

CITY OF FAIRVIEW, TENNESSEE

JUNE 30, 2006

Report
of
Examination

**CITY OF FAIRVIEW, TENNESSEE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006**

C O N T E N T S

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INDEPENDENT AUDITOR'S REPORT

December 28, 2006

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fairview, Tennessee, as of and for the year ended June 30, 2006, 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's 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Fairview, Tennessee, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2006, 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, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 9 and 33 through 39, 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 schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules 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.

Parsons and Associates

Parsons and Associates

**CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

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, 2006. 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 \$19,191,657. Of this amount, \$5,790,584 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors.
- At June 30, 2006, the City's government funds reported combined ending fund balances of \$2,424,347 or, an increase of \$401,903 in comparison with the prior year.
- At June 30, 2006 unreserved fund balance for the General Fund was \$1,517,284, or 47.77% of total general fund expenditures.
- The City's total bonded debt decreased by \$656,442 during the year ended June 30, 2006. Of this amount, general fund long-term debt decreased by \$231,504; water and sewer long-term decreased by \$424,938.
- The City's capital assets increased by \$42,484 during the year ended June 30, 2006. This is the third year the city has reported capital assets under GASB 34.

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 basic 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

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 two 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 and drug fund, both of which are considered to be major funds.

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
YEAR ENDED JUNE 30, 2006

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, which is considered to be a major fund.

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 19-32 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 \$19,191,657, at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (70%) 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 provided from other sources, since the capital assets themselves cannot be used to liquidate the liabilities.

City of Fairview, Tennessee's Net Assets

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	<u>FY 2006</u>	<u>FY 2006</u>	<u>FY 2006</u>
Current and other assets	\$ 3,453,196	\$ 4,382,071	\$ 7,835,267
Capital assets	<u>6,257,572</u>	<u>9,522,864</u>	<u>15,780,436</u>
Total Assets	\$ <u>9,710,768</u>	\$ <u>13,904,935</u>	\$ <u>23,615,703</u>

**CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	FY 2006	FY 2006	FY 2006
Long-term liabilities	\$ 1,818,577	\$ 1,498,515	\$ 3,317,092
Other liabilities	<u>1,016,272</u>	<u>90,682</u>	<u>1,106,954</u>
Total Liabilities	<u>2,834,849</u>	<u>1,589,197</u>	<u>4,424,046</u>
 Net Assets:			
Invested in capital assets, net of related debt	4,451,572	8,042,168	12,493,740
Restricted Assets	816,499		816,499
Unrestricted	<u>1,607,848</u>	<u>4,273,570</u>	<u>5,881,418</u>
Net Assets	<u>6,875,919</u>	<u>12,315,738</u>	<u>19,191,657</u>
 Total	 <u>\$ 9,710,768</u>	 <u>\$ 13,904,935</u>	 <u>\$ 23,615,703</u>

At year end, 11.87% of the City's governmental net assets represented resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net assets (\$6,059,420) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2006, 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

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
	FY 2006	FY 2006	FY 2006
REVENUES:			
Capital Projects			
Taxes	\$ 125,393	\$	\$ 125,393
Uses of money	7,229		7,229
Drug Fund			
Fines & fees	317,518		317,518
Uses of money	9,264		9,264
General Revenues:			
Taxes	1,762,154		1,762,154
Licenses & permits	89,594		89,594
Fines and fees	81,828		81,828
Intergovernmental	1,054,311		1,054,311
Uses of money and property	51,994		51,994
Other	136,275		136,275
Water & Sewer		<u>2,518,354</u>	<u>2,518,354</u>
Total Revenue	<u>3,635,560</u>	<u>2,518,354</u>	<u>6,153,914</u>

**CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

	Governmental Activities <u>FY 2006</u>	Business-type Activities <u>FY 2006</u>	<u>Total FY2006</u>
EXPENDITURES:			
Drug Fund	\$ 393,881		\$ 393,881
General Government	1,135,383		1,135,383
City Court	37,439		37,439
Codes	115,552		115,552
HOME program	155,074		155,074
Public safety	1,026,496		1,026,496
State Street Aid	127,023		127,023
Road & Streets	122,625		122,625
Parks & Recreation	120,184		120,184
Water & Sewer			
Operating		<u>1,907,155</u>	<u>1,907,155</u>
Total Expenditures	<u>3,233,657</u>	<u>1,907,155</u>	<u>5,140,812</u>
Excess	401,903	611,199	1,013,102
OTHER FINANCING			
Capital contributions		214,938	214,938
Increase in net assets	<u>401,903</u>	<u>826,137</u>	<u>1,228,040</u>
Net assets July 1, 2005	2,022,444	11,489,601	13,512,045
Net assets June 30, 2006	<u>\$ 2,424,347</u>	<u>\$ 12,315,738</u>	<u>\$ 14,740,085</u>

The government's assets increased \$1,228,040 during the fiscal year. Most of this increase represents operation of the water and sewer utility.

Governmental activities: Governmental activities increased net assets by \$401,903, which accounts for 32.73% of the total growth in the net asset of the City of Fairview in FY 2006

Business-type activities. Business-type activities increased the net assets by \$826,127 or 67.27% of the total growth in the net assets of the City of Fairview.

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, 2006**

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, all the City's governmental funds reported a combined ending fund balance of \$2,424,347, an increase of \$401,903 over the previous year. Of the total \$2,424,347 balance, \$228,343 is restricted for use in the State Street Aid Fund, which provides for paving and maintenance of streets. Another \$425,787 is restricted to use within the Drug Enforcement Fund. Finally, \$252,803 is restricted for capital projects.

The balance of \$1,517,014 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, (\$1,517,014) represents 53.4% of the general fund's expenditures.

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

Net assets for the Water & Sewer Fund are \$12,315,738 and increased by \$826,137. Of the \$12,318,738 in the fund balance, \$4,273,570 is unrestricted for use in the fund.

General Fund Budgetary Highlights

Actual revenue exceeded budgeted projections by \$112,006, due to a special census. Actual expenditures for the general government were \$169,697 less than budgeted.

Capital Asset and Debt Administration

At the end of fiscal year 2006, the City had \$15,780,436 (net of accumulated depreciation) invested in a broad range of capital assets, vs. \$15,942,134 at the beginning of the year. This total includes land, land improvements, buildings, and utility system equipment. The total decrease in the City's investment in capital assets for the current period amounted to \$161,698 due primarily to depreciation expense. The general fund had a net increase of \$42,484, while the Water and Sewer had a decrease of \$204,182 in capital assets.

The City has elected to use the "Modified Approach" as defined by GASB Statement No. 34 for infrastructure reporting for its streets and bridges. Under GASB Statement No. 34, eligible infrastructure capital assets are not depreciated under the following requirements:

- The City uses 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 amount to maintain and preserve the assets at the established condition assessment level.

**CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2006**

- The City documents that the eligible infrastructure capital assets are being preserved at the established and disclosed condition assessment level.

In fiscal year 2005/2006, \$249,648 was needed to maintain the eligible infrastructure at the established condition. Additional information on capital assets can be found in the Notes to the Financial Statements section of this report.

Because of the uncertainty and difficulty in estimating and assessing future needs to maintain the infrastructure at a certain level, the City has elected to change its reporting of eligible infrastructure from the Modified Approach to the Capitalization Method in future years.

Long-term debt. At the end of the fiscal year, the City had total debt outstanding of \$3,286,696 vs. a beginning balance of \$3,943,138. Of this amount, \$1,806,000 comprises debt in the general fund and backed by the full faith and credit of the government. The Water and Sewer Fund ended the year with \$1,480,696 in long-term debt, represented by bonds 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	\$ 1,806,000	\$ 517,514	\$ 2,323,514
Revenue Bonds		1,070,000	1,070,000
Less deferred charges	<u>0</u>	<u>(106,818)</u>	<u>(106,818)</u>
Total	\$ <u>1,806,000</u>	\$ <u>1,480,696</u>	\$ <u>3,286,696</u>

The City's total debt decreased by a net \$656,553, during the current year. No new debt was issued to the Water and Sewer or General Fund. Additional information is available on pages 27 and 28.

Economic Factors and New Year's Budget and Rates

Factors considered in preparation of the City's budget for the 2007 fiscal year include the following:

- A special census was completed in 2006 showing a certified increase of 1,214 in the City's population which will increase state shared venues.
- No property tax increase is expected in the fiscal year 2007-08 budget.
- The City of Fairview remains under a sewer moratorium by the Tennessee Department of Environment and Conservation (TDEC). Without relief, the decline in building permits will affect the general fund.
- The City of Fairview transferred its Water and Sewer Utilities to the Water Authority of Dickson County (WADC) on October 1, 2006 at 12:01 AM.

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

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF NET ASSETS
JUNE 30, 2006

<u>ASSETS</u>	Primary Government		
	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Cash and cash equivalents	\$ 1,516,680	\$ 3,984,909	\$ 5,501,589
Property tax receivable	904,770		904,770
Intergovernmental revenue receivable	215,247		215,247
Accounts receivable, net of allowance for uncollectibles		382,482	382,482
Inventory		14,680	14,680
Restricted assets:			
Cash and cash equivalents	816,499		816,499
Capital assets:			
Assets not being depreciated:			
Land and construction in progress	2,675,460	244,127	2,919,587
Capital assets, being depreciated, net of depreciation	3,582,112	9,278,737	12,860,849
 <u>Total</u>	 <u>\$ 9,710,768</u>	 <u>\$ 13,904,935</u>	 <u>\$ 23,615,703</u>
<u>LIABILITIES</u>			
Accounts payable	\$ 148,452	\$ 75,742	\$ 224,194
Accrued interest		5,982	5,982
Other payables	9,586	8,958	18,544
Deferred revenue	858,234		858,234
Long-term liabilities:			
Compensated absences	12,577	17,819	30,396
Due within one year	55,000	473,608	528,608
Due beyond one year	<u>1,751,000</u>	<u>1,007,088</u>	<u>2,758,088</u>
	<u>2,834,849</u>	<u>1,589,197</u>	<u>4,424,046</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	4,451,572	8,042,168	12,493,740
Restricted for:			
Roads and streets	228,743		228,743
Capital projects	252,803		252,803
Drug enforcement	425,787		425,787
Unrestricted	<u>1,517,014</u>	<u>4,273,570</u>	<u>5,790,584</u>
	<u>6,875,919</u>	<u>12,315,738</u>	<u>19,191,657</u>
 <u>Total</u>	 <u>\$ 9,710,768</u>	 <u>\$ 13,904,935</u>	 <u>\$ 23,615,703</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2006

Functions/Programs	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
Primary Government						
Governmental Activities						
General government	\$ 1,000,504	\$ 173,290	\$	\$(827,214)	\$	\$(827,214)
Public safety	1,297,121	389,534		(907,587)		(907,587)
State Street Aid	127,023	166,293		39,270		39,270
Streets and roads	144,188			(144,188)		(144,188)
Parks	161,874	329		(161,545)		(161,545)
Special projects - Housing	155,074	155,074		(71,768)		(71,768)
Interest on long-term debt	71,768			(2,073,032)		(2,073,032)
Total Governmental Activities	<u>2,957,552</u>	<u>321,696</u>		<u>667,981</u>		<u>667,981</u>
Business-type Activities	<u>2,065,311</u>	<u>2,518,354</u>	<u>214,938</u>			
Water/sewer				<u>667,981</u>		<u>667,981</u>
Total Primary Government	<u>\$ 5,022,863</u>	<u>\$ 3,081,178</u>	<u>\$ 214,938</u>	<u>(2,073,032)</u>		<u>(1,405,051)</u>
General revenues:						
Taxes:						
Property taxes				822,867		822,867
Sales taxes				499,329		499,329
Facility tax				125,393		125,393
Other taxes				439,958		439,958
Intergovernmental revenue not restricted to specific programs				68,487	158,156	226,643
Gain on sale of assets				732,944		732,944
Total general revenues and transfers				<u>50,358</u>	<u>158,156</u>	<u>50,358</u>
Change in net assets				2,739,336	826,137	1,492,441
Net assets - July 1, 2005				666,304	11,489,601	17,699,216
Net assets - June 30, 2006				6,209,615	<u>12,315,738</u>	<u>\$ 19,191,657</u>
				<u>\$ 6,875,919</u>		

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
BALANCE SHEET
GOVERNMENT FUNDS
JUNE 30, 2006

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Drug Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 1,516,680	\$	\$	\$ 1,516,680
Receivables:				
Property taxes	904,770			904,770
Intergovernmental	215,247			215,247
Restricted assets:				
Cash and cash equivalents	16,280	252,803	547,416	816,499
 <u>Total</u>	 <u>\$ 2,652,977</u>	 <u>\$ 252,803</u>	 <u>\$ 547,416</u>	 <u>\$ 3,453,196</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 26,823	\$	\$ 121,629	\$ 148,452
Other payables	9,586			9,586
Compensated absences	12,577			12,577
Deferred revenue	858,234			858,234
<u>Total Liabilities</u>	<u>907,220</u>		<u>121,629</u>	<u>1,028,849</u>
<u>FUND BALANCES</u>				
Fund balance:				
Reserved for capital projects		252,803		252,803
Reserved for roads and streets	228,473			228,473
Reserved for drug enforcement			425,787	425,787
Unreserved	1,517,284			1,517,284
<u>Total Fund Balances</u>	<u>1,745,757</u>	<u>252,803</u>	<u>425,787</u>	<u>2,424,347</u>
 <u>Total</u>	 <u>\$ 2,652,977</u>	 <u>\$ 252,803</u>	 <u>\$ 547,416</u>	 <u>\$ 3,453,196</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, 2006

<u>Total Governmental Funds Balances</u>	\$ 2,424,347
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 \$1,164,555	6,257,572
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	(1,806,000)
<u>Net Assets of Government Activities</u>	\$ <u>6,875,919</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, 2006

	<u>General</u>	<u>Capital Projects</u>	<u>Drug Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,762,154	\$ 125,393	\$	\$ 1,887,547
Licenses and permits	89,594			89,594
Fines and fees	81,828		317,518	399,346
Intergovernmental	1,054,311			1,054,311
Uses of money and property	51,994	7,229	9,264	68,487
Other	136,275			136,275
<u>Total Revenues</u>	<u>3,176,156</u>	<u>132,622</u>	<u>326,782</u>	<u>3,635,560</u>
EXPENDITURES				
Current:				
General government	1,135,383			1,135,383
City court	37,439			37,439
Codes	115,552			115,552
HOME program	155,074			155,074
Public safety	1,026,496		393,881	1,420,377
State Street Aid	127,023			127,023
Roads and streets	122,625			122,625
Parks and recreation	120,184			120,184
<u>Total Expenditures</u>	<u>2,839,776</u>		<u>393,881</u>	<u>3,233,657</u>
Excess (deficiency) of revenues over expenditures	336,380	132,622	(67,099)	401,903
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	90,000	(90,000)		0
Net change in fund balances	426,380	42,622	(67,099)	401,903
Fund Balance - July 1, 2005	1,319,377	210,181	492,886	2,022,444
Fund Balance - June 30, 2006	\$ <u>1,745,757</u>	\$ <u>252,803</u>	\$ <u>425,787</u>	\$ <u>2,424,347</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, 2006

Net Change in Fund Balance - Governmental Funds \$ 401,903

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	249,739
Depreciation expense	(205,363)

Government funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, a gain or loss is reported for each disposal. (1,892)

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

General obligation loan payments	231,504
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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	225
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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 \$128,890	(9,812)
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Change in Net Assets of Governmental Activities \$ 666,304

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF NET ASSETS - WATER AND SEWER FUND
YEAR ENDED JUNE 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 3,984,909
Accounts receivable, net	197,909
Unbilled receivables	184,573
Inventory	14,680
<u>Total Current Assets</u>	<u>4,382,071</u>

Noncurrent Assets

<u>Capital Assets:</u>	
Land - sewer	101,323
Construction in progress - sewer	142,804
Sewer lines	8,308,114
Sewer plant	3,116,464
Furniture and equipment - sewer	11,043
Building - water	6,663
Equipment - water	287,897
Furniture and equipment - water	344,044
Water plant	2,806,585
Less accumulated depreciation	(5,602,073)
<u>Total Noncurrent Assets</u>	<u>9,522,864</u>

<u>Total</u>	<u>\$ 13,904,935</u>
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LIABILITIES

Current Liabilities

Accounts payable	\$ 75,742
Accrued interest payable	5,982
Other payables	8,958
Bonds and notes payable - current portion	473,608
<u>Total Current Liabilities</u>	<u>564,290</u>

Noncurrent Liabilities

Compensated absences	17,819
Bonds and notes payable	1,007,088
<u>Total Noncurrent Liabilities</u>	<u>1,024,907</u>

Total Liabilities

NET ASSETS

Invested in Capital Assets, Net of Related Debt	8,042,168
Unrestricted	4,273,570
<u>Total Net Assets</u>	<u>12,315,738</u>
<u>Total</u>	<u>\$ 13,904,935</u>

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, 2006

<u>Operating Revenue</u>	\$ <u>2,518,354</u>
<u>Operating Expenses</u>	
Distribution expenses	1,188,341
General and administration	398,364
Depreciation	<u>346,986</u>
<u>Total Operating Expenses</u>	<u>1,933,691</u>
 <u>Operating Income</u>	 <u>584,663</u>
 <u>Non-operating Revenue (Expense)</u>	
Investment income	158,156
Interest expense and fiscal fees	(131,620)
<u>Total Non-operating Revenue (Expense)</u>	<u>26,536</u>
 <u>Income Before Contributions and Transfers</u>	 611,199
 <u>Capital Contributions</u>	 214,938
 <u>Change in Net Assets</u>	 <u>826,137</u>
Total Net Assets - July 1, 2005	11,489,601
Total Net Assets - June 30, 2006	\$ <u><u>12,315,738</u></u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF CASH FLOWS
WATER AND SEWER DEPARTMENT
YEAR ENDED JUNE 30, 2006

<u>Cash Flows From Operating Activities</u>	
Receipts from customers	\$ 2,437,801
Payments to employees	(419,141)
Payments to suppliers for goods and services	(1,127,881)
Net cash provided (used) by operating activities	<u>890,779</u>
<u>Cash Flows From Capital And Related Financing Activities</u>	
Additions to capital assets (net)	(142,804)
Principal paid on capital debt	(462,853)
Interest paid on capital debt	(133,426)
Capital contributions	214,938
Net cash provided (used) for capital and related financing activities	<u>(524,145)</u>
<u>Cash Flows From Investing Activities</u>	
Interest income from cash and cash equivalents	<u>158,156</u>
Net cash provided by investing activities	<u>158,156</u>
Increase (decrease) in cash and cash equivalents	524,790
Cash and cash equivalents - July 1, 2005	3,460,119
Cash and cash equivalents - June 30, 2006	\$ <u><u>3,984,909</u></u>

Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities

Operating income	\$ 584,663
Adjustments to reconcile operating income to net cash provided (used) by operating activities: depreciation	346,986
Changes in assets and liabilities:	
Decrease (Increase) in:	
Receivables	(80,552)
Inventory	(14,680)
Deferred charges to income	37,915
Increase (Decrease) in:	
Accounts payable	1,733
Accrued expenses	14,714
Net cash provided (used) by operating activities	\$ <u><u>890,779</u></u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006

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 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 "Drug Fund" is a special revenue fund used to account for the proceeds of drug related fines and forfeitures and related expenditures.

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, 2006.

**CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

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, 2005 was 9 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2006	\$165,475	100.00%	\$ 0.00
June 30, 2005	\$160,816	100.00%	\$ 0.00
June 30, 2004	\$181,003	100.00%	\$ 0.00

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, 2005	\$1,853	\$2,121	\$268	87.36%	\$1,395	19.21%
July 01, 2003	\$1,398	\$1,706	\$308	81.95%	\$1,265	24.35%
June 30, 2001	\$1,021	\$1,359	\$338	75.13%	\$1,125	30.04%

NOTE 9 - INTERFUND TRANSFERS

Capital Projects Funds transferred \$90,000 to General Funds for debt service payments.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 10 - SUBSEQUENT EVENTS

On October 1, 2006 the City of Fairview transferred its water and sewer assets and liabilities and operations as of that date to the Water Authority of Dickson County.

The City of Fairview has elected to change its reporting of its street infrastructure system from the Modified Approach to the Capitalization Method for all future years.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance
	Original	Final		With Final Budget Positive (Negative)
Budgetary Fund Balance - July 1, 2005	\$ 1,319,377	\$ 1,319,377	\$ 1,319,377	\$ 0
RESOURCES (Inflows)				
<u>Taxes</u>				
Real estate taxes	\$ 679,000	\$ 826,000	\$ 822,867	\$(3,133)
Wholesale beer tax	134,000	134,000	150,047	16,047
Wholesale liquor tax	38,000	38,000	61,085	23,085
Local sales tax - Trustee	445,000	445,000	499,329	54,329
Cable TV franchise tax	35,000	35,000	52,015	17,015
Natural gas franchise tax	30,000	50,000	51,980	1,980
Payment in lieu of taxes	27,000	27,000	42,164	15,164
Minimum business tax	65,000	65,000	55,298	(9,702)
Occupancy tax	4,000	4,000	5,692	1,692
Interest, penalty and court costs	14,500	17,500	21,677	4,177
<u>Total Taxes</u>	<u>1,471,500</u>	<u>1,641,500</u>	<u>1,762,154</u>	<u>120,654</u>
<u>Licenses and Permits</u>				
Building, electrical and plumbing permits	63,700	63,700	75,759	12,059
Rezoning and variance permits	2,000	2,000	5,485	3,485
Other permits	1,400	1,400	2,615	1,215
Sign permits	250	250	410	160
Contractor license	1,250	1,250	1,700	450
Beer license	1,500	1,500	3,625	2,125
<u>Total Licenses and Permits</u>	<u>70,100</u>	<u>70,100</u>	<u>89,594</u>	<u>19,494</u>
<u>Intergovernmental Revenue</u>				
State sales tax	330,000	330,000	397,574	67,574
Local sales tax	195,000	195,000	223,182	28,182
State income tax	15,000	15,000	11,718	(3,282)
State beer tax	2,000	2,000	2,884	884
State gasoline and motor fuel tax	155,000	155,000	166,293	11,293
State gasoline inspection fee	13,000	13,000	13,121	121
Corporate excise tax	7,000	7,000	12,388	5,388
Telecommunications tax	0	0	1,019	1,019
State grant - HOME program	150,000	150,000	155,074	5,074
Local grants and contributions	53,750	53,750	53,050	(700)
TEMA grant	3,800	3,800	3,871	71
State law enforcement	0	0	13,486	13,486
Mixed drink tax	0	0	651	651
<u>Total Intergovernmental Revenue</u>	<u>924,550</u>	<u>924,550</u>	<u>1,054,311</u>	<u>129,761</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Other Income</u>				
Process fee for business tax	\$ 1,500	\$ 1,500	\$ 1,510	\$ 10
Subdividing and other fees	1,000	1,000	3,943	2,943
Privilege tax fee	750	750	1,050	300
Engineer charges and fees	5,000	5,000	17,743	12,743
Miscellaneous fees/charges	4,950	4,950	8,013	3,063
Special program fees	1,500	1,500	4,027	2,527
Fees driving school	9,000	9,000	12,650	3,650
Accident report charges	2,200	2,200	1,989	(211)
TML safety grant	6,700	6,700	1,500	(5,200)
Rent	12,000	12,000	14,100	2,100
Sale of City property	260,000	260,000	52,250	(207,750)
Donation to Parks	0	0	329	329
Insurance refunds	3,000	16,000	17,171	1,171
<u>Total Other Income</u>	<u>307,600</u>	<u>320,600</u>	<u>136,275</u>	<u>(184,325)</u>
<u>Police Fines and Other Revenue</u>				
City Court fines and costs	82,000	82,000	81,169	(831)
Court fines and costs from county	400	400	659	259
<u>Total Police Fines and Other Revenue</u>	<u>82,400</u>	<u>82,400</u>	<u>81,828</u>	<u>(572)</u>
<u>Investment Income</u>				
Interest	5,000	25,000	51,994	26,994
<u>Transfers In</u>				
Transfer from Capital Projects Funds	90,000	90,000	90,000	0
 <u>AMOUNTS AVAILABLE FOR APPROPRIATION</u>	 <u>\$ 4,270,527</u>	 <u>\$ 4,473,527</u>	 <u>\$ 4,585,533</u>	 <u>\$ 112,006</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED JUNE 30, 2006

CHARGES TO APPROPRIATIONS (Outflows)	Budget		Actual	Variance
	Original	Final		With Final Budget Positive (Negative)
<u>General Government</u>				
Salaries and wages	\$ 139,800	\$ 141,300	\$ 122,927	\$ 18,373
Payroll taxes	87,700	87,700	93,631	(5,931)
Retirement contributions	125,000	125,000	106,552	18,448
Bond and insurance	340,000	340,000	327,625	12,375
Telephone	31,000	31,000	25,184	5,816
Office supplies and postage	24,500	24,500	22,376	2,124
Legal and professional	73,500	73,500	49,304	24,196
Utility service	50,000	50,000	39,279	10,721
Repairs and maintenance	6,000	25,500	24,889	611
Other services and charges	28,860	28,860	20,344	8,516
Debt service	292,913	292,913	303,272	(10,359)
<u>Total General Government</u>	<u>1,199,273</u>	<u>1,220,273</u>	<u>1,135,383</u>	<u>84,890</u>
<u>City Court</u>				
Salaries and wages	37,250	37,250	37,259	(9)
Data processing	2,000	2,000	0	2,000
Other services and charges	1,250	1,250	180	1,070
<u>Total City Court</u>	<u>40,500</u>	<u>40,500</u>	<u>37,439</u>	<u>3,061</u>
<u>Codes Administration</u>				
Salaries and wages	92,750	96,250	98,344	(2,094)
Tennessee State Planning Office	8,500	8,500	8,500	0
Equipment	5,000	5,000	4,800	200
Other	4,850	6,350	3,908	2,442
<u>Total Codes Administration</u>	<u>111,100</u>	<u>116,100</u>	<u>115,552</u>	<u>548</u>
<u>HOME Program</u>				
Professional services	6,500	6,500	10,574	(4,074)
Buildings	143,500	143,500	144,500	(1,000)
<u>Total Special Projects</u>	<u>150,000</u>	<u>150,000</u>	<u>155,074</u>	<u>(5,074)</u>
<u>PUBLIC SAFETY</u>				
<u>Police Department</u>				
Salaries - police	477,100	517,100	514,390	2,710
Contractual services	21,000	21,000	18,000	3,000
Repairs and maintenance	11,000	31,000	28,728	2,272
Gas and oil	50,000	50,000	48,141	1,859
Uniforms and supplies	10,500	10,500	10,421	79
Equipment purchases	1,000	1,000	0	1,000
Other services and charges	11,500	15,500	14,356	1,144
<u>Total Police Department</u>	<u>582,100</u>	<u>646,100</u>	<u>634,036</u>	<u>12,064</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 GENERAL FUND
 YEAR ENDED JUNE 30, 2006

	Budget		Actual	Variance
	Original	Final		With Final Budget Positive (Negative)
<u>Fire Department</u>				
Salaries and wages	\$ 282,300	\$ 282,300	\$ 283,028	\$(728)
Repairs and maintenance	22,300	40,300	40,594	(294)
Supplies	4,000	4,000	3,213	787
Uniforms	5,000	5,000	5,344	(344)
Gas and oil	10,000	10,000	14,420	(4,420)
Equipment purchases	29,250	29,250	16,216	13,034
Other services and charges	5,050	5,050	14,261	(9,211)
<u>Total Fire Department</u>	<u>357,900</u>	<u>375,900</u>	<u>377,076</u>	<u>(1,176)</u>
<u>Public Health</u>				
Salaries	10,000	10,000	0	10,000
Repairs and maintenance	2,000	2,000	3,072	(1,072)
Utilities	0	0	9,718	(9,718)
Telephone	0	0	1,226	(1,226)
Other services and charges	4,000	4,000	1,368	2,632
<u>Total Public Health</u>	<u>16,000</u>	<u>16,000</u>	<u>15,384</u>	<u>616</u>
<u>Total Public Safety</u>	<u>956,000</u>	<u>1,038,000</u>	<u>1,026,496</u>	<u>11,504</u>
<u>State Street Aid</u>				
Salaries	51,500	51,500	30,162	21,338
Supplies	110,800	110,800	96,861	13,939
<u>Total State Street Aid</u>	<u>162,300</u>	<u>162,300</u>	<u>127,023</u>	<u>35,277</u>
<u>Streets and Roads</u>				
Salaries and wages	28,300	28,300	12,075	16,225
Repairs and maintenance	4,000	4,000	4,004	(4)
Street lighting	14,000	14,000	9,236	4,764
Gas and oil	8,000	8,000	4,785	3,215
Supplies	10,000	10,000	3,811	6,189
Equipment	79,000	79,000	76,655	2,345
Other services and charges	6,250	6,250	12,059	(5,809)
<u>Total Streets and Roads</u>	<u>149,550</u>	<u>149,550</u>	<u>122,625</u>	<u>26,925</u>
<u>Parks</u>				
Salaries and wages	91,250	91,250	92,090	(840)
Professional fees	5,000	5,000	5,275	(275)
Supplies	2,000	2,000	2,649	(649)
Repairs and maintenance	16,500	16,500	9,037	7,463
Gas and oil	3,500	3,500	3,222	278
Building, improvements and equipment	4,000	4,000	2,110	1,890
Educational supplies	2,500	2,500	2,563	(63)
Event expenses	2,500	2,500	458	2,042
Other services and charges	5,500	5,500	2,780	2,720
<u>Total Parks</u>	<u>132,750</u>	<u>132,750</u>	<u>120,184</u>	<u>12,566</u>
TOTAL CHARGES TO APPROPRIATIONS	<u>2,901,473</u>	<u>3,009,473</u>	<u>2,839,776</u>	<u>169,697</u>
Budgetary Fund Balance - June 30, 2006	\$ <u>1,369,054</u>	\$ <u>1,464,054</u>	\$ <u>1,745,757</u>	\$ <u>281,703</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 CAPITAL PROJECTS FUNDS
 YEAR ENDED JUNE 30, 2006

	Budget Original/ Final	Actual	Variance Positive (Negative)
<u>Budgetary Fund Balance - July 1, 2005</u>	\$ 210,181	\$ 210,181	\$ 0
<u>RESOURCES (Inflows)</u>			
Taxes	90,000	125,393	35,393
Interest	<u>0</u>	<u>7,229</u>	<u>7,229</u>
<u>Amounts Available for Appropriations</u>	<u>300,181</u>	<u>342,803</u>	<u>42,622</u>
<u>Charges to Appropriations (Outflows)</u>	0	0	0
<u>Other Financing Sources (Uses)</u>			
Transfers (out) to General Fund	(90,000)	(90,000)	0
 Fund balances - June 30, 2006	 <u>\$ 210,181</u>	 <u>\$ 252,803</u>	 <u>\$ 42,622</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 DRUG FUND
 YEAR ENDED JUNE 30, 2006

	Budget Original/ Final	Actual	Variance Positive (Negative)
<u>Budgetary Fund Balance - July 1, 2005</u>	\$ 492,886	\$ 492,886	\$ 0
<u>RESOURCES (Inflows)</u>			
Fines and court costs	305,000	317,518	12,518
Interest	<u>0</u>	<u>9,264</u>	<u>9,264</u>
<u>Amounts Available for Appropriations</u>	<u>797,886</u>	<u>819,668</u>	<u>21,782</u>
<u>Charges to Appropriations (Outflows)</u>			
Salary	108,400	106,637	1,763
Payroll taxes	7,775	8,777	(1,002)
Retirement contributions	10,700	11,614	(914)
Other	5,000	4,652	348
Insurance	25,000	22,143	2,857
Machinery and equipment	<u>198,350</u>	<u>240,058</u>	<u>(41,708)</u>
<u>Total Charges to Appropriations</u>	<u>355,225</u>	<u>393,881</u>	<u>(38,656)</u>
 Fund balances - June 30, 2006	 \$ <u>442,661</u>	 \$ <u>425,787</u>	 \$ <u>(16,874)</u>

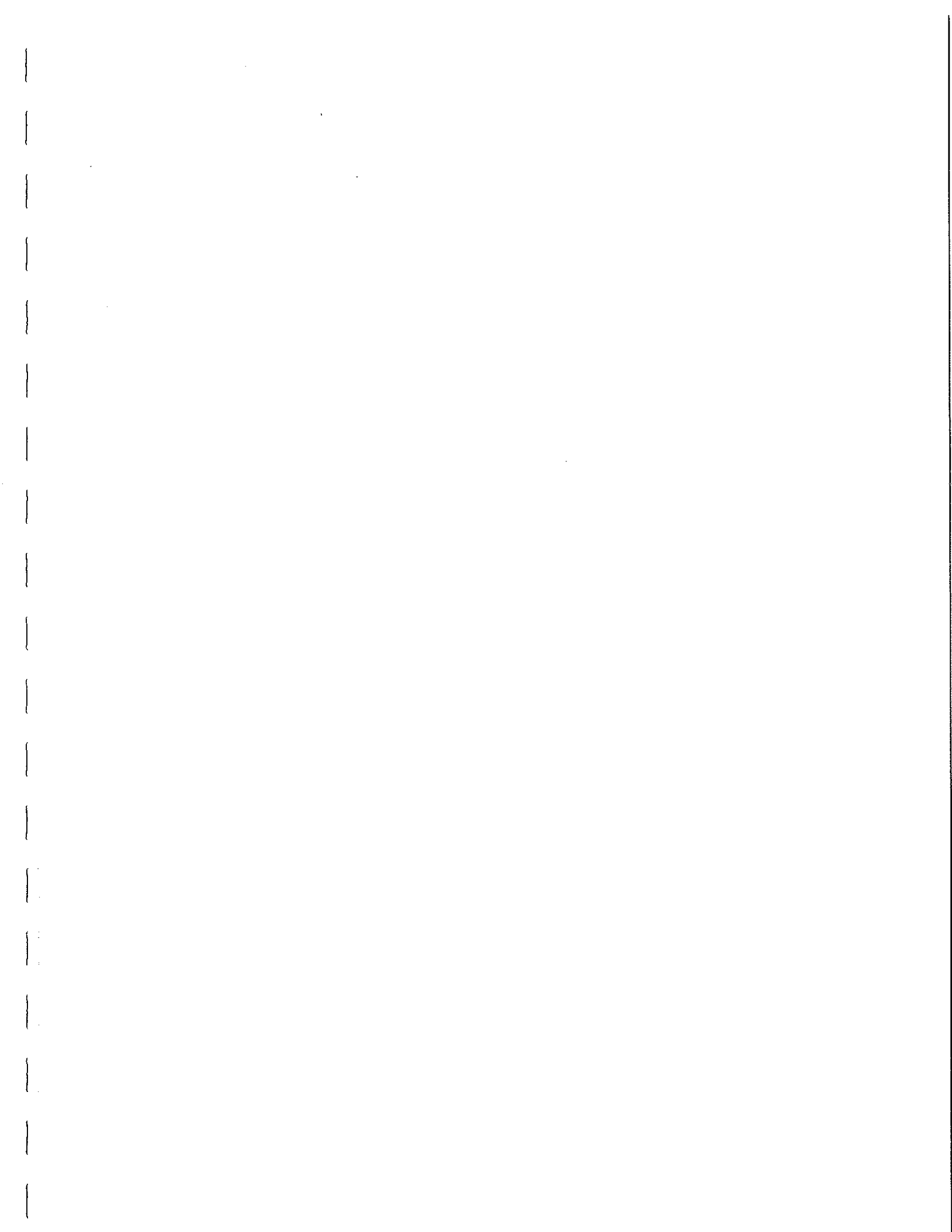
See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BUDGETARY COMPARISON SCHEDULE
 NOTE A
 JUNE 30, 2006

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

	General Fund	Capital Projects Fund	Drug Fund
Sources/Inflows of Resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 4,585,533	\$ 342,803	\$ 819,668
Differences - budget to GAAP			
The fund balance at the beginning of the year is a budgetary resource but is not a current-year revenue for financial reporting purposes	(1,319,377)	(210,181)	492,886
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(90,000)		
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	<u>\$ 3,176,156</u>	<u>\$ 132,622</u>	<u>\$ 326,782</u>
Uses/Outflows of Resources			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,839,776	\$ 90,000	\$ 393,881
Differences - budget to GAAP			
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes		(90,000)	
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	<u>\$ 2,839,776</u>	<u>\$ 0</u>	<u>\$ 393,881</u>

See notes to financial statements.



Operating Income (continued) \$ 584,663

Nonoperating Revenue (Expenses)

Interest income	158,156
Interest expense and fiscal agent charges	(131,620)
<u>Total</u>	<u>26,536</u>

Net Income Before Capital Contributions 611,199

Capital Contributions 214,938

Change in Net Assets 826,137

Net Assets - July 1, 2005 11,489,601

Net Assets - June 30, 2006 \$ 12,315,738

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 SCHEDULE OF OFFICIALS AND TITLE
 YEAR ENDED JUNE 30, 2006

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>	<u>Amount of Bond</u>
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	Commission	5,400	100,000
Shirley Forehand	City Manager/Treasurer	59,643	100,000
Kathleen Daugherty	City Recorder/Finance	57,591	100,000
Alan Deck	City Manager (resigned)	7,533	100,000

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED JUNE 30, 2006

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA No.</u>	<u>Contract No.</u>	<u>Federal Expenditures</u>	<u>Program Award</u>	<u>Time Period</u>
Department of Housing and Urban Development HOME Investment Partnership Program	14.239				
Tennessee Housing Development Agency		HM-04-15	\$ 155,074	\$ 500,000	07/01/04/ 06/30/07

Note - Basis of Presentation:

The accompanying schedule of federal awards includes the federal grant activity of the City of Fairview, Tennessee and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations". Therefore, the amount in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
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
YEAR ENDED JUNE 30, 2006

December 28, 2006

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

We have audited the financial statements of the government activities, the business-type activities, each major fund and the aggregate remaining fund information of City of Fairview, Tennessee as of and for the year ended June 30, 2006, and have issued our report thereon dated December 28, 2006. 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.

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 an opinion 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 of the internal control over financial reporting that, in our judgment, could adversely affect City of Fairview, Tennessee's ability to initiate, record, process, 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 responses.

A material weakness is a reportable 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 caused by error or fraud 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 that none of the reportable conditions in the accompanying schedule is a material weakness.

Compliance and Other Matters

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 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 or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying schedule of findings and responses.

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 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, 2006

1. **FINDING:** Finding for the year ended June 30, 2005, relating to sales tax designations of water customers has been corrected.

2. **FINDING 2006-1** Invoices, although attached to copy of check, were not consistently marked as being approved for payment and were not cancelled in a manner to prevent the invoice from being presented for payment again. The absence of an approval and/or payment notation would allow invoices to be paid more than once.

RECOMMENDATION: We recommend that all invoices be marked as "approved for payment" and the check number of the check issued in payment be prominently noted on the invoice. Information relating to the appropriate fund and expenditure category be noted.

RESPONSE: We concur and have acquired a stamp to use for noting the recommended data.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 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) operating grants and contributions, (c) 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. The proprietary fund recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. 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.

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

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.

Statues 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.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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.

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 \$249,648 on street maintenance for the fiscal year ended June 30, 2006. 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.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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.

Compensated Absences

Employees accrue vacation time, or compensated absence, by prescribed formula based on length of service. The value of the accumulated vacation, which may be used in future years, is recorded in the government-wide statements as long-term debt.

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, 2005	Levied	Collections	30,2006
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	147			147
1996	.91	37,491,439	341,199	325			325
1997	.91	40,084,835	364,772	327			327
1998	.91	45,113,036	410,535	329			329
1999	.91	52,546,824	478,189	880			880
2000	.91	60,658,109	553,776	734			734
2001	.72	81,533,611	585,113	567		18	549
2002	.72	81,490,278	611,608	17,194		16,812	382.
2003	.72	85,129,469	650,603	26,860		25,484	1,376
2004	.72	89,685,506	667,711	44,325		35,995	8,330
2005	.84	97,928,095	822,596	798,720	23,876	788,424	34,172
2006	.84				<u>858,234</u>		<u>858,234</u>
				890,871	882,110	866,733	906,248
Less estimated uncollectible taxes				1,478			1,478
				<u>\$ 889,393</u>	<u>\$ 882,110</u>	<u>\$ 866,733</u>	<u>\$ 904,770</u>

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

Delinquent taxes of 2003 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, 2006, 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 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.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at fiscal year end. The categories are described as follows:

Category 1 - Insured or collateralized with securities held by the City or by its agent in the City's name.

Category 2 - Collateralized with securities held by the pledging financial institution's trust department as agent in the City's name.

Category 3 - Uncollateralized.

At June 30, 2006, the City's cash and cash equivalents were classified as Category 1 deposits because the financial institutions used by the City participate in the Tennessee bank collateral pool.

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

Checking and savings accounts	\$ 1,225,814
Deposits in State of Tennessee Local Government Investment Pool	5,087,828
Cash on hand	4,446
Total	\$ <u>6,318,088</u>
Cash and cash equivalents	\$ 5,501,589
Cash and cash equivalents - restricted	816,499
Total	\$ <u>6,318,088</u>

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2006, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
<u>Capital assets not being depreciated</u>				
Land	\$ 2,675,460	\$	\$	\$ 2,675,460
 <u>Capital assets being depreciated</u>				
Machinery and equipment	1,470,945	249,739	16,227	1,704,457
Buildings and improvements	3,042,210			3,042,210
Total assets being depreciated	<u>4,513,155</u>	<u>249,739</u>	<u>16,227</u>	<u>4,746,667</u>
 <u>Less accumulated depreciation for:</u>				
Machinery and equipment	960,851	129,308	14,335	1,075,824
Buildings and improvements	12,676	76,055		88,731
Total accumulated depreciation	<u>973,527</u>	<u>205,363</u>	<u>14,335</u>	<u>1,164,555</u>
 Governmental Activities capital assets, net	 <u>\$ 6,215,088</u>	 <u>\$ 44,376</u>	 <u>\$ 1,892</u>	 <u>\$ 6,257,572</u>
 Depreciation expense was charged to function/programs as of June 30, 2006 as follows:				
Governmental activities				
General government	\$ 15,402			
Public safety	126,708			
Roads and streets	21,563			
Parks and recreation	41,690			
Total depreciation expense-governmental activities	<u>\$ 205,363</u>			
 Business-type Activities				
<u>Capital assets not being depreciated</u>				
Land	\$ 101,323	\$		\$ 101,323
Construction in progress		142,804		142,804
Total assets not being depreciation	<u>101,323</u>	<u>142,804</u>		<u>244,127</u>
 <u>Capital assets being depreciated</u>				
Utility plant in service	14,246,826			14,246,826
Machinery and equipment	633,984			633,984
Total assets being depreciated	<u>14,880,810</u>			<u>14,880,810</u>

subtract

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Utility plant	4,785,692	298,829		5,084,521
Machinery and equipment	469,395	48,157		517,552
Total accumulated depreciation	<u>5,255,087</u>	<u>346,986</u>		<u>5,602,073</u>
Business-type activities capital assets, net	\$ <u>9,727,046</u>	\$ <u>(204,182)</u>		\$ <u>9,522,864</u>

NOTE 5 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

The changes in long-term liabilities, during the year ended June 30, 2006, were as follows:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds	\$ 53,804		\$ 53,804	\$	\$
Tennessee Municipal Bond Pooled Fund	125,700		125,700		
Tennessee Pooled Loan Program	1,858,000		52,000	1,806,000	55,000
Total Government Activities Long-Term Liabilities	<u>\$ 2,037,504</u>		<u>\$ 231,504</u>	<u>\$ 1,806,000</u>	<u>\$ 55,000</u>
Business-type Activities					
Revenue and tax bonds	\$ 1,432,965		\$ 362,965	\$ 1,070,000	\$ 370,000
Tennessee Department of Health	617,402		99,888	517,514	103,608
	<u>2,050,367</u>		<u>462,853</u>	<u>1,587,514</u>	<u>473,608</u>
Less unamortized deferred charges	(144,733)		37,915	(106,818)	
Total Debt, net of unamortized charges	<u>\$ 1,905,634</u>		<u>\$ 424,938</u>	<u>\$ 1,480,696</u>	<u>\$ 473,608</u>

Description of long-term liabilities:

Bonds payable at June 30, 2006 were as follows:

\$2,000,000 Series 2001, Tennessee Pooled Loan Program due in increasing annual installments through May 25, 2026, at a variable interest rate (2.18% at June 30, 2005).

\$ 1,806,000

Total General Obligation Bonds

\$ 1,806,000 ✓

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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%	\$ 80,000
\$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%	990,000
\$1,717,136 Tennessee Department of Health and Environment payable in monthly installments through February 1, 2011, at an interest rate of 3.23%	517,514
Total Business-type Activities Debt	1,587,514
Less: unamortized charges	(106,818)
Total Business-type Activities Debt, net of unamortized charges	\$ <u>1,480,696</u>

Debt Service Requirements

The annual debt service requirements to maturity for long-term debt obligations, as of June 30, 2006, were as follows:

<u>Year</u>	<u>Governmental Activities</u>			
	<u>Principal</u>		<u>Interest</u>	
2007	\$ 55,000		\$ 90,300	
2008	57,000		87,550	
2009	60,000		84,700	
2010	63,000		81,700	
2011	66,000		78,550	
2012-2016	386,000		339,550	
2017-2021	492,000		232,900	
2022-2026	627,000		97,050	
<u>Total</u>	\$ <u>1,806,000</u>		\$ <u>1,092,300</u>	

<u>Year</u>	<u>Business-type Activities</u>					
	<u>Bonds/Capital Outlay Notes</u>		<u>State Loan Program</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 370,000	\$ 54,662	\$ 103,607	\$ 17,137	\$ 473,607	\$ 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			79,469	1,632	79,469	1,632
<u>Total</u>	\$ <u>1,070,000</u>	\$ <u>108,391</u>	\$ <u>517,514</u>	\$ <u>46,563</u>	\$ <u>1,587,514</u>	\$ <u>154,954</u>

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

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 City. Settled claims have not exceeded this commercial coverage in any of the past three years.

NOTE 7 - UTILITY RATES AND METERED CUSTOMERS

Utility rates and metered customers at June 30, 2006 were:

Current Water Rates -

Inside City

First 2,000 gallons	\$12.82 Minimum bill
All over 2,000 gallons	3.63 per 1,000 gallons

Outside City

First 2,000 gallons	\$23.08 Minimum bill
All over 2,000 gallons	6.53 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, 2006	5,287
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CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

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 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/tcrs.PS/. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/ters/PS/>.

Funding 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, 2006 was 10.94% 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, 2006, City of Fairview's annual pension cost of \$156,185 to TCRS was equal to City of Fairview's required and actual contributions. The required contribution was determined as part of the July 1, 2003 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded)