

FINANCIAL REPORT
OF
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fayetteville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fayetteville Public Utilities, which represent 99% of the assets, net assets, and revenues of the business-type activities. We also did not audit the Fayetteville School System, which includes the school general fund, a major fund. The Fayetteville School System represents 5%, 4%, and 88%, respectively, of the assets, fund balances, and revenues of the aggregate remaining fund information and 37%, 43%, and 52%, respectively, of the assets, net assets, and revenues of the governmental activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for City of Fayetteville, Tennessee, is based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the 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, 2010, 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 19, 2011, 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.

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, 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 and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and schedules and the schedule of expenditures of federal awards and state financial assistance 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 other auditors, the information is fairly stated in all material respects in relation to the financial statements as a whole. The other financial schedules and statistical section have not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we do not express an opinion or express any assurance on it.

Winnett Associates, LLC

April 19, 2011

CITY OF FAYETTEVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2010

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, 2010. We encourage readers to consider the information that we have furnished in the basic financial statements and the accompanying notes to those financial statements.

USING THIS ANNUAL REPORT

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

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

Governmental Activities

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

Business-Type Activities

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

REPORT ON THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

THE CITY AS A WHOLE

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 18,369,550	\$ 19,267,354	\$ 41,158,881	\$ 37,619,887	\$ 59,528,431	\$ 56,887,241
Capital assets	19,343,014	18,474,227	72,187,733	65,974,717	91,530,747	84,448,944
Total assets	<u>\$ 37,712,564</u>	<u>\$ 37,741,581</u>	<u>\$ 113,346,614</u>	<u>\$ 103,594,604</u>	<u>\$ 151,059,178</u>	<u>\$ 141,336,185</u>
Long-term debt outstanding	3,120,148	3,329,424	38,926,366	34,152,982	42,046,514	37,482,406
Other liabilities	3,245,915	3,297,121	7,327,998	7,906,118	10,573,913	11,203,239
Total liabilities	<u>\$ 6,366,063</u>	<u>\$ 6,626,545</u>	<u>\$ 46,254,364</u>	<u>\$ 42,059,100</u>	<u>\$ 52,620,427</u>	<u>\$ 48,685,645</u>
Net Assets						
Invested in capital assets	19,098,344	17,521,558	37,205,631	34,843,452	56,303,975	52,365,010
Restricted	6,098,080	6,801,362	2,643,250	5,886,640	8,741,330	12,688,002
Unrestricted	6,150,077	6,792,116	27,243,369	20,805,412	33,393,446	27,597,528
Total net assets	<u>\$ 31,346,501</u>	<u>\$ 31,115,036</u>	<u>\$ 67,092,250</u>	<u>\$ 61,535,504</u>	<u>\$ 98,438,751</u>	<u>\$ 92,650,540</u>

Net assets of the City's governmental activities increased .74 percent in the fiscal year 2010. Net assets of the City's business-type activities increased 7.0 percent in the fiscal year 2010.

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	
	2010	2009	2010	2009	2010	2009
Revenues						
Program Revenues:						
Charges for services	\$ 806,609	\$ 871,738	\$ 57,881,869	\$ 61,042,785	\$ 58,688,478	\$ 61,914,523
Operating grants and contributions	6,440,433	6,264,910	-	-	6,440,433	6,264,910
Capital grants and contributions	813,477	1,476,245	599,554	675,789	1,413,031	2,152,034
General revenues:						
Property taxes	2,863,167	2,840,644	-	-	2,863,167	2,840,644
Other taxes	3,984,737	4,030,424	-	-	3,984,737	4,030,424
Other general revenues	354,223	484,809	476,164	802,042	830,387	1,286,851
Total revenues	<u>\$ 15,262,646</u>	<u>\$ 15,968,770</u>	<u>\$ 58,957,587</u>	<u>\$ 62,520,616</u>	<u>\$ 74,220,233</u>	<u>\$ 78,489,386</u>
Program Expenses:						
General government	\$ 784,844	\$ 870,070	\$ -	\$ -	\$ 784,844	\$ 870,070
Public safety	3,716,868	3,563,177	-	-	3,716,868	3,563,177
Judicial	55,085	53,065	-	-	55,085	53,065
Recreation	621,661	574,620	-	-	621,661	574,620
Highways and streets	1,825,615	1,280,647	-	-	1,825,615	1,280,647
Sanitation	2,361	15,228	439,233	452,789	441,594	468,017
Housing and community development	695,969	974,007	-	-	695,969	974,007
Education	8,525,368	8,517,784	-	-	8,525,368	8,517,784
Interest on long-term debt	68,983	22,013	-	-	68,983	22,013
Electric, telecom, water and gas	-	-	53,060,329	57,271,810	53,060,329	57,271,810
Total expenses	<u>\$ 16,296,754</u>	<u>\$ 15,870,611</u>	<u>\$ 53,499,562</u>	<u>\$ 57,724,599</u>	<u>\$ 69,796,316</u>	<u>\$ 73,595,210</u>
Excess (deficiency) before transfers	<u>\$ (1,034,108)</u>	<u>\$ 98,159</u>	<u>\$ 5,458,025</u>	<u>\$ 4,796,017</u>	<u>\$ 4,423,917</u>	<u>\$ 4,894,176</u>
Transfers	1,028,475	1,044,040	(1,028,475)	(1,044,040)	-	-
Increase in net assets	<u>\$ (5,633)</u>	<u>\$ 1,142,199</u>	<u>\$ 4,429,550</u>	<u>\$ 3,751,977</u>	<u>\$ 4,423,917</u>	<u>\$ 4,894,176</u>

The City's total revenues decreased 5.44 percent from the fiscal year ended June 30, 2009 to the fiscal year ended June 30, 2010, while total expenses increased 5.16 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, 2010 and 2009. 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	
	2010	2009	2010	2009
General government	\$ 784,844	\$ 870,070	\$ 713,647	\$ 824,844
Public safety	3,716,868	3,563,177	3,295,664	3,370,450
Judicial	55,085	53,065	(55,897)	(98,813)
Recreation	621,661	574,620	572,609	490,445
Highways and street	1,825,615	1,280,647	906,081	77,042
Sanitation	2,361	15,228	2,361	21,541
Housing and community development	695,969	974,007	415,706	334,717
Education	8,525,368	8,517,784	2,317,081	2,452,577
Interest on long-term debt	68,983	22,013	68,983	22,013
Total Net Expenditures	<u>\$ 16,296,754</u>	<u>\$ 15,870,611</u>	<u>\$ 8,236,235</u>	<u>\$ 7,494,816</u>

The information below details general revenues of the City's governmental activities for the fiscal years ended June 30, 2010 and 2009. These revenues are required to cover the net expenditures listed above.

Revenues by Source

	2010	2009
Property taxes	\$ 2,863,167	\$ 2,840,644
In lieu of taxes	300,025	364,838
Sales taxes	2,302,167	2,297,985
Alcoholic beverage taxes	455,460	461,021
Other local taxes	280,987	288,845
Other state taxes	646,098	617,735
Other	89,855	90,922
Unrestricted investment earnings	248,579	393,887
Gain / (Loss) on sale of assets	15,789	-
Transfers	1,028,475	1,044,040
Total General Revenues	<u>\$ 8,230,602</u>	<u>\$ 8,399,917</u>

Proprietary Funds

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

	Gas	Electric	Water	Telecom	Sanitation	Total
Fiscal Year Ended June 30, 2010						
Total Assets	\$ 19,650,780	\$ 70,370,681	\$ 20,758,845	\$ 4,590,541	\$ 665,148	\$ 116,035,995
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%	6.62%	-8.94%	3.82%
Return on Ending Net Assets	8.30%	6.43%	2.33%	n/a	-9.75%	6.60%
Fiscal Year Ended June 30, 2009						
Total Assets	\$ 18,898,221	\$ 66,626,234	\$ 16,613,484	\$ 4,917,237	\$ 776,798	\$ 107,831,974
Net Assets	13,179,783	39,429,160	11,856,539	(2,472,667)	669,885	62,662,700
Change in Net Assets	584,810	2,947,358	390,302	120,417	(99,973)	3,942,914
Return on Ending Total Assets	3.09%	4.42%	2.35%	2.45%	-12.87%	3.66%
Return on Ending Net Assets	4.44%	7.48%	3.29%	n/a	-14.92%	6.29%

CAPITAL ASSETS

As of June 30, 2010, the City has \$91 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 \$6,050,141, or 7.07 percent, over last year.

The following is a summary of capital assets for fiscal years ended June 30, 2010 and 2009, for governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Land	\$ 2,601,271	\$ 2,524,821	\$ 1,075,058	\$ 1,074,992	\$ 3,676,329	\$ 3,599,813
Buildings	12,848,131	12,402,422	3,628,787	3,593,991	16,476,918	15,996,413
Improvements other than buildings	1,257,804	1,248,607	-	-	1,257,804	1,248,607
Machinery and equipment	7,505,604	7,144,896	112,830,345	105,454,559	120,335,949	112,599,455
Infrastructure	3,064,167	2,241,990	583,380	565,397	3,647,547	2,807,387
Total plane and equipment in service	\$ 27,276,977	\$ 25,562,736	\$ 118,117,570	\$ 110,688,939	\$ 145,394,547	\$ 136,251,675
Construction work in progress	1,970,817	2,114,523	3,851,289	4,932,487	5,822,106	7,047,010
	\$ 29,247,794	\$ 27,677,259	\$ 121,968,859	\$ 115,621,426	\$ 151,216,653	\$ 143,298,685
Less accumulated depreciation	(9,904,781)	(9,203,032)	(49,781,126)	(48,615,048)	(59,685,907)	(57,818,080)
	<u>\$ 19,343,013</u>	<u>\$ 18,474,227</u>	<u>\$ 72,187,733</u>	<u>\$ 67,006,378</u>	<u>\$ 91,530,746</u>	<u>\$ 85,480,605</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental and business-type activities, decreased in fiscal year 2010 by \$535,000.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2010	2009	2010	2009	2010	2009
Bonds						
General Obligation	\$ 1,885,000	\$ 1,915,000	\$ 7,680,000	\$ 8,185,000	\$ 9,565,000	\$ 10,100,000
Revenue	-	-	25,730,000	24,155,000	25,730,000	24,155,000
Less deferred amounts	(27,948)	(29,811)	(186,654)	(92,268)	(214,602)	(122,079)
Total Bonds	<u>\$ 1,857,052</u>	<u>\$ 1,885,189</u>	<u>\$ 33,223,346</u>	<u>\$ 32,247,732</u>	<u>\$ 35,080,398</u>	<u>\$ 34,132,921</u>
Loans						
Tennessee municipal bond fund	\$ 96,000	\$ 187,000	\$ -	\$ -	\$ 96,000	\$ 187,000
Tennessee energy efficiency	148,670	173,448	-	-	148,670	173,448
Tennessee utility relocation loan	-	-	2,010,299	-	2,010,299	-
Bond anticipation note	-	-	2,582,863	807,292	2,582,863	807,292
RUS economic development loan	-	-	176,250	221,250	176,250	221,250
Total Loans	<u>\$ 244,670</u>	<u>\$ 360,448</u>	<u>\$ 4,769,412</u>	<u>\$ 1,028,542</u>	<u>\$ 5,014,082</u>	<u>\$ 1,388,990</u>
Totals	<u>\$ 2,101,722</u>	<u>\$ 2,245,637</u>	<u>\$ 37,992,758</u>	<u>\$ 33,276,274</u>	<u>\$ 40,094,480</u>	<u>\$ 35,521,911</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

During the last year, budget amendments approved by the Board of Mayor and Alderman totaled \$768,417. These amendments include two major items: \$429,000 for the resurfacing of roads and \$88,000 for building a new storage facility for sanitation vehicles. Phase I renovation of the Municipal Building was completed during fiscal year 2010 which consisted of replacing the windows with more energy efficient windows. 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 2010, 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 2011 general fund budget was negatively impacted by the projected decrease in business tax receipts. Personnel benefits, retirement and health insurance costs continue to escalate. The City has now taken an active role in trying to decrease health insurance cost by changing the employees to a high deductible plan with a health savings account to supplement the deductible and a health reimbursement plan. The City is hopeful this change will help control the increasing cost of health insurance. The City will spend a substantial amount on building an access road off highway 231/ 431. This access road will service a new hotel development in the City and a fast food restaurant. The City will continue the energy efficiency renovation to the Municipal Building with phase II of the project which will include changing exterior doors and interior lighting. The energy efficiency renovation was established through a zero percent interest rate loan through the State of Tennessee.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need any additional financial information, contact the City Finance office at 110 South Elk Avenue, Fayetteville, Tennessee, 37334, phone number 931-433-6154, or e-mail tsteelman@fpunet.com.

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 13,989,434	\$ 20,455,552	\$ 34,444,986
Receivables	3,260,970	5,817,365	9,078,335
Internal balances	34,029	(34,029)	-
Inventory	53,597	1,405,013	1,458,610
Prepaid expenses	90,945	193,997	284,942
Restricted assets	940,575	4,708,545	5,649,120
Special funds	-	6,482,836	6,482,836
Other assets	-	2,129,602	2,129,602
Capital assets (net of accumulated depreciation)			
Land	2,601,271	1,075,058	3,676,329
Buildings	8,043,020	2,190,246	10,233,266
Improvements other than buildings	895,430	-	895,430
Machinery and equipment	3,933,569	64,984,187	68,917,756
Infrastructure	1,898,906	86,953	1,985,859
Construction in progress	1,970,818	3,851,289	5,822,107
TOTAL ASSETS	<u>\$ 37,712,564</u>	<u>\$ 113,346,614</u>	<u>\$ 151,059,178</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 477,938	\$ 5,901,901	\$ 6,379,839
Accrued interest payable	-	168,286	168,286
Deferred revenues	2,002,308	-	2,002,308
Deposits	-	1,257,811	1,257,811
Liabilities payable from restricted assets			
Accounts payable	765,669	-	765,669
Noncurrent liabilities:			
Due in one year	544,909	1,922,541	2,467,450
Due in more than one year	2,575,239	37,003,825	39,579,064
TOTAL LIABILITIES	<u>\$ 6,366,063</u>	<u>\$ 46,254,364</u>	<u>\$ 52,620,427</u>
NET ASSETS			
Invested in capital assets, net of related debt	\$ 19,098,344	\$ 37,205,631	\$ 56,303,975
Restricted for:			
Debt service	-	2,632,299	2,632,299
Improvements and construction	174,906	10,951	185,857
Drug education and enforcement	108,233	-	108,233
Community development	452,767	-	452,767
Education	5,362,174	-	5,362,174
Unrestricted	6,150,077	27,243,369	33,393,446
TOTAL NET ASSETS	<u>\$ 31,346,501</u>	<u>\$ 67,092,250</u>	<u>\$ 98,438,751</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, 2010

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		Total
					Governmental Activities	Business-type Activities	
<u>Governmental activities:</u>							
General government	\$ 784,844	\$ 71,197	\$ -	\$ -	\$ (713,647)	\$ -	\$ (713,647)
Public safety	3,716,868	-	379,287	41,917	(3,295,664)	-	(3,295,664)
Judicial	55,085	110,982	-	-	55,897	-	55,897
Recreation	621,661	49,052	-	-	(572,609)	-	(572,609)
Highways and streets	1,825,615	-	185,937	733,597	(906,081)	-	(906,081)
Sanitation	2,361	-	-	-	(2,361)	-	(2,361)
Housing and community development	695,969	261,072	19,191	-	(415,706)	-	(415,706)
Education	8,525,368	314,306	5,856,018	37,963	(2,317,081)	-	(2,317,081)
Interest on long-term debt	68,983	-	-	-	(68,983)	-	(68,983)
Total governmental activities	\$ 16,296,754	\$ 806,609	\$ 6,440,433	\$ 813,477	\$ (8,236,235)	\$ -	\$ (8,236,235)
<u>Business-type activities:</u>							
Electric	\$ 38,527,650	\$ 41,104,576	\$ -	\$ 348,527	\$ -	\$ 2,925,453	\$ 2,925,453
Gas	8,007,227	9,340,406	-	-	-	1,333,179	1,333,179
Telecom	2,875,128	3,150,267	-	-	-	275,139	275,139
Water and sewer	3,650,324	3,812,041	-	251,027	-	412,744	412,744
Sanitation	439,233	474,579	-	-	-	35,346	35,346
Total business-type activities	\$ 53,499,562	\$ 57,881,869	\$ -	\$ 599,554	\$ -	\$ 4,981,861	\$ 4,981,861
Total Government	\$ 69,796,316	\$ 58,688,478	\$ 6,440,433	\$ 1,413,031	\$ (8,236,235)	\$ 4,981,861	\$ (3,254,374)
<u>General revenues:</u>							
Property taxes					\$ 2,863,167	\$ -	\$ 2,863,167
Business taxes					188,623	-	188,623
In lieu of tax					300,025	-	300,025
Sales taxes					2,302,167	-	2,302,167
Alcoholic beverage taxes					455,460	-	455,460
Franchise taxes					91,871	-	91,871
Other local taxes					493	-	493
State shared revenues					646,098	-	646,098
Other					89,855	104,211	194,066
Unrestricted investment earnings					248,579	371,953	620,532
Gain on sale of assets					15,789	-	15,789
Transfers					1,028,475	(1,028,475)	-
Total general revenues and transfers					\$ 8,230,602	\$ (552,311)	\$ 7,678,291
Change in net assets					(5,633)		4,423,917
Net assets - beginning, restated					31,352,134		94,014,834
Net assets - ending					\$ 31,346,501	\$ 67,092,250	\$ 98,438,751

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

BALANCE SHEET
GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

	General	School General	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>				
Cash	\$ 4,277,561	\$ 5,102,896	\$ 3,623,034	\$ 13,003,491
Investments - restricted	940,575	-	985,943	1,926,518
Receivables	2,091,317	150,638	33,961	2,275,916
Due from other funds	213,132	4,788	-	217,920
Due from other governments	700,907	284,147	-	985,054
Inventory	31,331	-	22,267	53,598
Prepaid expenses	90,945	-	-	90,945
TOTAL ASSETS	<u>\$ 8,345,768</u>	<u>\$ 5,542,469</u>	<u>\$ 4,665,205</u>	<u>\$ 18,553,442</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities:				
Accounts payable	\$ 83,889	\$ 84,459	\$ 13,956	\$ 182,304
Other accrued expenses	61,808	200,701	27,763	290,272
Deferred revenue	2,439,220	76,631	67,506	2,583,357
Due to other funds	-	-	183,892	183,892
Payable from restricted assets	765,669	-	-	765,669
TOTAL LIABILITIES	<u>\$ 3,350,586</u>	<u>\$ 361,791</u>	<u>\$ 293,117</u>	<u>\$ 4,005,494</u>
Fund balances:				
Reserved for				
Inventory and prepayments	\$ 122,276	\$ -	\$ 22,267	\$ 144,543
Career ladder	-	1,185	-	1,185
Public safety	-	-	108,233	108,233
Unreserved				
Designated for debt service	-	-	375,575	375,575
Designated for capital projects	-	-	3,259,411	3,259,411
Designated for health benefits	105,963	-	-	105,963
Unreserved, reported in:				
General fund	4,766,943	-	-	4,766,943
School general	-	5,179,493	-	5,179,493
Special revenue funds	-	-	153,835	153,835
Capital projects funds	-	-	452,767	452,767
TOTAL FUND BALANCES	<u>\$ 4,995,182</u>	<u>\$ 5,180,678</u>	<u>\$ 4,372,088</u>	<u>\$ 14,547,948</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 8,345,768</u>	<u>\$ 5,542,469</u>	<u>\$ 4,665,205</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.

19,343,014

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

581,049

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

(3,125,510)

Net assets of governmental activities

\$ 31,346,501

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, 2010

	General	School General	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Property	\$ 1,973,499	\$ -	\$ -	\$ 1,973,499
Business	188,623	-	-	188,623
Wholesale beer	296,327	-	-	296,327
Alcoholic beverage	131,476	-	-	131,476
Sales	1,657,536	-	-	1,657,536
Tax equivalency	300,025	-	-	300,025
Licenses and permits	36,748	-	-	36,748
Fines	88,883	-	22,099	110,982
Franchise fees	91,695	-	-	91,695
Intergovernmental	1,210,772	6,290,334	1,259,915	8,761,021
Charges for services and use of property	295,521	146,747	192,915	635,183
Investment earnings	85,747	79,859	82,973	248,579
Recreation activities	49,052	-	-	49,052
Other revenue	60,782	23,273	247	84,302
TOTAL REVENUES	\$ 6,466,686	\$ 6,540,213	\$ 1,558,149	\$ 14,565,048
EXPENDITURES				
Current				
General government	\$ 741,566	\$ -	\$ 4,585	\$ 746,151
Public safety	3,412,469	-	7,258	3,419,727
Judicial	53,978	-	-	53,978
Recreation	555,007	-	-	555,007
Highways and streets	1,602,094	-	-	1,602,094
Sanitation	-	-	11,108	11,108
Housing and community development	692,472	-	-	692,472
Education	-	7,173,446	1,293,785	8,467,231
Debt service				
Principal	-	91,000	54,778	145,778
Interest	-	2,661	63,740	66,401
Capital outlay	-	327,428	728,058	1,055,486
TOTAL EXPENDITURES	\$ 7,057,586	\$ 7,594,535	\$ 2,163,312	\$ 16,815,433
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	\$ (590,900)	\$ (1,054,322)	\$ (605,163)	\$ (2,250,385)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,028,475	\$ 716,505	\$ 328,518	\$ 2,073,498
Transfers out	(1,045,023)	-	-	(1,045,023)
Insurance recovery	-	372,474	-	372,474
Proceeds from disposition of capital assets	14,193	6,501	670	21,364
TOTAL OTHER FINANCING SOURCES (USES)	\$ (2,355)	\$ 1,095,480	\$ 329,188	\$ 1,422,313
NET CHANGE IN FUND BALANCES	(593,255)	41,158	(275,975)	(828,072)
Fund balance - beginning	5,588,438	5,139,520	4,648,063	15,376,021
Fund balance - ending	<u>\$ 4,995,183</u>	<u>\$ 5,180,678</u>	<u>\$ 4,372,088</u>	<u>\$ 14,547,949</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, 2010

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

Net change in fund balances - total governmental funds	\$ (828,072)
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.	174,562
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to increase net assets.	694,225
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(17,991)
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.	145,778
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.	(174,135)
Change in net assets of governmental activities	<u><u>\$ (5,633)</u></u>

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

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2010

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
<u>ASSETS</u>			
Current Assets			
Cash for general use	\$ 20,151,870	\$ 303,682	\$ 20,455,552
Accounts receivable	5,484,281	37,042	5,521,323
Other receivables	296,042	-	296,042
Inventories	1,405,013	-	1,405,013
Prepaid expenses	193,997	-	193,997
Total current assets	<u>\$ 27,531,203</u>	<u>\$ 340,724</u>	<u>\$ 27,871,927</u>
Special and Restricted Funds	11,191,381	-	11,191,381
Capital Assets, net of accumulated depreciation	71,863,309	324,424	72,187,733
Other Assets	2,129,602	-	2,129,602
TOTAL ASSETS	<u>\$ 112,715,495</u>	<u>\$ 665,148</u>	<u>\$ 113,380,643</u>
<u>LIABILITIES</u>			
Current Liabilities			
Current maturities of long-term debt payable from current assets	\$ 1,417,789	\$ -	\$ 1,417,789
Accounts payable	4,891,790	11,298	4,903,088
Due to other funds	-	34,029	34,029
Customer deposits	1,257,811	-	1,257,811
Accrued interest	168,286	-	168,286
Other accrued liabilities	785,026	2,305	787,331
Total current liabilities	<u>\$ 8,520,702</u>	<u>\$ 47,632</u>	<u>\$ 8,568,334</u>
Other Liabilities			
Advances from TVA	\$ 526,374	\$ -	\$ 526,374
Long-term debt payable from special funds	189,860	-	189,860
OPEB liabilities, net	158,636	-	158,636
Compensated absences	452,964	7,116	460,080
Total other liabilities	<u>\$ 1,327,834</u>	<u>\$ 7,116</u>	<u>\$ 1,334,950</u>
Long-term debt	36,385,109	-	36,385,109
TOTAL LIABILITIES	<u>\$ 46,233,645</u>	<u>\$ 54,748</u>	<u>\$ 46,288,393</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	\$ 36,881,207	\$ 324,424	\$ 37,205,631
Restricted for debt service	2,632,299	-	2,632,299
Restricted for improvements and construction	10,951	-	10,951
Unrestricted	26,957,393	285,976	27,243,369
TOTAL NET ASSETS	<u>\$ 66,481,850</u>	<u>\$ 610,400</u>	<u>\$ 67,092,250</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, 2010

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Funds	Totals
<u>OPERATING REVENUES</u>			
Charges for services	\$ 55,921,678	\$ 474,579	\$ 56,396,257
Other	1,485,612	-	1,485,612
TOTAL OPERATING REVENUE	\$ 57,407,290	\$ 474,579	\$ 57,881,869
<u>OPERATING EXPENSES</u>			
Cost of utility services	\$ 38,685,515	\$ -	\$ 38,685,515
Pumping, distribution and collection	5,307,153	418,791	5,725,944
Customer billing and collecting	1,349,946	-	1,349,946
General and administrative	2,096,874	-	2,096,874
Taxes and tax equivalents	321,901	-	321,901
Provision for depreciation	3,825,226	20,442	3,845,668
Other	323,802	-	323,802
TOTAL OPERATING EXPENSES	\$ 51,910,417	\$ 439,233	\$ 52,349,650
INCOME FROM OPERATIONS	\$ 5,496,873	\$ 35,346	\$ 5,532,219
<u>OTHER INCOME AND EXPENSE</u>			
Interest income	\$ 356,784	\$ 15,169	\$ 371,953
Interest expense	(1,047,581)	-	(1,047,581)
Amortization	(102,331)	-	(102,331)
Miscellaneous	104,211	-	104,211
Other Income (Expense) -net	\$ (688,917)	\$ 15,169	\$ (673,748)
Income before contributions and transfers	\$ 4,807,956	\$ 50,515	\$ 4,858,471
Capital contributions in aid of construction	599,554	-	599,554
Transfers out	(918,475)	(110,000)	(1,028,475)
CHANGE IN NET ASSETS	\$ 4,489,035	\$ (59,485)	\$ 4,429,550
TOTAL NET ASSETS, BEGINNING OF YEAR, RESTATED	61,992,815	669,885	62,662,700
NET ASSETS, END OF YEAR	\$ 66,481,850	\$ 610,400	\$ 67,092,250

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, 2010

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (including other funds)	\$ 57,200,883	\$ 475,354	\$ 57,676,237
Payments to suppliers and others	(43,671,597)	(321,965)	(43,993,562)
Payments to employees	(4,126,851)	(148,990)	(4,275,841)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,402,435	\$ 4,399	\$ 9,406,834
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital borrowings repaid	\$ (45,000)	\$ -	\$ (45,000)
Collections on loans to other organizations	45,000	-	45,000
Transfers (to) from other funds	(918,475)	(110,000)	(1,028,475)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	\$ (918,475)	\$ (110,000)	\$ (1,028,475)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to capital assets, net	\$ (9,342,831)	\$ -	\$ (9,342,831)
Removal costs of capital assets	(387,818)	-	(387,818)
Capital contributions received	599,554	-	599,554
Proceeds from disposal of assets	12,975	-	12,975
Long-term borrowings, net	9,101,101	-	9,101,101
Borrowings repaid	(4,465,166)	-	(4,465,166)
Issue costs paid	(11,059)	-	(11,059)
Redemption costs paid	(29,900)	-	(29,900)
Interest paid, net	(1,031,634)	-	(1,031,634)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (5,554,778)	\$ -	\$ (5,554,778)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	\$ 357,713	\$ 15,169	\$ 372,882
Other nonoperating income, net	165,779	-	165,779
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 523,492	\$ 15,169	\$ 538,661
INCREASE (DECREASE) IN CASH, NET	3,452,674	(90,432)	3,362,242
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	27,890,577	394,114	28,284,691
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 31,343,251	\$ 303,682	\$ 31,646,933
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 5,496,873	\$ 35,346	\$ 5,532,219
Adjustments to reconcile income from operations to net cash provided by operating activities -			
Depreciation, including amounts capitalized	4,105,784	20,443	4,126,227
Loss on disallowance of plant	348,527	-	348,527
Conservation loans advanced - customers	(300,236)	-	(300,236)
Conservation loans collected - customers	100,340	-	100,340
Conservation advances from TVA	324,306	-	324,306
Conservation advances repaid to TVA	(132,017)	-	(132,017)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(326,527)	775	(325,752)
Inventories	490,519	-	490,519
Prepaid expenses and other assets	16,072	-	16,072
Accounts payable	(797,996)	(10,133)	(808,129)
Customer deposits	120,121	-	120,121
Due to other funds	-	(43,912)	(43,912)
Other current liabilities and compensated absences	(43,331)	1,880	(41,451)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,402,435	\$ 4,399	\$ 9,406,834
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:			
Electric Series 2003 revenue bonds refunded	\$ (7,050,000)		
Electric Series 2009 bond proceeds used to refund Series 2003 bonds	7,475,000		
Issue costs paid from Electric Series 2009 refunding bonds	(304,112)		

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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes				
Property	\$ 1,960,500	\$ 1,960,500	\$ 1,973,499	\$ 12,999
Business	210,000	210,000	188,623	(21,377)
Wholesale beer	260,000	260,000	296,327	36,327
Alcoholic beverage	130,000	130,000	131,476	1,476
Sales	1,703,893	1,703,893	1,657,536	(46,357)
Tax equivalency	313,152	313,152	300,025	(13,127)
Licenses and permits	31,700	31,700	36,748	5,048
Fines	110,000	110,000	88,883	(21,117)
Franchise fees	44,000	44,000	91,695	47,695
Intergovernmental				
State sales tax allocation	500,000	500,000	449,362	(50,638)
State income tax allocation	75,000	75,000	17,432	(57,568)
State beer tax allocation	3,700	3,700	3,493	(207)
State mixed drink tax allocation	23,500	23,500	24,705	1,205
State gasoline and motor fuel tax allocation	200,000	200,000	186,066	(13,934)
State city streets and transportation system	15,200	15,200	16,396	1,196
State excise tax allocation	50,000	50,000	45,192	(4,808)
State TVA in-lieu of tax	69,000	69,000	77,584	8,584
Lincoln County Emergency Communications	415,540	415,540	365,021	(50,519)
State and federal grants	13,300	13,300	-	(13,300)
Housing authority	20,100	20,100	25,521	5,421
Charges for services and use of property	335,552	335,552	295,521	(40,031)
Investment earnings	62,681	62,681	85,747	23,066
Recreation activities	48,500	48,500	49,052	552
Other revenue	54,550	54,550	60,782	6,232
TOTAL REVENUES	\$ 6,649,868	\$ 6,649,868	\$ 6,466,686	\$ (183,182)
Expenditures:				
General government				
Salaries	\$ 422,660	\$ 422,660	\$ 378,637	\$ 44,023
Supplies	12,085	12,085	7,770	4,315
Utilities	42,400	42,400	37,887	4,513
Repairs and maintenance	6,350	6,350	5,804	546
Health insurance	94,749	94,749	56,981	37,768
Workers compensation	4,779	4,779	3,577	1,202
Payroll taxes	35,208	35,208	30,807	4,401
Employee education	13,700	13,700	5,656	8,044
Professional services	34,560	34,560	58,054	(23,494)
Travel	23,175	23,175	6,333	16,842
Retirement	35,033	35,033	30,225	4,808
Other insurance	18,205	18,205	14,998	3,207
Other general government	96,412	118,301	104,837	13,464
	\$ 839,316	\$ 861,205	\$ 741,566	\$ 119,639

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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Public safety				
Salaries	\$ 2,249,587	\$ 2,263,123	\$ 2,263,123	\$ -
Supplies	35,950	25,856	25,856	-
Utilities	91,275	87,279	87,279	-
Repairs and maintenance	29,100	111,986	111,986	-
Health insurance	313,724	341,861	341,861	-
Workers compensation	61,680	73,641	73,641	-
Payroll taxes	177,459	169,734	169,734	-
Employee education	24,760	8,310	8,310	-
Travel	6,100	1,536	1,536	-
Retirement	180,605	185,227	185,227	-
Other insurance	66,211	61,085	61,085	-
Fuel	86,400	62,383	62,383	-
Professional services	2,870	2,506	2,506	-
Other public safety	50,042	17,942	17,942	-
	<u>\$ 3,375,763</u>	<u>\$ 3,412,469</u>	<u>\$ 3,412,469</u>	<u>\$ -</u>
Judicial				
Salaries	\$ 29,705	\$ 29,705	\$ 28,881	\$ 824
Health insurance	18,041	18,041	19,195	(1,154)
Payroll taxes	2,316	2,316	1,570	746
Retirement	2,448	2,448	2,369	79
Other judicial	3,030	3,030	1,963	1,067
	<u>\$ 55,540</u>	<u>\$ 55,540</u>	<u>\$ 53,978</u>	<u>\$ 1,562</u>
Recreation				
Salaries	\$ 265,255	\$ 260,140	\$ 260,140	\$ -
Supplies	35,992	39,168	39,168	-
Utilities	53,195	65,094	65,094	-
Repairs and maintenance	19,800	27,079	27,079	-
Health insurance	32,944	39,435	39,435	-
Workers compensation	6,164	5,663	5,663	-
Payroll taxes	21,113	20,262	20,262	-
Professional services	25,775	23,368	23,368	-
Travel	2,100	-	-	-
Retirement	19,565	19,194	19,194	-
Other insurance	9,118	9,176	9,176	-
Fuel	12,240	9,714	9,714	-
Other recreation	41,230	36,714	36,714	-
	<u>\$ 544,491</u>	<u>\$ 555,007</u>	<u>\$ 555,007</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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Highways and streets				
Salaries	\$ 516,706	\$ 500,507	\$ 500,507	\$ -
Supplies	12,750	10,804	10,804	-
Utilities	26,800	23,585	23,585	-
Repairs and maintenance	235,781	104,618	104,618	-
Health insurance	89,889	120,838	120,838	-
Workers compensation	20,442	19,554	19,554	-
Payroll taxes	39,928	36,260	36,260	-
Professional services	960	9,296	9,296	-
Retirement	42,525	39,739	39,739	-
Other insurance	9,298	8,143	8,143	-
Fuel	60,700	43,453	43,453	-
Street lighting	150,000	132,949	132,949	-
Roads and streets	90,000	487,603	487,603	-
Other highways and streets	25,054	64,745	64,745	-
	<u>\$ 1,320,833</u>	<u>\$ 1,602,094</u>	<u>\$ 1,602,094</u>	<u>\$ -</u>
Housing and community development				
Nonprofit allocations	\$ 211,077	\$ 264,684	\$ 264,684	\$ -
Fuel	295,000	255,228	255,228	-
Industrial development	90,000	90,000	90,000	-
Other housing and community development	14,335	82,560	82,560	-
	<u>\$ 610,412</u>	<u>\$ 692,472</u>	<u>\$ 692,472</u>	<u>\$ -</u>
Capital outlay	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
TOTAL EXPENDITURES	<u>\$ 6,746,355</u>	<u>\$ 7,178,787</u>	<u>\$ 7,057,586</u>	<u>\$ 121,201</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>\$ (96,487)</u>	<u>\$ (528,919)</u>	<u>\$ (590,900)</u>	<u>\$ (61,981)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,063,956	\$ 1,063,956	\$ 1,028,475	\$ (35,481)
Transfers out	(986,505)	(1,045,023)	(1,045,023)	-
Sale of capital assets	10,000	10,000	14,193	4,193
TOTAL OTHER FINANCING SOURCES (USES)	<u>\$ 87,451</u>	<u>\$ 28,933</u>	<u>\$ (2,355)</u>	<u>\$ (31,288)</u>
NET CHANGE IN FUND BALANCES	<u>(9,036)</u>	<u>(499,986)</u>	<u>(593,255)</u>	<u>(93,269)</u>
Fund balance - beginning, restated	6,264,636	6,264,636	6,264,636	-
Fund balance - ending	<u>\$ 6,255,600</u>	<u>\$ 5,764,650</u>	<u>\$ 5,671,381</u>	<u>\$ (93,269)</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, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Intergovernmental				
Lincoln County	\$ 1,461,000	\$ 1,461,000	\$ 1,574,527	\$ 113,527
State of Tennessee	4,675,406	4,375,633	4,401,512	25,879
Federal	28,000	321,365	314,295	(7,070)
Charges for services and use of property	189,000	189,000	146,747	(42,253)
Investment earnings	85,000	85,000	79,859	(5,141)
Other revenue	14,000	14,000	23,273	9,273
TOTAL REVENUES	\$ 6,452,406	\$ 6,445,998	\$ 6,540,213	\$ 94,215
EXPENDITURES				
Instruction				
Regular instruction program	\$ 3,743,265	\$ 3,835,532	\$ 3,746,706	\$ 88,826
Special education program	298,955	184,245	184,245	-
Student body education program	10,000	10,000	-	10,000
Support services				
Attendance	58,188	58,188	56,148	2,040
Health services	76,607	166,395	159,802	6,593
Other student support	180,540	180,540	173,655	6,885
Regular instruction program	380,508	380,508	361,630	18,878
Special education program	41,580	573	573	0
Board of education	161,493	161,493	143,165	18,328
Office of the superintendent	170,885	194,706	182,749	11,957
Office of the principal	548,470	548,470	523,285	25,185
Fiscal services	103,738	103,738	93,993	9,745
Operation of plant	596,886	596,886	477,535	119,351
Maintenance of plant	135,765	496,206	481,558	14,648
Transportation	134,704	216,644	181,390	35,254
Central and other	89,788	89,788	-	89,788
Community services	171,900	171,900	113,032	58,868
Early childhood education	303,580	335,613	293,980	41,633
Debt service				
Principal	91,000	91,000	91,000	-
Interest	15,000	15,000	2,661	12,339
Capital outlay	250,000	350,000	327,428	22,572
TOTAL EXPENDITURES	\$ 7,562,852	\$ 8,187,425	\$ 7,594,535	\$ 592,890
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	\$ (1,110,446)	\$ (1,741,427)	\$ (1,054,322)	\$ 687,105
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 716,505	\$ 716,505	\$ 716,505	\$ -
Insurance recovery	-	370,281	372,474	2,193
Sale of capital assets	1,000	7,000	6,501	(499)
Total Other Financing Sources (Uses)	\$ 717,505	\$ 1,093,786	\$ 1,095,480	\$ 1,694
Net changes in fund balances	(392,941)	(647,641)	41,158	688,799
Fund balance - beginning	5,139,520	5,139,520	5,139,520	-
Fund balance - ending	\$ 4,746,579	\$ 4,491,879	\$ 5,180,678	\$ 688,799

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

NOTES TO FINANCIAL STATEMENTS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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, 2010

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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, 2010

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 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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, Liabilities 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, 2010, is \$940,575. 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, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, Liabilities 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. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Included in general fund designated fund balance are amounts set aside to pay postemployment health benefits totaling \$105,963. Also, at June 30, 2010, \$3,259,411 was set aside in capital projects funds to fund capital projects as well as \$375,575 for debt service.

11. Estimates

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

12. Capitalized Interest

Interest cost incurred, net of interest earned, on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. Net interest expense of \$281,255 was capitalized during the fiscal year ending June 30, 2010.

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

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

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds and loans payable are not due and payable in the current period and therefore are not reported in the funds." The details of this \$3,125,510 difference are identified as follows:

Bonds and notes payable	\$ 2,129,670
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(45,100)
Add: Issuance premium (to be amortized as interest income)	17,152
Accrued interest payable	5,362
Compensated absences	493,578
Net OPEB obligation	266,456
Landfill post closure costs	<u>258,392</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 3,125,510</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 \$174,562 difference are as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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

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

Capital outlay	\$ 969,447
Depreciation expense	<u>(794,885)</u>

Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 174,562</u>
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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 \$(174,135) difference are as follows:

Compensated absences	\$ (75,809)
Net OPEB obligation	(105,002)
Accrued interest	(2,582)
Amortization of bond issuance costs	(3,007)
Amortization of bond premium	1,144
Landfill post closure costs	<u>11,121</u>

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ (174,135)</u>
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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 \$694,225 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.	\$ (5,575)
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Donations of capital assets increase net assets in the statement of activities, but do not appear in the governmental funds because they are not financial resources.	<u>699,800</u>
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Net adjustment to increase net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	 <u>\$ 694,225</u>
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NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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

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

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 \$145,778 difference are as follows:

Principal repayments:	
General obligation debt	\$ 121,000
Energy efficiency loan	<u>24,778</u>
Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 145,778</u>

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 4 - DETAILED NOTES ON ALL FUNDS

(A) Deposits and investments

The following is a summary of cash and investments as of June 30, 2010:

General use:

On deposit and on hand	\$ 33,695,000	
FHLB discount note	749,986	\$ 34,444,986

Restricted and other special funds:

On deposit - restricted	4,708,545	
On deposit - special funds	6,482,836	
Local Government Investment Pool - restricted	940,575	<u>12,131,956</u>
Total		<u>\$ 46,576,942</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, 2010, the following restricted funds were maintained:

Sinking and reserve fund	\$ 2,632,299
Improvements and construction fund	<u>2,076,246</u>
	<u>\$ 4,708,545</u>

Special funds totaling \$6,482,836 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 \$940,575 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. The FHLB discount note was AAA rated by Moody's at June 30, 2010.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

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, 2010, 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, 2010, the City's cash consists of deposits in financial institutions with bank balances of \$45,424,601 and carrying amounts of \$44,882,577 plus cash on hand of \$3,804. Of the amounts on deposit, \$35,643,383 are fully insured by the FDIC or the Tennessee Bank Collateral Pool. The remaining \$9,239,194 is collateralized by securities pledged by financial institutions in the name of the City.

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

(B) Receivables

Revenues of the Fayetteville Public Utilities are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$100,930.

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	\$ 1,985,595	\$ -	\$ 1,985,595
Other taxes receivable	301,226	-	301,226
Operating grants received but unspent	-	19,081	19,081
Capital grants received but unspent	-	16,198	16,198
Other	229,030	32,227	261,257
	<u>\$ 2,515,851</u>	<u>\$ 67,506</u>	<u>\$ 2,583,357</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(B) Receivables (Continued)

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	\$ 2,552	\$ -	\$ 8,687	\$ -	\$ 139	\$ 11,378
Taxes	2,076,089	-	5,787,317	37,042	-	7,900,448
Accounts	30,406	150,638	-	-	24	181,068
Intergovernmental	<u>700,907</u>	<u>284,147</u>	<u>-</u>	<u>-</u>	<u>33,798</u>	<u>1,018,852</u>
Gross receivables	\$2,809,954	\$ 434,785	\$ 5,796,004	\$ 37,042	\$ 33,961	\$ 9,111,746
Less: Allowance for Uncollectibles	<u>(17,730)</u>	<u>-</u>	<u>(15,681)</u>	<u>-</u>	<u>-</u>	<u>(33,411)</u>
Net total receivables	<u>\$2,792,224</u>	<u>\$ 434,785</u>	<u>\$ 5,780,323</u>	<u>\$ 37,042</u>	<u>\$ 33,961</u>	<u>\$ 9,078,335</u>

(C) Capital assets

Capital asset activity for the year ended June 30, 2010, for governmental activities follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 2,524,821	\$ 76,450	\$ -	\$ 2,601,271
Construction in progress	<u>2,114,523</u>	<u>147,103</u>	<u>(290,808)</u>	<u>1,970,818</u>
Total capital assets, not being depreciated	\$ 4,639,344	\$ 223,553	\$ (290,808)	\$ 4,572,089
Capital assets, being depreciated:				
Buildings	\$ 12,402,422	\$ 445,709	\$ -	\$ 12,848,131
Improvements other than buildings	1,248,607	9,197	-	1,257,804
Machinery and equipment	7,144,896	459,419	(98,711)	7,505,604
Infrastructure	<u>2,241,990</u>	<u>822,177</u>	<u>-</u>	<u>3,064,167</u>
Total capital assets being depreciated	\$ 23,037,915	\$ 1,736,502	\$ (98,711)	\$ 24,675,706
Less accumulated depreciation for:				
Buildings	\$ (4,543,728)	\$ (261,383)	\$ -	\$ (4,805,111)
Improvements other than buildings	(312,162)	(50,212)	-	(362,374)
Machinery and equipment	(3,225,214)	(413,594)	66,773	(3,572,035)
Infrastructure	<u>(1,121,928)</u>	<u>(69,697)</u>	<u>26,364</u>	<u>(1,165,261)</u>
Total accumulated depreciation	\$ (9,203,032)	\$ (794,886)	\$ 93,137	\$ (9,904,781)
Total capital assets, being depreciated, net	<u>\$ 13,834,883</u>	<u>\$ 941,616</u>	<u>\$ (5,574)</u>	<u>\$ 14,770,925</u>
Governmental activities capital assets, net	<u>\$ 18,474,227</u>	<u>\$ 1,165,169</u>	<u>\$ (296,382)</u>	<u>\$ 19,343,014</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets (Continued)

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

Governmental Activities	
General government	\$ 34,384
Public safety	158,933
Recreation	56,362
Highways and streets	176,145
Housing and community development	3,497
Education	<u>365,565</u>
Total depreciation expense – governmental activities	<u>\$ 794,886</u>

Capital asset activity for the year ended June 30, 2010, for business-type activities is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,074,992	\$ 66	\$ -	\$ 1,075,058
Construction in progress	<u>4,932,487</u>	<u>11,463,609</u>	<u>(12,544,807)</u>	<u>3,851,289</u>
Total capital assets, not being depreciated	<u>\$ 6,007,479</u>	<u>\$ 11,463,675</u>	<u>\$ (12,544,807)</u>	<u>\$ 4,926,347</u>
Capital assets, being depreciated				
Structures and improvements	\$ 3,593,991	\$ 34,796	\$ -	\$ 3,628,787
Machinery and equipment	105,454,559	10,267,671	(2,891,885)	112,830,345
Infrastructure	<u>565,397</u>	<u>43,963</u>	<u>(25,980)</u>	<u>583,380</u>
Total capital assets being depreciated	<u>\$ 109,613,947</u>	<u>\$ 10,346,430</u>	<u>\$ (2,917,865)</u>	<u>\$ 117,042,512</u>
Less accumulated depreciation for:				
Structures and improvements	\$ (1,343,773)	\$ (94,768)	\$ -	\$ (1,438,541)
Machinery and equipment	(46,769,183)	(4,006,944)	2,929,969	(47,846,158)
Infrastructure	<u>(502,092)</u>	<u>(24,512)</u>	<u>30,177</u>	<u>(496,427)</u>
Total accumulated depreciation	<u>\$ (48,615,048)</u>	<u>\$ (4,126,224)</u>	<u>\$ 2,960,146</u>	<u>\$ (49,781,126)</u>
Total capital assets, being depreciated, net	<u>\$ 60,998,899</u>	<u>\$ 6,220,206</u>	<u>\$ 42,281</u>	<u>\$ 67,261,386</u>
Business-type activities capital assets, net	<u>\$ 67,006,378</u>	<u>\$ 17,683,881</u>	<u>\$ (12,502,526)</u>	<u>\$ 72,187,733</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets (Continued)

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

Business-type Activities	
Public utilities	\$ 4,105,782
Sanitation fund	<u>20,442</u>
Total depreciation expense – business-type activities	<u>\$ 4,126,224</u>

The amount of \$280,558 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 \$1,000,243.

(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, 2010, is as follows:

	<u>Due from</u>		
	<u>Other</u>	<u>Sanitation</u>	<u>Total</u>
	<u>Governmental</u>	<u>Fund</u>	
	<u>Funds</u>		
Due to:			
General fund	\$ 179,104	\$ 34,029	\$ 213,133
School general fund	<u>4,788</u>	<u>-</u>	<u>4,788</u>
	<u>\$ 183,892</u>	<u>\$ 34,029</u>	<u>\$ 217,921</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, 2010:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

(D) Interfund receivables, payables, and transfers (Continued)

	Transfers In			<u>Total</u>
	<u>General Fund</u>	<u>School General Fund</u>	<u>Other Governmental Funds</u>	
Transfers Out:				
General fund	\$ -	\$ 716,505	\$ 328,518	\$ 1,045,023
Subtotal – governmental funds	\$ -	\$ 716,505	\$ 328,518	\$ 1,045,023
 Fayetteville Public Utilities	\$ 918,475	\$ -	\$ -	\$ 918,475
Sanitation fund	110,000	-	-	110,000
Subtotal – proprietary funds	\$ 1,028,475	\$ -	\$ -	\$ 1,028,475
	<u>\$ 1,028,475</u>	<u>\$ 716,505</u>	<u>\$ 328,518</u>	<u>\$ 2,073,498</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.

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%.

\$ 9,565,000

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 6 – LONG-TERM DEBT (Continued)

(A) General Obligation Bonds (Continued)

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

Year ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 105,000	\$ 65,418	\$ 530,000	\$ 256,380
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
2016-2020	585,000	207,519	3,190,000	648,468
2021-2025	<u>755,000</u>	<u>91,082</u>	<u>1,630,000</u>	<u>197,996</u>
Total	<u>\$ 1,885,000</u>	<u>\$ 593,744</u>	<u>\$ 7,680,000</u>	<u>\$ 1,962,018</u>

(B) Revenue Bonds

The City also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of these outstanding revenue bonds issued in prior years was \$33,060,000. Revenue bonds outstanding at June 30, 2010, 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 ranging of 100%.

\$ 11,890,000

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

9,950,000

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%.

\$ 3,890,000

Total revenue bonds

\$ 25,730,000

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 6 – LONG-TERM DEBT (Continued)

(B) Revenue Bonds (Continued)

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>
2011	\$ 885,000	\$ 1,064,369
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
2016-2020	7,865,000	3,519,275
2021-2025	6,815,000	1,933,011
2026-2028	5,025,000	432,699
Total	<u>\$ 25,730,000</u>	<u>\$ 10,777,050</u>

(C) Loans

The City has the following loans outstanding at June 30, 2010:

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. \$ 148,670

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. 176,250

Fayetteville City School System

Tennessee Municipal Bond Fund Variable Rate Pooled Loan Program, Series 1995 due in annual principal installments of \$96,000 through fiscal year 2011 at variable interest rates (currently .56%). 96,000

Fayetteville Public Utilities (Water Division)

State of Tennessee Utility Relocation Loan, 2005, with 15 year term, interest at 1.85%. 2,010,299

Loan with local financial institution in the amount of \$4,865,000 maturing October 28, 2011 and bearing interest at 3.99%. Balance represents amount of advances through June 30, 2010. 30,562

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 6 – LONG-TERM DEBT (Continued)

(C) Loans (Continued)

Loan with local financial institution in the amount of \$3,350,000 maturing October 22, 2010, and bearing interest at 3.89%. Balance represents amount of advances through June 30, 2010. These bonds are authorized under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of \$3,500,000 bonds through the United States Department of Agriculture under the Consolidated Farm and Rural Development Act. The bonds are expected to bear interest at 2.75% and be payable monthly over thirty-eight years. Accordingly, the loan is included in long-term debt based on the terms of the anticipated bond issue.

2,552,301

Total Loans

\$ 5,014,082

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>
2011	\$ 120,778	\$ 502	\$ 192,649	\$ 83,934
2012	24,778	-	239,196	103,484
2013	24,778	-	212,049	99,458
2014	24,778	-	211,787	95,970
2015	24,779	-	174,102	92,405
2016-2020	24,779	-	926,728	405,808
2021-2025	-	-	948,773	304,678
2026-2030	-	-	305,527	236,143
2031-2035	-	-	350,506	191,164
2036-2040	-	-	402,108	139,562
2041-2045	-	-	461,307	80,363
2046-2050	-	-	344,680	16,433
Total	<u>\$ 244,670</u>	<u>\$ 502</u>	<u>\$ 4,769,412</u>	<u>\$ 1,849,402</u>

(D) Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 6 – LONG-TERM DEBT (Continued)

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds – fixed rate	\$ 1,915,000	\$ -	\$ (30,000)	\$ 1,885,000	\$ 105,000
Less deferred amounts:					
Refunding costs	(48,107)	-	3,007	(45,100)	-
Unamortized bond premium	18,296	-	(1,144)	17,152	-
Total bonds payable	\$ 1,885,189	\$ -	\$ (28,137)	\$ 1,857,052	\$ 105,000
Loans:					
Tennessee Municipal Bond Fund					
Loan Program	187,000	-	(91,000)	96,000	96,000
Tennessee Energy Efficiency Loan	173,448	-	(24,778)	148,670	24,778
Landfill postclosure costs	269,513	-	(11,121)	258,392	11,000
Post-employment benefit obligation	159,407	207,770	(100,721)	266,456	-
Compensated absences	417,769	336,614	(260,805)	493,578	308,131
Governmental Activity Long-Term Liability	<u>\$ 3,092,326</u>	<u>\$ 544,384</u>	<u>\$ (516,562)</u>	<u>\$ 3,120,148</u>	<u>\$ 544,909</u>
Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 24,155,000	\$ 12,525,000	\$ (10,950,000)	\$ 25,730,000	\$ 885,000
General obligation	8,185,000	-	(505,000)	7,680,000	530,000
Less deferred amounts:					
Unamortized bond discount	(55,861)	-	5,117	(50,744)	-
Unamortized bond premium	115,772	51,228	(9,024)	157,976	-
Refunding costs	(152,179)	(147,255)	5,548	(293,886)	-
Total bonds payable	\$ 32,247,732	\$ 12,428,973	\$ (11,453,359)	\$ 33,223,346	\$ 1,415,000
Loans:					
Tennessee utility relocation loan	-	2,070,465	(60,166)	2,010,299	122,014
RUS economic development loan	221,250	-	(45,000)	176,250	45,000
Bond anticipation note	807,292	1,775,571	-	2,582,863	25,635
Post-employment benefit obligation	76,103	91,791	(9,258)	158,636	-
Compensated absences	800,605	311,429	(337,062)	774,972	314,892
Business-type Activity Long-Term Liabilities	<u>\$ 34,152,982</u>	<u>\$ 16,678,229</u>	<u>\$ (11,904,845)</u>	<u>\$ 38,926,366</u>	<u>\$ 1,922,541</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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, 2010.

On August 28, 2009, FPU issued \$7,475,000 in Revenue Bonds to currently refund \$7,050,000 of Series 2003 electric division revenue bonds. The refunding was undertaken to reduce exposure to variations in interest rates borne by the refunded bonds. Economic gain or loss on the refunding isn't determinable due to the uncertainty of the future debt service requirements of the old debt. The reacquisition price exceeded the net carrying amount of the old debt by \$168,239. This amount is being netted against the new debt and amortized over the refunding debt's life which is the same as the refunded debt. Simultaneously with the issuance of the bonds, FPU defeased to the first optional call date of October 1, 2009, its outstanding Series 1998 and Series 2001 bonds totaling \$2,990,000 using internal System funds.

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, 2010, there were two series of IDRB outstanding. The aggregate principal amount payable was \$13,260,000. 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>
Assets				
Current assets	\$ 22,253,279	\$ 4,369,037	\$ 229,476	\$ 679,411
Special funds	5,523,640	2,242,631	699,059	2,726,051
Capital assets	38,251,792	12,845,777	3,569,145	17,196,595
Other assets	1,686,618	193,335	92,861	156,788
Due from other divisions	<u>2,655,352</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 70,370,681</u>	<u>\$ 19,650,780</u>	<u>\$ 4,590,541</u>	<u>\$ 20,758,845</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 7 – SEGMENT INFORMATION (Continued)

Condensed Balance Sheet (Continued)

Liabilities	Electric	Gas	Telecom	Water
Current liabilities	\$ 5,921,013	\$ 905,469	\$ 449,125	\$ 1,245,095
Other liabilities	1,111,622	60,281	105,539	50,392
Long term debt	21,200,040	4,312,369	3,549,256	7,323,444
Due to other divisions	-	-	2,655,352	-
	<u>\$ 28,232,675</u>	<u>\$ 5,278,119</u>	<u>\$ 6,759,272</u>	<u>\$ 8,618,931</u>
Net Assets (Deficit)				
Invested in capital assets, net of related debt	\$ 19,144,063	\$ 8,384,246	\$ (193,437)	\$ 9,546,335
Restricted	1,946,754	-	685,545	10,951
Unrestricted	21,047,189	5,988,415	(2,660,839)	2,582,628
	<u>\$ 42,138,006</u>	<u>\$ 14,372,661</u>	<u>\$ (2,168,731)</u>	<u>\$ 12,139,914</u>
	<u>\$ 70,370,681</u>	<u>\$ 19,650,780</u>	<u>\$ 4,590,541</u>	<u>\$ 20,758,845</u>

Condensed Statement of Revenues

Expenses, and Changes in Net Assets

Operating revenues	\$ 41,104,576	\$ 9,340,406	\$ 3,150,267	\$ 3,812,041
Depreciation expense	1,927,628	510,965	546,369	840,264
Other operating expenses	<u>36,099,151</u>	<u>7,325,525</u>	<u>1,979,376</u>	<u>2,681,139</u>
Operating income	\$ 3,077,797	\$ 1,503,916	\$ 624,522	\$ 290,638
Nonoperating revenue (expenses):				
Investment income	285,295	36,566	12,031	22,892
Interest expense	(422,540)	(163,531)	(336,402)	(125,108)
Other	69,254	9,557	3,785	(80,716)
Contributions/Transfers – net	<u>(300,960)</u>	<u>(193,630)</u>	<u>-</u>	<u>175,669</u>
Change in net assets	\$ 2,708,846	\$ 1,192,878	\$ 303,936	\$ 283,375
Beginning net assets (deficit)	<u>39,429,160</u>	<u>13,179,783</u>	<u>(2,472,667)</u>	<u>11,856,539</u>
Ending net assets (deficit)	<u>\$ 42,138,006</u>	<u>\$ 14,372,661</u>	<u>\$ (2,168,731)</u>	<u>\$ 12,139,914</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:

Operating activities	\$ 4,566,005	\$ 2,237,315	\$ 1,197,503	\$ 1,401,612
Noncapital financing activities	(272,606)	(193,630)	(376,881)	(75,358)
Capital and related financing activities	(2,604,608)	(902,348)	(840,700)	(1,207,122)
Investing activities	<u>432,590</u>	<u>41,248</u>	<u>28,999</u>	<u>20,655</u>
Net increase (decrease)	\$ 2,121,381	\$ 1,182,585	\$ 8,921	\$ 139,787
Beginning cash and cash equivalents	<u>20,209,432</u>	<u>4,277,604</u>	<u>690,138</u>	<u>2,713,403</u>
Ending cash and cash equivalents	<u>\$ 22,330,813</u>	<u>\$ 5,460,189</u>	<u>\$ 699,059</u>	<u>\$ 2,853,190</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 8 – RISK MANAGEMENT

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

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

NOTE 9 – CONTINGENT LIABILITIES

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

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

- (a) Gross revenues from electric operations will be used for (1) current electric system operating expenses, (2) current debt service payments, including sinking fund payments, when due; (3) provision of reasonable reserves for renewals, replacements, and contingencies; and working capital adequate to cover operating expenses for a reasonable number of weeks, and ; (4) to pay tax equivalent payments into the City of Fayetteville, Tennessee's general funds, within certain guidelines established by TVA, from any revenues then remaining.
- (b) All revenues remaining over and above the requirements stipulated are considered surplus revenues. These revenues may be used for new electric system construction or for the retirement of 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 fund. Total remaining closure and postclosure care costs are estimated to be \$516,784 at June 30, 2010. These costs will be shared equally by the City of Fayetteville

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 9 – CONTINGENT LIABILITIES (Continued)

and Lincoln County, Tennessee. The City's share of this estimated liability (\$258,392) is included as a liability in the Statement of Net Assets. The City's current year share of required funding was \$11,108 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 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

FUNDING POLICY

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

The City of Fayetteville, Tennessee is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2010, was 8.23% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Fayetteville is established and may be amended by the TCRS Board of Trustees.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 10 – PENSION AND BENEFIT PLANS (Continued)

ANNUAL PENSION COST

For the year ending June 30, 2010, the City of Fayetteville's annual pension cost of \$370,641 to TCRS was equal to Fayetteville's required and actual contributions. The required contribution was determined as part of the July 1, 2007 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include, (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post-retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City of Fayetteville's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007 was 8 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

TREND INFORMATION

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost</u>	<u>Percentage</u> <u>Of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/10	\$370,641	100.00%	\$0.00
6/30/09	\$363,169	100.00%	\$0.00
6/30/08	\$364,741	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 \$15.26 million, and the actuarial value of assets was \$12.29 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.97 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.31 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 10 – PENSION AND BENEFIT PLANS (Continued)

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) – Entry Age (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
7/1/09	\$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 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 and 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 SETHPEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.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, 2010, was 6.42 percent

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 10 – PENSION AND BENEFIT PLANS (Continued)

FUNDING POLICY (Continued)

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, 2010, 2009, and 2008 were \$266,662, \$271,194, and \$244,347, 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 2010 was \$5,187,449 of which \$4,599,198 was paid to members participating in this plan.

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

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

FPU's contributions based on the payroll of eligible participants for the years ended June 30, 2010, 2009, and 2008 were \$866,626, \$682,529, and \$581,293, 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 \$54,299 and \$54,900 and \$182,619 and \$179,733 for the years ended June 30, 2010 and 2009, respectively.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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.

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 retiree's 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, 2010, FPU contributed \$9,258 and the City contributed \$41,782 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:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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

	<u>FPU</u>	<u>City</u>
Annual required contribution	\$ 91,759	\$ 130,138
Interest on net OPEB obligation	989	3,796
Adjustment to annual required contribution	<u>(957)</u>	<u>(3,079)</u>
Annual OPEB cost (expense)	\$ 91,791	\$ 130,855
Contributions made	<u>(9,258)</u>	<u>(41,782)</u>
Increase in net OPEB obligation	\$ 82,533	\$ 89,073
Net OPEB obligation, beginning of year	<u>76,103</u>	<u>106,146</u>
Net OPEB obligation, end of year	<u>\$ 158,636</u>	<u>\$ 195,219</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>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
<u>FPU</u>				
	June 30, 2009	\$ 88,684	14.2%	\$ 76,103
	June 30, 2010	91,791	10.1%	158,636
<u>City</u>				
	June 30, 2009	\$ 133,390	14.2%	\$ 106,146
	June 30, 2010	130,855	31.9%	195,219

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

The actuarial accrued unfunded liability (UAAL) for benefits at June 30, 2010, as well as actuarial methods and assumptions for both plans, was as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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

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

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

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

FAYETTEVILLE CITY SCHOOLS

PLAN DESCRIPTION

Fayetteville City Schools participates in the state-administered Teacher Group Insurance Plan 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. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr.html>.

FUNDING POLICY

The premium requirements of plan members are established and may be amended by the insurance committee. The 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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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

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 42% of premiums and the Fayetteville City Schools contributes on average 58% of premiums. For active plan members selecting single coverage, plan members contribute on average 14% of premiums and the Fayetteville City Schools contributes on average 86% of premiums. The Fayetteville City Schools makes no contributions for premiums for retired plan members.

<u>Annual OPEB cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>
Annual required contribution	\$ 76,788
Interest on net OPEB obligation	2,397
Adjustment to the annual required contribution	<u>(2,270)</u>
Annual OPEB cost (expense)	\$ 76,915
Contributions made	<u>(58,939)</u>
Increase in net OPEB obligation	\$ 17,976
Net OPEB obligation, beginning of year	<u>53,261</u>
Net OPEB obligation, end of year	<u>\$ 71,237</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	\$ 88,353	39.7%	\$ 53,261
Teacher Group	6/30/2010	\$ 76,915	76.6%	\$ 71,237

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2009, was as follows (dollars in thousands):

	<u>Teacher Group Plan</u>
Actuarial valuation date	7/1/2009
Actuarial accrued liability (AAL)	\$ 664
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	664
Actuarial value of assets as a % of the AAL	0.0%
Covered payroll (active plan members)	4,476
UAAL as a percentage of covered payroll	14.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2009 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 4 percent for fiscal year 2010. The trend rate will rise to 10% in fiscal year 2011 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. Both rates include a 3 percent inflation assumption. The unfunded actuarial accrued liability is being amortized as a level percentage of payroll on a closed basis over a 30 year period beginning with June 30, 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, 2010, related to these funds is shown below.

Intergovernmental revenue	
Gasoline and motor fuel tax	\$ 186,066
City street and transportation	16,396
Total	<u>\$ 202,462</u>

NOTE 13 – RELATED PARTIES

The director of schools serves on the board of directors for a financial institution with which the Fayetteville City Schools has engaged in business transactions. In addition, two board of education members are employed by financial institutions with which the Fayetteville City Schools transacts business.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 14 – 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>		
		Public	Industrial
	<u>Airport</u>	<u>Library</u>	<u>Development Board</u>
Total assets	\$ 4,434,656	\$ 3,583,690	\$ 3,995,790
Total liabilities	<u>115,795</u>	<u>6,425</u>	<u>1,231,310</u>
Net assets	<u>\$ 4,318,861</u>	<u>\$ 3,577,265</u>	<u>\$ 2,764,480</u>
Revenues	\$ 217,423	\$ 202,471	\$ 488,765
Expenditures	<u>250,507</u>	<u>278,434</u>	<u>234,074</u>
Increase (decrease) in net assets	<u>\$ (33,084)</u>	<u>\$ (75,963)</u>	<u>\$ 254,691</u>

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

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

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

Fayetteville Lincoln County Airport
37 Airport Road
Fayetteville, TN 37334

NOTE 15 – 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, 2010, are not reasonably estimable and are not included in these financial statements. During the year ended June 30, 2010, the City received \$45,192 from the State of Tennessee for this shared revenue.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

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:

<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	\$ 41,104,576	\$ 1,357,575	3.3%	\$ 31,100,730	2028
Gas	9,340,406	413,313	4.4%	5,940,506	2025
Telecom	3,150,267	543,100	17.2%	5,406,320	2020
Water & Sewer	3,812,041	474,318	12.4%	10,144,076	2049
	<u>\$ 57,407,290</u>	<u>\$ 2,788,306</u>	<u>4.9%</u>	<u>\$ 52,591,632</u>	

NOTE 17 – PRIOR PERIOD ADJUSTMENT

During the current year FPU became aware of a commercial gas customer whose meter had been misread resulting in under billing of this account for the past three years. Current year earnings of the Gas Division were increased by \$41,942 and earnings of the preceding year would have been \$54,973 more than reported. The impact to all prior years totaling \$95,536 has been reflected as an adjustment to beginning net assets. The total amount due from the customer is included in other receivables on the statement of net assets. In addition, FPU recorded the retirement and replacement of gas utility lines due to relocation associated with highway construction that was completed and funded through the Tennessee Department of Transportation (TDOT) in a prior year. Current year earnings of the Gas Division were reduced by \$11,213 for the net increase in depreciation expense. Earnings in the preceding year would have been \$11,213 less than reported. The impact to all prior years totaling \$809,284 has been reflected as an adjustment to beginning net assets.

Also in the current year, FPU recorded the estimated value less accumulated depreciation of water and sewer utility lines which had been installed by various contractors as part of residential developments in prior years. Current year earnings of the Water Division were reduced \$6,371 for depreciation and earnings of the preceding year would have been \$147,177 more than reported due to income from donated assets less the additional depreciation. The net effect on all prior years of \$222,376 resulting from original contributions of capital assets less accumulated depreciation is reflected as an adjustment to beginning net assets.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

NOTE 17 – PRIOR PERIOD ADJUSTMENT (Continued)

	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>	<u>Total</u>
Net assets June 30, 2009 as previously reported	\$ 39,429,160	\$ 12,274,963	\$(2,472,667)	\$ 11,634,163	\$60,865,619
Over billing resulting from mis-read meter	-	95,536	-	-	95,536
TDOT donated plant	-	837,315	-	-	837,315
Contractor donated plant	-	-	-	227,522	227,522
Less accum. depreciation through June 30, 2009	<u>-</u>	<u>(28,031)</u>	<u>-</u>	<u>(5,146)</u>	<u>(33,177)</u>
Net assets June 30, 2009, restated	<u>\$ 39,429,160</u>	<u>\$ 13,179,783</u>	<u>\$(2,472,667)</u>	<u>\$ 11,856,539</u>	<u>\$61,992,815</u>

NOTE 18 – INSURANCE RECOVERIES

The Fayetteville City Schools realized \$372,474 in insurance recoveries in the current year related to damages to buildings and vehicles resulting from hail and lighting storms. This amount is included in other financing sources in the statement of revenues, expenditures, and changes in fund balances of the governmental funds. It has been netted against maintenance of plant program expenses in the government-wide statement of activities.

REQUIRED SUPPLEMENTARY INFORMATION

POST-EMPLOYMENT BENEFITS

SCHEDULE OF FUNDING PROGRESS

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

(Dollar amounts in thousands)

Teacher Goup 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, 2009	\$ -	\$ 664	\$ 664	0.0%	\$ 4,476	14.83%
June 30, 2007	\$ -	\$ 788	\$ 788	0.0%	\$ 3,673	21.45%

Fayetteville Public Utilities retiree health care plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 883	\$ 883	0.0%	\$ 5,230	16.9%

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage Of Covered Payroll ((b-a)/c)
July 1, 2008	\$ -	\$ 1,444	\$ 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, 2010

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	35.64%

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the entry age actuarial cost method 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, 2010

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, 2010

Special Revenue Funds					
	School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Assets:					
Cash in bank	\$ 64,163	\$ 153,811	\$ 108,368	\$ 326,342	\$ 375,478
Investments	-	-	-	-	-
Accounts receivable	-	24	-	24	-
Interest receivable	-	-	-	-	97
Intergovernmental receivable	-	-	-	-	-
Inventory	-	22,267	-	22,267	-
TOTAL ASSETS	<u>\$ 64,163</u>	<u>\$ 176,102</u>	<u>\$ 108,368</u>	<u>\$ 348,633</u>	<u>\$ 375,575</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ 12,531	\$ -	\$ 135	\$ 12,666	\$ -
Due to other funds	4,788	-	-	4,788	-
Other accrued expenses	27,763	-	-	27,763	-
Deferred revenues	19,081	-	-	19,081	-
TOTAL LIABILITIES	<u>\$ 64,163</u>	<u>\$ -</u>	<u>\$ 135</u>	<u>\$ 64,298</u>	<u>\$ -</u>
Fund balances:					
Reserved for:					
Inventory and prepayments	\$ -	\$ 22,267	\$ -	\$ 22,267	\$ -
Public Safety	-	-	108,233	108,233	-
Unreserved, undesignated	-	153,835	-	153,835	-
Unreserved					
Designated for debt service	-	-	-	-	375,575
Designated for capital projects	-	-	-	-	-
TOTAL FUND BALANCES	<u>\$ -</u>	<u>\$ 176,102</u>	<u>\$ 108,233</u>	<u>\$ 284,335</u>	<u>\$ 375,575</u>
Total liabilities and fund balances	<u>\$ 64,163</u>	<u>\$ 176,102</u>	<u>\$ 108,368</u>	<u>\$ 348,633</u>	<u>\$ 375,575</u>

COMBINING BALANCE SHEET (Continued)

NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

	Capital Projects Funds					Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
Assets:						
Cash in bank	\$ 218,382	\$ 49,265	\$ 403,502	\$ 2,250,065	\$ 2,921,214	\$ 3,623,034
Investments	-	-	-	985,943	985,943	985,943
Accounts receivable	-	-	-	-	-	24
Interest receivable	42	-	-	-	42	139
Intergovernmental receivable	-	-	-	33,798	33,798	33,798
Inventory	-	-	-	-	-	22,267
TOTAL ASSETS	<u>\$ 218,424</u>	<u>\$ 49,265</u>	<u>\$ 403,502</u>	<u>\$ 3,269,806</u>	<u>\$ 3,940,997</u>	<u>\$ 4,665,205</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 1,290	\$ 1,290	\$ 13,956
Due to other funds	-	-	-	179,104	179,104	183,892
Other accrued expenses	-	-	-	-	-	27,763
Deferred revenues	-	-	-	48,425	48,425	67,506
TOTAL LIABILITIES	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 228,819</u>	<u>\$ 228,819</u>	<u>\$ 293,117</u>
Fund balances:						
Reserved for:						
Inventory and prepayments	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,267
Public safety	-	-	-	-	-	108,233
Unreserved, undesignated	-	49,265	403,502	-	452,767	606,602
Unreserved						
Designated for debt service	-	-	-	-	-	375,575
Designated for capital projects	218,424	-	-	3,040,987	3,259,411	3,259,411
TOTAL FUND BALANCES	<u>\$ 218,424</u>	<u>\$ 49,265</u>	<u>\$ 403,502</u>	<u>\$ 3,040,987</u>	<u>\$ 3,712,178</u>	<u>\$ 4,372,088</u>
Total liabilities and fund balances	<u>\$ 218,424</u>	<u>\$ 49,265</u>	<u>\$ 403,502</u>	<u>\$ 3,269,806</u>	<u>\$ 3,940,997</u>	<u>\$ 4,665,205</u>

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

For the year ended June 30, 2010

Special Revenue Funds					
	School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Revenues:					
Intergovernmental	\$ 832,947	\$ 351,253	\$ -	\$ 1,184,200	\$ -
Charges for services	-	192,915	-	192,915	-
Investment earnings	-	712	1,670	2,382	10,264
Fines	-	-	22,099	22,099	-
Other revenue	-	-	-	-	-
TOTAL REVENUES	\$ 832,947	\$ 544,880	\$ 23,769	\$ 1,401,596	\$ 10,264
Expenditures:					
Current:					
General government	\$ -	\$ -	\$ -	\$ -	\$ 213
Public safety	-	-	7,258	7,258	-
Education	832,947	460,838	-	1,293,785	-
Sanitation	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	54,778
Interest	-	-	-	-	63,740
Capital outlay	-	72,963	-	72,963	-
TOTAL EXPENDITURES	\$ 832,947	\$ 533,801	\$ 7,258	\$ 1,374,006	\$ 118,731
Excess (deficiency) of revenues over expenditures	\$ -	\$ 11,079	\$ 16,511	\$ 27,590	\$ (108,467)
Other Financing Sources (Uses):					
Transfers in	\$ -	\$ -	\$ -	\$ -	\$ 118,518
Proceeds from sale of capital assets	-	-	670	670	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ -	\$ -	\$ 670	\$ 670	\$ 118,518
Net change in fund balances	\$ -	\$ 11,079	\$ 17,181	\$ 28,260	\$ 10,051
Fund balances - July 1, 2009	-	165,023	91,052	256,075	365,524
Fund balances - June 30, 2010	\$ -	\$ 176,102	\$ 108,233	\$ 284,335	\$ 375,575

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)

NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2010

	Capital Projects Funds					Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
Revenues:						
Intergovernmental	\$ -	\$ -	\$ -	\$ 75,715	\$ 75,715	\$ 1,259,915
Charges for services	-	-	-	-	-	192,915
Investment earnings	3,045	758	10,444	56,080	70,327	82,973
Fines	-	-	-	-	-	22,099
Other revenue	-	-	-	247	247	247
TOTAL REVENUES	\$ 3,045	\$ 758	\$ 10,444	\$ 132,042	\$ 146,289	\$ 1,558,149
Expenditures:						
Current:						
General government	\$ 4,372	\$ -	\$ -	\$ -	\$ 4,372	\$ 4,585
Public safety	-	-	-	-	-	7,258
Education	-	-	-	-	-	1,293,785
Sanitation	-	-	-	11,108	11,108	11,108
Debt Service:						
Principal	-	-	-	-	-	54,778
Interest	-	-	-	-	-	63,740
Capital outlay	-	-	-	655,095	655,095	728,058
TOTAL EXPENDITURES	\$ 4,372	\$ -	\$ -	\$ 666,203	\$ 670,575	\$ 2,163,312
Excess (deficiency) of revenues over expenditures	\$ (1,327)	\$ 758	\$ 10,444	\$ (534,161)	\$ (524,286)	\$ (605,163)
Other Financing Sources:						
Transfers in	\$ -	\$ -	\$ -	\$ 210,000	\$ 210,000	\$ 328,518
Proceeds from sale of capital assets	-	-	-	-	-	670
TOTAL OTHER FINANCING SOURCES	\$ -	\$ -	\$ -	\$ 210,000	\$ 210,000	\$ 329,188
Net change in fund balances	\$ (1,327)	\$ 758	\$ 10,444	\$ (324,161)	\$ (314,286)	\$ (275,975)
Fund balances - July 1, 2009	219,751	48,507	393,058	3,365,148	4,026,464	4,648,063
Fund balances - June 30, 2010	<u>\$ 218,424</u>	<u>\$ 49,265</u>	<u>\$ 403,502</u>	<u>\$ 3,040,987</u>	<u>\$ 3,712,178</u>	<u>\$ 4,372,088</u>

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

For the year ended June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
NCLB Title programs	\$ 352,700	\$ 398,479	\$ 398,479	\$ -
Special education programs	256,769	434,468	434,468	-
Total Revenues	<u>\$ 609,469</u>	<u>\$ 832,947</u>	<u>\$ 832,947</u>	<u>\$ -</u>
Expenditures:				
Current:				
Regular instruction program	\$ 352,700	\$ 398,478	\$ 398,478	\$ -
Special education program	252,888	430,518	430,518	-
Transportation	3,881	3,951	3,951	-
Total Expenditures	<u>\$ 609,469</u>	<u>\$ 832,947</u>	<u>\$ 832,947</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

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

Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Favorable</u>
				<u>(Unfavorable)</u>
REVENUES				
Intergovernmental				
National school lunch program	\$ 216,170	\$ 216,170	\$ 224,201	\$ 8,031
School breakfast program	67,092	85,000	83,094	(1,906)
Other	5,600	45,600	43,958	(1,642)
Charges for services	247,895	247,895	192,915	(54,980)
Investment earnings	1,800	1,800	712	(1,088)
Other revenues	2,500	2,500	-	(2,500)
Total Revenues	<u>\$ 541,057</u>	<u>\$ 598,965</u>	<u>\$ 544,880</u>	<u>\$ (54,085)</u>
EXPENDITURES				
Current:				
Salaries and benefits	\$ 276,557	\$ 239,557	\$ 218,903	\$ 20,654
Repairs and maintenance	5,000	5,000	3,712	1,288
Travel	1,600	1,600	1,001	599
Contracted services	9,000	9,000	7,106	1,894
Food and preparation supplies	243,200	261,108	224,737	36,371
Supplies	1,000	1,000	503	497
Other	4,700	6,700	4,876	1,824
Capital outlay		75,000	72,963	2,037
Total Expenditures	<u>\$ 541,057</u>	<u>\$ 598,965</u>	<u>\$ 533,801</u>	<u>\$ 65,164</u>
Excess of Revenues over Expenditures	\$ -	\$ -	\$ 11,079	\$ 11,079
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Net Change in Fund Balance	\$ -	\$ -	\$ 11,079	\$ 11,079
Fund Balance - beginning	<u>103,500</u>	<u>103,500</u>	<u>165,023</u>	<u>61,523</u>
Fund Balance - ending	<u>\$ 103,500</u>	<u>\$ 103,500</u>	<u>\$ 176,102</u>	<u>\$ 72,602</u>

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

Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 1,080	\$ 1,080	\$ 1,670	\$ 590
Fines	12,000	12,000	22,099	10,099
Total Revenues	<u>\$ 13,080</u>	<u>\$ 13,080</u>	<u>\$ 23,769</u>	<u>\$ 10,689</u>
EXPENDITURES				
Current:				
Operating				
Salaries	\$ 2,800	\$ 2,800	\$ 2,835	\$ (35)
Education and training	1,500	1,500	570	930
Travel	2,000	2,000	1,238	762
Supplies	4,500	4,500	859	3,641
Repairs and maintenance	4,000	4,000	-	4,000
Telephone	1,700	1,700	1,259	441
Other drug fund	8,900	8,900	497	8,403
Total Expenditures	<u>\$ 25,400</u>	<u>\$ 25,400</u>	<u>\$ 7,258</u>	<u>\$ 18,142</u>
Excess of Revenues over Expenditures	\$ (12,320)	\$ (12,320)	\$ 16,511	\$ 28,831
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	<u>-</u>	<u>-</u>	<u>670</u>	<u>670</u>
Net Change in Fund Balance	\$ (12,320)	\$ (12,320)	\$ 17,181	\$ 29,501
Fund Balance - beginning	<u>91,052</u>	<u>91,052</u>	<u>91,052</u>	<u>-</u>
Fund Balance - ending	<u><u>\$ 78,732</u></u>	<u><u>\$ 78,732</u></u>	<u><u>\$ 108,233</u></u>	<u><u>\$ 29,501</u></u>

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 6,000	\$ 6,000	\$ 10,264	\$ 4,264
Total Revenues	<u>\$ 6,000</u>	<u>\$ 6,000</u>	<u>\$ 10,264</u>	<u>\$ 4,264</u>
EXPENDITURES				
Current:				
Operating - agent fees	\$ -	\$ 213	\$ 213	\$ -
Debt Service:				
Principal	49,778	54,778	54,778	-
Interest	45,000	63,740	63,740	-
Total Expenditures	<u>\$ 94,778</u>	<u>\$ 118,731</u>	<u>\$ 118,731</u>	<u>\$ -</u>
(Deficiency) of revenues over expenditures	\$ (88,778)	\$ (112,731)	\$ (108,467)	\$ 4,264
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>88,800</u>	<u>88,800</u>	<u>118,518</u>	<u>29,718</u>
Net Change in Fund Balance	\$ 22	\$ (23,931)	\$ 10,051	\$ 33,982
Fund Balance - beginning	<u>365,524</u>	<u>365,524</u>	<u>365,524</u>	<u>-</u>
Fund Balance - ending	<u>\$ 365,546</u>	<u>\$ 341,593</u>	<u>\$ 375,575</u>	<u>\$ 33,982</u>

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

Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Charges for services and use of property	\$ -	\$ -	\$ -	\$ -
Investment earnings	2,500	2,500	3,045	545
Total Revenues	<u>\$ 2,500</u>	<u>\$ 2,500</u>	<u>\$ 3,045</u>	<u>\$ 545</u>
EXPENDITURES				
Current:				
Travel	\$ 1,500	\$ -	\$ -	\$ -
Professional services	1,500	4,372	4,372	-
Total Expenditures	<u>\$ 3,000</u>	<u>\$ 4,372</u>	<u>\$ 4,372</u>	<u>\$ -</u>
Net Change in Fund Balance	\$ (500)	\$ (1,872)	\$ (1,327)	\$ 545
Fund Balance - beginning	<u>219,751</u>	<u>219,751</u>	<u>219,751</u>	<u>-</u>
Fund Balance - ending	<u><u>\$ 219,251</u></u>	<u><u>\$ 217,879</u></u>	<u><u>\$ 218,424</u></u>	<u><u>\$ 545</u></u>

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

Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 430	\$ 430	\$ 758	\$ 328
Total Revenues	<u>\$ 430</u>	<u>\$ 430</u>	<u>\$ 758</u>	<u>\$ 328</u>
EXPENDITURES				
Current:				
Operating	\$ 48,032	\$ 48,032	\$ -	\$ 48,032
Total Expenditures	<u>\$ 48,032</u>	<u>\$ 48,032</u>	<u>\$ -</u>	<u>\$ 48,032</u>
Net Change in Fund Balance	\$ (47,602)	\$ (47,602)	\$ 758	\$ 48,360
Fund Balance - beginning	<u>48,507</u>	<u>48,507</u>	<u>48,507</u>	<u>-</u>
Fund Balance - ending	<u><u>\$ 905</u></u>	<u><u>\$ 905</u></u>	<u><u>\$ 49,265</u></u>	<u><u>\$ 48,360</u></u>

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

Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 6,899	\$ 6,899	\$ 10,444	\$ 3,545
Total Revenues	<u>\$ 6,899</u>	<u>\$ 6,899</u>	<u>\$ 10,444</u>	<u>\$ 3,545</u>
EXPENDITURES				
Current:				
Operating	\$ 1,000	\$ 1,000	\$ -	\$ 1,000
Total Expenditures	<u>\$ 1,000</u>	<u>\$ 1,000</u>	<u>\$ -</u>	<u>\$ 1,000</u>
Net Change in Fund Balance	\$ 5,899	\$ 5,899	\$ 10,444	\$ 4,545
Fund Balance - beginning	<u>393,058</u>	<u>393,058</u>	<u>393,058</u>	<u>-</u>
Fund Balance - ending	<u>\$ 398,957</u>	<u>\$ 398,957</u>	<u>\$ 403,502</u>	<u>\$ 4,545</u>

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

Year ended June 30, 2010

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Intergovernmental	\$ -	\$ -	\$ 75,715	\$ 75,715
Investment earnings	73,000	73,000	56,080	(16,920)
Other revenues	-	-	247	247
Total Revenues	<u>\$ 73,000</u>	<u>\$ 73,000</u>	<u>\$ 132,042</u>	<u>\$ 59,042</u>
EXPENDITURES				
Current:				
Operating - landfill	\$ 10,000	\$ 11,108	\$ 11,108	\$ -
Capital outlay	338,053	655,095	655,095	-
Total Expenditures	<u>\$ 348,053</u>	<u>\$ 666,203</u>	<u>\$ 666,203</u>	<u>\$ -</u>
(Deficiency) of Revenues over Expenditures	<u>\$ (275,053)</u>	<u>\$ (593,203)</u>	<u>\$ (534,161)</u>	<u>\$ 59,042</u>
OTHER FINANCING SOURCES				
Transfers in	\$ 238,500	\$ 238,500	\$ 210,000	\$ (28,500)
Total Other Financing Sources	<u>\$ 238,500</u>	<u>\$ 238,500</u>	<u>\$ 210,000</u>	<u>\$ (28,500)</u>
Net Change in Fund Balance	\$ (36,553)	\$ (354,703)	\$ (324,161)	\$ 30,542
Fund Balance - beginning	<u>3,365,148</u>	<u>3,365,148</u>	<u>3,365,148</u>	<u>-</u>
Fund Balance - ending	<u>\$ 3,328,595</u>	<u>\$ 3,010,445</u>	<u>\$ 3,040,987</u>	<u>\$ 30,542</u>

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

June 30,

	Electric	Gas	Telecom	Water & Sewer	2010 Total	2009 Total	Increase (Decrease)
ASSETS							
Current Assets:							
Cash for general use	\$ 16,807,173	\$ 3,217,558	\$ -	\$ 127,139	\$ 20,151,870	\$ 14,941,160	\$ 5,210,710
Customer receivables, net	4,324,912	585,487	139,093	434,789	5,484,281	5,116,516	367,765
Other receivables	267,932	10,825	4,156	4,442	287,355	293,762	(6,407)
Interest receivable	8,038	145	426	78	8,687	9,616	(929)
Inventories	735,336	527,975	60,350	81,352	1,405,013	1,895,532	(490,519)
Prepaid expenses	109,888	27,047	25,451	31,611	193,997	301,962	(107,965)
	<u>\$ 22,253,279</u>	<u>\$ 4,369,037</u>	<u>\$ 229,476</u>	<u>\$ 679,411</u>	<u>\$ 27,531,203</u>	<u>\$ 22,558,548</u>	<u>\$ 4,972,655</u>
Special Funds	5,523,640	2,242,631	699,059	2,726,051	11,191,381	12,949,417	(1,758,036)
Capital assets, net of accumulated depreciation	38,251,792	12,845,777	3,569,145	17,196,595	71,863,309	66,661,510	5,201,799
Other Assets	1,686,618	193,335	92,861	156,788	2,129,602	1,853,468	276,134
Due (to)/from other divisions	2,655,352	-	(2,655,352)	-	-	-	-
	<u>\$ 70,370,681</u>	<u>\$ 19,650,780</u>	<u>\$ 1,935,189</u>	<u>\$ 20,758,845</u>	<u>\$ 112,715,495</u>	<u>\$ 104,022,943</u>	<u>\$ 8,692,552</u>
LIABILITIES AND NET ASSETS							
Current Liabilities:							
Current maturities of long-term debt	\$ 522,640	\$ 260,000	\$ 217,500	\$ 417,649	\$ 1,417,789	\$ 2,157,500	\$ (739,711)
Accounts payable	3,738,341	459,140	97,733	596,576	4,891,790	5,689,786	(797,996)
Customer deposits	986,537	135,012	-	136,262	1,257,811	1,137,690	120,121
Accrued interest	67,777	13,089	62,763	24,657	168,286	152,339	15,947
Other accrued liabilities	605,718	38,228	71,129	69,951	785,026	682,038	102,988
	<u>\$ 5,921,013</u>	<u>\$ 905,469</u>	<u>\$ 449,125</u>	<u>\$ 1,245,095</u>	<u>\$ 8,520,702</u>	<u>\$ 9,819,353</u>	<u>\$ (1,298,651)</u>
Other Liabilities:							
Advance from TVA	\$ 526,374	\$ -	\$ -	\$ -	\$ 526,374	\$ 334,085	\$ 192,289
Long-term debt payable from special funds	117,360	-	72,500	-	189,860	202,500	(12,640)
Accrued employee benefits	-	-	-	-	-	113,460	(113,460)
OPEB liabilities, net	85,405	24,544	12,510	36,177	158,636	76,103	82,533
Compensated absences	382,483	35,737	20,529	14,215	452,964	568,353	(115,389)
	<u>\$ 1,111,622</u>	<u>\$ 60,281</u>	<u>\$ 105,539</u>	<u>\$ 50,392</u>	<u>\$ 1,327,834</u>	<u>\$ 1,294,501</u>	<u>\$ 33,333</u>
Long-term debt	<u>\$ 21,200,040</u>	<u>\$ 4,312,369</u>	<u>\$ 3,549,256</u>	<u>\$ 7,323,444</u>	<u>\$ 36,385,109</u>	<u>\$ 30,916,274</u>	<u>\$ 5,468,835</u>
Total Liabilities	<u>\$ 28,232,675</u>	<u>\$ 5,278,119</u>	<u>\$ 4,103,920</u>	<u>\$ 8,618,931</u>	<u>\$ 46,233,645</u>	<u>\$ 42,030,128</u>	<u>\$ 4,203,517</u>
Net assets (Deficit):							
Invested in capital assets-net	19,144,063	8,384,246	(193,437)	9,546,335	36,881,207	35,530,245	1,350,962
Restricted for debt service	1,946,754	-	685,545	-	2,632,299	5,856,867	(3,224,568)
Restricted for improvements and construction	-	-	-	10,951	10,951	29,773	(18,822)
Unrestricted	21,047,189	5,988,415	(2,660,839)	2,582,628	26,957,393	20,575,930	6,381,463
	<u>\$ 70,370,681</u>	<u>\$ 19,650,780</u>	<u>\$ 1,935,189</u>	<u>\$ 20,758,845</u>	<u>\$ 112,715,495</u>	<u>\$ 104,022,943</u>	<u>\$ 8,692,552</u>

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

Years ended June 30,

	Electric	Gas	Telecom	Water & Sewer	2010 Total	2009 Total	Increase (Decrease)
Operating Revenues:							
Charges for services	\$ 40,167,876	\$ 9,278,131	\$ 2,753,301	\$ 3,722,370	\$ 55,921,678	\$ 59,185,272	\$ (3,263,594)
Other	936,700	62,275	396,966	89,671	1,485,612	1,428,277	57,335
TOTAL OPERATING REVENUES	\$ 41,104,576	\$ 9,340,406	\$ 3,150,267	\$ 3,812,041	\$ 57,407,290	\$ 60,613,549	\$ (3,206,259)
Operating Expenses:							
Cost of utility services	\$ 30,502,293	\$ 5,886,237	\$ 1,041,705	\$ 1,255,280	\$ 38,685,515	\$ 43,052,474	\$ (4,366,959)
Pumping, distribution, and collection	3,546,113	620,183	449,699	691,158	5,307,153	5,344,086	(36,933)
Customer billing and collecting	783,752	253,276	129,635	183,283	1,349,946	1,296,769	53,177
General and administrative	911,813	468,013	196,136	520,912	2,096,874	2,116,508	(19,634)
Taxes and tax equivalents	190,327	-	131,574	-	321,901	313,117	8,784
Provision for depreciation	1,927,628	510,965	546,369	840,264	3,825,226	3,559,805	265,421
Other	164,853	97,816	30,627	30,506	323,802	305,188	18,614
TOTAL OPERATING EXPENSES	\$ 38,026,779	\$ 7,836,490	\$ 2,525,745	\$ 3,521,403	\$ 51,910,417	\$ 55,987,947	\$ (4,077,530)
INCOME FROM OPERATIONS	\$ 3,077,797	\$ 1,503,916	\$ 624,522	\$ 290,638	\$ 5,496,873	\$ 4,625,602	\$ 871,271
Non-operating revenues and (expense):							
Interest Income	\$ 285,295	\$ 36,566	\$ 12,031	\$ 22,892	\$ 356,784	\$ 665,227	\$ (308,443)
Interest expense	(422,540)	(163,531)	(336,402)	(125,108)	(1,047,581)	(1,186,330)	138,749
Amortization	(78,331)	(7,206)	(12,981)	(3,813)	(102,331)	(108,746)	6,415
Miscellaneous	147,585	16,763	16,766	(76,903)	104,211	130,208	(25,997)
NON-OPERATING REVENUES							
(EXPENSE)-NET	\$ (67,991)	\$ (117,408)	\$ (320,586)	\$ (182,932)	\$ (688,917)	\$ (499,641)	\$ (189,276)
INCOME BEFORE CONTRIBUTIONS							
AND TRANSFERS	\$ 3,009,806	\$ 1,386,508	\$ 303,936	\$ 107,706	\$ 4,807,956	\$ 4,125,961	\$ 681,995
Capital contributions in aid of construction	348,527	-	-	251,027	599,554	822,966	(223,412)
Transfers out-taxes and tax equivalents	(649,487)	(193,630)	-	(75,358)	(918,475)	(906,040)	(12,435)
CHANGE IN NET ASSETS	\$ 2,708,846	\$ 1,192,878	\$ 303,936	\$ 283,375	\$ 4,489,035	\$ 4,042,887	\$ 446,148
TOTAL NET ASSETS (DEFICIT), AT							
BEGINNING OF YEAR, RESTATED	39,429,160	13,179,783	(2,472,667)	11,856,539	61,992,815	57,949,928	4,042,887
TOTAL NET ASSETS (DEFICIT),							
AT END OF YEAR	\$ 42,138,006	\$ 14,372,661	\$ (2,168,731)	\$ 12,139,914	\$ 66,481,850	\$ 61,992,815	\$ 4,489,035

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

Years ended June 30,

	Electric	Gas	Telecom	Water	2010 Total	2009 Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Receipts from customers and users	\$ 40,963,381	\$ 9,332,023	\$ 3,133,371	\$ 3,772,108	\$ 57,200,883	\$ 60,852,309
Payments to suppliers and others	(34,339,335)	(6,390,387)	(1,597,664)	(1,344,211)	(43,671,597)	(47,416,604)
Payments to employees	(2,058,041)	(704,321)	(338,204)	(1,026,285)	(4,126,851)	(3,862,979)
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,566,005	\$ 2,237,315	\$ 1,197,503	\$ 1,401,612	\$ 9,402,435	\$ 9,572,726
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:						
Loans (to)/ from other divisions	\$ 376,881	\$ -	\$ (376,881)	\$ -	\$ -	\$ -
Noncapital borrowings repaid	(45,000)	-	-	-	(45,000)	-
Collections on loans to other organizations	45,000	-	-	-	45,000	45,000
Transfers to other funds-tax equivalents	(649,487)	(193,630)	-	(75,358)	(918,475)	(906,040)
NET CASH (USED) BY NON-CAPITAL FINANCING ACTIVITIES	\$ (272,606)	\$ (193,630)	\$ (376,881)	\$ (75,358)	\$ (918,475)	\$ (861,040)
CASH FLOWS FROM CAPITAL AND OTHER RELATED FINANCING ACTIVITIES:						
Additions to capital assets, net	\$ (4,016,319)	\$ (493,778)	\$ (225,036)	\$ (4,864,959)	\$ (9,600,092)	\$ (8,695,468)
Removal costs of capital assets	(369,821)	(7,949)	-	(10,048)	(387,818)	(356,141)
Materials salvaged from retirements of capital assets	255,896	-	-	1,365	257,261	113,239
Proceeds from disposal of assets	462	12,513	-	-	12,975	32,936
Capital contributions received	348,527	-	-	251,027	599,554	675,789
Long-term borrowings, net	5,255,065	-	-	3,846,036	9,101,101	2,560,177
Borrowings repaid	(3,625,000)	(255,000)	(275,000)	(310,166)	(4,465,166)	(2,168,613)
Issue costs paid	(1,614)	(371)	-	(9,074)	(11,059)	-
Redemption costs paid	(29,900)	-	-	-	(29,900)	-
Interest paid, net	(421,904)	(157,763)	(340,664)	(111,303)	(1,031,634)	(1,195,317)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	\$ (2,604,608)	\$ (902,348)	\$ (840,700)	\$ (1,207,122)	\$ (5,554,778)	\$ (9,033,398)
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest received	\$ 285,467	\$ 36,998	\$ 12,233	\$ 23,015	\$ 357,713	\$ 680,840
Other non-operating income (expense), net	147,123	4,250	16,766	(2,360)	165,779	113,095
NET CASH PROVIDED BY INVESTING ACTIVITIES	\$ 432,590	\$ 41,248	\$ 28,999	\$ 20,655	\$ 523,492	\$ 793,935
INCREASE (DECREASE) IN CASH, NET	\$ 2,121,381	\$ 1,182,585	\$ 8,921	\$ 139,787	\$ 3,452,674	\$ 472,223
CASH AND CASH EQUIVALENTS, AT BEGINNING OF YEAR	20,209,432	4,277,604	690,138	2,713,403	27,890,577	27,418,354
CASH AND CASH EQUIVALENTS, AT END OF YEAR	\$ 22,330,813	\$ 5,460,189	\$ 699,059	\$ 2,853,190	\$ 31,343,251	\$ 27,890,577
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Income from operations	\$ 3,077,797	\$ 1,503,916	\$ 624,522	\$ 290,638	\$ 5,496,873	\$ 4,581,842
Adjustments to reconcile income from operations to net cash provided by operating activities						
Depreciation, including amounts capitalized	2,156,373	538,547	554,859	856,005	4,105,784	3,789,121
Depreciation allocated to / (from) other divisions	61,333	(20,775)	(18,667)	(21,891)	-	-
Loss on disallowance of plant	348,527	-	-	-	348,527	473,841
Conservation loans advanced - customers	(300,236)	-	-	-	(300,236)	(213,882)
Conservation loans collected - customers	100,340	-	-	-	100,340	86,883
Conservation advances from TVA	324,306	-	-	-	324,306	236,321
Conservation advances repaid to TVA	(132,017)	-	-	-	(132,017)	(98,235)
Changes in operating assets and liabilities:						
Accounts and other receivables, net	(221,689)	(39,939)	(16,896)	(48,003)	(326,527)	818,902
Inventories	6,328	465,306	12,636	6,249	490,519	212,733
Prepaid expenses and other assets	11,241	(18,834)	20,655	3,010	16,072	(379,257)
Accounts payable	(904,745)	(225,349)	18,327	313,771	(797,996)	(238,864)
Accrued employee benefits	(66,607)	10,706	6,821	18,153	(30,927)	76,191
Customer deposits	80,494	31,557	-	8,070	120,121	43,340
Other current liabilities and compensated absences	24,560	(7,820)	(4,754)	(24,390)	(12,404)	183,790
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 4,566,005	\$ 2,237,315	\$ 1,197,503	\$ 1,401,612	\$ 9,402,435	\$ 9,572,726
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:						
Electric Series 2003 revenue bonds refunded	\$ (7,050,000)					
Electric Series 2009 bond proceeds used to refund Series 2003 bonds	7,475,000					
Issue costs paid - Electric Series 2009 refunding bonds	(304,112)					

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

June 30, 2010

	COST					Depr. Rates	ACCUMULATED DEPRECIATION				
	Balance 06/30/09	Additions	Retirements	Reclassi- fications	Balance 06/30/10		Balance 06/30/09	Provisions	Other Adjustments	Reclassi- fications	Balance 06/30/10
Transmission Plant:											
Land and land rights	\$ 1,726	\$ -	\$ -	\$ -	\$ 1,726	4%	\$ 22,467	\$ -	\$ -	\$ -	\$ 22,467
Substation equipment	24,758	-	-	-	24,758	2	125,242	19,418	-	-	144,660
Overhead conductors and devices	418,951	-	-	-	418,951						
TOTAL TRANSMISSION PLANT	\$ 445,435	\$ -	\$ -	\$ -	\$ 445,435		\$ 147,709	\$ 19,418	\$ -	\$ -	\$ 167,127
Distribution plant:											
Land and land rights	\$ 266,922	\$ -	\$ -	\$ -	\$ 266,922	4	\$ 91,457	\$ 4,895	\$ -	\$ -	\$ 96,352
Structures and improvements	122,390	-	-	-	122,390	4	7,808,635	437,342	503,787	-	7,742,190
Station equipment	10,388,850	3,617,319	471,710	-	13,534,459	3.5	5,304,320	547,100	399,285	-	5,452,135
Poles and fixtures	15,284,853	1,103,419	232,783	-	16,155,489	2	1,631,201	119,920	(11,817)	-	1,762,938
Overhead lines	6,444,321	464,983	44,480	-	6,864,824	3	83,693	6,986	-	-	90,679
Underground conduit	231,688	2,986	-	-	234,674	3	199,568	21,342	7,530	-	213,380
Underground conductor	702,070	32,551	4,617	-	730,004	2	1,888,751	157,928	98,826	-	1,947,853
Line transformers	7,815,408	383,158	118,306	-	8,080,260	4.75	1,383,775	144,471	47,436	-	1,480,810
Services	2,986,162	144,858	30,498	-	3,100,522	2.75	451,532	76,830	15,210	-	513,152
Meters and meter equipment	2,777,365	43,136	13,054	-	2,807,447	10	526,811	129,960	135,842	-	520,929
Consumer security lights	1,280,838	130,376	113,331	-	1,297,883	12	502,092	24,512	30,177	-	496,427
Street lighting and signal systems	565,397	43,963	25,980	-	583,380		\$ 19,871,835	\$ 1,671,286	\$ 1,226,276	\$ -	\$ 20,316,845
TOTAL DISTRIBUTION PLANT	\$ 48,866,264	\$ 5,966,749	\$ 1,054,759	\$ -	\$ 53,778,254						
General plant:											
Land and land rights	\$ 327,330	\$ 960	\$ -	\$ -	\$ 328,290	2.5 & 4	\$ 1,169,210	\$ 76,252	\$ -	\$ -	\$ 1,245,462
Structures and improvements	2,892,508	34,796	-	-	2,927,304	4,10,14.5	956,112	169,552	4,602	-	1,121,062
Office furniture and fixtures	1,322,390	45,340	4,602	-	1,363,128	20	1,027,466	228,745	141,289	-	1,114,922
Transportation equipment	2,460,205	211,512	198,881	-	2,472,836	4 & 10	94,346	1,722	2,347	-	93,721
Stores equipment	103,526	2,573	2,347	-	103,752	10	246,093	-	-	-	246,093
Tools, shop and garage equipment	269,365	1,844	-	-	271,209	8	107,026	-	-	-	107,026
Laboratory equipment	118,762	-	-	-	118,762	15	331,171	48,563	-	-	379,734
Communications equipment	421,735	31,130	-	-	452,865	10	27,299	2,167	-	-	29,466
Miscellaneous equipment	32,498	-	-	-	32,498		\$ 3,958,723	\$ 527,001	\$ 148,238	\$ -	\$ 4,337,486
TOTAL GENERAL PLANT	\$ 7,948,319	\$ 328,155	\$ 205,830	\$ -	\$ 8,070,644		\$ 23,978,267	\$ 2,217,705	\$ 1,374,514	\$ -	\$ 24,821,458
TOTAL PLANT IN SERVICE	\$ 57,260,018	\$ 6,294,904	\$ 1,260,589	\$ -	\$ 62,294,333						
Construction in progress	3,406,029	3,482,358	6,109,470	-	778,917						
TOTAL PLANT	\$ 60,666,047	\$ 9,777,262	\$ 7,370,059	\$ -	\$ 63,073,250						

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

June 30, 2010

	Balance 06/30/09	Additions	Retirements	Reclassifications	Balance 06/30/10
UTILITY PLANT AND EQUIPMENT IN SERVICE:					
Land and land rights	\$ 181,989	\$ -	\$ -	\$ -	\$ 181,989
Structure and improvements	571,252	-	-	-	571,252
Propane plant	907,880	-	-	-	907,880
Mains	12,718,702	36,314	287,078	-	12,467,938
Pumping and regulating equipment	233,110	32,934	3,774	-	262,270
Services	1,768,490	70,712	17,684	-	1,821,518
Meters	1,317,850	7,945	-	-	1,325,795
Office furniture and equipment	69,521	-	-	-	69,521
Computer equipment	134,776	-	-	-	134,776
Transportation	432,198	188,742	89,892	290,028	821,076
Tools and work equipment	566,805	11,402	-	(290,028)	288,179
Communication equipment	82,255	9,826	-	-	92,081
	<u>\$ 18,984,828</u>	<u>\$ 357,875</u>	<u>\$ 398,428</u>	<u>\$ -</u>	<u>\$ 18,944,275</u>
ACCUMULATED DEPRECIATION	(6,204,372)				(6,315,766)
	<u>\$ 12,780,456</u>				<u>\$ 12,628,509</u>
CONSTRUCTION IN PROGRESS	81,365				217,268
					<u>217,268</u>
TOTAL UTILITY PLANT AND EQUIPMENT, LESS ACCUMULATED DEPRECIATION	<u>\$ 12,861,821</u>				<u>\$ 12,845,777</u>

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

June 30, 2010

	COST			ACCUMULATED DEPRECIATION					
	Balance 06/30/09	Additions	Retirements	Balance 06/30/10	Depr. Rates	Balance 06/30/09	Provisions	Retirements & Adjustments	Balance 06/30/10
Distribution plant:									
Aerial hdwe.,broadband hdwe., eng. & design	\$ 3,476,911	\$ 21,073	\$ -	\$ 3,497,984	2.5 & 5%	\$ 950,408	\$ 138,376	\$ -	\$ 1,088,784
Customer equip., installation labor, and materials	1,206,047	119,923	9,620	1,316,350	6.7 & 20	811,681	165,748	9,620	967,809
Headend electronics,equip.,and production equip.	1,684,096	56,573	-	1,740,669	10	1,183,439	157,447	-	1,340,886
Headend site, towers, antennae, and earth stns.	415,960	364	-	416,324	2.5 & 6.7	104,837	12,938	-	117,775
Vehicles	169,549	34,528	-	204,077	20	76,478	18,999	(13,734)	109,211
TOTAL DISTRIBUTION PLANT	\$ 6,952,563	\$ 232,461	\$ 9,620	\$ 7,175,404		\$ 3,126,843	\$ 493,508	\$ (4,114)	\$ 3,624,465
General plant:									
Tools and test equipment	\$ 81,051	\$ -	\$ -	\$ 81,051	10	\$ 66,521	\$ 8,105	\$ -	\$ 74,626
Communications equipment	10,221	-	-	10,221	15	1,533	937	-	2,470
Office furniture and fixtures	295,853	21,172	3,650	313,375	5	279,353	33,642	3,650	309,345
TOTAL GENERAL PLANT	\$ 387,125	\$ 21,172	\$ 3,650	\$ 404,647		\$ 347,407	\$ 42,684	\$ 3,650	\$ 386,441
TOTAL PLANT IN SERVICE	\$ 7,339,688	\$ 253,633	\$ 13,270	\$ 7,580,051		\$ 3,474,250	\$ 536,192	\$ (464)	\$ 4,010,906
Construction/(retirements) in progress	14,863	58,731	73,594	-					
	\$ 7,354,551	\$ 312,364	\$ 86,864	\$ 7,580,051					

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

June 30, 2010

	COST			Depr. Rates	ACCUMULATED DEPRECIATION			
	Balance 06/30/09	Additions	Retirements		Balance 06/30/10	Provisions	Retirements & Adjustments	Balance 06/30/10
<u>General Plant</u>								
Office equipment	\$ 20,611	\$ -	\$ 18,964	\$ 1,647	\$ 19,030	\$ 186	\$ 17,822	\$ 1,394
Transportation equipment	784,239	-	-	784,239	585,798	32,104	-	617,902
Maintenance equipment	102,378	1,773	8,090	96,061	5 - 20%	36,941	7,735	37,800
Communication equipment	27,365	6,134	393	33,106	3 - 4	5,748	354	10,789
<u>Water Plant</u>								
Land and land rights	69,340	-	-	69,340	5 - 7	-	-	-
Treatment plant	4,204,466	4,102	934	4,207,634	7 - 10	2,962,907	226	3,104,189
Pumps and storage	1,006,176	660	9,165	997,671		693,979	9,165	714,065
Distribution equipment	7,632,803	1,486,912	161,830	8,957,885		3,589,408	161,714	3,651,920
Services	171,088	44,173	1,741	213,520	2.5 - 4	50,010	9,872	58,668
Meter equipment	337,639	34,750	-	372,389	2.5 - 4	112,047	(1,342)	131,064
<u>Wastewater Plant</u>								
Land and land rights	17,030	66	-	17,096		-	-	-
Treatment plant	5,361,680	5,425	794,544	4,572,561		3,611,054	794,544	2,994,559
Lift stations	1,058,698	899,324	148,000	1,810,022		292,446	76,335	250,913
Collection equipment	5,415,633	941,559	99,424	6,257,768	2 - 2.5	2,571,624	99,897	2,609,045
Services	236,143	15,207	2,493	248,857	3.3 - 5	112,948	3,396	116,027
	\$ 26,445,289	\$ 3,440,085	\$ 1,245,578	\$ 28,639,796		\$ 14,643,940	\$ 1,179,718	\$ 14,298,335
<u>Construction in progress</u>								
	1,430,230	7,633,638	6,208,764	2,855,104				
	\$ 27,875,519	\$ 11,073,723	\$ 7,454,342	\$ 31,494,900				

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

June 30, 2010

	COST			Depr. Rates	ACCUMULATED DEPRECIATION			
	Balance 06/30/09	Additions	Retirements	Balance 06/30/10	Balance 06/30/09	Provisions	Other Adjustments	Balance 06/30/10
Land	\$ 210,625	\$ -	\$ -	\$ 210,625				
Improvements other than buildings	7,841	-	-	7,841	5,587	\$ 392	\$ -	\$ 5,979
Machinery and equipment	440,620	-	-	440,620	308,632	20,051	-	328,683
Totals	\$ 659,086	\$ -	\$ -	\$ 659,086	\$ 314,219	\$ 20,443	\$ -	\$ 334,662

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

For the year ended June 30, 2010

Fayetteville Public Utilities

	General Debt		Electric Division				Gas Division				Telecom Division				Water & Sewer Division			
			Total For All Debt		Series 2009		Series 2009		Series 2000		Series 2000		Series 2000		Total For All Debt		Series 2000	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 225,778	\$ 65,920	\$ 640,000	\$ 813,319	\$ 260,000	\$ 157,068	\$ 290,000	\$ 251,050	\$ 417,649	\$ 183,246	\$ 1,833,427	\$ 1,470,603	\$ 1,833,427	\$ 1,470,603	\$ 3,304,030	\$ 3,304,030		
2012	129,778	62,269	935,000	795,469	285,000	149,268	310,000	233,070	464,196	194,698	2,123,974	1,434,774	2,123,974	1,434,774	3,558,748	3,558,748		
2013	134,778	59,118	965,000	768,769	290,000	140,718	325,000	213,850	457,049	182,570	2,171,827	1,365,025	2,171,827	1,365,025	3,536,852	3,536,852		
2014	134,778	55,819	991,250	741,169	290,000	132,018	350,000	192,725	480,537	170,382	2,246,565	1,292,113	2,246,565	1,292,113	3,538,678	3,538,678		
2015	139,779	52,519	1,025,000	712,669	290,000	123,318	370,000	169,975	479,102	157,519	2,303,881	1,216,000	2,303,881	1,216,000	3,519,881	3,519,881		
2016	139,779	49,070	1,055,000	681,919	295,000	114,620	395,000	145,925	497,743	144,727	2,382,522	1,136,261	2,382,522	1,136,261	3,518,783	3,518,783		
2017	115,000	45,618	1,085,000	650,269	300,000	105,768	420,000	120,250	496,462	131,407	2,416,462	1,053,312	2,416,462	1,053,312	3,469,774	3,469,774		
2018	115,000	41,594	1,120,000	616,363	300,000	95,270	450,000	92,950	520,263	116,582	2,505,263	962,759	2,505,263	962,759	3,468,022	3,468,022		
2019	120,000	37,568	1,160,000	578,562	310,000	84,768	475,000	63,700	544,146	100,973	2,609,146	865,571	2,609,146	865,571	3,474,717	3,474,717		
2020	120,000	33,669	1,200,000	536,512	315,000	74,694	505,000	32,825	538,114	85,467	2,678,114	763,167	2,678,114	763,167	3,441,281	3,441,281		
2021	150,000	29,468	1,245,000	491,512	310,000	63,668	-	-	197,167	69,341	1,902,167	653,989	1,902,167	653,989	2,556,156	2,556,156		
2022	145,000	24,032	1,295,000	441,712	320,000	52,432	-	-	201,309	65,199	1,961,309	583,375	1,961,309	583,375	2,544,684	2,544,684		
2023	150,000	18,594	1,345,000	389,499	330,000	40,432	-	-	205,541	60,966	2,030,541	509,491	2,030,541	509,491	2,540,032	2,540,032		
2024	155,000	12,594	1,405,000	334,238	325,000	27,232	-	-	209,865	56,642	2,094,865	430,706	2,094,865	430,706	2,525,571	2,525,571		
2025	155,000	6,394	1,525,000	276,050	345,000	14,232	-	-	134,891	52,530	2,159,891	349,206	2,159,891	349,206	2,509,097	2,509,097		
2026	-	-	1,600,000	212,762	-	-	-	-	57,795	50,539	1,657,795	263,301	1,657,795	263,301	1,921,096	1,921,096		
2027	-	-	1,675,000	145,562	-	-	-	-	59,405	48,929	1,734,405	194,491	1,734,405	194,491	1,928,896	1,928,896		
2028	-	-	1,750,000	74,375	-	-	-	-	61,059	47,275	1,811,059	121,650	1,811,059	121,650	1,932,709	1,932,709		
2029	-	-	-	-	-	-	-	-	62,760	45,574	62,760	45,574	62,760	45,574	108,334	108,334		
2030	-	-	-	-	-	-	-	-	64,508	43,826	64,508	43,826	64,508	43,826	108,334	108,334		
2031	-	-	-	-	-	-	-	-	66,304	42,030	66,304	42,030	66,304	42,030	108,334	108,334		
2032	-	-	-	-	-	-	-	-	68,151	40,183	68,151	40,183	68,151	40,183	108,334	108,334		
2033	-	-	-	-	-	-	-	-	70,048	38,286	70,048	38,286	70,048	38,286	108,334	108,334		
2034	-	-	-	-	-	-	-	-	71,999	36,335	71,999	36,335	71,999	36,335	108,334	108,334		
2035	-	-	-	-	-	-	-	-	74,004	34,330	74,004	34,330	74,004	34,330	108,334	108,334		
2036	-	-	-	-	-	-	-	-	76,065	32,269	76,065	32,269	76,065	32,269	108,334	108,334		
2037	-	-	-	-	-	-	-	-	78,184	30,150	78,184	30,150	78,184	30,150	108,334	108,334		
2038	-	-	-	-	-	-	-	-	80,361	27,973	80,361	27,973	80,361	27,973	108,334	108,334		
2039	-	-	-	-	-	-	-	-	82,599	25,735	82,599	25,735	82,599	25,735	108,334	108,334		
2040	-	-	-	-	-	-	-	-	84,899	23,435	84,899	23,435	84,899	23,435	108,334	108,334		
2041	-	-	-	-	-	-	-	-	87,264	21,070	87,264	21,070	87,264	21,070	108,334	108,334		
2042	-	-	-	-	-	-	-	-	89,694	18,640	89,694	18,640	89,694	18,640	108,334	108,334		
2043	-	-	-	-	-	-	-	-	92,192	16,142	92,192	16,142	92,192	16,142	108,334	108,334		
2044	-	-	-	-	-	-	-	-	94,759	13,575	94,759	13,575	94,759	13,575	108,334	108,334		
2045	-	-	-	-	-	-	-	-	97,398	10,936	97,398	10,936	97,398	10,936	108,334	108,334		
2046	-	-	-	-	-	-	-	-	100,111	8,223	100,111	8,223	100,111	8,223	108,334	108,334		
2047	-	-	-	-	-	-	-	-	102,899	5,435	102,899	5,435	102,899	5,435	108,334	108,334		
2048	-	-	-	-	-	-	-	-	105,765	2,569	105,765	2,569	105,765	2,569	108,334	108,334		
2049	-	-	-	-	-	-	-	-	35,905	206	35,905	206	35,905	206	36,111	36,111		
	\$ 2,129,670	\$ 594,246	\$ 22,016,250	\$ 9,260,730	\$ 4,565,000	\$ 1,375,506	\$ 3,890,000	\$ 1,516,320	\$ 7,708,162	\$ 2,435,914	\$ 40,309,082	\$ 15,182,716	\$ 40,309,082	\$ 15,182,716	\$ 55,491,798	\$ 55,491,798		

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

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

Tennessee Municipal					General			
Year	Loan Program		Tennessee Energy		Obligation Bonds		Total General	
Ending	Series 1995		Effeciency Loan		Series 2009		Total	Total
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 96,000	\$ 502	\$ 24,778	\$ -	\$ 105,000	\$ 65,418	\$ 225,778	\$ 65,920
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>\$ 96,000</u>	<u>\$ 502</u>	<u>\$ 148,670</u>	<u>\$ -</u>	<u>\$ 1,885,000</u>	<u>\$ 593,744</u>	<u>\$ 2,129,670</u>	<u>\$ 594,246</u>

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

June 30, 2010

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
2011	\$ 595,000	\$ 398,594	\$ -	\$ 414,725	\$ 45,000	-	\$ 640,000	\$ 813,319
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
	<u>\$ 11,890,000</u>	<u>\$ 2,941,531</u>	<u>\$ 9,950,000</u>	<u>\$ 6,319,199</u>	<u>\$ 176,250</u>	<u>\$ -</u>	<u>\$ 22,016,250</u>	<u>\$ 9,260,730</u>

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

June 30, 2010

Year Ending June 30,	TDOT Utility Reloc Loan		Series 2009		RUS Phase I		RUS Phase I		Bond Anticipation Notes		RUS Phase I		Bond Anticipation Notes		RUS Phase I		Total Water	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 122,014	\$ 36,159	\$ 270,000	\$ 99,312	\$ 25,635	\$ 46,587	\$ -	\$ 1,188	\$ 30,562	611	\$ -	\$ 1,188	\$ -	\$ 1,188	\$ 417,649	\$ 183,246	\$ 417,649	\$ 183,246
2012	124,290	33,883	270,000	91,214	39,344	68,990	-	-	-	-	-	-	-	-	464,196	194,698	464,196	194,698
2013	126,609	31,564	290,000	83,112	40,440	67,894	-	-	-	-	-	-	-	-	457,049	182,570	457,049	182,570
2014	128,971	29,202	310,000	74,412	41,566	66,768	-	-	-	-	-	-	-	-	480,537	170,382	480,537	170,382
2015	131,378	26,795	305,000	65,114	42,724	65,610	-	-	-	-	-	-	-	-	479,102	157,519	479,102	157,519
2016	133,829	24,344	320,000	55,962	43,914	64,421	-	-	-	-	-	-	-	-	497,743	144,727	497,743	144,727
2017	136,326	21,847	315,000	46,362	45,136	63,198	-	-	-	-	-	-	-	-	496,462	131,407	496,462	131,407
2018	138,869	19,304	335,000	35,338	46,394	61,940	-	-	-	-	-	-	-	-	520,263	116,582	520,263	116,582
2019	141,460	16,713	355,000	23,612	47,686	60,648	-	-	-	-	-	-	-	-	544,146	100,973	544,146	100,973
2020	144,100	14,073	345,000	12,074	49,014	59,320	-	-	-	-	-	-	-	-	538,114	85,467	538,114	85,467
2021	146,788	11,385	-	-	50,379	57,956	-	-	-	-	-	-	-	-	197,167	69,341	197,167	69,341
2022	149,527	8,646	-	-	51,782	56,553	-	-	-	-	-	-	-	-	201,309	65,199	201,309	65,199
2023	152,317	5,856	-	-	53,224	55,110	-	-	-	-	-	-	-	-	205,541	60,966	205,541	60,966
2024	155,159	3,014	-	-	54,706	53,628	-	-	-	-	-	-	-	-	209,865	56,642	209,865	56,642
2025	78,662	425	-	-	56,229	52,105	-	-	-	-	-	-	-	-	134,891	52,530	134,891	52,530
2026	-	-	-	-	57,795	50,539	-	-	-	-	-	-	-	-	57,795	50,539	57,795	50,539
2027	-	-	-	-	59,405	48,929	-	-	-	-	-	-	-	-	59,405	48,929	59,405	48,929
2028	-	-	-	-	61,059	47,275	-	-	-	-	-	-	-	-	61,059	47,275	61,059	47,275
2029	-	-	-	-	62,760	45,574	-	-	-	-	-	-	-	-	62,760	45,574	62,760	45,574
2030	-	-	-	-	64,508	43,826	-	-	-	-	-	-	-	-	64,508	43,826	64,508	43,826
2031	-	-	-	-	66,304	42,030	-	-	-	-	-	-	-	-	66,304	42,030	66,304	42,030
2032	-	-	-	-	68,151	40,183	-	-	-	-	-	-	-	-	68,151	40,183	68,151	40,183
2033	-	-	-	-	70,048	38,286	-	-	-	-	-	-	-	-	70,048	38,286	70,048	38,286
2034	-	-	-	-	71,999	36,335	-	-	-	-	-	-	-	-	71,999	36,335	71,999	36,335
2035	-	-	-	-	74,004	34,330	-	-	-	-	-	-	-	-	74,004	34,330	74,004	34,330
2036	-	-	-	-	76,065	32,269	-	-	-	-	-	-	-	-	76,065	32,269	76,065	32,269
2037	-	-	-	-	78,184	30,150	-	-	-	-	-	-	-	-	78,184	30,150	78,184	30,150
2038	-	-	-	-	80,361	27,973	-	-	-	-	-	-	-	-	80,361	27,973	80,361	27,973
2039	-	-	-	-	82,599	25,735	-	-	-	-	-	-	-	-	82,599	25,735	82,599	25,735
2040	-	-	-	-	84,899	23,435	-	-	-	-	-	-	-	-	84,899	23,435	84,899	23,435
2041	-	-	-	-	87,264	21,070	-	-	-	-	-	-	-	-	87,264	21,070	87,264	21,070
2042	-	-	-	-	89,694	18,640	-	-	-	-	-	-	-	-	89,694	18,640	89,694	18,640
2043	-	-	-	-	92,192	16,142	-	-	-	-	-	-	-	-	92,192	16,142	92,192	16,142
2044	-	-	-	-	94,759	13,575	-	-	-	-	-	-	-	-	94,759	13,575	94,759	13,575
2045	-	-	-	-	97,398	10,936	-	-	-	-	-	-	-	-	97,398	10,936	97,398	10,936
2046	-	-	-	-	100,111	8,223	-	-	-	-	-	-	-	-	100,111	8,223	100,111	8,223
2047	-	-	-	-	102,899	5,435	-	-	-	-	-	-	-	-	102,899	5,435	102,899	5,435
2048	-	-	-	-	105,765	2,569	-	-	-	-	-	-	-	-	105,765	2,569	105,765	2,569
2049	-	-	-	-	35,905	206	-	-	-	-	-	-	-	-	35,905	206	35,905	206
	<u>\$ 2,010,299</u>	<u>\$ 283,210</u>	<u>\$ 3,115,000</u>	<u>\$ 586,512</u>	<u>\$ 2,552,301</u>	<u>\$ 1,564,393</u>	<u>\$ 30,562</u>	<u>\$ 1,799</u>	<u>\$ 7,708,162</u>	<u>\$ 2,435,914</u>								

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

June 30, 2010

No fuel cost adjustment added

Residential

Customer Charge	\$18.00 per month
Energy Charge	8.37 cents per KWH per month
Minimum Bill	\$18.95

General Services

<u>LESS THAN 50 KW</u>	
Customer Charge	\$30.00 per month
Energy Charge	9.338 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 \$15.27 per KW
Energy Charge	First 15,000 KWH at 9.669 cents per KWH. Additional KWH at 5.166 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 \$15.25 per KW, excess over 1,000 KW of billing demand per month at \$17.13, plus an additional \$15.25 per KW per month for each KW, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 KW or its contract demand.
Energy Charge	5.219 cents per KWH
<u>5,001 KW TO 15,000 KW</u>	
Customer Charge	\$1,500 per delivery point
Demand Charge	\$15.40 per KW of metered demand, plus and additional \$15.40 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	4.132 cents per KWH per first 620 hours use of metered demand per month 3.372 cents per KWH for additional KWH per month.

General Services Manufacturing Rates

<u>5,001 KW TO 15,000 KW</u> (Actual metered demand <5,000 KW)	
Customer Charge	\$1,500 per delivery point
Demand Charge	\$13.27 per KW of metered demand, plus an additional \$13.27 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.518 cents per KWH for first 620 hours use of metered demand per month 2.871 cents per KWH for additional KWH per month.
<u>5,001KW TO 15,000 KW</u>	
Customer Charge	\$1,500 per delivery point
Demand Charge	\$12.59 per KW of billing demand, plus and additional \$12.59 per KW per month for each KW of the amount by which the customer's billing demand exceeds contract demand.
Energy Charge	3.341 cents per KWH for first 620 hours use of metered demand per month. 2.728 cents per KWH for additional KWH per month.

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

June 30, 2010

Residential

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.20

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

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.25

General Commercial and Industrial

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.125

Housing Authority

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.11

Interruptible Service

Per ccf consumed per month	\$ 0.57
----------------------------	---------

Note: ccf represents 100 cubic feet.

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

June 30, 2010

Cable TV Service

Budget Basic	\$ 19.95
Basic Plus	48.76
Basic Digital Tier	9.95

Digital Premium Channels

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

Hometown package	71.99
------------------	-------

Internet Services

3 Meg	\$ 37.95
5 Meg	57.05
10 Meg	69.78
10 - 12 computers	92.24
More than 12 computers	Bulk pricing arrangements
Dial up internet	14.95

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, 2010

	<u>RESIDENTIAL</u>		<u>COMMERCIAL</u>		<u>Frito Lay</u>	<u>WHOLESALE</u>	
	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>		<u>With Contracts</u>	<u>Without Contracts</u>
<u>Water Rates</u>							
First 100 cubic feet	\$ 7.98	\$ 10.37	\$ 9.12	\$ 11.86	\$ 9.12	\$ 9.02	\$ 9.32
All over 100 cubic feet*	3.21	4.18					
Next 900 cubic feet*			3.21	4.18	3.21	3.11	3.41
All over 1,000 cubic feet*			2.68	3.48			
Next 59,000 cubic feet*					2.68	2.58	2.88
All over 60,000 cubic feet*					2.51	2.41	2.71
Next 119,000 cubic feet*						2.51	
All over 120,000 cubic feet*						1.94	
<u>Sewer Rates</u>							
First 100 cubic feet	8.40	10.08	9.60		9.60		
All over 100 cubic feet*	4.14	4.97	4.20		3.90		

**Per 100 cubic feet*

Number of water division customers at June 30,

	<u>2010</u>	<u>2009</u>
Water	\$ 4,425	\$ 4,377
Sewer	3,400	3,360

**FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF SANITATION RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2010**

Residential

Per household	\$ 10
Per apartment	10

Commercial and Industrial

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

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

SCHEDULE OF NUMBER OF UTILITY CUSTOMERS

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

	June 30, <u>2010</u>	<u>2009</u>
Electric	17,885	17,821
Gas	5,951	5,904
Telecom division -Cable	3,212	3,162
Telecom division -Internet	1,821	1,698
Water	4,425	4,377
Sewer	3,400	3,360
Sanitation	2,608	2,580

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

June 30, 2010

(All amounts in gallons)

A	Water Treated and Purchased		
B	Water pumped (potable)	769,287,300	
C	Water purchased	-	
D	Total Water Treated and Purchased		769,287,300
	(Sum lines B and C)		
E	Accounted for Water		
F	Water sold	539,147,762	
G	Metered for consumption (in house usage)	77,824,232	
H	Fire department usage	4,471,682	
I	Flushing	14,986,620	
J	Tank cleaning / filling	178,040	
K	Street cleaning	14,700	
L	Bulk sales	-	
M	Water bill adjustments	7,288	
N	Total Accounted for Water		636,630,324
	(Sum lines F thru M)		
O	Unaccounted for Water		132,656,976
	(Line D minus line N)		
P	Percent Unaccounted for Water		17.244%
	(Line O divided by line D times 100)		
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, 2010

<u>Year</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Taxes</u> <u>Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Total</u>
2010	\$ -	\$ 1,938,679	\$ -	\$ -	\$ 1,938,679
2009	1,941,872		466	(1,883,759)	58,579
2008	66,923	-	(1,718)	(56,957)	8,248
2007	20,309	-	(424)	(18,706)	1,179
2006	8,627	-	(541)	(7,285)	801
2005	3,358	-	(506)	(1,985)	867
2004	1,130	-	(498)	(186)	446
2003	5,306	-	(517)	(4,493)	296
2002	4,970	-	(346)	(4,347)	277
2001	826	-	(231)	(318)	277
	<u>\$ 2,053,321</u>	<u>\$ 1,938,679</u>	<u>\$ (4,315)</u>	<u>\$ (1,978,036)</u>	<u>\$ 2,009,649</u>
Less allowance for uncollectible taxes					(17,730)
Balance, end of year, net of allowance					<u>\$ 1,991,919</u>

Delinquent taxes filed with county trustee at June 30, 2010, are as follows:

<u>Year</u>	<u>Amount</u>
2008	\$ 8,248
2007	1,179
2006	801
2005	867
2004	446
2003	296
2002	277
2001	277
	<u>\$ 12,391</u>

DIRECTORY OF OFFICIALS AND SCHEDULE OF SALARIES

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

Mayor Gwendolyn Shelton	\$	10,870
Board of Alderman		
Joe Askins		7,445
Danny Bryant		6,635
Pat Fraley		6,635
Marty Pepper		6,635
Dorothy Small		4,235
Michael Stewart		6,635
City Administrator - James Lee		82,985
Director of Schools - Billy J. Evans		136,648
Fayetteville Public Utilities		
General Manager - Britt Dye		113,568
Manager of Finance - Kim Posey		72,612
Administrative Assistant -Pam Gentry		64,002
Manager of Water / Wastewater Dept. Operations - Jack Atchley retired August 28, 2009 - no replacement		14,150

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

Year ended June 30, 2010

Federal Grantor / Pass - Through Grantor	CFDA Number	Contract Number	Beginning (Accrued)		Cash Receipts	Expenditures	Ending (Accrued) Deferred
			Deferred				
<u>FEDERAL AWARDS</u>							
US Department of Agriculture	10.293	68-4741-0-906	\$ -	\$ -	\$ -	\$ 33,798	\$ (33,798)
US Department of Justice	16.607	n/a	(9,720)	9,720	-	-	-
US Department of Justice (Recovery Act)	16.804	2009-SB-B9-2179	-	32,197	32,197	-	-
TOTAL FEDERAL AWARDS			\$ (9,720)	\$ 41,917	\$ 65,995	\$ (33,798)	
<u>STATE FINANCIAL ASSISTANCE</u>							
TN Department of Economic and Community Development	n/a	L112	\$ 173,448	\$ -	\$ 155,436	\$ 18,012	
TOTAL STATE AWARDS			\$ 173,448	\$ -	\$ 155,436	\$ 18,012	
TOTAL FEDERAL AND STATE AWARDS			\$ 163,728	\$ 41,917	\$ 221,431	\$ (15,786)	

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, 2010. The schedule is presented using the modified accrual basis of accounting.

Loans Outstanding:

Note 2: At June 30, 2010, there was an outstanding balance of \$148,670 on an energy efficiency loan program loan obtained in a previous year. The loan was 100% funded by the State of Tennessee. Payments during the current fiscal year totaled \$24,778.

STATISTICAL SECTION

STATISTICAL SECTION

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

<u>Contents</u>	<u>Page</u>
Financial Trends These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	97
Revenue Capacity These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	101
Debt Capacity These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.	105
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	112
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	114

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

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental activities					
Invested in capital assets, net of related debt	\$ 16,082,964	\$ 16,524,034	\$ 16,260,960	\$ 17,521,558	\$ 19,098,344
Restricted	5,003,081	4,794,880	5,190,884	6,801,362	6,098,080
Unrestricted	<u>7,952,605</u>	<u>8,025,757</u>	<u>8,758,091</u>	<u>7,029,214</u>	<u>6,150,077</u>
Subtotal governmental activities	<u>\$ 29,038,650</u>	<u>\$ 29,344,671</u>	<u>\$ 30,209,935</u>	<u>\$ 31,352,134</u>	<u>\$ 31,346,501</u>
Business-type activities					
Invested in capital assets, net of related debt	\$ 35,483,914	\$ 35,494,073	\$ 37,074,230	\$ 34,843,452	\$ 37,205,631
Restricted	5,856,753	5,787,918	5,898,526	5,886,640	2,643,250
Unrestricted	<u>9,077,942</u>	<u>12,417,589</u>	<u>14,552,637</u>	<u>20,805,412</u>	<u>27,243,369</u>
Subtotal business-type activities	<u>\$ 50,418,609</u>	<u>\$ 53,699,580</u>	<u>\$ 57,525,393</u>	<u>\$ 61,535,504</u>	<u>\$ 67,092,250</u>
Primary government					
Invested in capital assets, net of related debt	\$ 51,566,878	\$ 52,018,107	\$ 53,335,190	\$ 52,365,010	\$ 56,303,975
Restricted	10,859,834	10,582,798	11,089,410	12,688,002	8,741,330
Unrestricted	<u>17,030,547</u>	<u>20,443,346</u>	<u>23,310,728</u>	<u>27,834,626</u>	<u>33,393,446</u>
Total primary government	<u>\$ 79,457,259</u>	<u>\$ 83,044,251</u>	<u>\$ 87,735,328</u>	<u>\$ 92,887,638</u>	<u>\$ 98,438,751</u>

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

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Governmental activities					
Program revenues					
Charges for services	\$ 628,549	\$ 628,216	\$ 650,387	\$ 871,738	\$ 806,609
Operating grants and contributions	4,852,676	5,301,731	5,911,615	6,264,910	6,440,433
Capital grants and contributions	533,418	26,492	38,072	1,476,245	813,477
	<u>\$ 6,014,643</u>	<u>\$ 5,956,439</u>	<u>\$ 6,600,074</u>	<u>\$ 8,612,893</u>	<u>\$ 8,060,519</u>
Expenses by function					
General government	\$ 703,663	\$ 750,922	\$ 701,459	\$ 870,070	\$ 784,844
Public safety	3,219,048	3,237,349	3,470,893	3,563,177	3,716,868
Judicial	48,276	49,358	48,997	53,065	55,085
Recreation	542,060	547,999	586,042	574,620	621,661
Highways and streets	1,230,830	1,156,670	1,276,864	1,280,647	1,825,615
Sanitation	11,616	12,524	11,277	15,228	2,361
Housing and community development	466,050	802,627	359,627	974,007	695,969
Education	6,863,953	7,357,688	7,881,326	8,517,784	8,525,368
Interest on long-term debt	42,608	69,855	62,361	22,013	68,983
	<u>\$ 13,128,104</u>	<u>\$ 13,984,992</u>	<u>\$ 14,398,846</u>	<u>\$ 15,870,611</u>	<u>\$ 16,296,754</u>
Net revenue (expense)	\$ (7,113,461)	\$ (8,028,553)	\$ (7,798,772)	\$ (7,257,718)	\$ (8,236,235)
General revenues	7,080,152	7,363,948	7,672,243	7,355,877	7,202,127
Transfers in (out)	995,925	970,626	991,793	1,044,040	1,028,475
Change in net assets	<u>\$ 962,616</u>	<u>\$ 306,021</u>	<u>\$ 865,264</u>	<u>\$ 1,142,199</u>	<u>\$ (5,633)</u>
Business-type activities					
Program revenues					
Charges for services	\$ 52,747,369	\$ 53,444,868	\$ 56,538,686	\$ 61,042,785	\$ 57,881,869
Capital grants and contributions	376,238	1,016,900	582,003	675,789	599,554
	<u>\$ 53,123,607</u>	<u>\$ 54,461,768</u>	<u>\$ 57,120,689</u>	<u>\$ 61,718,574</u>	<u>\$ 58,481,423</u>
Expense by function					
Electric, telecom, water, and gas	\$ 51,177,843	\$ 50,802,521	\$ 52,905,163	\$ 57,271,810	\$ 53,060,329
Sanitation	376,771	426,391	430,149	452,789	439,233
	<u>\$ 51,554,614</u>	<u>\$ 51,228,912</u>	<u>\$ 53,335,312</u>	<u>\$ 57,724,599</u>	<u>\$ 53,499,562</u>
Net revenue (expense)	\$ 1,568,993	\$ 3,232,856	\$ 3,785,377	\$ 3,993,975	\$ 4,981,861
General revenues	657,696	1,018,741	1,032,229	802,042	476,164
Transfers in (out)	(995,925)	(970,626)	(991,793)	(1,044,040)	(1,028,475)
Change in net assets	<u>\$ 1,230,764</u>	<u>\$ 3,280,971</u>	<u>\$ 3,825,813</u>	<u>\$ 3,751,977</u>	<u>\$ 4,429,550</u>

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

Year Ended June 30,

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General fund										
Reserved	\$ 278,941	\$ 271,214	\$ 36,255	\$ 55,746	\$ 1,056,605	\$ 913,038	\$ 1,128,758	\$ 1,037,577	\$ 118,013	\$ 122,276
Unreserved	2,843,322	2,905,462	3,509,698	3,758,624	4,418,379	5,027,019	4,848,188	5,033,953	5,470,425	4,872,906
Total general fund	<u>\$ 3,122,263</u>	<u>\$ 3,176,676</u>	<u>\$ 3,545,953</u>	<u>\$ 3,814,370</u>	<u>\$ 5,474,984</u>	<u>\$ 5,940,057</u>	<u>\$ 5,976,946</u>	<u>\$ 6,071,530</u>	<u>\$ 5,588,438</u>	<u>\$ 4,995,182</u>
Other governmental funds										
Reserved	\$ 5,953,642	\$ 5,803,113	\$ 5,996,604	\$ 6,180,830	\$ 5,679,534	\$ 5,769,200	\$ 5,473,978	\$ 5,822,241	\$ 210,813	\$ 131,685
Unreserved	4,138,019	4,117,352	3,749,893	3,690,253	3,629,844	3,416,950	3,130,712	3,102,177	9,576,769	9,421,081
Total all other governmental funds	<u>\$ 10,091,661</u>	<u>\$ 9,920,465</u>	<u>\$ 9,746,497</u>	<u>\$ 9,871,083</u>	<u>\$ 9,309,378</u>	<u>\$ 9,186,150</u>	<u>\$ 8,604,690</u>	<u>\$ 8,924,418</u>	<u>\$ 9,787,582</u>	<u>\$ 9,552,766</u>

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

Year Ended June 30,

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Revenues										
Taxes	\$ 5,024,918	\$ 5,264,439	\$ 3,874,713	\$ 3,978,584	\$ 4,014,836	\$ 4,275,898	\$ 4,331,981	\$ 4,541,220	\$ 4,637,408	\$ 4,547,486
Licenses and permits	105,605	121,299	16,768	24,395	25,151	31,775	43,530	34,880	33,157	36,748
Use of facilities	45,936	38,224	36,536	39,741	46,562	42,960	39,809	37,447	33,795	34,449
Intergovernmental	5,589,969	6,576,387	6,144,875	6,587,502	7,092,572	7,331,856	7,387,939	8,124,991	8,759,525	8,761,021
Miscellaneous	1,818,053	1,550,878	960,532	878,907	996,983	1,141,806	1,378,726	1,437,428	1,378,277	1,185,344
	<u>\$ 12,584,481</u>	<u>\$ 13,551,227</u>	<u>\$ 11,033,424</u>	<u>\$ 11,509,129</u>	<u>\$ 12,176,104</u>	<u>\$ 12,824,295</u>	<u>\$ 13,181,985</u>	<u>\$ 14,175,966</u>	<u>\$ 14,842,162</u>	<u>\$ 14,565,048</u>
Expenditures										
General government	\$ 557,876	\$ 639,037	\$ 513,763	\$ 517,734	\$ 549,856	\$ 651,292	\$ 731,687	\$ 663,250	\$ 743,423	\$ 746,151
Public safety	1,983,151	2,110,359	2,271,274	2,627,339	2,739,812	2,883,583	3,111,763	3,264,973	3,392,793	3,419,727
Streets and sanitation	1,297,275	1,652,478	876,751	1,160,983	925,751	1,071,816	1,129,585	1,184,998	1,110,468	1,613,202
Recreation	370,342	512,112	438,340	425,284	457,072	478,341	494,842	519,668	521,891	555,007
Education	5,840,288	6,027,010	6,085,816	5,853,147	7,183,418	7,013,594	6,994,692	7,490,725	8,066,021	8,467,231
Judicial	30,027	33,017	37,730	45,069	47,074	48,276	49,358	48,997	51,939	53,978
Public service	32,057	40,104	-	-	-	-	-	-	-	-
Special contributions and other expenses	986,709	450,286	345,029	309,524	509,641	310,604	645,944	311,566	966,486	692,472
Debt service	265,025	261,665	207,135	240,927	255,729	305,608	340,531	496,934	178,340	212,179
Capital outlay	2,697,432	1,876,014	336,752	581,903	385,800	715,261	1,335,846	795,153	1,904,834	1,055,486
	<u>\$ 14,060,182</u>	<u>\$ 13,602,082</u>	<u>\$ 11,112,590</u>	<u>\$ 11,761,910</u>	<u>\$ 13,034,153</u>	<u>\$ 13,478,375</u>	<u>\$ 14,834,248</u>	<u>\$ 14,776,264</u>	<u>\$ 16,936,195</u>	<u>\$ 16,815,433</u>
Other financing sources (uses)										
Transfers in	\$ 1,344,658	\$ 1,042,478	\$ 2,020,169	\$ 1,881,529	\$ 2,422,304	\$ 2,014,878	\$ 2,021,894	\$ 2,088,334	\$ 3,139,968	\$ 2,073,498
Transfers out	(1,344,658)	(1,109,753)	(1,157,971)	(1,235,745)	(1,445,346)	(1,018,953)	(1,051,268)	(1,096,541)	(2,095,928)	(1,045,023)
Refunding bonds issued	-	-	1,115,000	-	-	-	-	-	1,915,000	-
Bonds issued	-	-	-	-	1,000,000	-	-	-	-	-
Other debt issuance	-	-	-	-	-	-	-	-	173,448	-
Payment to refunded bond escrow agent	-	-	-	-	-	-	-	-	(900,000)	-
Bond premium (discount)	-	-	(5,017)	-	-	-	-	-	18,296	-
Insurance recovery	-	-	-	-	-	-	-	-	-	372,474
Sale of capital assets	-	-	-	-	-	-	137,066	22,817	30,216	21,364
	<u>\$ -</u>	<u>\$ (67,275)</u>	<u>\$ 872,181</u>	<u>\$ 645,784</u>	<u>\$ 1,976,958</u>	<u>\$ 995,925</u>	<u>\$ 1,107,692</u>	<u>\$ 1,014,610</u>	<u>\$ 2,281,000</u>	<u>\$ 1,422,313</u>
Net change in fund balance	<u>\$ (1,475,701)</u>	<u>\$ (118,130)</u>	<u>\$ 793,015</u>	<u>\$ 393,003</u>	<u>\$ 1,098,909</u>	<u>\$ 341,845</u>	<u>\$ (544,571)</u>	<u>\$ 414,312</u>	<u>\$ 186,967</u>	<u>\$ (828,072)</u>

**ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN TAX YEARS**

CITY OF FAYETTEVILLE, TENNESSEE

REAL PROPERTY									
Tax Year	Residential	Industrial & Commercial	Farm & Agricultural	Personal Property	Total Assessed Value	City Property Tax Rate	Total Appraised Value	Assessed Value as a Percentage of Actual Value	
2001	N/A	N/A	N/A	N/A	\$ 87,674,658	\$ 1.79	\$ 276,933,141	31.66	%
2002	N/A	N/A	N/A	N/A	108,931,646	1.49	334,019,155	32.61	
2003	N/A	N/A	N/A	N/A	112,676,987	1.49	342,900,198	32.86	
2004	N/A	N/A	N/A	N/A	111,494,950	1.54	343,145,058	32.49	
2005	\$ 39,227,125	\$ 57,080,280	\$ 395,075	\$ 13,928,977	110,631,457	1.54	350,938,007	31.52	
2006	39,581,775	57,835,760	439,725	13,697,823	111,555,083	1.54	358,728,331	31.10	
2007	51,277,075	70,870,680	725,400	17,216,798	140,089,953	1.54	442,575,801	31.65	
2008	53,938,875	71,394,160	1,606,675	16,802,970	143,742,680	1.3195	456,677,406	31.48	
2009	56,150,325	71,611,120	1,275,425	15,615,761	144,652,631	1.3195	460,783,339	31.39	
2010	56,856,150	70,784,880	1,288,075	15,404,050	144,333,155	1.3195	460,885,932	31.32	

N/A - Not available

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

Year Ending June 30,	Direct Rate City of Fayetteville	Overlapping Rate Lincoln County	Total Direct & Overlapping Rates
2001	\$ 1.79	\$ 2.03	\$ 3.82
2002	1.49	2.03	3.52
2003	1.49	2.23	3.72
2004	1.54	2.23	3.77
2005	1.54	2.23	3.77
2006	1.54	2.23	3.77
2007	1.54	1.7918	3.3318
2008	1.3195	1.7918	3.1113
2009	1.3195	1.7918	3.1113
2010	1.3195	1.7918	3.1113

PRINCIPAL PROPERTY TAXPAYERS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

Taxpayer	Year Ended June 30, 2010			Year Ended June 30, 2000		
	Taxable Assessed Value	Rank	Percentage of Total Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Assessed Value
Goodman Co.(formerly Amana,Inc.)	\$ 10,586,458	1	7.31%	\$ 13,426,394	1	15.01%
Wal Mart	4,133,097	2	2.85%	3,238,193	2	3.62%
Copperweld	4,011,791	3	2.77%	2,942,336	4	3.29%
BC Wood Inv. Fund II, LLC	3,977,400	4	2.75%			
Bellsouth	1,842,036	5	1.27%	2,492,427	3	2.79%
Federal Limited	1,618,404	6	1.12%	1,299,348	5	1.45%
Bank of Lincoln County	1,462,722	7	1.01%			
First National Bank	1,202,747	8	0.83%			
Parsons Oil	1,140,320	9	0.79%			
Lincoln Medical Center.	1,110,160	10	0.77%			
David Hutton				2,079,010	6	2.32%
Ronnie Wallace				1,829,793	7	2.05%
Lincoln County Bank				922,525	8	1.03%
Del-Met				905,030	9	1.01%
First Union				811,287	10	0.91%

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

Year Ended <u>June 30,</u>	Total <u>Tax Levy</u>	<u>Collected Within the</u> <u>Fiscal Year of the Levy</u>		Delinquent Tax <u>Collections</u>	<u>Total Collections to Date</u>	
		<u>Amount</u>	<u>Percentage of Levy</u>		<u>Amount</u>	<u>Percentage of Levy</u>
2001	\$ 1,571,812	\$ 1,423,233	0.907	\$ 143,158	\$ 1,566,391	99.7%
2002	1,675,401	1,533,276	0.947	84,006	1,617,282	96.5%
2003	1,719,689	1,599,122	0.954	73,460	1,672,582	97.3%
2004	1,717,192	1,624,736	0.944	90,158	1,714,894	99.9%
2005	1,755,083	1,647,929	0.959	68,267	1,716,196	97.8%
2006	1,763,969	1,689,457	0.963	66,174	1,755,631	99.5%
2007	1,897,372	1,704,979	0.967	55,350	1,760,329	92.8%
2008	1,942,293	1,830,546	0.968	65,106	1,895,652	97.6%
2009	1,941,270	1,877,343	0.967	56,957	1,934,300	99.6%
2010	1,933,823	1,883,759	0.973	-	1,883,759	97.4%

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

Fiscal Year Ended June 30,	<u>Governmental Activities</u>				<u>Business-Type Activities</u>				Total Primary Government	Percentage of Personal Income ¹	Per Capita ¹
	General		Obligation	Revenue		Loans					
	Obligation	Bonds		Bonds	Bonds						
2001	\$ 1,295,000	\$ 762,000	\$ 2,655,000	\$ 22,497,895	\$ 878,386	\$ 28,088,281	N/A	\$ 3,758			
2002	1,100,000	703,000	2,020,000	21,049,214	744,565	25,616,779	N/A	3,663			
2003	970,000	641,000	5,025,000	24,529,779	610,744	31,776,523	N/A	4,543			
2004	820,000	575,000	6,600,000	22,144,523	951,815	31,091,338	21.08%	4,437			
2005	1,665,000	505,000	10,070,000	20,963,462	795,929	33,999,391	21.36%	4,852			
2006	1,475,000	432,000	9,375,000	19,261,266	642,287	31,185,553	18.35%	4,451			
2007	1,280,000	355,000	6,398,175	17,463,660	482,568	25,979,403	14.51%	3,708			
2008	925,000	273,000	6,792,115	25,780,000	324,863	34,094,978	18.38%	4,866			
2009	1,915,000	360,448	8,185,000	24,155,000	1,028,542	35,643,990	17.76%	5,057			
2010	1,885,000	244,670	7,680,000	25,730,000	4,769,412	40,309,082	20.08%	5,719			

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

¹See the Schedule of Demographic and Economic Statistics on page 112 for personal income and population data.

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

Fiscal Year Ended <u>June 30,</u>	General Obligation <u>Bonds</u>	Percentage of Estimated Actual Taxable Value ¹ of Property	<u>Per Capita</u> ²
2001	\$ 1,295,000	0.47%	\$ 173.24
2002	1,100,000	0.33%	157.28
2003	970,000	0.28%	138.69
2004	820,000	0.24%	117.03
2005	1,665,000	0.47%	237.62
2006	1,475,000	0.41%	210.50
2007	1,280,000	0.29%	182.67
2008	925,000	0.20%	132.01
2009	1,915,000	0.42%	271.71
2010	1,885,000	0.41%	267.45

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

¹See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property on page 101 for property value data.

²Population data can be found in the Schedule of Demographic and Economic Statistics on page 112.

DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
CITY OF FAYETTEVILLE, TENNESSEE

as of June 30, 2010

<u>Governmental Unit</u>	<u>Debt</u> <u>Outstanding</u>	<u>Estimated</u> <u>Percentage</u> <u>Applicable¹</u>	<u>Estimated</u> <u>Share of</u> <u>Overlapping</u> <u>Debt</u>
Debt repaid with property taxes: Lincoln County			
Subtotal, overlapping debt	\$ 15,625,000	28.08%	\$ 4,387,500
			<u>4,387,500</u>
City of Fayetteville direct debt			<u>1,981,000</u>
Total direct and overlapping debt			<u>\$ 6,368,500</u>

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

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

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

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

Electric Revenue Bonds and Loans

Year Ended June 30,	Electric Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2001	\$ 28,517,616	\$ 24,954,877	\$ 3,562,739	\$ 870,890	\$ 590,347	\$ 1,461,237	2.44
2002	27,275,139	24,417,911	2,857,228	1,288,681	806,377	2,095,058	1.36
2003	28,848,711	25,763,596	3,085,115	1,193,800	665,929	1,859,729	1.66
2004	30,033,774	26,961,622	3,072,152	2,060,256	524,022	2,584,278	1.19
2005	30,238,592	28,049,257	2,189,335	839,811	425,829	1,265,640	1.73
2006	34,133,491	31,575,424	2,558,067	1,337,196	542,694	1,879,890	1.36
2007	37,037,016	33,974,845	3,062,171	1,402,606	612,746	2,015,352	1.52
2008	39,361,070	35,259,199	4,101,871	1,438,660	812,690	2,251,350	1.82
2009	43,778,368	39,396,124	4,382,244	1,415,000	865,173	2,280,173	1.92
2010	41,252,161	36,748,638	4,503,523	635,000	881,500	1,516,500	2.97

¹Depreciation and other non-cash items not included.

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

Gas Revenue and Tax Bonds

Year Ended June 30,	Gas Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2001	\$ 8,914,809	\$ 7,193,502	\$ 1,721,307	\$ 115,000	\$ 21,668	\$ 136,668	12.59
2002	6,285,910	5,203,105	1,082,805	125,000	15,113	140,113	7.73
2003	7,819,290	6,948,829	870,461	285,000	51,675	336,675	2.59
2004	8,653,816	7,543,785	1,110,031	135,000	51,521	186,521	5.95
2005	9,501,124	8,672,582	828,542	190,000	115,219	305,219	2.71
2006	12,683,627	12,121,474	562,153	195,000	184,530	379,530	1.48
2007	10,089,168	8,922,338	1,166,830	200,000	217,663	417,663	2.79
2008	10,173,359	9,063,523	1,109,836	205,000	207,388	412,388	2.69
2009	10,473,412	9,325,596	1,147,816	215,000	145,806	360,806	3.18
2010	9,357,169	7,519,155	1,838,014	255,000	158,313	413,313	4.45

¹Depreciation and other non-cash items not included.

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

Telecommunications Revenue Bonds

Year Ended June 30,	Telecom Charges and Other	Direct Operating Expense ¹	Net Revenue Available for Debt Service	Debt Service			Coverage
				Principal	Interest	Total	
2001	\$ 50,235	\$ 134,199	\$ (83,964)	\$ -	\$ 86,648	\$ 86,648	(0.97)
2002	955,443	831,426	124,017	-	346,590	346,590	0.36
2003	1,224,181	1,129,815	94,366	100,000	345,340	445,340	0.21
2004	1,647,078	1,355,420	291,658	150,000	389,059	539,059	0.54
2005	1,923,375	1,439,501	483,874	205,000	399,815	604,815	0.80
2006	2,242,470	1,533,993	708,477	215,000	422,481	637,481	1.11
2007	2,525,695	1,645,209	880,486	230,000	548,040	778,040	1.13
2008	2,834,942	1,809,328	1,025,614	240,000	475,206	715,206	1.43
2009	2,899,874	1,856,694	1,043,180	255,000	429,049	684,049	1.53
2010	3,167,033	1,979,376	1,187,657	275,000	340,664	615,664	1.93

¹Depreciation and other non-cash items not included.

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

Water & Sewer Revenue Bonds and Loans

Year Ended <u>June 30,</u>	Water and Sewer Charges <u>and Other</u>	Direct Operating <u>Expense¹</u>	Net Revenue Available for Debt <u>Service</u>	Debt Service			<u>Coverage</u>
				<u>Principal</u>	<u>Interest</u>	<u>Total</u>	
2001	\$ 2,426,153	\$ 1,573,649	\$ 852,504	\$ 773,822	\$ 190,250	\$ 964,072	0.88
2002	2,694,675	1,726,493	968,182	803,821	160,165	963,986	1.00
2003	2,774,738	1,836,236	938,502	700,000	92,269	792,269	1.18
2004	2,806,471	2,049,232	757,239	833,821	83,608	917,429	0.83
2005	2,974,469	1,963,397	1,011,072	632,136	53,618	685,754	1.47
2006	3,190,509	2,161,896	1,028,613	803,642	68,287	871,929	1.18
2007	3,301,512	2,261,356	1,040,156	524,719	59,474	584,193	1.78
2008	3,607,913	2,658,329	949,584	337,705	63,834	401,539	2.36
2009	3,537,130	2,755,768	781,362	283,613	29,293	312,906	2.50
2010	3,735,138	2,756,497	978,641	310,166	164,152	474,318	2.06

¹Depreciation and other non-cash items not included.

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

Year Ended		Personal	Per Capita	Unemployment
<u>June 30,</u>	<u>Population</u>	<u>Income</u>	<u>Personal</u> <u>Income</u>	<u>Rate</u>
2001	7,475	N/A	N/A	3.70%
2002	6,994	N/A	N/A	4.60%
2003	6,994	N/A	N/A	4.60%
2004	7,007	\$ 147,504,357	\$ 21,051	4.60%
2005	7,007	159,156,998	22,714	5.60%
2006	7,007	169,905,736	24,248	5.30%
2007	7,007	178,986,808	25,544	4.80%
2008	7,007	185,531,346	26,478	4.20%
2009	7,048	200,705,896	28,477	6.80%
2010	7,048	200,705,896	28,477	6.80%

N/A - Not available

Source: Middle Tennessee Industrial Development Association Community Data Profile.

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

<u>Employer</u>	<u>Year Ended 6/30/2010</u>		<u>Year Ended 6/30/2000</u>	
	<u>Employees</u>	<u>Rank</u>	<u>Employees</u>	<u>Rank</u>
Goodman Co. LP (formerly Amana)	1,250	1	1,082	1
Lincoln County Board of Education	707	2	-	-
Lincoln County Health System	630	3	-	-
Frito-Lay, Inc.	500	4	420	2
Wal-Mart	362	5	-	-
Fayetteville City School System	189	6	-	-
Franke Contract Group	140	7	135	5
Lincoln County	136	8	-	-
Fushi Copperweld Corp.	120	9	173	3
Fayetteville Public Utilities	114	10	-	-
Averitt Express	-	-	53	10
Lincoln County Mfg. Inc.	-	-	168	4
R&B Wire	-	-	81	7
VAW of America	-	-	78	8
Del-Met	-	-	126	6
Summa Technology	-	-	78	9

Source: Middle Tennessee Industrial Development Association Community Data Profile.

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

<u>Function / Program</u>	<u>Year Ended June 30,</u>		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Government			
- Administration	5	5	5
- Building & Codes	2	1	1
- Information Technology	1	1	1
Public Safety			
- Emergency Communications	9	11	11
- Fire Department	19	19	19
- Police	15	26	26
Recreation			
- Parks & Recreation	6	6	6
- Pool (Seasonal)	15	15	15
City Garage	4	4	4
Sanitation	4	4	4
Street Department	16	18	18
Fayetteville Public Utilities			
- Administration	43	42	42
- Electric division	37	36	36
- Gas division	13	13	13
- Telecommunications division	4	4	4
- Water & Sewer division	19	19	19
Fayetteville City Schools			
- Professional	88	83	89
- Support (includes cafeteria)	89	87	100

OPERATING INDICATORS BY FUNCTION
LAST THREE FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE
For the year ended June 30, 2010

Function/Program	Year ended June 30,		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Police			
Arrests	1,015	821	754
Burglary	15	71	54
Traffic Control	1,041	797	598
Complaints	1,938	841	1,420
Fire			
Fire Calls	41	35	20
Medical Calls	748	683	606
Sanitation			
Solid Waste Collection - Garbage (tonnage)	4,761	4,552	4,298
Yard Waste Collection (tonnage)	2,758	2,875	2,700
Recreation			
Pool Admissions	4,987	4,393	4,385
Fayetteville Public Utilities			
Electric power sold (thousand kilowatt hours)	452,742	427,661	452,615
Natural gas sold (thousand cubic feet)	786,063	818,879	887,751
Water sold (thousand gallons)	632,111	563,738	539,148
Fayetteville City Schools			
Student enrollment			
Ralph Askins Elementary	429	513	627
Fayetteville Intermediate	303	291	329
Fayetteville Junior High	270	277	320

CAPITAL ASSET STATISTICS BY FUNCTION
LAST THREE FISCAL YEARS
CITY OF FAYETTEVILLE, TENNESSEE
For the year ended June 30, 2010

Function/Program	Year ended June 30,		
	<u>2008</u>	<u>2009</u>	<u>2010</u>
Police			
Stations	1	1	1
Patrol Cars	28	28	29
Scooters	2	2	2
Fire			
Fire Trucks	4	4	4
Rescue Trucks	1	1	1
Public Works			
Garbage Trucks	4	4	4
Street Heavy Equipment Vehicles	10	10	10
Street Trucks	11	11	12
Recreation			
Pools	2	2	2
Baseball Fields	3	3	3
Softball Fields	5	5	5
Soccer Fields	7	7	7
Parks	7	7	7
Fayetteville Public Utilities			
Electric lines (miles)	1,883	1,893	1,900
Gas lines (miles)	431	246	247
Water lines (miles)	132	140	141
Wastewater lines (miles)	47	70	71
Telecommunication lines (miles)	183	191	191
Fayetteville City Schools			
Schools	3	3	3
Buses	8	8	8

N/A - Not available

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fayetteville, Tennessee, (the "City") as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon, dated April 19, 2011. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Fayetteville Public Utilities and Fayetteville City Schools, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and 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 to be a material weakness.

2010-1.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 19, 2011.

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 19, 2011

SCHEDULE OF FINDINGS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2010

Finding 2010-1: There is a lack of adequate segregation of duties due to the Finance Director performing several key functions including reconciling bank statements, making deposits, recording the majority of transactions, and financial reporting, including budgeting. The Finance Director is also 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 having separate employees prepare and approve the reconciliation. The approval should be documented by initialing both the bank reconciliation and the bank statement. Concerning the payroll process, 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: The City agrees that there should be more segregation of duties within payroll and bank reconciliations. Concerning the payroll process, the City will make another employee, besides the finance director, responsible for setting up new employees and entering raises into the software system. We will also have the City Administrator approve all bank reconciliation and initial bank statements every month after the reconciliations are complete.