

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

June 30, 2012

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

CONTENTS

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements:	
Government-wide Financial Statements	
Statement of Net Assets	12
Statement of Activities.....	13
Fund Financial Statements	
Balance Sheet – Governmental Funds	14
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	20
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – School General Fund.....	23
Notes to the Financial Statements	24
Required Supplementary Information:	
Schedule of Funding Progress – Post-Employment Benefits.....	58
Schedule of Funding Progress – Pension Benefits	59
Supplementary Information:	
Nonmajor Governmental Funds	60
Combining and Individual Fund Financial Statements and Budgetary Schedules:	
Combining Balance Sheet – Nonmajor Governmental Funds	61
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.....	63
Budgetary Comparison Schedules:	
School Title Special Revenue Fund.....	65
School Cafeteria Special Revenue Fund.....	66
Drug Special Revenue Fund	67
Debt Service Fund	68
Industrial Park Capital Projects Fund.....	69
CDBG Capital Projects Fund	70
UDAG Capital Projects Fund	71
Internal Capital Projects Fund	72
School Capital Projects Fund	73

CONTENTS (Continued)

FINANCIAL SECTION (Continued)

Supplementary Information: (Continued)

Other Financial Schedules:

Schedule of Combined Long-Term Debt Principal and Interest Requirements.....	74
Schedule of General Long-Term Debt Principal and Interest Requirements.....	75
Schedule of Long-Term Debt Principal and Interest Requirements – Electric Division.....	76
Schedule of Long-Term Debt Principal and Interest Requirements – Water Division.....	77
Schedule of Electric Utility Rates in Effect	78
Schedule of Gas Utility Rates in Effect	79
Schedule of Telecommunications Rates in Effect	80
Schedule of Water and Sewer Utility Rates in Effect	81
Schedule of Sanitation Rates in Effect.....	82
Schedule of Number of Utility Customers.....	83
Schedule of Unaccounted for Water	84
Schedule of Changes in Property Taxes Receivable.....	85
Directory of Officials.....	86
Uncollected Delinquent Taxes Filed in Accordance With Applicable Laws.....	87
Property Tax Rates and Assessments – Last Ten Years	88
 Schedule of Expenditures of Federal Awards and State Financial Assistance	 89

INTERNAL CONTROL AND COMPLIANCE SECTION

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	91
Schedule of Findings	93

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, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City of Fayetteville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Fayetteville Public Utilities, which is a major fund and which represents 99% of the assets, net assets, and revenues of the business-type activities. We also did not audit the Fayetteville School System, which includes the school general fund and the school capital projects fund, both major funds. The Fayetteville School System represents 7%, 4%, and 98%, respectively, of the assets, fund balances, and revenues of the aggregate remaining fund information and 46%, 42%, and 55%, respectively, of the assets, net assets, and revenues of the governmental activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Fayetteville Public Utilities and the Fayetteville School System, are based on the reports of the other auditors.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fayetteville, Tennessee, as of June 30, 2012, 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 March 12, 2013, 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 statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Winnett Associates, LLC

March 12, 2013

CITY OF FAYETTEVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2012

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, 2012. We encourage readers to consider the information that we have furnished in the basic financial statements and the accompanying notes to those financial statements.

USING THIS ANNUAL REPORT

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

REPORTING THE CITY AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

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

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

Governmental Activities

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

Business-Type Activities

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

REPORT ON THE CITY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

Governmental Funds

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

Proprietary Funds

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

THE CITY AS A WHOLE

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 22,288,131	\$ 17,651,362	\$ 41,427,825	\$ 41,980,675	\$ 63,715,956	\$ 59,632,037
Capital assets	19,889,304	19,491,190	75,174,211	74,321,348	95,063,515	93,812,538
Total assets	42,177,435	37,142,552	116,602,036	116,302,023	158,779,471	153,444,575
Long-term debt outstanding	8,952,227	2,943,510	35,610,180	38,022,184	44,562,407	40,965,694
Other liabilities	2,751,593	3,366,404	7,255,416	7,351,007	10,007,009	10,717,411
Total liabilities	11,703,820	6,309,914	42,865,596	45,373,191	54,569,416	51,683,105
Net Assets						
Invested in capital assets	19,370,655	19,563,317	41,490,184	38,202,905	60,860,839	57,766,222
Restricted	5,610,929	6,730,842	1,971,571	2,657,113	7,582,500	9,387,955
Unrestricted	5,492,031	4,538,479	30,274,685	30,068,814	35,766,716	34,607,293
Total net assets	\$ 30,473,615	\$ 30,832,638	\$ 73,736,440	\$ 70,928,832	\$ 104,210,055	\$ 101,761,470

Net assets of the City's governmental activities decreased 1.16 percent in the fiscal year 2012. Net assets of the City's business-type activities increased 3.96 percent in the fiscal year 2012.

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	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for services	\$ 950,355	\$ 942,049	\$ 57,275,531	\$ 61,738,678	\$ 58,225,886	\$ 62,680,727
Operating grants and contributions	7,681,911	7,544,486	-	-	7,681,911	7,544,486
Capital grants and contributions	32,330	102,028	607,087	530,137	639,417	632,165
General revenues:						
Property taxes	3,013,446	2,986,399	-	-	3,013,446	2,986,399
Other taxes	4,321,373	4,196,151	-	-	4,321,373	4,196,151
Other general revenues	850,631	229,579	100,184	197,485	950,815	427,064
Total revenues	16,850,046	16,000,692	57,982,802	62,466,300	74,832,848	78,466,992
Program Expenses:						
General government	806,594	937,120	-	-	806,594	937,120
Public safety	4,024,327	3,858,503	-	-	4,024,327	3,858,503
Judicial	48,203	54,626	-	-	48,203	54,626
Recreation	632,878	718,319	-	-	632,878	718,319
Highways and streets	1,270,109	1,360,429	-	-	1,270,109	1,360,429
Sanitation	6,115	3,210	338,796	395,920	344,911	399,130
Housing and community development	796,585	677,512	-	-	796,585	677,512
Education	10,715,766	9,824,333	-	-	10,715,766	9,824,333
Interest on long-term debt	68,161	66,927	-	-	68,161	66,927
Electric, telecom, water and gas	-	-	53,676,729	57,247,374	53,676,729	57,247,374
Total expenses	18,368,738	17,500,979	54,015,525	57,643,294	72,384,263	75,144,273
Excess (deficiency) before transfers	(1,518,692)	(1,500,287)	3,967,277	4,823,006	2,448,585	3,322,719
Transfers	1,159,669	986,424	(1,159,669)	(986,424)	-	-
Increase in net assets	\$ (359,023)	\$ (513,863)	\$ 2,807,608	\$ 3,836,582	\$ 2,448,585	\$ 3,322,719

The City's total revenues decreased 4.63 percent from the fiscal year ended June 30, 2011 to the fiscal year ended June 30, 2012, while total expenses decreased 3.67 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, 2012 and 2011. 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	
	2012	2011	2012	2011
General government	\$ 806,594	\$ 937,120	\$ 723,954	\$ 830,678
Public safety	4,024,327	3,858,503	3,604,135	3,459,487
Judicial	48,203	54,626	(89,055)	(75,314)
Recreation	632,878	718,319	596,825	674,979
Highways and street	1,270,109	1,360,429	1,060,792	1,069,496
Sanitation	6,115	3,210	6,115	3,210
Housing and community development	796,585	677,512	352,556	318,076
Education	10,715,766	9,824,333	3,380,659	2,564,877
Interest on long-term debt	68,161	66,927	68,161	66,927
Total Net Expenditures	<u>\$ 18,368,738</u>	<u>\$ 17,500,979</u>	<u>\$ 9,704,142</u>	<u>\$ 8,912,416</u>

The information below details general revenues of the City's governmental activities for the fiscal years ended June 30, 2012 and 2011. These revenues are required to cover the net expenditures listed above.

Revenues by Source

	2012	2011
Property taxes	\$ 3,013,446	\$ 2,986,399
In lieu of taxes	357,819	323,835
Sales taxes	2,413,904	2,388,648
Alcoholic beverage taxes	511,423	479,525
Other local taxes	359,229	312,785
Other state taxes	678,998	691,358
Other	80,973	133,508
Unrestricted investment earnings	49,667	96,071
Gain on sale of assets	719,991	-
Transfers	1,159,669	986,424
Total General Revenues and Transfers	<u>\$ 9,345,119</u>	<u>\$ 8,398,553</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, 2012						
Total Assets	\$ 19,817,226	\$ 73,546,481	\$ 20,962,190	\$ 1,673,178	\$ 652,417	\$ 116,651,492
Net Assets	15,156,688	46,423,411	12,722,410	(1,152,329)	586,260	73,736,440
Change in Net Assets	7,279	1,884,341	444,782	556,877	(85,671)	2,807,608
Return on Ending Total Assets	0.04%	2.56%	2.12%	33.28%	-13.13%	2.41%
Return on Ending Net Assets	0.05%	4.06%	3.50%	n/a	-14.61%	3.81%
Fiscal Year Ended June 30, 2011						
Total Assets	\$ 20,311,211	\$ 72,392,040	\$ 20,779,448	\$ 2,110,566	\$ 732,820	\$ 116,326,085
Net Assets	15,149,409	44,539,070	12,277,628	(1,709,206)	671,931	70,928,832
Change in Net Assets	776,748	2,401,064	137,714	459,525	61,531	3,836,582
Return on Ending Total Assets	3.82%	3.32%	0.66%	21.77%	8.40%	3.30%
Return on Ending Net Assets	5.13%	5.39%	1.12%	n/a	9.16%	5.41%

CAPITAL ASSETS

As of June 30, 2012, the City has \$95 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 \$1,250,977, or 1.33 percent, over last year.

The following is a summary of capital assets for fiscal years ended June 30, 2012 and 2011, for governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Land	\$ 3,400,563	\$ 2,601,221	\$ 1,077,836	\$ 1,076,018	\$ 4,478,399	\$ 3,677,239
Buildings	13,223,456	13,026,811	3,828,247	3,758,471	17,051,703	16,785,282
Improvements other than buildings	1,589,259	1,526,588	-	-	1,589,259	1,526,588
Machinery and equipment	8,090,366	7,867,200	122,731,394	118,222,988	130,821,760	126,090,188
Infrastructure	2,611,110	3,055,148	605,705	585,663	3,216,815	3,640,811
Total plane and equipment in service	28,914,754	28,076,968	128,243,182	123,643,140	157,157,936	151,720,108
Construction work in progress	2,446,877	2,123,584	1,677,744	2,539,671	4,124,621	4,663,255
	31,361,631	30,200,552	129,920,926	126,182,811	161,282,557	156,383,363
Less accumulated depreciation	(11,472,327)	(10,709,362)	(54,746,715)	(51,861,463)	(66,219,042)	(62,570,825)
	<u>\$ 19,889,304</u>	<u>\$ 19,491,190</u>	<u>\$ 75,174,211</u>	<u>\$ 74,321,348</u>	<u>\$ 95,063,515</u>	<u>\$ 93,812,538</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental and business-type activities, decreased in fiscal year 2012 by \$3,303,642.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2012	2011	2012	2011	2012	2011
Bonds						
General Obligation	\$ 1,675,000	\$ 1,780,000	\$ 9,255,000	\$ 7,150,000	\$ 10,930,000	\$ 8,930,000
Revenue	-	-	20,355,000	24,845,000	20,355,000	24,845,000
Less deferred amounts	(24,222)	(26,085)	(141,831)	(119,808)	(166,053)	(145,893)
Total Bonds	<u>1,650,778</u>	<u>1,753,915</u>	<u>29,468,169</u>	<u>31,875,192</u>	<u>31,118,947</u>	<u>33,629,107</u>
Loans						
Tennessee municipal bond fund	-	-	-	-	-	-
Tennessee energy efficiency	99,114	123,892	-	-	99,114	123,892
General obligation capital outlay note	6,000,000	-	-	-	6,000,000	-
Tennessee utility relocation loan	-	-	1,763,995	1,888,285	1,763,995	1,888,285
Bond anticipation note	-	-	3,125,717	3,048,699	3,125,717	3,048,699
RUS economic development loan	-	-	86,250	131,250	86,250	131,250
Less deferred amounts	(69,148)	-	-	-	(69,148)	-
Total Loans	<u>6,029,966</u>	<u>123,892</u>	<u>4,975,962</u>	<u>5,068,234</u>	<u>11,005,928</u>	<u>5,192,126</u>
Totals	<u>\$ 7,680,744</u>	<u>\$ 1,877,807</u>	<u>\$ 34,444,131</u>	<u>\$ 36,943,426</u>	<u>\$ 42,124,875</u>	<u>\$ 38,821,233</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

During the last year, budget amendments approved by the Board of Mayor and Alderman totaled five hundred thousand dollars. These amendments include major items: such as new weapons for the police department, a new liner in the channel at Stonebridge Park and an appropriation to the Friends of the Library to retire debt related to the Library building. 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 2012, 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 2013 general fund budget was positively impacted by the projected increase in property tax receipts. The City has also seen a slight increase in sales tax revenues within the past years and is now projecting a small increase in the sales tax revenue. The City is planning a road widening project at William D. Jones Boulevard and a new road next to the existing Frito Lay building. Personnel benefits, retirement and health insurance costs continue to escalate. The City has now taken an active role in trying to decrease health insurance cost by implementing a wellness plan within our insurance coverage. The City is hopeful this change will help control the increasing cost of health insurance.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

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

BASIC FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 13,012,124	\$ 23,147,334	\$ 36,159,458
Receivables	3,043,268	5,800,686	8,843,954
Internal balances	49,456	(49,456)	-
Inventory	49,497	1,801,529	1,851,026
Prepaid expenses	109,886	521,291	631,177
Restricted assets	6,023,900	1,971,571	7,995,471
Special funds	-	6,042,242	6,042,242
Other assets	-	2,192,628	2,192,628
Capital assets (net of accumulated depreciation)			
Land	3,400,563	1,077,836	4,478,399
Buildings	7,821,443	2,198,479	10,019,922
Improvements other than buildings	1,079,088	-	1,079,088
Machinery and equipment	3,870,788	70,137,849	74,008,637
Infrastructure	1,270,545	82,303	1,352,848
Construction in progress	2,446,877	1,677,744	4,124,621
TOTAL ASSETS	<u>42,177,435</u>	<u>116,602,036</u>	<u>158,779,471</u>
LIABILITIES			
Accounts payable and accrued expenses	755,706	5,614,230	6,369,936
Accrued interest payable	-	205,332	205,332
Deferred revenues	1,955,888	-	1,955,888
Deposits	-	1,435,854	1,435,854
Liabilities payable from restricted assets			
Accounts payable	39,999	-	39,999
Noncurrent liabilities:			
Due in one year	831,157	2,364,458	3,195,615
Due in more than one year	8,121,070	33,245,722	41,366,792
TOTAL LIABILITIES	<u>11,703,820</u>	<u>42,865,596</u>	<u>54,569,416</u>
NET ASSETS			
Invested in capital assets, net of related debt	19,370,655	41,490,184	60,860,839
Restricted for:			
Debt service	-	1,971,562	1,971,562
Improvements and construction	381,974	9	381,983
Drug education and enforcement	102,035	-	102,035
Community development	455,775	-	455,775
Education	4,671,145	-	4,671,145
Unrestricted	5,492,031	30,274,685	35,766,716
TOTAL NET ASSETS	<u>\$ 30,473,615</u>	<u>\$ 73,736,440</u>	<u>\$ 104,210,055</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, 2012

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	
					Governmental Activities	Business-type Activities
<u>Governmental activities:</u>						
General government	\$ 806,594	\$ 82,640	\$ -	\$ -	\$ (723,954)	\$ -
Public safety	4,024,327	-	420,192	-	(3,604,135)	-
Judicial	48,203	137,258	-	-	89,055	-
Recreation	632,878	36,053	-	-	(596,825)	-
Highways and streets	1,270,109	-	176,987	32,330	(1,060,792)	-
Sanitation	6,115	-	-	-	(6,115)	-
Housing and community development	796,385	402,945	41,084	-	(352,556)	-
Education	10,715,766	291,459	7,043,648	-	(3,380,659)	-
Interest on long-term debt	68,161	-	-	-	(68,161)	-
Total governmental activities	18,368,738	950,355	7,681,911	32,330	(9,704,142)	-
<u>Business-type activities:</u>						
Electric	41,068,508	43,047,044	-	522,292	-	2,500,828
Gas	5,765,231	5,976,369	-	-	-	211,138
Telecom	2,987,570	3,533,358	-	9,952	-	555,740
Water and sewer	3,855,420	4,342,000	-	74,843	-	561,423
Sanitation	338,796	376,760	-	-	-	37,964
Total business-type activities	54,015,525	57,275,531	-	607,087	-	3,867,093
Total Government	\$ 72,384,263	\$ 58,225,886	\$ 7,681,911	\$ 639,417	(9,704,142)	(5,837,049)
General revenues:						
Property taxes					3,013,446	3,013,446
Business taxes					225,424	225,424
In lieu of tax					357,819	357,819
Sales taxes					2,413,904	2,413,904
Occupancy taxes					37,686	37,686
Alcoholic beverage taxes					511,423	511,423
Franchise taxes					95,518	95,518
Other local taxes					601	601
State shared revenues					678,998	678,998
Other					80,973	80,973
Gain on sale of capital assets					719,991	14,494
Unrestricted investment earnings					49,667	85,690
Transfers					1,159,669	(1,159,669)
Total general revenues and transfers					9,345,119	(1,059,485)
Change in net assets					(359,023)	2,807,608
Net assets - beginning, restated					30,832,638	70,928,832
Net assets - ending					\$ 30,473,615	\$ 73,736,440
						\$ 104,210,055

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

BALANCE SHEET
GOVERNMENTAL FUNDS
- CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

	General	School General	School Capital Projects	Other Governmental Funds	Total Governmental Funds
<u>ASSETS</u>					
Cash	\$ 5,369,684	\$ 4,910,392	\$ -	\$ 2,732,048	\$ 13,012,124
Cash - restricted	-	7,132	5,594,795	-	5,601,927
Investments - restricted	179,900	-	-	242,073	421,973
Receivables	2,098,631	385	-	544	2,099,560
Due from other funds	49,459	8,676	-	-	58,135
Due from other governments	692,624	203,936	-	47,148	943,708
Inventory	34,940	-	-	14,557	49,497
Prepaid expenses	109,886	-	-	-	109,886
TOTAL ASSETS	\$ 8,535,124	\$ 5,130,521	\$ 5,594,795	\$ 3,036,370	\$ 22,296,810
<u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Accounts payable	\$ 71,540	\$ 216	\$ 57,324	\$ 5,382	\$ 134,462
Other accrued expenses	103,529	470,809	-	31,715	606,053
Due to other funds	-	-	-	8,679	8,679
Deferred revenue	2,413,819	89,683	-	36,375	2,539,877
Payable from restricted assets	39,999	-	-	-	39,999
TOTAL LIABILITIES	2,628,887	560,708	57,324	82,151	3,329,070
Fund balances:					
Nonspendable					
Inventory and prepayments	144,826	-	-	14,557	159,383
Restricted:					
Career ladder	-	7,132	-	-	7,132
BEP reserve	-	182,157	-	-	182,157
Road improvements	139,901	-	-	-	139,901
Capital projects	-	-	5,537,471	722,551	6,260,022
Public safety	-	-	-	102,035	102,035
Assigned:					
Budget reserve	-	1,212,900	-	176,740	1,389,640
Industrial park	-	-	-	42,918	42,918
Capital projects	-	-	-	1,470,953	1,470,953
Education	-	3,167,624	-	112,942	3,280,566
Debt service	-	-	-	311,523	311,523
Unassigned	5,621,510	-	-	-	5,621,510
TOTAL FUND BALANCES	5,906,237	4,569,813	5,537,471	2,954,219	18,967,740
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,535,124	\$ 5,130,521	\$ 5,594,795	\$ 3,036,370	

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.

19,889,304

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

583,989

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

(8,967,418)

Net assets of governmental activities

\$ 30,473,615

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, 2012

	General	School General	School Capital Projects	Other Governmental Funds	Total Governmental Funds
REVENUES					
Taxes					
Property	\$ 1,912,378	\$ -	\$ -	\$ -	\$ 1,912,378
Business	212,656	-	-	-	212,656
Wholesale beer	342,604	-	-	-	342,604
Alcoholic beverage	136,938	-	-	-	136,938
Sales	1,667,248	-	-	-	1,667,248
Occupancy	35,432	-	-	-	35,432
Tax equivalency	357,819	-	-	-	357,819
Licenses and permits	56,887	-	-	-	56,887
Fines	124,144	-	-	13,114	137,258
Franchise fees	95,719	-	-	-	95,719
Intergovernmental	1,371,262	7,624,345	-	1,283,207	10,278,814
Charges for services and use of property	428,698	142,531	-	164,438	735,667
Investment earnings	9,196	32,066	4,702	3,703	49,667
Recreation activities	36,053	-	-	-	36,053
Other revenue	35,426	15,714	-	19,198	70,338
TOTAL REVENUES	6,822,460	7,814,656	4,702	1,483,660	16,125,478
EXPENDITURES					
Current					
General government	750,109	-	-	427	750,536
Public safety	3,663,055	-	-	25,031	3,688,086
Judicial	48,341	-	-	-	48,341
Recreation	552,115	-	-	-	552,115
Highways and streets	1,131,905	-	-	-	1,131,905
Sanitation	-	-	-	13,605	13,605
Housing and community development	791,788	-	-	-	791,788
Education	-	9,013,378	-	1,469,934	10,483,312
Debt service					
Principal	-	19,144	-	129,778	148,922
Interest	-	81,379	-	62,269	143,648
Debt issuance costs	-	-	75,406	-	75,406
Capital outlay	-	159,349	393,731	431,159	984,239
TOTAL EXPENDITURES	6,937,313	9,273,250	469,137	2,132,203	18,811,903
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(114,853)	(1,458,594)	(464,435)	(648,543)	(2,686,425)
OTHER FINANCING SOURCES (USES)					
Transfers in	1,165,841	752,330	-	242,546	2,160,717
Transfers out	(966,376)	-	-	(34,672)	(1,001,048)
Capital leases issued	-	53,805	-	-	53,805
Capital outlay notes issued	-	-	6,000,000	-	6,000,000
Premiums on debt issued	-	-	1,906	-	1,906
Insurance proceeds	4,406	430	-	-	4,836
Proceeds from disposition of capital assets	726,863	-	-	842	727,705
TOTAL OTHER FINANCING SOURCES (USES)	930,734	806,565	6,001,906	208,716	7,947,921
NET CHANGE IN FUND BALANCES	815,881	(652,029)	5,537,471	(439,827)	5,261,496
Fund balance - beginning	5,090,356	5,221,842	-	3,394,046	13,706,244
Fund balance - ending	<u>\$ 5,906,237</u>	<u>\$ 4,569,813</u>	<u>\$ 5,537,471</u>	<u>\$ 2,954,219</u>	<u>\$ 18,967,740</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, 2012

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

Net change in fund balances - total governmental funds	\$ 5,261,496
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.	405,829
The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets.	(7,714)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	170
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.	(5,837,598)
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.	(181,206)
Change in net assets of governmental activities	<u>\$ (359,023)</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, 2012

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
<u>ASSETS</u>			
Current Assets			
Cash for general use	\$ 22,869,468	\$ 277,866	\$ 23,147,334
Accounts receivable	5,368,589	27,023	5,395,612
Other receivables	405,074	-	405,074
Inventories	1,801,529	-	1,801,529
Prepaid expenses	521,291	-	521,291
Total current assets	30,965,951	304,889	31,270,840
Special and Restricted Funds	8,013,813	-	8,013,813
Capital Assets, net of accumulated depreciation	74,826,683	347,528	75,174,211
Other Assets	2,192,628	-	2,192,628
TOTAL ASSETS	115,999,075	652,417	116,651,492
<u>LIABILITIES</u>			
Current Liabilities			
Current maturities of long-term debt payable from current assets	1,881,630	-	1,881,630
Accounts payable	4,347,600	3,281	4,350,881
Due to other funds	-	49,456	49,456
Customer deposits	1,435,854	-	1,435,854
Accrued interest	205,332	-	205,332
Other accrued liabilities	723,215	1,986	725,201
Total current liabilities	8,593,631	54,723	8,648,354
Other Liabilities			
Advances from TVA	880,245	-	880,245
Long-term debt payable from special funds	140,731	-	140,731
OPEB liabilities, net	357,756	-	357,756
Compensated absences	454,762	11,434	466,196
Total other liabilities	1,833,494	11,434	1,844,928
Long-term debt	32,421,770	-	32,421,770
TOTAL LIABILITIES	42,848,895	66,157	42,915,052
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	41,142,656	347,528	41,490,184
Restricted for debt service	1,971,562	-	1,971,562
Restricted for improvements and construction	9	-	9
Unrestricted	30,035,953	238,732	30,274,685
TOTAL NET ASSETS	\$ 73,150,180	\$ 586,260	\$ 73,736,440

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, 2012

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Funds	Totals
<u>OPERATING REVENUES</u>			
Charges for services	\$ 55,403,082	\$ 376,760	\$ 55,779,842
Other	1,495,689	-	1,495,689
TOTAL OPERATING REVENUE	<u>56,898,771</u>	<u>376,760</u>	<u>57,275,531</u>
<u>OPERATING EXPENSES</u>			
Cost of utility services	38,694,540	-	38,694,540
Pumping, distribution and collection	5,348,050	324,515	5,672,565
Customer billing and collecting	1,400,717	-	1,400,717
General and administrative	1,996,491	-	1,996,491
Taxes and tax equivalents	348,621	-	348,621
Provision for depreciation	4,204,408	14,281	4,218,689
Other	312,078	-	312,078
TOTAL OPERATING EXPENSES	<u>52,304,905</u>	<u>338,796</u>	<u>52,643,701</u>
INCOME FROM OPERATIONS	<u>4,593,866</u>	<u>37,964</u>	<u>4,631,830</u>
<u>OTHER INCOME AND EXPENSE</u>			
Interest income	85,319	371	85,690
Interest expense	(1,288,780)	-	(1,288,780)
Amortization	(99,887)	-	(99,887)
Gain on sale of capital assets	-	14,494	14,494
Miscellaneous	16,843	-	16,843
Other Income (Expense) -net	<u>(1,286,505)</u>	<u>14,865</u>	<u>(1,271,640)</u>
Income before contributions and transfers	3,307,361	52,829	3,360,190
Capital contributions in aid of construction	607,087	-	607,087
Transfers out	<u>(1,021,169)</u>	<u>(138,500)</u>	<u>(1,159,669)</u>
CHANGE IN NET ASSETS	<u>2,893,279</u>	<u>(85,671)</u>	<u>2,807,608</u>
TOTAL NET ASSETS, BEGINNING OF YEAR, RESTATED	70,256,901	671,931	70,928,832
NET ASSETS, END OF YEAR	<u>\$ 73,150,180</u>	<u>\$ 586,260</u>	<u>\$ 73,736,440</u>

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

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2012

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (including other funds)	\$ 56,915,526	\$ 386,182	\$ 57,301,708
Payments to suppliers and others	(43,709,529)	(207,782)	(43,917,311)
Payments to employees	(4,046,966)	(111,465)	(4,158,431)
NET CASH PROVIDED BY OPERATING ACTIVITIES	9,159,031	66,935	9,225,966
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	(1,021,169)	(138,500)	(1,159,669)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(1,021,169)	(138,500)	(1,159,669)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to capital assets, net	(5,614,536)	-	(5,614,536)
Removal costs of capital assets	(481,261)	-	(481,261)
Materials salvaged from retirement of capital assets	129,337	-	129,337
Capital contributions received	606,087	-	606,087
Proceeds from disposal of assets	330	49,348	49,678
(Gain) loss on asset retirements, net	(7,684)	-	(7,684)
Long-term borrowings, net	82,725	-	82,725
Borrowings repaid	(2,509,290)	-	(2,509,290)
Issue costs paid	(107,755)	-	(107,755)
Interest paid, net	(1,273,896)	-	(1,273,896)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(9,175,943)	49,348	(9,126,595)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	93,606	371	93,977
Other nonoperating income (expense), net	16,512	-	16,512
NET CASH PROVIDED BY INVESTING ACTIVITIES	110,118	371	110,489
INCREASE (DECREASE) IN CASH, NET	(927,963)	(21,846)	(949,809)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	31,811,244	299,712	32,110,956
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 30,883,281	\$ 277,866	\$ 31,161,147
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 4,593,866	\$ 37,964	\$ 4,631,830
Adjustments to reconcile income from operations to net cash provided by operating activities -			
Depreciation, including amounts capitalized	4,550,857	14,281	4,565,138
Loss on disallowance of plant	522,292	-	522,292
Conservation loans advanced - customers	(249,749)	-	(249,749)
Conservation loans collected - customers	163,913	-	163,913
Conservation advances from TVA	308,059	-	308,059
Conservation advances repaid to TVA	(236,870)	-	(236,870)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(15,708)	9,422	(6,286)
Inventories	(272,800)	-	(272,800)
Prepaid expenses and other assets	(130,579)	-	(130,579)
Accounts payable	(302,539)	(15,907)	(318,446)
Accrued employee benefits	101,270	-	101,270
Customer deposits	113,198	-	113,198
Due to other funds	-	25,394	25,394
Other current liabilities and compensated absences	13,821	(4,219)	9,602
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 9,159,031	\$ 66,935	\$ 9,225,966
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:			
Water bond anticipation notes refinanced	\$ 137,813		
Telecom Series 2000 revenue bonds refunded	(2,660,000)		
Telecom Series 2011 bond proceeds used to refund Series 2000 bonds	2,660,000		

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, 2012

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes				
Property	\$ 1,920,000	\$ 1,920,000	\$ 1,912,378	\$ (7,622)
Business	193,000	193,000	212,656	19,656
Wholesale beer	315,000	315,000	342,604	27,604
Alcoholic beverage	115,000	115,000	136,938	21,938
Sales	1,690,000	1,690,000	1,667,248	(22,752)
Tax equivalency	360,383	360,383	357,819	(2,564)
Occupancy	30,000	30,000	35,432	5,432
Licenses and permits	36,800	36,800	56,887	20,087
Fines	111,500	111,500	124,144	12,644
Franchise fees	105,000	105,000	95,719	(9,281)
Intergovernmental				
State sales tax allocation	445,000	445,000	461,077	16,077
State income tax allocation	20,000	20,000	39,159	19,159
State beer tax allocation	3,350	3,350	3,351	1
State mixed drink tax allocation	22,000	22,000	28,442	6,442
State gasoline and motor fuel tax allocation	190,000	190,000	176,163	(13,837)
State city streets and transportation system	15,000	15,000	14,014	(986)
State excise tax allocation	15,000	15,000	27,658	12,658
State TVA in-lieu of tax	79,000	79,000	78,929	(71)
Lincoln County Emergency Communications	419,240	419,240	468,334	49,094
Housing authority	24,050	24,050	41,805	17,755
State and federal grants	-	-	32,330	32,330
Charges for services and use of property	413,000	413,000	428,698	15,698
Investment earnings	22,000	22,000	9,196	(12,804)
Recreation activities	47,000	47,000	36,053	(10,947)
Other revenue	38,750	38,750	35,426	(3,324)
TOTAL REVENUES	6,630,073	6,630,073	6,822,460	192,387
Expenditures:				
General government				
Salaries	396,347	396,347	390,429	5,918
Supplies	6,925	6,925	6,154	771
Utilities	38,020	38,020	35,968	2,052
Repairs and maintenance	15,285	18,344	28,152	(9,808)
Health insurance	57,200	57,200	57,332	(132)
Workers compensation	7,519	7,519	3,608	3,911
Payroll taxes	33,223	33,223	31,930	1,293
Employee education	10,125	10,125	4,230	5,895
Professional services	39,650	39,650	46,302	(6,652)
Travel	15,525	15,525	3,189	12,336
Retirement	37,125	37,125	34,460	2,665
Other insurance	15,132	15,132	13,298	1,834
Other general government	96,018	106,924	95,057	11,867
	768,094	782,059	750,109	31,950

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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Public safety				
Salaries	\$ 2,292,913	\$ 2,348,529	\$ 2,348,529	\$ -
Supplies	34,550	30,150	30,150	-
Utilities	86,125	89,933	89,933	-
Repairs and maintenance	99,213	104,259	104,259	-
Health insurance	341,000	372,294	372,294	-
Workers compensation	91,320	67,572	67,572	-
Payroll taxes	177,213	176,292	176,292	-
Employee education	7,400	3,302	3,302	-
Travel	4,000	2,873	2,873	-
Retirement	224,275	222,130	222,130	-
Other insurance	62,815	60,319	60,319	-
Fuel	87,600	83,423	83,423	-
Professional services	2,540	2,229	2,229	-
Other public safety	37,013	99,750	99,750	-
	<u>3,547,977</u>	<u>3,663,055</u>	<u>3,663,055</u>	<u>-</u>
Judicial				
Salaries	30,412	30,412	28,671	1,741
Health insurance	15,655	15,655	13,137	2,518
Payroll taxes	2,334	2,334	1,861	473
Retirement	2,925	2,925	1,267	1,658
Other judicial	3,279	6,400	3,405	2,995
	<u>54,605</u>	<u>57,726</u>	<u>48,341</u>	<u>9,385</u>
Recreation				
Salaries	260,243	260,243	253,594	6,649
Supplies	35,725	35,725	36,789	(1,064)
Utilities	57,570	57,570	49,903	7,667
Repairs and maintenance	26,640	26,640	35,932	(9,292)
Health insurance	34,000	34,000	39,318	(5,318)
Workers compensation	9,745	9,745	8,758	987
Payroll taxes	20,840	20,840	19,892	948
Professional services	22,175	22,175	23,314	(1,139)
Travel	1,000	1,000	66	934
Retirement	24,200	24,200	24,224	(24)
Other insurance	10,718	10,718	11,017	(299)
Fuel	14,600	14,600	12,750	1,850
Other recreation	42,669	42,669	36,558	6,111
	<u>560,125</u>	<u>560,125</u>	<u>552,115</u>	<u>8,010</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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Highways and streets				
Salaries	\$ 534,283	\$ 534,283	\$ 495,651	\$ 38,632
Supplies	9,700	9,700	9,806	(106)
Utilities	24,900	24,900	20,048	4,852
Repairs and maintenance	20,300	20,300	39,899	(19,599)
Health insurance	112,000	112,000	127,369	(15,369)
Workers compensation	31,275	31,275	24,519	6,756
Payroll taxes	41,413	41,413	37,444	3,969
Professional services	900	900	3,921	(3,021)
Retirement	52,300	52,300	45,638	6,662
Other insurance	9,722	9,722	7,933	1,789
Fuel	69,000	69,000	62,389	6,611
Street lighting	140,000	140,000	163,397	(23,397)
Other highways and streets	103,306	103,306	93,891	9,415
	<u>1,149,099</u>	<u>1,149,099</u>	<u>1,131,905</u>	<u>17,194</u>
Housing and community development				
Nonprofit allocations	196,077	225,530	225,530	-
Fuel	340,000	392,898	392,898	-
Industrial development	90,000	90,000	90,000	-
Other housing and community development	82,970	83,360	83,360	-
	<u>709,047</u>	<u>791,788</u>	<u>791,788</u>	<u>-</u>
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>6,788,947</u>	<u>7,003,852</u>	<u>6,937,313</u>	<u>66,539</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(158,874)</u>	<u>(373,779)</u>	<u>(114,853)</u>	<u>258,926</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	1,124,676	1,124,676	1,165,841	41,165
Transfers out	(944,377)	(944,377)	(966,376)	(21,999)
Insurance proceeds	-	-	4,406	4,406
Sale of capital assets	6,500	6,500	726,863	720,363
TOTAL OTHER FINANCING SOURCES (USES)	<u>186,799</u>	<u>186,799</u>	<u>930,734</u>	<u>743,935</u>
NET CHANGE IN FUND BALANCES	27,925	(186,980)	815,881	1,002,861
Fund balance - beginning	5,090,356	5,090,356	5,090,356	-
Fund balance - ending	<u>\$ 5,118,281</u>	<u>\$ 4,903,376</u>	<u>\$ 5,906,237</u>	<u>\$ 1,002,861</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, 2012

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Intergovernmental				
Lincoln County	\$ 2,002,360	\$ 2,002,360	\$ 1,851,278	\$ (151,082)
State of Tennessee	5,894,156	5,898,384	5,764,155	(134,229)
Federal	36,000	36,000	8,912	(27,088)
Charges for services and use of property	176,000	176,000	142,531	(33,469)
Investment earnings	60,000	60,000	32,066	(27,934)
Other revenue	215,000	225,025	15,714	(209,311)
TOTAL REVENUES	8,383,516	8,397,769	7,814,656	(583,113)
EXPENDITURES				
Instruction				
Regular instruction program	4,679,455	4,747,707	4,637,002	110,705
Special education program	416,725	426,699	417,439	9,260
Vocational education program	206,555	216,030	205,659	10,371
Student body education program	10,000	48,534	45,369	3,165
Support services				
Attendance	61,506	61,506	51,886	9,620
Health services	198,745	199,929	169,196	30,733
Other student support	225,870	226,750	201,560	25,190
Regular instruction program	349,112	354,273	317,046	37,227
Special education program	59,610	59,610	59,033	577
Vocational education program	42,630	696	556	140
Board of education	202,768	208,088	184,378	23,710
Office of the superintendent	166,610	166,906	156,691	10,215
Office of the principal	703,883	707,113	673,173	33,940
Fiscal services	121,345	124,282	115,488	8,794
Operation of plant	684,725	686,632	547,578	139,054
Maintenance of plant	174,992	175,877	149,657	26,220
Transportation	142,012	143,487	131,652	11,835
Central office	401,963	402,555	337,184	65,371
Community services	162,000	163,377	125,722	37,655
Early childhood education	526,389	530,499	487,109	43,390
Debt service				
Interest on notes	-	81,500	81,379	121
Principal on capital leases	-	19,144	19,144	-
Capital outlay	250,000	181,038	159,349	21,689
TOTAL EXPENDITURES	9,786,895	9,932,232	9,273,250	658,982
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,403,379)	(1,534,463)	(1,458,594)	75,869
OTHER FINANCING SOURCES (USES)				
Transfers in	752,330	752,330	752,330	-
Capital leases issued	-	53,805	53,805	-
Insurance recovery	-	430	430	-
Total Other Financing Sources (Uses)	752,330	806,565	806,565	-
Net changes in fund balances	(651,049)	(727,898)	(652,029)	75,869
Fund balance - beginning	5,221,842	5,221,842	5,221,842	-
Fund balance - ending	\$ 4,570,793	\$ 4,493,944	\$ 4,569,813	\$ 75,869

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

NOTES TO FINANCIAL STATEMENTS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

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, 2012 -

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Economic Resources Measurement Focus and Accrual Basis of Accounting

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

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.

The school capital projects fund accounts for the financial resources provided by debt issuance and used for capital improvements projects.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

2. Modified Accrual (Continued)

The government reports the following major proprietary funds:

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

The sanitation fund accounts for the activities of the City's garbage collection and disposal.

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

1. Cash and cash equivalents

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

2. Investments

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

3. Interfund Receivables and Payables

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

4. Receivables

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

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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, 2012, is \$179,900. 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 buildings	10-20 years
Machinery, equipment and other	5-15 years

8. Compensated Absences

The City's policies regarding leave time permit employees to accumulate earned but unused vacation leave and sick leave benefits. The liability for these compensated absences is recorded as long-term debt in the government-wide statements. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

9. Long-Term Liabilities

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

10. Net Assets and Fund Equity

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

10. Net Assets and Fund Equity (Continued)

The governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in these funds can be spent. These classifications may consist of the following:

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

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

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

Assigned fund balance – includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The Fayetteville Board of Mayor and Aldermen has not authorized anyone to make assignments. For the Fayetteville City Schools this intent can be expressed by the Board of Education or through the Board delegating this responsibility to the Director of Schools through the budgetary process. This classification also includes the remaining positive fund balance for all special revenue funds. The Fayetteville City Schools has assigned resources in next year's budget as a reserve to eliminate a projected deficit of projected revenues to expenditures.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

11. 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. FPU's net interest expense of \$5,508 was capitalized during the fiscal year ending June 30, 2012. The School's net interest expense capitalized for the same period was \$85,574.

12. Estimates

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

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

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

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities, including bonds and loans payable are not due and payable in the current period and therefore are not reported in the funds." The details of this \$8,967,418 difference are identified as follows:

Bonds and notes payable	\$ 7,774,113
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(110,028)
Add: Issuance premium (to be amortized as interest income)	16,659
Accrued interest payable	15,191
Capital leases	34,660
Compensated absences	549,311
Other postemployment benefit obligations	449,966
Landfill post closure costs	<u>237,546</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 8,967,418</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

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

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

Another element of that reconciliation explains that "capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds." The details of this \$19,889,304 difference are as follows:

Land	\$ 3,400,563
Construction in progress	2,446,877
Buildings and improvements	14,812,715
Less: Accumulated depreciation-buildings	(5,889,620)
Machinery and equipment	8,090,366
Less: Accumulated depreciation-machinery and equipment	(4,268,507)
Infrastructure	2,611,110
Less: Accumulated depreciation-infrastructure	<u>(1,314,200)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 19,889,304</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 \$405,829 difference are as follows:

Capital outlay	\$ 1,283,962
Depreciation expense	<u>(878,133)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 405,829</u>

Another element of that reconciliation explains that "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this \$(181,206) difference are as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

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

Compensated absences	\$ (71,592)
Net OPEB obligation	(108,458)
Accrued interest	(10,087)
Landfill post closure costs	<u>8,931</u>

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (181,206)</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 decrease net assets.” The details of this \$(7,714) difference are as follows:

In the statement of activities, only the gain or loss on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets sold.	<u>\$ (7,714)</u>
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Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (7,714)</u>
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Another element of that reconciliation states that “the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(5,837,598) difference are as follows:

Debt issued or incurred:	
General obligation capital outlay notes	\$ (6,000,000)
Premium on debt issuance	(1,906)
Debt issuance costs	75,406
Capital lease financing	(53,805)
Principal repayments:	
General obligation bond	105,000
Energy efficiency loan	24,778
Capital leases	19,145
Amortization of debt issuance costs	(7,472)
Amortization of debt premiums	<u>1,256</u>

Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (5,837,598)</u>
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NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

NOTE 4 - DETAILED NOTES ON ALL FUNDS

(A) Deposits and investments

The following is a summary of cash and investments as of June 30, 2012:

General use:		
On deposit and on hand		\$ 36,159,458
Restricted and other special funds:		
On deposit - restricted	\$ 7,573,497	
On deposit - special funds	6,042,242	
U.S. Government security - restricted	242,074	
Local Government Investment Pool - restricted	179,900	14,037,713
Total		<u>\$ 50,197,171</u>

A portion of 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, 2012, the following restricted funds were maintained:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

Sinking and reserve fund	\$ 1,971,562
Improvements and construction fund	<u>9</u>
	<u>\$ 1,971,571</u>

The remaining restricted assets shown on deposit above included \$7,132 restricted for career ladder expenditures and \$5,594,794 for construction and improvements to the Fayetteville City Schools.

Special funds totaling \$6,042,242 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 \$179,900 invested in the Local Government Investment Pool as required by the State of Tennessee as part of a bridge construction project.

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

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

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

Custodial credit risk – deposits - In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At June 30, 2012, 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, 2012, the City's cash consists of deposits in financial institutions with bank balances of \$50,572,077 and carrying amounts of \$49,771,397 plus cash on hand of \$3,800. Of the amounts on deposit, \$45,363,144 are fully insured by the FDIC or the Tennessee Bank Collateral Pool. The remaining \$4,408,253 is collateralized by securities pledged by financial institutions in the name of the City.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

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

(B) Receivables

Revenues of the Fayetteville Public Utilities are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are \$88,101.

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	\$ 1,997,085	\$ -	\$ 1,997,085
Other taxes receivable	337,865	-	337,865
Operating grants received but unspent	-	11,375	11,375
Other	<u>168,552</u>	<u>25,000</u>	<u>193,552</u>
	<u>\$ 2,503,502</u>	<u>\$ 36,375</u>	<u>\$ 2,539,877</u>

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

	<u>General</u>	<u>School General</u>	<u>Fayetteville Public Utilities</u>	<u>Sanitation Fund</u>	<u>Total</u>
Receivables:					
Interest	\$ -	\$ -	\$ 926	\$ -	\$ 926
Taxes	2,075,586	-	-	27,023	2,102,609
Accounts	40,277	929	5,783,425	-	5,824,631
Intergovernmental	<u>692,624</u>	<u>251,084</u>	<u>-</u>	<u>-</u>	<u>943,708</u>
Gross receivables	2,808,487	252,013	5,784,351	27,023	8,871,874
Less: Allowance for Uncollectibles	<u>(17,232)</u>	<u>-</u>	<u>(10,688)</u>	<u>-</u>	<u>(27,920)</u>
Net total receivables	<u>\$ 2,791,255</u>	<u>\$ 252,013</u>	<u>\$ 5,773,663</u>	<u>\$ 27,023</u>	<u>\$ 8,843,954</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets

Capital asset activity for the year ended June 30, 2012, 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	\$ 3,400,563	\$ -	\$ -	\$ 3,400,563
Construction in progress	<u>2,123,584</u>	<u>728,060</u>	<u>(404,767)</u>	<u>2,446,877</u>
Total capital assets, not being depreciated	<u>5,524,147</u>	<u>728,060</u>	<u>(404,767)</u>	<u>5,847,440</u>
Capital assets, being depreciated:				
Buildings	13,026,811	196,645	-	13,223,456
Improvements other than buildings	1,427,556	161,703	-	1,589,259
Machinery and equipment	7,867,200	346,049	(122,883)	8,090,366
Infrastructure	<u>2,354,838</u>	<u>256,272</u>	<u>-</u>	<u>2,611,110</u>
Total capital assets being depreciated	<u>24,676,405</u>	<u>960,669</u>	<u>(122,883)</u>	<u>25,514,191</u>
Less accumulated depreciation for:				
Buildings	(5,098,339)	(303,674)	-	(5,402,013)
Improvements other than buildings	(441,362)	(68,809)	-	(510,171)
Machinery and equipment	(3,908,184)	(426,563)	115,169	(4,219,578)
Infrastructure	<u>(1,261,477)</u>	<u>(79,088)</u>	<u>-</u>	<u>(1,340,565)</u>
Total accumulated depreciation	<u>(10,709,362)</u>	<u>(878,134)</u>	<u>115,169</u>	<u>(11,472,327)</u>
Total capital assets, being depreciated, net	<u>13,967,043</u>	<u>82,535</u>	<u>(7,714)</u>	<u>14,041,864</u>
Governmental activities capital assets, net	<u>\$ 19,491,190</u>	<u>\$ 810,595</u>	<u>\$ (412,481)</u>	<u>\$ 19,889,304</u>

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

Governmental Activities	
General government	\$ 69,047
Public safety	152,470
Recreation	71,067
Highways and streets	169,686
Housing and community development	4,797
Education	<u>411,067</u>
Total depreciation expense – governmental activities	<u>\$ 878,134</u>

Capital asset activity for the year ended June 30, 2012, for business-type activities is as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, not being depreciated:				
Land	\$ 1,076,018	\$ 1,818	\$ -	\$ 1,077,836
Construction in progress	<u>2,539,671</u>	<u>3,058,640</u>	<u>(3,920,567)</u>	<u>1,677,744</u>
Total capital assets, not being depreciated	<u>3,615,689</u>	<u>3,060,458</u>	<u>(3,920,567)</u>	<u>2,755,580</u>
Capital assets, being depreciated				
Structures and improvements	3,758,471	75,256	(5,480)	3,828,247
Machinery and equipment	118,222,988	5,857,039	(1,348,633)	122,731,394
Infrastructure	<u>585,663</u>	<u>37,981</u>	<u>(17,939)</u>	<u>605,705</u>
Total capital assets being depreciated	<u>122,567,122</u>	<u>5,970,276</u>	<u>(1,372,052)</u>	<u>127,165,346</u>
Less accumulated depreciation for:				
Structures and improvements	(1,535,782)	(99,316)	5,330	(1,629,768)
Machinery and equipment	(49,839,564)	(4,394,183)	1,640,202	(52,593,545)
Infrastructure	<u>(486,117)</u>	<u>(71,637)</u>	<u>34,352</u>	<u>(523,402)</u>
Total accumulated depreciation	<u>(51,861,463)</u>	<u>(4,565,136)</u>	<u>1,679,884</u>	<u>(54,746,715)</u>
Total capital assets, being depreciated, net	<u>70,705,659</u>	<u>1,405,140</u>	<u>307,832</u>	<u>72,418,631</u>
Business-type activities capital assets, net	<u>\$ 74,321,348</u>	<u>\$ 4,465,598</u>	<u>\$ (3,612,735)</u>	<u>\$ 75,174,211</u>

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

Business-type Activities	
Public utilities	\$ 4,550,855
Sanitation fund	<u>14,281</u>
Total depreciation expense – business-type activities	<u>\$ 4,565,136</u>

The amount of \$346,449 of electric division depreciation expense related to transportation equipment is allocated to utility plant and operating expenses based on usage.

Construction commitments

At June 30, 2012, the City's Fayetteville Public Utilities (FPU) enterprise fund had outstanding construction contract commitments totaling \$3,101,558.

At June 30, 2012, the Fayetteville City School System had uncompleted architectural and engineering contracts in the school capital projects fund. The remaining commitment on these contracts was approximately \$92,397.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(D) Interfund receivables, payables, and transfers

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All balances are expected to be liquidated within one year. The composition of interfund balances as of June 30, 2012, is as follows:

	<u>Due from</u>			
	<u>Internal Capital Projects</u>	<u>School General Fund</u>	<u>Sanitation Fund</u>	<u>Total</u>
Due to:				
General fund	\$ 3	\$ -	\$ 49,456	\$ 49,459
School title fund	<u>-</u>	<u>8,676</u>	<u>-</u>	<u>8,676</u>
	<u>\$ 3</u>	<u>\$ 8,676</u>	<u>\$ 49,456</u>	<u>\$ 58,135</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, 2012:

	<u>Transfers In</u>				
	<u>General Fund</u>	<u>School General Fund</u>	<u>Sanitation Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Transfers Out:					
General fund	\$ -	\$ 752,330	\$ -	\$ 214,046	\$ 966,376
Internal capital projects fund	<u>34,672</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,672</u>
Subtotal – governmental funds	<u>34,672</u>	<u>752,330</u>	<u>-</u>	<u>214,046</u>	<u>1,001,048</u>
Fayetteville Public Utilities	1,021,169	-	-	-	1,021,169
Sanitation fund	<u>110,000</u>	<u>-</u>	<u>-</u>	<u>28,500</u>	<u>138,500</u>
Subtotal – proprietary funds	<u>1,131,169</u>	<u>-</u>	<u>-</u>	<u>28,500</u>	<u>1,159,669</u>
	<u>\$ 1,165,841</u>	<u>\$ 752,330</u>	<u>\$ -</u>	<u>\$ 242,546</u>	<u>\$ 2,160,717</u>

NOTE 5 - PROPERTY TAXES

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 6 - LONG-TERM DEBT

(A) General Obligation Bonds

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

General obligation bonds currently outstanding are as follows:

Series 2009, \$10,100,000 general obligation bonds, issued June 2009 to refund revenue bonds totaling \$8,105,000 and general obligation bonds totaling \$915,000 maturing serially at annual interest rates ranging from 3.00% to 4.125% with final maturity in 2025. The bonds are subject to redemption prior to maturity beginning in 2018 at a redemption price of 100%. \$ 8,270,000

Series 2011, \$2,660,000 general obligation bonds, issued December 2011 to refund revenue bonds totaling \$3,600,000 maturing serially at annual interest rates ranging from 1.00% to 2.00% with final maturity in 2020. The bonds are additionally payable from telecom system revenues. The bonds are not subject to redemption prior to maturity. 2,660,000

Total general obligation bonds \$ 10,930,000

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

<u>Year ending</u> <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>
2013	\$ 110,000	\$ 59,118	\$ 895,000	\$ 259,545
2014	110,000	55,819	920,000	238,995
2015	115,000	52,519	920,000	217,797
2016	115,000	49,070	945,000	196,697
2017	115,000	45,619	950,000	174,450
2018-2022	650,000	166,331	3,625,000	479,686
2023-2025	<u>460,000</u>	<u>37,581</u>	<u>1,000,000</u>	<u>81,896</u>
Total	<u>\$ 1,675,000</u>	<u>\$ 466,057</u>	<u>\$ 9,255,000</u>	<u>\$ 1,649,066</u>

(B) Revenue Bonds

The City also issues bonds for which the government pledges income derived from the acquired or constructed assets to pay debt service. The original amount of these outstanding revenue bonds issued in prior years was \$22,475,000. Revenue bonds outstanding at June 30, 2012, are as follows:

Fayetteville Public Utilities (Electric Division):

Series 2009, \$12,525,000 revenue bonds, issued in August 2009 to currently refund debt totaling \$7,050,000, as well as finance the improvements and extensions of the electric distribution system. The bonds mature serially at annual interest rates ranging from 3.00% to 4.125% with final maturity in 2024. The bonds are subject to redemption prior to maturity on or after June 1, 2019, at a redemption price of 100%. \$ 10,405,000

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 6 - LONG-TERM DEBT (Continued)

(B) Revenue Bonds (Continued)

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

9,950,000

Total revenue bonds

\$ 20,355,000

Revenue bond debt service requirements to maturity are as follows:

Year ending <u>June 30</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2013	\$ 920,000	\$ 768,769
2014	950,000	741,169
2015	1,025,000	712,669
2016	1,055,000	681,919
2017	1,085,000	650,269
2018-2022	6,020,000	2,664,661
2023-2027	7,550,000	1,358,111
2028	<u>1,750,000</u>	<u>74,375</u>
Total	<u>\$ 20,355,000</u>	<u>\$ 7,651,942</u>

(C) Loans

The City has the following loans outstanding at June 30, 2012:

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.

\$ 99,114

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.

86,250

Fayetteville Public Utilities (Water Division)

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

1,763,995

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

2,950,877

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 6 - LONG-TERM DEBT (Continued)

(C) Loans (Continued)

Loan with local financial institution in the amount of \$4,865,000 to finance the cost of certain extensions and improvements to the Water and Wastewater Department's water and wastewater system. The loan matures October 25, 2013, and bears interest at 3.00%. This loan is authorized under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of \$4,980,000 bonds through the USDA under the Consolidated Farm and Rural Development Act. Accordingly, the loan is included in long-term debt based on the terms of the anticipated bond issue.

174,840

Fayetteville City School System

Series 2011 general obligation capital outlay notes in the original amount of \$6,000,000, issued in October 2011 to finance school system capital outlay projects. The bonds mature serially at annual interest rates ranging from 1.00% to 3.00%, with final maturity in 2024. The Fayetteville City School System is to transfer amounts to the City's general government to pay debt service on the notes pursuant to an interlocal agreement between the School System and the City's general government dated September 13, 2011.

6,000,000

Total Loans

\$ 11,075,076

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

<u>Year ending</u> <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>
2013	\$ 424,778	\$ 124,138	\$ 207,361	\$ 206,685
2014	439,778	120,138	226,682	107,789
2015	449,779	115,988	190,058	95,734
2016	474,779	111,738	193,866	91,927
2017	475,000	104,988	197,749	88,044
2018-2022	2,635,000	368,638	1,049,818	379,147
2023-2027	1,200,000	52,987	755,053	278,483
2028-2032	-	-	413,602	224,499
2033-2037	-	-	463,740	174,363
2038-2042	-	-	519,989	118,112
2043-2047	-	-	583,106	54,996
2048-2050	-	-	174,938	3,169
Total	<u>\$ 6,099,114</u>	<u>\$ 998,615</u>	<u>\$ 4,975,962</u>	<u>\$ 1,822,948</u>

Current Refundings: On December 20, 2011, FPU issued \$2,660,000 in general obligation bonds which along with \$1,084,547 in FPU funds currently refund \$3,600,000 of FPU's telecom department revenue bonds. The refunding was undertaken to reduce FPU's future debt service requirements. The difference in the cash flow required to service the new debt versus the old totaled \$810,258. The refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$109,028. This difference, netted in the accompanying financial statements against bonds payable, is being amortized over the new debt's life which is the same as the refunded debt. FPU realized an economic gain (difference between the present values of the old and new debt service payments) on the refunding of \$669,971.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 6 - LONG-TERM DEBT (Continued)

(D) Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2012, was as follows: Governmental Activities:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds payable:					
General obligation bonds – fixed rate	\$1,780,000	\$ -	\$ (105,000)	\$ 1,675,000	\$ 110,000
Refunding costs	(42,094)	-	3,007	(39,087)	-
Unamortized bond premium	<u>16,009</u>	<u>-</u>	<u>(1,144)</u>	<u>14,865</u>	<u>-</u>
Total bonds payable	1,753,915	-	(103,137)	1,650,778	110,000
Loans payable:					
Tennessee Energy Efficiency Loan	123,892	-	(24,778)	99,114	24,778
General obligation capital outlay note	-	6,000,000	-	6,000,000	400,000
Unamortized premium	-	1,906	(113)	1,793	-
Unamortized debt issuance costs	<u>-</u>	<u>(75,406)</u>	<u>4,465</u>	<u>(70,941)</u>	<u>-</u>
Total loans payable	123,892	5,926,500	(20,426)	6,029,966	424,778
Capital leases	-	53,805	(19,145)	34,660	16,752
Landfill postclosure costs	246,477	-	(8,931)	237,546	9,000
Postemployment benefit obligation	341,508	231,284	(122,826)	449,966	-
Compensated absences	<u>477,718</u>	<u>306,949</u>	<u>(235,356)</u>	<u>549,311</u>	<u>270,627</u>
Governmental Activity Long-Term Liability	<u>\$2,943,510</u>	<u>\$6,518,538</u>	<u>\$ (509,821)</u>	<u>\$8,952,227</u>	<u>\$ 831,157</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 24,845,000	\$ -	\$(4,490,000)	\$20,355,000	\$ 920,000
General obligation	7,150,000	2,660,000	(555,000)	9,255,000	895,000
Unamortized bond discount	(45,627)	-	45,627	-	-
Unamortized bond premium	171,498	-	(9,359)	162,139	-
Refunding costs	<u>(245,679)</u>	<u>(101,456)</u>	<u>43,165</u>	<u>(303,970)</u>	<u>-</u>
Total bonds payable	31,875,192	2,558,544	(4,965,567)	29,468,169	1,815,000
Loans:					
Tennessee utility relocation loan	1,888,285	-	(124,290)	1,763,995	126,609
RUS economic development loan	131,250	-	(45,000)	86,250	45,000
Bond anticipation note	<u>3,048,699</u>	<u>214,830</u>	<u>(137,812)</u>	<u>3,125,717</u>	<u>35,752</u>
Total loans payable	5,068,234	214,830	(307,102)	4,975,962	207,361
Postemployment benefit obligation	256,486	106,655	(5,385)	357,756	-
Compensated absences	<u>822,272</u>	<u>333,628</u>	<u>(347,607)</u>	<u>808,293</u>	<u>342,097</u>
Business-type Activity Long-Term Liabilities	<u>\$ 38,022,184</u>	<u>\$3,213,657</u>	<u>\$(5,625,661)</u>	<u>\$35,610,180</u>	<u>\$ 2,364,458</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

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 in compliance with these requirements at June 30, 2012.

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, 2012, there were two series of IDRB outstanding. The aggregate principal amount payable was \$12,230,000. The original issue amounts totaled \$15,615,000.

NOTE 7 - CAPITAL LEASES

The Fayetteville City School System has entered into agreements to lease various equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations.

As of June 30, 2012, capital lease annual amortization is as follows:

	Year Ending June 30,	Governmental Activities
	2013	\$ 19,144
	2014	<u>19,144</u>
Total requirements		38,288
Less interest		<u>(3,628)</u>
Present value of remaining payments		<u>\$ 34,660</u>

Leased equipment under capital leases in capital assets at June 30, 2012, include the following:

Equipment	\$ 19,425
Less: Accumulated depreciation	<u>(1,781)</u>
Total	<u>\$ 17,644</u>

One capital lease for the purchase of computer equipment is not included in capital assets because the cost of individual items acquired is less than the capitalization threshold. Amortization of leased equipment under capital assets is included with depreciation expense.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 7 - CAPITAL LEASES (Continued)

FPU is committed under various noncancellable operating leases for office equipment. Future minimum operating lease commitments are as follows:

Year Ending <u>June 30,</u>	
2013	\$ 10,121
2014	10,121
2015	9,836
2016	9,437
2017	<u>5,637</u>
	<u>\$ 45,152</u>

NOTE 8 - 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	\$ 27,071,677	\$ 2,632,883	\$ 291,042	\$ 970,349
Special funds	2,535,374	2,631,030	122,756	2,724,653
Capital assets	39,877,355	14,394,309	3,433,048	17,121,971
Other assets	1,785,313	159,004	103,094	145,217
Due from other divisions	<u>2,276,762</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 73,546,481</u>	<u>\$ 19,817,226</u>	<u>\$ 3,949,940</u>	<u>\$20,962,190</u>
Liabilities				
Current liabilities	\$ 6,142,558	\$ 826,014	\$ 526,818	\$ 1,098,241
Other liabilities	1,583,323	97,522	49,804	102,845
Long term debt	19,397,189	3,737,002	2,248,885	7,038,694
Due to other divisions	<u>-</u>	<u>-</u>	<u>2,276,762</u>	<u>-</u>
	<u>27,123,070</u>	<u>4,660,538</u>	<u>5,102,269</u>	<u>8,239,780</u>
Net Assets (Deficit)				
Invested in capital assets, net of related debt	20,011,364	10,463,367	951,629	9,716,296
Restricted	1,971,562	-	-	9
Unrestricted	<u>24,440,485</u>	<u>4,693,321</u>	<u>(2,103,958)</u>	<u>3,006,105</u>
	<u>46,423,411</u>	<u>15,156,688</u>	<u>(1,152,329)</u>	<u>12,722,410</u>
	<u>\$ 73,546,481</u>	<u>\$ 19,817,226</u>	<u>\$ 3,949,940</u>	<u>\$20,962,190</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 8 - SEGMENT INFORMATION (Continued)

Condensed Statement of Revenues,

Expenses, and Changes in Net Assets

Operating revenues	\$ 43,047,044	\$ 5,976,369	\$ 3,533,358	\$ 4,342,000
Depreciation expense	2,128,050	496,871	562,002	1,017,485
Other operating expenses	<u>38,064,263</u>	<u>5,118,981</u>	<u>2,265,131</u>	<u>2,652,122</u>
Operating income	2,854,731	360,517	706,225	672,393
Nonoperating revenue (expenses):				
Investment income	69,425	9,769	1,137	4,988
Interest expense	(793,244)	(148,556)	(157,466)	(189,514)
Other	(82,951)	(823)	(2,971)	3,701
Contributions/Transfers – net	<u>(163,620)</u>	<u>(213,628)</u>	<u>9,952</u>	<u>(46,786)</u>
Change in net assets	1,884,341	7,279	556,877	444,782
Beginning net assets (deficit)	<u>44,539,070</u>	<u>15,149,409</u>	<u>(1,709,206)</u>	<u>12,277,628</u>
Ending net assets (deficit)	<u>\$ 46,423,411</u>	<u>\$ 15,156,688</u>	<u>\$ (1,152,329)</u>	<u>\$ 12,722,410</u>

Condensed Statement of Cash Flows

Net cash provided (used) by:

Operating activities	\$ 5,620,338	\$ 652,434	\$ 1,261,254	\$ 1,625,005
Noncapital financing activities	(438,045)	(213,628)	(247,867)	(121,629)
Capital and related financing activities	(5,072,699)	(1,451,423)	(1,614,668)	(1,037,153)
Investing activities	<u>65,167</u>	<u>16,204</u>	<u>16,529</u>	<u>12,218</u>
Net increase (decrease)	174,761	(996,413)	(584,752)	478,441
Beginning cash and cash equivalents	<u>23,446,737</u>	<u>4,982,969</u>	<u>707,508</u>	<u>2,674,030</u>
Ending cash and cash equivalents	<u>\$ 23,621,498</u>	<u>\$ 3,986,556</u>	<u>\$ 122,756</u>	<u>\$ 3,152,471</u>

NOTE 9 - RISK MANAGEMENT

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

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

NOTE 10 - 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 10 - CONTINGENT LIABILITIES (Continued)

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

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

The City of Fayetteville and Lincoln County, Tennessee, operated a landfill as a joint venture for the residents of the county that was closed in February 1995. The City acts as administrator of the postclosure activities. Total remaining closure and postclosure care costs are estimated to be \$475,092 at June 30, 2012. These costs will be shared equally by the City and Lincoln County, Tennessee. The City's share of this estimated liability (\$237,546) is included as a liability in the Statement of Net Assets. The City's current year share of required funding was \$13,605 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 11 - 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 the City 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 11 - PENSION AND BENEFIT PLANS (Continued)

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, 2012, was 9.78% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for Fayetteville is established and may be amended by the TCRS Board of Trustees.

ANNUAL PENSION COST

For the year ending June 30, 2012, the City of Fayetteville's annual pension cost of \$452,405 to TCRS was equal to the City's required and actual contributions. The required contribution was determined as part of the July 1, 2009 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected 3.0 percent annual rate of inflation, (c) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (d) projected 3.5 percent annual increase in the Social Security wage base, and (e) projected postretirement increases of 2.5 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a ten-year period. The City of Fayetteville's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2009 was 20 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION

Fiscal Year Ending	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/12	\$452,405	100.00%	\$0.00
6/30/11	\$442,884	100.00%	\$0.00
6/30/10	\$370,641	100.00%	\$0.00

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2011, the most recent actuarial valuation date, the plan was 83.66 percent funded. The actuarial accrued liability for benefits was \$17.29 million, and the actuarial value of assets was \$14.47 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.83 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.54 million, and the ratio of the UAAL to the covered payroll was 62.28 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 11 - 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)
7/1/11	\$14,468	\$17,294	\$ 2,826	83.66%	\$4,538	62.28%
7/1/09	\$12,291	\$15,260	\$ 2,968	80.55%	\$4,307	68.92%
7/1/07	\$12,198	\$12,373	\$ 175	98.59%	\$3,785	4.62%

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 or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the 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, 2012, was 9.05 percent of annual covered payroll. The employer contribution requirement for Fayetteville City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contributions to TCRS for the years ending June 30, 2012, 2011, and 2010 were \$478,925, \$442,897, and \$266,662, respectively, equal to the required contributions for each year.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 11 - PENSION AND BENEFIT PLANS (Continued)

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 2012 was \$5,291,629. FPU's contributions were based on covered payroll totaling \$4,905,899 which reflects certain adjustments in accordance with the 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 and a past service adjustment cost which provides for crediting retirement benefits for past service on a uniform basis for all participants.

FPU's contributions based on the payroll of eligible participants for the years ended June 30, 2012, 2011, and 2010 were \$1,093,148, \$1,040,048, and \$866,626, 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 \$56,477 and \$58,151 and \$169,338 and \$192,872 for the years ended June 30, 2012 and 2011, respectively.

NOTE 12 - 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:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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 eighty percent of the employee only medical coverage for these benefits through private insurers for the shorter of the attainment of age 65 or receipt of Medicare benefits. Also, if included in the plan, the retirees' spouses are required to make annual contributions equal to the difference of the family premium rate and the employee only medical premium rate which as of June 30, 2012 was \$8,822. 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, 2012, FPU contributed \$5,384 and the City contributed \$60,826 to fund premiums for retirees receiving benefits.

ANNUAL OPEB COST, NET OPEB OBLIGATION AND FUNDED STATUS

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

	<u>FPU</u>	<u>City</u>
Annual required contribution	\$ 106,670	\$ 138,051
Interest on net OPEB obligation	10,213	7,999
Adjustment to annual required contribution	<u>(10,228)</u>	<u>(6,766)</u>
Annual OPEB cost (expense)	106,655	139,284
Contributions made	<u>(5,385)</u>	<u>(60,826)</u>
Increase in net OPEB obligation	101,270	78,458
Net OPEB obligation, beginning of year	<u>256,486</u>	<u>274,508</u>
Net OPEB obligation, end of year	<u>\$ 357,756</u>	<u>\$ 352,966</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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, 2010	\$ 91,791	10.1%	\$ 158,636
	June 30, 2011	101,889	3.96%	256,486
	June 30, 2012	106,655	5.05%	357,757
<u>City</u>				
	June 30, 2010	\$ 130,855	31.9%	\$ 195,219
	June 30, 2011	130,855	39.4%	274,508
	June 30, 2012	139,284	43.7%	352,966

As of July 1, 2011, the most recent actuarial valuation date for the City, and July 1, 2010, the most recent actuarial valuation date for FPU, both plans were 0% funded.

ACTUARIAL METHODS AND ASSUMPTIONS

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

The actuarial accrued unfunded liability (UAAL) for benefits at June 30, 2012, as well as actuarial methods and assumptions for both plans, was as follows:

	<u>FPU</u>	<u>City</u>
Actuarial valuation date	7/01/2010	7/01/2008
UAAL	\$ 1,024,128	\$ 1,558,594
Covered payroll	\$ 4,997,646	\$ 2,971,808
Ratio of UAAL to covered payroll	20.5%	52.4%
Actuarial valuation method	Projected unit credit	Entry age normal
Amortization period	30 yrs	30 yrs
Actuarial assumptions:		
Discount rate	4.0%	4.5%
Projected salary increases	not available	4.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

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

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 historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

FAYETTEVILLE CITY SCHOOLS

PLAN DESCRIPTION

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

FUNDING POLICY

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

- June 30, 2012

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

<u>Annual OPEB cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>
Annual required contribution	\$ 92,000
Interest on net OPEB obligation	3,000
Adjustment to the annual required contribution	(3,000)
Annual OPEB cost (expense)	92,000
Amount of contribution	(62,000)
Increase in net OPEB obligation	30,000
Net OPEB obligation, beginning of year	67,000
Net OPEB obligation, end of year	<u>\$ 97,000</u>

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

<u>Plan</u>	<u>Year end</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Teacher Group	6/30/2010	\$ 77,000	76.6%	\$ 71,000
Teacher Group	6/30/2011	\$ 64,000	106.3%	\$ 67,000
Teacher Group	6/30/2012	\$ 92,000	67.4%	\$ 97,000

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2011, was as follows (dollars in thousands):

	<u>Teacher Group Plan 7/1/2011</u>
Actuarial valuation date	
Actuarial accrued liability (AAL)	\$ 693
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	693
Actuarial value of assets as a % of the AAL	0.0%
Covered payroll (active plan members)	4,680
UAAL as a percentage of covered payroll	14.8%

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 12 - OTHER POST-EMPLOYMENT BENEFITS (OPEB) (Continued)

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2011 actuarial valuation, the Projected Unit Credit actuarial cost method was used and the actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 9.25 percent for fiscal year 2012. The trend rate will decrease to 8.75% in fiscal year 2013 and then will be reduced by decrements to an ultimate rate of 5 percent by fiscal year 2021. The rate includes a 2.5 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 13 - 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, 2012, related to these funds is shown below.

Intergovernmental revenue	
Gasoline and motor fuel tax	\$ 176,163
City street and transportation	<u>14,014</u>
Total	<u>\$ 190,177</u>

NOTE 14 - RELATED PARTIES

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

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, 2012, are not reasonably estimable and are not included in these financial statements. During the year ended June 30, 2012, the City received \$27,658 from the State of Tennessee for this shared revenue.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 16 - JOINT VENTURES

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

	<u>Fayetteville – Lincoln County</u>		
	<u>Regional Airport Authority</u>	<u>Public Library</u>	<u>Industrial Development Board</u>
Total assets	\$ 4,820,649	\$ 3,456,986	\$ 4,077,176
Total liabilities	<u>119,115</u>	<u>7,973</u>	<u>1,433,548</u>
Net assets	<u>\$ 4,701,534</u>	<u>\$ 3,449,013</u>	<u>\$ 2,643,628</u>
Revenues	\$ 237,643	\$ 180,045	\$ 348,825
Expenditures	<u>217,322</u>	<u>272,913</u>	<u>344,173</u>
Increase (decrease) in net assets	<u>\$ 20,321</u>	<u>\$ (92,868)</u>	<u>\$ 4,652</u>

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

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

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

Fayetteville Lincoln County Airport
37 Airport Road
Fayetteville, TN 37334

NOTE 17 - PLEDGED REVENUES

FPU has pledged the respective revenues of each division to secure certain revenue bonds as described in Note 6. The current year revenues, debt service, and future pledge commitment are as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

NOTE 17 - PLEDGED REVENUES (Continued)

<u>Division</u>	<u>Operating Revenues</u>	<u>Current Year Principal and Interest Paid on Revenue Bonds</u>	<u>Percent of Current Revenue</u>	<u>Remaining Pledge Based on Future Principal and Interest Requirement</u>	<u>Commitment Period through Fiscal Year</u>
Electric	\$ 43,047,044	\$ 1,685,469	3.9%	\$ 28,006,942	2028
Gas	5,976,369	434,269	7.3%	5,089,170	2025
Telecom	3,533,358	190,632	5.4%	2,843,910	2020
Water & Sewer	4,342,000	522,150	12.0%	9,683,646	2050
	<u>\$ 56,898,771</u>	<u>\$ 2,832,520</u>	<u>5.0%</u>	<u>\$ 45,623,668</u>	

NOTE 18 - JOINT VENTURE

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

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

NOTE 19 - SUBSEQUENT EVENTS

Subsequent to year end, the Board of Education awarded a construction contract totaling \$5,111,610 for various additions and improvements at Ralph Askins Elementary and Fayetteville Middle School. This project is being financed through general obligation capital outlay notes as described in Note 6.

NOTE 20 - SOLAR POWER GENERATION

Certain customers of FPU's electric department have installed solar panels a their homes or businesses. The power generated flows through separate "generation" meters. These customers are given credit against their normal monthly electric bills for the solar generated power which is netted against electric revenues included in "charges for services" on the statement of revenues, expenses, and changes in net assets. For the year ended June 30, 2012, credits resulting from solar power generation totaled \$770,242. In instances where solar generation actually exceeds normal electric usage, the customer is paid the difference. At June 30, 2012, the liability for such amounts due to customers was \$88,865 which is included in accounts payable on the balance sheet. FPU is credited on its wholesale power cost by TVA for the solar generated power.

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

June 30, 2012

(Dollar amounts in thousands)

Teacher Group Insurance Plan

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
June 30, 2011	\$ -	\$ 693	\$ 693	0.0%	\$ 4,680	14.8%
June 30, 2010	\$ -	\$ 496	\$ 496	0.0%	\$ 4,272	11.6%
June 30, 2009	\$ -	\$ 664	\$ 664	0.0%	\$ 4,476	14.8%

Fayetteville Public Utilities retiree health care plan

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

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2012	\$ -	\$ 1,624	\$ 1,624	0.0%	\$ 3,091	52.5%
July 1, 2008	\$ -	\$ 1,349	\$ 1,349	0.0%	\$ 2,993	45.1%

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, 2012**

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) (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, 2011	\$ 14,468	\$ 17,294	\$ 2,826	83.66%	\$ 4,538	62.28%
July 1, 2009	\$ 12,291	\$ 15,260	\$ 2,968	80.55%	\$ 4,307	68.92%
July 1, 2007	\$ 12,198	\$ 12,373	\$ 175	98.59%	\$ 3,785	4.62%

NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

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, 2012

	Special Revenue Funds				Debt Service Fund
	School Title	School Cafeteria	Drug	Total Special Revenue	
Cash in bank	\$ 4,618	\$ 112,398	\$ 103,358	\$ 220,374	\$ 311,736
Investments	-	-	-	-	-
Accounts receivable	-	544	-	544	-
Due from (to) other funds	(8,676)	-	-	(8,676)	-
Due from other governments	47,148	-	-	47,148	-
Intergovernmental receivable	-	-	-	-	-
Inventory	-	14,557	-	14,557	-
TOTAL ASSETS	\$ 43,090	\$ 127,499	\$ 103,358	\$ 273,947	\$ 311,736
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 1,323	\$ 1,323	\$ 213
Other accrued expenses	31,715	-	-	31,715	-
Deferred revenues	11,375	-	-	11,375	-
TOTAL LIABILITIES	43,090	-	1,323	44,413	213
Fund Balances:					
Nonspendable	-	14,557	-	14,557	-
Restricted	-	-	102,035	102,035	-
Assigned	-	112,942	-	112,942	311,523
TOTAL FUND BALANCES	-	127,499	102,035	229,534	311,523
Total liabilities and fund balances	\$ 43,090	\$ 127,499	\$ 103,358	\$ 273,947	\$ 311,736

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

June 30, 2012

	Capital Projects Funds					Total Nonmajor Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
Assets:						
Cash in bank	\$ 219,658	\$ 49,533	\$ 406,242	\$ 1,524,505	\$ 2,199,938	\$ 2,732,048
Investments	-	-	-	242,073	242,073	242,073
Accounts receivable	-	-	-	-	-	544
Due from (to) other funds	-	-	-	(3)	(3)	(8,679)
Due from other funds	-	-	-	-	-	47,148
Intergovernmental receivable	-	-	-	-	-	-
Inventory	-	-	-	-	-	14,557
TOTAL ASSETS	<u>\$ 219,658</u>	<u>\$ 49,533</u>	<u>\$ 406,242</u>	<u>\$ 1,766,575</u>	<u>\$ 2,442,008</u>	<u>\$ 3,027,691</u>
Liabilities and Fund Balances						
Liabilities:						
Accounts payable	\$ -	\$ -	\$ -	\$ 3,846	\$ 3,846	\$ 5,382
Other accrued expenses	-	-	-	-	-	31,715
Deferred revenues	-	-	-	25,000	25,000	36,375
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,846</u>	<u>28,846</u>	<u>73,472</u>
Fund Balances:						
Nonspendable	-	-	-	-	-	14,557
Restricted	-	49,533	406,242	266,776	722,551	824,586
Assigned	219,658	-	-	1,470,953	1,690,611	2,115,076
TOTAL FUND BALANCES	<u>219,658</u>	<u>49,533</u>	<u>406,242</u>	<u>1,737,729</u>	<u>2,413,162</u>	<u>2,954,219</u>
tal liabilities and fund balances	<u>\$ 219,658</u>	<u>\$ 49,533</u>	<u>\$ 406,242</u>	<u>\$ 1,766,575</u>	<u>\$ 2,442,008</u>	<u>\$ 3,027,691</u>

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

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2012

		Special Revenue Funds				
		School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Revenues:						
Intergovernmental		\$ 781,600	\$ 501,607	\$ -	\$ 1,283,207	\$ -
Charges for services		-	164,438	-	164,438	-
Investment earnings		-	139	123	262	377
Fines		-	-	13,114	13,114	-
Other revenue		-	-	3,000	3,000	-
TOTAL REVENUES		781,600	666,184	16,237	1,464,021	377
Expenditures:						
Current:						
General government		-	-	-	-	427
Public safety		-	-	25,031	25,031	-
Education		781,600	688,334	-	1,469,934	-
Sanitation		-	-	-	-	-
Debt Service:						
Principal		-	-	-	-	129,778
Interest		-	-	-	-	62,269
Capital outlay		-	11,009	-	11,009	-
TOTAL EXPENDITURES		781,600	699,343	25,031	1,505,974	192,474
Excess (deficiency) of revenues over expenditures						
		-	(33,159)	(8,794)	(41,953)	(192,097)
Other Financing Sources (Uses):						
Transfers in		-	-	-	-	192,047
Transfers out		-	-	-	-	-
Proceeds from sale of capital assets		-	-	842	842	-
OTAL OTHER FINANCING SOURCES (USES)		-	-	842	842	192,047
Net change in fund balances						
		-	(33,159)	(7,952)	(41,111)	(50)
Fund balances - July 1, 2011						
		-	160,658	109,987	270,645	311,573
Fund balances - June 30, 2012						
		\$ -	\$ 127,499	\$ 102,035	\$ 229,534	\$ 311,523

OMBING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES (Continued)
NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2012

	Capital Projects Funds					Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	Total Capital Projects	
Revenues:						
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,283,207
Charges for services	-	-	-	-	-	164,438
Investment earnings	265	60	491	2,248	3,064	3,703
Fines	-	-	-	-	-	13,114
Other revenue	-	-	-	16,198	16,198	19,198
TOTAL REVENUES	265	60	491	18,446	19,262	1,483,660
Expenditures:						
Current:						
General government	-	-	-	-	-	427
Public safety	-	-	-	-	-	25,031
Education	-	-	-	-	-	1,469,934
Sanitation	-	-	-	13,605	13,605	13,605
Debt service:						
Principal	-	-	-	-	-	129,778
Interest	-	-	-	-	-	62,269
Capital outlay	-	-	-	420,150	420,150	431,159
TOTAL EXPENDITURES	-	-	-	433,755	433,755	2,132,203
Excess (deficiency) of revenues over expenditures	265	60	491	(415,309)	(414,493)	(648,543)
Other Financing Sources:						
Transfers in	-	-	-	50,499	50,499	242,546
Transfers out	-	-	-	(34,672)	(34,672)	(34,672)
Proceeds from sale of capital assets	-	-	-	-	-	842
TOTAL OTHER FINANCING SOURCES	-	-	-	15,827	15,827	208,716
Net change in fund balances	265	60	491	(399,482)	(398,666)	(439,827)
Fund balances - July 1, 2011	219,393	49,473	405,751	2,137,211	2,811,828	3,394,046
Fund balances - June 30, 2012	<u>\$ 219,658</u>	<u>\$ 49,533</u>	<u>\$ 406,242</u>	<u>\$ 1,737,729</u>	<u>\$ 2,413,162</u>	<u>\$ 2,954,219</u>

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

For the year ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
NCLB Title programs	\$ 291,940	\$ 406,589	\$ 406,589	\$ -
Special education programs	274,422	375,011	375,011	-
Total Revenues	<u>566,362</u>	<u>781,600</u>	<u>781,600</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction program				
Salaries and benefits	274,570	337,809	337,809	-
Supplies	-	7,390	7,390	-
Textbooks	-	9,729	9,729	-
Special education program				
Salaries and benefits	249,952	261,586	261,586	-
Equipment	-	23,854	23,854	-
Contracted services	5,334	76,547	76,547	-
Supplies	2,484	19,517	19,517	-
Other	-	4,002	4,002	-
Support services:				
Regular instruction program				
Salaries and benefits	12,402	11,646	11,646	-
Travel	2,461	1,193	1,193	-
In service	2,434	3,778	3,778	-
Special education program				
Salaries and benefits	7,265	8,331	8,331	-
Travel	2,000	7,857	7,857	-
In service	3,000	4,576	4,576	-
Transportation				
Salaries and benefits	4,387	3,785	3,785	-
Total Expenditures	<u>566,289</u>	<u>781,600</u>	<u>781,600</u>	<u>-</u>
Net Change in Fund Balance	73	-	-	-
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ 73</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Year ended June 30, 2012

	<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	\$ 290,000	\$ 337,000	\$ 334,203	\$ (2,797)
School breakfast program	97,515	133,015	134,019	1,004
USDA commodities	-	26,620	26,620	-
Other	6,500	6,500	6,765	265
Charges for services	251,450	251,450	164,438	(87,012)
Investment earnings	600	600	139	(461)
Other revenues	800	800	-	(800)
Total Revenues	<u>646,865</u>	<u>755,985</u>	<u>666,184</u>	<u>(89,801)</u>
EXPENDITURES				
Current:				
Salaries and benefits	334,810	341,190	332,638	8,552
Repairs and maintenance	4,500	7,000	3,726	3,274
Travel	6,000	9,000	6,883	2,117
Contracted services	9,000	9,000	8,514	486
Food and preparation supplies	254,055	328,195	324,129	4,066
Supplies	1,500	1,500	1,500	-
Other	11,000	14,100	10,944	3,156
Capital outlay	26,000	46,000	11,009	34,991
Total Expenditures	<u>646,865</u>	<u>755,985</u>	<u>699,343</u>	<u>56,642</u>
Excess of Revenues over Expenditures	-	-	(33,159)	(33,159)
OTHER FINANCING SOURCES				
Transfers in	-	-	-	-
Net Change in Fund Balance	-	-	(33,159)	(33,159)
Fund Balance - beginning	<u>160,658</u>	<u>160,658</u>	<u>160,658</u>	<u>-</u>
Fund Balance - ending	<u>\$ 160,658</u>	<u>\$ 160,658</u>	<u>\$ 127,499</u>	<u>\$ (33,159)</u>

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

Year ended June 30, 2012

	<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				
Investment earnings	\$ 500	\$ 500	\$ 123	\$ (377)
Fines	11,500	11,500	13,114	1,614
Judgment	-	-	3,000	3,000
Total Revenues	<u>12,000</u>	<u>12,000</u>	<u>16,237</u>	<u>4,237</u>
EXPENDITURES				
Current:				
Operating				
Salaries	2,850	2,850	2,276	574
Education and training	2,500	2,500	622	1,878
Travel	4,000	4,000	3,887	113
Supplies	3,000	3,000	944	2,056
Repairs and maintenance	5,500	5,500	225	5,275
Telephone	2,725	2,725	759	1,966
Professional services	1,000	1,000	36	964
Equipment	2,000	2,000	13,559	(11,559)
Investigative transactions	5,000	5,000	-	5,000
Other drug fund	3,400	3,400	2,723	677
Total Expenditures	<u>31,975</u>	<u>31,975</u>	<u>25,031</u>	<u>6,944</u>
Excess of Revenues over Expenditures	(19,975)	(19,975)	(8,794)	11,181
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	-	842	842
Net Change in Fund Balance	(19,975)	(19,975)	(7,952)	12,023
Fund Balance - beginning	<u>109,987</u>	<u>109,987</u>	<u>109,987</u>	<u>-</u>
Fund Balance - ending	<u>\$ 90,012</u>	<u>\$ 90,012</u>	<u>\$ 102,035</u>	<u>\$ 12,023</u>

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2012

	<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				
Investment earnings	\$ 500	\$ 500	\$ 377	\$ (123)
Total Revenues	500	500	377	(123)
EXPENDITURES				
Current:				
Operating - agent fees	-	427	427	-
Debt Service:				
Principal	129,778	129,778	129,778	-
Interest	62,269	62,269	62,269	-
Total Expenditures	192,047	192,474	192,474	-
Deficiency of Revenues over Expenditures	(191,547)	(191,974)	(192,097)	(123)
OTHER FINANCING SOURCES (USES)				
Transfers in	192,047	192,047	192,047	-
Net Change in Fund Balance	500	73	(50)	(123)
Fund Balance - beginning	311,573	311,573	311,573	-
Fund Balance - ending	\$ 312,073	\$ 311,646	\$ 311,523	\$ (123)

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

Year ended June 30, 2012

	<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				
Charges for services and use of property	\$ -	\$ -	\$ -	\$ -
Investment earnings	-	-	265	265
Total Revenues	-	-	265	265
EXPENDITURES				
Current:				
Professional services	500	500	-	500
Total Expenditures	500	500	-	500
Excess of Revenues over Expenditures	(500)	(500)	265	765
OTHER FINANCING SOURCES (USES)				
Transfers out	(218,000)	(218,000)	-	218,000
Net Change in Fund Balance	(218,500)	(218,500)	265	218,765
Fund Balance - beginning	219,393	219,393	219,393	-
Fund Balance - ending	<u>\$ 893</u>	<u>\$ 893</u>	<u>\$ 219,658</u>	<u>\$ 218,765</u>

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

Year ended June 30, 2012

	<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				
Investment earnings	\$ 250	\$ 250	\$ 60	\$ (190)
Total Revenues	<u>250</u>	<u>250</u>	<u>60</u>	<u>(190)</u>
EXPENDITURES				
Current:				
Operating	<u>49,500</u>	<u>49,500</u>	<u>-</u>	<u>49,500</u>
Total Expenditures	<u>49,500</u>	<u>49,500</u>	<u>-</u>	<u>49,500</u>
Net Change in Fund Balance	(49,250)	(49,250)	60	49,310
Fund Balance - beginning	<u>49,473</u>	<u>49,473</u>	<u>49,473</u>	<u>-</u>
Fund Balance - ending	<u>\$ 223</u>	<u>\$ 223</u>	<u>\$ 49,533</u>	<u>\$ 49,310</u>

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

Year ended June 30, 2012

	<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				
Investment earnings	\$ 2,000	\$ 2,000	\$ 491	\$ (1,509)
Total Revenues	<u>2,000</u>	<u>2,000</u>	<u>491</u>	<u>(1,509)</u>
EXPENDITURES				
Current:				
Operating	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Total Expenditures	<u>1,000</u>	<u>1,000</u>	<u>-</u>	<u>1,000</u>
Net Change in Fund Balance	1,000	1,000	491	(509)
Fund Balance - beginning	<u>405,751</u>	<u>405,751</u>	<u>405,751</u>	<u>-</u>
Fund Balance - ending	<u>\$ 406,751</u>	<u>\$ 406,751</u>	<u>\$ 406,242</u>	<u>\$ (509)</u>

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

Year ended June 30, 2012

	<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				
Investment earnings	\$ 10,000	\$ 10,000	\$ 2,248	\$ (7,752)
Other revenues	-	-	16,198	16,198
Total Revenues	10,000	10,000	18,446	8,446
EXPENDITURES				
Current:				
Operating - landfill	15,100	13,605	13,605	-
Capital outlay	73,000	420,150	420,150	-
Total Expenditures	88,100	433,755	433,755	-
(Deficiency) of Revenues over Expenditures	(78,100)	(423,755)	(415,309)	8,446
OTHER FINANCING SOURCES				
Transfers in	246,500	246,500	50,499	(196,001)
Transfers out	-	-	(34,672)	(34,672)
Total Other Financing Sources	246,500	246,500	15,827	(230,673)
Net Change in Fund Balance	168,400	(177,255)	(399,482)	(222,227)
Fund Balance - beginning	2,137,211	2,137,211	2,137,211	-
Fund Balance - ending	\$ 2,305,611	\$ 1,959,956	\$ 1,737,729	\$ (222,227)

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

Year ended June 30, 2012

	<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				
Investment earnings	\$ -	\$ -	\$ 4,702	\$ 4,702
Total Revenues	-	-	4,702	4,702
EXPENDITURES				
Current:				
Debt issuance costs	75,406	75,406	75,406	-
Capital outlay	5,926,500	5,926,500	393,731	5,532,769
Total Expenditures	6,001,906	6,001,906	469,137	5,532,769
(Deficiency) of Revenues over Expenditures	(6,001,906)	(6,001,906)	(464,435)	5,537,471
OTHER FINANCING SOURCES				
Capital outaly notes issued	6,000,000	6,000,000	6,000,000	-
Premiums on debt issued	1,906	1,906	1,906	-
Total Other Financing Sources	6,001,906	6,001,906	6,001,906	-
Net Change in Fund Balance	-	-	5,537,471	5,537,471
Fund Balance - beginning	-	-	-	-
Fund Balance - ending	\$ -	\$ -	\$ 5,537,471	\$ 5,537,471

For the year ended June 30, 2012

74

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

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

General						
Year	Tennessee Energy		Obligation Bonds		<u>Total General</u>	
Ending	<u>Effeciency Loan</u>		<u>Series 2009</u>		<u>Total</u>	<u>Total</u>
June 30,	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 24,778	\$ -	\$ 110,000	\$ 59,118	\$ 134,778	\$ 59,118
2014	24,778	-	110,000	55,819	134,778	55,819
2015	24,778	-	115,000	52,519	139,778	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>\$ 99,113</u>	<u>\$ -</u>	<u>\$ 1,675,000</u>	<u>\$ 466,057</u>	<u>\$ 1,774,113</u>	<u>\$ 466,057</u>

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

June 30, 2012

Fiscal Year Ending June 30,	Series 2009		Series 2007		RUS Rural Economic Development Loan (SCHRA)		Total Electric	
	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>	<u>Total Bonds</u>	<u>Total Interest</u>
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>\$ 10,405,000</u>	<u>\$ 2,162,193</u>	<u>\$ 9,950,000</u>	<u>\$ 5,489,749</u>	<u>\$ 86,250</u>	<u>\$ -</u>	<u>\$ 20,441,250</u>	<u>\$ 7,651,942</u>

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

June 30, 2012

Year Ending June 30,	TDOT Utility Reloc Loan		Series 2009		RUS Phase I		RUS Phase II		Total Water	
	Principal	Interest	Principal	Interest	Bond Anticipation Notes Principal	Interest	Bond Anticipation Notes Principal	Interest	Total Principal	Total Interest
2013	\$ 126,609	\$ 31,564	\$ 290,000	\$ 83,112	\$ 35,752	\$ 175,121	\$ -	\$ -	\$ 452,361	\$ 289,797
2014	128,971	29,202	310,000	74,412	54,643	65,029	1,818	13,558	495,432	182,201
2015	131,378	26,795	305,000	65,114	55,885	63,787	2,795	5,152	495,058	160,848
2016	133,829	24,344	320,000	55,962	57,156	62,516	2,881	5,067	513,866	147,889
2017	136,326	21,847	315,000	46,362	58,455	61,217	2,968	4,980	512,749	134,406
2018	138,869	19,304	335,000	35,338	59,784	59,888	3,058	4,890	536,711	119,420
2019	141,460	16,713	355,000	23,612	61,143	58,529	3,151	4,796	560,754	103,650
2020	144,100	14,073	345,000	12,074	62,533	57,139	3,247	4,701	554,880	87,987
2021	146,788	11,385	-	-	63,955	55,717	3,346	4,602	214,089	71,704
2022	149,527	8,646	-	-	65,409	54,264	3,448	4,500	218,384	67,410
2023	152,317	5,856	-	-	66,896	52,777	3,553	4,395	222,766	63,028
2024	155,159	3,014	-	-	68,417	51,256	3,661	4,287	227,237	58,557
2025	78,662	425	-	-	69,972	49,700	3,772	4,176	152,406	54,301
2026	-	-	-	-	71,563	48,110	3,887	4,061	75,450	52,171
2027	-	-	-	-	73,189	46,483	4,005	3,943	77,194	50,426
2028	-	-	-	-	74,853	44,819	4,127	3,821	78,980	48,640
2029	-	-	-	-	76,555	43,117	4,252	3,696	80,807	46,813
2030	-	-	-	-	78,295	41,377	4,382	3,566	82,677	44,943
2031	-	-	-	-	80,075	39,597	4,515	3,433	84,590	43,030
2032	-	-	-	-	81,896	37,777	4,652	3,296	86,548	41,073
2033	-	-	-	-	83,757	35,915	4,794	3,154	88,551	39,069
2034	-	-	-	-	85,662	34,011	4,940	3,008	90,602	37,019
2035	-	-	-	-	87,609	32,063	5,090	2,858	92,699	34,921
2036	-	-	-	-	89,601	30,072	5,245	2,703	94,846	32,775
2037	-	-	-	-	91,638	28,035	5,404	2,544	97,042	30,579
2038	-	-	-	-	93,721	25,952	5,569	2,379	99,290	28,331
2039	-	-	-	-	95,851	23,821	5,738	2,210	101,589	26,031
2040	-	-	-	-	98,030	21,642	5,913	2,035	103,943	23,677
2041	-	-	-	-	100,259	19,413	6,092	1,856	106,351	21,269
2042	-	-	-	-	102,538	17,134	6,278	1,670	108,816	18,804
2043	-	-	-	-	104,869	14,803	6,469	1,479	111,338	16,282
2044	-	-	-	-	107,253	12,419	6,665	1,283	113,918	13,702
2045	-	-	-	-	109,692	9,981	6,868	1,080	116,560	11,061
2046	-	-	-	-	112,185	7,487	7,077	871	119,262	8,358
2047	-	-	-	-	114,736	4,937	7,292	656	122,028	5,593
2048	-	-	-	-	117,344	2,328	7,514	434	124,858	2,762
2049	-	-	-	-	39,706	186	7,743	205	47,449	391
2050	-	-	-	-	-	-	2,631	16	2,631	16
	<u>\$ 1,763,995</u>	<u>\$ 213,168</u>	<u>\$ 2,575,000</u>	<u>\$ 395,986</u>	<u>\$ 2,950,877</u>	<u>\$ 1,488,419</u>	<u>\$ 174,840</u>	<u>\$ 121,361</u>	<u>\$ 7,464,712</u>	<u>\$ 2,218,934</u>

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

June 30, 2012

Residential

Customer Charge	\$21.10 per month
Energy Charge	6.587 cents per KWH per month
Total Monthly Fuel Cost	2.530 cents per KWH

General Services

LESS THAN 50 KW

Customer Charge	\$35.15 per month
Energy Charge	7.599 cents per KWH
Total Monthly Fuel Cost	2.492 cents per KWH

51 KW TO 1,000 KW

Customer Charge	\$175.00 per month
Demand Charge	First 50 KW of billing demand per month, no demand charge, excess over 50 KW at \$14.69 per KW
Energy Charge	First 15,000 KWH at 7.937 cents per KWH. Additional KWH at \$3.720 cents per KWH
Total Monthly Fuel Cost	First 15,000 KWH at 2.492 cents per KWH. Additional KWH at \$2.448 cents per KWH

1,001 KW to 5,000 KW

Customer Charge	\$400.00 per month
Demand Charge	First 1,000 KW of metered demand at \$15.39 per KW, excess over 1,000 KW of billing demand per month at \$17.35
Energy Charge	3.512 cents per KWH
Total Monthly Fuel Cost	2.448 cents per KWH

General Services Manufacturing Rates

5,001 KW TO 15,000 KW

Customer Charge	\$1,850 per delivery point
Demand Charge	\$18.74 per KW of metered demand, plus an additional \$18.85 per KW per month for each KW of the amount by which the the customer's billing demand exceeds contract demand
Energy Charge	1.783 cents per KWH
Total Monthly Fuel Cost	2.434 cents per KWH

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

June 30, 2012

Residential

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.11

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

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.16

General Commercial and Industrial

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.044

Housing Authority

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.027

Interruptible Service

Per ccf consumed per month	\$ 0.396
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Note: ccf represents 100 cubic feet.

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

June 30, 2012

Cable TV Service

Budget basic	\$ 23.51
Basic plus	53.75
Basic digital	69.75
Digital service with DVR only	75.25
Digital service with HD only	71.25
Complete digital package	74.00

Digital Premium Channels

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

Additional Cable Equipment Available

Digital receiver	6.00
DVR	10.50
HD & DVR with multi channel recording	11.50
Analog converter	1.50
Inside wire maintenance	2.00

Internet Services

3 Meg	\$ 39.99
5 Meg	58.99
10 Meg	71.59
Cable modem (may be purchased for \$50.00)	5.00

VOIP Phone Services

Unlimited service	\$ 44.95
Basic service	42.95
With internet and cable	
Unlimited service	29.95
Basic service	27.95
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, 2012

	<u>RESIDENTIAL</u>		<u>COMMERCIAL</u>		<u>WHOLESALE</u>	
	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>	<u>With Contracts</u>	<u>Without Contracts</u>
<u>Water Rates</u>						
First 100 cubic feet	\$ 8.32	\$ 10.82	\$ 9.15	\$ 11.90	\$ 8.64	\$ 8.94
All over 100 cubic feet*	3.54	4.60				
Next 900 cubic feet*			3.89	5.07	3.61	3.91
All over 1,000 cubic feet*			2.86	3.72	2.71	3.01
Next 119,000 cubic feet*						
All over 120,000 cubic feet*					3.12	2.08
<u>Wastewater Rates</u>						
First 100 cubic feet	11.20	12.88	12.77		12.77	
All over 100 cubic feet*	4.76	5.47	5.43		5.43	

**Per 100 cubic feet*

Number of water and wastewater customers at June 30,

	<u>2012</u>	<u>2011</u>
Water	\$ 4,502	\$ 4,440
Sewer	3,472	3,406

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

June 30, 2012

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, 2012

	<u>2012</u>	June 30, <u>2011</u>
Electric	18,148	17,910
Gas	5,975	5,953
Telecom division -Cable	3,145	3,182
Telecom division -Internet	1,967	1,886
Telecom division -Phone	221	166
Water	4,502	4,440
Wastewater	3,472	3,406
Sanitation	2,526	2,598

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

June 30, 2012

(All amounts in gallons)

A	Water Treated and Purchased		
B	Water pumped (potable)	703,595,867	
C	Water purchased	<u>0</u>	
D	Total Water Treated and Purchased (Sum lines B and C)		703,595,867
E	Accounted for Water		
F	Water sold	501,290,695	
G	Metered for consumption (in house usage)	25,060,260	
H	Fire department usage	4,475,740	
I	Flushing	25,760,953	
J	Tank cleaning / filling	76,074	
K	Street cleaning	9,300	
L	Bulk sales	0	
M	Water bill adjustments	<u>9,783</u>	
N	Total Accounted for Water (Sum lines F thru M)		<u>556,682,805</u>
O	Unaccounted for Water (Line D minus line N)		146,913,062
P	Percent Unaccounted for Water (Line O divided by line D times 100)		20.880%

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.
If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

<u>Year</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Taxes</u> <u>Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Total</u>
2012	\$ -	\$ 1,923,360	\$ -	\$ -	\$ 1,923,360
2011	1,931,385		7,194	(1,871,573)	67,006
2010	64,365		(671)	(42,000)	21,694
2009	11,334		-	(8,436)	2,898
2008	880	-	-	-	880
2007	882	-	-	-	882
2006	505	-	-	-	505
2005	571	-	-	-	571
2004	150	-	(144)	-	6
	<u>\$ 2,010,072</u>	<u>\$ 1,923,360</u>	<u>\$ 6,379</u>	<u>\$ (1,922,009)</u>	<u>2,017,802</u>
Less allowance for uncollectible taxes					(17,232)
Balance, end of year, net of allowance					<u>\$ 2,000,570</u>

All uncollectible taxes for years prior to 2011 have been turned over to the Clerk and Master for collection.

DIRECTORY OF OFFICIALS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

Mayor - John Ed Underwood

Board of Alderman

Dorothy Small - Vice Mayor

Danny Bryant

Pat Fraley

Marty Pepper

Thomas Young, Sr.

Michael Stewart

City Administrator - James Lee

City Judge - J. Rhea Thompson, III

City Finance Director - Tonya Steelman

Director of Schools - Janine Wilson

Fayetteville Public Utilities:

CEO/ General Manager - Britt Dye

Secretary/Treasurer - Glen Oldham

Manager of Finance and Office Services - Kim Posey

UNCOLLECTED DELINQUENT TAXES FILED IN ACCORDANCE WITH APPLICABLE LAWS

CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2012

During the year ended June 30, 2012, the City turned over \$25,540 of 2010 property taxes receivable to the clerk and master in accordance with applicable laws.

PROPERTY TAX RATES AND ASSESSMENTS - LAST TEN YEARS

CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2012

<u>Tax Year</u>	<u>Total Assessed Value</u>	<u>City Property Tax Rate</u>	<u>Levy</u>
2003	\$ 107,594,128	\$ 1.49	\$ 1,719,689
2004	108,300,991	1.54	1,717,192
2005	110,631,457	1.54	1,755,083
2006	111,555,083	1.54	1,763,969
2007	140,089,953	1.54	1,897,372
2008	143,742,680	1.3195	1,942,293
2009	143,752,986	1.3195	1,941,199
2010	143,917,096	1.3195	1,933,399
2011	143,073,864	1.3195	1,931,385
2012	142,572,639	1.3195	1,923,360

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

Year ended June 30, 2012

Federal Grantor / Pass - Through Grantor	CFDA Number	Contract Number	Beginning (Accrued) Deferred	Cash Receipts	Expenditures	Ending (Accrued) Deferred
<u>FEDERAL AWARDS</u>						
U.S. Department of Homeland Security	97.036	103-25920-00	\$ -	\$ (27,711)	\$ 27,711	\$ -
US Department of Economic and Community Dev. (1)	81.128	GG-1122210	15,454	(15,454)	-	-
		TOTAL FEDERAL AWARDS	15,454	(43,165)	27,711	-
<u>STATE FINANCIAL ASSISTANCE</u>						
State of TN, Department of Military, TEMA	n/a	103-25920-00	-	(4,619)	4,619	-
		TOTAL STATE AWARDS	-	(4,619)	4,619	-
		TOTAL FEDERAL AND STATE AWARDS	\$ 15,454	\$ (47,784)	\$ 32,330	\$ -

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, 2012. The schedule is presented using the modified accrual basis of accounting.

Loans Outstanding:

Note 2: At June 30, 2012, there was an outstanding balance of \$99,113 on an energy efficiency loan program loan obtained in a previous year. The loan was 100% funded by the State of Tennessee. Payments on principal during the current fiscal year totaled \$24,778.

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

INTERNAL CONTROL AND COMPLIANCE SECTION

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

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Fayetteville, Tennessee, (the "City") as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon, dated March 12, 2013. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors audited the financial statements of Fayetteville Public Utilities and Fayetteville City Schools, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings as finding 2011-11 to be a material weakness.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City in a separate letter dated March 12, 2013.

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

March 12, 2013

SCHEDULE OF FINDINGS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2012

Prior Year

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

Status: Condition continues to exist

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

Management Response: Management recognizes a segregation of duties issue exists within the payroll function. We feel this is the result of our limited number of personnel. However, when possible, we attempt to mitigate control deficiencies. For payroll a separate person prepares payroll change forms, the City Administrator and Mayor review all pay stubs before the stubs are distributed, and there is a separate review of the bank statement and reconciliation where payroll activity is reflected. During the year ended June 30, 2012, in response to this finding, we added the control of including a detail of the payroll direct deposits with the bank statement/ reconciliation for review and approval by the City Administrator. We will continue to seek other ways to address this issue.

Current Year

None