

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

June 30, 2014

WINNETT
Associates, PLLC

Certified Public Accountants and Consultants

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Mayor and Aldermen
City of Fayetteville
Fayetteville, Tennessee

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 position, and revenues of the business-type activities. We also did not audit the Fayetteville School System, which includes the school general fund, a major fund. The Fayetteville School System represents 5%, 4%, and 95%, respectively, of the assets, fund balances, and revenues of the aggregate remaining fund information and 42%, 39%, and 58%, respectively, of the assets, net position, and revenues of the governmental activities. Those 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 solely 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2014, 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 accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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 5 through 11 and 62 through 63 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 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fayetteville, Tennessee's, basic financial statements. The supplementary information 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual nonmajor fund financial statements and budgetary schedules and the schedule of expenditures of federal awards and state financial assistance are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other financial schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2015, 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* in considering City of Fayetteville, Tennessee's internal control over financial reporting and compliance.

Winnett Associates, PLLC

May 20, 2015

CITY OF FAYETTEVILLE, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
Year ended June 30, 2014

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, 2014. 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 Position 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 Position 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 Position 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 position and changes in them. Net position is 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 position is 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 Position 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 Position 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 Position 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 position of the City's governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
				(Restated)		(Restated)
Current and other assets	\$ 17,134,923	\$ 18,864,257	\$ 46,046,459	\$ 42,215,291	\$ 63,181,382	\$ 61,079,548
Capital assets	25,508,157	23,637,425	81,721,897	77,949,676	107,230,054	101,587,101
Total assets	42,643,080	42,501,682	127,768,356	120,164,967	170,411,436	162,666,649
Total deferred outflows of resources	-	-	240,073	270,632	240,073	270,632
Long-term liabilities outstanding	9,836,109	9,220,152	35,544,525	34,572,461	45,380,634	43,792,613
Other liabilities	946,956	1,176,578	8,289,467	7,838,661	9,236,423	9,015,239
Total liabilities	10,783,065	10,396,730	43,833,992	42,411,122	54,617,057	52,807,852
Total deferred inflows of resources	2,645,177	2,508,759	-	-	2,645,177	2,508,759
Net position						
Net investment in capital assets	18,522,010	18,660,494	47,582,002	44,632,718	66,104,012	63,293,212
Restricted	4,497,709	5,461,772	2,004,109	1,972,126	6,501,818	7,433,898
Unrestricted	6,195,119	5,473,927	34,588,326	31,419,633	40,783,445	36,893,560
Total net position	\$ 29,214,838	\$ 29,596,193	\$ 84,174,437	\$ 78,024,477	\$ 113,389,275	\$ 107,620,670

Net position of the City's governmental activities decreased 1.28 percent in the fiscal year 2014. Net position of the City's business-type activities increased 7.88 percent in the fiscal year 2014.

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

	Governmental Activities		Business-type Activities		Total Primary Government	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
				(Restated)		(Restated)
Revenues						
Program Revenues:						
Charges for services	\$ 971,834	\$ 982,939	\$ 63,947,151	\$ 60,763,745	\$ 64,918,985	\$ 61,746,684
Operating grants and contributions	9,132,121	8,327,179	-	-	9,132,121	8,327,179
Capital grants and contributions	74,190	84,646	1,306,211	646,311	1,380,401	730,957
General revenues:						
Property taxes	3,981,828	3,181,871	-	-	3,981,828	3,181,871
Other taxes	4,713,146	4,571,737	-	-	4,713,146	4,571,737
Other general revenues	116,116	377,393	(202,267)	47,019	(86,151)	424,412
Total revenues	18,989,235	17,525,765	65,051,095	61,457,075	84,040,330	78,982,840
Program Expenses:						
General government	848,621	809,533	-	-	848,621	809,533
Public safety	4,009,305	3,924,858	-	-	4,009,305	3,924,858
Judicial	47,597	49,819	-	-	47,597	49,819
Recreation	683,065	644,216	-	-	683,065	644,216
Highways and streets	1,367,637	1,406,651	-	-	1,367,637	1,406,651
Sanitation	12,416	9,408	459,318	272,362	471,734	281,770
Housing and community development	879,790	1,069,382	-	-	879,790	1,069,382
Garage	187,215	198,306	-	-	187,215	198,306
Education	12,473,243	11,402,551	-	-	12,473,243	11,402,551
Interest on long-term debt	191,839	66,150	-	-	191,839	66,150
Electric, telecom, water and gas	-	-	57,111,679	55,145,874	57,111,679	55,145,874
Total expenses	20,700,728	19,580,874	57,570,997	55,418,236	78,271,725	74,999,110
Excess (deficiency) before transfers	(1,711,493)	(2,055,109)	7,480,098	6,038,839	5,768,605	3,983,730
Transfers	1,330,138	1,248,628	(1,330,138)	(1,248,628)	-	-
Increase in net position	\$ (381,355)	\$ (806,481)	\$ 6,149,960	\$ 4,790,211	\$ 5,768,605	\$ 3,983,730

The City's total revenues decreased 6.4 percent from the fiscal year ended June 30, 2013 to the fiscal year ended June 30, 2014, while total expenses increased 4.36 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, 2014 and 2013. 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	
	2014	2013	2014	2013
General government	\$ 848,621	\$ 809,533	\$ 773,274	\$ 699,352
Public safety	4,009,305	3,924,858	3,442,012	3,429,800
Judicial	47,597	49,819	(82,537)	(90,246)
Recreation	683,065	644,216	632,383	612,351
Highways and street	1,367,637	1,406,651	1,162,784	1,146,290
Sanitation	12,416	9,408	12,416	9,408
Housing and community development	879,790	1,069,382	442,944	621,607
Garage	187,215	198,306	187,215	198,306
Education	12,473,243	11,402,551	3,760,253	3,493,092
Interest on long-term debt	191,839	66,150	191,839	66,150
Total Net Expenditures	<u>\$ 20,700,728</u>	<u>\$ 19,580,874</u>	<u>\$ 10,522,583</u>	<u>\$ 10,186,110</u>

The information below details general revenues of the City's governmental activities for the fiscal years ended June 30, 2014 and 2013. These revenues are required to cover the net expenditures listed above.

Revenues by Source

	2014	2013
Property taxes	\$ 3,981,828	\$ 3,181,871
In lieu of taxes	481,855	406,180
Sales taxes	2,595,120	2,524,536
Alcoholic beverage taxes	535,665	513,258
Other local taxes	365,225	365,290
Other state taxes	735,281	762,473
Other	62,851	64,455
Unrestricted investment earnings	30,930	38,388
Gain on sale of assets	22,335	274,550
Transfers	1,330,138	1,248,628
Total General Revenues and Transfers	<u>\$ 10,141,228</u>	<u>\$ 9,379,629</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 position.

	Gas	Electric	Water	Telecom	Sanitation	Total
Fiscal Year Ended June 30, 2014						
Total Assets and Deferred						
Outflows of Resources	\$ 20,881,282	\$ 77,559,003	\$ 26,581,996	\$ 2,232,713	\$ 960,032	\$ 128,215,026
Net Position	16,588,918	51,859,215	15,339,626	(167,309)	553,987	84,174,437
Change in Net Position	931,696	3,010,980	1,730,019	509,809	(32,544)	6,149,960
Return on Ending Total Assets	4.46%	3.88%	6.51%	22.83%	-3.39%	4.80%
Return on Ending Net Position	5.62%	5.81%	11.28%	n/a	-5.87%	7.31%
Fiscal Year Ended June 30, 2013 (Restated)						
Total Assets and Deferred						
Outflows of Resources	\$ 20,208,394	\$ 75,129,641	\$ 22,525,482	\$ 1,964,900	\$ 660,902	\$ 120,489,319
Net Position	15,657,222	48,848,235	13,609,607	(677,118)	586,531	78,024,477
Change in Net Position	560,457	2,719,877	951,929	557,677	271	4,790,211
Return on Ending Total Assets	2.77%	3.62%	4.23%	28.38%	0.04%	3.98%
Return on Ending Net Position	3.58%	5.57%	6.99%	n/a	0.05%	6.14%

CAPITAL ASSETS

As of June 30, 2014, the City has \$107 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 \$5,642,953 or 5.55 percent, over last year.

The following is a summary of capital assets for fiscal years ended June 30, 2014 and 2013, for governmental and business-type activities.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Land	\$ 3,541,266	\$ 3,455,563	\$ 1,098,495	\$ 1,098,478	\$ 4,639,761	\$ 4,554,041
Buildings	19,270,410	13,223,456	3,947,233	3,880,927	23,217,643	17,104,383
Improvements other than buildings	2,573,461	1,607,734	-	-	2,573,461	1,607,734
Machinery and equipment	8,662,409	8,263,314	132,531,946	126,077,194	141,194,355	134,340,508
Infrastructure	4,662,299	2,626,312	612,379	607,949	5,274,678	3,234,261
Total plant and equipment in service	38,709,845	29,176,379	138,190,053	131,664,548	176,899,898	160,840,927
Construction work in progress	11,650	6,811,033	4,541,290	4,612,281	4,552,940	11,423,314
	38,721,495	35,987,412	142,731,343	136,276,829	181,452,838	172,264,241
Less accumulated depreciation	(13,213,338)	(12,349,987)	(61,009,446)	(58,327,153)	(74,222,784)	(70,677,140)
	<u>\$ 25,508,157</u>	<u>\$ 23,637,425</u>	<u>\$ 81,721,897</u>	<u>\$ 77,949,676</u>	<u>\$ 107,230,054</u>	<u>\$ 101,587,101</u>

DEBT ADMINISTRATION

Debt, considered a liability of governmental and business-type activities, increased in fiscal year 2014 by \$1,629,121.

	Governmental Activities		Business-type Activities		Total Primary Government	
	2014	2013	2014	2013	2014	2013
Bonds						
General Obligation	\$ 8,390,000	\$ 7,705,000	\$ 7,440,000	\$ 8,360,000	\$ 15,830,000	\$ 16,065,000
Revenue	-	-	21,938,660	19,435,000	21,938,660	19,435,000
Deferred amounts	83,185	81,921	131,368	146,754	214,553	228,675
Total Bonds	<u>8,473,185</u>	<u>7,786,921</u>	<u>29,510,028</u>	<u>27,941,754</u>	<u>37,983,213</u>	<u>35,728,675</u>
Loans						
Tennessee energy efficiency	49,557	74,335	-	-	49,557	74,335
Tennessee utility relocation loan	-	-	2,113,972	1,637,386	2,113,972	1,637,386
Bond anticipation note	-	-	2,364,047	3,737,862	2,364,047	3,737,862
RUS economic development loan	-	-	180,000	41,250	180,000	41,250
Total Loans	<u>49,557</u>	<u>74,335</u>	<u>4,658,019</u>	<u>5,416,498</u>	<u>4,707,576</u>	<u>5,449,583</u>
Capital leases	-	17,908	-	-	-	17,908
Postemployment benefit obligation	611,064	552,432	583,415	468,519	1,194,479	1,020,951
Compensated absences	488,816	563,268	793,063	745,690	1,281,879	1,308,958
Landfill postclosure costs	214,979	226,930	-	-	214,979	226,930
Totals	<u>\$ 9,837,601</u>	<u>\$ 9,221,794</u>	<u>\$ 35,544,525</u>	<u>\$ 34,572,461</u>	<u>\$ 45,382,126</u>	<u>\$ 43,753,005</u>

GENERAL FUND BUDGETARY HIGHLIGHTS

During the last year, the Board of Mayor and Alderman approved several projects. These approvals include major items: such as building a new Police Station and a commitment to paving City Streets. During fiscal year 2014 the City completed construction on the new municipal swimming pool and it is now open to the public. We are also continuing progress at the Industrial Park by completing the infrastructure and completing the speculative 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 2014, 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 2015 general fund budget was positively impacted by the projected increase in property tax rate from fiscal year 2013 and continues to see the benefit of this increase. The City has also seen an increase in sales tax revenues within the past year. The City is building a new Police Station and has acquired the property for the building and completed construction plans. Personnel benefits, retirement and health insurance costs seem to have slight increases every year. 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 POSITION
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 12,723,280	\$ 24,755,963	\$ 37,479,243
Receivables	4,045,424	6,329,141	10,374,565
Internal balances	206,597	(206,597)	-
Inventory	61,933	1,622,794	1,684,727
Prepaid expenses	53,428	2,538,710	2,592,138
Restricted assets	44,261	2,004,109	2,048,370
Special funds	-	7,501,669	7,501,669
Other assets	-	1,500,670	1,500,670
Capital assets (net of accumulated depreciation)			
Land	3,541,266	1,098,495	4,639,761
Buildings and improvements	15,078,463	2,156,722	17,235,185
Machinery and equipment	3,716,602	73,924,380	77,640,982
Infrastructure	3,160,176	1,010	3,161,186
Construction in progress	11,650	4,541,290	4,552,940
TOTAL ASSETS	<u>42,643,080</u>	<u>127,768,356</u>	<u>170,411,436</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	<u>-</u>	<u>240,073</u>	<u>240,073</u>
LIABILITIES			
Accounts payable and accrued expenses	882,975	6,558,483	7,441,458
Accrued interest payable	-	146,242	146,242
Unearned revenue	63,981	-	63,981
Deposits	-	1,584,742	1,584,742
Noncurrent liabilities:			
Due in one year	651,279	2,595,155	3,246,434
Due in more than one year	9,184,830	32,949,370	42,134,200
TOTAL LIABILITIES	<u>10,783,065</u>	<u>43,833,992</u>	<u>54,617,057</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	2,643,685	-	2,643,685
Deferred credit on refunding	1,492	-	1,492
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>2,645,177</u>	<u>-</u>	<u>2,645,177</u>
NET POSITION			
Net investment in capital assets	18,522,010	47,582,002	66,104,012
Restricted for:			
Debt service	-	1,975,957	1,975,957
Improvements and construction	-	28,152	28,152
Drug education and enforcement	87,764	-	87,764
Community development	456,235	-	456,235
Capital projects	2,277	-	2,277
Education	3,951,433	-	3,951,433
Unrestricted	6,195,119	34,588,326	40,783,445
TOTAL NET POSITION	<u>\$ 29,214,838</u>	<u>\$ 84,174,437</u>	<u>\$ 113,389,275</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, 2014

Function/ Program	Expenses	PROGRAM REVENUES			Net (Expense) Revenue and Changes in Net Position		Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	
<u>Governmental activities:</u>							
General government	\$ 848,621	\$ 69,146	\$ -	\$ 6,201	\$ (773,274)	\$ -	\$ (773,274)
Public safety	4,009,305	-	527,528	39,765	(3,442,012)	-	(3,442,012)
Judicial	47,597	130,134	-	-	82,537	-	82,537
Recreation	683,065	50,682	-	-	(632,383)	-	(632,383)
Highways and streets	1,367,637	-	176,629	28,224	(1,162,784)	-	(1,162,784)
Sanitation	12,416	-	-	-	(12,416)	-	(12,416)
Housing and community development	879,790	431,134	5,712	-	(442,944)	-	(442,944)
Garage	187,215	-	-	-	(187,215)	-	(187,215)
Education	12,473,243	290,738	8,422,252	-	(3,760,253)	-	(3,760,253)
Interest on long-term debt	191,839	-	-	-	(191,839)	-	(191,839)
Total governmental activities	20,700,728	971,834	9,132,121	74,190	(10,522,583)	-	(10,522,583)
<u>Business-type activities:</u>							
Electric	43,040,234	46,537,461	-	272,633	-	3,769,860	3,769,860
Gas	6,948,422	8,120,798	-	-	-	1,172,376	1,172,376
Telecom	3,258,956	3,761,264	-	7,480	-	509,788	509,788
Water and sewer	3,864,067	4,982,473	-	1,026,098	-	2,144,504	2,144,504
Sanitation	459,318	545,155	-	-	-	85,837	85,837
Total business-type activities	57,570,997	63,947,151	-	1,306,211	-	7,682,365	7,682,365
Total Government	<u>\$ 78,271,725</u>	<u>\$ 64,918,985</u>	<u>\$ 9,132,121</u>	<u>\$ 1,380,401</u>	<u>(10,522,583)</u>	<u>7,682,365</u>	<u>(2,840,218)</u>
General revenues:							
Property taxes					3,981,828	-	3,981,828
Business taxes					199,071	-	199,071
In lieu of tax					481,855	-	481,855
Sales taxes					2,595,120	-	2,595,120
Occupancy taxes					63,714	-	63,714
Alcoholic beverage taxes					535,665	-	535,665
Franchise taxes					101,671	-	101,671
Other local taxes					769	-	769
State shared revenues					735,281	-	735,281
Other					62,851	-	62,851
Gain (loss) on sale of capital assets					30,930	(232,666)	(201,736)
Unrestricted investment earnings					22,335	30,399	52,734
Transfers					1,330,138	(1,330,138)	-
Total general revenues and transfers					10,141,228	(1,532,405)	8,608,823
Change in net position					(381,355)	6,149,960	5,768,605
Net position - beginning, restated					29,596,193	78,024,477	107,620,670
Net position - ending					\$ 29,214,838	\$ 84,174,437	\$ 113,389,275

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

BALANCE SHEET
GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

	General	School General	Other Governmental Funds	Total Governmental Funds
Assets:				
Cash	\$ 6,191,760	\$ 4,238,936	\$ 2,292,584	\$ 12,723,280
Cash - restricted	-	30,142	14,119	44,261
Receivables	2,821,232	2,032	7	2,823,271
Due from other funds	35,353	-	178,278	213,631
Due from other governments	902,182	285,066	34,905	1,222,153
Inventory	39,483	-	22,450	61,933
Prepaid expenses	53,428	-	-	53,428
TOTAL ASSETS	\$ 10,043,438	\$ 4,556,176	\$ 2,542,343	\$ 17,141,957
Liabilities:				
Accounts payable	\$ 126,211	\$ 126,948	\$ 44	\$ 253,203
Other accrued expenses	140,830	468,960	-	609,790
Due to other funds	4,708	-	2,326	7,034
Unearned revenue	-	-	25,000	25,000
TOTAL LIABILITIES	271,749	595,908	27,370	895,027
Deferred Inflows of Resources:				
Unavailable revenue - operating grants	-	50,597	-	50,597
Unavailable revenue - state and local taxes	264,214	105,495	-	369,709
Unavailable revenue - property taxes	2,709,250	-	-	2,709,250
Unavailable revenue - other	317,091	-	-	317,091
TOTAL DEFERRED INFLOWS OF RESOURCES	3,290,555	156,092	-	3,446,647
Fund Balances:				
Nonspendable				
Inventory and prepayments	92,911	-	22,450	115,361
Restricted:				
Career ladder	-	5,124	-	5,124
Project Lead The Way	-	2,682	-	2,682
BEP reserve	-	22,336	-	22,336
Capital projects	-	-	472,631	472,631
Public safety	-	-	87,764	87,764
Assigned:				
Industrial park	-	-	116,135	116,135
Capital projects	-	-	1,413,779	1,413,779
Education	-	3,774,034	51,623	3,825,657
Debt service	-	-	311,610	311,610
Unassigned	6,388,223	-	-	6,388,223
TOTAL FUND BALANCES	6,481,134	3,804,176	2,475,992	12,761,302
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 10,043,438	\$ 4,556,176	\$ 2,503,362	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	25,508,157
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	802,962
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(9,857,583)
Net position of governmental activities	<u>\$ 29,214,838</u>

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

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

CITY OF FAYETTEVILLE, TENNESSEE

Year ended June 30, 2014

	General	School General	Other Governmental Funds	Total Governmental Funds
REVENUES				
Taxes				
Property	\$ 2,543,386	\$ -	\$ -	\$ 2,543,386
Business	197,329	-	-	197,329
Wholesale beer	363,215	-	-	363,215
Alcoholic beverage	137,994	-	-	137,994
Sales	1,751,492	-	-	1,751,492
Occupancy	63,714	-	-	63,714
Tax equivalency	481,855	-	-	481,855
Licenses and permits	59,841	-	-	59,841
Fines	91,643	-	38,491	130,134
Franchise fees	101,852	-	-	101,852
Intergovernmental	1,458,571	9,299,337	1,449,820	12,207,728
Charges for services and use of property	440,439	141,900	173,449	755,788
Private grants and contributions	-	10,000	1,483	11,483
Investment earnings	4,700	15,908	1,727	22,335
Recreation activities	50,308	-	-	50,308
Other revenue	42,296	15,580	-	57,876
TOTAL REVENUES	7,788,635	9,482,725	1,664,970	18,936,330
EXPENDITURES				
Current				
General government	703,876	-	218	704,094
Public safety	3,893,865	-	15,509	3,909,374
Judicial	46,579	-	-	46,579
Recreation	567,403	-	-	567,403
Highways and streets	1,180,990	-	-	1,180,990
Sanitation	-	-	22,700	22,700
Housing and community development	828,798	-	46,088	874,886
Garage	184,320	-	-	184,320
Education	-	10,450,167	1,594,603	12,044,770
Debt service				
Principal	-	212,908	189,778	402,686
Interest	-	173,892	77,372	251,264
Debt issuance costs	-	-	50,622	50,622
Capital outlay	-	94,475	2,693,040	2,787,515
TOTAL EXPENDITURES	7,405,831	10,931,442	4,689,930	23,027,203
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	382,804	(1,448,717)	(3,024,960)	(4,090,873)
OTHER FINANCING SOURCES (USES)				
Transfers in	1,321,638	785,469	1,536,101	3,643,208
Transfers out	(1,302,500)	-	(1,010,570)	(2,313,070)
Debt issuance	-	-	1,045,000	1,045,000
Premiums on debt issued	-	-	5,622	5,622
Insurance proceeds	12,334	9,215	-	21,549
Proceeds from disposition of capital assets	9,250	10,000	-	19,250
TOTAL OTHER FINANCING SOURCES (USES)	40,722	804,684	1,576,153	2,421,559
NET CHANGE IN FUND BALANCES	423,526	(644,033)	(1,448,807)	(1,669,314)
Fund balance - beginning	6,057,608	4,448,209	3,924,799	14,430,616
Fund balance - ending	<u>\$ 6,481,134</u>	<u>\$ 3,804,176</u>	<u>\$ 2,475,992</u>	<u>\$ 12,761,302</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, 2014

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

Net change in fund balances - total governmental funds	\$ (1,669,314)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,871,386
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The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net position.	(654)
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	21,974
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(643,578)
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	38,831
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Change in net position of governmental activities	<u><u>\$ (381,355)</u></u>
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The accompanying notes are an integral part of this financial statement.

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2014

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
<u>ASSETS</u>			
Current Assets			
Cash for general use	\$ 24,326,921	\$ 429,042	\$ 24,755,963
Accounts receivable	5,515,376	39,992	5,555,368
Other receivables	773,488	-	773,488
Interest receivables	285	-	285
Inventories	1,622,794	-	1,622,794
Prepaid expenses	2,538,710	-	2,538,710
Total current assets	34,777,574	469,034	35,246,608
Special and Restricted Funds	9,505,778	-	9,505,778
Capital Assets, net of accumulated depreciation	81,230,899	490,998	81,721,897
Other Assets	1,500,670		1,500,670
TOTAL ASSETS	127,014,921	960,032	127,974,953
<u>DEFERRED OUTFLOW OF RESOURCES</u>			
Deferred charge on refunding	240,073	-	240,073
<u>LIABILITIES</u>			
Current Liabilities			
Current maturities of long-term debt payable from current assets	2,057,855	56,700	2,114,555
Accounts payable	5,087,629	336	5,087,965
Due to other funds	-	206,597	206,597
Customer deposits	1,584,742	-	1,584,742
Accrued interest	146,242	-	146,242
Other accrued liabilities	765,129	2,263	767,392
Total current liabilities	9,641,597	265,896	9,907,493
Other Liabilities			
Advances from TVA	1,038,920	-	1,038,920
Long-term debt payable from special funds	144,806	-	144,806
OPEB liabilities, net	583,415	-	583,415
Compensated absences	440,420	16,849	457,269
Total other liabilities	2,207,561	16,849	2,224,410
Long-term debt	31,785,386	123,300	31,908,686
TOTAL LIABILITIES	43,634,544	406,045	44,040,589
<u>NET POSITION</u>			
Net investment in capital assets	47,271,004	310,998	47,582,002
Restricted for debt service	1,975,957	-	1,975,957
Restricted for improvements and construction	28,152	-	28,152
Unrestricted	34,345,337	242,989	34,588,326
TOTAL NET POSITION	\$ 83,620,450	\$ 553,987	\$ 84,174,437

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2014

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Funds	Totals
<u>OPERATING REVENUES</u>			
Charges for services	\$ 61,706,609	\$ 543,340	\$ 62,249,949
Other	1,695,387	1,815	1,697,202
TOTAL OPERATING REVENUE	<u>63,401,996</u>	<u>545,155</u>	<u>63,947,151</u>
<u>OPERATING EXPENSES</u>			
Cost of utility services	42,202,975	-	42,202,975
Pumping, distribution and collection	5,282,017	441,128	5,723,145
Customer billing and collecting	1,238,481	-	1,238,481
General and administrative	2,060,666	-	2,060,666
Taxes and tax equivalents	392,692	-	392,692
Provision for depreciation	4,495,035	18,190	4,513,225
Other	323,431	-	323,431
TOTAL OPERATING EXPENSES	<u>55,995,297</u>	<u>459,318</u>	<u>56,454,615</u>
INCOME FROM OPERATIONS	<u>7,406,699</u>	<u>85,837</u>	<u>7,492,536</u>
<u>OTHER INCOME AND EXPENSE</u>			
Interest income	30,280	119	30,399
Interest expense	(1,087,889)	-	(1,087,889)
Amortization	(29,321)	-	(29,321)
Debt issuance costs	(3,075)	-	(3,075)
Gain (loss) on disposition of assets	(232,666)	-	(232,666)
Miscellaneous	3,903	-	3,903
Other Income (Expense) -net	<u>(1,318,768)</u>	<u>119</u>	<u>(1,318,649)</u>
Income before contributions and transfers	6,087,931	85,956	6,173,887
Capital contributions in aid of construction	1,306,211	-	1,306,211
Transfers out	<u>(1,211,638)</u>	<u>(118,500)</u>	<u>(1,330,138)</u>
CHANGE IN NET POSITION	6,182,504	(32,544)	6,149,960
TOTAL NET POSITION, BEGINNING OF YEAR, RESTATED	<u>77,437,946</u>	<u>586,531</u>	<u>78,024,477</u>
TOTAL NET POSITION, END OF YEAR	<u>\$ 83,620,450</u>	<u>\$ 553,987</u>	<u>\$ 84,174,437</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, 2014

	Enterprise Funds		
	Fayetteville Public Utilities	Sanitation Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (including other funds)	\$ 63,324,410	\$ 544,975	\$ 63,869,385
Payments to suppliers and others	(46,088,521)	(190,505)	(46,279,026)
Payments to employees	(3,946,862)	(98,948)	(4,045,810)
NET CASH PROVIDED BY OPERATING ACTIVITIES	13,289,027	255,522	13,544,549
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Noncapital borrowings repaid	(41,250)	-	(41,250)
Collections on loans to other organizations	41,250	-	41,250
Transfers (to) from other funds	(1,211,638)	(118,500)	(1,330,138)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	(1,211,638)	(118,500)	(1,330,138)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Additions to capital assets, net	(8,653,464)	(175,941)	(8,829,405)
Removal costs of capital assets	(458,562)	-	(458,562)
Materials salvaged from retirement of capital assets	104,792	-	104,792
Capital contributions received	1,306,211	-	1,306,211
Proceeds from disposal of assets	55,156	-	55,156
Long-term borrowings, net	2,731,743	180,000	2,911,743
Borrowings repaid	(2,045,312)	-	(2,045,312)
Issue costs paid	(3,075)	-	(3,075)
Interest paid, net	(1,217,975)	-	(1,217,975)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(8,180,486)	4,059	(8,176,427)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	32,110	119	32,229
Other nonoperating income (expense), net	3,903	-	3,903
NET CASH PROVIDED BY INVESTING ACTIVITIES	36,013	119	36,132
INCREASE (DECREASE) IN CASH, NET	3,932,916	141,200	4,074,116
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	29,899,783	287,843	30,187,626
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 33,832,699	\$ 429,043	\$ 34,261,742
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Income from operations	\$ 7,406,699	\$ 85,837	\$ 7,492,536
Adjustments to reconcile income from operations to net cash provided by operating activities -			
Depreciation, including amounts capitalized	4,832,310	18,190	4,850,500
Loss on disallowance of plant	272,633	-	272,633
Conservation loans advanced - customers	(219,177)	-	(219,177)
Conservation loans collected - customers	178,328	-	178,328
Conservation advances from TVA	297,571	-	297,571
Conservation advances repaid to TVA	(250,990)	-	(250,990)
Changes in operating assets and liabilities:			
Accounts and other receivables, net	(58,379)	(180)	(58,559)
Inventories	(102,100)	-	(102,100)
Prepaid expenses and other assets	277,900	-	277,900
Accounts payable	385,102	(959)	384,143
Accrued employee benefits	114,896	-	114,896
Customer deposits	62,891	-	62,891
Due to other funds	-	152,877	152,877
Other current liabilities and compensated absences	91,343	(243)	91,100
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 13,289,027	\$ 255,522	\$ 13,544,549
SCHEDULE OF NONCASH FINANCING AND INVESTING ACTIVITIES:			
Water interim certificates of indebtedness refinanced	\$ 3,500,000		

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, 2014

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Taxes				
Property	\$ 2,430,000	\$ 2,510,000	\$ 2,543,386	\$ 33,386
Business	217,000	147,000	197,329	50,329
Wholesale beer	360,000	360,000	363,215	3,215
Alcoholic beverage	130,000	127,000	137,994	10,994
Sales	1,730,000	1,742,000	1,751,492	9,492
Tax equivalency	396,000	481,855	481,855	-
Occupancy	40,000	53,000	63,714	10,714
Licenses and permits	62,800	59,989	59,841	(148)
Fines	125,300	90,000	91,643	1,643
Franchise fees	98,000	101,000	101,852	852
Intergovernmental				
State sales tax allocation	470,000	475,000	487,195	12,195
State income tax allocation	35,000	35,000	66,636	31,636
State beer tax allocation	3,500	3,230	3,230	-
State mixed drink tax allocation	28,000	28,000	28,959	959
State gasoline and motor fuel tax allocation	180,000	175,500	177,298	1,798
State city streets and transportation system	15,000	13,900	13,975	75
State excise tax allocation	27,000	37,108	37,108	-
State TVA in-lieu of tax	80,000	75,583	75,584	1
Lincoln County Emergency Communications	560,678	560,739	521,605	(39,134)
Housing authority	25,000	16,039	16,039	-
State and federal grants	-	4,718	30,942	26,224
Charges for services and use of property	555,500	459,305	440,439	(18,866)
Investment earnings	8,000	4,950	4,700	(250)
Recreation activities	31,500	34,425	50,308	15,883
Other revenue	34,230	33,885	42,296	8,411
TOTAL REVENUES	7,642,508	7,629,226	7,788,635	159,409
Expenditures:				
General government				
Salaries	425,845	425,845	380,723	45,122
Supplies	10,805	10,805	8,613	2,192
Utilities	37,300	37,300	36,517	783
Repairs and maintenance	5,750	5,750	3,869	1,881
Health insurance	42,000	42,229	39,309	2,920
Workers compensation	4,290	4,290	3,973	317
Payroll taxes	38,085	38,085	31,551	6,534
Employee education	41,840	41,840	6,088	35,752
Professional services	31,050	31,050	24,510	6,540
Travel	10,450	10,450	6,225	4,225
Retirement	37,450	37,450	30,588	6,862
Other insurance	8,267	8,267	17,120	(8,853)
Other general government	84,360	97,175	114,790	(17,615)
	777,492	790,536	703,876	86,660

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, 2014

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Public safety				
Salaries	\$ 2,530,325	\$ 2,550,749	\$ 2,507,562	\$ 43,187
Supplies	54,350	54,350	30,126	24,224
Utilities	104,425	108,125	97,791	10,334
Repairs and maintenance	38,850	55,350	49,548	5,802
Health insurance	374,000	380,250	405,086	(24,836)
Workers compensation	73,300	75,200	72,306	2,894
Payroll taxes	197,824	203,224	189,869	13,355
Employee education	10,900	10,900	13,340	(2,440)
Travel	6,200	6,200	4,505	1,695
Retirement	251,600	251,900	227,158	24,742
Other insurance	70,235	78,678	68,670	10,008
Fuel	113,500	93,000	82,302	10,698
Professional services	2,700	2,700	2,774	(74)
Other public safety	47,310	155,023	142,828	12,195
	<u>3,875,519</u>	<u>4,025,649</u>	<u>3,893,865</u>	<u>131,784</u>
Judicial				
Salaries	31,460	31,460	30,041	1,419
Health insurance	10,500	10,500	10,149	351
Payroll taxes	2,465	2,465	1,990	475
Retirement	3,000	3,000	2,929	71
Other judicial	3,278	4,594	1,470	3,124
	<u>50,703</u>	<u>52,019</u>	<u>46,579</u>	<u>5,440</u>
Recreation				
Salaries	273,450	281,050	271,467	9,583
Supplies	27,450	35,665	35,588	77
Utilities	52,920	52,920	46,097	6,823
Repairs and maintenance	17,000	22,400	27,640	(5,240)
Health insurance	39,000	42,000	40,647	1,353
Workers compensation	6,000	7,200	6,061	1,139
Payroll taxes	21,752	22,452	21,067	1,385
Professional services	22,750	23,950	29,293	(5,343)
Travel	1,000	1,000	754	246
Retirement	28,000	28,000	24,341	3,659
Other insurance	12,000	10,210	9,324	886
Fuel	21,140	17,000	14,715	2,285
Other recreation	46,300	56,427	40,409	16,018
	<u>568,762</u>	<u>600,274</u>	<u>567,403</u>	<u>32,871</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, 2014

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Expenditures: (Continued)				
Highways and streets				
Salaries	\$ 608,150	\$ 535,150	\$ 511,257	\$ 23,893
Supplies	13,000	16,000	13,253	2,747
Utilities	23,900	25,700	24,202	1,498
Repairs and maintenance	32,300	41,800	53,768	(11,968)
Health insurance	115,000	105,000	127,187	(22,187)
Workers compensation	23,000	23,000	23,896	(896)
Payroll taxes	47,220	47,220	38,244	8,976
Professional services	3,500	23,500	1,795	21,705
Retirement	61,000	61,000	43,765	17,235
Other insurance	11,300	11,825	9,128	2,697
Fuel	99,000	75,000	66,760	8,240
Street lighting	164,000	164,000	167,013	(3,013)
Other highways and streets	204,875	174,875	100,722	74,153
	<u>1,406,245</u>	<u>1,304,070</u>	<u>1,180,990</u>	<u>123,080</u>
Housing and community development				
Nonprofit allocations	230,029	235,161	233,861	1,300
Fuel	413,000	449,000	423,339	25,661
Industrial development	90,000	90,000	90,000	-
Other housing and community development	64,550	141,557	81,598	59,959
	<u>797,579</u>	<u>915,718</u>	<u>828,798</u>	<u>86,920</u>
Garage				
Salaries	109,985	109,985	108,318	1,667
Repairs and maintenance	9,570	9,570	9,215	355
Health insurance	22,000	22,000	27,064	(5,064)
Workers compensation	4,500	4,500	4,410	90
Payroll taxes	8,508	8,508	8,034	474
Retirement	11,000	11,000	10,434	566
Other insurance	1,200	1,200	919	281
Fuel	4,800	4,800	3,845	955
Other garage	8,655	12,251	12,081	170
	<u>180,218</u>	<u>183,814</u>	<u>184,320</u>	<u>(506)</u>
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	<u>7,656,518</u>	<u>7,872,080</u>	<u>7,405,831</u>	<u>466,249</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>(14,010)</u>	<u>(242,854)</u>	<u>382,804</u>	<u>625,658</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, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,230,000	\$ 1,321,638	\$ 1,321,638	\$ -
Transfers out	(1,175,497)	(1,302,502)	(1,302,500)	2
Insurance proceeds	-	12,706	12,334	(372)
Sale of capital assets	5,000	1,217	9,250	8,033
TOTAL OTHER FINANCING SOURCES (USES)	<u>59,503</u>	<u>33,059</u>	<u>40,722</u>	<u>7,663</u>
NET CHANGE IN FUND BALANCES	45,493	(209,795)	423,526	633,321
Fund balance - beginning	6,057,608	6,057,608	6,057,608	-
Fund balance - ending	<u>\$ 6,103,101</u>	<u>\$ 5,847,813</u>	<u>\$ 6,481,134</u>	<u>\$ 633,321</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, 2014

	Original Budget	Final Budget	Actual	Variance with Final Budget Favorable (Unfavorable)
REVENUES				
Intergovernmental				
Lincoln County	\$ 2,122,000	\$ 2,232,524	\$ 2,287,437	\$ 54,913
State of Tennessee	6,335,000	6,980,344	6,968,685	(11,659)
Federal	72,505	43,505	43,215	(290)
Charges for services and use of property	159,000	159,000	141,900	(17,100)
Private grants and contributions	-	-	10,000	10,000
Investment earnings	35,000	26,000	15,908	(10,092)
Other revenue	6,000	10,517	15,580	5,063
TOTAL REVENUES	8,729,505	9,451,890	9,482,725	30,835
EXPENDITURES				
Instruction				
Regular instruction program	5,700,599	5,643,587	5,514,027	129,560
Special education program	553,230	593,730	580,316	13,414
Vocational education program	350,215	271,797	253,210	18,587
Student body education program	20,400	20,400	4,893	15,507
Support services				
Attendance	16,820	16,820	4,579	12,241
Health services	192,040	192,040	177,066	14,974
Other student support	280,586	261,136	261,133	3
Regular instruction program	410,470	410,470	356,730	53,740
Special education program	43,165	40,803	40,723	80
Vocational education program	-	7,318	7,318	-
Board of education	189,438	189,438	178,827	10,611
Office of the superintendent	182,110	182,110	171,673	10,437
Office of the principal	843,340	877,740	871,959	5,781
Fiscal services	154,565	154,565	138,012	16,553
Operation of plant	807,700	807,700	701,879	105,821
Maintenance of plant	272,265	261,265	214,948	46,317
Transportation	181,340	245,760	233,597	12,163
Central office	130,530	202,792	196,543	6,249
Community services	137,890	117,308	109,538	7,770
Early childhood education	427,496	439,496	433,196	6,300
Debt service				
Principal on notes	195,000	195,000	195,000	-
Interest on notes	173,000	173,000	172,656	344
Principal on capital leases	-	17,908	17,908	-
Interest on capital leases	-	1,236	1,236	-
Capital outlay	75,000	94,475	94,475	-
TOTAL EXPENDITURES	11,337,199	11,417,894	10,931,442	486,452
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(2,607,694)	(1,966,004)	(1,448,717)	517,287
OTHER FINANCING SOURCES (USES)				
Transfers in	774,900	774,900	785,469	10,569
Transfers out	-	(25,000)	-	25,000
Insurance recovery	-	9,215	9,215	-
Sale of capital assets	1,000	6,400	10,000	3,600
Total Other Financing Sources (Uses)	775,900	765,515	804,684	39,169
Net changes in fund balances	(1,831,794)	(1,200,489)	(644,033)	556,456
Fund balance - beginning	4,448,209	4,448,209	4,448,209	-
Fund balance - ending	\$ 2,616,415	\$ 3,247,720	\$ 3,804,176	\$ 556,456

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

NOTES TO FINANCIAL STATEMENTS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

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 more significant of the City's accounting policies are described as follows:

(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 GAAP.

(B) Government-wide and fund financial statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds, while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

The government-wide financial statements (i.e., the statement of net position 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, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers 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.

The fund financial statements provide information about the government's funds. Separate fund financial statements are provided for governmental funds and proprietary funds. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Major individual governmental and enterprise funds are reported as separate columns in the fund financial statements.

The government reports the following major governmental funds:

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(B) Government-wide and fund financial statements (Continued)

The government reports the following major enterprise 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 general government's garbage collection and disposal.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due to/from other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similar, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

(C) Measurement focus and basis of accounting

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 financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flow. 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. For the activities of FPU, an accrual is made for unbilled revenue for services from the date of the most recent meter readings to the balance sheet date consistent with costs for utility services.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(C) Measurement focus and basis of accounting (Continued)

The 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. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter 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. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source. For expenditure-driven grants, in a departure from the 30 day period defined above, the consideration to defer recognition of revenue is considered in situations where reimbursement is not expected within a reasonable period. All other revenue items are considered to be measurable and available only when cash is received by the government.

2. Revenues and expenditures/expenses

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 as general revenues rather than as program 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 proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

3. 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, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, liabilities, net position and fund balances

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.

3. Receivables and allowance for uncollectible accounts

Receivables consist of taxes receivable including real and personal property, trade receivables, due from other governments and interest receivable. The government provides for an allowance for uncollectible receivables equal to the estimated loss that may be incurred in collection of all receivables. The estimated losses are based on historical collection experience and a review of the current status of the existing receivables.

4. Inventories and prepaid items

Inventories are comprised of materials and supplies and natural gas utility reserves and are stated at the lower of cost or market. Cost for materials and supplies is determined substantially by the moving average method of inventory valuation. For the School System inventories are comprised of food items and supplies and are stated at cost, which approximates market, using the first in first out method. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/ expenses when consumed rather than when purchased.

5. Restricted assets

Business-type activities - Certain resources set aside for the repayment of revenue bonds are classified as restricted assets on the statement of net position 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, liabilities, net position and fund equity (Continued)

6. 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 column in the government-wide financial statements. Capital assets used in governmental-type activities are defined by the government as assets with an initial, individual cost of more than \$5,000 (\$25,000 for School System buildings) and an estimated useful life in excess of one year. Donated capital assets are recorded at fair market value at the date of donation.

Certain items of electric plant referred to as special equipment items (meters, transformers, oil circuits reclosers, etc.) are capitalized at the time of purchase along with the related cost of installation. When utility plant is retired or otherwise disposed of in the normal course of business, its capitalized cost and its cost of removal less salvage are charged to the accumulated provision for depreciation.

The costs of maintenance, repairs, and replacements of minor items of property that do not improve or extend the life of the respective assets are charged to expense accounts as incurred.

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	20-50 years
Public domain infrastructure	40-50 years
Improvements other than buildings	10-20 years
Machinery, equipment and other	5-15 years

7. 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 position. Debt is recorded net of the applicable premium or discount. Debt issuance costs, other than insurance, are charged to expense in the period incurred. Debt premiums and discounts are deferred and amortized over the life of the debt using a method that approximates the interest method. In the fund financial statements, governmental fund types recognize premiums 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, liabilities, net position and fund equity (Continued)

8. Compensated absences

The City's general government and FPU'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 and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if the liability has matured, for example, as a result of employee resignations and retirements.

The School System's policies regarding leave time require employees use vacation leave by the end of the fiscal year. Accordingly, there is no liability recorded in the financial statements for compensated absences at June 30, 2014.

9. Fund balance policies

Governmental funds report fund balance 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 – 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.

Restricted – 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 and Basic Education Program (BEP) reserves as being restricted because their use is restricted by provisions of the state grants. Amounts for Project Lead the Way resources are restricted by provisions of a private grant.

Committed – 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. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. For the Fayetteville City Schools committed balances arise pursuant to constraints imposed by formal action of the Board of Education in the form of a motion with a majority vote of approval and cannot be used for any other purposes unless the Board rescinds or modifies the specified use by taking the same action that was employed when the funds were initially committed.

Assigned – 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, liabilities, net position, and fund equity (Continued)

Unassigned – 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.

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). When this occurs the government 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.

10. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/ expenditure) until then. The government has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. In the government-wide statement of net position the government has two items that qualify for reporting in this category. First is the deferred credit on refunding. A deferred credit on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Second, property taxes attach as an enforceable lien on property as of January 1st but will not be available for collection until the taxes are billed in the following fiscal year. These amounts are deferred and recognized as an inflow of resources in the period for which property taxes are billed. In the governmental funds the government has one type of item, which arises under the modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported in the government funds balance sheet. The governmental funds report unavailable revenues from multiple sources: property taxes, state and local taxes, operating grants and certain other amounts. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(D) Assets, liabilities, net position, and fund equity (Continued)

11. Net position flow assumption

The government will on occasion fund outlays for a particular purpose from both restricted (e.g. restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

12. Capitalized interest

Interest cost incurred, net of interest earned, on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. FPU's net interest cost incurred in the current year totaled \$1,135,365. Of this, \$47,476 was capitalized with the remainder charged to expense. The School System's net interest expense capitalized for the current year was \$45,433.

13. Estimates

In preparing the government'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 position

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and net position-governmental activities as reported in the government-wide statement of net position. 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 \$9,857,583 difference are identified as follows:

Bonds and notes payable	\$ 8,439,557
Add: Deferred credit on refunding (to be amortized over the remainder of debt's life)	1,492
Add: Issuance premium (to be amortized over life of debt)	81,693
Accrued interest payable	19,982
Compensated absences	488,816
Other postemployment benefit obligations	611,064
Landfill post closure costs	<u>214,979</u>
Net adjustment to reduce fund balance – total governmental funds to arrive at net position – governmental activities	<u>\$ 9,857,583</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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 position (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 \$25,508,157 difference are as follows:

Land	\$ 3,541,266
Construction in progress	11,649
Buildings and improvements	21,843,871
Less: Accumulated depreciation-buildings and improvements	(6,762,329)
Machinery and equipment	8,662,409
Less: Accumulated depreciation-machinery and equipment	(4,948,886)
Infrastructure	4,662,299
Less: Accumulated depreciation-infrastructure	<u>(1,502,122)</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 25,508,157</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 position of governmental activities as reported in the government-wide statement of activities.

One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$1,871,386 difference are as follows:

Capital outlay	\$ 2,870,602
Depreciation expense	<u>(999,216)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 1,871,386</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 \$38,831 difference are as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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

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

Compensated absences	\$ 74,452
Net OPEB obligation	(58,632)
Accrued interest	11,060
Landfill post closure costs	<u>11,951</u>

Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 38,831</u>
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Another element of that reconciliation states that “The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.” The details of this \$(654) 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 position differs from the change in fund balance by the remaining cost of the capital assets sold.	\$ (654)
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Net adjustment to increase net changes in fund balance-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (654)</u>
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Another element of that reconciliation states that “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 position. Also, governmental funds report the effect of premiums when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$(643,578) difference are as follows:

Debt issued or incurred:	
General obligation bonds	\$ (1,045,000)
Premium on debt issuance	(5,622)
Principal repayments:	
General obligation bond	360,000
Energy efficiency loan	24,778
Capital leases	17,908
Amortization of deferred credit on refunding	150
Amortization of debt premiums	<u>4,208</u>

Net adjustment to decrease net changes in fund balance-total governmental funds to arrive at changes in net position of governmental activities	<u>\$ (643,578)</u>
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NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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.

The Fayetteville City School System's original budget and amendments are first adopted by the Board of Education but must be then approved by the City of Fayetteville Board of Mayor and Aldermen.

For the year ended June 30, 2014, expenditures exceeded appropriations in the garage department (the legal level of budgetary control) by \$506 and in the debt service fund by 50,598.

NOTE 4 - DETAILED NOTES ON ALL FUNDS

(A) Deposits and investments

The following is a summary of cash and investments as of June 30, 2014:

General use:

On deposit and on hand	\$ 37,479,243
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Restricted and other special funds:

On deposit – restricted (externally)	\$ 2,048,370	
On deposit – special funds (internally restricted)	7,501,669	9,550,039
Total		<u>\$ 47,029,282</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

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, 2014, the following restricted funds were maintained:

Sinking and reserve fund	\$ 1,975,957
Improvements and construction fund	<u>28,152</u>
	<u>\$ 2,004,109</u>

The remaining restricted assets shown on deposit above included \$5,124 restricted for career ladder expenditures, \$2,682 for Project Lead The Way, \$22,336 for BEP reserve, and \$1,575,305 for construction and improvements to the Fayetteville City Schools.

Special funds totaling \$7,501,669 are designated for specific purposes by FPU. The funds include funded substation replacement, operating reserves, improvements and construction costs, safety incentive funds, debt service reserves, and post retirement health benefits.

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 not adopted policies to further limit its deposit or 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, 2014, 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(A) Deposits and investments (Continued)

At June 30, 2014, the City's cash consists of deposits in financial institutions with bank balances of \$47,520,530 and carrying amounts of \$47,025,363 plus cash on hand of \$3,919. Of the amounts on deposit, \$41,044,336 is fully insured by the FDIC or the Tennessee Bank Collateral Pool. The remaining \$3,355,318 is collateralized by securities pledged by financial institutions in the name of the City.

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

(B) Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts:

	<u>General</u>	<u>School General</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:					
Interest	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	2,793,091	-	-	-	2,793,091
Accounts	42,776	2,032	-	7	44,815
Intergovernmental	<u>902,182</u>	<u>285,066</u>	<u>-</u>	<u>34,905</u>	<u>1,222,153</u>
Gross receivables	3,738,049	287,098	-	34,912	4,060,059
Less: Allowance for					
Uncollectibles	<u>(14,635)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14,635)</u>
Net total receivables	<u>\$ 3,723,414</u>	<u>\$ 287,098</u>	<u>\$ -</u>	<u>\$ 34,912</u>	<u>\$ 4,045,424</u>

Revenues of the Fayetteville Public Utilities, an enterprise fund, are reported net of uncollectible amounts. Total uncollectible amounts related to sales of the current period amounted to \$116,336.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 4 - DETAILED NOTES ON ALL FUNDS (Continued)

(C) Capital assets

Capital asset activity for the year ended June 30, 2014, 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	\$ 3,455,563	\$ 85,703	\$ -	\$ 3,541,266
Construction in progress	<u>6,811,033</u>	<u>2,118,716</u>	<u>(8,918,099)</u>	<u>11,650</u>
Total capital assets, not being depreciated	<u>10,266,596</u>	<u>2,204,419</u>	<u>(8,918,099)</u>	<u>3,552,916</u>
Capital assets, being depreciated:				
Buildings	13,223,456	6,046,954	-	19,270,410
Improvements other than buildings	1,607,734	970,725	(4,998)	2,573,461
Machinery and equipment	8,263,314	530,616	(131,521)	8,662,409
Infrastructure	<u>2,626,312</u>	<u>2,035,987</u>	<u>-</u>	<u>4,662,299</u>
Total capital assets being depreciated	<u>25,720,816</u>	<u>9,584,282</u>	<u>(136,519)</u>	<u>35,168,579</u>
Less accumulated depreciation for:				
Buildings	(5,707,457)	(397,863)	-	(6,105,320)
Improvements other than buildings	(585,955)	(79,131)	4,998	(660,088)
Machinery and equipment	(4,636,582)	(440,092)	130,867	(4,945,807)
Infrastructure	<u>(1,419,993)</u>	<u>(82,130)</u>	<u>-</u>	<u>(1,502,123)</u>
Total accumulated depreciation	<u>(12,349,987)</u>	<u>(999,216)</u>	<u>135,865</u>	<u>(13,213,338)</u>
Total capital assets, being depreciated, net	<u>13,370,829</u>	<u>8,585,066</u>	<u>(654)</u>	<u>21,955,241</u>
Governmental activities capital assets, net	<u>\$ 23,637,425</u>	<u>\$ 10,789,485</u>	<u>\$ (8,918,753)</u>	<u>\$ 25,508,157</u>

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

Governmental Activities	
General government	\$ 71,943
Public safety	159,236
Recreation	79,006
Highways and streets	174,719
Housing and community development	4,904
Education	<u>509,408</u>
Total depreciation expense – governmental activities	<u>\$ 999,216</u>

Capital asset activity for the year ended June 30, 2014, for business-type activities is as follows:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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	\$ 1,098,495	\$ -	\$ -	\$ 1,098,495
Construction in progress	<u>4,612,281</u>	<u>7,705,517</u>	<u>(7,776,508)</u>	<u>4,541,290</u>
Total capital assets, not being depreciated	<u>5,710,776</u>	<u>7,705,517</u>	<u>(7,776,508)</u>	<u>5,639,785</u>
Capital assets, being depreciated				
Structures and improvements	3,880,927	81,280	(14,974)	3,947,233
Machinery and equipment	126,077,177	8,531,558	(2,076,789)	132,531,946
Infrastructure	<u>607,949</u>	<u>15,561</u>	<u>(11,131)</u>	<u>612,379</u>
Total capital assets being depreciated	<u>130,566,053</u>	<u>8,628,399</u>	<u>(2,102,894)</u>	<u>137,091,558</u>
Less accumulated depreciation for:				
Structures and improvements	(1,703,167)	(102,318)	14,974	(1,790,511)
Machinery and equipment	(56,072,918)	(4,674,762)	2,140,114	(58,607,566)
Infrastructure	<u>(551,068)</u>	<u>(73,421)</u>	<u>13,120</u>	<u>(611,369)</u>
Total accumulated depreciation	<u>(58,327,153)</u>	<u>(4,850,501)</u>	<u>2,168,208</u>	<u>(61,009,446)</u>
Total capital assets, being depreciated, net	<u>72,238,900</u>	<u>3,777,898</u>	<u>65,314</u>	<u>76,082,112</u>
Business-type activities capital assets, net	<u>\$ 77,949,676</u>	<u>\$ 11,483,415</u>	<u>\$ (7,711,194)</u>	<u>\$ 81,721,897</u>

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

Business-type Activities	
Public utilities	\$ 4,832,310
Sanitation fund	<u>18,191</u>
Total depreciation expense – business-type activities	<u>\$ 4,850,501</u>

The amount of \$337,275 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, 2014, the City's Fayetteville Public Utilities (FPU) enterprise fund had outstanding construction contract commitments totaling \$3,627,306.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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, 2014, is as follows:

	<u>Due from</u>			
	<u>General</u>	<u>Drug</u>	<u>Sanitation</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Fund</u>	
Due to:				
General fund	\$ -	\$ 2,326	\$ 33,027	\$ 35,353
Drug fund	3,225	-	-	3,225
Internal capital projects fund	<u>1,483</u>	<u>-</u>	<u>173,570</u>	<u>175,053</u>
	<u>\$ 4,708</u>	<u>\$ 2,326</u>	<u>\$206,597</u>	<u>\$213,631</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. FPU makes tax equivalent payments to the general fund. The composition of interfund transfers for the year ended June 30, 2014 is as follows:

	<u>Transfers In</u>			
	<u>General</u>	<u>School</u>	<u>Other</u>	
	<u>Fund</u>	<u>General</u>	<u>Governmental</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	
Transfers Out:				
General fund	\$ -	\$ 774,899	\$ 527,601	\$ 1,302,500
School title fund	-	10,570	-	10,570
Debt service fund	-	-	1,000,000	1,000,000
Internal capital projects fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal – governmental funds	<u>-</u>	<u>785,469</u>	<u>1,527,601</u>	<u>2,313,070</u>
Fayetteville Public Utilities	1,211,638	-	-	1,211,638
Sanitation fund	<u>110,000</u>	<u>-</u>	<u>8,500</u>	<u>118,500</u>
Subtotal – proprietary funds	<u>1,321,638</u>	<u>-</u>	<u>8,500</u>	<u>1,330,138</u>
	<u>\$ 1,321,638</u>	<u>\$ 785,469</u>	<u>\$ 1,536,101</u>	<u>\$ 3,643,208</u>

NOTE 5 - 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 5 - LONG-TERM DEBT (Continued)

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. The bonds mature 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%. \$ 6,870,000

City of Fayetteville (General Government):

Series 2013B, \$1,045,000 general obligation bonds, issued October 2013 to finance certain public facility construction and improvements and related costs. The bonds mature serially at annual interest rates ranging from 1.00% to 4.5% with final maturity in 2033. 990,000

Fayetteville Public Utilities (Telecom Division):

Series 2011, \$2,660,000 general obligation bonds, issued December 2011 to refund revenue bonds totaling \$3,600,000. The bonds are additionally payable from telecom system revenues. The bonds mature serially at annual interest rates ranging from 1.00% to 2.00% with final maturity in 2020. The bonds are not subject to redemption prior to maturity. 2,025,000

Fayetteville City Schools

Series 2013, \$6,140,000 general obligation bonds, issued May 2013 to refund capital outlay notes totaling \$6,000,000 being used to finance school system capital outlay projects. The bonds mature serially at annual interest rates ranging from 2.00% to 3.25% with final maturity in 2037. 5,945,000

Total general obligation bonds \$ 15,830,000

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

Year ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 365,000	\$ 241,202	\$ 920,000	\$ 217,797
2016	370,000	233,153	945,000	196,697
2017	370,000	225,001	950,000	174,450
2018	370,000	215,757	975,000	148,573
2019	380,000	206,510	1,010,000	121,245
2020-2024	2,120,000	877,179	2,295,000	277,532
2025-2029	1,720,000	589,432	345,000	14,232
2030-2034	1,720,000	326,187	-	-
2035-2037	975,000	64,026	-	-
Total	<u>\$ 8,390,000</u>	<u>\$ 2,978,447</u>	<u>\$ 7,440,000</u>	<u>\$ 1,150,526</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 5 - LONG-TERM DEBT (Continued)

(B) Revenue Bonds

The government 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, 2014, 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%. \$ 8,535,000

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

Fayetteville Public Utilities (Water Division):

Series 2008 Revenue and tax bond in the original amount of \$3,500,000 issued in September 2013 to finance certain costs of the water wastewater system and refinance maturing interim certificates of indebtedness. The bond bears interest at the rate of 2.25% per annum with final maturity in 2050. Prepayments may be made at any time. 3,453,660

Total revenue bonds \$ 21,938,660

Revenue bond debt service requirements to maturity are as follows:

Year ending	<u>Business-type Activities</u>	
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 1,087,795	\$ 789,734
2016	1,119,015	757,764
2017	1,150,678	724,451
2018	1,187,171	689,052
2019	1,228,698	649,724
2020-2024	6,857,258	2,525,515
2025-2029	6,961,170	996,879
2030-2034	460,099	239,201
2035-2039	514,852	184,448
2040-2044	576,072	123,228
2045-2049	644,715	54,585
2050-2051	<u>151,137</u>	<u>2,015</u>
Total	<u>\$ 21,938,660</u>	<u>\$ 7,736,596</u>

Certain of the government's bonds require establishment of sinking funds and compliance with various covenants. The government was in compliance with these requirements at June 30, 2014.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 5 - LONG-TERM DEBT (Continued)

(C) Loans

The City has the following loans outstanding at June 30, 2014:

City of Fayetteville (General Government):

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.

\$ 49,557

City of Fayetteville (Sanitation Fund):

State of Tennessee Municipal Bond Fund capital outlay note, with a three year term, bearing interest at 2.0% to finance the cost of sanitation equipment.

180,000

Fayetteville Public Utilities (Water Division)

State of Tennessee Utility Relocation Loan, entered into August 9, 2005, to finance the cost of certain water department utility lines. The original term of the loan is 15 years and bears interest at 1.85%.

1,508,415

State of Tennessee Utility Relocation Loan, entered into January 3, 2013, to finance the cost of certain improvements to the water wastewater system. The loan will mature 20 years from project completion and bears interest at 1.17%.

605,557

Loan agreement entered into with the U.S. Department of Agriculture (USDA) Rural Development on October 25, 2011, to borrow \$4,865,000 to finance the cost of certain extensions and improvements to the water and wastewater system and refinance maturing bond anticipation notes. The loan bears interest at a rate of 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.

2,358,847

Loan agreement entered into with the U.S. Department of Agriculture (USDA) Rural Development on March 27, 2013, to borrow \$2,531,200 to finance the cost of certain extensions and improvements to the water and wastewater system and refinance maturing bond anticipation notes. The loan matures March 27, 2015, and bears interest at a rate of 2.50%. This loan is authorized under a resolution approved by the Board of Mayor and Aldermen in anticipation of issuance of \$2,623,000 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.

5,200

Total Loans

\$ 4,707,576

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 5 - LONG-TERM DEBT (Continued)

(C) Loans (Continued)

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

Year ending <u>June 30</u>	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 24,778	\$ -	\$ 251,566	\$ 199,100
2016	24,779	-	262,114	102,647
2017	-	-	267,447	97,393
2018	-	-	209,268	92,026
2019	-	-	213,478	87,817
2020-2024	-	-	1,133,818	372,656
2025-2029	-	-	512,083	282,609
2030-2034	-	-	487,698	227,909
2035-2039	-	-	377,946	170,625
2040-2044	-	-	435,724	110,019
2045-2049	-	-	506,121	39,622
2050-2053	-	-	756	38
Total	<u>\$ 49,557</u>	<u>\$ -</u>	<u>\$ 4,658,019</u>	<u>\$ 1,782,461</u>

The debt of each department of FPU is secured and / or payable by the respective revenues of that department.

Fayetteville Public Utilities (State of Tennessee Revolving Loan Fund)

FPU entered into loan agreements on January 3, 2013 with the Tennessee Department of Environment and Conservation to borrow \$4,300,000 of which \$430,000 is to be forgiven. This loan will be used to finance the cost of certain improvements to the wastewater system. The loan will mature 20 years from project completion. The loan bears interest at a rate of 1.17%. No advances had been received as of June 30, 2014.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 5 - LONG-TERM DEBT (Continued)

(D) Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2014, was as follows:

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Governmental Activities:					
Bonds payable:					
General obligation bonds – fixed rate	\$ 7,705,000	\$ 1,045,000	\$ (360,000)	\$ 8,390,000	\$ 365,000
Deferred credit on refunding	1,642	-	(150)	1,492	-
Unamortized bond premium	<u>80,279</u>	<u>5,622</u>	<u>(4,208)</u>	<u>81,693</u>	<u>-</u>
Total bonds payable	7,786,921	1,050,622	(364,358)	8,473,185	365,000
Loans payable:					
Tennessee Energy Efficiency Loan	<u>74,335</u>	<u>-</u>	<u>(24,778)</u>	<u>49,557</u>	<u>24,778</u>
Total loans payable	74,335	-	(24,778)	49,557	24,778
Capital leases	17,908	-	(17,908)	-	-
Landfill postclosure costs	226,930	-	(11,951)	214,979	12,000
Postemployment benefit obligation	552,432	201,844	(143,212)	611,064	-
Compensated absences	<u>563,268</u>	<u>213,051</u>	<u>(287,503)</u>	<u>488,816</u>	<u>249,501</u>
Governmental Activity Long-Term Liability	<u>\$ 9,221,794</u>	<u>\$ 1,465,517</u>	<u>\$ (849,710)</u>	<u>\$ 9,837,601</u>	<u>\$ 651,279</u>
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>	Due Within <u>One Year</u>
Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 19,435,000	\$ 3,500,000	\$ (996,340)	\$ 21,938,660	\$ 1,087,795
General obligation	8,360,000	-	(920,000)	7,440,000	920,000
Unamortized bond premium	<u>146,754</u>	<u>-</u>	<u>(15,386)</u>	<u>131,368</u>	<u>-</u>
Total bonds payable	27,941,754	3,500,000	(1,931,726)	29,510,028	2,007,795
Loans:					
Tennessee utility relocation loan	1,637,386	605,558	(128,972)	2,113,972	156,145
Tennessee municipal bond fund	-	180,000	-	180,000	56,700
RUS economic development loan	41,250	-	(41,250)	-	-
Bond anticipation notes	<u>3,737,862</u>	<u>2,126,185</u>	<u>(3,500,000)</u>	<u>2,364,047</u>	<u>38,721</u>
Total loans payable	5,416,498	2,911,743	(3,670,222)	4,658,019	251,566
Postemployment benefit obligation	468,519	114,896	-	583,415	-
Compensated absences	<u>745,690</u>	<u>383,016</u>	<u>(335,643)</u>	<u>793,063</u>	<u>335,794</u>
Business-type Activity Long-Term Liabilities	<u>\$ 34,572,461</u>	<u>\$ 6,909,655</u>	<u>\$ (5,937,591)</u>	<u>\$ 35,544,525</u>	<u>\$ 2,595,155</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 5 - LONG-TERM DEBT (Continued)

(E) Other long-term liability information

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, 2014, there were two series of IDRB outstanding. The aggregate principal amount payable was \$10,990,000. The original issue amounts totaled \$15,615,000.

NOTE 6 - LEASING ACTIVITY

In prior years, the Fayetteville City School System entered into agreements to lease various equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. During the year ending June 30, 2014, the terms of these obligations were fulfilled and no future payments remain on these assets.

Leased equipment under capital leases in capital assets at June 30, 2014, includes the following:

Equipment	\$ 19,425
Less: Accumulated depreciation	<u>(5,666)</u>
Total	<u>\$ 13,759</u>

Amortization of leased equipment under capital assets is included with depreciation expense. The cost of individual items acquired below the capitalization threshold is not included in capital assets.

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>	
2015	\$ 31,196
2016	14,797
2017	7,798
2018	<u>1,621</u>
	<u>\$ 55,412</u>

Lease expenditures for the year ending June 30, 2014 totaled \$34,638.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 7 - SEGMENT INFORMATION

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

<u>Condensed Balance Sheet</u>	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>
Assets				
Current assets	\$ 30,546,556	\$ 2,945,173	\$ 396,985	\$ 888,860
Special funds	2,653,888	3,244,129	142,301	3,465,460
Capital assets	41,422,410	14,619,531	3,021,126	22,167,832
Other assets	1,386,124	42,745	26,516	45,285
Due from other divisions	<u>1,429,709</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>77,438,687</u>	<u>20,851,578</u>	<u>3,586,928</u>	<u>26,567,437</u>
 Deferred Outflows of Resources	 <u>120,316</u>	 <u>29,704</u>	 <u>75,494</u>	 <u>14,559</u>
Liabilities				
Current liabilities	6,408,268	947,860	618,759	1,666,710
Other liabilities	1,774,771	158,165	77,300	197,325
Long term debt	17,516,749	3,186,339	1,703,963	9,378,335
Due to other divisions	<u>-</u>	<u>-</u>	<u>1,429,709</u>	<u>-</u>
	<u>25,699,788</u>	<u>4,292,364</u>	<u>3,829,731</u>	<u>11,242,370</u>
 Net Position				
Net investment in capital assets	22,880,661	11,143,192	992,163	12,254,988
Restricted	1,975,957	-	-	28,152
Unrestricted	<u>27,002,597</u>	<u>5,445,726</u>	<u>(1,159,472)</u>	<u>3,056,486</u>
	<u>\$ 51,859,215</u>	<u>\$ 16,588,918</u>	<u>\$ (167,309)</u>	<u>\$ 15,339,626</u>
 <u>Condensed Statement of Revenues, Expenses, and Changes in Net Position</u>				
Operating revenues	\$ 46,537,461	\$ 8,120,798	\$ 3,761,264	\$ 4,982,473
Depreciation expense	2,412,092	521,507	518,159	1,043,277
Other operating expenses	<u>39,859,839</u>	<u>6,295,403</u>	<u>2,707,616</u>	<u>2,637,404</u>
Operating income	4,265,530	1,303,888	535,489	1,301,792
Nonoperating revenue (expenses):				
Investment income	25,295	3,491	21	1,473
Interest expense	(738,794)	(131,294)	(35,387)	(182,414)
Other	(12,548)	9,944	2,206	(260,761)
Contributions/Transfers – net	<u>(528,503)</u>	<u>(254,333)</u>	<u>7,480</u>	<u>869,929</u>
Change in net position	3,010,980	931,696	509,809	1,730,019
Beginning net position, restated	<u>48,848,235</u>	<u>15,657,222</u>	<u>(677,118)</u>	<u>13,609,607</u>
Ending net position	<u>\$ 51,859,215</u>	<u>\$ 16,588,918</u>	<u>\$ (167,309)</u>	<u>\$ 15,339,626</u>
 <u>Condensed Statement of Cash Flows</u>				
Net cash provided (used) by:				
Operating activities	\$ 7,750,959	\$ 1,858,736	\$ 1,096,647	\$ 2,582,685
Noncapital financing activities	(438,101)	(254,333)	(363,035)	(156,169)
Capital and related financing activities	(4,721,469)	(885,518)	(604,151)	(1,969,348)
Investing activities	<u>12,883</u>	<u>6,035</u>	<u>14,519</u>	<u>2,576</u>
Net increase (decrease)	2,604,272	724,920	143,980	459,744
Cash and cash equivalents, July 1	<u>22,202,335</u>	<u>4,377,087</u>	<u>132,351</u>	<u>3,188,010</u>
Cash and cash equivalents, June 30	<u>\$ 24,806,607</u>	<u>\$ 5,102,007</u>	<u>\$ 276,331</u>	<u>\$ 3,647,754</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 8 - RISK MANAGEMENT

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

NOTE 9 - CONTINGENT LIABILITIES

The government participates in a number of federally assisted education grant 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 government expects such amounts, if any, will not have a material effect upon the government's financial condition.

FPU operates under a power contract with Tennessee Valley Authority (TVA) 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 government'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 \$429,958 at June 30, 2014. These costs will be shared equally by the City and Lincoln County, Tennessee. The City's share of this estimated liability (\$214,979) is included as a liability in the statement of net position. The City's current year share of required funding was \$22,700 and is reported as an expenditure of the Internal Capital Projects Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 9 - CONTINGENT LIABILITIES (Continued)

FPU's Board has approved the purchase of 164 gas customers in the Ardmore, Tennessee area and the existing utility plant for \$574,000. This purchase is contingent upon finalization of certain legal issues which had not been completed as of June 30, 2014.

NOTE 10 - PENSION AND BENEFIT PLANS

PLAN DESCRIPTION

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 15th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://www.tn.gov/treasury/tcrs/PS/>.

FUNDING POLICY

The government requires employees to contribute 5.0 percent of earnable compensation.

The government is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2014, was 9.87% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for the government is established and may be amended by the TCRS Board of Trustees.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 10 - PENSION AND BENEFIT PLANS (Continued)

ANNUAL PENSION COST

For the year ending June 30, 2014, the government's annual pension cost of \$480,331 to TCRS was equal to the government's required and actual contributions. The required contribution was determined as part of the July 1, 2011 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 government's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2011 was 9 years. An actuarial valuation was performed as of July 1, 2011, which established contribution rates effective July 1, 2012.

TREND INFORMATION

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/14	\$480,331	100.00%	\$0.00
6/30/13	\$473,851	100.00%	\$0.00
6/30/12	\$452,405	100.00%	\$0.00

FUNDED STATUS AND FUNDING PROGRESS

As of July 1, 2013, the most recent actuarial valuation date, the plan was 88.08 percent funded. The actuarial accrued liability for benefits was \$17.71 million, and the actuarial value of assets was \$15.60 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$2.11 million. The covered payroll (annual payroll of active employees covered by the plan) was \$4.74 million, and the ratio of the UAAL to the covered payroll was 44.50 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.

(Dollar amounts in thousands)

<u>Actuarial</u> <u>Valuation</u> <u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL) -</u> <u>Entry Age</u> <u>(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b) - (a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as a</u> <u>Percentage</u> <u>Of Covered</u> <u>Payroll</u> <u>((b-a)/c)</u>
7/1/13	\$15,602	\$17,713	\$ 2,111	88.08%	\$4,742	44.50%
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%

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 10 - PENSION AND BENEFIT PLANS (Continued)

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 SETHEEPP. That report may be obtained by writing to the Tennessee Treasury Department, Consolidated Retirement System, 15th 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, 2014, was 8.88 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, 2014, 2013, and 2012 were \$528,043, \$490,626, and \$478,925, respectively, equal to the required contributions for each year.

FAYETTEVILLE PUBLIC UTILITIES

Substantially all employees of FPU are participants in the National Rural Electric Cooperative Association (NRECA) Retirement & Security Program, a defined benefit pension plan qualified under section 401 and tax-exempt under section 501(a) of the Internal Revenue Code. FPU's total payroll for the fiscal year 2014 was \$5,520,363. FPU's contributions were based on covered payroll totaling \$4,549,108 which reflects certain adjustments in accordance with the plan.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 10 - PENSION AND BENEFIT PLANS (Continued)

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

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

FPU's contribution based on the payroll of eligible participants for the years ended June 30, 2014, 2013, and 2012 was \$1,059,388, \$1,029,376, and \$1,093,148, 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 position 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 \$56,154 and \$53,057 and \$146,015 and \$179,385 for the years ended June 30, 2014 and 2013, respectively.

NOTE 11 - OTHER POST-EMPLOYMENT BENEFITS (OPEB)

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

The following is a summary of each of these plans:

PLAN DESCRIPTION-FAYETTEVILLE PUBLIC UTILITIES

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

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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

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, 2014, was \$9,037. 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, 2014, FPU contributed \$0 and the City contributed \$54,212 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	\$ 115,497	\$ 146,555
Interest on net OPEB obligation	15,049	13,594
Adjustment to annual required contribution	<u>(15,650)</u>	<u>(11,305)</u>
Annual OPEB cost (expense)	114,896	148,844
Contributions made	<u>-</u>	<u>(54,212)</u>
Increase in net OPEB obligation	114,896	94,632
Net OPEB obligation, beginning of year	<u>468,519</u>	<u>446,432</u>
Net OPEB obligation, end of year	<u>\$ 583,415</u>	<u>\$ 541,064</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:

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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

	<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, 2012	\$ 106,655	5.05%	\$ 357,757
	June 30, 2013	111,149	0.35%	468,519
	June 30, 2014	114,896	0.00%	583,415
<u>City</u>				
	June 30, 2012	\$ 139,284	43.7%	\$ 352,966
	June 30, 2013	148,237	36.9%	446,432
	June 30, 2014	148,844	36.4%	541,064

As of July 1, 2012, the most recent actuarial valuation date for both plans, 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, 2014, as well as actuarial methods and assumptions for both plans, was as follows:

	<u>FPU</u>	<u>City</u>
Actuarial valuation date	7/01/2012	7/01/2012
UAAL	\$ 1,192,329	\$ 1,624,121
Covered payroll	\$ 4,993,025	\$ 3,494,902
Ratio of UAAL to covered payroll	23.9%	46.5%
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, 2014

NOTE 11 - 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 8% initially with future annual increases assumed to grade uniformly to 5% 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, 2012, was twenty-six 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. Prior to reaching the age of 65, all members have the option of choosing a preferred provider organization (PPO), point of service (POS), or health maintenance organization (HMO) plan for healthcare benefits. Subsequent to age 65, members who are also in the state's retirement system may participate in a state-administered Medicare supplement plan that does not include pharmacy. The plans are reported in the State of Tennessee Comprehensive Annual Financial Report (CAFR). The CAFR is available on the state's website at <http://tennessee.gov/finance/act/cafr/html>.

FUNDING POLICY

The premium requirements of plan members are established and may be amended by the insurance committee. The plans are self-insured and financed on a pay-as-you-go basis with the risk shared equally among the participants. Claims liabilities of the plan are periodically computed using actuarial and statistical techniques to establish premium rates. The employers in each plan develop their own contribution policy in terms of subsidizing active employees or retired employees' premiums since the committee is not prescriptive on that issue. The state provides a partial subsidy to Local Education Agency pre-65 teachers and a full subsidy based on years of service for post-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 20% of premiums and the Fayetteville City Schools contributes on average 80% 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, 2014

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

<u>Annual OPEB cost and Net OPEB Obligation</u>	<u>Teacher Group Plan</u>
Annual required contribution	\$ 53,000
Interest on net OPEB obligation	4,000
Adjustment to the annual required contribution	<u>(4,000)</u>
Annual OPEB cost (expense)	53,000
Amount of contribution	<u>(89,000)</u>
Increase in net OPEB obligation	(36,000)
Net OPEB obligation, beginning of year	<u>106,000</u>
Net OPEB obligation, end of year	<u>\$ 70,000</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	6/30/2012	\$ 92,000	67.4%	\$ 97,000
Teacher Group	6/30/2013	\$ 93,000	90.3%	\$ 106,000
Teacher Group	6/30/2014	\$ 53,000	167.9%	\$ 70,000

FUNDED STATUS AND FUNDING PROGRESS

The funded status of the plan as of July 1, 2013, was as follows (dollars in thousands):

	<u>Teacher Group Plan</u>
Actuarial valuation date	7/1/2013
Actuarial accrued liability (AAL)	\$ 460
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	460
Actuarial value of assets as a % of the AAL	0.0%
Covered payroll (active plan members)	5,857
UAAL as a percentage of covered payroll	7.9%

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, 2014

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

ACTUARIAL METHODS AND ASSUMPTIONS

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

In the July 1, 2013 actuarial valuation, the Projected Unit Credit actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return (net of administrative expenses) and an annual healthcare cost trend rate of 7.5 percent initially. The rate decreased to 7.0 percent in fiscal year 2015 and then will be reduced by decrements to an ultimate rate of 4.7 percent by fiscal year 2044. 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 July 1, 2007. Payroll is assumed to grow at a rate of 3 percent.

NOTE 12 - STATE STREET AID FUNDS

The City was granted permission by the State of Tennessee in prior years to combine the municipal street aid fund with the general fund. State street revenue for the year ended June 30, 2014, related to these funds is shown below.

Intergovernmental revenue	
Gasoline and motor fuel tax	\$ 177,298
City street and transportation	<u>13,975</u>
Total	<u>\$ 191,273</u>

NOTE 13 - RELATED PARTIES

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

NOTE 14 - NONEXCHANGE TRANSACTION

The government receives shared revenue from the State of Tennessee for a tax the state assesses on the earnings of certain financial institutions. The government 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, 2014, are not reasonably estimable and are not included in these financial statements. During the year ended June 30, 2014, the government received \$37,108 from the State of Tennessee for this shared revenue.

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 15 - JOINT VENTURES

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

	<u>Fayetteville – Lincoln County</u>		
	Regional Airport <u>Authority</u>	Public <u>Library</u>	Industrial Development <u>Board</u>
Total assets	\$ 5,693,922	\$ 3,281,286	\$ 6,909,261
Total liabilities	<u>102,519</u>	<u>6,988</u>	<u>3,783,126</u>
Net position	<u>\$ 5,591,403</u>	<u>\$ 3,274,298</u>	<u>\$ 3,126,135</u>
 Revenues	 \$ 135,382	 \$ 205,627	 \$ 1,048,286
Expenditures	<u>319,244</u>	<u>295,382</u>	<u>1,010,793</u>
Increase (decrease) in net position	<u>\$ (183,862)</u>	<u>\$ (89,755)</u>	<u>\$ 37,493</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
16 Franke Blvd.
Fayetteville, TN 37334

Fayetteville Lincoln County Airport
37 Airport Road
Fayetteville, TN 37334

NOTE 16 - PLEDGED REVENUES

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

<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	\$ 46,537,461	\$ 1,691,169	3.6%	\$ 24,627,004	2028
Gas	8,120,798	422,018	5.2%	4,236,434	2025
Telecom	3,761,264	352,565	9.4%	2,140,630	2020
Water & Sewer	<u>4,982,473</u>	<u>842,914</u>	<u>16.9%</u>	<u>13,484,382</u>	2053
	<u>\$ 63,401,996</u>	<u>\$ 3,308,666</u>	<u>5.2%</u>	<u>\$ 44,488,450</u>	

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 17 - JOINT VENTURE

The Fayetteville City Schools participates in the Volunteer State Cooperative (VOLCO), which represents a cost-sharing arrangement. The cooperative was established through a contractual agreement between the Boards of Education of Bedford County, Coffee County, Dickson County, Fayetteville City, Hickman County, Houston County, Humphreys County, Manchester City, 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 through August 31, 2014, and Fayetteville City School Department beginning September 1, 2014) 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, 1800 Wilson Parkway, Fayetteville, TN 37334.

NOTE 18 - SOLAR POWER GENERATION

Certain customers of FPU's electric department have installed solar panels at 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 included in "cost of utility services" on the statement of revenues, expenses, and changes in net position. For the year ended June 30, 2014, credits resulting from solar power generation totaled \$1,639,030. In instances where solar generation actually exceeds normal electric usage, the customer is paid the difference. At June 30, 2014, the liability for such amounts due to customers was \$139,148 which is included in accounts payable on the statement of net position. FPU is credited on its wholesale power cost by TVA for the solar generated power.

NOTE 19 - PRIOR PERIOD CORRECTION

FPU's electric department rents space on its poles for attachments of various telecommunications entities, including the telecom department. During the current fiscal, an examination was conducted of such attachments which revealed discrepancies in the actual number of attachments versus the number for which rentals were being collected. The total additional net rentals due the electric department for the current and preceding years of its current pole attachment agreements was determined to be \$449,613 which included \$56,910 due from the telecom department with \$392,703 due from outside telecommunications entities. FPU has estimated an allowance of \$196,382 against the receivable from outside parties given the age of the receivable. The net amount receivable by the electric department is summarized as follows:

Net amount receivable from outside entities	\$ 392,703
Net amount receivable from telecom department	<u>56,910</u>
	449,613
Less allowance for uncollectible accounts	<u>196,382</u>
	<u>\$ 253,231</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

NOTE 19 - PRIOR PERIOD CORRECTION (Continued)

Current year earnings of the electric department were increased \$48,127, while current year earnings of the telecom department were decreased \$13,357 for a net increase in net position of \$35,780. Earnings of the preceding year would have been \$70,649 more for electric department and \$11,946 less for the telecom department for net increase in net position of \$58,703.

The net effect on all prior years is \$161,553 reflected as a restatement of beginning net position as follows:

	<u>Electric</u>	<u>Gas</u>	<u>Telecom</u>	<u>Water</u>	<u>Total</u>
Net position June 30, 2013, as previously reported	\$ 48,643,130	\$ 15,657,222	\$ (633,566)	\$ 13,609,607	\$ 77,276,393
Correction of error:					
Prior period pole rentals	<u>205,105</u>	<u>-</u>	<u>(43,552)</u>	<u>-</u>	<u>161,553</u>
Net position June 30, 2013, restated	<u>\$ 48,848,235</u>	<u>\$ 15,657,222</u>	<u>\$ (677,118)</u>	<u>\$ 13,609,607</u>	<u>\$ 77,437,946</u>

NOTE 20 - SUBSEQUENT EVENTS

Subsequent to year-end, the Board of Mayor and Aldermen approved financing for various wastewater treatment plant upgrades and improvements. Financing will be provided through a \$5,700,000, 20-year Clean Water State Revolving Fund loan which includes \$280,000 principal forgiveness.

In addition, the Board approved financing for water treatment plant upgrades through the United States Department of Agriculture (USDA) in the form of a \$2,000,000 loan and a \$400,000 grant.

In addition, the Board approved \$2,000,000 in financing through general obligation bonds to fund the construction of a new police department building. The bonds provide for interest at a rate of 3.25% and mature on various dates between 2017 and 2035. The Board approved a \$2,067,100 contract with BB&T Construction to construct the building.

REQUIRED SUPPLEMENTARY INFORMATION
POST-EMPLOYMENT BENEFITS
SCHEDULE OF FUNDING PROGRESS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

(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)
July 1, 2013	\$ -	\$ 460	\$ 460	0.0%	\$ 5,857	7.9%
July 1, 2011	\$ -	\$ 693	\$ 693	0.0%	\$ 4,680	14.8%
July 1, 2009	\$ -	\$ 496	\$ 496	0.0%	\$ 4,272	11.6%

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%
July 1, 2012	\$ -	\$ 1,192	\$ 1,192	0.0%	\$ 4,993	23.9%

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

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) – (a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 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, 2014

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, 2013	\$ 15,602	\$ 17,713	\$ 2,111	88.08%	\$ 4,742	44.50%
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%

NONMAJOR GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

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

June 30, 2014

		Special Revenue Funds				
		School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Assets:						
Cash in bank		\$ 4,076	\$ 51,616	\$ 86,909	\$ 142,601	\$ 311,610
Cash in bank - restricted		-	-	-	-	-
Accounts receivable		-	7	-	7	-
Due from other funds		-	-	3,225	3,225	-
Due from other governments		34,905	-	-	34,905	-
Inventory		-	22,450	-	22,450	-
	TOTAL ASSETS	\$ 38,981	\$ 74,073	\$ 90,134	\$ 203,188	\$ 311,610
Liabilities:						
Accounts payable		\$ -	\$ -	\$ 44	\$ 44	\$ -
Due to other funds		-	-	2,326	2,326	-
Unearned revenues		38,981	-	-	38,981	-
	TOTAL LIABILITIES	38,981	-	2,370	41,351	-
Fund Balances:						
Nonspendable		-	22,450	-	22,450	-
Restricted		-	-	87,764	87,764	-
Assigned		-	51,623	-	51,623	311,610
	TOTAL FUND BALANCES	-	74,073	87,764	161,837	311,610
	TOTAL LIABILITIES AND FUND BALANCES	\$ 38,981	\$ 74,073	\$ 90,134	\$ 203,188	\$ 311,610

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

June 30, 2014

	Capital Projects Funds						Total Nonmajor Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	School Capital Projects	Total Capital Projects	
Assets:							
Cash in bank	\$ 116,135	\$ 49,583	\$ 406,652	\$ 1,266,003	\$ -	\$ 1,838,373	\$ 2,292,584
Cash in bank - restricted	-	-	-	-	14,119	14,119	14,119
Accounts receivable	-	-	-	-	-	-	7
Due from (to) other funds	-	-	-	175,053	-	175,053	178,278
Due from other governments	-	-	-	-	-	-	34,905
Inventory	-	-	-	-	-	-	22,450
TOTAL ASSETS	<u>\$ 116,135</u>	<u>\$ 49,583</u>	<u>\$ 406,652</u>	<u>\$ 1,441,056</u>	<u>\$ 14,119</u>	<u>\$ 2,027,545</u>	<u>\$ 2,542,343</u>
Liabilities:							
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 44
Due to other funds	-	-	-	-	-	-	2,326
Unearned revenues	-	-	-	25,000	-	25,000	63,981
TOTAL LIABILITIES	<u>-</u>	<u>-</u>	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>25,000</u>	<u>66,351</u>
Fund Balances:							
Nonspendable	-	-	-	-	-	-	22,450
Restricted	-	49,583	406,652	2,277	14,119	472,631	560,395
Assigned	116,135	-	-	1,413,779	-	1,529,914	1,893,147
TOTAL FUND BALANCES	<u>116,135</u>	<u>49,583</u>	<u>406,652</u>	<u>1,416,056</u>	<u>14,119</u>	<u>2,002,545</u>	<u>2,475,992</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 116,135</u>	<u>\$ 49,583</u>	<u>\$ 406,652</u>	<u>\$ 1,441,056</u>	<u>\$ 14,119</u>	<u>\$ 2,027,545</u>	<u>\$ 2,542,343</u>

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
CITY OF FAYETTEVILLE, TENNESSEE
For the year ended June 30, 2014

Special Revenue Funds					
	School Title	School Cafeteria	Drug	Total Special Revenue	Debt Service Fund
Revenues:					
Intergovernmental	\$ 837,230	\$ 570,825	\$ -	\$ 1,408,055	\$ -
Charges for services	-	173,199	-	173,199	-
Investment earnings	-	38	25	63	95
Contributions	-	-	-	-	-
Fines and forfeitures	-	-	38,491	38,491	-
TOTAL REVENUES	837,230	744,062	38,516	1,619,808	95
Expenditures:					
Current:					
General government	-	-	-	-	218
Public safety	-	-	15,509	15,509	-
Education	826,660	767,943	-	1,594,603	-
Sanitation	-	-	-	-	-
Debt Service:					
Principal	-	-	-	-	189,778
Interest	-	-	-	-	77,372
Debt issuance costs	-	-	-	-	50,622
Capital outlay	-	12,267	-	12,267	-
TOTAL EXPENDITURES	826,660	780,210	15,509	1,622,379	317,990
Excess (deficiency) of revenues over expenditures	10,570	(36,148)	23,007	(2,571)	(317,895)
Other Financing Sources (Uses):					
Transfers in	-	-	-	-	267,150
Transfers out	(10,570)	-	-	(10,570)	(1,000,000)
Debt issuance	-	-	-	-	1,045,000
Premium on debt issued	-	-	-	-	5,622
TOTAL OTHER FINANCING SOURCES (USES)	(10,570)	-	-	(10,570)	317,772
Net change in fund balances	-	(36,148)	23,007	(13,141)	(123)
Fund balances - July 1, 2013	-	110,221	64,757	174,978	311,733
Fund balances - June 30, 2014	\$ -	\$ 74,073	\$ 87,764	\$ 161,837	\$ 311,610

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

NONMAJOR GOVERNMENTAL FUNDS

CITY OF FAYETTEVILLE, TENNESSEE

For the year ended June 30, 2014

	Capital Projects Funds						Total Other Governmental Funds
	Industrial Park	CDBG	UDAG	Internal Capital Projects	School Capital Projects	Total Capital Projects	
Revenues:							
Intergovernmental	\$ -	\$ -	\$ -	\$ 41,765	\$ -	\$ 41,765	\$ 1,449,820
Charges for services	-	-	-	250	-	250	173,449
Investment earnings	42	16	132	1,217	162	1,569	1,727
Contributions	-	-	-	1,483	-	1,483	1,483
Fines and forfeitures	-	-	-	-	-	-	38,491
TOTAL REVENUES	42	16	132	44,715	162	45,067	1,664,970
Expenditures:							
Current:							
General government	-	-	-	-	-	-	218
Public safety	-	-	-	-	-	-	15,509
Education	-	-	-	-	-	-	1,594,603
Community development	46,088	-	-	-	-	46,088	46,088
Sanitation	-	-	-	22,700	-	22,700	22,700
Debt service:							
Principal	-	-	-	-	-	-	189,778
Interest	-	-	-	-	-	-	77,372
Debt issuance costs	-	-	-	-	-	-	50,622
Capital outlay	-	-	-	1,436,860	1,243,913	2,680,773	2,693,040
TOTAL EXPENDITURES	46,088	-	-	1,459,560	1,243,913	2,749,561	4,689,930
Excess (deficiency) of revenues over expenditures	(46,046)	16	132	(1,414,845)	(1,243,751)	(2,704,494)	(3,024,960)
Other Financing Sources:							
Transfers in	-	-	-	1,268,951	-	1,268,951	1,536,101
Transfers out	-	-	-	-	-	-	(1,010,570)
Debt issuance	-	-	-	-	-	-	1,045,000
Premium on debt issued	-	-	-	-	-	-	5,622
TOTAL OTHER FINANCING SOURCES	-	-	-	1,268,951	-	1,268,951	1,576,153
Net change in fund balances	(46,046)	16	132	(145,894)	(1,243,751)	(1,435,543)	(1,448,807)
Fund balances - July 1, 2013	162,181	49,567	406,520	1,561,950	1,257,870	3,438,088	3,924,799
Fund balances - June 30, 2014	<u>\$ 116,135</u>	<u>\$ 49,583</u>	<u>\$ 406,652</u>	<u>\$ 1,416,056</u>	<u>\$ 14,119</u>	<u>\$ 2,002,545</u>	<u>\$ 2,475,992</u>

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

For the year ended June 30, 2014

	Original <u>Budget</u>	Final <u>Budget</u>	<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
Revenues:				
Intergovernmental:				
NCLB Title programs	\$ 332,712	\$ 561,961	\$ 561,961	\$ -
Vocational education programs	68,568	13,559	13,559	-
Special education programs	279,103	261,710	261,710	-
Total Revenues	<u>680,383</u>	<u>837,230</u>	<u>837,230</u>	<u>-</u>
Expenditures:				
Current:				
Instruction:				
Regular instruction program				
Salaries and benefits	221,725	302,948	302,948	-
Contracted services	45,711	34,198	34,198	-
Supplies	26,010	39,762	39,762	-
Equipment	7,670	113,800	113,800	-
Other	15,669	491	491	-
Special education program				
Salaries and benefits	206,518	185,690	185,690	-
Contracted services	58,408	-	-	-
Supplies	6,795	8,130	8,130	-
Other	10,000	-	-	-
Vocational education program				
Salaries and benefits	25,009	1,210	1,210	-
Supplies	33,145	8,281	8,281	-
Other	6,348	-	-	-
Support services:				
Regular instruction program				
Salaries and benefits	34,220	34,220	34,220	-
Travel	3,389	9,926	9,926	-
In service	14,170	16,045	16,045	-
Other	9,120	-	-	-
Special education program				
Contracted services	-	58,605	58,605	-
Travel	-	6,746	6,746	-
Supplies	-	539	539	-
Vocational education program				
Travel	677	4,068	4,068	-
Transportation				
Salaries and benefits	1,405	2,001	2,001	-
Total Expenditures	<u>725,989</u>	<u>826,660</u>	<u>826,660</u>	<u>-</u>
Excess of Revenues over Expenditures	(45,606)	10,570	10,570	-
OTHER FINANCING SOURCES				
Transfers to other funds	-	(10,570)	(10,570)	-
Net Change in Fund Balance	(45,606)	-	-	-
Fund Balances - beginning	-	-	-	-
Fund Balances - ending	<u>\$ (45,606)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Intergovernmental				
National school lunch program	\$ 375,000	\$ 375,000	\$ 366,057	\$ (8,943)
School breakfast program	144,800	144,800	148,884	4,084
USDA commodities	48,329	48,329	48,329	-
Other	7,500	7,600	7,555	(45)
Charges for services	270,700	270,700	173,199	(97,501)
Investment earnings	600	600	38	(562)
Other revenues	800	700	-	(700)
Total Revenues	<u>847,729</u>	<u>847,729</u>	<u>744,062</u>	<u>(103,667)</u>
EXPENDITURES				
Current:				
Salaries and benefits	415,400	405,400	364,089	41,311
Repairs and maintenance	6,000	6,250	6,222	28
Travel	5,000	5,228	5,227	1
Contracted services	12,000	11,972	6,658	5,314
Food and preparation supplies	363,329	397,879	378,952	18,927
Supplies	2,000	2,000	1,580	420
Other	16,000	16,000	5,215	10,785
Capital outlay	28,000	28,000	12,267	15,733
Total Expenditures	<u>847,729</u>	<u>872,729</u>	<u>780,210</u>	<u>92,519</u>
Deficiency of Revenues over Expenditures	-	(25,000)	(36,148)	(11,148)
OTHER FINANCING SOURCES				
Transfers from other funds	<u>-</u>	<u>25,000</u>	<u>-</u>	<u>(25,000)</u>
Net Change in Fund Balance	-	-	(36,148)	(36,148)
Fund Balance - beginning	<u>110,221</u>	<u>110,221</u>	<u>110,221</u>	<u>-</u>
Fund Balance - ending	<u>\$ 110,221</u>	<u>\$ 110,221</u>	<u>\$ 74,073</u>	<u>\$ (36,148)</u>

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

Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 50	\$ 50	\$ 25	\$ (25)
Fines	6,000	6,000	36,955	30,955
Forfeitures	-	-	1,536	1,536
Total Revenues	6,050	6,050	38,516	32,466
EXPENDITURES				
Current:				
Operating				
Salaries	3,300	3,300	3,268	32
Education and training	2,500	2,500	344	2,156
Travel	4,000	4,000	914	3,086
Supplies	1,500	1,500	1,573	(73)
Repairs and maintenance	4,000	4,000	-	4,000
Telephone	1,050	1,050	1,093	(43)
Professional services	1,000	1,000	155	845
Equipment	2,200	2,200	2,191	9
Investigative transactions	5,000	5,000	3,000	2,000
Other drug fund	5,100	5,100	2,971	2,129
Total Expenditures	29,650	29,650	15,509	14,141
Excess of Revenues over Expenditures	(23,600)	(23,600)	23,007	46,607
OTHER FINANCING SOURCES				
Proceeds from sale of capital assets	-	-	-	-
Net Change in Fund Balance	(23,600)	(23,600)	23,007	46,607
Fund Balance - beginning	64,757	64,757	64,757	-
Fund Balance - ending	\$ 41,157	\$ 41,157	\$ 87,764	\$ 46,607

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 300	\$ 300	\$ 95	\$ (205)
Total Revenues	<u>300</u>	<u>300</u>	<u>95</u>	<u>(205)</u>
EXPENDITURES				
Current:				
Operating - agent fees	250	250	218	32
Debt Service:				
Principal	134,779	189,779	189,778	1
Interest	55,819	77,363	77,372	(9)
Debt issuance costs	-	-	50,622	(50,622)
Total Expenditures	<u>190,848</u>	<u>267,392</u>	<u>317,990</u>	<u>(50,598)</u>
Deficiency of Revenues over Expenditures	(190,548)	(267,092)	(317,895)	(50,803)
OTHER FINANCING SOURCES (USES)				
Premium on debt issued	-	-	5,622	5,622
Debt issuance	-	1,000,000	1,045,000	45,000
Transfers out	-	(1,000,000)	(1,000,000)	-
Transfers in	190,598	267,142	267,150	8
Total Other Financing Sources (Uses)	<u>190,598</u>	<u>267,142</u>	<u>317,772</u>	<u>50,630</u>
Net Change in Fund Balance	50	50	(123)	(173)
Fund Balance - beginning	<u>311,733</u>	<u>311,733</u>	<u>311,733</u>	<u>-</u>
Fund Balance - ending	<u>\$ 311,783</u>	<u>\$ 311,783</u>	<u>\$ 311,610</u>	<u>\$ (173)</u>

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

Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Charges for services and use of property	\$ -	\$ -	\$ -	\$ -
Investment earnings	250	250	42	(208)
Total Revenues	250	250	42	(208)
EXPENDITURES				
Current:				
Travel	-	-	-	-
Contribution to IDB	70,000	70,000	46,088	23,912
Total Expenditures	70,000	70,000	46,088	23,912
Excess of Revenues over Expenditures	(69,750)	(69,750)	(46,046)	23,704
OTHER FINANCING SOURCES (USES)				
Transfers out	-	-	-	-
Net Change in Fund Balance	(69,750)	(69,750)	(46,046)	23,704
Fund Balance - beginning	162,181	162,181	162,181	-
Fund Balance - ending	\$ 92,431	\$ 92,431	\$ 116,135	\$ 23,704

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

Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 35	\$ 35	\$ 16	\$ (19)
Total Revenues	<u>35</u>	<u>35</u>	<u>16</u>	<u>(19)</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	(49,465)	(49,465)	16	49,481
Fund Balance - beginning	<u>49,567</u>	<u>49,567</u>	<u>49,567</u>	<u>-</u>
Fund Balance - ending	<u>\$ 102</u>	<u>\$ 102</u>	<u>\$ 49,583</u>	<u>\$ 49,481</u>

UDAG CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 325	\$ 325	\$ 132	\$ (193)
Total Revenues	<u>325</u>	<u>325</u>	<u>132</u>	<u>(193)</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	(675)	(675)	132	807
Fund Balance - beginning	<u>406,520</u>	<u>406,520</u>	<u>406,520</u>	<u>-</u>
Fund Balance - ending	<u>\$ 405,845</u>	<u>\$ 405,845</u>	<u>\$ 406,652</u>	<u>\$ 807</u>

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

Year ended June 30, 2014

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ 750	\$ 450	\$ 1,217	\$ 767
Intergovernmental	-	41,765	41,765	-
Contributions	-	-	1,483	1,483
Other fees	-	250	250	-
Total Revenues	<u>750</u>	<u>42,465</u>	<u>44,715</u>	<u>2,250</u>
EXPENDITURES				
Current:				
Operating - landfill	20,200	32,450	22,700	9,750
Capital outlay	<u>531,670</u>	<u>1,581,061</u>	<u>1,436,860</u>	<u>144,201</u>
Total Expenditures	<u>551,870</u>	<u>1,613,511</u>	<u>1,459,560</u>	<u>153,951</u>
(Deficiency) of Revenues over Expenditures	<u>(551,120)</u>	<u>(1,571,046)</u>	<u>(1,414,845)</u>	<u>156,201</u>
OTHER FINANCING SOURCES				
Transfers in	<u>218,500</u>	<u>1,210,000</u>	<u>1,268,951</u>	<u>58,951</u>
Total Other Financing Sources	<u>218,500</u>	<u>1,210,000</u>	<u>1,268,951</u>	<u>58,951</u>
Net Change in Fund Balance	(332,620)	(361,046)	(145,894)	215,152
Fund Balance - beginning	<u>1,561,950</u>	<u>1,561,950</u>	<u>1,561,950</u>	<u>-</u>
Fund Balance - ending	<u>\$ 1,229,330</u>	<u>\$ 1,200,904</u>	<u>\$ 1,416,056</u>	<u>\$ 215,152</u>

**SCHOOL CAPITAL PROJECTS FUND
BUDGETARY COMPARISON SCHEDULE
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2014**

	<u>Budget Amounts</u>		<u>Actual</u>	Variance with Final Budget - Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	
REVENUES				
Investment earnings	\$ -	\$ -	\$ 162	\$ 162
Total Revenues	-	-	162	162
EXPENDITURES				
Current:				
Capital outlay	1,575,305	1,575,305	1,243,913	331,392
Total Expenditures	1,575,305	1,575,305	1,243,913	331,392
Net Change in Fund Balance	(1,575,305)	(1,575,305)	(1,243,751)	331,554
Fund Balance - beginning	1,575,305	1,575,305	1,257,870	(317,435)
Fund Balance - ending	\$ -	\$ -	\$ 14,119	\$ 14,119

SCHEDULE OF COMBINED LONG-TERM DEBT, PRINCIPAL AND INTEREST REQUIREMENTS
CITY OF FAYETTEVILLE, TENNESSEE
For the year ended June 30, 2014

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Fayetteville Public Utilities																
General Debt		Sanitation Capital Outlay Note		Electric Division Total For All Debt		Gas Division Series 2009		Telecom Division Series 2011		Water & Sewer Division Total For All Debt		Total	Total			
Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2015	\$ 389,778	\$ 241,202	\$ 56,700	\$ 3,410	\$ 1,025,000	\$ 712,669	\$ 290,000	\$ 123,318	\$ 325,000	\$ 29,365	\$ 562,661	\$ 307,179	\$ 2,649,139	\$ 1,417,143	\$ 4,066,282	
2016	394,779	233,153	61,000	2,466	1,055,000	681,919	295,000	114,620	330,000	26,115	585,129	231,988	2,720,908	1,290,261	4,011,169	
2017	370,000	225,001	62,300	1,246	1,085,000	650,269	300,000	105,768	335,000	22,320	585,825	216,691	2,738,125	1,221,295	3,959,420	
2018	370,000	215,757	-	-	1,120,000	616,363	300,000	95,270	340,000	17,965	611,439	200,053	2,741,439	1,145,408	3,886,847	
2019	380,000	206,510	-	-	1,160,000	578,562	310,000	84,768	345,000	12,865	637,176	182,591	2,832,176	1,065,296	3,897,472	
2020	390,000	197,292	-	-	1,200,000	536,512	315,000	74,694	350,000	7,000	632,849	165,381	2,887,849	980,879	3,868,728	
2021	425,000	187,555	-	-	1,245,000	491,512	310,000	63,668	-	-	294,027	147,127	2,274,027	889,862	3,163,889	
2022	425,000	175,995	-	-	1,295,000	441,712	320,000	52,432	-	-	300,151	141,003	2,340,151	811,142	3,151,293	
2023	435,000	164,331	-	-	1,345,000	389,499	330,000	40,432	-	-	306,412	134,743	2,416,412	729,005	3,145,417	
2024	445,000	152,006	-	-	1,405,000	334,238	325,000	27,232	-	-	312,637	128,518	2,487,637	641,994	3,129,631	
2025	455,000	139,382	-	-	1,525,000	276,050	345,000	14,232	-	-	239,953	122,115	2,564,953	551,779	3,116,732	
2026	305,000	125,687	-	-	1,600,000	212,762	-	-	-	-	165,025	117,956	2,070,025	456,405	2,526,430	
2027	310,000	117,238	-	-	1,675,000	145,562	-	-	-	-	168,854	114,127	2,153,854	376,927	2,530,781	
2028	320,000	108,662	-	-	1,750,000	74,375	-	-	-	-	172,625	110,356	2,242,625	293,393	2,536,018	
2029	330,000	98,463	-	-	-	-	-	-	-	-	176,796	106,185	506,796	204,648	711,444	
2030	335,000	87,962	-	-	-	-	-	-	-	-	180,920	102,062	515,920	190,024	705,944	
2031	350,000	77,013	-	-	-	-	-	-	-	-	185,146	97,836	535,146	174,849	709,995	
2032	355,000	65,537	-	-	-	-	-	-	-	-	189,347	93,634	544,347	159,171	703,518	
2033	370,000	53,913	-	-	-	-	-	-	-	-	193,916	89,065	563,916	142,978	706,894	
2034	310,000	41,762	-	-	-	-	-	-	-	-	198,468	84,513	508,468	126,275	634,743	
2035	315,000	31,688	-	-	-	-	-	-	-	-	171,841	79,995	486,841	111,683	598,524	
2036	325,000	21,450	-	-	-	-	-	-	-	-	173,291	75,718	498,291	97,168	595,459	
2037	335,000	10,888	-	-	-	-	-	-	-	-	177,895	71,113	512,895	82,001	594,896	
2038	-	-	-	-	-	-	-	-	-	-	182,515	66,494	182,515	66,494	249,009	
2039	-	-	-	-	-	-	-	-	-	-	187,256	61,753	187,256	61,753	249,009	
2040	-	-	-	-	-	-	-	-	-	-	192,044	56,965	192,044	56,965	249,009	
2041	-	-	-	-	-	-	-	-	-	-	197,119	51,889	197,119	51,889	249,008	
2042	-	-	-	-	-	-	-	-	-	-	202,249	46,760	202,249	46,760	249,009	
2043	-	-	-	-	-	-	-	-	-	-	207,515	41,493	207,515	41,493	249,008	
2044	-	-	-	-	-	-	-	-	-	-	212,869	36,140	212,869	36,140	249,009	
2045	-	-	-	-	-	-	-	-	-	-	218,468	30,540	218,468	30,540	249,008	
2046	-	-	-	-	-	-	-	-	-	-	224,166	24,842	224,166	24,842	249,008	
2047	-	-	-	-	-	-	-	-	-	-	230,015	18,993	230,015	18,993	249,008	
2048	-	-	-	-	-	-	-	-	-	-	236,001	13,008	236,001	13,008	249,009	
2049	-	-	-	-	-	-	-	-	-	-	242,186	6,824	242,186	6,824	249,010	
2050	-	-	-	-	-	-	-	-	-	-	138,068	2,004	138,068	2,004	140,072	
2051	-	-	-	-	-	-	-	-	-	-	13,464	40	13,464	40	13,504	
2052	-	-	-	-	-	-	-	-	-	-	205	7	205	7	212	
2053	-	-	-	-	-	-	-	-	-	-	156	2	156	2	158	
	\$ 8,439,557	\$ 2,978,447	\$ 180,000	\$ 7,122	\$ 18,485,000	\$ 6,142,004	\$ 3,440,000	\$ 796,434	\$ 2,025,000	\$ 115,630	\$ 9,906,679	\$ 3,577,703	\$ 42,476,236	\$ 13,617,340	\$ 56,093,576	

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

CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

Year	Tennessee Energy		General Obligation Bonds		General Obligation Bonds		General Obligation Bonds		Total General	
Ending	<u>Efficiency Loan</u>		<u>Series 2013</u>		<u>Series 2013 B</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>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 24,778	\$ -	\$ 210,000	\$ 154,900	\$ 40,000	33,783	\$ 115,000	\$ 52,519	\$ 389,778	\$ 241,202
2016	24,779	-	215,000	150,700	40,000	33,383	115,000	49,070	394,779	233,153
2017	-	-	215,000	146,400	40,000	32,983	115,000	45,618	370,000	225,001
2018	-	-	215,000	142,100	40,000	32,063	115,000	41,594	370,000	215,757
2019	-	-	220,000	137,800	40,000	31,142	120,000	37,568	380,000	206,510
2020	-	-	225,000	133,400	45,000	30,223	120,000	33,669	390,000	197,292
2021	-	-	225,000	128,900	50,000	29,187	150,000	29,468	425,000	187,555
2022	-	-	230,000	124,400	50,000	27,563	145,000	24,032	425,000	175,995
2023	-	-	235,000	119,800	50,000	25,937	150,000	18,594	435,000	164,331
2024	-	-	240,000	115,100	50,000	24,312	155,000	12,594	445,000	152,006
2025	-	-	245,000	110,300	55,000	22,688	155,000	6,394	455,000	139,382
2026	-	-	250,000	104,787	55,000	20,900	-	-	305,000	125,687
2027	-	-	255,000	98,538	55,000	18,700	-	-	310,000	117,238
2028	-	-	260,000	92,162	60,000	16,500	-	-	320,000	108,662
2029	-	-	270,000	84,363	60,000	14,100	-	-	330,000	98,463
2030	-	-	275,000	76,262	60,000	11,700	-	-	335,000	87,962
2031	-	-	285,000	68,013	65,000	9,000	-	-	350,000	77,013
2032	-	-	290,000	59,462	65,000	6,075	-	-	355,000	65,537
2033	-	-	300,000	50,763	70,000	3,150	-	-	370,000	53,913
2034	-	-	310,000	41,762	-	-	-	-	310,000	41,762
2035	-	-	315,000	31,688	-	-	-	-	315,000	31,688
2036	-	-	325,000	21,450	-	-	-	-	325,000	21,450
2037	-	-	335,000	10,888	-	-	-	-	335,000	10,888
	<u>\$ 49,557</u>	<u>\$ -</u>	<u>\$ 5,945,000</u>	<u>\$ 2,203,938</u>	<u>\$ 990,000</u>	<u>\$ 423,389</u>	<u>\$ 1,455,000</u>	<u>\$ 351,120</u>	<u>\$ 8,439,557</u>	<u>\$ 2,978,447</u>

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

June 30, 2014

Fiscal Year Ending June 30,	Series 2009		Series 2007		<u>Total Electric</u>	
	<u>Bonds</u>	<u>Interest</u>	<u>Bonds</u>	<u>Interest</u>	<u>Total Bonds</u>	<u>Total Interest</u>
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>\$ 8,535,000</u>	<u>\$ 1,481,705</u>	<u>\$ 9,950,000</u>	<u>\$ 4,660,299</u>	<u>\$ 18,485,000</u>	<u>\$ 6,142,004</u>

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

June 30, 2014

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Year	TDOT Utility Reloc Loan		Series 2009		State Revolving Loan Fund CWO 2013-315		RUS Phase I Series 2008		RUS Phase II Interim Certificates of Indebtedness		RUS Phase III Interim Certificates of Indebtedness		Total Water	
Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 131,378	\$ 26,795	\$ 305,000	\$ 65,114	\$ 24,767	\$ 6,374	\$ 62,795	\$ 77,065	\$ 38,700	\$ 131,539	\$ 21	\$ 292	\$ 562,661	\$ 307,179
2016	133,829	24,344	320,000	55,962	27,324	6,649	64,015	75,845	39,877	69,059	84	129	585,129	231,988
2017	136,326	21,847	315,000	46,362	27,645	6,328	65,678	74,182	41,090	67,846	86	126	585,825	216,691
2018	138,869	19,304	335,000	35,338	27,971	6,002	67,171	72,689	42,340	66,596	88	124	611,439	200,053
2019	141,460	16,713	355,000	23,612	28,300	5,673	68,698	71,162	43,628	65,309	90	122	637,176	182,591
2020	144,100	14,073	345,000	12,074	28,633	5,341	70,069	69,791	44,955	63,982	92	120	632,849	165,381
2021	146,788	11,385	-	-	28,969	5,004	71,853	68,007	46,322	62,614	95	117	294,027	147,127
2022	149,527	8,646	-	-	29,310	4,663	73,486	66,374	47,731	61,205	97	115	300,151	141,003
2023	152,317	5,856	-	-	29,655	4,318	75,157	64,703	49,183	59,753	100	113	306,412	134,743
2024	155,159	3,014	-	-	30,004	3,969	76,693	63,167	50,679	58,258	102	110	312,637	128,518
2025	78,662	425	-	-	30,357	3,616	78,609	61,251	52,220	56,716	105	107	239,953	122,115
2026	-	-	-	-	30,714	3,259	80,396	59,464	53,808	55,128	107	105	165,025	117,956
2027	-	-	-	-	31,075	2,898	82,224	57,636	55,445	53,491	110	102	168,854	114,127
2028	-	-	-	-	31,441	2,532	83,940	55,920	57,131	51,805	113	99	172,625	110,356
2029	-	-	-	-	31,810	2,163	86,001	53,859	58,869	50,067	116	96	176,796	106,185
2030	-	-	-	-	32,185	1,788	87,956	51,904	60,660	48,276	119	94	180,920	102,062
2031	-	-	-	-	32,563	1,410	89,956	49,904	62,505	46,431	122	91	185,146	97,836
2032	-	-	-	-	32,946	1,027	91,870	47,990	64,406	44,530	125	87	189,347	93,634
2033	-	-	-	-	33,334	639	94,089	45,771	66,365	42,571	128	84	193,916	89,065
2034	-	-	-	-	33,726	247	96,228	43,632	68,383	40,553	131	81	198,468	84,513
2035	-	-	-	-	2,828	-	98,416	41,444	70,463	38,473	134	78	171,841	79,995
2036	-	-	-	-	-	-	100,546	39,314	72,607	36,330	138	74	173,291	75,718
2037	-	-	-	-	-	-	102,939	36,921	74,815	34,121	141	71	177,895	71,113
2038	-	-	-	-	-	-	105,279	34,581	77,091	31,846	145	67	182,515	66,494
2039	-	-	-	-	-	-	107,672	32,188	79,436	29,501	148	64	187,256	61,753
2040	-	-	-	-	-	-	110,040	29,820	81,852	27,085	152	60	192,044	56,965
2041	-	-	-	-	-	-	112,622	27,238	84,341	24,595	156	56	197,119	51,889
2042	-	-	-	-	-	-	115,182	24,678	86,907	22,030	160	52	202,249	46,760
2043	-	-	-	-	-	-	117,801	22,059	89,550	19,386	164	48	207,515	41,493
2044	-	-	-	-	-	-	120,427	19,433	92,274	16,663	168	44	212,869	36,140
2045	-	-	-	-	-	-	123,216	16,644	95,080	13,856	172	40	218,468	30,540
2046	-	-	-	-	-	-	126,017	13,843	97,972	10,964	177	35	224,166	24,842
2047	-	-	-	-	-	-	128,882	10,978	100,952	7,984	181	31	230,015	18,993
2048	-	-	-	-	-	-	131,792	8,068	104,023	4,914	186	26	236,001	13,008
2049	-	-	-	-	-	-	134,808	5,052	107,187	1,750	191	22	242,186	6,824
2050	-	-	-	-	-	-	137,873	1,987	-	-	195	17	138,068	2,004
2051	-	-	-	-	-	-	13,264	28	-	-	200	12	13,464	40
2052	-	-	-	-	-	-	-	-	-	-	205	7	205	7
2053	-	-	-	-	-	-	-	-	-	-	156	2	156	2
	<u>\$ 1,508,415</u>	<u>\$ 152,402</u>	<u>\$ 1,975,000</u>	<u>\$ 238,462</u>	<u>\$ 605,557</u>	<u>\$ 73,900</u>	<u>\$ 3,453,660</u>	<u>\$ 1,594,592</u>	<u>\$ #####</u>	<u>\$ 1,515,227</u>	<u>\$ 5,200</u>	<u>\$ 3,120</u>	<u>\$ 9,906,679</u>	<u>\$ 3,577,703</u>

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

June 30, 2014

Residential

Customer Charge	\$21.10 per month
Energy Charge	6.972 cents per KWH per month
Total Monthly Fuel Cost	2.785 cents per KWH

General Services

LESS THAN 50 KW

Customer Charge	\$35.15 per month
Energy Charge	8.003 cents per KWH
Total Monthly Fuel Cost	2.743 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 at \$1 per KW, excess over 50 KW of billing demand per month at \$14.72 per KW
Energy Charge	First 15,000 KWH at 7.990 cents per KWH. Additional KWH at \$4.134 cents per KWH
TVA Total Monthly Fuel Cost	First 15,000 KWH at 2.743 cents per KWH. Additional KWH at \$2.695 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 \$15.55 per KW, excess over 1,000 KW of billing demand per month at \$17.73
Energy Charge	3.918 cents per KWH
Total Monthly Fuel Cost	2.695 cents per KWH

General Services Manufacturing Rates

5,001 KW TO 15,000 KW

Customer Charge	\$1,850 per delivery point
Demand Charge	\$19.19 per KW of billing demand, plus an additional \$19.19 per KW per month for each KW of the amount by which the the customer's billing demand exceeds contract demand
Energy Charge	1.827 cents per KWH
Total Monthly Fuel Cost	2.679 cents per KWH

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF GAS UTILITY RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

Residential

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.17

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

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.22

General Commercial and Industrial

Monthly minimum	\$ 5.66
Per ccf consumed per month	1.098

Housing Authority

Monthly minimum	\$ 5.00
Per ccf consumed per month	1.082

Interruptible Service

Per ccf consumed per month	\$ 0.615
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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, 2014

Cable TV Service

Budget basic	\$ 25.51
Basic plus	56.67
Basic digital	71.75
Digital service with DVR only	76.75
Digital service with HD only	72.75
Complete digital package	77.75

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	\$ 41.99
5 Meg	61.99
10 Meg	74.59
13 Meg	43.99
15 Meg	63.99
17 Meg	76.59
Cable modem (may be purchased for \$50.00)	5.00

VOIP Phone Services

Unlimited service	\$ 45.95
Basic service	43.95
With internet and cable	
Unlimited service	30.95
Basic service	28.95
With internet or cable	
Unlimited service	35.95
Basic service	33.95

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

June 30, 2014

	<u>RESIDENTIAL</u>		<u>COMMERCIAL</u>				<u>WHOLESALE</u>	
	<u>Inside City</u>	<u>Outside City</u>	<u>Inside City</u>	<u>Outside City</u>	<u>Industrial</u>	<u>Frito Lay</u>	<u>With Contracts</u>	<u>Without Contracts</u>
<u>Water Rates</u>								
First 100 cubic feet	\$ 8.91	\$ 11.59	\$ 9.81	\$ 12.75	\$ 9.36	\$ 9.81	\$ 9.26	\$ 9.56
All over 100 cubic feet*	3.79	4.92						
Next 900 cubic feet*			4.17	5.43	3.98	4.17	3.88	4.18
All over 1,000 cubic feet*			3.06	3.99	3.01		2.91	3.21
Next 119,000 cubic feet*						3.34		
All over 120,000 cubic feet*						2.22		
<u>Wastewater Rates</u>								
First 100 cubic feet	13.29	15.30	15.16		15.16			
All over 100 cubic feet*	5.65	6.50	6.44		6.44			

**Per 100 cubic feet*

Number of water and wastewater customers at June 30,

	<u>2014</u>	<u>2013</u>
Water	\$ 4,514	\$ 4,533
Sewer	3,472	3,488

FAYETTEVILLE PUBLIC UTILITIES
SCHEDULE OF SANITATION RATES IN EFFECT
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

Residential

Per household	\$ 14
Per apartment	14

Each additional cart purchased is an additional \$10.

Commercial and Industrial

1 cart	Twice/wk	38
	Once/wk	19
2 carts	Twice/wk	68
	Once/wk	34
3 carts	Twice/wk	98
	Once/wk	49
4 carts	Twice/wk	128
	Once/wk	64
6 carts	Twice/wk	188
	Once/wk	94

SCHEDULE OF NUMBER OF UTILITY CUSTOMERS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

	June 30, <u>2014</u>	<u>2013</u>
Electric	17,925	17,941
Gas	5,978	5,985
Telecom division -Cable	3,196	3,158
Telecom division -Internet	2,098	2,026
Telecom division -Phone	272	268
Water	4,514	4,533
Wastewater	3,472	3,488
Sanitation	2,643	2,531

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

June 30, 2014

<u>Year</u>	<u>Balance</u> <u>July 1, 2013</u>	<u>Taxes</u> <u>Levied</u>	<u>Adjustments</u>	<u>Collections</u>	<u>Balance</u> <u>June 30, 2014</u>
2014	\$ -	\$ 2,648,761	\$ -	\$ -	\$ 2,648,761
2013	2,512,142	-	25,518	(2,464,584)	73,076
2012	59,343	-	11,598	(59,834)	11,107
2011	8,838	-	(4)	(8,632)	202
2010	1,487	-	(742)	(722)	23
2009	915	-	-	(756)	159
2008	763	-	(713)	-	50
2007	765	-	(713)	-	52
2006	374	-	(374)	-	-
2005	571	-	(374)	-	197
2004	6	-	-	-	6
	<u>\$ 2,585,204</u>	<u>\$ 2,648,761</u>	<u>\$ 34,196</u>	<u>\$ (2,534,528)</u>	<u>2,733,633</u>
Less allowance for uncollectible taxes					(14,635)
Balance, end of year, net of allowance					<u>\$ 2,718,998</u>

All uncollectible taxes for years prior to 2013 have been turned over to the Clerk and Master for collection.

DIRECTORY OF OFFICIALS
CITY OF FAYETTEVILLE, TENNESSEE

June 30, 2014

Mayor - John Ed Underwood

Board of Alderman

Gwen Shelton - Vice Mayor

Danny Bryant

Dorothy Small

Marty Pepper

Thomas Young, Sr.

Michael Whisenant

City Administrator - Scott Collins

City Attorney - Johnny D. Hill, Jr.

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 - Glenn 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, 2014

During the year ended June 30, 2014, the City turned over \$16,836 of 2012 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, 2014

<u>Tax Year</u>	<u>Total Assessed Value</u>	<u>City Property Tax Rate</u>	<u>Levy</u>
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
2013	149,478,875	1.6500	2,512,322
2014	157,275,495	1.6500	2,648,761

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE
CITY OF FAYETTEVILLE, TENNESSEE
Year ended June 30, 2014

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	97.044	EMW-2012-FO-04389	\$ -	\$ 39,045	\$ 39,045	\$ -
U.S. Department of Justice	16.607	Unknown	(720)	720	-	-
US Department of Transportation (1)	20.205	STP-M-9304(7)	-	-	26,224	(26,224)
		TOTAL FEDERAL AWARDS	<u>(720)</u>	<u>39,765</u>	<u>65,269</u>	<u>(26,224)</u>
<u>STATE FINANCIAL ASSISTANCE</u>						
NONE						
		TOTAL STATE AWARDS	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		TOTAL FEDERAL AND STATE AWARDS	<u>\$ (720)</u>	<u>\$ 39,765</u>	<u>\$ 65,269</u>	<u>\$ (26,224)</u>

Basis of Presentation:

Note 1: This Schedule of Expenditures of Federal Awards and State Financial Assistance summarizes the expenditures of City of Fayetteville under programs of the federal and state governments for the year ended June 30, 2014. The schedule is presented using the modified accrual basis of accounting.

Loans Outstanding:

Note 2: At June 30, 2014, there was an outstanding balance of \$49,557 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 Transportation.

INTERNAL CONTROL AND COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S 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, in accordance with the 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, 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, 2014, and the related notes to the financial statements, which collectively comprise City of Fayetteville, Tennessee's basic financial statements and have issued our report thereon dated May 20, 2015. Our report includes a reference to other auditors who audited the financial statements of Fayetteville Public Utilities and Fayetteville City Schools, as described in our report on the City of Fayetteville, Tennessee's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fayetteville, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Fayetteville, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Fayetteville, Tennessee's internal control.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Fayetteville's financial statements are free from 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 instances of noncompliance that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings as items 2013-1 and 2014-1.

We noted certain matters that we reported to management of the City in a separate letter dated May 20, 2015.

City of Fayetteville, Tennessee's Response to Finding

City of Fayetteville, Tennessee's response to the finding identified in our audit is described in the accompanying schedule of findings. City of Fayetteville, Tennessee's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Winneth Associates, PLLC

May 20, 2015

SCHEDULE OF FINDINGS
CITY OF FAYETTEVILLE, TENNESSEE
June 30, 2014

Prior Year

Finding 2013-1

Condition, Criteria, Cause and Effect: Tennessee Code Annotated section 6-56-203 requires the City to adopt and operate under an annual budget. Municipalities must amend their budgets by ordinance prior to increasing spending for any appropriation. Furthermore, the legal level of authority to spend for the City of Fayetteville is at the department level. Certain departments' total expenditures exceeded their corresponding budgeted amounts.

Status: Total expenditures for the year ended June 30, 2014, exceeded their corresponding budgeted amounts for the garage department and the debt service fund.

Recommendation: all expenditures should be authorized either in the original budget or an amendment to that budget prior to being spent.

Management Response: The management of the City recognizes that the budget is the legal authority to spend funds. Our procedures for amending the budget were altered to address this finding and the results were a significant reduction of amounts over expended. The only amounts expended in excess of the budget for the year ended June 30, 2014, resulted from audit adjustments. We do not anticipate these entries being needed in the future.

Current Year

Finding 2014-1

Condition, Criteria, Cause and Effect: Tennessee Code Annotated section 6-56-203 requires the City to adopt and operate under an annual budget. Municipalities must amend their budgets by ordinance prior to increasing spending for any appropriation. Amendments must show the source of funds (revenues, fund balance, reductions in other appropriations, or transfers) supporting any new spending. Amendments must also be balanced. During our audit we noted two budget ordinances that did not indicate the source of funds and were thus also not balanced. These were ordinances 2014-01 and 2014-02.

Recommendation: All budget amendments should include the source of funding and be balanced.

Management Response: We concur. All future amendments will include the source of funds and be balanced.