

CITY OF FAIRVIEW, TENNESSEE

JUNE 30, 2004

Report
of
Examination

CITY OF FAIRVIEW, TENNESSEE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

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CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004

As management of the City of Fairview, Tennessee we offer the readers of the City of Fairview, Tennessee's financial statements this narrative overview and analysis of the financial activities of the City of Fairview, Tennessee for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented in conjunction with additional information that we have furnished in the basic financial statements and the accompanying notes to those financial statements. All amounts, unless otherwise indicated, are expressed in actual dollars.

FINANCIAL HIGHLIGHTS

Management believes the City of Fairview's financial condition is strong. The City is well within its budget and the more stringent financial policies and guidelines set by the Board of Commissioners and management. The following are key financial highlights.

- The assets of the City of Fairview exceeded liabilities at the close of the most recent fiscal year by \$16,297,973. Of this amount, \$4,058,825 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors.
- At June 30, 2004, the City's government funds reported combined ending fund balances of \$1,789,996 or, an increase of \$297,648 in comparison with the prior year. This entire amount is available for spending at the government's discretion (unreserved fund balance).
- At June 30, 2004 unreserved fund balance for the General Fund was \$809,052, or 35% of total general fund expenditures.
- The City's total bonded debt decreased by \$106,043 during the year ended June 30, 2004. Of this amount, general fund long-term debt increased by \$315,251; water and sewer long-term decreased by \$421,294.
- The City's capital assets increased by \$943,037 during the year ended June 30, 2004. This increase is primarily due to construction of the new City Hall.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management's Discussion and Analysis (MD&A) serves as an introduction to and should be read in conjunction with the financial statements and supplementary information. The MD&A represents management's examination and analysis of the City's financial condition and activities. Summary financial statement data key financial and operational indicators, budget and other management tools were used for this analysis. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information to the basis financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents the financial position of the City on a full accrual, historical cost basis. The statement of net assets provides information on the entire City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

CITY OF FAIRVIEW, TENNESSEE
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The *Statement of Activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, streets, drug enforcement, and parks and recreation. The business-type activities of the City include the operations of the water and sewer facilities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains three individual governmental funds. Information is presented separately in the governmental fund balances and in the governmental fund statements of revenues, expenditures, and changes in fund balances for the general fund, capital projects and drug fund.

The City adopts an annual appropriations budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Proprietary funds. The City maintains one type of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses an enterprise fund to account for its Water and Sewer activities.

Proprietary funds provided the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information for the Water and Sewer activities of the City.

Notes to the financial statements. The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the government-wide and fund financial statements. The notes present information about the City's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events, if any. The notes to the financial statements can be found on pages 19-31 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Fairview, assets exceeded liabilities by \$16,297,973, at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (69%) reflects its investment in capital assets (e.g., land and buildings) less any outstanding, related debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be proved from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

City of Fairview, Tennessee's Net Assets

	Governmental Activities FY 2004	Business-type Activities FY 2004	Total FY 2004
Current and other assets	\$ 2,519,181	\$ 3,309,895	\$ 5,829,076
Capital assets	<u>5,888,545</u>	<u>9,966,566</u>	<u>15,855,111</u>
Total Assets	<u>\$ 8,407,726</u>	<u>\$ 13,276,461</u>	<u>\$ 21,684,187</u>

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004

	Governmental Activities <u>FY 2004</u>	Business-type Activities <u>FY 2004</u>	Total <u>FY 2004</u>
Long-term liabilities	\$ 2,273,945	\$ 2,313,206	\$ 4,587,151
Other liabilities	<u>717,249</u>	<u>81,814</u>	<u>799,063</u>
Total Liabilities	<u>2,991,194</u>	<u>2,395,020</u>	<u>5,386,214</u>
Net Assets:			
Invested in capital assets, net of related debt	3,614,378	7,643,826	\$ 11,258,204
Restricted Assets	980,944		980,944
Unrestricted	<u>821,210</u>	<u>3,237,615</u>	<u>4,058,825</u>
Net Assets	<u>5,416,532</u>	<u>10,881,441</u>	<u>16,297,973</u>
Total	<u>\$ 8,407,726</u>	<u>\$ 13,276,461</u>	<u>\$ 21,684,187</u>

At year end, six (6%) percent of the City's net assets represented resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$4,058,858) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2004, the City is able to report positive balances in all three categories of net assets, both government as a whole, as well as for its separate governmental and business-type activities.

City of Fairview, Tennessee's Changes in Net Assets

	Governmental Activities <u>FY 2004</u>	Business-type Activities <u>FY 2004</u>	Total <u>FY 2004</u>
REVENUES:			
Capital Projects			
Taxes	\$ 117,019	\$	\$ 117,019
Uses of money	4,275	31,086	35,361
Drug Fund			
Fines & fees	526,500		526,500
Uses of money	2,506		2,506
General Revenues:			
Taxes	1,378,091		1,378,091
Licenses & permits	91,019		91,019
Fines and fees	92,076		92,076
Intergovernmental	627,367		627,367
Uses of money and property	7,276		7,276
Other	137,088		137,088
Water & Sewer		<u>2,179,576</u>	<u>2,179,576</u>
Total Revenue	<u>2,983,217</u>	<u>2,210,662</u>	<u>5,193,879</u>

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
	<u>FY 2004</u>	<u>FY 2004</u>	<u>FY2004</u>
EXPENDITURES:			
Capital Projects	\$ 887,335	\$	\$ 887,335
Drug Fund	245,127		245,127
General Government	1,126,333		1,126,333
City Court	23,270		23,270
Codes	79,396		79,396
Public safety	792,218		792,218
State Street Aid	152,366		152,366
Road & Streets	42,487		42,487
Public Health	16,954		16,954
Parks & Recreation	106,091		106,091
Water & Sewer			
Operating		1,915,502	1,915,502
Interest		174,367	174,367
Total Expenditures	<u>3,471,577</u>	<u>2,089,869</u>	<u>5,561,446</u>
Excess or deficiency	(488,360)	120,793	(367,567)
OTHER FINANCING			
Capital contributions		484,430	484,430
Transfers in	332,097		332,097
Transfers out	(86,397)	(245,700)	(332,097)
Proceeds of bonds	540,308		540,308
Increase in net assets	<u>297,648</u>	<u>359,523</u>	<u>657,171</u>
Net assets July 1, 2003	1,492,348	10,521,918	12,014,266
Net assets June 30, 2004	\$ <u>1,789,996</u>	\$ <u>10,881,441</u>	\$ <u>12,671,437</u>

The government's assets increased \$657,171 during the fiscal year. Most of this increase represents bond proceeds related to the construction of the new city hall and operation of the water and sewer utility.

Governmental activities: Governmental activities increased net assets by \$297,648, which accounts for 45% of the total growth in the net asset of the City of Fairview in FY 2004.

Business-type activities. Business-type activities increased the net assets by \$359,523, or 55% of the total growth in the net assets of the City of Fairview. Of this amount \$120,793 was operating income and the balance was contributed capital.

Financial Analysis of the Government's Funds

As previously noted, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004

Governmental funds. The focus of the City's governmental funds is to provide information on near-term inflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's near resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the all the City's governmental funds reported a combined ending fund balance of \$1,789,996, an increase of \$297,648 over the previous year. Of the total \$1,789,996 balance, \$204,104 is restricted for use in the State Street Aid Fund, which provides for paving and maintenance of streets. Another \$358,470 is restricted to use within the Drug enforcement Fund. Finally, \$418,370 is an unused portion of borrowed funds and restricted for the construction of the City's new City Hall.

The balance of \$809,052 is unrestricted in the operation of the general fund of the City. As a measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to the fund's expenditures. The unreserved fund balance (\$809,052) represents 35% of the general fund's expenditures.

Proprietary funds. The City's Water and Sewer Utility operates in a proprietary fund and the information is found in the government-wide financial statements.

Net assets for the Water & Sewer Fund are \$10,881,441 and increased by \$359,519. Of the \$10,881,441 in the fund balance, \$3,237,615 is unrestricted for use in the fund.

General Fund Budgetary Highlights

The differences between the original budgeted revenues and actual was minor. Actual revenue fell short of projections by \$22,633, or less than 1%. The difference in budgeted expenditures and actual was positive, with expenditures falling \$79,170 less than budgeted.

Capital Asset and Debt Administration

At the end of fiscal year 2004, the City had \$15,855,111 (net of accumulated depreciation) invested in a broad range of capital assets. This total includes land, land improvements, buildings, utility system equipment and infrastructure. The total increase in the City's investment in capital assets for the current period amounted to \$471,915. This represents a 3% increase in total assets. The general fund had a net increase of \$802,638, primarily due to construction-in-progress of the new City Hall. Water and Sewer had a decrease of \$330,723 in capital assets.

The following table summarizes the City's capital assets and changes. Complete detail is provided on pages 25 and 26 of notes to the financial statements.

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YEAR ENDED JUNE 30, 2004

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,681,246	\$ 101,323	\$ 2,782,569
Buildings	2,633,574		2,633,574
Utility System		14,141,876	14,141,876
Equipment	1,435,464	627,042	2,062,506
Less depreciation	(861,739)	(4,903,675)	(5,765,414)

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$4,587,151. Of this amount, \$2,805,035 comprises debts backed by the full faith and credit of the government and \$1,782,116 represents bond secured primarily by a specified revenue source and a full faith and credit pledge.

City of Fairview, Tennessee's Net Assets
General Obligation and Revenue Bonds

	Governmental Activities	Business-type Activities	Total
General Obligation Bonds	\$ 2,273,945	\$ 713,738	\$ 2,805,035
Revenue Bonds		1,782,116	1,782,116
Less deferred charges	<u>0</u>	(182,648)	(182,648)
Total	\$ <u>2,273,945</u>	\$ <u>2,313,206</u>	\$ <u>4,404,503</u>

The City's total debt decreased by a net \$106,043, during the current year. The governmental fund debt increased slightly, due continued construction on city hall. No new debt was added to the Water & Sewer fund. Additional information is available on pages 26-28.

Economic Factors and New Year's Budget and Rates

Factors considered in preparation of the City's budget for the 2005 fiscal year include the following:

- The reduction of State shared revenue continues to affect the general fund revenue.
- The citizens of Fairview passed an additional ½ cent sales tax - providing a substantial source of income.
- Williamson County is having difficulty with the growth of its school budget. The County Board of Commissioners is considering a countywide referendum in November to implement the ½ cent sales tax. Passage would reduce the City's revenue by 50%. Management will budget only ½ the estimated revenue for the months following November.

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2004

The fund balance of the general fund is sufficient to support the proposed budget if revenue fails to meet projections. The tax rate will remain unchanged at 72 cents. Water and sewer rates will not be increased for the 2005 budget.

This overview is designed to provide general information about the City of Fairview's finances. Questions should be directed to the Finance Department, Kathleen Daugherty or the City Manager, Al Deck. City of Fairview, P.O. Box 69 Fairview, TN 37062.

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INDEPENDENT AUDITOR'S REPORT

December 27, 2004

Board of Mayor and Aldermen
City of Fairview, Tennessee
Fairview, Tennessee

We have audited the accompanying financial statements of the governmental activities of City of Fairview, Tennessee, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Fairview, Tennessee, management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, of the City of Fairview, Tennessee, as of June 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as of June 30, 2004.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2004, on our consideration of City of Fairview, Tennessee's internal control over financial reporting and on our tests on its compliance with certain provisions of laws, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and 32 through 37, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairview, Tennessee's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Parsons and Associates

Parsons and Associates

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF NET ASSETS
JUNE 30, 2004

<u>ASSETS</u>	Primary Government		
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 567,221	\$ 3,047,488	\$ 3,614,709
Property tax receivable	742,166		742,166
Other taxes receivable	46,414		46,414
Intergovernmental revenue receivable	170,278		170,278
Accounts receivable	12,158	262,407	274,565
Restricted assets:			
Cash	980,944		980,944
Capital assets:			
Utility plant in service		14,768,918	14,768,918
Land	2,681,246	101,323	2,782,569
Furniture, machinery and equipment	1,435,464		1,435,464
Construction in progress	2,633,574		2,633,574
Accumulated depreciation	(861,739)	(4,903,675)	(5,765,414)
 <u>Total</u>	 <u>\$ 8,407,726</u>	 <u>\$ 13,276,461</u>	 <u>\$ 21,684,187</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 57,815	\$ 65,835	\$ 123,650
Accrued salaries		6,445	6,445
Accrued interest	222	9,534	9,756
Other payables	13,438		13,438
Deferred revenue	645,774		645,774
Long-term liabilities:			
Due within one year	236,441	444,736	681,177
Due beyond one year	<u>2,037,504</u>	<u>1,868,470</u>	<u>3,905,974</u>
	<u>2,991,194</u>	<u>2,395,020</u>	<u>5,386,214</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	3,614,378	7,643,826	11,258,204
Restricted for:			
Roads and streets	204,104		204,104
Capital projects	418,370		418,370
Drug enforcement	358,470		358,470
Unrestricted	<u>821,210</u>	<u>3,237,615</u>	<u>4,058,825</u>
	<u>5,416,532</u>	<u>10,881,441</u>	<u>16,297,973</u>
 <u>Total</u>	 <u>\$ 8,407,726</u>	 <u>\$ 13,276,461</u>	 <u>\$ 21,684,187</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<u>Functions/Programs</u> Primary Government						
Governmental Activities						
General government	\$ 891,004	\$ 183,095	\$	\$ (707,909)		\$ (707,909)
Public safety	1,092,758	630,734	14,573	(447,451)		(447,451)
Highways and streets	207,482	163,151		(44,331)		(44,331)
Parks	130,343	3,155		(127,188)		(127,188)
Interest on long-term debt	122,247			(122,247)		(122,247)
Total Governmental Activities	<u>2,443,834</u>	<u>177,724</u>		<u>(1,449,126)</u>		<u>(1,449,126)</u>
Business-type Activities						
Water/sewer	<u>2,089,869</u>	<u>2,179,576</u>	<u>484,430</u>		<u>574,137</u>	<u>574,137</u>
Total Primary Government	<u>\$ 4,533,703</u>	<u>\$ 2,996,560</u>	<u>\$ 484,430</u>	<u>(1,449,126)</u>	<u>574,137</u>	<u>(874,989)</u>
General revenues:						
Taxes:						
Property taxes				634,776		634,776
Sales taxes				775,410		775,410
Payment in lieu of tax				38,303		38,303
Facility tax				117,019		117,019
Income taxes				(2,185)		(2,185)
Other taxes				238,674		238,674
Licenses and permits				91,019		91,019
Investment income				14,057	31,086	45,143
Intergovernmental revenue not restricted to specific programs				93,594		93,594
Transfers in (out)				245,700	(245,700)	
				<u>2,246,367</u>	<u>(214,614)</u>	<u>2,031,753</u>
Change in net assets				797,241	359,523	1,156,764
Net assets - beginning				4,619,291	10,521,918	15,141,209
Net assets - ending				<u>\$ 5,416,532</u>	<u>\$ 10,881,441</u>	<u>\$ 16,297,973</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
BALANCE SHEET
GOVERNMENT FUNDS
JUNE 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Cash and cash equivalents	\$ 567,221	\$	\$	\$ 567,221
Receivables:				
Property taxes	742,166			742,166
Intergovernmental	170,278			170,278
Other taxes receivable	46,414			46,414
Restricted assets:				
Cash and cash equivalents	204,104	418,370	358,470	980,944
<u>Total</u>	<u>\$ 1,730,183</u>	<u>\$ 418,370</u>	<u>\$ 358,470</u>	<u>\$ 2,507,023</u>
 <u>LIABILITIES</u>				
Accounts payable	\$ 57,815	\$	\$	\$ 57,815
Other payables	13,438			13,438
Deferred revenue	645,774			645,774
<u>Total Liabilities</u>	<u>717,027</u>			<u>717,027</u>
 <u>FUND BALANCES</u>				
Fund balance:				
Reserved for capital projects		418,370		418,370
Reserved for roads and streets	204,104			204,104
Reserved for drug enforcement			358,470	358,470
Unreserved	809,052			809,052
<u>Total Fund Balances</u>	<u>1,013,156</u>	<u>418,370</u>	<u>358,470</u>	<u>1,789,996</u>
<u>Total</u>	<u>\$ 1,730,183</u>	<u>\$ 418,370</u>	<u>\$ 358,470</u>	<u>\$ 2,507,023</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL
 FUNDS TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2004

<u>Total Governmental Funds Balances</u>	\$ 1,789,996
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds, net of accumulated depreciation of \$861,739	5,888,545
Certain long-term assets are not available to pay for current fund liabilities and, therefore, are offset by deferred revenue in the government fund:	
Court fines receivable, net of allowance for doubtful amounts of \$124,755	12,158
Interest expense is accrued on outstanding bonds in the statement of activities, whereas, in governmental funds, interest expenditures are reported when due	(222)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the government funds:	
General long-term debt payable	(2,273,945)
<u>Net Assets of Government Activities</u>	<u>\$ 5,416,532</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 GOVERNMENTAL FUNDS
 YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,378,091	\$ 117,019	\$	\$ 1,495,110
Licenses and permits	91,019			91,019
Fines and fees	92,076		526,500	618,576
Intergovernmental	627,367			627,367
Uses of money and property	7,276	4,275	2,506	14,057
Other	137,088			137,088
<u>Total Revenues</u>	<u>2,332,917</u>	<u>121,294</u>	<u>529,006</u>	<u>2,983,217</u>
EXPENDITURES				
Current:				
General government	1,126,333			1,126,333
City court	23,270			23,270
Codes	79,396			79,396
Public safety	792,218		245,127	1,037,345
State Street Aid	152,366			152,366
Roads and streets	42,487			42,487
Public health	16,954			16,954
Parks and recreation	106,091			106,091
Capital outlay		887,335		887,335
<u>Total Expenditures</u>	<u>2,339,115</u>	<u>887,335</u>	<u>245,127</u>	<u>3,471,577</u>
Excess (deficiency) of revenues over (under) expenditures	(6,198)	(766,041)	283,879	(488,360)
OTHER FINANCING SOURCES (USES)				
Transfers in	86,397	245,700		332,097
Transfers out		(86,397)		(86,397)
Proceeds of bonds		540,308		540,308
	<u>86,397</u>	<u>699,611</u>		<u>786,008</u>
Net change in fund balances	80,199	(66,430)	283,879	297,648
Fund Balance - beginning of year	932,957	484,800	74,591	1,492,348
Fund Balance - end of year	\$ <u>1,013,156</u>	\$ <u>418,370</u>	\$ <u>358,470</u>	\$ <u>1,789,996</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

Net Change in Fund Balance - Governmental Funds \$ 297,648

Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Statement of Revenues, Expenditures and Changes in Fund Balances because:

Governmental funds report capital outlays as expenditures, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense for governmental activities:

Acquisition of capital assets	922,966
Depreciation expense	(120,058)

Loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets

Loan proceeds received	(540,308)
General obligation loan payments	225,057

Interest is accrued on outstanding bonds payable in the Statement of Activities, whereas, in the governmental funds, interest expenditures are reported when due:

Accrued interest	(222)
------------------	--------

Revenues for governmental activities that do not provide current financial resources are not reported as revenues in the governmental funds:

Court fines receivable, net of allowance for doubtful amounts of \$124,755	12,158
--	--------

Change in Net Assets of Governmental Activities \$ 797,241

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF REVENUE, EXPENSES AND CHANGES IN
NET ASSETS - WATER AND SEWER DEPARTMENT
YEAR ENDED JUNE 30, 2004

<u>Operating Revenue</u>	\$ <u>2,179,576</u>
<u>Operating Expenses</u>	
Distribution expenses	1,045,711
General and administration	518,727
Depreciation	351,064
<u>Total Operating Expenses</u>	<u>1,915,502</u>
<u>Operating Income</u>	<u>264,074</u>
<u>Non-operating Revenue (Expense)</u>	
Investment income	31,086
Interest expense and fiscal fees	(174,367)
<u>Total Non-operating Revenue (Expense)</u>	<u>(143,281)</u>
<u>Income Before Contributions and Transfers</u>	120,793
<u>Capital Contributions</u>	484,430
<u>Transfers In (Out)</u>	(245,700)
<u>Change in Net Assets</u>	<u>359,523</u>
Total Net Assets - beginning of year	10,521,918
Total Net Assets - end of year	\$ <u><u>10,881,441</u></u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF CASH FLOWS
WATER AND SEWER DEPARTMENT
YEAR ENDED JUNE 30, 2004

<u>Cash Flows From Operating Activities</u>	
Receipts from customers	\$ 2,161,444
Payments to employees	(438,929)
Payments to suppliers for goods and services	(1,086,359)
Net cash provided (used) by operating activities	<u>636,156</u>
<u>Cash Flows From Noncapital Financing Activities</u>	
Transfers to other funds	(245,700)
Net cash provided (used) by noncapital financing activities	<u>(245,700)</u>
<u>Cash Flows From Capital And Related Financing Activities</u>	
Additions to capital assets	(20,341)
Principal paid on capital debt	(421,713)
Interest paid on capital debt	(174,367)
Capital contributions	484,430
Net cash provided (used) for capital and related financing activities	<u>(131,991)</u>
<u>Cash Flows From Investing Activities</u>	
Interest income from cash and cash equivalents	<u>31,086</u>
Net cash provided by investing activities	<u>31,086</u>
Increase (decrease) in cash and cash equivalents	289,551
Cash and cash equivalents - beginning of year	2,757,937
Cash and cash equivalents - end of year	\$ <u><u>3,047,488</u></u>
<u>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities</u>	
Operating income	\$ 264,074
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
depreciation and amortization	351,064
Changes in assets and liabilities:	
Decrease (Increase) in:	
Receivables	18,132
Deferred charges to income	37,915
Increase (Decrease) in:	
Accounts payable	(20,425)
Accrued expenses	(14,604)
Net cash provided (used) by operating activities	\$ <u><u>636,156</u></u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The City of Fairview, Tennessee (the "City") was incorporated on July 1, 1959, under the provisions of the State of Tennessee. The City operates under a Commissioner-Manager form of government and provides the following services as authorized by its charter: public safety (police and fire services), streets, culture-recreation, public improvements, planning and zoning, and general administrative services. Other services include water and sewer systems.

The accounting policies of the City conform to accounting principles generally accepted in the United States applicable to governmental units, as prescribed by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies.

The Reporting Entity

The City, for financial purposes, includes all of the accounts relevant to the operations of the City of Fairview. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate and distinct units of government apart from the City of Fairview.

The financial statements of the City include those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board.

Based on the foregoing criteria in GASB pronouncements, there are no component units to be included in the accompanying financial statements.

Government-wide and Fund Financial Statements

The government-wide financial statements, the statement of net assets and statement of changes in net assets, report information on all nonfiduciary activities of the City of Fairview. Governmental activities, which are usually supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on charges for services and fees.

The statement of activities indicates the degree to which direct expenses of each function or segment are offset by program revenues. Direct expenses are expenses that are identifiable with a specific function. Program revenues are: (a) charges to customers and/or applicants who purchase, use or benefit directly from services, goods, or privileges provided by a given function and (b) grants and contributions that are restricted to the operational or capital requirements of a specific function. Such revenues are taxes and other revenue that may not be included in program revenues are reported as general revenues.

Separate financial statements are presented for governmental funds and proprietary funds. Major individual governmental funds are reported in separate columns in the fund financial statements.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Basis of Accounting and Basis of Presentation and Measurement Focus

Government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting, including the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when incurred, regardless of the timing of the related cash flow. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized in the year for which they are levied. Grants and similar items are recognized as revenue when all eligible requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and modified accrual basis of accounting. 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. The City considers revenues to be available if they are collected within sixty days of the end of the current fiscal year. Expenditures are recorded when a liability is incurred, as in accrual accounting. Debt service expenditures, as well as expenditures related to compensated absences, claims and judgments, are recorded when payment is due.

Property taxes, franchise taxes, and interest associated with the current fiscal year are considered to be susceptible to accrual and have been recognized as revenues of the current fiscal year. Other revenue items are considered to be measurable and available only when cash is received and is recognized as revenue at that time.

The City also reports the following major funds:

The "General Fund" is the City'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 "Capital Projects Fund" accounts for the acquisition, design and construction of major capital improvements projects of the City other than improvements financed by the Water and Sewer Fund.

The City also reports the following major proprietary funds:

The "Water and Sewer Fund" accounts for the activities of the water and sewer department, which operates and provides potable water and maintains a sewer collection system for residents and businesses on a user charges basis. The activities necessary to provide these services are accounted for in a manner to create a profit or loss similar to comparable private businesses.

The City has no internal service or fiduciary funds as of and for the year ended June 30, 2004.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

not conflict with or contradict guidance of the Government Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow private-sector guidance.

Interfund activities has been eliminated from the government-wide financial statements, except for charges between the City's water and sewer functions. Elimination of these charges would distort the direct costs and program revenues reported in those functions.

Amounts reported as program revenues include (a) charges to customer and/or applicants for goods, services and privileges provided, (b) capital grants and contributions.

The proprietary fund distinguishes operating revenues and expense from non-operating revenues and expenses. Operating revenues and expenses result from providing services and/or producing and delivering goods in connection with a proprietary fund's operations. The principal operating revenues of the City's proprietary water and sewer funds are charges to customers for water and services. Operating expenses for the proprietary funds include the cost of sales and/or services, general and administrative expenses and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Cash and Cash Equivalents

Cash and cash equivalents are stated at cost and consist principally of demand deposits, short-term certificates of deposits (original maturities of three months or less) and investments in the Local Government Investment Pool of the State of Tennessee.

Statutes authorize the City to invest in (a) U S Government securities and obligations guaranteed by the U S Government, (b) deposit accounts at state and federal chartered banks and savings and loan associations, (c) the Local Government Investment Pool of the State of Tennessee. During the year, the City invested funds that were not needed immediately in savings accounts and short-term certificates of deposits. Deposits in financial institutions are required by State statute to be secured and collateralized by the financial institutions. The collateral must meet certain requirements and must have a minimum market value of 105% of the value of the deposits balance less the amount insured by federal depository insurance. Collateral requirements are not applicable for financial institutions who participate in the State of Tennessee's collateral pool.

The State of Tennessee Local Government Investment Pool operates in accordance with appropriate state laws. The reported value of the Pool is the same as the fair value of the Pool shares.

Receivables

Taxes and trade receivables are shown net of an allowance for uncollectible accounts.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Restricted Assets

Certain assets, such as the drug special revenue fund, the capital projects fund and state street funds are classified as restricted assets because their use is limited by applicable regulations.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure (roads, bridges, sidewalks and similar assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial and individual cost of \$5,000 or more and an estimated useful life of two years or more. Assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at the estimated fair value at the date of donation.

The cost of normal repairs and maintenance that do not add to the value of the asset or substantially extend the life of the asset are not capitalized, but are charged to expense.

Capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the asset constructed. During the year, the business-type activities had no construction that required interest to be capitalized.

Property, plant and equipment is depreciated using the straight-line method over the estimated useful lives, as follows:

Buildings	40-50 years
Utility plant in service	40-50 years
Machine and equipment and vehicles	5-10 years

The City has elected to apply the Modified Approach to accounting for its streets infrastructure system as set forth in GASB 34. Using that approach, the City uses ASTM International Pavement Condition Index (PCI) to assess the surface condition of individual pavement segments. The City's most recent assessment, conducted in October 2004, found that 62.5% of its streets met or exceeded a PCI rating of good.

In accordance with GASB Statement No. 34 (GASB 34), the City is required to account for and report infrastructure capital assets. The City defines infrastructure as the basic physical assets that allow the City to function and those resources utilized primarily by the public and provides future economic benefits for a minimum of two years. Infrastructure assets are capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than other capital assets. The City's major infrastructure systems include the street system, bridges, sidewalks and similar assets.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

The City has elected to use the "Modified Approach" as defined by GASB 34 for infrastructure reporting for its street system. Under GASB 34, eligible infrastructure capital assets are not required to be depreciated under the following requirements:

- The City manages the eligible infrastructure capital assets using an asset management system with characteristics of (1) an up-to-date inventory; (2) perform condition assessments and summarize the results using a measurement scale, and (3) estimate the annual amounts necessary to maintain and preserve the established condition assessment level.
- The City documents that the eligible infrastructure capital assets are being preserved approximately at or above the established and disclosed condition assessment level.

Upon completion of the assessment, a pavement condition index (PCI) was calculated to assess the overall condition of individual pavement segments.

Using the PCI, a number grade was given to each road, which corresponded with its specific rating, so that each road could be more specifically classified within its respective rating category.

Road evaluations were performed using guidelines from ASTM publications. These publications presented picture examples of distresses, information concerning all pertinent distresses, and a PCI rating scale. This information was used to determine the quality of the roads in the City.

The following pavement quality conditions have been defined:

Good or better	63.5%
Fair	25.0%
Pass	11.5%
Fail	.0%

The City expended \$194,853 on street maintenance for the fiscal year ended June 30, 2004. The budget required to maintain and improve the current level of overall condition the City feels will be made available through the annual budget process, a portion of which is funded by a percentage of the fuel taxes collected by the State.

Long-Term Obligations

In the government-wide financial statements, proprietary fund types in the fund financial statements, long-term debt is reported as a liability in the applicable government activities, business-type activities or proprietary fund type statement of assets.

Bond issue costs are reported as deferred charges and amortized over the term of the related debt.

The face amount of debt issued is reported as other financial sources. Debt issuance costs, whether withheld from the actual debt proceeds received or not withheld, are reported as debt service expenditures.

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

Fund Balances

Governmental funds, in the fund financial statements, report reservations of fund balances for amounts that are not available for appropriation and/or legally restricted by outside third-parties for specific purposes.

NOTE 2 - REVENUE RECOGNITION - PROPERTY TAXES

The City's charter requires property to be levied on October 1 and become due and payable on October 1. Taxes not paid by March 1 of the following year become delinquent and penalty and interest begins to accumulated on that date. Property taxes are recognized as revenue when they become measurable and available. Property taxes collected within sixty days after year end are considered to be measurable and available and are recognized as revenue at year end; taxes not collected within sixty days after year end are reported as deferred revenue.

	Tax			Balance			Balance
	Rate	Assessment	Levy	June	Taxes		June
				30, 2003	Levied	Collections	30, 2004
1991	1.00	25,849,850	158,501	\$ 35	\$	\$	\$ 35
1992	1.00	26,344,131	263,454	173			173
1993	1.00	27,587,311	275,874	44			44
1994	1.10	38,380,844	313,810	211			211
1995	1.10	32,977,622	329,791	155			155
1996	.91	37,491,439	341,199	325			325
1997	.91	40,084,835	364,772	368			368
1998	.91	45,113,036	410,535	655		7	648
1999	.91	52,546,824	478,189	1,248		159	1,089
2000	.91	60,658,109	553,776	5,963		4,036	1,927
2001	.72	81,533,611	585,113	28,989		7,476	21,513
2002	.72	81,490,278	611,608	43,909		17,755	26,122
2003	.72	85,129,469	650,603	650,603		605,343	45,260
2004	.72	89,685,506			645,774		645,774
				<u>732,678</u>	<u>645,774</u>	<u>634,776</u>	<u>743,644</u>
Less estimated uncollectible taxes				(1,478)			(1,478)
				<u>\$ 731,200</u>	<u>\$ 645,774</u>	<u>\$ 634,776</u>	<u>\$ 742,166</u>

Delinquent taxes of 2001 and older have been filed with the Williamson County Clerk and Master.

NOTE 3 - DEPOSITS AND INVESTMENTS

The City's cash and cash equivalents at June 30, 2004, were held by financial institutions which participate in the bank collateral pool administered by the Treasurer of the State of Tennessee. Participating banks determine the aggregate balance of their public fund accounts for the City. The amount of collateral required to secure these public deposits must be equal to at least 105% of the average daily balance of public funds held. Collateral securities required to be pledged by the participating bank to protect their public funds accounts are pledged to the State Treasurer on behalf of the bank collateral pool. The

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment, public fund accounts covered by the pool are considered to be insured for purpose of credit risk disclosure.

A reconciliation of cash and cash equivalents as shown on the combined balance sheet is as follows:

Carrying amount of deposit	\$ 1,005,702
Deposits in State of Tennessee Local Government Investment Pool	3,585,881
Cash on hand	<u>1,400</u>
Total	\$ <u>4,592,983</u>
Cash and cash equivalents	\$ 3,614,709
Cash and cash equivalents - restricted	<u>978,274</u>
Total	\$ <u>4,592,983</u>

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
<u>Capital assets not being depreciated</u>				
Land	\$ <u>2,681,246</u>	\$		\$ <u>2,681,246</u>
<u>Capital assets being depreciated</u>				
Machinery and equipment	1,400,103	35,361		1,435,464
Construction in progress	<u>1,746,239</u>	<u>887,335</u>		<u>2,633,574</u>
Total assets being depreciated	<u>3,146,342</u>	<u>922,696</u>		<u>4,069,038</u>
<u>Less accumulated depreciation for:</u>				
Machinery and equipment	<u>741,681</u>	<u>120,058</u>		<u>861,739</u>
Governmental Activities capital assets, net	\$ <u>5,085,907</u>	\$ <u>802,638</u>		\$ <u>5,888,545</u>

Depreciation expense was charged to function/programs as of June 30, 2004 as follows:

Governmental activities	
General government	\$ 9,087
Public safety	74,090
Roads and streets	12,629
Parks and recreation	24,252
Total depreciation expense- governmental activities	\$ <u>120,058</u>

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Business-type Activities				
<u>Capital assets not being depreciated</u>				
Land	\$ <u>101,323</u>	\$	\$	\$ <u>101,323</u>
<u>Capital assets being depreciated</u>				
Utility plant in service	14,129,811	19,299	7,234	14,141,876
Machinery and equipment	678,267	1,042	52,267	627,042
Total assets being depreciated	<u>14,808,078</u>	<u>20,341</u>	<u>59,501</u>	<u>14,768,918</u>
Less accumulated depreciation for:				
Utility plant	4,211,098	289,300	7,234	4,493,164
Machinery and equipment	401,014	61,764	52,267	410,511
Total accumulated depreciation	<u>4,612,112</u>	<u>351,064</u>	<u>59,501</u>	<u>4,903,675</u>
Business-type activities capital assets, net	\$ <u>10,297,289</u>	\$ <u>(330,723)</u>	\$ <u>0</u>	\$ <u>9,966,566</u>

NOTE 5 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

The changes in long-term liabilities, during the year ended June 30, 2004, were as follows:

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2004</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds	\$ 187,602	\$	\$ 66,057	\$ 121,545	\$ 67,741
Tennessee Municipal Bond Pooled Fund	356,400		112,000	244,400	118,700
Tennessee Pooled Loan Program	1,414,692	540,308	47,000	1,908,000	50,000
Total Government Activities Long-Term Liabilities	\$ <u>1,958,694</u>	\$ <u>540,308</u>	\$ <u>225,057</u>	\$ <u>2,273,945</u>	\$ <u>236,441</u>
Business-type Activities					
Revenue and tax bonds	\$ 2,110,519		\$ 328,403	\$ 1,782,116	\$ 348,403
Tennessee Department of Health	806,629		92,891	713,738	96,333
	2,917,148		421,294	2,495,854	444,736
Less unamortized deferred charges	(220,563)		(37,915)	(182,648)	0
Total Debt, net of unamortized charges	\$ <u>2,696,585</u>		\$ <u>383,379</u>	\$ <u>2,313,206</u>	\$ <u>444,736</u>

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

Description of long-term liabilities:

Bonds payable at June 30, 2004 were as follows:

Government Activities

\$1,100,000 Series 1994, Tennessee Municipal Bond Pooled Fund Program due in increasing annual installments through March 25, 2006 at a variable interest rate (1.31% at June 30, 2004).	\$ 244,400
\$171,500 Capital Outlay Note, payable in monthly installments through February 5, 2006, at an interest rate of 2.95%	97,160
\$56,570 Capital Outlay Note, payable in monthly installments through March 15, 2006 at an interest rate of 4.00%	24,385
\$2,000,000 Series 2001, Tennessee Pooled Loan Program due in increasing annual installments through May 25, 2026, at a variable interest rate (1.14% at June 30, 2004).	1,908,000
Total General Obligation Bonds	\$ <u>2,273,945</u>

Business-type Activities Debt

\$675,000 Water Revenue and Tax Refunding Bonds, Series 1993, due in increasing annual installments through June 1, 2008, at varying interest rates from 2.80% to 5.125%	\$ 190,000
\$4,005,000 Sewer Revenue and Tax Refunding Bonds, Series 1993, due in increasing annual installments through June 1, 2009, at varying interest rates from 2.80% to 5.150%	1,575,000
\$1,717,136 Tennessee Department of Health and Environment payable in monthly installments through February 1, 2011, at an interest rate of 3.23%	713,738
\$43,791 Capital Outlay Note (Equipment) payable in monthly installments through March 15, 2006, at an interest rate of 4.00%	17,116
Total Business-type Activities Debt	<u>2,495,854</u>
Less: unamortized charges	(182,648)
Total Business-type Activities Debt, net of unamortized charges	\$ <u>2,313,206</u>

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

Debt Service Requirements

The annual debt service requirements to maturity for long-term debt obligations, as of June 30, 2004, were as follows:

Year	Governmental Activities					
	Capital Outlay Notes		State Loan Program		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 67,741	\$ 3,067	\$ 168,700	\$ 108,513	\$ 236,441	\$ 111,580
2006	49,455	1,014	177,700	99,644	227,155	100,658
2007	4,349	87	55,000	90,300	59,349	90,387
2008			57,000	87,550	57,000	87,550
2009			60,000	84,700	60,000	84,700
2010-2014			349,000	375,350	349,000	375,350
2015-2019			447,000	278,700	447,000	278,700
2020-2024			569,000	155,350	569,000	155,350
2025-2026			269,000	20,350	269,000	20,350
Total	\$ 121,545	\$ 4,168	\$ 2,152,400	\$ 1,300,457	\$ 2,273,945	\$ 1,304,625

Year	Business-type Activities					
	Bonds/Capital Outlay Notes		State Loan Program		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 348,403	\$ 89,589	\$ 96,333	\$ 24,411	\$ 444,736	\$ 114,000
2006	363,403	72,764	99,905	20,839	463,308	93,603
2007	370,310	54,662	103,607	17,137	473,917	71,799
2008	355,000	35,961	107,448	13,296	462,448	49,257
2009	345,000	17,768	111,430	9,314	456,430	27,082
2010			115,560	5,184	115,560	5,184
2011			79,455	1,632	79,455	1,632
Total	\$ 1,782,116	\$ 270,744	\$ 713,738	\$ 91,813	\$ 2,495,854	\$ 362,557

NOTE 6 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City maintains insurance coverage through the Tennessee Municipal League Risk Management Pool, covering each of those risk of loss. The TML Pool is a cooperative risk sharing arrangement between local government agencies that works in many ways like a traditional insurer. The City pays a premium, receives coverage, and can make claims against the coverage. The City meets the TML's guidelines and complies with its rules and regulations, including loss control requirements as well as its underwriting standards. Rates of the TML Pool are actuarially projected to provide adequate funding to cover loss reserves and expenses, as well as building contingency reserves. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Town. Settled claims have not exceeded this commercial coverage in any of the past three years.

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

NOTE 7 - UTILITY RATES AND METERED CUSTOMERS

Utility rates and metered customers at June 30, 2004 were:

Current Water Rates -

Inside City

First 2,000 gallons	\$11.25 Minimum bill
All over 2,000 gallons	3.19 per 1,000 gallons

Outside City

First 2,000 gallons	\$20.25 Minimum bill
All over 2,000 gallons	5.74 per 1,000 gallons

Current Sewer Rates

Residential

First 2,000 gallons	\$23.50 Minimum bill
Next 2,000 gallons	6.30 per 1,000 gallons
All over 4,000 gallons	4.15 per 1,000 gallons with \$50 cap

Commercial and Other

First 2,000 gallons	\$40.00 Minimum
Next 2,000 gallons	8.92 per 1,000 gallons
Next 2,000 gallons	6.82 per 1,000 gallons
Next 4,000 gallons	5.78 per 1,000 gallons
Next 40,000 gallons	5.25 per 1,000 gallons
All over 50,000 gallons	4.72 per 1,000 gallons

Number of Metered Customers

Residential and commercial at June 30, 2004	4,651
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NOTE 8 - RETIREMENT PLAN

Plan Description

Employees of City of Fairview 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 became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

statutes are amended by the Tennessee General Assembly. Political subdivisions such as City of Fairview participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us.

Fund Policy

City of Fairview has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0 percent of annual covered payroll.

City of Fairview is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2004 was 13.15% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for City of Fairview is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2004, City of Fairview's annual pension cost of \$181,003 to TCRS was equal to City of Fairview's required and actual contributions. The required contribution was determined as part of the June 30, 2001 actuarial valuation using the frozen initial entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation of salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. City of Fairview's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2001 was 13 years. An actuarial valuation was performed on July 1, 2003, which established contribution rates effective July 1, 2004.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension Cost (APC)	Percentage of APC <u>Contributed</u>	Net Pension <u>Obligation</u>
June 30, 2004	\$181,003	100.00%	\$ 0.00
June 30, 2003	\$170,354	100.00%	\$ 0.00
June 30, 2002	\$ 88,416	100.00%	\$ 0.00

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2004

Required Supplementary Information
 Schedule of Fund Progress for City of Fairview

(Dollars amounts in thousands)

Actuarial Valuation Date	Actuarial Value of 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 01, 2003	\$1,398	\$1,706	\$308	81.95%	\$1,265	24.35%
July 01, 2001	\$1,021	\$1,359	\$338	75.13%	\$1,125	30.04%
June 30, 1999	\$ 701	\$ 891	\$190	78.68%	\$1,032	18.40%

NOTE 9 - NAME AND TITLE OF OFFICIAL

		Salary	Amount of Security Bond
Kenneth Brison	Mayor	\$ 5,400	\$ 100,000
Eddie Arney	Vice Mayor	5,400	100,000
Wayne Hall	Commissioner	5,400	100,000
Stuart Johnson	Commissioner	5,400	100,000
Darrell Mangrum	Commissioner	5,400	100,000
Alan Deck	City Manager	62,258	100,000
Shirley Forehand	Asst City Manager/Treasurer	48,646	100,000
Kathleen Daugherty	City Recorder/Finance	50,991	100,000

SCHEDULE OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2004

Award No.		Receipts	Expenditures
EMW-2003-FG-18184	Department of Homeland Security Emergency Preparedness and Response Directorate (FEMA)	\$ 10,300	\$ 10,300

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2004

RESOURCES (Inflows)	Budget Original/ <u>Final</u>	<u>Actual</u>	Variance With Final Budget Positive <u>(Negative)</u>
<u>Taxes</u>			
Real estate taxes	\$ 605,000	\$ 634,776	\$ 29,776
Wholesale beer tax	130,000	125,720	(4,280)
Wholesale liquor tax	26,000	35,869	9,869
Local sales tax - Trustee	385,000	419,361	34,361
Cable TV franchise tax	30,000	37,636	7,636
Natural gas franchise tax	30,000	38,116	8,116
Payment in lieu of taxes	29,000	38,303	9,303
Minimum business tax	32,000	40,099	8,099
Occupancy tax		1,805	1,805
Interest, penalty and court costs	4,500	6,406	1,906
<u>Total Taxes</u>	<u>1,271,500</u>	<u>1,378,091</u>	<u>106,591</u>
<u>Licenses and Permits</u>			
Building, electrical and plumbing permits	48,300	79,167	30,867
Rezoning and variance permits	1,500	3,500	2,000
Other permits	2,200	3,130	930
Sign permits	200	630	430
Contractor license	1,400	1,400	0
Beer license	1,500	3,192	1,692
<u>Total Licenses and Permits</u>	<u>55,100</u>	<u>91,019</u>	<u>35,919</u>
<u>Intergovernmental Revenue</u>			
State sales tax	309,000	339,611	30,611
Local sales tax		16,438	16,438
State income tax	22,750	(2,185)	(24,935)
State beer tax	2,100	2,878	778
State gasoline and motor fuel tax	145,000	163,151	18,151
State gasoline inspection fee	11,800	13,126	1,326
Corporate excise tax		7,375	7,375
Telecommunications tax	900	955	55
State grant - fire department		4,273	4,273
FEMA - police, fire and park		10,300	10,300
Local grants and contributions	71,000	71,445	445
<u>Total Intergovernmental Revenue</u>	<u>562,550</u>	<u>627,367</u>	<u>64,817</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2004

	Budget Original/ Final	Actual	Variance With Final Budget Positive (Negative)
<u>Other Income</u>			
Process fee for business tax	\$ 1,500	\$ 1,555	\$ 55
Subdividing and other fees	2,000	5,944	3,944
Privilege tax fee	600	1,180	580
Engineer charges and fees	10,000	8,590	(1,410)
Miscellaneous fees/charges	4,500	5,492	992
Special program fees	4,000	4,140	140
Fees driving school	20,000	15,100	(4,900)
Accident report charges	1,800	3,479	1,679
TML safety grant		1,255	1,255
Rent	57,000	57,000	0
Sale of City property	252,500	29,560	(222,940)
Donation to Parks		874	874
Insurance refunds	3,000	2,919	(81)
<u>Total Other Income</u>	<u>356,900</u>	<u>137,088</u>	<u>(219,812)</u>
<u>Police Fines and Other Revenue</u>			
City Court fines and costs	97,000	91,402	(5,598)
Court fines and costs from county	500	674	174
<u>Total Police Fines and Other Revenue</u>	<u>97,500</u>	<u>92,076</u>	<u>(5,424)</u>
<u>Investment Income</u>			
Interest	12,000	7,276	(4,724)
 <u>AMOUNTS AVAILABLE FOR APPROPRIATION</u>	 <u>\$ 2,355,550</u>	 <u>\$ 2,332,917</u>	 <u>\$ (22,633)</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2004

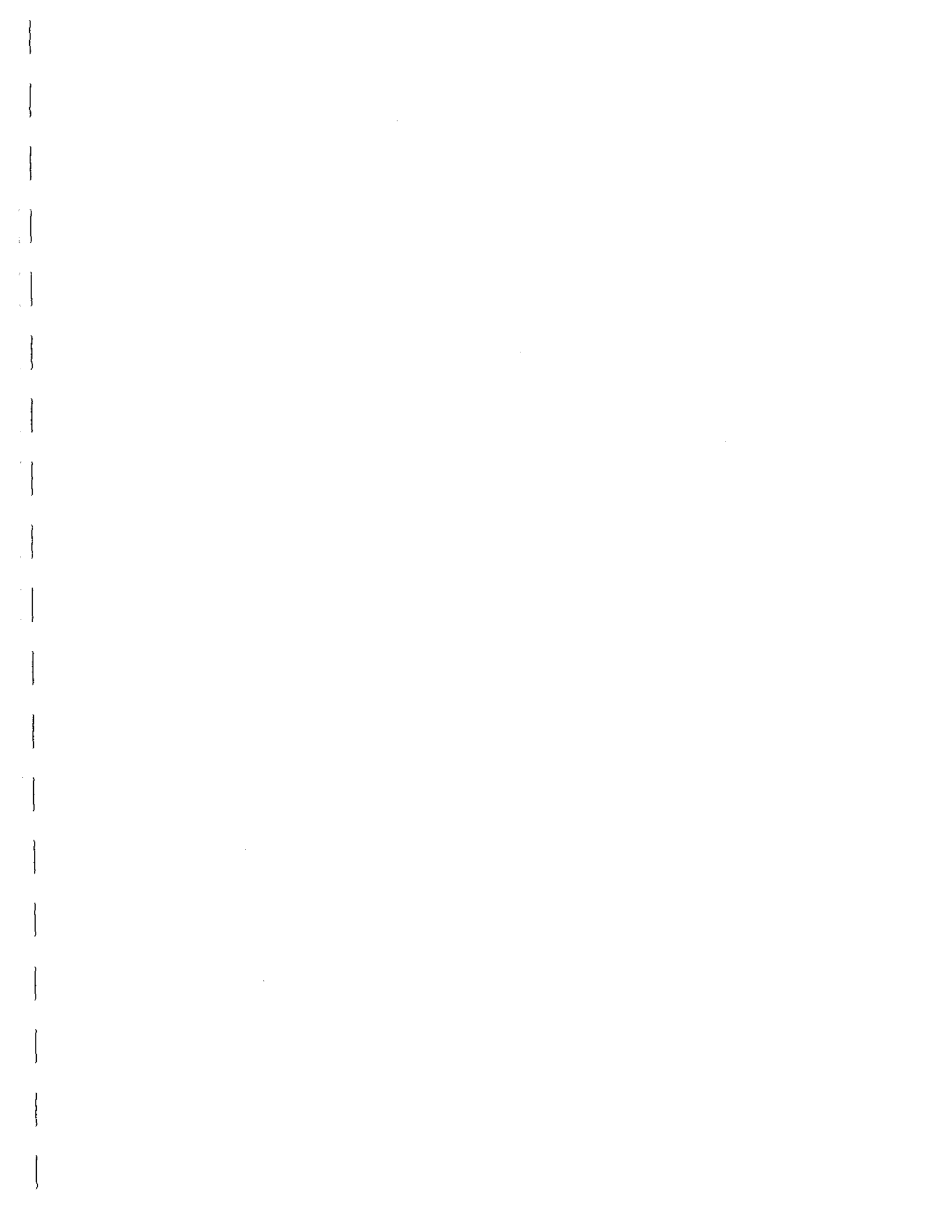
	Budget Original/ <u>Final</u>	<u>Actual</u>	Variance With Final Budget Positive (Negative)
CHARGES TO APPROPRIATIONS (Outflows)			
<u>General Government</u>			
Salaries and wages	\$ 121,000	\$ 117,722	\$ 3,278
Payroll taxes	77,000	75,703	1,297
Retirement contributions	128,000	124,266	3,734
Bond and insurance	262,000	269,725	(7,725)
Telephone	31,000	31,100	(100)
Office supplies	16,000	13,557	2,443
Legal and professional	20,000	18,661	1,339
Utility service	35,000	43,036	(8,036)
Other services and charges	84,755	85,481	(726)
Debt service	<u>349,775</u>	<u>347,082</u>	<u>2,693</u>
<u>Total General Government</u>	<u>1,124,530</u>	<u>1,126,333</u>	<u>(1,803)</u>
<u>City Court</u>			
Salaries and wages	22,200	18,925	3,275
Data processing	1,855	2,130	(275)
Other services and charges	<u>1,250</u>	<u>2,215</u>	<u>(965)</u>
<u>Total City Court</u>	<u>25,305</u>	<u>23,270</u>	<u>2,035</u>
<u>Codes Administration</u>			
Salaries and wages	64,750	67,908	(3,158)
Tennessee State Planning Office	8,000	8,000	0
Other	<u>4,050</u>	<u>3,488</u>	<u>562</u>
<u>Total Codes Administration</u>	<u>76,800</u>	<u>79,396</u>	<u>(2,596)</u>
<u>PUBLIC SAFETY</u>			
<u>Police Department</u>			
Salaries - police	484,600	460,535	24,065
Contractual services	18,000	0	18,000
Repairs and maintenance	12,000	13,917	(1,917)
Gas and oil	30,000	29,976	24
Uniforms and supplies	7,000	8,044	(1,044)
Equipment purchases	3,000	3,835	(835)
Other services and charges	<u>12,200</u>	<u>10,139</u>	<u>2,061</u>
<u>Total Police Department</u>	<u>566,800</u>	<u>526,446</u>	<u>40,354</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2004

	Budget Original/ <u>Final</u>	<u>Actual</u>	Variance With Final Budget Positive <u>(Negative)</u>
<u>Fire Department</u>			
Salaries and wages	\$ 196,000	\$ 191,101	\$ 4,899
Repairs and maintenance	24,200	20,853	3,347
Supplies	6,000	3,635	2,365
Uniforms	5,000	3,839	1,161
Gas and oil	5,000	5,024	(24)
Equipment purchases	32,000	31,796	204
Other services and charges	<u>14,150</u>	<u>9,524</u>	<u>4,626</u>
<u>Total Fire Department</u>	<u>282,350</u>	<u>265,772</u>	<u>16,578</u>
<u>Public Health</u>			
Salaries and wages	4,600	2,601	1,999
Utilities	5,000	9,771	(4,771)
Telephone	1,200	0	1,200
Other services and charges	<u>4,200</u>	<u>4,582</u>	<u>(382)</u>
<u>Total Public Health</u>	<u>15,000</u>	<u>16,954</u>	<u>(1,954)</u>
<u>Total Public Safety</u>	<u>864,150</u>	<u>809,172</u>	<u>54,978</u>
<u>State Street Aid</u>			
Salaries	54,750	29,243	25,507
Roads and street	<u>102,000</u>	<u>123,123</u>	<u>(21,123)</u>
<u>Total State Street Aid</u>	<u>156,750</u>	<u>152,366</u>	<u>4,384</u>
<u>Streets and Roads</u>			
Salaries and wages	15,300	14,177	1,123
Repairs and maintenance	3,500	3,329	171
Street lighting	14,000	10,781	3,219
Gas and oil	4,800	3,848	952
Streets and roads	5,745	5,000	745
Other services and charges	<u>7,155</u>	<u>5,352</u>	<u>1,803</u>
<u>Total Streets and Roads</u>	<u>50,500</u>	<u>42,487</u>	<u>8,013</u>
<u>Parks</u>			
Salaries and wages	85,200	84,214	986
Repairs and maintenance	12,800	9,210	3,590
Gas and oil	2,000	1,627	373
Building, improvements and equipment	6,500	1,641	4,859
Educational supplies	2,000	1,687	313
Event expenses	3,000	1,553	1,447
Other services and charges	<u>8,750</u>	<u>6,159</u>	<u>2,591</u>
<u>Total Parks</u>	<u>120,250</u>	<u>106,091</u>	<u>14,159</u>
TOTAL CHARGES TO APPROPRIATIONS	\$ <u>2,418,285</u>	\$ <u>2,339,115</u>	\$ <u>79,170</u>

See notes to financial statements.



Operating Income (continued) \$ 264,074

Nonoperating Revenue (Expenses)

Interest income	31,086
Interest expense and fiscal agent charges	(174,367)
<u>Total</u>	<u>(143,281)</u>

Income Before Transfers 120,793

Transfers In (Out) (245,700)

Net Income Before Capital Contributions (124,907)

Capital Contributions 484,426

Change in Net Assets 359,519

Net Assets - beginning 10,521,918

Net Assets - ending \$ 10,881,437

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS
YEAR ENDED JUNE 30, 2004

December 27, 2004

Board of Mayor and Commissioners
City of Fairview, Tennessee
Fairview, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, of City of Fairview, Tennessee, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 27, 2004. 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.

Compliance

As part of obtaining reasonable assurance about whether City of Fairview, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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, according, 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*, which are described in the accompanying schedule of findings and questioned costs as Item 2.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Fairview, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation or the internal control over financial reporting that, in our judgment, could adversely affect City of Fairview, Tennessee's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Item 2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of management, others within the organization, and the Comptroller of the Treasury of the State of Tennessee and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Parsons and Associates

Parsons and Associates

CITY OF FAIRVIEW, TENNESSEE
FINDINGS AND DISPOSITION
YEAR ENDED JUNE 30, 2004

1. **FINDING:** Finding for the year ended June 30, 2003, relating to recording budget amendments has been corrected.

2. **FINDING:** The City receives revenue from various sources on a predictable schedule with no action required by the City. On several occasions, checks were not received on schedule. No procedures are in place to ascertain if revenue is being received on its regular schedule. The use of substantial sums could be lost to the City's use for long periods of time if the City is not aware of the missing funds.

RECOMMENDATION: A tickler file would allow personnel to determine if revenue was being received on a timely basis. Timely investigation could be made for non receipt of the funds.

RESPONSE: A schedule of those payers can be developed and will be used to determine that revenue is received in a timely manner.