 5	\$ 702,566	\$ 123,545	\$ -	\$ 826,111
Customer equip., installation labor, and materials	976,576	120,767	17,829	1,079,514	6.7 & 20	538,684	142,417	17,829	663,272
Headend electronics, equip., and production equip.	1,613,888	16,218	-	1,630,106	10	894,721	163,090	-	1,057,811
Headend site, towers, antennae, and earth stns.	412,120	3,840	-	415,960	2.5 & 6.7	79,181	12,721	-	91,902
Vehicles	137,773	-	-	137,773	20	97,367	6,813	-	104,180
TOTAL DISTRIBUTION PLANT	<u>6,594,144</u>	<u>158,479</u>	<u>17,829</u>	<u>6,734,794</u>		<u>2,312,519</u>	<u>448,586</u>	<u>17,829</u>	<u>2,743,276</u>
General plant:									
Tools and test equipment	81,051	-	-	81,051	10	50,311	8,105	-	58,416
Office furniture and fixtures	264,056	19,883	3,100	280,839	5	224,045	51,293	3,100	272,238
TOTAL GENERAL PLANT	<u>345,107</u>	<u>19,883</u>	<u>3,100</u>	<u>361,890</u>		<u>274,356</u>	<u>59,398</u>	<u>3,100</u>	<u>330,654</u>
TOTAL PLANT IN SERVICE	<u>6,939,251</u>	<u>178,362</u>	<u>20,929</u>	<u>7,096,684</u>		<u>\$ 2,586,875</u>	<u>\$ 507,984</u>	<u>\$ 20,929</u>	<u>\$ 3,073,930</u>
Construction/(retirements) in progress	7,252	130,341	124,625	12,968					
	<u>\$ 6,946,503</u>	<u>\$ 308,703</u>	<u>\$ 145,554</u>	<u>\$ 7,109,652</u>					

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF PLANT AND EQUIPMENT - WATER

June 30, 2008

	COST				Depr. Rates	ACCUMULATED DEPRECIATION			
	Balance 6/30/2007	Additions	Retirements	Balance 6/30/2008		Balance 6/30/2007	Provisions	Other Adjustments	Balance 6/30/2008
<u>General</u>									
Land and land rights	\$ 69,340	\$ -	\$ -	\$ 69,340		\$ -	\$ -	\$ -	\$ -
Equipment	1,448,152	80,981	122,521	1,406,612	5 - 20%	958,129	73,050	103,781	927,398
Buildings	533,973	12,754	440,676	106,051	3 - 4%	261,569	13,758	228,066	47,261
<u>Water Facilities</u>									
Treatment	3,596,277	59,985	-	3,656,262	5 - 7%	2,503,933	121,964	-	2,625,897
Transmission	-	-	-	-	7 - 10%	-	-	-	-
Storage	1,192,903	-	-	1,192,903	2.5 - 4%	762,936	28,651	-	791,587
Distribution	7,193,633	429,121	-	7,622,754	2.5 - 4%	3,577,947	194,444	-	3,772,391
<u>Sewer Facilities</u>									
Land and land rights	17,030	-	-	17,030		-	-	-	-
Collection	4,253,119	66,396	-	4,319,515	2 - 2.5%	2,287,538	104,834	-	2,392,372
Treatment	5,096,159	17,156	-	5,113,315	3.3 - 5%	3,206,757	147,144	-	3,353,901
	<u>23,400,586</u>	<u>666,393</u>	<u>563,197</u>	<u>23,503,782</u>		<u>\$ 13,558,809</u>	<u>\$ 683,845</u>	<u>\$ 331,847</u>	<u>\$ 13,910,807</u>
<u>Construction in Progress</u>									
	<u>402,646</u>	<u>1,509,357</u>	<u>435,844</u>	<u>1,476,159</u>					
	<u>\$ 23,803,232</u>	<u>\$ 2,175,750</u>	<u>\$ 999,041</u>	<u>\$ 24,979,941</u>					

CITY OF FAYETTEVILLE, TENNESSEE
SANITATION FUND
SCHEDULE OF PLANT AND EQUIPMENT
June 30, 2008

	COST				Depr. Rates	ACCUMULATED DEPRECIATION			
	Balance <u>6/30/2007</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>6/30/2008</u>		Balance <u>6/30/2007</u>	<u>Provisions</u>	<u>Other Adjustments</u>	Balance <u>6/30/2008</u>
Land	\$ 210,625	\$ -	\$ -	\$ 210,625		\$ -	\$ -	\$ -	\$ -
Improvements other than buildings	7,841	-	-	7,841	5.00%	4,803	392	-	5,195
Machinery and equipment	<u>446,548</u>	<u>3,172</u>	<u>-</u>	<u>449,720</u>	8.33%	<u>247,334</u>	<u>36,745</u>	<u>-</u>	<u>284,079</u>
Totals	<u>\$ 665,014</u>	<u>\$ 3,172</u>	<u>\$ -</u>	<u>\$ 668,186</u>		<u>\$ 252,137</u>	<u>\$ 37,137</u>	<u>\$ -</u>	<u>\$ 289,274</u>

CITY OF FAYETTEVILLE, TENNESSEE
SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS
June 30, 2008

Year Ending June 30,	Fayetteville Public Utilities												
	General Debt		Electric Division		Gas Division		Telecom Division		Water & Sewer Division		Total	Total	Total
	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Total
2009	\$ 111,000	\$ 40,054	\$ 1,415,000	\$ 794,618	\$ 215,000	\$ 111,440	\$ 255,000	\$ 283,910	\$ 283,613	\$ 49,558	\$ 2,279,613	\$ 1,279,580	\$ 3,559,193
2010	116,000	34,645	1,580,000	747,543	220,000	106,594	275,000	268,100	225,000	42,845	2,416,000	1,199,727	3,615,727
2011	146,000	28,906	1,730,000	695,782	225,000	101,635	290,000	251,050	250,000	36,687	2,641,000	1,114,060	3,755,060
2012	50,000	22,269	1,865,000	635,975	255,000	96,520	310,000	233,070	250,000	29,904	2,730,000	1,017,738	3,747,738
2013	50,000	20,913	370,000	559,225	265,000	90,763	325,000	213,850	275,000	23,068	1,285,000	907,819	2,192,819
2014	50,000	19,556	366,250	549,783	270,000	84,792	350,000	192,725	300,000	15,553	1,336,250	862,409	2,198,659
2015	50,000	18,200	350,000	540,284	275,000	78,708	370,000	169,975	297,115	7,420	1,342,115	814,587	2,156,702
2016	50,000	16,843	375,000	530,060	285,000	72,503	395,000	145,925	-	-	1,105,000	765,331	1,870,331
2017	50,000	15,487	375,000	519,165	295,000	66,072	420,000	120,250	-	-	1,140,000	720,974	1,860,974
2018	50,000	14,130	400,000	508,214	300,000	59,426	450,000	92,950	-	-	1,200,000	674,720	1,874,720
2019	50,000	12,774	425,000	496,536	310,000	52,658	475,000	63,700	-	-	1,260,000	625,668	1,885,668
2020	50,000	11,417	450,000	484,132	320,000	45,666	505,000	32,825	-	-	1,325,000	574,040	1,899,040
2021	75,000	10,004	1,250,000	471,002	325,000	38,457	-	-	-	-	1,650,000	519,463	2,169,463
2022	75,000	7,969	1,300,000	426,204	335,000	31,126	-	-	-	-	1,710,000	465,299	2,175,299
2023	75,000	5,935	1,375,000	378,934	350,000	23,562	-	-	-	-	1,800,000	408,431	2,208,431
2024	75,000	3,900	1,450,000	328,478	350,000	15,686	-	-	-	-	1,875,000	348,064	2,223,064
2025	75,000	1,865	1,525,000	276,050	375,000	7,767	-	-	-	-	1,975,000	285,682	2,260,682
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>\$ 1,198,000</u>	<u>\$ 284,867</u>	<u>\$ 21,626,250</u>	<u>\$ 9,374,684</u>	<u>\$ 4,970,000</u>	<u>\$ 1,083,375</u>	<u>\$ 4,420,000</u>	<u>\$ 2,068,330</u>	<u>\$ 1,880,728</u>	<u>\$ 205,035</u>	<u>\$ 34,094,978</u>	<u>\$ 13,016,291</u>	<u>\$ 47,111,269</u>

CITY OF FAYETTEVILLE, TENNESSEE
 SCHEDULE OF GENERAL LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS
 June 30, 2008

Year Ending June 30,	Tennessee Municipal		Public		Total General	
	Loan Program		Improvement Bonds		Total	Total
	Series 1995		Adj. Rate Series Z-3-A		Bonds	Interest
	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>
2009	\$ 86,000	\$ 15,015	\$ 25,000	\$ 25,039	\$ 111,000	\$ 40,054
2010	91,000	10,285	25,000	24,360	116,000	34,645
2011	96,000	5,280	50,000	23,626	146,000	28,906
2012	-	-	50,000	22,269	50,000	22,269
2013	-	-	50,000	20,913	50,000	20,913
2014	-	-	50,000	19,556	50,000	19,556
2015	-	-	50,000	18,200	50,000	18,200
2016	-	-	50,000	16,843	50,000	16,843
2017	-	-	50,000	15,487	50,000	15,487
2018	-	-	50,000	14,130	50,000	14,130
2019	-	-	50,000	12,774	50,000	12,774
2020	-	-	50,000	11,417	50,000	11,417
2021	-	-	75,000	10,004	75,000	10,004
2022	-	-	75,000	7,969	75,000	7,969
2023	-	-	75,000	5,935	75,000	5,935
2024	-	-	75,000	3,900	75,000	3,900
2025	-	-	75,000	1,865	75,000	1,865
	<u>\$ 273,000</u>	<u>\$ 30,580</u>	<u>\$ 925,000</u>	<u>\$ 254,287</u>	<u>\$ 1,198,000</u>	<u>\$ 284,867</u>

CITY OF FAYETTEVILLE, TENNESSEE

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - ELECTRIC

June 30, 2008

Year Ending June 30,	Series 1998		Series 2001		Series 2007		Public Improvement Revenue Series IV-B-1		RUS Rural Economic Development Loan (SCHRA)		Total Electric	
	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Bonds	Interest	Total Bonds	Total Interest
2009	\$ 205,000	\$ 40,075	\$ 315,000	\$ 112,285	\$ -	\$ 414,725	\$ 850,000	\$ 227,533	\$ 45,000	\$ -	\$ 1,415,000	\$ 794,618
2010	215,000	30,953	320,000	99,370	-	414,725	1,000,000	202,495	45,000	-	1,580,000	747,543
2011	225,000	21,278	635,000	85,930	-	414,725	825,000	173,849	45,000	-	1,730,000	695,782
2012	240,000	11,040	1,355,000	58,943	-	414,725	225,000	151,267	45,000	-	1,865,000	635,975
2013	-	-	-	-	-	414,725	325,000	144,500	45,000	-	370,000	559,225
2014	-	-	-	-	-	414,725	325,000	135,058	41,250	-	366,250	549,783
2015	-	-	-	-	-	414,725	350,000	125,559	-	-	350,000	540,284
2016	-	-	-	-	-	414,725	375,000	115,335	-	-	375,000	530,060
2017	-	-	-	-	-	414,725	375,000	104,440	-	-	375,000	519,165
2018	-	-	-	-	-	414,725	400,000	93,489	-	-	400,000	508,214
2019	-	-	-	-	-	414,725	425,000	81,811	-	-	425,000	496,536
2020	-	-	-	-	-	414,725	450,000	69,407	-	-	450,000	484,132
2021	-	-	-	-	775,000	414,725	475,000	56,277	-	-	1,250,000	471,002
2022	-	-	-	-	825,000	383,725	475,000	42,479	-	-	1,300,000	426,204
2023	-	-	-	-	875,000	350,312	500,000	28,622	-	-	1,375,000	378,934
2024	-	-	-	-	925,000	314,438	525,000	14,040	-	-	1,450,000	328,478
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
	<u>\$ 885,000</u>	<u>\$ 103,346</u>	<u>\$ 2,625,000</u>	<u>\$ 356,528</u>	<u>\$ 9,950,000</u>	<u>\$ 7,148,649</u>	<u>\$ 7,900,000</u>	<u>\$ 1,766,161</u>	<u>\$ 266,250</u>	<u>\$ -</u>	<u>\$ 21,626,250</u>	<u>\$ 9,374,684</u>

CITY OF FAYETTEVILLE, TENNESSEE

FAYETTEVILLE PUBLIC UTILITIES

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - GAS

June 30, 2008

Year Ending <u>June 30,</u>	Public Improvement Bonds		Public Improvement Bonds		<u>Total Gas</u>	
	Adj. Rate Series A-6-B		Adj. Rate Series A-9-B		Total	Total
	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>
2009	\$ 165,000	\$ 65,405	\$ 50,000	\$ 46,035	\$ 215,000	\$ 111,440
2010	170,000	61,683	50,000	44,911	220,000	106,594
2011	175,000	57,849	50,000	43,786	225,000	101,635
2012	180,000	53,904	75,000	42,616	255,000	96,520
2013	190,000	49,835	75,000	40,928	265,000	90,763
2014	195,000	45,551	75,000	39,241	270,000	84,792
2015	200,000	41,155	75,000	37,553	275,000	78,708
2016	210,000	36,637	75,000	35,866	285,000	72,503
2017	220,000	31,894	75,000	34,178	295,000	66,072
2018	225,000	26,935	75,000	32,491	300,000	59,426
2019	235,000	21,855	75,000	30,803	310,000	52,658
2020	245,000	16,550	75,000	29,116	320,000	45,666
2021	250,000	11,028	75,000	27,429	325,000	38,457
2022	260,000	5,385	75,000	25,741	335,000	31,126
2023	-	-	350,000	23,562	350,000	23,562
2024	-	-	350,000	15,686	350,000	15,686
2025	-	-	375,000	7,767	375,000	7,767
	<u>\$ 2,920,000</u>	<u>\$ 525,666</u>	<u>\$ 2,050,000</u>	<u>\$ 557,709</u>	<u>\$ 4,970,000</u>	<u>\$ 1,083,375</u>

CITY OF FAYETTEVILLE, TENNESSEE
 FAYETTEVILLE PUBLIC UTILITIES
 SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - TELECOM
 June 30, 2008

Year Ending <u>June 30,</u>	<u>Series 2000 Revenue Bonds</u>				<u>Total</u>
	<u>Bonds</u>	<u>Interest</u>			
2009	\$ 255,000	\$ 283,910	\$		538,910
2010	275,000	268,100			543,100
2011	290,000	251,050			541,050
2012	310,000	233,070			543,070
2013	325,000	213,850			538,850
2014	350,000	192,725			542,725
2015	370,000	169,975			539,975
2016	395,000	145,925			540,925
2017	420,000	120,250			540,250
2018	450,000	92,950			542,950
2019	475,000	63,700			538,700
2020	505,000	32,825			537,825
	<u>\$ 4,420,000</u>	<u>\$ 2,068,330</u>	<u>\$</u>		<u>6,488,330</u>

**CITY OF FAYETTEVILLE, TENNESSEE
FAYETTEVILLE PUBLIC UTILITIES**

SCHEDULE OF LONG-TERM DEBT PRINCIPAL AND INTEREST REQUIREMENTS - WATER

June 30, 2008

Year Ending June 30,	State of Tenn. Utility Reloc. Loan		Public Improvement Bonds Adj. Rate Series Z-3-A		<u>Total Water</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>	<u>Total Bonds</u>	<u>Total Interest</u>
2009	\$ 58,613	\$ 609	\$ 225,000	\$ 48,949	\$ 283,613	\$ 49,558
2010	-	-	225,000	42,845	225,000	42,845
2011	-	-	250,000	36,687	250,000	36,687
2012	-	-	250,000	29,904	250,000	29,904
2013	-	-	275,000	23,068	275,000	23,068
2014	-	-	300,000	15,553	300,000	15,553
2015	-	-	297,115	7,420	297,115	7,420
	<u>\$ 58,613</u>	<u>\$ 609</u>	<u>\$ 1,822,115</u>	<u>\$ 204,426</u>	<u>\$ 1,880,728</u>	<u>\$ 205,035</u>

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

June 30, 2008

Residential

Customer Charge	\$13.77 per month
Energy Charge	8.218 cents per KWH per month first 800 KWH 7.488 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	9.215 cents per KWH
	<u>50 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 \$14.00 per KWH.
Energy Charge	First 15,000 KWH at 9.202 cents per KWH. Additional KWH at 4.641 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 \$13.91 per KW, excess over 1,000 KW of billing demand per month at \$15.55, plus an additional \$15.55 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	4.714 cents per KWH.
	<u>5,001 KW TO 15,000 KW</u>
Customer Charge	\$1,500 per delivery point
Demand Charge	\$13.78 per KW of metered demand, plus an additional \$13.78 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.667 cents per KWH per first 620 hours use of metered demand per month. 2.992 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	\$13.27 per KW of metered demand, plus an additional \$13.27 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.667 cents per KWH for first 620 hours use of metered demand per month. 2.992 cents per KWH for additional KWH per month.
	<u>5,001 KW TO 15,000 KW</u>
Customer Charge	\$1,500 per delivery point
Demand Charge	\$16.23 per KW of billing demand, plus an additional \$16.23 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	2.94 cents per KWH per month.

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

June 30, 2008

Residential

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.62

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

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.67

General Commercial and Industrial

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.503

Housing Authority

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.499

Interruptible Service

Per ccf consumed per month	1.3460
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Note: ccf represents 100 cubic feet.

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

June 30, 2008

Cable TV Services

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/Move Channel package	14.95
Encore	7.95
Encore/Starz package	11.95
Hometown package	66.22

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

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

June 30, 2008

	<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>Industrial</u>	<u>Frito Lay</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	\$ 8.00	\$ 7.90	\$ 8.20
All over 100 cubic feet*	2.82	3.67						
Next 900 cubic feet*			2.82	3.67	2.82	2.82	2.72	3.02
All over 1,000 cubic feet*			2.35	3.06				
Next 59,000 cubic feet*					2.35		2.25	2.55
All over 60,000 cubic feet*					2.20		2.10	2.40
Next 119,000 cubic feet*						2.20		
All over 120,000 cubic feet*						1.70		
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>2008</u>	<u>2007</u>
Water	4,452	4,451
Sewer	3,459	3,462

CITY OF FAYETTEVILLE, TENNESSEE
SCHEDULE OF SANITATION RATES IN EFFECT

June 30, 2008

Residential

Per household	\$ 10.00
Per apartment	10.00

Commercial and Industrial

1 yd.	Twice/wk.	\$ 30.00
	Once/wk.	15.00
2 yd.	Twice/wk.	52.00
	Once/wk.	28.00
3 yd.	Twice/wk.	79.00
	Once/wk.	44.00
4 yd.	Twice/wk.	100.00
	Once/wk.	55.00
6 yd.	Twice/wk.	150.00
	Once/wk.	80.00
8 yd.	Twice/wk.	200.00
	Once/wk.	110.00

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

CITY OF FAYETTEVILLE, TENNESSEE
SCHEDULE OF NUMBER OF UTILITY CUSTOMERS

June 30, 2008

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
Electric	17,835	17,729
Gas	5,969	5,910
Telecom division - Cable	3,203	3,208
Telecom division - Internet	1,689	1,561
Water	4,452	4,451
Sewer	3,459	3,462
Sanitation	2,603	2,655

CITY OF FAYETTEVILLE, TENNESSEE
 FAYETTEVILLE PUBLIC UTILITIES
 SCHEDULE OF WATER LOSS - UNAUDITED

Year Ended June 30, 2008

Month	Gallons Pumped	Gallons Sold	Used at Treatment Plants	Leaks & Flushing	Unaccounted for Water Loss	% Loss
July 2007	87,966	58,333	2,249	845	26,539	30.2%
August	99,115	53,682	2,359	1,650	41,424	41.8%
September	88,374	63,732	2,129	2,925	19,588	22.2%
October	85,748	53,041	1,227	4,642	26,838	31.3%
November	77,039	49,954	1,266	6,175	19,644	25.5%
December	81,698	49,660	1,228	2,078	28,732	35.2%
January 2008	65,874	50,775	1,163	2,873	11,063	16.8%
February	66,178	48,243	2,074	1,022	14,839	22.4%
March	66,871	45,983	1,657	786	18,445	27.6%
April	61,091	47,309	1,518	800	11,464	18.8%
May	67,519	51,567	2,086	2,148	11,718	17.4%
June	72,150	59,832	1,730	168	10,420	14.4%
Total	<u>919,623</u>	<u>632,111</u>	<u>20,686</u>	<u>26,112</u>	<u>240,714</u>	<u>26.2%</u>

Above data expressed in thousands of gallons.

CITY OF FAYETTEVILLE, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

June 30, 2008

<u>Year</u>	<u>Balance</u> <u>June 30, 2007</u>	<u>Taxes</u> <u>Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Balance</u> <u>June 30, 2008</u>
2008	\$ -	\$ 1,941,978	\$ -	\$ -	\$ 1,941,978
2007	1,890,508	-	(382)	(1,830,546)	59,580
2006	58,872	-	451	(37,574)	21,749
2005	15,337	-	-	(9,273)	6,064
2004	8,926	-	-	(3,858)	5,068
2003	13,110	-	-	(3,858)	9,252
2002	11,000	-	-	(1,837)	9,163
2001	5,678	-	-	(1,837)	3,841
2000	987	-	(762)	(225)	-
	<u>\$ 2,004,418</u>	<u>\$ 1,941,978</u>	<u>\$ (693)</u>	<u>\$ (1,889,008)</u>	<u>\$ 2,056,695</u>
Less allowance for uncollectible taxes					<u>(46,357)</u>
Balance, end of year, net of allowance					<u>\$ 2,010,338</u>

Delinquent taxes filed with county trustee at June 30, 2008 are as follows:

<u>Year</u>	<u>Amount</u>
2006	\$ 21,749
2005	6,064
2004	5,068
2003	9,252
2002	9,163
2001	3,841
	<u>\$ 33,388</u>

CITY OF FAYETTEVILLE, TENNESSEE
DIRECTORY OF OFFICIALS AND SCHEDULE OF SALARIES
June 30, 2008

Mayor Gwendolyn Shelton	\$ 10,870
Board of Alderman	
Joe Askins	7,068
Richard Bolles	6,943
Carolyn Denton	6,635
Marty Pepper	6,510
Walter Sloan	6,943
Dorothy Small	6,635
City Administrator - Kevin Helms	82,995
Director of Schools - Billy J. Evans	110,062
Fayetteville Public Utilities	
General Manager - Britt Dye	104,519
Manager of Finance and Office Services - Kim Posey	66,890
Administrative Assistant / Manager of Customer Service - Pam Gentry	61,414
Manager of Water/Wastewater Dept. Operations - Jack Atchley	64,241

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.	83
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	87
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.	91
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.	98
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.	100

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.

CITY OF FAYETTEVILLE, TENNESSEE
NET ASSETS BY CATEGORY
LAST FIVE FISCAL YEARS

	<u>Year Ended June 30,</u>				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 15,000,831	\$ 15,586,315	\$ 16,082,964	\$ 16,524,034	\$ 16,260,960
Restricted	5,134,146	4,826,109	5,003,081	4,794,880	5,190,884
Unrestricted	<u>7,079,154</u>	<u>7,663,610</u>	<u>7,952,605</u>	<u>8,025,757</u>	<u>8,758,091</u>
Subtotal governmental activities	27,214,131	28,076,034	29,038,650	29,344,671	30,209,935
Business-type activities					
Invested in capital assets, net of related debt	36,178,082	34,722,150	35,483,914	35,494,073	37,074,230
Restricted	6,014,825	5,528,509	5,856,753	5,787,918	5,898,526
Unrestricted	<u>5,925,768</u>	<u>8,937,186</u>	<u>9,077,942</u>	<u>12,417,589</u>	<u>14,552,637</u>
Subtotal business-type activities	48,118,675	49,187,845	50,418,609	53,699,580	57,525,393
Primary government					
Invested in capital assets, net of related debt	51,178,913	50,308,465	51,566,878	52,018,107	53,335,190
Restricted	11,148,971	10,354,618	10,859,834	10,582,798	11,089,410
Unrestricted	<u>13,004,922</u>	<u>16,600,796</u>	<u>17,030,547</u>	<u>20,443,346</u>	<u>23,310,728</u>
Total primary government	<u>\$ 75,332,806</u>	<u>\$ 77,263,879</u>	<u>\$ 79,457,259</u>	<u>\$ 83,044,251</u>	<u>\$ 87,735,328</u>

CITY OF FAYETTEVILLE, TENNESSEE
CHANGES IN NET ASSETS
LAST FIVE FISCAL YEARS

	Year Ended June 30,				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental activities					
Program revenues					
Charges for services	\$ 795,885	\$ 625,556	\$ 628,549	\$ 628,216	\$ 650,387
Operating grants and contributions	4,268,039	4,682,907	4,852,676	5,301,731	5,911,615
Capital grants and contributions	<u>140,674</u>	<u>327,597</u>	<u>533,418</u>	<u>26,492</u>	<u>38,072</u>
	<u>5,204,598</u>	<u>5,636,060</u>	<u>6,014,643</u>	<u>5,956,439</u>	<u>6,600,074</u>
Expenses by function					
General government	549,699	594,452	703,663	750,922	701,459
Public safety	2,648,192	2,877,777	3,219,048	3,237,349	3,470,893
Judicial	45,069	47,074	48,276	49,358	48,997
Recreation	492,185	576,825	542,060	547,999	586,042
Highways and streets	1,272,024	1,107,653	1,230,830	1,156,670	1,276,864
Sanitation	20,654	5,055	11,616	12,524	11,277
Housing and community development	367,807	520,575	466,050	802,627	359,627
Education	6,111,528	6,516,140	6,863,953	7,357,688	7,881,326
Interest on long-term debt	<u>24,927</u>	<u>30,729</u>	<u>42,608</u>	<u>69,855</u>	<u>62,361</u>
	<u>11,532,085</u>	<u>12,276,280</u>	<u>13,128,104</u>	<u>13,984,992</u>	<u>14,398,846</u>
Net revenue (expense)	(6,327,487)	(6,640,220)	(7,113,461)	(8,028,553)	(7,798,772)
General revenues	6,355,922	6,525,165	7,080,152	7,363,948	7,672,243
Transfers in (out)	<u>645,784</u>	<u>976,958</u>	<u>995,925</u>	<u>970,626</u>	<u>991,793</u>
Change in net assets	<u>\$ 674,219</u>	<u>\$ 861,903</u>	<u>\$ 962,616</u>	<u>\$ 306,021</u>	<u>\$ 865,264</u>
Business-type activities					
Program revenues					
Charges for services	\$ 43,559,794	\$ 45,074,713	\$ 52,747,369	\$ 53,444,868	\$ 56,538,686
Capital grants and contributions	<u>320,832</u>	<u>505,568</u>	<u>376,238</u>	<u>1,016,900</u>	<u>582,003</u>
	<u>43,880,626</u>	<u>45,580,281</u>	<u>53,123,607</u>	<u>54,461,768</u>	<u>57,120,689</u>
Expense by function					
Electric, telecom, water, and gas	41,305,284	43,545,990	51,177,843	50,802,521	52,905,163
Sanitation	<u>417,584</u>	<u>450,437</u>	<u>376,771</u>	<u>426,391</u>	<u>430,149</u>
	<u>41,722,868</u>	<u>43,996,427</u>	<u>51,554,614</u>	<u>51,228,912</u>	<u>53,335,312</u>
Net revenue (expense)	2,157,758	1,583,854	1,568,993	3,232,856	3,785,377
General revenues	349,847	462,274	657,696	1,018,741	1,032,229
Transfers in (out)	<u>(645,784)</u>	<u>(976,958)</u>	<u>(995,925)</u>	<u>(970,626)</u>	<u>(991,793)</u>
Change in net assets	<u>\$ 1,861,821</u>	<u>\$ 1,069,170</u>	<u>\$ 1,230,764</u>	<u>\$ 3,280,971</u>	<u>\$ 3,825,813</u>

**CITY OF FAYETTEVILLE, TENNESSEE
GOVERNMENTAL FUND BALANCES BY TYPE
LAST TEN FISCAL YEARS**

	<u>Year Ended June 30,</u>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General fund										
Reserved	\$ 350,431	\$ 339,061	\$ 278,941	\$ 271,214	\$ 36,255	\$ 55,746	\$ 1,056,605	\$ 913,038	\$ 1,128,758	\$ 1,037,577
Unreserved	<u>3,268,165</u>	<u>3,129,158</u>	<u>2,843,322</u>	<u>2,905,462</u>	<u>3,509,698</u>	<u>3,758,624</u>	<u>4,418,379</u>	<u>5,027,019</u>	<u>4,848,188</u>	<u>5,033,953</u>
Total general fund	<u>\$ 3,618,596</u>	<u>\$ 3,468,219</u>	<u>\$ 3,122,263</u>	<u>\$ 3,176,676</u>	<u>\$ 3,545,953</u>	<u>\$ 3,814,370</u>	<u>\$ 5,474,984</u>	<u>\$ 5,940,057</u>	<u>\$ 5,976,946</u>	<u>\$ 6,071,530</u>
Other governmental funds										
Reserved	\$ 3,830,529	\$ 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
Unreserved	<u>3,826,185</u>	<u>3,926,496</u>	<u>4,138,019</u>	<u>4,117,352</u>	<u>3,749,893</u>	<u>3,690,253</u>	<u>3,629,844</u>	<u>3,416,950</u>	<u>3,130,712</u>	<u>3,102,177</u>
Total all other governmental funds	<u>\$ 7,656,714</u>	<u>\$ 11,282,191</u>	<u>\$ 10,091,661</u>	<u>\$ 9,920,465</u>	<u>\$ 9,746,497</u>	<u>\$ 9,871,083</u>	<u>\$ 9,309,378</u>	<u>\$ 9,186,150</u>	<u>\$ 8,604,690</u>	<u>\$ 8,924,418</u>

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

	Year Ended June 30,									
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Revenues										
Taxes	\$ 5,019,894	\$ 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
Licenses and permits	116,719	84,341	105,605	121,299	16,768	24,395	25,151	31,775	43,530	34,880
Use of facilities	33,845	31,716	45,936	38,224	36,536	39,741	46,562	42,960	39,809	37,447
Intergovernmental	5,811,602	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
Miscellaneous	1,478,771	1,627,728	1,818,053	1,550,878	960,532	878,907	996,983	1,141,806	1,378,726	1,437,428
	<u>12,460,831</u>	<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>
Expenditures										
General government	484,711	777,022	557,876	639,037	513,763	517,734	549,856	651,292	731,687	663,250
Public safety	1,813,064	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
Streets and sanitation	1,241,885	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
Recreation	321,578	403,852	370,342	512,112	438,340	425,284	457,072	478,341	494,842	519,668
Education	5,243,956	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
Judicial	12,098	22,233	30,027	33,017	37,730	45,069	47,074	48,276	49,358	48,997
Public service	29,874	32,140	32,057	40,104	-	-	-	-	-	-
Special contributions and other expenses	764,578	957,707	986,709	450,286	345,029	309,524	509,641	310,604	645,944	311,566
Debt service	266,225	263,875	265,025	261,665	207,135	240,927	255,729	305,608	340,531	496,934
Capital outlay	436,449	732,267	2,697,432	1,876,014	336,752	581,903	385,800	715,261	1,335,846	795,153
	<u>10,614,418</u>	<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>
Other financing sources (uses)										
Transfers in	1,426,769	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
Transfers out	(1,426,769)	(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)
Refunding bonds issued	-	-	-	-	1,115,000	-	-	-	-	-
Bonds issued	-	-	-	-	-	-	1,000,000	-	-	-
Payment to refunded bond escrow agent	-	-	-	-	(1,100,000)	-	-	-	-	-
Bond discount	-	-	-	-	(5,017)	-	-	-	-	-
Sale of capital assets	-	-	-	-	-	-	-	-	137,066	22,817
	<u>-</u>	<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>
Net change in fund balance	\$ <u>1,846,413</u>	\$ <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>

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

Year Ended 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						
1999	N/A	N/A	N/A	N/A	\$ 89,891,241	\$1.79	\$ 277,402,077	32.40%	
2000	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	87,674,658	1.79	276,933,141	31.66%	
2002	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	112,676,987	1.49	342,900,198	32.86%	
2004	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%	

N/A - Not available

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

Year Ending June 30,	Direct Rate <u>City of Fayetteville</u>	Overlapping Rate <u>Lincoln County</u>	Total Direct & Overlapping Rates <u> </u>
1999	\$1.79	\$2.53	\$4.32
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

CITY OF FAYETTEVILLE, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
June 30, 2008

Taxpayer	Year Ended June 30, 2008			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.)	\$ 13,705,210	1	9.53%	\$ 15,120,151	1	16.82%
BC Wood Inv. Fund II, LLC	4,412,680	2	3.07%			
Wal Mart	4,302,932	3	2.99%	3,290,035	2	3.66%
Bellsouth	2,172,020	4	1.51%	2,450,249	4	2.73%
Copperweld	1,805,292	5	1.26%	3,078,163	3	3.42%
Parsons Oil	1,791,017	6	1.25%			
Federal Limited	1,569,201	7	1.09%	1,298,536	7	1.44%
First National Bank	1,322,569	8	0.92%			
Lincoln Medical Center	1,110,160	9	0.77%			
Ronnie Wallace	1,055,360	10	0.73%	1,782,825	6	1.98%
David Hutton				1,815,570	5	2.02%
Del-Met				1,172,130	8	1.30%
Lincoln County Bank				946,901	9	1.05%
First Union				807,414	10	0.90%

CITY OF FAYETTEVILLE, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
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</u> <u>of Levy</u>		<u>Amount</u>	<u>Percentage</u> <u>of Levy</u>
1999	\$ 1,604,630	\$ 1,525,430	95.1%	\$ 77,943	\$ 1,603,373	99.9%
2000	1,603,629	1,520,205	94.8%	81,215	1,601,420	99.9%
2001	1,568,483	1,423,233	90.7%	143,158	1,566,391	99.9%
2002	1,619,825	1,533,276	94.7%	80,673	1,613,949	99.6%
2003	1,675,523	1,599,122	95.4%	65,367	1,664,489	99.3%
2004	1,721,195	1,624,736	94.4%	81,719	1,706,455	99.1%
2005	1,717,740	1,647,929	95.9%	64,135	1,712,064	99.7%
2006	1,755,185	1,689,457	96.3%	59,562	1,749,019	99.6%
2007	1,763,851	1,704,979	96.7%	37,574	1,742,553	98.8%
2008	1,890,126	1,830,546	96.8%	-	1,830,546	96.8%

CITY OF FAYETTEVILLE, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

Fiscal Year Ending June 30,	<u>Governmental Activities</u>		<u>Business-Type Activities</u>			Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General Obligation		Revenue and Tax	Revenue				
	<u>Bonds</u>	<u>Loans</u>	<u>Bonds</u>	<u>Bonds</u>	<u>Loans</u>			
1999	\$ 1,665,000	\$ 871,000	\$ 3,865,000	\$ 14,444,401	\$ 1,146,029	\$ 21,991,430	N/A	\$ 2,973
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

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

¹See the Schedule of Demographic and economic Statistics on page 96 for personal income and population data.

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

Fiscal Year Ending <u>June 30,</u>	General Obligation <u>Bonds</u>	Percentage of Estimated Actual Taxable <u>Value¹ of Property</u>	<u>Per Capita²</u>
1999	\$ 1,665,000	0.60%	\$225.06
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

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 85 for property value data.

²Population data can be found in the Schedule of Demographic and Economic Statistics on page 96.

CITY OF FAYETTEVILLE, TENNESSEE
 DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
 as of June 30, 2008

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable¹</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes: Lincoln County	\$ 18,910,000	24.53%	\$ 4,638,623
Subtotal, overlapping debt			<u>4,638,623</u>
City of Fayetteville direct debt			<u>1,198,000</u>
Total direct and overlapping debt			<u>\$ 5,836,623</u>

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.

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

Electric Revenue Bonds and Loans

Year Ended June 30,	Electric Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
1999	\$ 26,480,413	\$ 22,467,324	\$ 4,013,089	\$ 775,252	\$ 630,981	\$ 1,406,233	2.85
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

¹Depreciation and other non-cash items not included.

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

Gas Revenue and Tax Bonds

Year Ended <u>June 30,</u>	Gas 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>	
1999	\$ 4,024,241	\$ 3,490,615	\$ 533,626	\$ 100,000	\$ 30,473	\$ 130,473	4.09
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

¹Depreciation and other non-cash items not included.

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

Telecommunications Revenue Bonds

Year Ended <u>June 30,</u>	Telecom Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	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

¹Depreciation and other non-cash items not included.

CITY OF FAYETTEVILLE, TENNESSEE
 PLEDGED REVENUE COVERAGE
 FAYETTEVILLE PUBLIC UTILITIES - WATER & SEWER DIVISION
 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	
1999	\$ 2,400,557	\$ 1,463,393	\$ 937,164	\$ 672,407	\$ 243,874	\$ 916,281	1.02
2000	2,425,582	1,433,976	991,606	773,821	219,099	992,920	1.00
2001	2,426,152	1,573,649	852,503	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

¹Depreciation and other non-cash items not included.

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

Year Ended June 30,	Population	Personal Income	Per Capita Personal Income	Unemployment Rate
1999	7,398	N/A	N/A	4.30%
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%

N/A - Not available

Source: Middle Tennessee Industrial Development Association Community Data Profile.

**CITY OF FAYETTEVILLE, TENNESSEE
PRINCIPAL EMPLOYERS
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)	1,600	1	1,000	1
Lincoln County Board of Education	850	2	-	-
Lincoln County Health System	612	3	-	-
Frito-Lay, Inc.	500	4	306	2
Lincoln County	170	5	-	-
Copperweld Corp.	120	6	164	4
Franke Contract Group	115	7	87	6
City of Fayetteville	110	8	-	-
C & S Plastics, LLC	100	9	-	-
Gregory	68	10	-	-
Lincoln County Mfg. Inc.	-	-	165	3
Del-Met	-	-	125	5
R&B Wire	-	-	72	7
VAW of America	-	-	54	8
Summa Technology	-	-	50	9
Stewman's Fashions	-	-	50	9

Source: Middle Tennessee Industrial Development Association Community Data Profile.

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

<u>Function/ Program</u>	<u>Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Government			
- Administration	5	5	5
- Building & Codes	2	2	2
- Information Technology	-	-	1
Public Safety			
- Emergency Communications	9	9	9
- Fire Department	19	19	19
- Police	15	15	15
Recreation			
- Parks & Recreation	6	6	6
- Pool (Seasonal)	15	15	15
City Garage	4	4	4
Sanitation	4	4	4
Street Department	16	16	16
Fayetteville Public Utilities			
- Administration	35	32	43
- Electric division	36	35	37
- Gas division	16	15	13
- Telecommunications division	8	8	4
- Water & Sewer division	21	20	19
Fayetteville City Schools			
- Professional	83	83	88
- Support (<i>includes cafeteria</i>)	87	87	89

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

<u>Function/ Program</u>	<u>Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Police			
Arrests	76	66	1,015
Burglary	90	74	15
Traffic Control	752	866	1,041
Complaints	2,614	2,814	1,938
Fire			
Fire Calls	50	55	41
Medical Calls	763	755	748
Sanitation			
Solid Waste Collection - Garbage (<i>tonnage</i>)	4,789	4,842	4,761
Yard Waste Collection (<i>tonnage</i>)	2,524	2,625	2,758
Recreation			
Pool Admissions	5,146	6,295	4,987
Fayetteville Public Utilities			
Electric power sold (<i>thousand kilowatt hours</i>)	447,177	450,313	452,742
Natural gas sold (<i>thousand cubic feet</i>)	846,426	828,409	786,063
Water sold (<i>thousand gallons</i>)	614,994	590,046	632,111
Fayetteville City Schools			
Student enrollment			
- Ralph Askins Elementary	423	418	429
- Fayetteville Intermediate	269	292	303
- Fayetteville Junior High	289	243	270

CITY OF FAYETTEVILLE, TENNESSEE
 CAPITAL ASSET STATISTICS BY FUNCTION
 LAST THREE FISCAL YEARS

<u>Function/ Program</u>	<u>Year Ended June 30,</u>		
	<u>2006</u>	<u>2007</u>	<u>2008</u>
Police			
Stations	1	1	1
Patrol Cars	27	28	28
Scooters	2	2	2
Fire			
Fire Trucks	5	4	4
Rescue Trucks	1	1	1
Public Works			
Garbage Trucks	4	4	4
Street Heavy Equipment Vehciles	10	10	10
Street Trucks	10	10	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 (<i>miles</i>)	N/A	1,849	1,883
Gas lines (<i>miles</i>)	N/A	426	431
Water lines (<i>miles</i>)	N/A	121	132
Wastewater lines (<i>miles</i>)	N/A	46	47
Telecommunication lines (<i>miles</i>)	N/A	190	183
Fayetteville City Schools			
Schools	3	3	3
Buses	7	8	8

N/A - Not available

SINGLE AUDIT SECTION

CITY OF FAYETTEVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE FINANCIAL AWARDS
Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor	CFDA Number	Grant/Project/ Contract Number	Beginning (Accrued) Deferred	Cash Receipts		Expenditures		Ending (Accrued) Deferred
				Federal	State	Federal	State	
<u>Cash Assistance</u>								
Tennessee Department of Environment and Conservation			\$ 37,500	\$ -	\$ -	\$ -	\$ -	\$ 37,500
Tennessee Department of Environment and Conservation		Z-07-031373-00	-	-	1,196	-	1,196	-
U. S. Dept. Transportation / Tenn. Dept. of Environment and Conservation	20.219	Z-07-036643-00	-	8,982	-	8,982	-	-
			<u>37,500</u>	<u>8,982</u>	<u>1,196</u>	<u>8,982</u>	<u>1,196</u>	<u>37,500</u>
U. S. Department of Justice	16.580	Z-06-027580-00	-	18,000	-	18,000	-	-
Tennessee Department of Agriculture		Z-07-035486-00	-	-	3,971	-	3,971	-
U. S. Department of Housing and Urban Development	14.239	HM-07-17	-	2,625	-	2,625	-	-
U.S. Department of Agriculture	10.769		(17,500)	17,500	-	-	-	-
U.S. Department of Agriculture	10.555		-	177,495	-	195,661	-	(18,166)
U.S. Department of Agriculture	10.553		-	46,848	-	51,688	-	(4,840)
			<u>(17,500)</u>	<u>241,843</u>	<u>-</u>	<u>247,349</u>	<u>-</u>	<u>(23,006)</u>
U.S. Department of Education	84.010		6,459	265,786	-	273,401	-	(1,156)
U.S. Department of Education	84.186		-	2,841	-	2,841	-	-
U.S. Department of Education	84.365		-	33,767	-	33,767	-	-
U.S. Department of Education	84.298		-	2,106	-	1,608	-	498
U.S. Department of Education	84.318		-	2,069	-	2,069	-	-
U.S. Department of Education	84.027		4,466	239,833	-	228,683	-	15,616
U.S. Department of Education	84.173		2,250	6,199	-	8,232	-	217
U.S. Department of Education	84.358		-	28,862	-	28,862	-	-
U.S. Department of Education	84.367		26	55,073	-	54,863	-	236
			<u>13,201</u>	<u>636,536</u>	<u>-</u>	<u>634,326</u>	<u>-</u>	<u>15,411</u>
Total Cash Assistance			<u>\$ 33,201</u>	<u>\$ 907,986</u>	<u>\$ 5,167</u>	<u>\$ 911,282</u>	<u>\$ 5,167</u>	<u>\$ 29,905</u>
<u>Non-Cash Assistance</u>								
U.S. Department of Agriculture	10.555		\$ 4,532	\$ 11,205	\$ -	\$ 12,864	\$ -	\$ 2,873
Total Non-Cash Assistance			<u>\$ 4,532</u>	<u>\$ 11,205</u>	<u>\$ -</u>	<u>\$ 12,864</u>	<u>\$ -</u>	<u>\$ 2,873</u>

CITY OF FAYETTEVILLE, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL AND
STATE FINANCIAL ASSISTANCE (CONTINUED)
Year Ended June 30, 2008

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying schedule of expenditures of federal awards is prepared on the modified accrual basis of accounting.

NOTE B - NON-CASH ASSISTANCE

Non-monetary assistance is reported in the schedule at fair market value of the commodities received and disbursed. At June 30, 2008, the City had food commodities totaling \$2,873 in inventory.

NOTE C - LOANS

The Fayetteville Public Utilities had a total of \$0 of Rural Utilities Service (RUS) revenue bonds and \$266,250 of RUS loans outstanding at June 30, 2008.

PUTMAN & HANCOCK

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

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 the City of Fayetteville, Tennessee, (the "City") as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements and have issued our report thereon, dated December 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting 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.

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.

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 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of Fayetteville Public Utilities in a separate letter dated September 5, 2008.

This report is intended solely for the information and use of the Board of Mayor and Aldermen and management and is not intended to be and should not be used by anyone other than these specified parties.

December 3, 2008



PUTMAN & HANCOCK

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

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

Compliance

We have audited the compliance of the City of Fayetteville, Tennessee, (the "City") with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2008. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Pitman & Hancock

December 3, 2008

