

CITY OF FAIRVIEW, TENNESSEE

JUNE 30, 2007

Report

of

Examination

**CITY OF FAIRVIEW, TENNESSEE
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2007**

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INDEPENDENT AUDITOR'S REPORT

February 7, 2008

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

We have audited the accompanying financial statements of the governmental activities, each major fund, the business-type activities, and budgetary information of City of Fairview, Tennessee, as of and for the year ended June 30, 2007, 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 opinions 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 *Governmental 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 the 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, each major fund, the business-type activities, and budgetary information of the City of Fairview, Tennessee, as of June 30, 2007, and the respective changes in financial position and cash flows, if applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America, and the respective budgetary comparisons for the General Fund and the Major Revenue Funds.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2008, on our consideration of the City of Fairview, Tennessee's internal control over financial reporting and on our tests of its compliance with

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

The management's discussion and analysis and budgetary comparison information on pages 3 through 8 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 basic financial statements. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is 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, 2007**

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, 2007. Readers are encouraged to consider the information presented in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

Management believes the City of Fairview's financial condition is strong. The City is 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.

- Government-Wide Net Assets of the City of Fairview exceeded liabilities at the close of the most recent fiscal year by \$21,826,783. Of this amount, \$1,959,720 (unrestricted net assets) may be used to meet the government's ongoing obligation to citizens and creditors, which does not include the water and sewer assets and liabilities that were transferred on October 1, 2006 to the Water Authority of Dickson County (see Note 10).
- At June 30, 2007 the City's government funds reported combined ending fund balances of \$2,984,759 or, an increase of \$560,412 in comparison with the prior year.
- At June 30, 2007 unreserved fund balance for the General Fund was \$1,924,760 or 64% of total general fund expenditures.
- The City's total bonded debt decreased by \$136,876 during the year ended June 30, 2007. Of this amount, general fund long-term debt decreased by \$110,974; and sewer long-term decreased by \$25,902. The City's utilities were transferred to the Water Authority of Dickson County on October 1, 2006 (see Note 10).
- The City's capital assets were adjusted due to the City's decision to change from the modified approach of accounting to straight depreciation of its street systems infrastructure during the year ended June 30, 2007 (see Note 4-Capital assets activity for the year ended June 30, 2007). This is the fourth 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

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

reported as new 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.

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, all 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, 2007

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. The Water and Sewer activities, assets and liabilities were transferred to the Water Authority of Dickson County (see Note 10).

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 26-39 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 \$21,826,743, at the close of the most recent fiscal year.

By far the largest portion of the City's net assets (85%) 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.

	Governmental Activities <u>FY 2007</u>
Current and other assets	\$ 3,985,170
Capital assets	<u>20,814,938</u>
Total Assets	<u>\$ 24,800,108</u>
Long-term liabilities	\$ 1,863,013
Other liabilities	<u>1,110,352</u>
Total Liabilities	<u>2,973,365</u>
Net Assets	
Invested in capital assets, net of related debt	18,842,659
Restricted assets	1,024,364
Unrestricted	<u>1,959,720</u>
Net Assets	<u>21,826,743</u>
 Total Liabilities and Net Assets	 <u>\$ 24,800,108</u>

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

At year end, 4.69% 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 (\$1,959,720) may be used to meet the government's ongoing obligations to citizens and creditors.

At June 30, 2007, the City is able to report positive balances in all categories of fund balances.

City of Fairview, Tennessee's Changes in Fund Balances

REVENUES:

Capital Project	
Taxes	\$ 99,324
Uses of money	11,062
Drug Fund	
Fines and fees	296,681
Use of money	19,393
Other	14,553
General Revenues	
Taxes	1,695,859
Licenses and permits	86,707
Fines and fees	81,826
Intergovernmental	1,135,577
Uses of money and property	67,958
Other	<u>248,193</u>
Total Revenue	<u>3,757,133</u>

EXPENDITURES;

Drug Fund	246,721
General Government	1,227,374
City Court	49,834
Codes	108,844
Historic Preservation	20,000
Public Safety	1,113,267
State Street Aid	163,424
Roads and Streets	138,966
Parks and Recreation	<u>128,291</u>
Total Expenditures	<u>3,196,721</u>
 Increase in fund balance	 560,412
 Fund balances - July 1, 2006	 2,424,347
 Fund balances - June 30, 2007	 \$ <u>2,984,759</u>

**CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007**

The government-wide total assets increased from \$9,710,658 to \$24,800,108 during the fiscal year. This was due to a change from the modified approach of accounting for the street system infrastructure to the capitalization method, which is subject to depreciation. (See Note 11 in the Notes to the Financial Statements) Governmental activities increased net assets by \$143,129.

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.

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 \$2,984,759, an increase of \$560,412 over the previous year. Of the total \$2,984,759 balance, \$299,299 is restricted for use in the State Street Aid Fund, which provides for paving and maintenance of streets. Another \$509,693 is restricted to use within the Drug Enforcement Fund. Finally, \$251,007 is restricted for capital projects.

The balance of \$1,924,290 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 \$1,924,290 represents 65% of the general fund's expenditures.

General Fund Budgetary Highlights

Actual revenue exceeded budgeted projections by \$366,120 in the general fund, \$110,386 in capital projects fund, and \$83,906 in the drug fund. In the general fund, excess of revenue over expenditures was, in part, due to the sale of a city owned lot in the city's industrial park.

Capital Asset and Debt Administration

At the end of fiscal year 2007, the City had \$20,814,938 (net of accumulated depreciation) invested in a broad range of capital assets, vs. \$6,257,572 at the beginning of the year. This total includes land, land improvements, buildings, equipment and street system infrastructure. The total increase in the City's investment in capital assets for the current period amounted to \$14,557,366 for the general fund. This is due to the city's decision to switch from the modified approach of accounting for infrastructure assets to the capitalization method, which is subject to depreciation. (see Note 11 in the notes to the financial statements.

CITY OF FAIRVIEW, TENNESSEE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2007

Long-term debt. At the end of the fiscal year, the City had total debt outstanding of \$1,972,279 vs. a beginning balance of \$1,806,000. Of this amount, \$1,972,279 comprises debt in the general fund and backed by the full faith and credit of the government. The increase reflects the purchase of a fire truck. The above amounts do not include the Water and Sewer Fund which were transferred to the Water Authority of Dickson County (see Note 10).

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

	<u>Governmental Activities</u>
General Obligations Bonds	\$ 1,806,000
Addition	277,253
Less payments	(110,974)
Total	\$ <u>1,972,279</u>

The City's total debt increased by a net \$166,279, during the current year.

Economic Factors and New Year's Budget and Rates

Factors considered in preparation of the City's budget for the 2008 fiscal year include the following:

- No property tax increase is expected in the fiscal year 2007-08 budget.
- The Fairview Sewer Treatment plant remains under a sewer moratorium by the Tennessee Department of Environment and Conservation (TDEC) as of December 2004.
- The City of Fairview transferred its water and sewer utilities to the Water Authority of Dickson County on October 1, 2006. The Authority has allocated an additional 80,000 gallons of flow per day to the city. Distribution of this allocated flow was made on January 31, 2008, which will allow the city to issue building permits.

However, until the sewer issue is totally resolved, there will continue to be a decline in the number of building permits (commercial and residential) issued by the city which will continue to affect the general fund.

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, 2007

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and cash equivalents	\$ 2,128,101
Property tax receivable	957,501
Intergovernmental revenue receivable	141,342
Restricted assets:	
Cash and cash equivalents	758,226
Capital assets:	
Assets not being depreciated:	
Land and construction in progress	2,658,371
Capital assets, being depreciated, net of depreciation	18,156,567
 <u>Total</u>	 <u>\$ 24,800,108</u>
<u>LIABILITIES</u>	
Accounts payable	\$ 22,796
Accrued interest	675
Other payables	27,806
Deferred revenue	912,721
Long-term liabilities:	
Compensated absences	37,088
Due within one year	109,266
Due beyond one year	1,863,013
<u>Total Liabilities</u>	<u>2,973,365</u>
<u>NET ASSETS</u>	
Invested in capital assets, net of related debt	18,842,659
Restricted for:	
Roads and streets	263,664
Capital projects	251,007
Drug enforcement	509,693
Unrestricted	1,959,720
<u>Total Net Assets</u>	<u>21,826,743</u>
 <u>Total</u>	 <u>\$ 24,800,108</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Functions/Programs Primary Government	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges For Services	Operating Grants and Contributions	Governmental Activities	
Governmental Activities					
General Government	\$ 1,158,115	\$ 174,815	\$	\$ (983,300)	\$ (983,300)
Public safety	1,476,189	378,507		(1,097,682)	(1,097,682)
State Street Aid	163,424		198,345	34,921	34,921
Streets and roads	518,269			(518,269)	(518,269)
Parks	169,421	3,715		(165,706)	(165,706)
Special projects	20,000			(20,000)	(20,000)
Interest on long-term debt	84,051			(84,051)	(84,051)
Total Governmental Activities	3,589,469	557,037	198,345	(2,834,087)	(2,834,087)
Business-type Activities*					
Water/sewer	606,647				22,521
Total Primary Government	\$ 4,196,116	\$ 1,186,205	\$ 198,345	(2,834,087)	(2,811,566)

General revenues:

Taxes:

Property taxes	872,479				872,479
Sales taxes	423,262				423,262
Facility tax	99,324				99,324
Other taxes	400,118				400,118
Investment income	98,413				220,963
Intergovernmental revenue not restricted to specific programs	937,232		122,550		937,232
Gain on sale of assets	146,388				146,388
Total general revenues and transfers	2,977,216		122,550		3,099,766
Change in net assets	143,129		145,071		288,200
Net assets - July 1, 2006	6,875,919		12,315,738		19,191,657
Prior period adjustment - Note 11	14,807,695				14,807,695
Net assets - June 30, 2007	\$ 21,826,743		\$ 12,460,809		\$ 34,287,552

*Note 10 - Transfer of assets, liabilities, and operations

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 BALANCE SHEET
 GOVERNMENT FUNDS
 JUNE 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Capital Projects</u>	<u>Drug Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents	\$ 2,128,101	\$	\$	\$ 2,128,101
Receivables:				
Property taxes	957,501			957,501
Intergovernmental	141,342			141,342
Restricted assets:				
Cash and cash equivalents	17,056	231,007	510,163	758,226
<u>Total</u>	<u>\$ 3,244,000</u>	<u>\$ 231,007</u>	<u>\$ 510,163</u>	<u>\$ 3,985,170</u>
<u>LIABILITIES</u>				
Accounts payable	\$ 22,326	\$	\$ 470	\$ 22,796
Other payables	27,806			27,806
Compensated absences	37,088			37,088
Deferred revenue	912,721			912,721
<u>Total Liabilities</u>	<u>999,941</u>		<u>470</u>	<u>1,000,411</u>
<u>FUND BALANCES</u>				
Fund balance:				
Reserved for capital projects	20,000	231,007		251,007
Reserved for roads and streets	299,299			299,299
Reserved for drug enforcement			509,693	509,693
Unreserved	1,924,760			1,924,760
<u>Total Fund Balances</u>	<u>2,244,059</u>	<u>231,007</u>	<u>509,693</u>	<u>2,984,759</u>
<u>Total</u>	<u>\$ 3,244,000</u>	<u>\$ 231,007</u>	<u>\$ 510,163</u>	<u>\$ 3,985,170</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, 2007

<u>Total Governmental Funds Balances</u>	\$ 2,984,759
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 \$10,955,332	20,814,938
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	(1,972,279)
Interest accrued on outstanding debt payable	(675)
<u>Net Assets of Government Activities</u>	\$ <u>21,826,743</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, 2007

	<u>General</u>	<u>Capital Projects</u>	<u>Drug Funds</u>	<u>Total Governmental Funds</u>
REVENUES				
Taxes	\$ 1,695,859	\$ 99,324	\$	\$ 1,795,183
Licenses and permits	86,707			86,707
Fines and fees	81,826		296,681	378,507
Intergovernmental	1,135,577			1,135,577
Uses of money and property	67,958	11,062	19,393	98,413
Other	<u>248,193</u>		<u>14,553</u>	<u>262,746</u>
Total Revenues	<u>3,316,120</u>	<u>110,386</u>	<u>330,627</u>	<u>3,757,133</u>
EXPENDITURES				
Current:				
General government	1,227,374			1,227,374
City court	49,834			49,834
Codes	108,844			108,844
Historic Preservation	20,000			20,000
Public safety	1,113,267		246,721	1,359,988
State Street Aid	163,424			163,424
Roads and streets	138,966			138,966
Parks and recreation	<u>128,291</u>			<u>128,291</u>
Total Expenditures	<u>2,950,000</u>		<u>246,721</u>	<u>3,196,721</u>
Excess (deficiency) of revenues over expenditures	366,120	110,386	83,906	560,412
OTHER FINANCING SOURCES (USES)				
Transfers in (out)	132,182	(132,182)		0
Net change in fund balances	<u>498,302</u>	<u>(21,796)</u>	<u>83,906</u>	<u>560,412</u>
Fund Balance - July 1, 2006	1,745,757	252,803	425,787	2,424,347
Fund Balance - June 30, 2007	\$ <u>2,244,059</u>	\$ <u>231,007</u>	\$ <u>509,693</u>	\$ <u>2,984,759</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, 2007

Net Change in Fund Balance - Governmental Funds \$ 560,412

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	359,325
Depreciation expense	(585,119)

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. (24,535)

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

Increase in general obligation debt	(277,253)
General obligation loan payments	110,974

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

Accrued interest	(675)
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Change in Net Assets of Governmental Activities \$ 143,129

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF NET ASSETS
WATER AND SEWER FUND*
SEPTEMBER 30, 2006

ASSETS

Current Assets

Cash and cash equivalents	\$ 4,194,092
Accounts receivable, net	156,364
Unbilled receivables	155,040
Inventory	20,322
Prepaid insurance premiums	<u>3,853</u>
<u>Total Current Assets</u>	<u>4,529,671</u>

Noncurrent Assets

Capital Assets:

Land	101,323
Construction in progress	229,927
Utility plant in service	14,248,870
Machinery and equipment	637,523
Less accumulated depreciation	<u>(5,686,474)</u>
<u>Total Noncurrent Assets</u>	<u>9,531,169</u>

<u>Total</u>	<u>\$ 14,060,840</u>
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LIABILITIES

Current Liabilities

Accounts payable	\$ 92,762
Accrued interest payable	19,120
Accrued fees	13,200
Bonds and notes payable - current portion	<u>474,888</u>
<u>Total Current Liabilities</u>	<u>599,970</u>

Noncurrent Liabilities

Compensated absences	10,676
Bonds and notes payable	<u>989,385</u>
<u>Total Noncurrent Liabilities</u>	<u>1,000,061</u>

<u>Total Liabilities</u>	<u>1,600,031</u>
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NET ASSETS

Invested in Capital Assets, Net of Related Debt	8,066,896
Unrestricted	<u>4,393,913</u>
<u>Total Net Assets</u>	<u>12,460,809</u>

<u>Total</u>	<u>\$ 14,060,840</u>
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*Note 10 - Transfer of assets, liabilities, and operations

See notes to financial statements.

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Operating Income (continued) \$ 62,186

Non-Operating Revenue (Expenses)

Interest income	64,876
Interest expense and fiscal agent charges	(39,665)
<u>Total</u>	<u>25,211</u>

Net Income Before Capital Contributions 87,397

Capital Contributions 57,674

Change in Net Assets 145,071

Net Assets - July 1, 2006 12,315,738

Net Assets - September 30, 2006 \$ 12,460,809

*Note 10 - Transfer of assets, liabilities, and operations

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF CASH FLOWS
WATER AND SEWER DEPARTMENT*
THREE MONTHS ENDED SEPTEMBER 30, 2006

Cash Flows From Operating Activities

Receipts from customers	\$ 700,246
Payments to employees	(126,228)
Payments to suppliers for goods and services	(351,399)
Net cash provided (used) by operating activities	<u>222,619</u>

Cash Flows From Capital And Related Financing Activities

Additions to capital assets (net)	(92,706)
Principal paid on capital debt	(25,902)
Interest paid on capital debt	(17,378)
Capital contributions	57,674
Net cash provided (used) for capital and related financing activities	<u>(78,312)</u>

Cash Flows From Investing Activities

Interest income from cash and cash equivalents	<u>64,876</u>
Net cash provided by investing activities	<u>64,876</u>

Increase (decrease) in cash and cash equivalents 209,183

Cash and cash equivalents - July 1, 2006 3,984,909

Cash and cash equivalents - September 30, 2006 \$ 4,194,092

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

Operating income	\$ 62,186
Adjustments to reconcile operating income to net cash provided (used) by operating activities: depreciation	84,401
Changes in assets and liabilities:	
Decrease (Increase) in:	
Receivables	54,786
Inventory	(5,642)
Prepaid expenses	(3,853)
Deferred charges to income	9,479
Increase (Decrease) in:	
Accounts payable	17,020
Accrued expenses	4,242
Net cash provided (used) by operating activities	<u>\$ 222,619</u>

*Note 10 - Transfer of assets, liabilities, and operations

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Budgetary Fund Balance - July 1, 2006	\$ 1,745,757	\$ 1,745,757	\$ 1,745,757	\$ 0
RESOURCES (Inflows)				
<u>Taxes</u>				
Real estate taxes	813,000	863,000	872,479	9,479
Wholesale beer tax	147,200	147,200	152,682	5,842
Wholesale liquor tax	50,540	50,540	56,818	6,278
Local sales tax - Trustee	465,000	465,000	423,262	(41,738)
Cable TV franchise tax	40,000	40,000	60,202	20,202
Natural gas franchise tax	55,000	55,000	51,179	(3,821)
Minimum business tax	65,000	65,000	66,994	1,994
Occupancy tax	5,500	5,500	5,575	75
Interest, penalty and court costs	8,200	8,200	6,668	(1,532)
<u>Total Taxes</u>	<u>1,649,440</u>	<u>1,699,440</u>	<u>1,695,859</u>	<u>(3,581)</u>
<u>Licenses and Permits</u>				
Building, electrical and plumbing permits	81,500	81,500	71,651	(9,849)
Rezoning and variance permits	900	900	6,506	5,606
Other permits	2,000	2,000	3,460	1,460
Sign permits	300	300	540	240
Contractor license	1,700	1,700	1,750	50
Beer and liquor licenses	3,950	3,950	2,800	(1,150)
<u>Total Licenses and Permits</u>	<u>90,350</u>	<u>90,350</u>	<u>86,707</u>	<u>(3,643)</u>
<u>Intergovernmental Revenue</u>				
State sales tax	396,000	396,000	506,811	110,811
Local sales tax	221,000	221,000	229,428	8,428
State income tax	10,000	10,000	13,232	3,232
State beer tax	2,400	2,400	3,765	1,365
State gasoline and motor fuel tax	186,000	186,000	198,345	12,345
State gasoline inspection fee	15,600	15,600	15,452	(148)
Corporate excise tax	7,000	7,000	13,871	6,871
Telecommunications tax	1,000	1,000	1,134	134
Highway Safety Grant	0	3,000	3,373	373
Local grants and contributions	85,600	85,600	74,980	(10,620)
TEMA grant	32,400	32,400	58,205	25,805
Payment in lieu of taxes	6,743	6,743	8,400	1,657
Mixed drink tax	0	0	5,431	5,431
Educational Incentive pay	0	0	3,150	3,150
<u>Total Intergovernmental Revenue</u>	<u>963,743</u>	<u>966,743</u>	<u>1,135,577</u>	<u>168,834</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Other Income</u>				
Process fee for business tax	\$ 1,500	\$ 1,500	\$ 1,545	\$ 45
Subdividing and other fees	3,500	3,500	5,733	2,233
Privilege tax fee	1,000	1,000	690	(310)
Engineer charges and fees	12,500	12,500	7,280	(5,220)
Miscellaneous fees/charges	5,400	5,400	10,820	5,420
Special program fees	2,000	2,000	8,231	6,231
Fees driving school	9,000	9,000	10,375	1,375
Accident report charges	2,000	2,000	2,107	107
TML safety grant	0	0	1,500	1,500
Rent	0	0	3,300	3,300
Sale of City property	50,000	135,500	170,923	35,423
Park revenues	2,700	2,700	3,715	1,015
Insurance refunds	5,000	28,000	21,974	(6,026)
<u>Total Other Income</u>	<u>94,600</u>	<u>203,100</u>	<u>248,193</u>	<u>45,093</u>
<u>Police Fines and Other Revenue</u>				
City Court fines and costs	82,000	82,000	80,963	(1,037)
Court fines and costs from county	450	450	863	413
<u>Total Police Fines and Other Revenue</u>	<u>82,450</u>	<u>82,450</u>	<u>81,826</u>	<u>(624)</u>
<u>Investment Income</u>				
Interest	34,000	54,000	67,958	13,958
<u>Transfers In</u>				
Transfer from Capital Projects Funds	90,000	90,000	132,182	42,182
 <u>AMOUNTS AVAILABLE FOR APPROPRIATION</u>	 <u>\$ 4,750,340</u>	 <u>\$ 4,931,840</u>	 <u>\$ 5,194,059</u>	 <u>\$ 262,219</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007

CHARGES TO APPROPRIATIONS (Outflows)	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>General Government</u>				
Salaries and wages	\$ 241,353	\$ 241,353	\$ 235,251	\$ 6,102
Payroll taxes	113,775	113,775	114,415	(640)
Retirement contributions	174,752	174,752	153,442	21,310
Bond and insurance	288,198	345,198	344,243	955
Telephone	25,000	25,000	30,766	(5,766)
Office supplies and postage	10,000	11,500	5,762	5,738
Legal and professional	45,000	45,000	36,064	8,936
Utility service	45,000	45,000	43,544	1,456
Repairs and maintenance	6,500	9,000	10,821	(1,821)
Other services and charges	60,995	60,995	57,106	3,889
Equipment purchases	4,500	4,500	935	3,565
Debt service	170,000	170,000	195,025	(25,025)
<u>Total General Government</u>	<u>1,185,073</u>	<u>1,246,073</u>	<u>1,227,374</u>	<u>18,699</u>
<u>City Court</u>				
Salaries and wages	56,120	56,120	38,426	17,694
District Attorney fee	0	10,000	10,000	0
Other services and charges	2,500	2,500	1,408	1,092
<u>Total City Court</u>	<u>58,620</u>	<u>68,620</u>	<u>49,834</u>	<u>18,786</u>
<u>Codes Administration</u>				
Salaries and wages	98,800	98,800	93,112	5,688
Tennessee State Planning Office	8,500	8,500	8,500	0
Equipment	1,500	1,500	1,098	402
Other	9,000	9,000	6,134	2,866
<u>Total Codes Administration</u>	<u>117,800</u>	<u>117,800</u>	<u>108,844</u>	<u>8,956</u>
<u>Special Projects</u>				
Historic Preservations			20,000	(20,000)
<u>Total Special Projects</u>			<u>20,000</u>	<u>(20,000)</u>
<u>PUBLIC SAFETY</u>				
<u>Police Department</u>				
Salaries - police	550,300	582,300	580,498	1,802
Contractual services	31,000	31,000	3,000	28,000
Repairs and maintenance	12,700	22,500	21,045	1,455
Gas and oil	60,000	60,000	51,430	8,570
Uniforms and supplies	9,000	9,000	6,641	2,359
Equipment purchases	2,000	5,000	1,225	3,775
Other services and charges	20,200	20,400	18,262	2,138
<u>Total Police Department</u>	<u>685,200</u>	<u>730,200</u>	<u>682,101</u>	<u>48,099</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET TO ACTUAL
GENERAL FUND
YEAR ENDED JUNE 30, 2007

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
<u>Fire Department</u>				
Salaries and wages	\$ 314,200	\$ 345,200	\$ 338,581	\$ 6,619
Repairs and maintenance	23,500	43,500	33,384	10,116
Supplies	4,000	11,000	10,869	131
Uniforms	5,000	5,000	3,836	1,164
Gas and oil	15,000	15,000	11,121	3,879
Equipment purchases	32,250	32,250	19,024	13,226
Other services and charges	18,250	18,250	2,384	15,866
<u>Total Fire Department</u>	<u>412,200</u>	<u>470,200</u>	<u>419,199</u>	<u>51,001</u>
<u>Public Health</u>				
Repairs and maintenance	3,250	4,750	3,533	1,217
Utilities	10,000	10,000	8,187	1,813
Telephone	750	750	247	503
Other services and charges	1,000	1,000	0	1,000
<u>Total Public Health</u>	<u>15,000</u>	<u>16,500</u>	<u>11,967</u>	<u>4,533</u>
<u>Total Public Safety</u>	<u>1,112,400</u>	<u>1,216,900</u>	<u>1,113,267</u>	<u>103,633</u>
<u>State Street Aid</u>				
Salaries and wages	43,400	43,400	35,905	7,495
Repairs	130,000	130,000	127,519	2,481
<u>Total State Street Aid</u>	<u>173,400</u>	<u>173,400</u>	<u>163,424</u>	<u>9,976</u>
<u>Streets and Roads</u>				
Salaries and wages	91,600	91,600	91,982	(382)
Repairs and maintenance	4,000	4,000	4,865	(865)
Street lighting	9,000	13,500	14,407	(907)
Gas and oil	8,000	8,000	6,539	1,461
Equipment	10,000	10,000	10,436	(436)
Other services and charges	6,950	6,950	10,737	(8,787)
<u>Total Streets and Roads</u>	<u>129,550</u>	<u>134,050</u>	<u>138,966</u>	<u>(4,916)</u>
<u>Parks</u>				
Salaries and wages	94,481	95,981	95,747	234
Professional fees	3,200	3,200	50	3,150
Repairs and maintenance	9,500	9,500	6,576	2,924
Gas and oil	3,500	3,500	3,206	294
Building, improvements and equipment	18,450	18,450	15,079	3,371
Educational supplies	2,500	2,500	3,740	(1,240)
Other services and charges	10,700	10,700	3,893	6,807
<u>Total Parks</u>	<u>142,331</u>	<u>143,831</u>	<u>128,291</u>	<u>15,540</u>
TOTAL CHARGES TO APPROPRIATIONS	<u>2,919,174</u>	<u>3,100,674</u>	<u>2,950,000</u>	<u>150,674</u>
Budgetary Fund Balance - June 30, 2007	\$ <u>1,831,166</u>	\$ <u>1,831,166</u>	\$ <u>2,244,059</u>	\$ <u>412,893</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
IN FUND BALANCE - ACTUAL TO BUDGET
CAPITAL PROJECTS
YEAR ENDED JUNE 30, 2007

	Budget Original/ <u>Final</u>	<u>Actual</u>	Variance Positive (Negative)
<u>Budgetary Fund Balance - July 1, 2006</u>	\$ 252,803	\$ 252,803	\$ 0
<u>RESOURCES (Inflows)</u>			
Taxes	0	99,324	99,324
Interest	<u>0</u>	<u>11,062</u>	<u>11,062</u>
<u>Amounts Available for Appropriations</u>	<u>252,803</u>	<u>363,189</u>	<u>110,386</u>
<u>Charges to Appropriations (Outflows)</u>		0	0
<u>Other Financing Sources (Uses)</u>			
Transfers (out) to General Fund	(90,000)	(132,182)	(42,182)
 Budgetary Fund balance - June 30, 2007	 \$ <u>162,803</u>	 \$ <u>231,007</u>	 \$ <u>68,204</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES
 IN FUND BALANCE - BUDGET TO ACTUAL
 DRUG FUND
 YEAR ENDED JUNE 30, 2007

	Budget		Actual	Variance with Final Budget (Positive) (Negative)
	Original	Final		
Budgetary Fund Balance - July 1, 2006	\$ 425,787	\$ 425,787	\$ 425,787	\$ 0
RESOURCES (Inflows)				
Fines and court costs	185,000	239,100	296,681	57,581
Interest	5,000	5,000	19,393	14,393
Other	20,000	20,000	14,553	(5,447)
<u>Amounts Available for Appropriations</u>	<u>635,787</u>	<u>689,887</u>	<u>756,414</u>	<u>66,527</u>
Charges to Appropriations (Outflows)				
Salary	91,500	91,500	89,925	1,575
Payroll taxes	7,000	7,000	7,034	(34)
Retirement contributions	10,500	10,500	10,242	258
Other	12,068	15,068	11,812	3,256
Insurance	28,000	28,000	26,746	1,254
Machinery and equipment	50,000	101,100	100,962	138
<u>Total Charges to Appropriations</u>	<u>199,068</u>	<u>253,168</u>	<u>246,721</u>	<u>6,447</u>
Budgetary fund balances - June 30, 2007	<u>\$ 436,719</u>	<u>\$ 436,719</u>	<u>\$ 509,693</u>	<u>\$ 72,974</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
STATEMENT OF BUDGETARY COMPARISON

NOTE A

JUNE 30, 2007

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Drug Fund</u>
Sources/Inflows of Resources			
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	\$ 5,194,059	\$ 363,189	\$ 756,414
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	(1,745,757)	(252,803)	(425,787)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(132,182)		
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - governmental funds	\$ <u>3,316,120</u>	\$ <u>110,386</u>	\$ <u>330,627</u>
Uses/Outflows of Resources			
Actual amounts (budgetary basis) "total charges to appropriations" from the budgetary comparison schedule	\$ 2,950,000	\$ 132,182	\$ 246,721
Differences - budget to GAAP			
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes		(132,182)	
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances - governmental funds	\$ <u>2,950,000</u>	\$ <u>0</u>	\$ <u>246,721</u>

See notes to financial statements.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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.

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, 2007

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 water and sewer department assets were transferred to the Water Authority of Dickson County at close of business on September 30, 2006. (Note 10)

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

The City has no internal service or fiduciary funds as of and for the year ended June 30, 2007.

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

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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.

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

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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.

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.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

	Tax			Balance			Balance
	Rate	Assessment	Levy	June	Taxes		June
				30, 2006	Levied	Collections	30, 2007
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		1	879
2000	.91	60,658,109	553,776	734		2	732
2001	.72	81,533,611	585,113	549		0	549
2002	.72	81,490,278	611,608	382		16	366
2003	.72	85,129,469	650,603	1,376		1,023	353
2004	.72	89,685,506	667,711	8,330		7,093	1,237
2005	.84	97,928,095	822,596	34,172		27,004	7,168
2006	.84	104,579,762	878,470	878,470		845,087	33,383
2007	.70	130,386,140	912,721		<u>912,721</u>		<u>912,721</u>
				926,484	<u>912,721</u>	<u>880,226</u>	<u>958,979</u>
Less estimated uncollectible taxes				1,478			1,478
				<u>\$ 925,006</u>	<u>\$ 912,721</u>	<u>\$ 880,226</u>	<u>\$ 957,501</u>

Delinquent taxes of 2005 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, 2007, 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 collateralized and insured for purpose of credit risk disclosure.

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

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, 2007, 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:

	Governmental <u>Activities</u>	Business-type <u>Activities</u>
Checking and savings accounts	\$ 544,078	\$ 261,770
Deposits in State of Tennessee Local Government Investment Pool	2,340,729	3,931,382
Cash on hand	<u>1,520</u>	<u>940</u>
Total	\$ <u>2,886,327</u>	\$ <u>4,194,092</u>
Cash and cash equivalents	\$ 2,128,101	\$ 4,194,092
Cash and cash equivalents - restricted	<u>758,226</u>	
Total	\$ <u>2,886,327</u>	\$ <u>4,194,092</u>

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2007, 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	\$ 2,675,460	\$	\$ 17,089	\$ 2,658,371
<u>Capital assets being depreciated</u>				
Machinery and equipment	1,704,457	346,225	62,064	1,988,618
Buildings and improvements	3,042,210	13,100		3,055,310
Infrastructure	<u>24,067,971</u>			<u>24,067,971</u>
Total assets being depreciated	<u>28,814,638</u>	<u>359,325</u>	<u>62,064</u>	<u>29,111,899</u>
<u>Less accumulated depreciation for:</u>				
Machinery and equipment	1,075,824	151,051	54,618	1,172,257
Buildings and improvements	88,731	76,328		165,059
Infrastructure	<u>9,260,276</u>	<u>357,740</u>		<u>9,618,016</u>
Total accumulated depreciation	<u>10,424,831</u>	<u>585,119</u>	<u>54,618</u>	<u>10,955,332</u>
Governmental Activities capital assets, net	\$ <u>21,065,267</u>	\$ <u>(225,794)</u>	\$ <u>24,535</u>	\$ <u>20,814,938</u>
Depreciation expense was charged to function/programs as of June 30, 2007 as follows:				
<u>Governmental activities</u>				
General government	\$ 16,247			
Public safety	148,439			
Roads and streets	379,303			
Parks and recreation	41,130			
Total depreciation expense-governmental activities	<u>\$ 585,119</u>			
<u>Business-type Activities*</u>				
<u>Capital assets not being depreciated</u>				
Land	\$ 101,323	\$		\$ 101,323
Construction in progress	142,804	87,123		229,927
Total assets not being depreciation	<u>244,127</u>	<u>87,123</u>		<u>331,250</u>
<u>Capital assets being depreciated</u>				
Utility plant in service	14,246,826	2,044		14,248,870
Machinery and equipment	633,984	3,539		637,523
Total assets being depreciated	<u>14,880,810</u>	<u>5,583</u>		<u>14,886,393</u>

* Note 10 - Transfer of assets, liabilities, and operations

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Less accumulated depreciation for:				
Utility plant	5,084,521	67,193		5,151,714
Machinery and equipment	517,552	17,208		534,760
Total accumulated depreciation	<u>5,602,073</u>	<u>84,401</u>		<u>5,686,474</u>
Business-type activities capital assets, net	\$ <u>9,522,864</u>	\$ <u>8,305</u>		\$ <u>9,531,169</u>

NOTE 5 - LONG-TERM LIABILITIES

Changes in Long-Term Liabilities

The changes in long-term liabilities, during the year ended June 30, 2007, were as follows:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities					
General obligation bonds	\$	\$	\$	\$	\$
Tennessee Municipal Bond Pooled Fund	1,806,000		55,000	1,751,000	57,000
Ferrara Custom Pump		277,253	55,974	221,279	52,266
Total Government Activities Long-Term Liabilities	\$ <u>1,806,000</u>	\$ <u>277,253</u>	\$ <u>110,974</u>	\$ <u>1,972,279</u>	\$ <u>109,266</u>
Business-type Activities*					
Revenue and tax bonds	\$ 1,070,000	\$	\$	\$ 1,070,000	\$ 370,000
Tennessee Department of Health	<u>517,514</u>		<u>25,902</u>	<u>491,612</u>	<u>104,888</u>
	<u>1,587,514</u>		<u>25,902</u>	<u>1,561,612</u>	<u>474,888</u>
Less unamortized deferred charges	(106,818)		9,479	(97,339)	
Total Debt, net of unamortized charges	\$ <u>1,480,696</u>		\$ <u>16,423</u>	\$ <u>1,464,273</u>	\$ <u>474,888</u>

Description of long-term liabilities:

Long-term debt payable at June 30, 2007 was 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 (3.87% at June 30, 2007).

\$ 1,751,000

\$227,253 contract for purchase of Ferrara Custom Pumper; payable in quarterly payments of \$13,066.51 principal plus interest at 4.84% per annum

221,279

Total General Obligation Bonds

\$ 1,972,279

*Note 10 - Transfer of assets, liabilities, and operations

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

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 Environ- ment payable in monthly installments through February 1, 2011, at an interest rate of 3.23%	491,612
Total Business-type Activities Debt	1,561,612
Less: unamortized charges	(97,339)
Total Business-type Activities Debt, net of unamortized charges	\$ <u>1,464,273</u>

Debt Service Requirements

The annual debt service requirements to maturity for long-term debt obligations, as of June 30, 2007 were as follows:

Year	Governmental Activities				Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 57,000	\$ 67,750	\$ 42,350	\$ 9,916	\$ 99,350	\$ 77,666
2009	60,000	65,950	44,437	7,829	104,437	73,379
2010	63,000	63,250	46,627	5,639	109,627	68,889
2011	66,000	60,800	48,925	3,341	114,925	64,141
2012	70,000	58,250	38,940	930	108,940	59,180
2017-2017	405,000	247,900			405,000	247,900
2018-2022	517,000	161,300			517,000	161,300
2023-2026	513,000	50,850			513,000	50,850
<u>Total</u>	\$ <u>1,751,000</u>	\$ <u>775,650</u>	\$ <u>221,279</u>	\$ <u>27,655</u>	\$ <u>1,972,279</u>	\$ <u>803,305</u>

Year	Business-type Activities*				Total	
	Bonds/Capital Principal	Outlay Notes Interest	State Loan Program Principal	Interest	Principal	Interest
2007	\$ 370,000	\$ 54,662	\$ 77,705	\$ 12,853	\$ 447,705	\$ 67,515
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>491,612</u>	\$ <u>42,279</u>	\$ <u>1,561,612</u>	\$ <u>150,670</u>

*Note 10 - Transfer of assets, liabilities, and operations

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

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 risks 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 September 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 September 30, 2006	5,287
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CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

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 <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, 2007 was 11.75% 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, 2007 City of Fairview's annual pension cost of \$177,095 to TCRS was equal to City of Fairview's required and actual contributions. The required contribution was determined as part of the July 1, 2005 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)

CITY OF FAIRVIEW, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2007

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, 2007	\$177,095	100.00%	\$ 0.00
June 30, 2006	\$165,475	100.00%	\$ 0.00
June 30, 2005	\$160,816	100.00%	\$ 0.00

Required Supplementary Information

Schedule of Funding Progress for City of Fairview, 88880

(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	87.33%	\$1,395	19.27%
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 \$132,182 to General Funds for debt service.

CITY OF FAIRVIEW, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 10 - TRANSFER OF FAIRVIEW WATER AND SEWER DEPARTMENT

The City of Fairview owned and operated a water system and sewer system which provided potable water and sewer services to the residents of Fairview. The demand for those services increased as more residents and businesses moved into the area.

In December 2004, the State of Tennessee determined that the depository for the City's wastewater had reached its capacity and placed a moratorium on additional wastewater use of the depository.

The City explored alternative methods and depositories for its wastewater and determined that the best alternative was to transfer the assets, liabilities, and operations to the Water Authority of Dickson County, who would be able to process additional wastewater and release the moratorium, which had reduced the growth of the City.

The City continued to operate the water system and sewer systems through September 30, 2006.

On October 1, 2006, all assets, liabilities, and operations of the City of Fairview Water and Sewer Department were transferred to the Water Authority of Dickson County at its values based on the audited financial statements.

NOTE 11 - CHANGE IN INFRASTRUCTURE REPORTING

The City, this year, chose to switch from the modified approach of accounting for its network of infrastructure assets to straight depreciation. These assets include the City's streets and sidewalks system. This change added \$24,067,971 to fixed assets in fiscal year 2006-2007, with prior accumulated depreciation of \$9,260,276. For more detail on capital asset activity, see Note 4 in the notes to the financial statements.

CITY OF FAIRVIEW, TENNESSEE
 SCHEDULE OF OFFICIALS AND TITLE
 YEAR ENDED JUNE 30, 2007

<u>Name</u>	<u>Title</u>	<u>Annual Salary</u>	<u>Amount of Bond</u>
Kenneth Brison	Mayor	\$ 5,400	\$ 100,000
Stuart Johnson	Vice-Mayor	5,400	100,000
Wayne Hall	Commissioner	5,400	100,000
Eddie Arney	Commissioner	5,400	100,000
Darrell Mangrum	Commission	5,400	100,000
Shirley Forehand	City Manager/Treasurer	63,485	100,000
Kathleen Daugherty	City Recorder/Finance	59,934	100,000

See notes to financial statements.

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, 2007

February 7, 2008

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

We have audited the financial statements of the governmental activities, and each major fund, the business-type activities, and budgetary information of City of Fairview, Tennessee as of and for the year ended June 30, 2007, and have issued our report thereon dated February 7, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Fairview, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (Finding 2007.1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Board of Commissioners, others within the City, and Tennessee Comptroller of the Treasury, 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
YEAR ENDED JUNE 30, 2007

FINDING 2006.1 Finding for the year ended June 30, 2006, relating to approval of invoices has been corrected.

FINDING 2007.1 Effective for audits of financial statements for periods ending on or after December 15, 2006, SAS 112 establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting. A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, process, or report data reliably in accordance with Generally Accepted Accounting Principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected.

Deficiencies in the following areas ordinarily are at least significant deficiencies in internal control:

- Controls over the selection and application of accounting principles that are in conformity with generally accepted accounting principles. Having sufficient expertise in selecting and applying accounting principles is an aspect of such controls.
- Antifraud programs and controls.
- Controls over nonroutine and nonsystematic transactions.
- Controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statement.
- Employees or management who lack the qualifications and training to fulfill their assigned functions. For example, in an entity that prepares financial statements in accordance with generally accepted accounting principles, the person responsible for the accounting and reporting function lacks the skills and knowledge to apply generally accepted accounting principles in recording the entity's financial transactions or preparing its financial statements.

The City's accounting personnel, although capable in their bookkeeping functions, have not kept current on the changes and complex requirements in recent accounting pronouncements, which may result in misstatements in financial reports according to generally accepted accounting principles.