

AUDITED FINANCIAL STATEMENTS  
OF  
**CITY OF  
FAYETTEVILLE, TENNESSEE**

June 30, 2011

**WINNETT**  
*Associates, PLLC*

Certified Public Accountants and Consultants

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## **FINANCIAL SECTION**

## INDEPENDENT AUDITORS' REPORT

Board of Mayor and Aldermen  
City of Fayetteville  
Fayetteville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fayetteville, Tennessee, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fayetteville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fayetteville Public Utilities, which is both a major fund and which represents 99% of the assets, net assets, and revenues of the business-type activities. We also did not audit the Fayetteville School System, which includes the school general fund, a major fund. The Fayetteville School System represents 6%, 5%, and 91%, respectively, of the assets, fund balances, and revenues of the aggregate remaining fund information and 38%, 44%, and 57%, respectively, of the assets, net assets, and revenues of the governmental activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Fayetteville Public Utilities and the Fayetteville School System, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the general fund and school general fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 30, 2012, on our consideration of the City of Fayetteville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As discussed in Note 1(D)10 to the financial statements, the City of Fayetteville adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which became effective for the year ended June 30, 2011.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress on pages 4 through 10 and 58 through 59 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We, and the other auditors, have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fayetteville, Tennessee's, financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards and state financial assistance are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the report of the other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other financial schedules have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or express any assurance on them.

*Winnett Associates, LLC*

April 30, 2012

**CITY OF FAYETTEVILLE, TENNESSEE**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**Year ended June 30, 2011**

Our discussion and analysis of the City of Fayetteville, Tennessee's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ending June 30, 2011. We encourage readers to consider the information that we have furnished in the basic financial statements and the accompanying notes to those financial statements.

**USING THIS ANNUAL REPORT**

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

**REPORTING THE CITY AS A WHOLE**

**The Statement of Net Assets and the Statement of Activities**

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

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

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

### **Governmental Activities**

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

### **Business-Type Activities**

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

## **REPORT ON THE CITY'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

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

### **Governmental Funds**

Most of the City's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed shorter-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. The differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds are explained in reconciliations included in the fund financial 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	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 17,651,362	\$ 18,369,550	\$ 41,980,675	\$ 41,158,881	\$ 59,632,037	\$ 59,528,431
Capital assets	19,491,190	19,343,014	74,321,348	72,187,733	93,812,538	91,530,747
Total assets	<u>\$ 37,142,552</u>	<u>\$ 37,712,564</u>	<u>\$ 116,302,023</u>	<u>\$ 113,346,614</u>	<u>\$ 153,444,575</u>	<u>\$ 151,059,178</u>
Long-term debt outstanding	2,943,510	3,120,148	38,022,184	38,926,366	40,965,694	42,046,514
Other liabilities	3,366,404	3,245,915	7,351,007	7,327,998	10,717,411	10,573,913
Total liabilities	<u>\$ 6,309,914</u>	<u>\$ 6,366,063</u>	<u>\$ 45,373,191</u>	<u>\$ 46,254,364</u>	<u>\$ 51,683,105</u>	<u>\$ 52,620,427</u>
Net Assets						
Invested in capital assets	19,563,317	19,098,344	38,202,905	37,205,631	57,766,222	56,303,975
Restricted	6,730,842	6,098,080	2,657,113	2,643,250	9,387,955	8,741,330
Unrestricted	4,538,479	6,150,077	30,068,814	27,243,369	34,607,293	33,393,446
Total net assets	<u>\$ 30,832,638</u>	<u>\$ 31,346,501</u>	<u>\$ 70,928,832</u>	<u>\$ 67,092,250</u>	<u>\$ 101,761,470</u>	<u>\$ 98,438,751</u>

Net assets of the City's governmental activities decreased 1.6 percent in the fiscal year 2011. Net assets of the City's business-type activities increased 5.7 percent in the fiscal year 2011.

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	
	2011	2010	2011	2010	2011	2010
Revenues						
Program Revenues:						
Charges for services	\$ 942,049	\$ 806,609	\$ 61,738,678	\$ 57,881,869	\$ 62,680,727	\$ 58,688,478
Operating grants and contributions	7,544,486	6,440,433	-	-	7,544,486	6,440,433
Capital grants and contributions	102,028	813,477	530,137	599,554	632,165	1,413,031
General revenues:						
Property taxes	2,986,399	2,863,167	-	-	2,986,399	2,863,167
Other taxes	4,196,151	3,984,737	-	-	4,196,151	3,984,737
Other general revenues	229,579	354,223	197,485	476,164	427,064	830,387
Total revenues	<u>\$ 16,000,692</u>	<u>\$ 15,262,646</u>	<u>\$ 62,466,300</u>	<u>\$ 58,957,587</u>	<u>\$ 78,466,992</u>	<u>\$ 74,220,233</u>
Program Expenses:						
General government	\$ 937,120	\$ 784,844	\$ -	\$ -	\$ 937,120	\$ 784,844
Public safety	3,858,503	3,716,868	-	-	3,858,503	3,716,868
Judicial	54,626	55,085	-	-	54,626	55,085
Recreation	718,319	621,661	-	-	718,319	621,661
Highways and streets	1,360,429	1,825,615	-	-	1,360,429	1,825,615
Sanitation	3,210	2,361	395,920	439,233	399,130	441,594
Housing and community development	677,512	695,969	-	-	677,512	695,969
Education	9,824,333	8,525,368	-	-	9,824,333	8,525,368
Interest on long-term debt	66,927	68,983	-	-	66,927	68,983
Electric, telecom, water and gas	-	-	57,247,374	53,060,329	57,247,374	53,060,329
Total expenses	<u>\$ 17,500,979</u>	<u>\$ 16,296,754</u>	<u>\$ 57,643,294</u>	<u>\$ 53,499,562</u>	<u>\$ 75,144,273</u>	<u>\$ 69,796,316</u>
Excess (deficiency) before transfers	<u>\$ (1,500,287)</u>	<u>\$ (1,034,108)</u>	<u>\$ 4,823,006</u>	<u>\$ 5,458,025</u>	<u>\$ 3,322,719</u>	<u>\$ 4,423,917</u>
Transfers	986,424	1,028,475	(986,424)	(1,028,475)	-	-
Increase in net assets	<u>\$ (513,863)</u>	<u>\$ (5,633)</u>	<u>\$ 3,836,582</u>	<u>\$ 4,429,550</u>	<u>\$ 3,322,719</u>	<u>\$ 4,423,917</u>

The City's total revenues increased 5.7 percent from the fiscal year ended June 30, 2010 to the fiscal year ended June 30, 2011, while total expenses increased 7.6 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, 2011 and 2010. 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	
	2011	2010	2011	2010
General government	\$ 937,120	\$ 784,844	\$ 830,678	\$ 713,647
Public safety	3,858,503	3,716,868	3,459,487	3,295,664
Judicial	54,626	55,085	(75,314)	(55,897)
Recreation	718,319	621,661	674,979	572,609
Highways and street	1,360,429	1,825,615	1,069,496	906,081
Sanitation	3,210	2,361	3,210	2,361
Housing and community development	677,512	695,969	318,076	415,706
Education	9,824,333	8,525,368	2,564,877	2,317,081
Interest on long-term debt	66,927	68,983	66,927	68,983
<b>Total Net Expenditures</b>	<b><u>\$ 17,500,979</u></b>	<b><u>\$ 16,296,754</u></b>	<b><u>\$ 8,912,416</u></b>	<b><u>\$ 8,236,235</u></b>

The information below details general revenues of the City's governmental activities for the fiscal years ended June 30, 2011 and 2010. These revenues are required to cover the net expenditures

#### Revenues by Source

	2011	2010
Property taxes	\$ 2,986,399	\$ 2,863,167
In lieu of taxes	323,835	300,025
Sales taxes	2,388,648	2,302,167
Alcoholic beverage taxes	479,525	455,460
Other local taxes	312,785	280,987
Other state taxes	691,358	646,098
Other	133,508	89,855
Unrestricted investment earnings	96,071	248,579
Gain on sale of assets	-	15,789
Transfers	986,424	1,028,475
<b>Total General Revenues and Transfers</b>	<b><u>\$ 8,398,553</u></b>	<b><u>\$ 8,230,602</u></b>

**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.

	<b>Gas</b>	<b>Electric</b>	<b>Water</b>	<b>Telecom</b>	<b>Sanitation</b>	<b>Total</b>
<b>Fiscal Year Ended June 30, 2011</b>						
Total Assets	\$ 20,311,211	\$ 72,392,040	\$ 20,779,448	\$ 2,110,566	\$ 732,820	\$ 116,326,085
Net Assets	15,149,409	44,539,070	12,277,628	(1,709,206)	671,931	70,928,832
Change in Net Assets	776,748	2,401,064	137,714	459,525	61,531	3,836,582
Return on Ending Total Assets	3.82%	3.32%	0.66%	21.77%	8.40%	3.30%
Return on Ending Net Assets	5.13%	5.39%	1.12%	n/a	9.16%	5.41%
<b>Fiscal Year Ended June 30, 2010</b>						
Total Assets	\$ 19,650,780	\$ 70,370,681	\$ 20,758,845	\$ 1,935,189	\$ 665,148	\$ 113,380,643
Net Assets	14,372,661	42,138,006	12,139,914	(2,168,731)	610,400	67,092,250
Change in Net Assets	1,192,878	2,708,846	283,375	303,936	(59,485)	4,429,550
Return on Ending Total Assets	6.07%	3.85%	1.37%	15.71%	-8.94%	3.91%
Return on Ending Net Assets	8.30%	6.43%	2.33%	n/a	-9.75%	6.60%

## CAPITAL ASSETS

As of June 30, 2011, the City has \$93.8 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 \$2,281,792, or 2.4 percent, over last year.

The following is a summary of capital assets for fiscal years ended June 30, 2011 and 2010, for governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
Land	\$ 2,601,221	\$ 2,601,271	\$ 1,076,018	\$ 1,075,058	\$ 3,677,239	\$ 3,676,329
Buildings	13,026,811	12,848,131	3,758,471	3,628,787	16,785,282	16,476,918
Improvements other than buildings	1,526,588	1,257,804	-	-	1,526,588	1,257,804
Machinery and equipment	7,867,200	7,505,604	118,222,988	112,830,345	126,090,188	120,335,949
Infrastructure	3,055,148	3,064,167	585,663	583,380	3,640,811	3,647,547
Total plane and equipment in service	\$ 28,076,968	\$ 27,276,977	\$ 123,643,140	\$ 118,117,570	\$ 151,720,108	\$ 145,394,547
Construction work in progress	2,123,584	1,970,817	2,539,671	3,851,289	4,663,255	5,822,106
	\$ 30,200,552	\$ 29,247,794	\$ 126,182,811	\$ 121,968,859	\$ 156,383,363	\$ 151,216,653
Less accumulated depreciation	(10,709,362)	(9,904,781)	(51,861,463)	(49,781,126)	(62,570,825)	(59,685,907)
	\$ 19,491,190	\$ 19,343,013	\$ 74,321,348	\$ 72,187,733	\$ 93,812,538	\$ 91,530,746

## DEBT ADMINISTRATION

Debt, considered a liability of governmental and business-type activities, decreased in fiscal year 2011 by \$1,273,247.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2011	2010	2011	2010	2011	2010
<b>Bonds</b>						
General Obligation	\$ 1,780,000	\$ 1,885,000	\$ 7,150,000	\$ 7,680,000	\$ 8,930,000	\$ 9,565,000
Revenue	-	-	24,845,000	25,730,000	24,845,000	25,730,000
Less deferred amounts	(26,085)	(27,948)	(119,808)	(186,654)	(145,893)	(214,602)
<b>Total Bonds</b>	\$ 1,753,915	\$ 1,857,052	\$ 31,875,192	\$ 33,223,346	\$ 33,629,107	\$ 35,080,398
<b>Loans</b>						
Tennessee municipal bond fund	\$ -	\$ 96,000	\$ -	\$ -	\$ -	\$ 96,000
Tennessee energy efficiency	123,892	148,670	-	-	123,892	148,670
Tennessee utility relocation loan	-	-	1,888,285	2,010,299	1,888,285	2,010,299
Bond anticipation note	-	-	3,048,699	2,582,863	3,048,699	2,582,863
RUS economic development loan	-	-	131,250	176,250	131,250	176,250
<b>Total Loans</b>	\$ 123,892	\$ 244,670	\$ 5,068,234	\$ 4,769,412	\$ 5,192,126	\$ 5,014,082
<b>Totals</b>	\$ 1,877,807	\$ 2,101,722	\$ 36,943,426	\$ 37,992,758	\$ 38,821,233	\$ 40,094,480

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

During the last year, budget amendments approved by the Board of Mayor and Alderman totaled over one million dollars. These amendments include major items: building a new access road to relieve traffic congestion on the major highway within the City. Phase II renovation to the Municipal Building was completed during fiscal year 2011 which consisted of replacing the exterior doors with more energy efficient doors and replacing the central heating and air condition units. The Recreation Department also started a facility wide update. This update included renovations to the swimming pool area and dressing rooms, updates to the existing Recreation Building and updates to multiple parks within the City. 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 2011, 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 2012 general fund budget was negatively impacted by the projected decrease in business tax receipts. The City has also seen a decrease in sales tax revenues within the past years and is not projecting a significant increase in the sales tax revenue. 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 implementing a wellness plan within our insurance coverage. The City is hopeful this change will help control the increasing cost of health insurance.

## **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](mailto:tsteelman@fpunet.com).

## **BASIC FINANCIAL STATEMENTS**

**STATEMENT OF NET ASSETS**  
**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 12,381,154	\$ 24,270,957	\$ 36,652,111
Receivables	3,599,177	5,803,616	9,402,793
Internal balances	24,062	(24,062)	-
Inventory	45,718	1,528,729	1,574,447
Prepaid expenses	107,417	335,500	442,917
Restricted assets	1,493,834	2,657,113	4,150,947
Special funds	-	5,182,885	5,182,885
Other assets	-	2,225,937	2,225,937
Capital assets (net of accumulated depreciation)			
Land	2,601,221	1,076,018	3,677,239
Buildings	7,928,472	2,222,689	10,151,161
Improvements other than buildings	1,107,790	-	1,107,790
Machinery and equipment	3,910,087	68,383,424	72,293,511
Infrastructure	1,820,036	99,546	1,919,582
Construction in progress	2,123,584	2,539,671	4,663,255
TOTAL ASSETS	<u>\$ 37,142,552</u>	<u>\$ 116,302,023</u>	<u>\$ 153,444,575</u>
<b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 633,928	\$ 5,837,903	\$ 6,471,831
Accrued interest payable	-	190,448	190,448
Deferred revenues	2,010,612	-	2,010,612
Deposits	-	1,322,656	1,322,656
Liabilities payable from restricted assets			
Accounts payable	721,864	-	721,864
Noncurrent liabilities:			
Due in one year	425,063	2,256,726	2,681,789
Due in more than one year	2,518,447	35,765,458	38,283,905
TOTAL LIABILITIES	<u>\$ 6,309,914</u>	<u>\$ 45,373,191</u>	<u>\$ 51,683,105</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	\$ 19,563,317	\$ 38,202,905	\$ 57,766,222
Restricted for:			
Debt service	-	2,657,086	2,657,086
Improvements and construction	763,102	27	763,129
Drug education and enforcement	109,987	-	109,987
Community development	455,224	-	455,224
Education	5,402,529	-	5,402,529
Unrestricted	4,538,479	30,068,814	34,607,293
TOTAL NET ASSETS	<u>\$ 30,832,638</u>	<u>\$ 70,928,832</u>	<u>\$ 101,761,470</u>

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

**STATEMENT OF ACTIVITIES**  
**CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2011

Function/ Program	PROGRAM REVENUES				Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Activities	
					Governmental Activities	Business-type Activities
<u>Governmental activities:</u>						
General government	\$ 937,120	\$ 106,442	\$ -	\$ -	\$ (830,678)	\$ (830,678)
Public safety	3,858,503	-	396,988	2,028	(3,459,487)	(3,459,487)
Judicial	54,626	129,940	-	-	75,314	75,314
Recreation	718,319	43,340	-	-	(674,979)	(674,979)
Highways and streets	1,360,429	-	190,933	100,000	(1,069,496)	(1,069,496)
Sanitation	3,210	-	-	-	(3,210)	(3,210)
Housing and community development	677,512	337,206	22,230	-	(318,076)	(318,076)
Education	9,824,333	325,121	6,934,335	-	(2,564,877)	(2,564,877)
Interest on long-term debt	66,927	-	-	-	(66,927)	(66,927)
<b>Total governmental activities</b>	<b>\$ 17,500,979</b>	<b>\$ 942,049</b>	<b>\$ 7,544,486</b>	<b>\$ 102,028</b>	<b>\$ (8,912,416)</b>	<b>\$ (8,912,416)</b>
<u>Business-type activities:</u>						
Electric	\$ 43,227,181	\$ 45,736,819	\$ -	\$ 403,294	\$ -	\$ 2,912,932
Gas	7,009,788	7,968,292	-	-	-	958,504
Telecom	2,885,465	3,339,058	-	-	-	453,593
Water and sewer	4,124,940	4,221,323	-	126,843	-	223,226
Sanitation	395,920	473,186	-	-	-	77,266
<b>Total business-type activities</b>	<b>\$ 57,643,294</b>	<b>\$ 61,738,678</b>	<b>\$ -</b>	<b>\$ 530,137</b>	<b>\$ -</b>	<b>\$ 4,625,521</b>
<b>Total Government</b>	<b>\$ 75,144,273</b>	<b>\$ 62,680,727</b>	<b>\$ 7,544,486</b>	<b>\$ 632,165</b>	<b>\$ (8,912,416)</b>	<b>\$ (4,286,895)</b>
<b>General revenues:</b>						
Property taxes		\$ 2,986,399	\$ -	\$ -	\$ -	\$ 2,986,399
Business taxes		217,932	-	-	-	217,932
In lieu of tax		323,835	-	-	-	323,835
Sales taxes		2,388,648	-	-	-	2,388,648
Alcoholic beverage taxes		479,525	-	-	-	479,525
Franchise taxes		94,238	-	-	-	94,238
Other local taxes		615	-	-	-	615
State shared revenues		691,358	-	-	-	691,358
Other		133,508	-	-	-	133,508
Unrestricted investment earnings		96,071	197,485	-	-	293,556
Transfers		986,424	(986,424)	-	-	-
<b>Total general revenues and transfers</b>		<b>\$ 8,398,553</b>	<b>\$ (788,939)</b>			<b>\$ 7,609,614</b>
Change in net assets		<b>(513,863)</b>	<b>\$ 3,836,582</b>			<b>\$ 3,322,719</b>
Net assets - beginning, restated		<b>31,346,501</b>	<b>67,092,250</b>			<b>98,438,751</b>
Net assets - ending		<b>\$ 30,832,638</b>	<b>\$ 70,928,832</b>			<b>\$ 101,761,470</b>

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

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

June 30, 2011

	General	School General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash	\$ 4,498,352	\$ 4,989,255	\$ 2,893,547	\$ 12,381,154
Cash - restricted	-	8,868	-	8,868
Investments - restricted	898,667	-	586,299	1,484,966
Receivables	2,118,404	2,004	15,454	2,135,862
Due from other funds	24,062	-	10	24,072
Due from other governments	707,428	755,887	-	1,463,315
Inventory	29,477	-	16,241	45,718
Prepaid expenses	107,417	-	-	107,417
TOTAL ASSETS	<u>\$ 8,383,807</u>	<u>\$ 5,756,014</u>	<u>\$ 3,511,551</u>	<u>\$ 17,651,372</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 73,236	\$ 108,471	\$ 31,822	\$ 213,529
Other accrued expenses	74,029	338,672	2,594	415,295
Deferred revenue	2,424,312	87,029	83,089	2,594,430
Due to other funds	10	-	-	10
Payable from restricted assets	721,864	-	-	721,864
TOTAL LIABILITIES	<u>\$ 3,293,451</u>	<u>\$ 534,172</u>	<u>\$ 117,505</u>	<u>\$ 3,945,128</u>
Fund balances:				
Nonspendable				
Inventory and prepayments	\$ 136,894	\$ -	\$ 16,241	\$ 153,135
Restricted:				
Career ladder	-	8,868	-	8,868
Road improvements	176,803	-	-	176,803
Capital projects	-	-	1,062,887	1,062,887
Public safety	-	-	109,987	109,987
Committed:				
Employee health insurance	55,221	-	-	55,221
Assigned:				
Budget reserve	-	651,049	218,500	869,549
Industrial park	-	-	893	893
Capital projects	-	-	1,529,548	1,529,548
Education	-	4,561,925	144,417	4,706,342
Debt service	-	-	311,573	311,573
Unassigned	4,721,438	-	-	4,721,438
TOTAL FUND BALANCES	<u>\$ 5,090,356</u>	<u>\$ 5,221,842</u>	<u>\$ 3,394,046</u>	<u>\$ 13,706,244</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,383,807</u>	<u>\$ 5,756,014</u>	<u>\$ 3,511,551</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	19,491,190
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	583,818
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(2,948,614)
Net assets of governmental activities	<u>\$ 30,832,638</u>

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

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

**CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2011

	General	School General	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes				
Property	\$ 1,932,040	\$ -	\$ -	\$ 1,932,040
Business	213,871	-	-	213,871
Wholesale beer	322,434	-	-	322,434
Alcoholic beverage	125,298	-	-	125,298
Sales	1,667,455	-	-	1,667,455
Tax equivalency	323,835	-	-	323,835
Licenses and permits	71,593	-	-	71,593
Fines	108,591	-	21,349	129,940
Franchise fees	94,383	-	-	94,383
Intergovernmental	1,277,480	7,400,035	1,459,746	10,137,261
Charges for services and use of property	372,055	162,565	180,263	714,883
Investment earnings	22,158	57,986	15,927	96,071
Recreation activities	43,340	-	-	43,340
Other revenue	87,950	10,298	7,227	105,475
TOTAL REVENUES	<u>\$ 6,662,483</u>	<u>\$ 7,630,884</u>	<u>\$ 1,684,512</u>	<u>\$ 15,977,879</u>
<b>EXPENDITURES</b>				
Current				
General government	\$ 763,600	\$ -	\$ 67,766	\$ 831,366
Public safety	3,591,500	-	19,979	3,611,479
Judicial	53,926	-	-	53,926
Recreation	551,676	-	-	551,676
Highways and streets	1,122,544	-	-	1,122,544
Sanitation	-	-	15,125	15,125
Housing and community development	674,015	-	-	674,015
Education	-	7,969,188	1,542,385	9,511,573
Debt service				
Principal	-	96,000	129,778	225,778
Interest	-	1,766	65,419	67,185
Capital outlay	-	276,026	886,288	1,162,314
TOTAL EXPENDITURES	<u>\$ 6,757,261</u>	<u>\$ 8,342,980</u>	<u>\$ 2,726,740</u>	<u>\$ 17,826,981</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (94,778)</u>	<u>\$ (712,096)</u>	<u>\$ (1,042,228)</u>	<u>\$ (1,849,102)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,052,016	\$ 752,330	\$ 158,278	\$ 1,962,624
Transfers out	(882,108)	-	(94,092)	(976,200)
Insurance proceeds	14,157	-	-	14,157
Proceeds from disposition of capital assets	5,887	930	-	6,817
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 189,952</u>	<u>\$ 753,260</u>	<u>\$ 64,186</u>	<u>\$ 1,007,398</u>
NET CHANGE IN FUND BALANCES	95,174	41,164	(978,042)	(841,704)
Fund balance - beginning	4,995,183	5,180,678	4,372,088	14,547,949
Fund balance - ending	<u>\$ 5,090,357</u>	<u>\$ 5,221,842</u>	<u>\$ 3,394,046</u>	<u>\$ 13,706,245</u>

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

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

**CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2011

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

Net change in fund balances - total governmental funds	\$ (841,704)
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.	173,029
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	(24,852)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	2,769
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 total of the differences in the treatment of long-term debt and related items.	223,915
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.	(47,020)
Change in net assets of governmental activities	<u>\$ (513,863)</u>

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

**STATEMENT OF NET ASSETS  
 PROPRIETARY FUNDS  
 CITY OF FAYETTEVILLE, TENNESSEE  
 Year ended June 30, 2011**

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
<u>ASSETS</u>			
Current Assets			
Cash for general use	\$ 23,971,246	\$ 299,711	\$ 24,270,957
Accounts receivable	5,417,842	36,446	5,454,288
Other receivables	349,328	-	349,328
Inventories	1,528,729	-	1,528,729
Prepaid expenses	335,500	-	335,500
Total current assets	<u>\$ 31,602,645</u>	<u>\$ 336,157</u>	<u>\$ 31,938,802</u>
Special and Restricted Funds	7,839,998	-	7,839,998
Capital Assets, net of accumulated depreciation	73,924,685	396,663	74,321,348
Other Assets	2,225,937	-	2,225,937
TOTAL ASSETS	<u>\$ 115,593,265</u>	<u>\$ 732,820</u>	<u>\$ 116,326,085</u>
<u>LIABILITIES</u>			
Current Liabilities			
Current maturities of long-term debt payable from current assets	\$ 1,649,172	\$ -	\$ 1,649,172
Accounts payable	4,650,139	19,188	4,669,327
Due to other funds	-	24,062	24,062
Customer deposits	1,322,656	-	1,322,656
Accrued interest	190,448	-	190,448
Other accrued liabilities	686,951	3,899	690,850
Total current liabilities	<u>\$ 8,499,366</u>	<u>\$ 47,149</u>	<u>\$ 8,546,515</u>
Other Liabilities			
Advances from TVA	\$ 809,056	\$ -	\$ 809,056
Long-term debt payable from special funds	276,224	-	276,224
OPEB liabilities, net	256,486	-	256,486
Compensated absences	477,202	13,740	490,942
Total other liabilities	<u>\$ 1,818,968</u>	<u>\$ 13,740</u>	<u>\$ 1,832,708</u>
Long-term debt	35,018,030	-	35,018,030
TOTAL LIABILITIES	<u>\$ 45,336,364</u>	<u>\$ 60,889</u>	<u>\$ 45,397,253</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 37,806,242	\$ 396,663	\$ 38,202,905
Restricted for debt service	2,657,086	-	2,657,086
Restricted for improvements and construction	27	-	27
Unrestricted	29,793,546	275,268	30,068,814
TOTAL NET ASSETS	<u>\$ 70,256,901</u>	<u>\$ 671,931</u>	<u>\$ 70,928,832</u>

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

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

**CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2011

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Funds	Totals
<b><u>OPERATING REVENUES</u></b>			
Charges for services	\$ 59,710,936	\$ 473,186	\$ 60,184,122
Other	1,554,556	-	1,554,556
TOTAL OPERATING REVENUE	<u>\$ 61,265,492</u>	<u>\$ 473,186</u>	<u>\$ 61,738,678</u>
<b><u>OPERATING EXPENSES</u></b>			
Cost of utility services	\$ 42,062,437	\$ -	\$ 42,062,437
Pumping, distribution and collection	5,470,666	374,066	5,844,732
Customer billing and collecting	1,421,473	-	1,421,473
General and administrative	2,096,653	-	2,096,653
Taxes and tax equivalents	339,448	-	339,448
Provision for depreciation	3,955,527	21,854	3,977,381
Other	326,268	-	326,268
TOTAL OPERATING EXPENSES	<u>\$ 55,672,472</u>	<u>\$ 395,920</u>	<u>\$ 56,068,392</u>
INCOME FROM OPERATIONS	<u>\$ 5,593,020</u>	<u>\$ 77,266</u>	<u>\$ 5,670,286</u>
<b><u>OTHER INCOME AND EXPENSE</u></b>			
Interest income	\$ 196,312	\$ 1,173	\$ 197,485
Interest expense	(1,365,483)	-	(1,365,483)
Amortization	(131,361)	-	(131,361)
Miscellaneous	(78,058)	-	(78,058)
Other Income (Expense) -net	<u>\$ (1,378,590)</u>	<u>\$ 1,173</u>	<u>\$ (1,377,417)</u>
Income before contributions and transfers	\$ 4,214,430	\$ 78,439	\$ 4,292,869
Capital contributions in aid of construction	530,137	-	530,137
Transfers in	-	94,092	94,092
Transfers out	(969,516)	(111,000)	(1,080,516)
CHANGE IN NET ASSETS	<u>\$ 3,775,051</u>	<u>\$ 61,531</u>	<u>\$ 3,836,582</u>
TOTAL NET ASSETS, BEGINNING OF YEAR, RESTATED	66,481,850	610,400	67,092,250
NET ASSETS, END OF YEAR	<u>\$ 70,256,901</u>	<u>\$ 671,931</u>	<u>\$ 70,928,832</u>

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

**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**CITY OF FAYETTEVILLE, TENNESSEE**  
Year ended June 30, 2011

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (including other funds)	\$ 61,076,959	\$ 473,783	\$ 61,550,742
Payments to suppliers and others	(46,790,221)	(237,433)	(47,027,654)
Payments to employees	(4,329,285)	(130,493)	(4,459,778)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 9,957,453</b>	<b>\$ 105,857</b>	<b>\$ 10,063,310</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Noncapital borrowings repaid	\$ (45,000)	\$ -	\$ (45,000)
Collections on loans to other organizations	45,000	-	45,000
Transfers (to) from other funds	(969,516)	(16,908)	(986,424)
<b>NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES</b>	<b>\$ (969,516)</b>	<b>\$ (16,908)</b>	<b>\$ (986,424)</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Additions to capital assets, net	\$ (6,369,929)	\$ (94,092)	\$ (6,464,021)
Removal costs of capital assets	(383,321)	-	(383,321)
Capital contributions received	530,137	-	530,137
Proceeds from disposal of assets	107,498	-	107,498
Long-term borrowings, net	465,836	-	465,836
Borrowings repaid	(1,537,014)	-	(1,537,014)
Issue costs paid	(60)	-	(60)
Interest paid, net	(1,343,321)	-	(1,343,321)
<b>NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES</b>	<b>\$ (8,530,174)</b>	<b>\$ (94,092)</b>	<b>\$ (8,624,266)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	\$ 195,786	\$ 1,173	\$ 196,959
Other nonoperating income (expense), net	(185,556)	-	(185,556)
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>\$ 10,230</b>	<b>\$ 1,173</b>	<b>\$ 11,403</b>
<b>INCREASE (DECREASE) IN CASH, NET</b>	<b>467,993</b>	<b>(3,970)</b>	<b>464,023</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>31,343,251</b>	<b>303,682</b>	<b>31,646,933</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 31,811,244</b>	<b>\$ 299,712</b>	<b>\$ 32,110,956</b>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>			
Income from operations	\$ 5,593,020	\$ 77,266	\$ 5,670,286
Adjustments to reconcile income from operations to net cash provided by operating activities -			
Depreciation, including amounts capitalized	4,288,582	21,854	4,310,436
Loss on disallowance of plant	403,294	-	403,294
Conservation loans advanced - customers	(414,808)	-	(414,808)
Conservation loans collected - customers	147,754	-	147,754
Conservation advances from TVA	459,341	-	459,341
Conservation advances repaid to TVA	(176,659)	-	(176,659)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	13,679	596	14,275
Inventories	(123,716)	-	(123,716)
Prepaid expenses and other assets	(80,239)	-	(80,239)
Accounts payable	(241,651)	7,890	(233,761)
Customer deposits	64,845	-	64,845
Due to other funds	-	(9,967)	(9,967)
Other current liabilities and compensated absences	24,011	8,218	32,229
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>\$ 9,957,453</b>	<b>\$ 105,857</b>	<b>\$ 10,063,310</b>
<b>SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:</b>			
Water bond anticipation notes refinanced	\$ 2,764,491		

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

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

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>Revenues:</b>				
<b>Taxes</b>				
Property	\$ 1,965,000	\$ 1,965,000	\$ 1,932,040	\$ (32,960)
Business	210,000	210,000	213,871	3,871
Wholesale beer	292,000	292,000	322,434	30,434
Alcoholic beverage	133,200	133,200	125,298	(7,902)
Sales	1,620,000	1,620,000	1,667,455	47,455
Tax equivalency	320,565	320,565	323,835	3,270
Licenses and permits	28,700	28,700	71,593	42,893
Fines	100,000	100,000	108,591	8,591
Franchise fees	90,000	90,000	94,383	4,383
<b>Intergovernmental</b>				
State sales tax allocation	440,000	440,000	469,780	29,780
State income tax allocation	50,000	50,000	44,974	(5,026)
State beer tax allocation	3,500	3,500	3,677	177
State mixed drink tax allocation	25,500	25,500	23,759	(1,741)
State gasoline and motor fuel tax allocation	190,000	190,000	192,090	2,090
State city streets and transportation system	15,100	15,100	15,127	27
State excise tax allocation	45,000	45,000	16,093	(28,907)
State TVA in-lieu of tax	80,000	80,000	79,369	(631)
Lincoln County Emergency Communications	398,400	398,400	421,941	23,541
Housing authority	21,000	21,000	10,670	(10,330)
Charges for services and use of property	318,600	318,600	372,055	53,455
Investment earnings	50,001	50,001	22,158	(27,843)
Recreation activities	51,000	51,000	43,340	(7,660)
Other revenue	50,900	50,900	87,950	37,050
<b>TOTAL REVENUES</b>	<b>\$ 6,498,466</b>	<b>\$ 6,498,466</b>	<b>\$ 6,662,483</b>	<b>\$ 164,017</b>
<b>Expenditures:</b>				
<b>General government</b>				
Salaries	\$ 378,023	\$ 378,023	\$ 386,053	\$ (8,030)
Supplies	9,050	9,050	5,250	3,800
Utilities	40,060	40,060	39,263	797
Repairs and maintenance	6,250	6,250	14,377	(8,127)
Health insurance	56,952	56,952	56,428	524
Workers compensation	6,555	6,555	2,714	3,841
Payroll taxes	31,794	31,794	30,198	1,596
Employee education	8,425	8,425	2,752	5,673
Professional services	58,855	58,855	57,413	1,442
Travel	9,800	9,800	4,798	5,002
Retirement	35,960	35,960	34,568	1,392
Other insurance	15,901	15,901	14,294	1,607
Other general government	97,591	116,809	115,492	1,317
<b>TOTAL EXPENDITURES</b>	<b>\$ 755,216</b>	<b>\$ 774,434</b>	<b>\$ 763,600</b>	<b>\$ 10,834</b>

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

**CITY OF FAYETTEVILLE, TENNESSEE**

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
<b>Expenditures: (Continued)</b>				
<b>Public safety</b>				
Salaries	\$ 2,285,582	\$ 2,281,649	\$ 2,281,649	\$ -
Supplies	34,700	28,186	28,186	-
Utilities	88,475	97,442	97,442	-
Repairs and maintenance	27,950	160,865	160,865	-
Health insurance	361,907	347,525	347,525	-
Workers compensation	75,851	85,216	85,216	-
Payroll taxes	176,835	170,573	170,573	-
Employee education	12,600	5,110	5,110	-
Travel	6,000	5,028	5,028	-
Retirement	229,300	217,879	217,879	-
Other insurance	64,345	60,542	60,542	-
Fuel	69,000	67,110	67,110	-
Professional services	2,340	1,580	1,580	-
Other public safety	37,833	62,795	62,795	-
	<u>\$ 3,472,718</u>	<u>\$ 3,591,500</u>	<u>\$ 3,591,500</u>	<u>\$ -</u>
<b>Judicial</b>				
Salaries	\$ 29,794	\$ 29,794	\$ 29,389	\$ 405
Health insurance	22,226	22,226	17,339	4,887
Payroll taxes	2,326	2,326	1,672	654
Retirement	2,865	2,865	2,865	-
Other judicial	2,957	3,738	2,661	1,077
	<u>\$ 60,168</u>	<u>\$ 60,949</u>	<u>\$ 53,926</u>	<u>\$ 7,023</u>
<b>Recreation</b>				
Salaries	\$ 261,490	\$ 258,116	\$ 258,116	\$ -
Supplies	40,100	35,622	35,622	-
Utilities	54,170	64,693	64,693	-
Repairs and maintenance	20,250	25,475	25,475	-
Health insurance	44,000	39,805	39,805	-
Workers compensation	5,991	8,858	8,858	-
Payroll taxes	20,869	19,985	19,985	-
Professional services	24,975	20,726	20,726	-
Travel	1,000	636	636	-
Retirement	23,625	23,287	23,287	-
Other insurance	9,802	9,762	9,762	-
Fuel	12,000	12,497	12,497	-
Other recreation	20,057	32,214	32,214	-
	<u>\$ 538,329</u>	<u>\$ 551,676</u>	<u>\$ 551,676</u>	<u>\$ -</u>

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND (Continued)**  
**CITY OF FAYETTEVILLE, TENNESSEE**  
For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Highways and streets				
Salaries	\$ 525,500	\$ 525,500	\$ 520,186	\$ 5,314
Supplies	10,800	10,800	8,970	1,830
Utilities	26,400	26,400	24,578	1,822
Repairs and maintenance	196,803	198,834	28,343	170,491
Health insurance	125,100	125,100	114,728	10,372
Workers compensation	21,189	21,189	29,488	(8,299)
Payroll taxes	40,686	40,686	39,309	1,377
Professional services	400	400	10,261	(9,861)
Retirement	51,500	51,500	48,276	3,224
Other insurance	8,870	8,870	9,137	(267)
Fuel	53,000	53,000	54,448	(1,448)
Street lighting	150,000	150,000	150,572	(572)
Other highways and streets	31,516	39,857	84,248	(44,391)
	<u>\$ 1,241,764</u>	<u>\$ 1,252,136</u>	<u>\$ 1,122,544</u>	<u>\$ 129,592</u>
Housing and community development				
Nonprofit allocations	\$ 218,740	\$ 222,817	\$ 222,817	\$ -
Fuel	270,000	336,679	336,679	-
Industrial development	90,000	90,000	90,000	-
Other housing and community development	64,859	24,519	24,519	-
	<u>\$ 643,599</u>	<u>\$ 674,015</u>	<u>\$ 674,015</u>	<u>\$ -</u>
Capital outlay				
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ 6,711,794</u>	<u>\$ 6,904,710</u>	<u>\$ 6,757,261</u>	<u>\$ 147,449</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES				
	<u>\$ (213,328)</u>	<u>\$ (406,244)</u>	<u>\$ (94,778)</u>	<u>\$ 311,466</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,070,651	\$ 1,070,651	\$ 1,052,016	\$ (18,635)
Transfers out	(882,109)	(882,109)	(882,108)	1
Insurance proceeds	-	-	14,157	14,157
Sale of capital assets	10,000	10,000	5,887	(4,113)
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 198,542</u>	<u>\$ 198,542</u>	<u>\$ 189,952</u>	<u>\$ (8,590)</u>
NET CHANGE IN FUND BALANCES				
	<u>(14,786)</u>	<u>(207,702)</u>	<u>95,174</u>	<u>302,876</u>
Fund balance - beginning, restated	4,995,182	4,995,182	4,995,182	-
Fund balance - ending	<u>\$ 4,980,396</u>	<u>\$ 4,787,480</u>	<u>\$ 5,090,356</u>	<u>\$ 302,876</u>

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

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

For the year ended June 30, 2011

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
<b>REVENUES</b>				
<b>Intergovernmental</b>				
Lincoln County	\$ 1,649,750	\$ 1,799,750	\$ 1,813,268	\$ 13,518
State of Tennessee	4,933,592	4,967,957	5,000,241	32,284
Federal	140,456	591,025	586,526	(4,499)
Charges for services and use of property	168,000	168,000	162,565	(5,435)
Investment earnings	60,000	60,000	57,986	(2,014)
Other revenue	14,000	14,000	10,298	(3,702)
TOTAL REVENUES	<u>\$ 6,965,798</u>	<u>\$ 7,600,732</u>	<u>\$ 7,630,884</u>	<u>\$ 30,152</u>
<b>EXPENDITURES</b>				
<b>Instruction</b>				
Regular instruction program	\$ 4,255,288	\$ 4,625,088	\$ 4,524,460	\$ 100,628
Special education program	375,140	375,140	365,175	9,965
Student body education program	10,000	10,000	5,880	4,120
<b>Support services</b>				
Attendance	60,956	60,956	49,003	11,953
Health services	171,060	171,060	164,177	6,883
Other student support	202,785	217,985	198,783	19,202
Regular instruction program	383,935	401,135	387,901	13,234
Special education program	42,300	42,300	41,762	538
Board of education	162,838	162,838	156,601	6,237
Office of the superintendent	162,990	162,990	160,123	2,867
Office of the principal	574,120	569,920	511,665	58,255
Fiscal services	109,378	109,378	103,668	5,710
Operation of plant	608,825	636,789	516,735	120,054
Maintenance of plant	143,337	159,537	137,565	21,972
Transportation	136,469	136,469	111,727	24,742
Community services	154,000	154,000	136,727	17,273
Early childhood education	430,593	430,593	397,236	33,357
<b>Debt service</b>				
Principal	96,000	96,000	96,000	-
Interest	5,000	5,000	1,766	3,234
Capital outlay	150,000	279,400	276,026	3,374
TOTAL EXPENDITURES	<u>\$ 8,235,014</u>	<u>\$ 8,806,578</u>	<u>\$ 8,342,980</u>	<u>\$ 463,598</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (1,269,216)</u>	<u>\$ (1,205,846)</u>	<u>\$ (712,096)</u>	<u>\$ 493,750</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 752,330	\$ 752,330	\$ 752,330	\$ -
Insurance recovery	(20,000)	(20,000)	-	20,000
Sale of capital assets	1,000	1,000	930	(70)
Total Other Financing Sources (Uses)	<u>\$ 733,330</u>	<u>\$ 733,330</u>	<u>\$ 753,260</u>	<u>\$ 19,930</u>
Net changes in fund balances	<u>(535,886)</u>	<u>(472,516)</u>	<u>41,164</u>	<u>513,680</u>
Fund balance - beginning	5,180,678	5,180,678	5,180,678	-
Fund balance - ending	<u>\$ 4,644,792</u>	<u>\$ 4,708,162</u>	<u>\$ 5,221,842</u>	<u>\$ 513,680</u>

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

**NOTES TO FINANCIAL STATEMENTS**  
**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(A) Reporting Entity

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

(B) Basic Financial Statements

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 proprietary fund and fiduciary fund financial statements. This means that revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Modified Accrual

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

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

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

The government reports the following major governmental funds:

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Modified Accrual (Continued)

The government reports the following major proprietary funds:

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

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

(D) Assets, Liabilities, Net Assets and Fund Equity

1. Cash and cash equivalents

Cash and cash equivalents represent 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 include cash in bank and on hand.

2. Investments

Investments are stated at cost which approximates fair value, with the exception of investments in the Local Government Investment Pool, which are reported at amortized cost.

3. Interfund Receivables and Payables

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

4. Receivables

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, Liabilities, Net Assets and Fund Equity (Continued)

5. Inventory

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

6. Restricted Assets

Governmental Activities – The City maintains a separate account for deposits in a local government investment pool for the City’s portion of the cost of a bridge widening project. The balance of this account at June 30, 2011, is \$898,667. This amount has been classified as restricted on the statement of net assets and governmental funds balance sheet.

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

7. Capital Assets

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, Liabilities, Net Assets and Fund Equity (Continued)

8. Compensated Absences

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

9. Long-Term Liabilities

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

10. Net Assets and Fund Equity

In the government-wide financial statements, equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt is included in the same net assets component as the unspent proceeds.

Restricted - This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributions, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This component of net assets consists of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, Liabilities, Net Assets, and Fund Equity (Continued)

10. Net Assets and Fund Equity (Continued)

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. Also, when expenditures are incurred for purposes for which amounts in committed, assigned, and unassigned fund balance classifications could be used, the Fayetteville Board of Mayor and Aldermen will determine the best use of funds based on the specific facts and circumstances at that time. The Fayetteville School System would typically use Restricted fund balances first, followed by Committed resources, and then Assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend Assigned resources first to defer the use of these other classified funds.

In accordance with GASB 54, which was implemented during fiscal year 2011, the governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

Nonspendable fund balance – includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The City, including the Fayetteville City Schools, has classified inventories as nonspendable as these items are not expected to be converted to cash.

Restricted fund balance – includes amounts that have constraints placed on the use of the resources that are either (a) externally imposed by creditors, grantors, contributors or laws and regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation. The Fayetteville City Schools has classified career ladder resources as being restricted because their use is restricted by provisions of the state grant.

Committed fund balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by ordinance passed by the Fayetteville Board of Mayor and Aldermen, the City's highest level of decision-making authority. For the Fayetteville City Schools committed balances arise pursuant to constraints imposed by formal action of the Board of Education.

Assigned fund balance – includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The Fayetteville Board of Mayor and Aldermen has not authorized anyone to make assignments. For the Fayetteville City Schools this intent can be expressed by the Board of Education or through the Board delegating this responsibility to the Director of Schools through the budgetary process. This classification also includes the remaining positive fund balance

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, Liabilities, Net Assets, and Fund Equity (Continued)

for all special revenue funds. The Fayetteville City Schools has assigned resources in next year's budget as a reserve to eliminate a projected deficit of projected revenues to expenditures.

Unassigned fund balance – the residual classification of the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

11. Capitalized Interest

Interest cost incurred, net of interest earned, on borrowed funds during the period of construction of capital assets of business-type activities is capitalized as a component of the cost of acquiring those assets. FPU's net interest expense of \$97,123 was capitalized during the fiscal year ending June 30, 2011.

12. 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.

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

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

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds and loans payable are not due and payable in the current period and therefore are not reported in the funds." The details of this \$2,948,614 difference are identified as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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

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

Bonds and notes payable	\$ 1,903,891
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(42,094)
Add: Issuance premium (to be amortized as interest income)	16,009
Accrued interest payable	5,104
Compensated absences	477,719
Net OPEB obligation	341,508
Landfill post closure costs	<u>246,477</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 2,948,614</u>

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

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

One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$173,029 difference are as follows:

Capital outlay	\$ 1,022,375
Depreciation expense	<u>(849,346)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 173,029</u>

Another element of that reconciliation explains that “some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.” The details of this \$(47,020) difference are as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

(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.  
(Continued)

Compensated absences	\$ 15,859
Net OPEB obligation	(75,052)
Accrued interest	258
Landfill post closure costs	<u>11,915</u>
 Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	     <u>\$ (47,020)</u>

Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net assets.” The details of this \$(24,852) difference are as follows:

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	<u>\$ (24,852)</u>
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Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (24,852)</u>
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Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$223,915 difference are as follows:

Principal repayments:	
Tennessee Municipal bond fund	\$ 96,000
General obligation bond	105,000
Energy efficiency loan	24,778
Amortization of bond issuance costs	(3,006)
Amortization of bond premiums	<u>1,143</u>

Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 223,915</u>
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NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

(A) Deposits and investments

The following is a summary of cash and investments as of June 30, 2011:

General use:

On deposit and on hand \$ 36,652,111

Restricted and other special funds:

On deposit - restricted	2,665,981	
On deposit - special funds	5,182,885	
U.S. Government security - restricted	586,299	
Local Government Investment Pool - restricted	898,667	<u>9,333,832</u>
Total		<u>\$ 45,985,943</u>

The restricted assets shown on deposit above are maintained in the City's Fayetteville Public Utilities enterprise fund. These assets represent amounts which are required to be maintained pursuant to ordinances relating to bond indebtedness (construction, reserve and sinking funds). At June 30, 2011, the following restricted funds were maintained:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

Sinking and reserve fund	\$ 2,657,086
Improvements and construction fund	<u>27</u>
	<u>\$ 2,657,113</u>

Special funds totaling \$5,182,885 are designated for specific purposes by FPU. The funds include funded transportation equipment and substation replacement, repair, maintenance, and operating reserves, improvements and construction costs, safety incentive funds, and post retirement health benefits.

The City has \$898,667 invested in the Local Government Investment Pool as required by the State of Tennessee as part of a bridge construction project.

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

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

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

Custodial credit risk – deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At June 30, 2011, certain deposits are held in financial institutions, which are members of the Tennessee Bank Collateral Pool (the Pool). The Pool is a multiple financial institution collateral pool in which member financial institutions holding public funds pledge collateral securities. In the event any member financial institution fails, the entire collateral pool becomes available to satisfy the claims of governmental entities. Other deposits are adequately insured either by collateral securities held by the City's agent in the City's name or Federal Depository Insurance.

At June 30, 2011, the City's cash consists of deposits in financial institutions with bank balances of \$45,002,429 and carrying amounts of \$44,497,081 plus cash on hand of \$3,896. Of the amounts on deposit, \$39,236,474 are fully insured by the FDIC or the Tennessee Bank Collateral Pool. The remaining \$5,260,607 is collateralized by securities pledged by financial institutions in the name of the City.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

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

(B) Receivables

Revenues of the Fayetteville Public Utilities are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$139,803.

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	\$ 1,982,344	\$ -	\$ 1,982,344
Other taxes receivable	311,758	-	311,758
Operating grants received but unspent	-	41,891	41,891
Capital grants received but unspent	-	16,198	16,198
Other	217,239	25,000	242,239
	<u>\$ 2,511,341</u>	<u>\$ 83,089</u>	<u>\$ 2,594,430</u>

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	\$ -	\$ -	\$ 9,213	\$ -	\$ -	\$ 9,213
Taxes	2,076,948	-	-	36,446	-	2,113,394
Accounts	56,067	2,004	5,772,266	-	-	5,830,337
Intergovernmental	707,428	755,887	-	-	15,454	1,478,769
Gross receivables	\$2,840,443	\$ 757,891	\$ 5,781,479	\$ 36,446	\$ 15,454	\$ 9,431,713
Less: Allowance for Uncollectibles	(14,611)	-	(14,309)	-	-	(28,920)
Net total receivables	<u>\$2,825,832</u>	<u>\$ 757,891</u>	<u>\$ 5,767,170</u>	<u>\$ 36,446</u>	<u>\$ 15,454</u>	<u>\$ 9,402,793</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets

Capital asset activity for the year ended June 30, 2011, for governmental activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated				
Land	\$ 2,601,271	\$ -	\$ (50)	\$ 2,601,221
Construction in progress	<u>1,970,817</u>	<u>152,767</u>	<u>-</u>	<u>2,123,584</u>
Total capital assets, not being depreciated	<u>\$ 4,572,088</u>	<u>\$ 152,767</u>	<u>\$ (50)</u>	<u>\$ 4,724,805</u>
Capital assets, being depreciated:				
Buildings	\$ 12,848,131	\$ 178,680	\$ -	\$ 13,026,811
Improvements other than buildings	1,257,804	268,784	-	1,526,588
Machinery and equipment	7,505,604	422,138	(60,542)	7,867,200
Infrastructure	<u>3,064,167</u>	<u>6</u>	<u>(9,025)</u>	<u>3,055,148</u>
Total capital assets being depreciated	<u>\$ 24,675,706</u>	<u>\$ 869,608</u>	<u>\$ (69,567)</u>	<u>25,475,747</u>
Less accumulated depreciation for:				
Buildings	\$ (4,805,111)	\$ (293,228)	\$ -	\$ (5,098,339)
Improvements other than buildings	(362,374)	(56,424)	-	(418,798)
Machinery and equipment	(3,572,035)	(428,905)	43,827	(3,957,113)
Infrastructure	<u>(1,165,261)</u>	<u>(70,789)</u>	<u>938</u>	<u>(1,235,112)</u>
Total accumulated depreciation	<u>\$ (9,904,781)</u>	<u>\$ (849,346)</u>	<u>\$ 44,765</u>	<u>\$(10,709,362)</u>
Total capital assets, being depreciated, net	<u>\$ 14,770,925</u>	<u>\$ 20,262</u>	<u>\$ (24,802)</u>	<u>\$ 14,766,385</u>
Governmental activities capital assets, net	<u>\$ 19,343,013</u>	<u>\$ 173,029</u>	<u>\$ (24,852)</u>	<u>\$ 19,491,190</u>

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

<b>Governmental Activities</b>	
General government	\$ 56,092
Public safety	157,903
Recreation	63,731
Highways and streets	171,397
Housing and community development	3,497
Education	<u>396,726</u>
Total depreciation expense – governmental activities	<u>\$ 849,346</u>

Capital asset activity for the year ended June 30, 2011, for business-type activities is as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,076,018	\$ -	\$ -	\$ 1,076,018
Construction in progress	<u>3,851,289</u>	<u>5,684,389</u>	<u>(6,996,007)</u>	<u>2,539,671</u>
Total capital assets, not being depreciated	<u>\$ 4,927,307</u>	<u>\$ 5,684,389</u>	<u>\$ (6,996,007)</u>	<u>\$ 3,615,689</u>
Capital assets, being depreciated				
Structures and improvements	\$ 3,628,787	\$ 129,684	\$ -	\$ 3,758,471
Machinery and equipment	112,829,386	7,603,631	(2,210,029)	118,222,988
Infrastructure	<u>583,380</u>	<u>12,426</u>	<u>(10,143)</u>	<u>585,663</u>
Total capital assets being depreciated	<u>\$ 117,041,553</u>	<u>\$ 7,745,741</u>	<u>\$ (2,220,172)</u>	<u>\$ 122,567,122</u>
Less accumulated depreciation for:				
Structures and improvements	\$ (1,438,541)	\$ (97,241)	\$ -	\$ (1,535,782)
Machinery and equipment	(47,846,158)	(4,209,309)	2,215,903	(49,839,564)
Infrastructure	<u>(496,427)</u>	<u>(3,884)</u>	<u>14,194</u>	<u>(486,117)</u>
Total accumulated depreciation	<u>\$ (49,781,126)</u>	<u>\$ (4,310,434)</u>	<u>\$ 2,230,097</u>	<u>\$ (51,861,463)</u>
Total capital assets, being depreciated, net	<u>\$ 67,260,427</u>	<u>\$ 3,435,307</u>	<u>\$ 9,925</u>	<u>\$ 70,705,659</u>
Business-type activities capital assets, net	<u>\$ 72,187,734</u>	<u>\$ 9,119,696</u>	<u>\$ (6,986,082)</u>	<u>\$ 74,321,348</u>

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

Business-type Activities	
Public utilities	\$ 4,288,580
Sanitation fund	<u>21,854</u>
Total depreciation expense – business-type activities	<u>\$ 4,310,434</u>

The amount of \$333,055 of electric division depreciation expense related to transportation equipment is allocated to utility plant and operating expenses based on usage.

Construction commitments

The City's Fayetteville Public Utilities (FPU) enterprise fund had outstanding construction contract commitments totaling \$692,676.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(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, 2011, is as follows:

	Due from		
	<u>General Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Due to:			
General fund	\$ -	\$ 24,062	\$ 24,062
Internal capital projects fund	<u>10</u>	<u>-</u>	<u>10</u>
	<u>\$ 10</u>	<u>\$ 24,062</u>	<u>\$ 24,072</u>

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, 2011:

	Transfers In				<u>Total</u>
	<u>General Fund</u>	<u>School General Fund</u>	<u>Sanitation Fund</u>	<u>Other Governmental Funds</u>	
Transfers Out:					
General fund	\$ -	\$ 752,330	\$ -	\$ 129,778	\$ 882,108
Internal capital projects fund	<u>-</u>	<u>-</u>	<u>94,092</u>	<u>-</u>	<u>94,092</u>
Subtotal – governmental funds	<u>\$ -</u>	<u>\$ 752,330</u>	<u>\$ 94,092</u>	<u>\$ 129,778</u>	<u>\$ 976,200</u>
Fayetteville Public Utilities	\$ 969,516	\$ -	\$ -	\$ -	\$ 969,516
Sanitation fund	<u>82,500</u>	<u>-</u>	<u>-</u>	<u>28,500</u>	<u>111,000</u>
Subtotal – proprietary funds	<u>\$1,052,016</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,500</u>	<u>\$ 1,080,516</u>
	<u>\$1,052,016</u>	<u>\$ 752,330</u>	<u>\$ 94,092</u>	<u>\$ 158,278</u>	<u>\$ 2,056,716</u>

NOTE 5 - PROPERTY TAXES

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

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

**NOTE 6 - LONG-TERM DEBT**

**(A) General Obligation Bonds**

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

General obligation bonds currently outstanding are as follows:

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

\$ 8,930,000

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

Year ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 105,000	\$ 62,269	\$ 555,000	\$ 240,482
2013	110,000	59,118	580,000	223,830
2014	110,000	55,819	600,000	206,430
2015	115,000	52,519	595,000	188,432
2016	115,000	49,070	615,000	170,582
2017-2021	620,000	187,917	2,885,000	541,554
2022-2025	<u>605,000</u>	<u>61,614</u>	<u>1,320,000</u>	<u>134,328</u>
Total	<u>\$ 1,780,000</u>	<u>\$ 528,326</u>	<u>\$ 7,150,000</u>	<u>\$ 1,705,638</u>

**(B) Revenue Bonds**

The City also issues bonds for which the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of these outstanding revenue bonds issued in prior years was \$33,060,000. Revenue bonds outstanding at June 30, 2011, are as follows:

**Fayetteville Public Utilities (Electric Division):**

Series 2009, \$12,525,000 revenue bonds, issued in August 2009 to currently refund debt totaling \$7,050,000, as well as finance the improvements and extensions of the electric distribution system. The bonds mature serially at annual interest rates ranging from 3.00% to 4.125% with final maturity in 2024. The bonds are subject to redemption prior to maturity on or after June 1, 2019, at a redemption price of 100%.

\$ 11,295,000

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

NOTE 6 - LONG-TERM DEBT (Continued)

(B) Revenue Bonds (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%.

3,600,000

Total revenue bonds \$ 24,845,000

Revenue bond debt service requirements to maturity are as follows:

Year ending June 30	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 1,200,000	\$ 1,028,539
2013	1,245,000	982,619
2014	1,300,000	933,894
2015	1,395,000	882,644
2016	1,450,000	827,844
2017-2021	7,660,000	3,182,943
2022-2026	7,170,000	1,654,261
2027-2028	<u>3,425,000</u>	<u>219,937</u>
Total	<u>\$ 24,845,000</u>	<u>\$ 9,712,681</u>

(C) Loans

The City has the following loans outstanding at June 30, 2011:

City of Fayetteville:

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

\$ 123,892

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.

131,250

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

NOTE 6 - LONG-TERM DEBT (Continued)

(C) Loans (Continued)

Fayetteville Public Utilities (Water Division)

State of Tennessee Utility Relocation Loan, 2005, with 15 year term, interest at 1.85%.

1,888,285

U.S. Department of Agriculture loan agreement to borrow \$3,350,000 to finance the cost of extensions and improvements to the Water and Wastewater Department's water and wastewater system and refinance maturing bond anticipation notes. The loan matures October 21, 2012, and bears interest at a rate of 2.25%. These loans are authorized under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of \$3,500,000 bonds through the USDA under the Consolidated Farm and Rural Development Act.

2,910,887

Loan with local financial institution in the amount of \$4,865,000 to finance the cost of certain extensions and improvements to the Water and Wastewater Department's water and wastewater system. The loan matures October 28, 2011, and bears interest at 3.99%. These loans are authorized under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of \$4,980,000 bonds through the USDA under the Consolidated Farm and Rural Development Act. Accordingly, the loan is included in long-term debt based on the terms of the anticipated bond issue.

137,812

Total Loans

\$ 5,192,126

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

Year ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 24,778	\$ -	\$ 170,396	\$ 40,066
2013	24,778	-	208,589	211,083
2014	24,778	-	225,901	98,382
2015	24,779	-	188,351	94,681
2016	24,779	-	192,126	90,907
2017-2021	-	-	1,020,001	395,164
2022-2026	-	-	886,224	291,682
2027-2031	-	-	393,385	230,916
2032-2036	-	-	441,535	182,765
2037-2041	-	-	495,692	128,606
2042-2046	-	-	556,631	67,670
2047-2051	-	-	289,403	8,744
Total	<u>\$ 123,892</u>	<u>\$ 502</u>	<u>\$ 5,068,234</u>	<u>\$ 1,840,666</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

NOTE 6 - LONG-TERM DEBT (Continued)

(D) Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2011, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
<b>Bonds payable:</b>					
General obligation bonds – fixed rate	\$ 1,885,000	\$ -	\$ (105,000)	\$ 1,780,000	\$ 105,000
Less deferred amounts:					
Refunding costs	(45,100)	-	3,006	(42,094)	-
Unamortized bond premium	17,152	-	(1,143)	16,009	-
Total bonds payable	<u>\$ 1,857,052</u>	<u>\$ -</u>	<u>\$ (103,137)</u>	<u>\$ 1,753,915</u>	<u>\$ 105,000</u>
<b>Loans:</b>					
Tennessee Municipal Bond Fund Loan Program	96,000	-	(96,000)	-	-
Tennessee Energy Efficiency Loan	148,670	-	(24,778)	123,892	24,778
Landfill postclosure costs	258,392	-	(11,915)	246,477	12,000
Post-employment benefit obligation	266,456	197,138	(122,086)	341,508	-
Compensated absences	493,578	266,144	(282,004)	477,718	283,285
Governmental Activity Long-Term Liability	<u>\$ 3,120,148</u>	<u>\$ 463,282</u>	<u>\$ (639,920)</u>	<u>\$ 2,943,510</u>	<u>\$ 425,063</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One year</u>
<b>Business-type Activities:</b>					
<b>Bonds payable:</b>					
Revenue bonds	\$ 25,730,000	\$ -	\$ (885,000)	\$ 24,845,000	\$ 1,200,000
General obligation	7,680,000	-	(530,000)	7,150,000	555,000
Less deferred amounts:					
Unamortized bond discount	(50,744)	-	5,117	(45,627)	-
Unamortized bond premium	157,976	22,545	(9,023)	171,498	-
Refunding costs	(293,886)	-	48,207	(245,679)	-
Total bonds payable	<u>\$ 33,223,346</u>	<u>\$ 22,545</u>	<u>\$ (1,370,699)</u>	<u>\$ 31,875,192</u>	<u>\$ 1,755,000</u>
<b>Loans:</b>					
Tennessee utility relocation loan	2,010,299	-	(122,014)	1,888,285	124,290
RUS economic development loan	176,250	-	(45,000)	131,250	45,000
Bond anticipation note	2,582,863	3,230,327	(2,764,491)	3,048,699	1,106
Post-employment benefit obligation	158,636	108,158	(10,308)	256,486	-
Compensated absences	774,972	360,197	(312,897)	822,272	331,330
Business-type Activity Long-Term Liabilities	<u>\$ 38,926,366</u>	<u>\$ 3,721,227</u>	<u>\$ (4,625,409)</u>	<u>\$ 38,022,184</u>	<u>\$ 2,256,726</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

NOTE 6 - LONG-TERM DEBT (Continued)

(D) Changes in long-term liabilities (Continued)

Certain of the City's bonds require establishment of sinking funds and compliance with various covenants. The City was compliance with these requirements at June 30, 2011.

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, 2011, there were two series of IDRB outstanding. The aggregate principal amount payable was \$12,760,000. The original issue amounts totaled \$15,615,000.

NOTE 7 - SEGMENT INFORMATION

FPU has issued revenue bonds to finance its various divisions. The investors in the revenue bonds rely solely on the revenue generated by the individual divisions for repayment. Summary financial information for each division is presented below.

<u>Condensed Balance Sheet</u>	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>
<b>Assets</b>				
Current assets	\$ 26,632,029	\$ 3,809,786	\$ 246,793	\$ 914,037
Special funds	2,475,733	2,418,517	707,508	2,238,240
Capital assets	38,935,902	13,906,416	3,595,883	17,486,484
Other assets	1,823,747	176,492	85,011	140,687
Due from other divisions	<u>2,524,629</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 72,392,040</u>	<u>\$ 20,311,211</u>	<u>\$ 4,635,195</u>	<u>\$ 20,779,448</u>
<b>Liabilities</b>				
Current liabilities	\$ 6,039,350	\$ 1,057,759	\$ 400,237	\$ 1,002,020
Other liabilities	1,483,374	76,858	175,162	83,574
Long term debt	20,330,246	4,027,185	3,244,373	7,416,226
Due to other divisions	<u>-</u>	<u>-</u>	<u>2,524,629</u>	<u>-</u>
	<u>\$ 27,852,970</u>	<u>\$ 5,161,802</u>	<u>\$ 6,344,401</u>	<u>\$ 8,501,820</u>
<b>Net Assets (Deficit)</b>				
Invested in capital assets, net of related debt	\$ 18,250,517	\$ 9,697,681	\$ 110,320	\$ 9,747,724
Restricted	1,970,605	-	686,481	27
Unrestricted	<u>24,317,948</u>	<u>5,451,728</u>	<u>(2,506,007)</u>	<u>2,529,877</u>
	<u>\$ 44,539,070</u>	<u>\$ 15,149,409</u>	<u>\$ (1,709,206)</u>	<u>\$ 12,277,628</u>
	<u>\$ 72,392,040</u>	<u>\$ 20,311,211</u>	<u>\$ 4,635,195</u>	<u>\$ 20,779,448</u>

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

**NOTE 7 - SEGMENT INFORMATION (Continued)**

Condensed Statement of Revenues

Expenses, and Changes in Net Assets

Operating revenues	\$ 45,736,819	\$ 7,968,292	\$ 3,339,058	\$ 4,221,323
Depreciation expense	2,063,739	466,545	522,678	902,565
Other operating expenses	<u>40,305,783</u>	<u>6,385,370</u>	<u>2,121,152</u>	<u>2,904,640</u>
Operating income	\$ 3,367,297	\$ 1,116,377	\$ 695,228	\$ 414,118
Nonoperating revenue (expenses):				
Investment income	162,458	21,238	5,932	6,684
Interest expense	(749,107)	(156,419)	(285,772)	(174,185)
Other	(108,552)	(1,454)	44,137	(143,550)
Contributions/Transfers – net	<u>(271,032)</u>	<u>(202,994)</u>	<u>-</u>	<u>34,647</u>
Change in net assets	\$ 2,401,064	\$ 776,748	\$ 459,525	\$ 137,714
Beginning net assets (deficit)	<u>42,138,006</u>	<u>14,372,661</u>	<u>(2,168,731)</u>	<u>12,139,914</u>
Ending net assets (deficit)	<u>\$ 44,539,070</u>	<u>\$ 15,149,409</u>	<u>\$ (1,709,206)</u>	<u>\$ 12,277,628</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:

Operating activities	\$ 5,877,701	\$ 1,682,567	\$ 1,203,733	\$ 1,193,452
Noncapital financing activities	(543,603)	(202,994)	(130,723)	(92,196)
Capital and related financing activities	(4,368,352)	(1,983,757)	(1,030,916)	(1,147,149)
Investing activities	<u>150,178</u>	<u>26,964</u>	<u>(33,645)</u>	<u>(133,267)</u>
Net increase (decrease)	\$ 1,115,924	\$ (477,220)	\$ 8,449	\$ (179,160)
Beginning cash and cash equivalents	<u>22,330,813</u>	<u>5,460,189</u>	<u>699,059</u>	<u>2,853,190</u>
Ending cash and cash equivalents	<u>\$ 23,446,737</u>	<u>\$ 4,982,969</u>	<u>\$ 707,508</u>	<u>\$ 2,674,030</u>

**NOTE 8 - RISK MANAGEMENT**

The City, including FPU, 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 has been named as defendant in various civil actions. The City is defending these actions vigorously. Although the outcome of these lawsuits is not presently determinable, in the opinion of the City's counsel, resolution of these matters will not have a material adverse effect on the financial condition of the City.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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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 FPU Electric Division operates under a power contract with Tennessee Valley Authority whereby restrictions are placed upon utilization of revenues collected by FPU. Under the terms of this contract, FPU has agreed to the following restrictions:

- (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's general funds, within certain guidelines established by TVA, from any revenues then remaining.
- (b) All revenues remaining over and above the requirements stipulated are considered surplus revenues. These revenues may be used for new electric system construction or for the retirement of electric system indebtedness prior to maturity with consideration that resale rates and charges will be reduced from time to time to the lowest practicable levels.

The City of Fayetteville and Lincoln County, Tennessee, operated a landfill as a joint venture for the residents of the county that was closed in February 1995. The City acts as administrator of the postclosure activities. Total remaining closure and postclosure care costs are estimated to be \$492,954 at June 30, 2011. These costs will be shared equally by the City and Lincoln County, Tennessee. The City's share of this estimated liability (\$246,477) is included as a liability in the Statement of Net Assets. The City's current year share of required funding was \$15,125 and is reported as an expenditure of the Internal Capital Projects Fund.

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

NOTE 10 - PENSION AND BENEFIT PLANS

PLAN DESCRIPTION

General government and Fayetteville City Board of Education employees are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 10 - PENSION AND BENEFIT PLANS (Continued)

by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after five years of service and members joining prior to July 1, 1979, were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State 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, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

FUNDING POLICY

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

The City of Fayetteville, Tennessee is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2011, was 9.78% 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, 2011, the City of Fayetteville's annual pension cost of \$442,884 to TCRS was equal to Fayetteville's required and actual contributions. The required contribution was determined as part of the July 1, 2009 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 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected post-retirement increases of 2.5 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 ten-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, 2009 was 208 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

NOTE 10 - PENSION AND BENEFIT PLANS (Continued)

TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost	Percentage Of APC Contributed	Net Pension Obligation
6/30/11	\$442,884	100.00%	\$0.00
6/30/10	\$370,641	100.00%	\$0.00
6/30/09	\$363,169	100.00%	\$0.00

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2009, the most recent actuarial valuation date, the plan was 80.55 percent funded. The actuarial accrued liability for benefits was \$15.3 million, and the actuarial value of assets was \$12.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$3.0 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.3 million, and the ratio of the UAAL to the covered payroll was 68.92 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)
7/1/09	\$12,291	\$15,260	\$2,968	80.55%	\$4,307	68.92%
7/1/07	\$12,198	\$13,547	\$1,349	90.04%	\$3,785	35.64%

FAYETTEVILLE CITY SCHOOLS-TEACHERS PLAN

PLAN DESCRIPTION

The Fayetteville City Schools contributes 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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 10 - PENSION AND BENEFIT PLANS (Continued)

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 SETHEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [www.tn.gov/treasury/tcrs/Schools](http://www.tn.gov/treasury/tcrs/Schools).

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, 2011, was 9.05 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, 2011, 2010, and 2009 were \$442,897, \$266,662, and \$271,194, respectively, equal to the required contributions for each year.

FAYETTEVILLE PUBLIC UTILITIES

Substantially all employees of FPU 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. FPU's total payroll for the fiscal year 2011 was \$5,388,242. FPU's contributions were based on covered payroll totaling \$4,767,466 which reflects certain adjustments in accordance with the plan.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 10 - PENSION AND BENEFIT PLANS (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. FPU is required to contribute an actuarially determined normal cost annually and a past service adjustment cost which provides for crediting retirement benefits for past service on a uniform basis for all participants.

FPU's contributions based on the payroll of eligible participants for the years ended June 30, 2011, 2010, and 2009 were \$1,040,098, \$866,626, and \$682,529, 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.

FPU 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, FPU matches employee contributions of 1.25% of the employees' base pay. The employee must contribute 1.25% of their base pay in order to receive FPU'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 \$58,151 and \$54,299 and \$192,872 and \$182,619 for the years ended June 30, 2011 and 2010, respectively.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

The City maintains two separate single-employer defined post-employment healthcare plans. One covers the general government while the other covers employees of Fayetteville Public Utilities.

The following is a summary of each of these plans:

PLAN DESCRIPTION-FAYETTEVILLE PUBLIC UTILITIES

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

PLAN DESCRIPTION-GENERAL GOVERNMENT

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

FUNDING POLICY

Retirees are not required to make any contributions to either postretirement benefit plan. The benefits of the postretirement benefit plans are unfunded and no assets have been segregated and restricted to provide for postretirement medical or life insurance benefits. For the year ended June 30, 2011, FPU contributed \$4,039 and the City contributed \$51,566 to fund premiums for retirees receiving benefits.

ANNUAL OPEB COST, NET OPEB OBLIGATION AND FUNDED STATUS

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

	<u>FPU</u>	<u>City</u>
Annual required contribution	\$ 101,814	\$ 130,138
Interest on net OPEB obligation	6,344	3,796
Adjustment to annual required contribution	<u>(6,269)</u>	<u>(3,079)</u>
Annual OPEB cost (expense)	\$ 101,889	\$ 130,855
Contributions made	<u>(4,039)</u>	<u>(51,566)</u>
Increase in net OPEB obligation	\$ 97,850	\$ 79,289
Net OPEB obligation, beginning of year	<u>158,636</u>	<u>195,219</u>
Net OPEB obligation, end of year	<u>\$ 256,486</u>	<u>\$ 274,508</u>

The percentage of annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

<u>FPU</u>	<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
	June 30, 2009	\$ 88,684	14.2%	\$ 76,103
	June 30, 2010	91,791	10.1%	158,636
	June 30, 2011	101,889	3.96%	256,486

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

**NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)**

<u>City</u>				
	June 30, 2009	\$ 133,390	14.2%	\$ 106,146
	June 30, 2010	130,855	31.9%	195,219
	June 30, 2011	130,855	39.4%	274,508

As of July 1, 2008, the most recent actuarial valuation date for the City, and July 1, 2010, the most recent actuarial valuation date for FPU, both plans were 0% funded.

ACTUARIAL METHODS AND ASSUMPTIONS

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

The actuarial accrued unfunded liability (UAAL) for benefits at June 30, 2011, as well as actuarial methods and assumptions for both plans, was as follows:

	<u>FPU</u>	<u>City</u>
Actuarial valuation date	7/01/2010	7/01/2008
UAAL	\$ 1,024,128	\$ 1,444,892
Covered payroll	\$ 4,997,646	\$ 3,361,174
Ratio of UAAL to covered payroll	20.5%	43.0%
Actuarial valuation method	Projected unit credit	Entry age normal
Amortization period	30 yrs	30 yrs
Actuarial assumptions:		
Discount rate	4.0%	4.5%
Projected salary increases	not available	4.0%

For the City the actuarial assumptions include an annual medical cost trend increase of 8% initially with future annual increases assumed to grade uniformly to 5% over a 5 year period. For FPU the actuarial assumptions include an annual medical cost trend increase of 9% initially with future annual increases assumed to grade uniformly to 6% over a 6 year period. The valuations did not include an investment rate of return on plan assets as there were no plan assets at the valuation date. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at July 1, 2010, was twenty-eight years.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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

FAYETTEVILLE CITY SCHOOLS

PLAN DESCRIPTION

Fayetteville City Schools participates in the state-administered Teacher Group Insurance Plan for healthcare benefits. For accounting purposes, the plan is an agent multiple-employer defined benefit OPEB plan. Benefits are established and amended by an insurance committee created by Tennessee Code Annotated (TCA) 8-27-302. In previous years, prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. However, as of January 1, 2010 the insurance plan structure was changed and as a result all members now have the option of choosing between the standard or partnership preferred organization (PPO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

FUNDING POLICY

The premium requirements of plan members are established and may be amended by the insurance committee. The plan is self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-65 teachers in the Medicare Supplement Plan. For active plan members electing family coverage, plan members contribute on average 35% of premiums and the Fayetteville City Schools contributes on average 65% of premiums. For active plan members electing single coverage, plan members contribute on average 10% of premiums and the Fayetteville City Schools contributes on average 90% of premiums. The Fayetteville City Schools makes no contributions for premiums for retired plan members.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

<u>Annual OPEB cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>
Annual required contribution	\$ 64,000
Interest on net OPEB obligation	3,000
Adjustment to the annual required contribution	<u>(3,000)</u>
Annual OPEB cost (expense)	\$ 64,000
Contributions made	<u>(68,000)</u>
Decrease in net OPEB obligation	\$ (4,000)
Net OPEB obligation, beginning of year	<u>71,000</u>
Net OPEB obligation, end of year	<u>\$ 67,000</u>

The percentage of annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation are as follows:

<u>Plan</u>	<u>Year end</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Teacher Group	6/30/2009	\$ 88,000	39.8%	\$ 53,000
Teacher Group	6/30/2010	\$ 77,000	76.6%	\$ 71,000
Teacher Group	6/30/2011	\$ 64,000	106.3%	\$ 67,000

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2010, was as follows (dollars in thousands):

	<u>Teacher Group Plan</u>
Actuarial valuation date	7/1/2010
Actuarial accrued liability (AAL)	\$ 496
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	496
Actuarial value of assets as a % of the AAL	0.0%
Covered payroll (active plan members)	4,272
UAAL as a percentage of covered payroll	11.6%

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2011

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NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2010 actuarial valuation, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4.5 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 10 percent for fiscal year 2011. The trend rate will decrease to 9.5% in fiscal year 2012 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The rate includes a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 2008.

NOTE 12 - STATE STREET AID FUNDS

The City was granted permission by the State of Tennessee in prior years to combine the municipal street aid fund with the general fund. State street revenue for the year ended June 30, 2011, related to these funds is shown below.

Intergovernmental revenue	
Gasoline and motor fuel tax	\$ 192,090
City street and transportation	<u>15,127</u>
Total	<u>\$ 207,217</u>

NOTE 13 - RELATED PARTIES

Two board of education members are employed by financial institutions with which the Fayetteville City Schools transacts business.

NOTE 14 - NONEXCHANGE TRANSACTION

The City receives shared revenue from the State of Tennessee for a tax the state assesses on the earnings of certain financial institutions. The City is required to recognize receivables and deferred revenues as the banks earn the income. However, the banks file at different times of the year, and it is difficult to follow state statutes' guidance concerning what time period is being filed on. Therefore, the receivable and deferred revenue at June 30, 2011, are not reasonably estimable and are not included in these financial statements. During the year ended June 30, 2011, the City received \$16,093 from the State of Tennessee for this shared revenue.

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

NOTE 15 - JOINT VENTURES

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

	<u>Fayetteville – Lincoln County</u>		
	Regional Airport <u>Authority</u>	Public <u>Library</u>	Industrial Development <u>Board</u>
Total assets	\$ 4,784,038	\$ 3,549,002	\$ 3,714,845
Total liabilities	<u>102,825</u>	<u>7,121</u>	<u>1,075,869</u>
Net assets	<u>\$ 4,681,213</u>	<u>\$ 3,541,881</u>	<u>\$ 2,638,976</u>
Revenues	\$ 592,834	\$ 194,633	\$ 351,002
Expenditures	<u>230,482</u>	<u>258,540</u>	<u>476,506</u>
Increase (decrease) in net assets	<u>\$ 362,352</u>	<u>\$ (63,907)</u>	<u>\$ (125,504)</u>

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

Fayetteville Lincoln County Public Library  
306 Elk Avenue North  
Fayetteville, TN 37334

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

Fayetteville Lincoln County Airport  
37 Airport Road  
Fayetteville, TN 37334

NOTE 16 - PLEDGED REVENUES

FPU 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:

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

NOTE 16 - PLEDGED REVENUES (Continued)

<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	\$ 45,736,819	\$ 1,408,319	3.1%	\$ 29,692,411	2028
Gas	7,968,292	417,069	5.2%	5,523,438	2025
Telecom	3,339,058	541,050	16.2%	4,865,270	2020
Water & Sewer	<u>4,221,323</u>	<u>579,724</u>	<u>13.7%</u>	<u>10,109,850</u>	2050
	<u>\$ 61,265,492</u>	<u>\$ 2,946,162</u>	<u>4.8%</u>	<u>\$ 50,190,969</u>	

NOTE 17 - JOINT VENTURE

The Fayetteville City Schools participates in the Volunteer State Cooperative (VOLCO), which represents a cost-sharing arrangement. The cooperative was established through a contractual agreement between the Boards of Education of Bedford County, Coffee County, Dickson County, Fayetteville City, Humphreys County, Manchester City, Maury County, Marshall County, Robertson County, and Stewart County. The cooperative was authorized through Chapter 49 of Tennessee Code Annotated. The cooperative was established to obtain lower prices for food supplies, materials, equipment, and services by combining the purchasing requirements of each member's school food service systems. The cooperative has contracted with a coordinating district (Stewart County School Department) and a service provider to provide these services. The cooperative is governed by a Representative Committee, comprising one representative from each of the member districts; and an Executive Council, consisting of the chair, vice chair, secretary, treasurer, and a member-at-large from the Representative Committee.

Complete financial statements for the Volunteer State Cooperative can be obtained from its administrative office at Volunteer State Cooperative, P.O. Box 433, 110 Natcor Drive, Dover, TN 37058.

NOTE 18 - SUBSEQUENT EVENTS

Subsequent to year end, the Board of Education approved the issuance of \$6 million in capital outlay notes to finance various additions and improvements at Ralph Askins Elementary School and Fayetteville Middle School necessitated by increased student enrollment.

The Board approved expanding the Fayetteville City Schools' grade spans which run from Pre-K through ninth grade. Beginning in the next fiscal year, a tenth grade will be added. An additional grade will be added each subsequent year through twelfth grade.

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

June 30, 2011

*(Dollar amounts in thousands)*

Teacher Group Insurance Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
June 30, 2010	\$ -	\$ 496	\$ 496	0.0%	\$ 4,272	11.6%
June 30, 2009	\$ -	\$ 664	\$ 664	0.0%	\$ 4,476	14.8%
June 30, 2007	\$ -	\$ 788	\$ 788	0.0%	\$ 3,673	21.5%

Fayetteville Public Utilities retiree health care plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 883	\$ 883	0.0%	\$ 4,524	19.5%
July 1, 2010	\$ -	\$ 1,024	\$ 1,024	0.0%	\$ 4,998	20.5%

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

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

Note: Additional years will be reported as data becomes available.

**REQUIRED SUPPLEMENTARY INFORMATION**  
**PENSION BENEFITS**  
**SCHEDULE OF FUNDING PROGRESS**  
**CITY OF FAYETTEVILLE, TENNESSEE**  
**June 30, 2011**

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2009	\$ 12,291	\$ 15,260	\$ 2,968	80.55%	\$ 4,307	68.92%
July 1, 2007	\$ 12,198	\$ 13,547	\$ 1,349	90.04%	\$ 3,785	35.65%

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 went into effect during the year of the 2007 actuarial valuation, therefore only the two most recent valuations are presented.

**NONMAJOR GOVERNMENTAL FUNDS  
CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

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Special Revenue Funds

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

- School Title Fund
- School Cafeteria Fund
- Drug Fund

Debt Service Fund

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

Capital Projects Funds

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

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

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

For the year ended June 30, 2011

	Special Revenue Funds				
	School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
<b>Assets:</b>					
Cash in bank	\$ 59,474	\$ 144,417	\$ 111,446	\$ 315,337	\$ 311,573
Investments	-	-	-	-	-
Accounts receivable	-	-	-	-	-
Intergovernmental receivable	-	-	-	-	-
Inventory	-	16,241	-	16,241	-
TOTAL ASSETS	<u>\$ 59,474</u>	<u>\$ 160,658</u>	<u>\$ 111,446</u>	<u>\$ 331,578</u>	<u>\$ 311,573</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 14,989	\$ -	\$ 1,459	\$ 16,448	\$ -
Other accrued expenses	2,594	-	-	2,594	-
Deferred revenues	41,891	-	-	41,891	-
TOTAL LIABILITIES	<u>\$ 59,474</u>	<u>\$ -</u>	<u>\$ 1,459</u>	<u>\$ 60,933</u>	<u>\$ -</u>
<b>Fund balances:</b>					
Nonspendable	\$ -	\$ 16,241	\$ -	\$ 16,241	\$ -
Restricted	-	-	109,987	109,987	-
Assigned	-	144,417	-	144,417	311,573
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 160,658</u>	<u>\$ 109,987</u>	<u>\$ 270,645</u>	<u>\$ 311,573</u>
<b>Total liabilities and fund balances</b>	<u>\$ 59,474</u>	<u>\$ 160,658</u>	<u>\$ 111,446</u>	<u>\$ 331,578</u>	<u>\$ 311,573</u>

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

June 30, 2011

	Capital Projects Funds				Total Capital Projects	Total Nonmajor Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects		
<b>Assets:</b>						
Cash in bank	\$ 219,393	\$ 49,473	\$ 405,751	\$ 1,592,020	\$ 2,266,637	\$ 2,893,547
Investments	-	-	-	586,299	586,299	586,299
Due from other funds	-	-	-	10	10	10
Intergovernmental receivable	-	-	-	15,454	15,454	15,454
Inventory	-	-	-	-	-	16,241
TOTAL ASSETS	<u>\$ 219,393</u>	<u>\$ 49,473</u>	<u>\$ 405,751</u>	<u>\$ 2,193,783</u>	<u>\$ 2,868,400</u>	<u>\$ 3,511,551</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities:</b>						
Accounts payable	\$ -	\$ -	\$ -	\$ 15,374	\$ 15,374	\$ 31,822
Other accrued expenses	-	-	-	-	-	2,594
Deferred revenues	-	-	-	41,198	41,198	83,089
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 56,572</u>	<u>\$ 56,572</u>	<u>\$ 117,505</u>
<b>Fund balances:</b>						
Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,241
Restricted	-	49,473	405,751	607,663	1,062,887	1,172,874
Assigned	219,393	-	-	1,529,548	1,748,941	2,204,931
TOTAL FUND BALANCES	<u>\$ 219,393</u>	<u>\$ 49,473</u>	<u>\$ 405,751</u>	<u>\$ 2,137,211</u>	<u>\$ 2,811,828</u>	<u>\$ 3,394,046</u>
<b>Total liabilities and fund balances</b>	<u>\$ 219,393</u>	<u>\$ 49,473</u>	<u>\$ 405,751</u>	<u>\$ 2,193,783</u>	<u>\$ 2,868,400</u>	<u>\$ 3,511,551</u>

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

For the year ended June 30, 2011

	Special Revenue Funds				
	School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Revenues:					
Intergovernmental	\$ 968,684	\$ 389,034	\$ -	\$ 1,357,718	\$ -
Charges for services	-	180,263	-	180,263	-
Investment earnings	-	264	384	648	1,683
Fines	-	-	21,349	21,349	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	<u>\$ 968,684</u>	<u>\$ 569,561</u>	<u>\$ 21,733</u>	<u>\$ 1,559,978</u>	<u>\$ 1,683</u>
Expenditures:					
Current:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 266
Public safety	-	-	19,979	19,979	-
Education	968,684	573,701	-	1,542,385	-
Sanitation	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	129,778
Interest	-	-	-	-	65,419
Capital outlay	-	11,304	-	11,304	-
TOTAL EXPENDITURES	<u>\$ 968,684</u>	<u>\$ 585,005</u>	<u>\$ 19,979</u>	<u>\$ 1,573,668</u>	<u>\$ 195,463</u>
Excess (deficiency) of revenues over expenditures	<u>\$ -</u>	<u>\$ (15,444)</u>	<u>\$ 1,754</u>	<u>\$ (13,690)</u>	<u>\$ (193,780)</u>
Other Financing Sources (Uses):					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 129,778
Transfers out	-	-	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,778</u>
Net change in fund balances	\$ -	\$ (15,444)	\$ 1,754	\$ (13,690)	\$ (64,002)
Fund balances - July 1, 2010	-	176,102	108,233	284,335	375,575
Fund balances - June 30, 2011	<u>\$ -</u>	<u>\$ 160,658</u>	<u>\$ 109,987</u>	<u>\$ 270,645</u>	<u>\$ 311,573</u>

**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES ( Continued)**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**CITY OF FAYETTEVILLE, TENNESSEE**  
For the year ended June 30, 2011

	Capital Projects Funds					Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
<b>Revenues:</b>						
Intergovernmental	\$ -	\$ -	\$ -	\$ 102,028	\$ 102,028	\$ 1,459,746
Charges for services	-	-	-	-	-	180,263
Investment earnings	969	208	2,249	10,170	13,596	15,927
Fines	-	-	-	-	-	21,349
Other revenue	-	-	-	7,227	7,227	7,227
<b>TOTAL REVENUES</b>	<b>\$ 969</b>	<b>\$ 208</b>	<b>\$ 2,249</b>	<b>\$ 119,425</b>	<b>\$ 122,851</b>	<b>\$ 1,684,512</b>
<b>Expenditures:</b>						
<b>Current:</b>						
General government	\$ -	\$ -	\$ -	\$ 67,500	\$ 67,500	\$ 67,766
Public safety	-	-	-	-	-	19,979
Education	-	-	-	-	-	1,542,385
Sanitation	-	-	-	15,125	15,125	15,125
<b>Debt service:</b>						
Principal	-	-	-	-	-	129,778
Interest	-	-	-	-	-	65,419
Capital outlay	-	-	-	874,984	874,984	886,288
<b>TOTAL EXPENDITURES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 957,609</b>	<b>\$ 957,609</b>	<b>\$ 2,726,740</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>\$ 969</b>	<b>\$ 208</b>	<b>\$ 2,249</b>	<b>\$ (838,184)</b>	<b>\$ (834,758)</b>	<b>\$ (1,042,228)</b>
<b>Other Financing Sources:</b>						
Transfers in	\$ -	\$ -	\$ -	\$ 28,500	\$ 28,500	\$ 158,278
Transfers out	-	-	-	(94,092)	(94,092)	(94,092)
<b>TOTAL OTHER FINANCING SOURCES</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (65,592)</b>	<b>\$ (65,592)</b>	<b>\$ 64,186</b>
<b>Net change in fund balances</b>	<b>\$ 969</b>	<b>\$ 208</b>	<b>\$ 2,249</b>	<b>\$ (903,776)</b>	<b>\$ (900,350)</b>	<b>\$ (978,042)</b>
Fund balances - July 1, 2010	218,424	49,265	403,502	3,040,987	3,712,178	4,372,088
<b>Fund balances - June 30, 2011</b>	<b>\$ 219,393</b>	<b>\$ 49,473</b>	<b>\$ 405,751</b>	<b>\$ 2,137,211</b>	<b>\$ 2,811,828</b>	<b>\$ 3,394,046</b>

**SCHOOL TITLE SPECIAL REVENUE FUND  
BUDGETARY COMPARISON SCHEDULE  
CITY OF FAYETTEVILLE, TENNESSEE**  
For the year ended June 30, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
NCLB Title programs	\$ 443,697	\$ 680,045	\$ 680,045	\$ -
Special education programs	256,084	288,639	288,639	-
Total Revenues	<u>\$ 699,781</u>	<u>\$ 968,684</u>	<u>\$ 968,684</u>	<u>\$ -</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction program	\$ 377,954	\$ 530,453	\$ 530,453	\$ -
Special education program	339,283	283,123	283,123	-
Support services:				
Health services	-	1,174	1,174	-
Other student support	-	1,750	1,750	-
Regular instruction program	39,338	29,984	29,984	-
Special education program	17,785	11,455	11,455	-
Office of the principal	-	4,630	4,630	-
Operation of plant	-	3,474	3,474	-
Maintenance of plant	-	1,713	1,713	-
Transportation	3,985	3,870	3,870	-
Early childhood education	-	97,058	97,058	-
Total Expenditures	<u>\$ 778,345</u>	<u>\$ 968,684</u>	<u>\$ 968,684</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ (78,564)	\$ -	\$ -	\$ -
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ (78,564)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with
	<u>Original</u>	<u>Final</u>		Final Budget - Favorable (Unfavorable)
<b>REVENUES</b>				
Intergovernmental				
National school lunch program	\$ 246,170	\$ 246,170	\$ 288,393	\$ 42,223
School breakfast program	100,000	100,000	94,625	(5,375)
Other	6,500	6,500	6,016	(484)
Charges for services	289,895	289,895	180,263	(109,632)
Investment earnings	1,800	1,800	264	(1,536)
Other revenues	2,500	2,500	-	(2,500)
Total Revenues	<u>\$ 646,865</u>	<u>\$ 646,865</u>	<u>\$ 569,561</u>	<u>\$ (77,304)</u>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits	\$ 301,457	\$ 307,684	\$ 290,560	\$ 17,124
Repairs and maintenance	6,000	6,692	6,185	507
Travel	1,600	4,600	3,990	610
Contracted services	9,000	9,000	8,935	65
Food and preparation supplies	285,108	285,108	256,484	28,624
Supplies	1,000	1,081	1,081	-
Other	16,700	6,700	6,466	234
Capital outlay	26,000	26,000	11,304	14,696
Total Expenditures	<u>\$ 646,865</u>	<u>\$ 646,865</u>	<u>\$ 585,005</u>	<u>\$ 61,860</u>
Excess of Revenues over Expenditures	\$ -	\$ -	\$ (15,444)	\$ (15,444)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	\$ (15,444)	\$ (15,444)
Fund Balance - beginning	<u>103,500</u>	<u>103,500</u>	<u>176,102</u>	<u>72,602</u>
Fund Balance - ending	<u>\$ 103,500</u>	<u>\$ 103,500</u>	<u>\$ 160,658</u>	<u>\$ 57,158</u>

**DRUG SPECIAL REVENUE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**CITY OF FAYETTEVILLE, TENNESSEE**  
Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Investment earnings	\$ 1,440	\$ 1,440	\$ 384	\$ (1,056)
Fines	14,000	14,000	21,349	7,349
Total Revenues	<u>\$ 15,440</u>	<u>\$ 15,440</u>	<u>\$ 21,733</u>	<u>\$ 6,293</u>
<b>EXPENDITURES</b>				
Current:				
Operating				
Salaries	\$ 5,700	\$ 5,700	\$ 2,835	\$ 2,865
Education and training	2,500	2,500	910	1,590
Travel	4,000	4,000	4,287	(287)
Supplies	3,000	3,000	1,734	1,266
Repairs and maintenance	4,000	4,000	5	3,995
Telephone	2,725	2,725	809	1,916
Professional services	1,000	1,000	2,912	(1,912)
Equipment	39,500	39,500	4,079	35,421
Investigative transactions	5,000	5,000	2,000	3,000
Other drug fund	3,900	3,900	408	3,492
Total Expenditures	<u>\$ 71,325</u>	<u>\$ 71,325</u>	<u>\$ 19,979</u>	<u>\$ 51,346</u>
Excess of Revenues over Expenditures	\$ (55,885)	\$ (55,885)	\$ 1,754	\$ 57,639
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	-	-	-	-
Net Change in Fund Balance	\$ (55,885)	\$ (55,885)	\$ 1,754	\$ 57,639
Fund Balance - beginning	108,233	108,233	108,233	-
Fund Balance - ending	<u>\$ 52,348</u>	<u>\$ 52,348</u>	<u>\$ 109,987</u>	<u>\$ 57,639</u>

**DEBT SERVICE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**CITY OF FAYETTEVILLE, TENNESSEE**  
Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual</u> <u>Amounts</u>	Variance with Final Budget - Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Investment earnings	\$ 3,000	\$ 3,000	\$ 1,683	\$ (1,317)
Total Revenues	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ 1,683</u>	<u>\$ (1,317)</u>
<b>EXPENDITURES</b>				
Current:				
Operating - agent fees	\$ -	\$ 266	\$ 266	\$ -
Debt Service:				
Principal	129,778	129,778	129,778	-
Interest	65,419	65,419	65,419	-
Total Expenditures	<u>\$ 195,197</u>	<u>\$ 195,463</u>	<u>\$ 195,463</u>	<u>\$ -</u>
Deficiency of Revenues over Expenditures	\$ (192,197)	\$ (192,463)	\$ (193,780)	\$ (1,317)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	<u>129,779</u>	<u>129,779</u>	<u>129,778</u>	<u>(1)</u>
Net Change in Fund Balance	\$ (62,418)	\$ (62,684)	\$ (64,002)	\$ (1,318)
Fund Balance - beginning	<u>375,575</u>	<u>375,575</u>	<u>375,575</u>	<u>-</u>
Fund Balance - ending	<u><u>\$ 313,157</u></u>	<u><u>\$ 312,891</u></u>	<u><u>\$ 311,573</u></u>	<u><u>\$ (1,318)</u></u>

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

Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Charges for services and use of property	\$ -	\$ -	\$ -	\$ -
Investment earnings	3,670	3,670	969	(2,701)
Total Revenues	<u>\$ 3,670</u>	<u>\$ 3,670</u>	<u>\$ 969</u>	<u>\$ (2,701)</u>
<b>EXPENDITURES</b>				
Current:				
Travel	\$ 1,500	\$ 1,500	\$ -	\$ 1,500
Professional services	1,500	1,500	-	1,500
Total Expenditures	<u>\$ 3,000</u>	<u>\$ 3,000</u>	<u>\$ -</u>	<u>\$ 3,000</u>
Net Change in Fund Balance	\$ 670	\$ 670	\$ 969	\$ 299
Fund Balance - beginning	<u>218,424</u>	<u>218,424</u>	<u>218,424</u>	<u>-</u>
Fund Balance - ending	<u>\$ 219,094</u>	<u>\$ 219,094</u>	<u>\$ 219,393</u>	<u>\$ 299</u>

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

Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Investment earnings	\$ 550	\$ 550	\$ 208	\$ (342)
Total Revenues	<u>\$ 550</u>	<u>\$ 550</u>	<u>\$ 208</u>	<u>\$ (342)</u>
<b>EXPENDITURES</b>				
Current:				
Operating	\$ 48,100	\$ 48,100	\$ -	\$ 48,100
Total Expenditures	<u>\$ 48,100</u>	<u>\$ 48,100</u>	<u>\$ -</u>	<u>\$ 48,100</u>
Net Change in Fund Balance	\$ (47,550)	\$ (47,550)	\$ 208	\$ 47,758
Fund Balance - beginning	<u>49,265</u>	<u>49,265</u>	<u>49,265</u>	<u>-</u>
Fund Balance - ending	<u>\$ 1,715</u>	<u>\$ 1,715</u>	<u>\$ 49,473</u>	<u>\$ 47,758</u>

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

Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable <u>(Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Investment earnings	\$ 4,500	\$ 4,500	\$ 2,249	\$ (2,251)
Total Revenues	<u>\$ 4,500</u>	<u>\$ 4,500</u>	<u>\$ 2,249</u>	<u>\$ (2,251)</u>
<b>EXPENDITURES</b>				
Current:				
Operating	\$ 1,000	\$ 1,000	\$ -	\$ 1,000
Total Expenditures	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 1,000</u>
Net Change in Fund Balance	\$ 3,500	\$ 3,500	\$ 2,249	\$ (1,251)
Fund Balance - beginning	<u>403,502</u>	<u>403,502</u>	<u>403,502</u>	<u>-</u>
Fund Balance - ending	<u>\$ 407,002</u>	<u>\$ 407,002</u>	<u>\$ 405,751</u>	<u>\$ (1,251)</u>

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

Year ended June 30, 2011

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Intergovernmental	\$ -	\$ -	\$ 102,028	\$ 102,028
Investment earnings	25,000	25,000	10,170	(14,830)
Other revenues	-	-	7,227	7,227
<b>Total Revenues</b>	<b>\$ 25,000</b>	<b>\$ 25,000</b>	<b>\$ 119,425</b>	<b>\$ 94,425</b>
<b>EXPENDITURES</b>				
<b>Current:</b>				
Operating - landfill	\$ 15,090	\$ 15,125	\$ 15,125	\$ -
Payments to airport authority	-	67,500	67,500	-
Capital outlay	120,780	874,984	874,984	-
<b>Total Expenditures</b>	<b>\$ 135,870</b>	<b>\$ 957,609</b>	<b>\$ 957,609</b>	<b>\$ -</b>
<b>(Deficiency) of Revenues over Expenditures</b>	<b>\$ (110,870)</b>	<b>\$ (932,609)</b>	<b>\$ (838,184)</b>	<b>\$ 94,425</b>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	\$ 28,500	\$ 28,500	\$ 28,500	\$ -
Transfers out	-	(94,092)	(94,092)	-
<b>Total Other Financing Sources</b>	<b>\$ 28,500</b>	<b>\$ (65,592)</b>	<b>\$ (65,592)</b>	<b>\$ -</b>
<b>Net Change in Fund Balance</b>	<b>\$ (82,370)</b>	<b>\$ (998,201)</b>	<b>\$ (903,776)</b>	<b>\$ 94,425</b>
<b>Fund Balance - beginning</b>	<b>3,040,987</b>	<b>3,040,987</b>	<b>3,040,987</b>	<b>-</b>
<b>Fund Balance - ending</b>	<b>\$ 2,958,617</b>	<b>\$ 2,042,786</b>	<b>\$ 2,137,211</b>	<b>\$ 94,425</b>



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

June 30, 2011

Year Ending June 30,	General					
	Tennessee Energy		Obligation Bonds		Total General	
	<u>Efficiency Loan</u>		<u>Series 2009</u>		<u>Total</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 24,778	\$ -	\$ 105,000	\$ 62,269	\$ 129,778	\$ 62,269
2013	24,778	-	110,000	59,118	134,778	59,118
2014	24,778	-	110,000	55,819	134,778	55,819
2015	24,779	-	115,000	52,519	139,779	52,519
2016	24,779	-	115,000	49,070	139,779	49,070
2017	-	-	115,000	45,618	115,000	45,618
2018	-	-	115,000	41,594	115,000	41,594
2019	-	-	120,000	37,568	120,000	37,568
2020	-	-	120,000	33,669	120,000	33,669
2021	-	-	150,000	29,468	150,000	29,468
2022	-	-	145,000	24,032	145,000	24,032
2023	-	-	150,000	18,594	150,000	18,594
2024	-	-	155,000	12,594	155,000	12,594
2025	-	-	155,000	6,394	155,000	6,394
	<u>\$ 123,892</u>	<u>\$ -</u>	<u>\$ 1,780,000</u>	<u>\$ 528,326</u>	<u>\$ 1,903,892</u>	<u>\$ 528,326</u>

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

June 30, 2011

Fiscal Year Ending June 30,	Series 2009		Series 2007		RUS Rural Economic Development Loan (SCHRA)		Total Electric	
	Bonds	Interest	Bonds	Interest	Bonds	Interest	Total Bonds	Total Interest
2012	\$ 890,000	\$ 380,744	\$ -	\$ 414,725	\$ 45,000	\$ -	\$ 935,000	\$ 795,469
2013	920,000	354,044	-	414,725	45,000	-	965,000	768,769
2014	950,000	326,444	-	414,725	41,250	-	991,250	741,169
2015	1,025,000	297,944	-	414,725	-	-	1,025,000	712,669
2016	1,055,000	267,194	-	414,725	-	-	1,055,000	681,919
2017	1,085,000	235,544	-	414,725	-	-	1,085,000	650,269
2018	1,120,000	201,638	-	414,725	-	-	1,120,000	616,363
2019	1,160,000	163,837	-	414,725	-	-	1,160,000	578,562
2020	1,200,000	121,787	-	414,725	-	-	1,200,000	536,512
2021	470,000	76,787	775,000	414,725	-	-	1,245,000	491,512
2022	470,000	57,987	825,000	383,725	-	-	1,295,000	441,712
2023	470,000	39,187	875,000	350,312	-	-	1,345,000	389,499
2024	480,000	19,800	925,000	314,438	-	-	1,405,000	334,238
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
	<b>\$ 11,295,000</b>	<b>\$ 2,542,937</b>	<b>\$ 9,950,000</b>	<b>\$ 5,904,474</b>	<b>\$ 131,250</b>	<b>\$ -</b>	<b>\$ 21,376,250</b>	<b>\$ 8,447,411</b>

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

June 30, 2011

Year Ending June 30,	TDOT Utility Reloc Loan		Series 2009		RUS Phase I Bond Anticipation Notes		RUS Phase II Bond Anticipation Notes		Total Water	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 124,290	\$ 33,883	\$ 270,000	\$ 91,214	\$ -	\$ -	\$ 1,106	\$ 6,183	\$ 395,396	\$ 131,280
2013	126,609	31,564	290,000	83,112	174,422	1,712	5,097	453,589	294,195	
2014	128,971	29,202	310,000	74,412	64,148	1,777	5,032	494,651	172,794	
2015	131,378	26,795	305,000	65,114	62,922	1,845	4,964	493,351	159,795	
2016	133,829	24,344	320,000	55,962	61,669	1,916	4,894	512,126	146,869	
2017	136,326	21,847	315,000	46,362	60,387	1,989	4,821	510,978	133,417	
2018	138,869	19,304	335,000	35,338	59,077	2,065	4,745	534,908	118,464	
2019	141,460	16,713	355,000	23,612	57,736	2,143	4,666	558,918	102,727	
2020	144,100	14,073	345,000	12,074	56,365	2,225	4,584	553,011	87,096	
2021	146,788	11,385	-	-	54,962	2,310	4,499	212,186	70,846	
2022	149,527	8,646	-	-	53,528	2,398	4,411	216,447	66,585	
2023	152,317	5,856	-	-	52,061	2,490	4,320	220,796	62,237	
2024	155,159	3,014	-	-	50,561	2,585	4,225	225,233	57,800	
2025	78,662	425	-	-	49,027	2,683	4,126	150,369	53,578	
2026	-	-	-	-	47,458	2,786	4,024	73,379	51,482	
2027	-	-	-	-	45,853	2,892	3,918	75,090	49,771	
2028	-	-	-	-	44,212	3,002	3,807	76,841	48,019	
2029	-	-	-	-	42,533	3,117	3,693	78,635	46,226	
2030	-	-	-	-	40,816	3,236	3,574	80,470	44,390	
2031	-	-	-	-	39,060	3,359	3,450	82,349	42,510	
2032	-	-	-	-	37,265	3,487	3,322	84,273	40,587	
2033	-	-	-	-	35,428	3,620	3,189	86,242	38,617	
2034	-	-	-	-	33,550	3,758	3,051	88,259	36,601	
2035	-	-	-	-	31,629	3,902	2,908	90,324	34,537	
2036	-	-	-	-	29,664	4,051	2,759	92,437	32,423	
2037	-	-	-	-	27,655	4,205	2,604	94,601	30,259	
2038	-	-	-	-	25,600	4,365	2,444	96,816	28,044	
2039	-	-	-	-	23,498	4,532	2,277	99,084	25,775	
2040	-	-	-	-	21,349	4,705	2,104	101,407	23,453	
2041	-	-	-	-	19,150	4,884	1,925	103,784	21,075	
2042	-	-	-	-	16,902	5,071	1,739	106,220	18,641	
2043	-	-	-	-	14,602	5,264	1,545	108,712	16,147	
2044	-	-	-	-	12,251	5,465	1,344	111,265	13,595	
2045	-	-	-	-	9,846	5,674	1,136	113,879	10,982	
2046	-	-	-	-	7,386	5,890	919	116,555	8,305	
2047	-	-	-	-	4,870	6,115	695	119,296	5,565	
2048	-	-	-	-	2,297	6,348	461	122,102	2,758	
2049	-	-	-	-	184	6,590	219	125,000	403	
2050	-	-	-	-	-	2,250	18	127,250	18	
	<b>\$ 1,888,285</b>	<b>\$ 247,051</b>	<b>\$ 2,845,000</b>	<b>\$ 487,200</b>	<b>\$ 1,469,923</b>	<b>\$ 137,812</b>	<b>\$ 123,692</b>	<b>\$ 7,781,984</b>	<b>\$ 2,327,866</b>	

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

June 30, 2011

Residential

Customer Charge	\$18.00 per month
Energy Charge	6.412 cents per KWH per month
Total Monthly Fuel Cost	2.534 cents per KWH
Minimum Bill	\$18.95

General Services

	<u>LESS THAN 50 KW</u>
Customer Charge	\$30.00 per month
Energy Charge	7.412 cents per KWH
Total Monthly Fuel Cost	2.495 cents per KWH
	<u>51 KW TO 1,000 KW</u>
Customer Charge	\$150.00 per month
Demand Charge	First 50 KW of billing demand per month, no demand charge, excess over 50 KW at \$14.37 per KW
Energy Charge	First 15,000 KWH at 7.749 cents per KWH. Additional KWH at \$3.632 cents per KWH
Total Monthly Fuel Cost	First 15,000 KWH at 2.495 cents per KWH. Additional KWH at \$2.451 cents per KWH
	<u>1,001 KW to 5,000 KW</u>
Customer Charge	\$280.00 per month
Demand Charge	First 1,000 KW of metered demand at \$15.03 per KW, excess over 1,000 KW of billing demand per month at \$16.92
Energy Charge	3.432 cents per KWH
Total Monthly Fuel Cost	2.451 cents per KWH

General Services Manufacturing Rates

	<u>5,001 KW TO 15,000 KW</u>
Customer Charge	\$1,850 per delivery point
Demand Charge	\$18.22 per KW of metered demand, plus an additional \$18.22 per KW per month for each KW of the amount by which the the customer's billing demand exceeds contract demand.
Energy Charge	1.733 cents per KWH.
Total Monthly Fuel Cost	2.437 cents per KWH

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

June 30, 2011

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Residential

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.13

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

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.18

General Commercial and Industrial

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.062

Housing Authority

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.045

Interruptible Service

Per ccf consumed per month	\$ 0.586
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*Note: ccf represents 100 cubic feet.*

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

June 30, 2011

Cable TV Service

Budget basic	\$ 21.36
Basic plus	49.94
Basic digital	63.90
Digital service with DVR only	68.90
Digital service with HD only	68.90
Complete digital package	71.21

Digital Premium Channels

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

Additional Cable Equipment Available

Digital receiver	5.00
DVR	8.00
HD & DVR with multi channel recording	9.00
Analog converter	1.50
Inside wire maintenance	2.00

Internet Services

3 Meg	\$ 39.45
5 Meg	58.55
10 Meg	71.28
Cable modem (may be purchased for \$50.00)	5.00

VOIP Phone Services

Unlimited service	\$ 44.95
Basic service	42.95
With internet and cable	
Unlimited service	29.95
Basic service	27.92
With internet or cable	
Unlimited service	34.95
Basic service	32.95

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

June 30, 2011

	<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>Frito Lay</u>	<u>With Contracts</u> <u>Without Contracts</u>
<u>Water Rates</u>						
First 100 cubic feet	\$ 8.00	\$ 10.40	\$ 8.80	\$ 11.44	\$ 8.80	\$ 8.30
All over 100 cubic feet*	3.40	4.42				\$ 8.60
Next 900 cubic feet*			3.74	4.87	3.74	3.47
All over 1,000 cubic feet*			2.75	3.58		2.60
Next 119,000 cubic feet*						
All over 120,000 cubic feet*					3.00	3.77
					2.00	2.90
<u>Wastewater Rates</u>						
First 100 cubic feet	10.00	11.50	11.40		11.40	
All over 100 cubic feet*	4.25	4.89	4.85		4.85	

*\*Per 100 cubic feet*

Number of water and wastewater customers at June 30,

	<u>2011</u>	<u>2010</u>
Water	\$ 4,440	\$ 4,425
Sewer	3,406	3,400

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

June 30, 2011

Residential

Per household	\$ 10
Per apartment	10

Commercial and Industrial

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

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

**FAYETTEVILLE PUBLIC UTILITIES  
SCHEDULE OF UNACCOUNTED FOR WATER  
CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

*(All amounts in gallons)*

A	Water Treated and Purchased		
B	Water pumped (potable)	727,432,000	
C	Water purchased	-	
D	Total Water Treated and Purchased (Sum lines B and C)	-	727,432,000
E	Accounted for Water		
F	Water sold	552,409,555	
G	Metered for consumption (in house usage)	44,976,124	
H	Fire department usage	4,523,090	
I	Flushing	11,795,509	
J	Tank cleaning / filling	69,379	
K	Street cleaning	35,100	
L	Bulk sales	-	
M	Water bill adjustments	4,080	
N	Total Accounted for Water (Sum lines F thru M)	4,080	613,812,837
O	Unaccounted for Water (Line D minus line N)		113,619,163
P	Percent Unaccounted for Water (Line O divided by line D times 100)		15.619%

Q Other (explain) See below

Explain other:

I - Flushing is made up of all hydrant flushing and leaks

All amounts included in this schedule are supported by documentation on file at the water system.

**SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE**

**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

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<u>Year</u>	<u>Balance</u> <u>June 30,2010</u>	<u>Taxes</u> <u>Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Total</u>
2011	\$ -	\$ 1,931,385	\$ -	\$ -	\$ 1,931,385
2010	1,938,679		(5,280)	(1,869,034)	64,365
2009	58,579		(1,139)	(46,106)	11,334
2008	8,248	-	(254)	(7,114)	880
2007	1,179	-		(297)	882
2006	801	-		(296)	505
2005	867	-		(296)	571
2004	446	-		(296)	150
2003	296	-		(296)	-
2002	277	-		(277)	-
2001	277	-		(277)	-
	<u>\$ 2,009,649</u>	<u>\$ 1,931,385</u>	<u>\$ (6,673)</u>	<u>\$ (1,924,289)</u>	<u>\$ 2,010,072</u>
Less allowance for uncollectible taxes					(14,611)
Balance, end of year, net of allowance					<u>\$ 1,995,461</u>

All uncollectible taxes for years prior to 2010 have been turned over to the Clerk and Master for collection.

**DIRECTORY OF OFFICIALS**  
**CITY OF FAYETTEVILLE, TENNESSEE**

**June 30, 2011**

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Mayor - John Ed Underwood

Board of Alderman

Dorothy Small - Vice Mayor

Danny Bryant

Pat Fraley

Marty Pepper

Thomas Young, Sr.

Michael Stewart

City Administrator - James Lee

City Judge - J. Rhea Thompson, III

City Finance Director - Tonya Steelman

Director of Schools - Janine Wilson

Fayetteville Public Utilities:

CEO/ General Manager - Britt Dye

Treasurer - Phillip McCown

**UNCOLLECTED DELINQUENT TAXES FILED IN ACCORDANCE WITH APPLICABLE LAWS  
CITY OF FAYETTEVILLE, TENNESSEE**

**Year ended June 30, 2011**

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During the year ended June 30, 2011, the City turned over \$17,039 of 2009 property taxes receivable to the clerk and master in accordance with applicable laws.

**PROPERTY TAX RATES AND ASSESSMENTS - LAST TEN YEARS**

**CITY OF FAYETTEVILLE, TENNESSEE**

Year ended June 30, 2011

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<u>Tax Year</u>	<u>Total Assessed Value</u>	<u>City Property Tax Rate</u>	<u>Levy</u>
2002	\$ 107,535,351	\$ 1.49	\$ 1,675,401
2003	107,594,128	1.49	1,719,689
2004	108,300,991	1.54	1,717,192
2005	110,631,457	1.54	1,755,083
2006	111,555,083	1.54	1,763,969
2007	140,089,953	1.54	1,897,372
2008	143,742,680	1.3195	1,942,293
2009	143,752,986	1.3195	1,941,199
2010	143,917,096	1.3195	1,933,399
2011	143,073,864	1.3195	1,931,385

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

Year ended June 30, 2011

Federal Grantor / Pass - Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>FEDERAL AWARDS</u>						
US Department of Agriculture	10.293	68-4741-0-906	\$ (33,798)	\$ 33,798	\$ -	\$ -
US Department of Economic and Community Dev. (1)	81.128	GG-1122210	-	84,546	100,000	(15,454)
US Department of Justice	16.607	n/a	-	2,028	2,028	-
			<u>\$ (33,798)</u>	<u>\$ 120,372</u>	<u>\$ 102,028</u>	<u>\$ (15,454)</u>
<u>STATE FINANCIAL ASSISTANCE</u>						
TN Department of Economic and Community Development	n/a	L112	\$ 18,012	-	\$ 18,012	-
			<u>\$ 18,012</u>	<u>-</u>	<u>\$ 18,012</u>	<u>-</u>
			<u>\$ (15,786)</u>	<u>\$ 120,372</u>	<u>\$ 120,040</u>	<u>\$ (15,454)</u>

**Basis of Presentation:**

**Note 1:** This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of City of Fayetteville under programs of the federal and state governments for the year ended June 30, 2011. The schedule is presented using the modified accrual basis of accounting.

**Loans Outstanding:**

**Note 2:** At June 30, 2011, there was an outstanding balance of \$123,891 on an energy efficiency loan program loan obtained in a previous year. The loan was 100% funded by the State of Tennessee. Payments on principal during the current fiscal year totaled \$24,778.

(1) - Federal funds passed through the State of Tennessee, Department of Economic and Community Development.

**INTERNAL CONTROL AND COMPLIANCE SECTION**

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

Board of Mayor and Aldermen  
City of Fayetteville  
Fayetteville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fayetteville, Tennessee, (the "City") as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements and have issued our report thereon, dated April 30, 2012. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Fayetteville Public Utilities and Fayetteville City Schools, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as finding 2011-11 to be a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed 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 the City in a separate letter dated April 30, 2012.

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

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

*Winnett Associates, LLC*

April 30, 2012

**SCHEDULE OF FINDINGS**  
**CITY OF FAYETTEVILLE, TENNESSEE**

June 30, 2011

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Finding 2011-1: There is a lack of adequate segregation of duties due to the Finance Director being responsible for most of the payroll procedures, including adding and deleting employees, entering salary rates, making payroll tax deposits, preparing W-2's, preparing state and federal withholding forms, posting time, and reconciling the payroll bank account.

Recommendation: We acknowledge that the limited number of personnel precludes ideal segregation of duties for the functions listed above. However, we recommend that, whenever possible, responsibilities be reassigned to provide for adequate segregation of duties. We suggest a separate employee be responsible for setting up employees including the entering of pay rates. This control is most effective when the employee performing the other procedures, in this case the Finance Director, is denied access to setting up employees.

Management Response: Management recognizes a segregation of duties issue exists within the payroll function. We feel this is the result of our limited number of personnel. However, when possible, we attempt to mitigate control deficiencies. For payroll a separate person prepares payroll change forms, the City Administrator and Mayor review all pay stubs before the stubs are distributed, and there is a separate review of the bank statement and reconciliation where payroll activity is reflected. After discussing this issue with the auditors, we agree one cost effective measure to take will be to include a detail of the payroll direct deposits with the bank statement/ reconciliation for review and approval by the City Administrator. We will continue to seek other ways to address this issue.