

AUDIT REPORT OF
FAIRMONT, WEST VIRGINIA
A CLASS II MUNICIPALITY IN MARION COUNTY
For the Fiscal Year Ended June 30, 2007

AUDIT REPORT OF
MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

This audit has been conducted pursuant to the authority and duty of the State Auditor as Chief Inspector and Supervisor of Public Offices to conduct an annual inspection of all political subdivisions of the State of West Virginia and any agency created by these subdivisions. This power is granted by West Virginia Code §6-9-1 et seq.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FUNDS INCLUDED IN REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

GOVERNMENTAL FUND TYPES

MAJOR FUNDS

General
Coal Severance Tax
EDA Grant

ENTERPRISE FUND TYPE

MAJOR FUNDS

Water
Parking

NONMAJOR FUNDS

Special Revenue Funds

Boards and Commissions
Workers Compensation
Special Purpose Grant
Police Investigative
Police
Bureau of Justice

Capital Project Funds

Capital Reserve
Sharon Steel Reconstruction

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FUNDS INCLUDED IN REPORT (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2007

FIDUCIARY FUND TYPES

Pension Funds

Policemen's Pension and Relief
Firemen's Pension and Relief

COMPONENT UNITS

Blended

Fairmont Building Commission

Discretely Presented

Sanitary Sewer Board

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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INTRODUCTORY SECTION

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
MUNICIPAL OFFICIALS
For the Fiscal Year Ended June 30, 2007

OFFICE	NAME	TERM
<u>Elective</u>		
Mayor:	S. Scott Sears	01-01-05 / 12-31-08
Council Members:		
District 1	John J. Dahilia	01-01-07 / 12-31-10
District 2	Burley 'Butch' Tennant, Jr.	01-01-05 / 12-31-08
District 3	Deborah D. Seifrit	01-01-07 / 12-31-10
District 4	Phyllis J. Mills	01-01-07 / 12-31-08
District 5	Charles 'Chuck' Warner	01-01-07 / 12-31-10
District 6	De'Andrea Bussey	01-01-05 / 12-31-08
District 7	S. Scott Sears	01-01-05 / 12-31-08
District 8	Robin W. Smith	01-01-07 / 12-31-10
District 9	Matthew 'Matt' S. Delligatti	01-01-07 / 12-31-10

Appointed

City Manager:	Bruce McDaniel
Finance Director:	Eileen Layman
City Clerk:	Janet Keller

FINANCIAL SECTION



State of West Virginia

Office of the State Auditor

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State Auditor

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26555

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Municipality of Fairmont, West Virginia (the Municipality), as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the entity'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 *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 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 opinions.

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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Fairmont, West Virginia, as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparisons for the General Fund and Coal Severance Tax Special Revenue Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 7, 2008, on our consideration of the Municipality's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Municipality has not presented the management's discussion and analysis that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of the basic financial statements. The Schedule of Funding Progress of the Policemen's Pension and Firemen's Pension and Relief Funds on page 50, is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consists principally of inquiries of management regarding the methods 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 Municipality's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Respectfully submitted,



Glen B. Gainer III
West Virginia State Auditor

February 7, 2008

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Sanitary Sewer Board
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,809,465	\$ 1,147,851	\$ 3,957,316	\$ 714,997
Investments	1,006,833	--	1,006,833	13,044
Receivables:				
Accounts	357,571	540,369	897,940	427,634
Accrued interest	3,804	7,410	11,214	--
Taxes	1,269,338	--	1,269,338	--
Other	--	13,376	13,376	--
Loans	--	137,501	137,501	--
Grants	2,123,695	26,852	2,150,547	--
Fire fees	68,372	--	68,372	--
Internal balances	649,654	(649,654)	--	--
Due from:				
Primary government	--	--	--	186,218
Component units	--	820	820	--
Other governments	95,987	47	96,034	--
Inventory, at cost	10,082	129,059	139,141	24,730
Prepaid expenses	2,644	--	2,644	1,383
Restricted assets:				
Regular account	--	4,160,462	4,160,462	457,214
Reserve account	--	182,647	182,647	100,759
Renewal and replacement	--	2,015	2,015	3,469
Restricted cash	21,393	--	21,393	--
Customer deposits	--	30,373	30,373	--
Capital assets:				
Land	--	972,387	972,387	168,606
Buildings	--	3,907,584	3,907,584	--
Structures and improvements	1,200,412	12,203,634	13,404,046	--
Infrastructure	29,550,120	--	29,550,120	--
Transmission and distribution	--	41,106,813	41,106,813	31,459,149
Machinery and equipment	5,171,589	5,357,400	10,528,989	1,349,588
Construction in progress	--	353,789	353,789	696,486
Less: accumulated depreciation	(29,289,517)	(18,971,248)	(48,260,765)	(17,103,973)
Other debits:				
Unamortized bond discount	--	519,314	519,314	65,060
Unamortized bond issue costs	--	78,009	78,009	605,407
Total assets	\$ 15,051,442	\$ 51,256,810	\$ 66,308,252	\$ 19,169,771

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS
June 30, 2007

	<u>Primary Government</u>			<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>	<u>Sanitary Sewer Board</u>
LIABILITIES				
Current liabilities payable				
from current assets:				
Accounts payable	\$ 2,110,735	\$ 1,057,830	\$ 3,168,565	\$ 31,909
Payroll payable	287,288	33,807	321,095	36,059
Contracts payable	3,700	--	3,700	--
Leases payable	83,744	--	83,744	30,295
Compensated absences payable	355,988	--	355,988	281,561
Benefits payable	157,748	--	157,748	--
Due to:				
Primary government	--	--	--	820
Component unit	--	186,218	186,218	--
Other governments	18,331	664	18,995	--
Current liabilities payable from				
restricted assets:				
Bonds payable	--	1,008,553	1,008,553	777,294
Notes payable	--	352,968	352,968	12,000
Accrued revenue bond/note				
interest payable	--	885,873	885,873	--
Customer deposits	10,020	52,200	62,220	--
Deferred revenues:				
Customer advances	--	--	--	342,594
Unearned revenue	126,000	--	126,000	--
Noncurrent liabilities:				
Bonds payable	--	38,898,625	38,898,625	4,196,399
Notes payable	--	1,921,852	1,921,852	17,743
Leases payable	273,023	--	273,023	3,065
Net pension obligation payable	8,546,341	--	8,546,341	--
Compensated absences payable	964,897	260,027	1,224,924	--
Total liabilities	12,937,815	44,658,617	57,596,432	5,729,739

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS
June 30, 2007

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Sanitary Sewer Board
NET ASSETS				
Invested in capital assets (net of related debt)	\$ 6,275,837	\$ 3,263,452	\$ 9,539,289	\$ 11,533,060
Restricted for:				
Debt service	--	4,375,497	4,375,497	561,442
Benefit claims	1,062,665	--	1,062,665	--
Public safety	83,603	--	83,603	--
Unrestricted	(5,308,478)	(1,040,756)	(6,349,234)	1,345,530
Total net assets	2,113,627	6,598,193	8,711,820	13,440,032
 Total liabilities and net assets	 \$ 15,051,442	 \$ 51,256,810	 \$ 66,308,252	 \$ 19,169,771

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

	Program Revenues				Net (Expense) Revenues and Changes in Net Assets			Component Unit Sanitary Sewer Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	
Functions / Programs								
Primary government:								
Governmental activities:								
General government	\$ 2,287,470	\$ 2,245,208	\$ 10,650	\$ --	\$ (31,612)	\$ --	\$ (31,612)	\$ --
Public safety	6,506,141	456,315	288,702	--	(5,761,124)	--	(5,761,124)	--
Streets and transportation	1,394,560	--	--	--	(1,394,560)	--	(1,394,560)	--
Health and sanitation	955,740	--	--	--	(955,740)	--	(955,740)	--
Culture and recreation	129,664	--	--	852,391	722,727	--	722,727	--
Benefits paid	122,667	--	267,161	--	144,494	--	144,494	--
Community development	835,332	--	--	370,121	(465,211)	--	(465,211)	--
Social services	5,176	--	--	--	(5,176)	--	(5,176)	--
Refunds	23,193	--	--	--	(23,193)	--	(23,193)	--
Economic development	6,705,029	--	--	6,366,958	(338,071)	--	(338,071)	--
Total governmental activities	18,964,972	2,701,523	566,513	7,589,470	(8,107,466)	--	(8,107,466)	--
Business-type activities:								
Water	6,107,758	5,471,736	--	346,378	--	(289,644)	(289,644)	--
Building commission	497,751	250	--	--	--	(497,501)	(497,501)	--
Parking	97,269	119,857	--	--	--	22,588	22,588	--
Total business-type activities	6,702,778	5,591,843	--	346,378	--	(764,557)	(764,557)	--
Total primary government	\$ 25,667,750	\$ 8,293,366	\$ 566,513	\$ 7,935,848	(8,107,466)	(764,557)	(8,872,023)	--
Component unit:								
Sanitary Sewer Board	3,360,564	4,231,195	--	--	--	--	--	870,631
Total component unit	\$ 3,360,564	\$ 4,231,195	\$ --	\$ --	--	--	--	870,631
General revenues:								
Ad valorem property taxes					1,499,992	--	1,499,992	--
Business & occupation tax					5,456,295	--	5,456,295	--
Alcoholic beverages tax					107,169	--	107,169	--
Utility services tax					935,510	--	935,510	--
Hotel occupancy tax					14,302	--	14,302	--
Animal tax					4,916	--	4,916	--
Gas and oil severance tax					17,696	--	17,696	--
Amusement tax					90,129	--	90,129	--
Other taxes					6,962	--	6,962	--
Coal severance tax					68,694	--	68,694	--
Unrestricted investment earnings					138,421	199,093	337,514	23,472
Refunds					736	--	736	--
Customer advances expired					--	--	--	318,500
Gain on sale of capital assets					1,500	--	1,500	--
Miscellaneous					80,401	--	80,401	--
Transfers					(489,223)	489,223	--	--
Total general revenues and transfers					7,933,500	688,316	8,621,816	341,972
Change in net assets					(173,966)	(76,241)	(250,207)	1,212,603
Net assets - beginning, as restated, Note IV.1					2,287,593	6,674,434	8,962,027	12,227,429
Net assets - ending					\$ 2,113,627	\$ 6,598,193	\$ 8,711,820	\$ 13,440,032

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2007

	<u>General</u>	<u>Coal Severance Tax</u>	<u>Economic Development Grant</u>	<u>Other nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Current:					
Cash and cash equivalents	\$ 1,512,019	\$ 42,588	\$ 138	\$ 1,254,720	\$ 2,809,465
Investments	57,627	--	--	949,206	1,006,833
Receivables:					
Taxes	1,269,338	--	--	--	1,269,338
Accounts	357,571	--	--	--	357,571
Grants	--	--	1,967,613	156,082	2,123,695
Accrued interest	--	--	--	3,804	3,804
Fire fees	68,372	--	--	--	68,372
Due from:					
Other funds	661,310	--	--	456,401	1,117,711
Other governments	94,987	--	--	1,000	95,987
Inventory, at cost	10,082	--	--	--	10,082
Prepaid expenses	2,644	--	--	--	2,644
Restricted cash	21,393	--	--	--	21,393
Total assets	\$ 4,055,343	\$ 42,588	\$ 1,967,751	\$ 2,821,213	\$ 8,886,895
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	134,159	--	1,966,747	9,829	2,110,735
Payroll payable	287,288	--	--	--	287,288
Compensated absences payable	355,988	--	--	--	355,988
Contracts payable	3,700	--	--	--	3,700
Benefits payable	--	--	--	157,748	157,748
Customer deposits	10,020	--	--	--	10,020
Due to:					
Other funds	300,148	--	866	170,937	471,951
Other governments	--	--	--	14,437	14,437
Deferred revenues:					
Unearned revenue	126,000	--	--	--	126,000
Taxes	95,303	--	--	--	95,303
Total liabilities	1,312,606	--	1,967,613	352,951	3,633,170

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 BALANCE SHEET - GOVERNMENTAL FUNDS
 June 30, 2007

	General	Coal Severance Tax	Economic Development Grant	Other nonmajor Governmental Funds	Total Governmental Funds
Fund balances:					
Reserved for:					
Benefit claims	\$ --	\$ --	\$ --	\$ 1,062,665	\$ 1,062,665
Public safety	--	--	--	83,603	83,603
Unreserved, reported in:					
General fund	2,742,737	--	--	--	2,742,737
Special revenue funds	--	42,588	138	9,251	51,977
Capital projects funds	--	--	--	1,312,743	1,312,743
Total fund balances	<u>2,742,737</u>	<u>42,588</u>	<u>138</u>	<u>2,468,262</u>	<u>5,253,725</u>
Total liabilities and fund balances	<u>\$ 4,055,343</u>	<u>\$ 42,588</u>	<u>\$ 1,967,751</u>	<u>\$ 2,821,213</u>	<u>\$ 8,886,895</u>

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2007

Total fund balances on the governmental fund's balance sheet	\$ 5,253,725
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 not reported in the funds.	6,632,604
Certain revenues are not available to fund current year expenditures and therefore are deferred in the funds. This is the amount of deferred taxes.	95,303
Long-term liabilities, including leases payable, are not due and payable in the current period and therefore are not reported in the funds. (Note II.A.)	<u>(9,868,005)</u>
Net assets of governmental activities	<u>\$ 2,113,627</u>

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	<u>General</u>	<u>Coal Severance Tax</u>	<u>Economic Development Grant</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
REVENUES					
Taxes:					
Ad valorem property taxes	\$ 1,499,992	\$ --	\$ --	\$ --	\$ 1,499,992
Business & occupation tax	5,503,693	--	--	--	5,503,693
Alcoholic beverages tax	118,321	--	--	--	118,321
Utility services tax	935,510	--	--	--	935,510
Hotel occupancy tax	14,302	--	--	--	14,302
Animal tax	4,916	--	--	--	4,916
Gas and oil severance tax	17,696	--	--	--	17,696
Amusement tax	90,129	--	--	--	90,129
Coal severance tax	--	68,694	--	--	68,694
Licenses and permits	204,981	--	--	--	204,981
Intergovernmental:					
Federal	32,050	--	100,100	526,673	658,823
State	--	--	6,366,958	--	6,366,958
Charges for services	2,040,227	--	--	--	2,040,227
Fines and forfeits	218,749	--	--	237,566	456,315
Interest and investment earnings	64,513	898	138	72,872	138,421
Franchise fees	258,291	--	--	--	258,291
Reimbursements	736	--	--	--	736
Payments in lieu of taxes	6,962	--	--	--	6,962
Contributions and donations	400	--	--	1,129,802	1,130,202
Miscellaneous	71,622	--	--	8,779	80,401
Total revenues	<u>11,083,090</u>	<u>69,592</u>	<u>6,467,196</u>	<u>1,975,692</u>	<u>19,595,570</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	<u>General</u>	<u>Coal Severance Tax</u>	<u>Economic Development Grant</u>	<u>Other Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
EXPENDITURES					
Current:					
General government	\$ 1,785,677	\$ --	\$ --	\$ 520,291	\$ 2,305,968
Public safety	5,156,033	--	--	44,740	5,200,773
Streets and transportation	831,263	59,765	--	--	891,028
Health and sanitation	955,740	--	--	--	955,740
Culture and recreation	133,796	--	--	--	133,796
Benefits paid	--	--	--	122,667	122,667
Community Development	--	--	--	835,332	835,332
Social services	5,176	--	--	--	5,176
Capital projects	--	--	--	329,139	329,139
Education	--	--	--	23,193	23,193
Economic development	--	--	6,467,058	237,971	6,705,029
Total expenditures	<u>8,867,685</u>	<u>59,765</u>	<u>6,467,058</u>	<u>2,113,333</u>	<u>17,507,841</u>
Excess (deficiency) of revenues over (under) expenditures	2,215,405	9,827	138	(137,641)	2,087,729
OTHER FINANCING SOURCES (USES)					
Transfers in	55,018	--	--	1,293,287	1,348,305
Transfers (out)	(1,371,471)	--	--	(466,057)	(1,837,528)
Proceeds from the sale of assets	17,415	--	--	--	17,415
Total other financing sources (uses)	<u>(1,299,038)</u>	<u>--</u>	<u>--</u>	<u>827,230</u>	<u>(471,808)</u>
Net change in fund balance	916,367	9,827	138	689,589	1,615,921
Fund balances - beginning, as restated, Note IV.I	<u>1,826,370</u>	<u>32,761</u>	<u>--</u>	<u>1,778,673</u>	<u>3,637,804</u>
Fund balances - ending	<u>\$ 2,742,737</u>	<u>\$ 42,588</u>	<u>\$ 138</u>	<u>\$ 2,468,262</u>	<u>\$ 5,253,725</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007

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

Net change in fund balances - total governmental funds	\$	1,615,921
Capital outlays are reported as an expenditure in the governmental funds but are considered an asset at the government-wide level. This is the amount of capital assets that were purchased during the fiscal year.		903,329
Capital outlays are reported as an expenditure in the governmental funds. In the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation expense charged during the year.		(910,257)
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets. This is the book value of assets sold during the year.		(15,915)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the amount receivables changed during the year.		(58,550)
The issuance of long term debt(e.g., leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the amount paid on leases during the year.		70,526
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds (Note II.B).		<u>(1,779,020)</u>
Change in net assets of governmental activities	\$	<u><u>(173,966)</u></u>

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Modified Accrual Basis</u>	<u>Adjustments Budget Basis</u>	<u>Actual Amounts Budget Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>				
REVENUES						
Taxes:						
Ad valorem property taxes	\$ 1,459,271	\$ 1,459,271	\$ 1,499,992	\$ 69,523	\$ 1,569,515	\$ 110,244
Business & occupation tax	3,923,196	5,390,196	5,503,693	(187,858)	5,315,835	(74,361)
Alcoholic beverages tax	73,000	51,000	118,321	--	118,321	67,321
Utility services tax	850,000	904,258	935,510	(12,516)	922,994	18,736
Hotel occupancy tax	17,200	15,700	14,302	(181)	14,121	(1,579)
Animal tax	4,400	4,400	4,916	--	4,916	516
Gas and oil severance tax	13,900	13,900	17,696	--	17,696	3,796
Amusement tax	86,000	88,000	90,129	--	90,129	2,129
Licenses and permits	185,000	180,500	204,981	--	204,981	24,481
Intergovernmental:						
Federal	--	--	32,050	--	32,050	32,050
State	56,000	34,716	--	--	--	(34,716)
Charges for services	1,989,000	2,007,930	2,040,227	262,389	2,302,616	294,686
Fines and forfeits	150,000	190,000	218,749	--	218,749	28,749
Interest earnings	17,000	37,000	64,513	--	64,513	27,513
Franchise fees	250,000	255,000	258,291	96,853	355,144	100,144
Reimbursements	--	800	736	--	736	(64)
Payments in lieu of taxes	9,000	9,000	6,962	--	6,962	(2,038)
Contributions and donations	--	400	400	--	400	--
Miscellaneous	20,500	67,561	71,623	--	71,623	4,062
Total revenues	9,103,467	10,709,632	11,083,091	228,210	11,311,301	601,669
EXPENDITURES						
Current:						
General government	1,822,537	2,042,406	1,785,677	155,118	1,940,795	101,611
Public safety	5,224,282	5,342,800	5,156,033	--	5,156,033	186,767
Streets and transportation	900,490	937,211	831,263	--	831,263	105,948
Health and sanitation	951,864	956,294	955,740	--	955,740	554
Culture and recreation	198,464	196,221	133,796	--	133,796	62,425
Social services	5,830	5,330	5,176	--	5,176	154
Total expenditures	9,103,467	9,480,262	8,867,685	155,118	9,022,803	457,459
Excess (dcficiency) of revenues over (under) expenditures	--	1,229,370	2,215,406	73,092	2,288,498	1,059,128

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual Modified Accrual Basis	Adjustments Budget Basis	Actual Amounts Budget Basis	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>				
OTHER FINANCING SOURCES (USES)						
Transfers in	\$ --	\$ 86,988	\$ 55,018	\$ --	\$ 55,018	\$ (31,970)
Transfers (out)	--	(1,489,191)	(1,371,472)	(159,813)	(1,531,285)	(42,094)
Proceeds from the sale of assets	--	17,415	17,415	--	17,415	--
Total other financing sources (uses)	--	(1,384,788)	(1,299,039)	(159,813)	(1,458,852)	(74,064)
Net change in fund balance	--	(155,418)	916,367	(86,721)	829,646	985,064
Fund balances - beginning, as restated, Note IV.I	--	155,418	1,826,370	(1,064,977)	761,393	605,975
Fund balances - ending	\$ --	\$ --	\$ 2,742,737	\$ (1,151,698)	\$ 1,591,039	\$ 1,591,039

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - COAL SEVERANCE TAX FUND
For the Fiscal Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		Actual	Variance with
	<u>Original</u>	<u>Final</u>	Amounts Budget Basis	Final Budget Positive (Negative)
REVENUES				
Taxes:				
Coal severance tax	\$ 66,000	\$ 66,000	\$ 68,694	\$ 2,694
Interest earnings	300	300	898	598
	<u>66,300</u>	<u>66,300</u>	<u>69,592</u>	<u>3,292</u>
Total revenues				
EXPENDITURES				
Current:				
Streets and transportation	<u>66,300</u>	<u>89,472</u>	<u>59,765</u>	<u>29,707</u>
Total expenditures	<u>66,300</u>	<u>89,472</u>	<u>59,765</u>	<u>29,707</u>
Excess (deficiency) of revenues over (under) expenditures	--	(23,172)	9,827	32,999
Fund balances - beginning	<u>--</u>	<u>23,172</u>	<u>32,761</u>	<u>9,589</u>
Fund balances - ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 42,588</u>	<u>\$ 42,588</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

	Business-type Activities - Enterprise Funds			
	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Totals</u>
ASSETS				
Current:				
Cash and cash equivalents	\$ 815,818	\$ 325,933	\$ 6,100	\$ 1,147,851
Receivables:				
Accounts	523,619	--	16,750	540,369
Accrued interest	--	7,410	--	7,410
Other	13,376	--	--	13,376
Loans	--	137,501	--	137,501
Grants	26,852	--	--	26,852
Due from:				
Other funds	453	--	176	629
Component units	820	--	--	820
Other governments	47	--	--	47
Inventory, at cost	129,059	--	--	129,059
	1,510,044	470,844	23,026	2,003,914
Total current assets				
Restricted:				
Regular account	4,160,462	--	--	4,160,462
Reserve account	--	182,647	--	182,647
Renewal and replacement	2,015	--	--	2,015
Customer deposits	30,373	--	--	30,373
	4,192,850	182,647	--	4,375,497
Total restricted assets				
Capital assets:				
Land	227,647	744,740	--	972,387
Buildings	--	3,770,144	137,440	3,907,584
Structures and improvements	7,700,712	4,502,922	--	12,203,634
Transmission and distribution	41,106,813	--	--	41,106,813
Machinery and equipment	5,230,842	--	126,558	5,357,400
Construction in progress	346,378	7,411	--	353,789
Less: accumulated depreciation	(18,443,604)	(390,605)	(137,039)	(18,971,248)
	36,168,788	8,634,612	126,959	44,930,359
Total capital assets (net of accumulated depreciation)				

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

	Business-type Activities - Enterprise Funds			
	Water	Building Commission	Parking	Totals
Other debits:				
Unamortized bond discount	\$ 519,314	\$ --	\$ --	\$ 519,314
Unamortized bond issue costs	<u>78,009</u>	<u>--</u>	<u>--</u>	<u>78,009</u>
Total other debits	<u>597,323</u>	<u>--</u>	<u>--</u>	<u>597,323</u>
Total assets	<u>\$ 42,469,005</u>	<u>\$ 9,288,103</u>	<u>\$ 149,985</u>	<u>\$ 51,907,093</u>
LIABILITIES				
Current liabilities payable				
from current assets:				
Accounts payable	\$ 1,038,748	\$ 18,978	\$ 104	\$ 1,057,830
Payroll payable	33,042	--	765	33,807
Due to:				
Component unit	186,218	--	--	186,218
Other funds	646,854	--	3,429	650,283
Other governments	<u>664</u>	<u>--</u>	<u>--</u>	<u>664</u>
Total current liabilities payable				
from current assets	<u>1,905,526</u>	<u>18,978</u>	<u>4,298</u>	<u>1,928,802</u>
Current liabilities payable from				
restricted assets:				
Revenue bonds payable	835,000	173,553	--	1,008,553
Notes payable	352,968	--	--	352,968
Accrued revenue bond/note				
interest payable	872,137	13,736	--	885,873
Customer deposits	<u>52,200</u>	<u>--</u>	<u>--</u>	<u>52,200</u>
Total current liabilities payable				
from restricted assets	<u>2,112,305</u>	<u>187,289</u>	<u>--</u>	<u>2,299,594</u>
Noncurrent liabilities:				
Bonds payable	34,040,000	4,858,625	--	38,898,625
Notes payable	1,521,852	400,000	--	1,921,852
Compensated absences payable	<u>259,760</u>	<u>--</u>	<u>267</u>	<u>260,027</u>
Total noncurrent liabilities	<u>35,821,612</u>	<u>5,258,625</u>	<u>267</u>	<u>41,080,504</u>
Total liabilities	<u>39,839,443</u>	<u>5,464,892</u>	<u>4,565</u>	<u>45,308,900</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2007

Business-type Activities
- Enterprise Funds

	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Totals</u>
NET ASSETS				
Invested in capital assets (net of related debt)	\$ (465,941)	\$ 3,602,434	\$ 126,959	\$ 3,263,452
Restricted for debt service	4,192,850	182,647	--	4,375,497
Unrestricted	<u>(1,097,347)</u>	<u>38,130</u>	<u>18,461</u>	<u>(1,040,756)</u>
Total net assets	<u>2,629,562</u>	<u>3,823,211</u>	<u>145,420</u>	<u>6,598,193</u>
Total liabilities and net assets	<u>\$ 42,469,005</u>	<u>\$ 9,288,103</u>	<u>\$ 149,985</u>	<u>\$ 51,907,093</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			
	Water	Building Commission	Parking	Totals
Operating revenues:				
Sales and services to customers	\$ 5,048,175	\$ --	\$ 82,234	\$ 5,130,409
Discount and penalties	118,622	--	37,623	156,245
Water services	274,845	--	--	274,845
Miscellaneous	30,094	250	--	30,344
	<u>5,471,736</u>	<u>250</u>	<u>119,857</u>	<u>5,591,843</u>
Total revenues				
Operating expenses:				
Personal services	1,072,772	--	32,932	1,105,704
Contractual services	35,105	500	1,453	37,058
Administrative and general	931,363	2,910	4,517	938,790
Materials and supplies	369,950	3,947	3,168	377,065
Utilities	356,092	--	14,391	370,483
Depreciation	1,454,336	246,791	4,442	1,705,569
Maintenance	42,850	--	36,366	79,216
Amortization	48,543	--	--	48,543
	<u>4,311,011</u>	<u>254,148</u>	<u>97,269</u>	<u>4,662,428</u>
Total operating expenses				
Operating income (loss)	<u>1,160,725</u>	<u>(253,898)</u>	<u>22,588</u>	<u>929,415</u>
Nonoperating revenues (expenses):				
Interest revenue	176,040	20,713	2,340	199,093
Interest and fiscal charges	(1,796,747)	(243,603)	--	(2,040,350)
	<u>(1,620,707)</u>	<u>(222,890)</u>	<u>2,340</u>	<u>(1,841,257)</u>
Total nonoperating revenues (expenses)				
Income (loss) before operating transfers and contributions	<u>(459,982)</u>	<u>(476,788)</u>	<u>24,928</u>	<u>(911,842)</u>
Capital contributions	346,378	--	--	346,378
Transfers in	--	566,824	134,944	701,768
Transfers(out)	--	(30,000)	(182,545)	(212,545)
	<u>--</u>	<u>(30,000)</u>	<u>(182,545)</u>	<u>(212,545)</u>
Change in net assets	<u>(113,604)</u>	<u>60,036</u>	<u>(22,673)</u>	<u>(76,241)</u>
Net assets at beginning of year, as restated, Note IV.I	<u>2,743,166</u>	<u>3,763,175</u>	<u>168,093</u>	<u>6,674,434</u>
Net assets at end of year	<u>\$ 2,629,562</u>	<u>\$ 3,823,211</u>	<u>\$ 145,420</u>	<u>\$ 6,598,193</u>

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds			
	Water	Building Commission	Parking	Totals
Cash flows from operating activities:				
Cash received from customers	\$ 5,411,528	\$ (40,610)	\$ 103,587	\$ 5,474,505
Cash paid for goods and services	(726,251)	139,096	(69,317)	(656,472)
Cash paid to employees	(1,070,952)	--	(33,080)	(1,104,032)
Net cash provided (used) by operating activities	3,614,325	98,486	1,190	3,714,001
Cash flows from noncapital financing activities:				
Transfers in	--	566,824	134,944	701,768
Transfers (out)	--	(30,000)	(182,545)	(212,545)
Net cash provided (used) by noncapital financing activities	--	536,824	(47,601)	489,223
Cash flows from capital and related financing activities:				
Proceeds from capital debt	848,482	572,941	--	1,421,423
Capital contributions	346,378	--	--	346,378
Purchases of capital assets	(1,601,943)	(1,019,617)	--	(2,621,560)
Principal paid on capital debt	(981,193)	(172,148)	--	(1,153,341)
Interest paid on capital debt	(1,815,539)	(232,867)	--	(2,048,406)
Net cash provided (used) by capital and related financing activities	(3,203,815)	(851,691)	--	(4,055,506)
Cash flows from investing activities:				
Interest received	176,040	20,713	2,340	199,093
Net cash provided (used) by investing activities	176,040	20,713	2,340	199,093
Net increase (decrease) in cash and cash equivalents	586,550	(195,668)	(44,071)	346,811
Cash and cash equivalents, July 1, (including \$4,356,100 in restricted accounts)	4,422,118	704,248	50,171	5,176,537
Cash and cash equivalents, June 30, (including \$4,375,497 in restricted accounts)	\$ 5,008,668	\$ 508,580	\$ 6,100	\$ 5,523,348

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CASH FLOWS- PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007

Business-type Activities
- Enterprise Funds

	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Totals</u>
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1,160,725	\$ (253,898)	\$ 22,588	\$ 929,415
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	1,454,336	246,791	4,442	1,705,569
Amortization	48,543	--	--	48,543
Decrease (increase) in accounts receivable	(60,308)	(7,410)	(16,270)	(83,988)
Decrease (increase) in grants receivable	(26,852)	--	--	(26,852)
Decrease (increase) in other receivables	5	--	--	5
Decrease (increase) in loans receivable	--	(33,450)	--	(33,450)
Decrease (increase) in due from component unit	(820)	--	--	(820)
Decrease (increase) in due from other funds	(453)	--	(176)	(629)
Decrease (increase) in due from other governments	(47)	177,715	--	177,668
Decrease (increase) in inventory	330	--	--	330
Decrease (increase) in due to component units	186,218	--	--	186,218
Increase (decrease) in customer deposits	100	--	--	100
Increase (decrease) in accounts payable	758,311	(30,909)	56	727,458
Increase (decrease) in due to other funds	108,289	(353)	(9,302)	98,634
Increase (decrease) in payroll payable	33,042	--	765	33,807
Increase (decrease) in due to other governments	664	--	--	664
Increase (decrease) in other accrued expenses	(49,578)	--	--	(49,578)
Increase (decrease) in compensated absences payable	1,820	--	(913)	907
Net cash provided by operations	<u>\$ 3,614,325</u>	<u>\$ 98,486</u>	<u>\$ 1,190</u>	<u>\$ 3,714,001</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	<u>Pension Trust Funds</u>
ASSETS	
Non-pooled cash	\$ 39,645
Pooled cash	<u>365,647</u>
Total cash	<u>405,292</u>
Investments, at fair value:	
Commercial paper	1,186,237
Federal government securities	233,559
Mutual funds	2,713,488
Common stock	1,312,334
Corporate bonds	<u>934,585</u>
Total investments	<u>6,380,203</u>
Receivables:	
Interest	18,637
Due from other funds	3,894
Due from other governments	<u>67,914</u>
Total receivables	<u>90,445</u>
Total assets	<u>\$ 6,875,940</u>
LIABILITIES	
Accounts payable	<u>\$ 83</u>
Total liabilities	<u>83</u>
NET ASSETS	
Net assets held in trust for pension benefits	<u>\$ 6,875,857</u>

(1) A schedule of funding progress for each plan is presented in the Required Supplementary Information section of this report.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2007

	<u>Pension Trust Funds</u>
ADDITIONS	
Contributions:	
Employer	\$ 923,999
Plan members	238,510
Insurance premium surtax	<u>816,273</u>
Total contributions	<u>1,978,782</u>
Investment income:	
Net increase (decrease) in fair value of investments	526,348
Net gain (loss) on sale of investments	63,149
Interest and dividends	250,049
Miscellaneous	<u>93</u>
Net investment income	<u>839,639</u>
Total additions	<u>2,818,421</u>
DEDUCTIONS	
Benefits	2,274,285
Administrative expenses	22,906
Refunds of contributions	5,787
Miscellaneous	<u>3,739</u>
Total deductions	<u>2,306,717</u>
Change in net assets	511,704
Net assets held in trust for pension benefits:	
Beginning of year	<u>6,364,153</u>
End of year	<u>\$ 6,875,857</u>

(1) A schedule of funding progress for each plan is presented in the Required Supplementary Information section of this report.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Municipality of Fairmont, West Virginia, conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of significant accounting policies:

A. Reporting Entity

The Municipality of Fairmont is a municipal corporation governed by an elected nine member council with an appointed city manager. The accompanying financial statements present the government and its component units as required by generally accepted accounting principles.

The services provided by the government and accounted for within these financial statements include law enforcement for the Municipality, health and sanitation services, cultural and recreational programs, and other governmental services.

The accompanying financial statements present the government and its component units as required by the accounting principles generally accepted in the United States. In determining whether to include a governmental department, agency, commission or organization as a component unit, the government must evaluate each entity as to whether they are legally separate and financially accountable based on the criteria set forth by the Governmental Accounting Standards Board (GASB). Legal separateness is evaluated on the basis of (1) its corporate name, (2) the right to sue and be sued and (3) the right to buy, sell or lease and mortgage property. Financial accountability is based on (1) the appointment of the governing authority and (2) the ability to impose will or (3) the providing of specific financial benefit or imposition of specific financial burden. Another factor to consider in this evaluation is whether an entity is fiscally dependent on the Municipality.

Blended Component Unit

The entity below is legally separate from the Municipality and meets GASB criteria for a component unit. This entity is blended with the primary government because it provides services entirely or almost entirely to the Municipality.

The *Fairmont Building Commission* serves the Municipality of Fairmont, West Virginia, and is governed by a board comprised of five members appointed by the Municipality. The Building Commission acquires property and debt on behalf of the Municipality. The Fairmont Building Commission is reported as an enterprise fund.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

Discretely Presented Component Unit

Discretely presented component units are entities which are legally separate from the Municipality, but are financially accountable to the Municipality, or whose relationship with the Municipality is such that exclusion would cause the Municipality's financial statements to be misleading or incomplete. Because of the nature of services they provide and the Municipality's ability to impose its will on them or a financial benefit/burden relationship exists, the following component units are discretely presented in accordance with GASB Statement No. 14 (as amended by GASB Statement No. 39). The discretely presented component unit is presented on the government-wide statements.

The *Fairmont Sanitary Sewer Board* serves all the citizens of the Municipality of Fairmont and is governed by a three member board comprised of the Mayor and two members approved by council. The rates for user charges and bond issuance authorizations are approved by the government's elected council.

Complete financial statements for the component unit can be obtained at the entity's administrative offices.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Combining financial statements for the nonmajor governmental funds are included as supplementary information.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, interest and special assessments are susceptible to accrual. Also, certain taxpayer-assessed revenues such as business and occupation and utility taxes are accrued as revenue at year end. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The government reports the following major governmental funds:

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

The *Coal Severance Tax fund*, a special revenue fund, accounts for revenues and expenditures from a severance tax placed on coal that is distributed to West Virginia counties.

The *EDA Grant fund*, a special revenue fund, accounts for grant activities designated for economic development.

The government reports the following major proprietary funds:

The *Building Commission* fund serves the Municipality by providing facilities that provide facilities to the public. The legally separate entity leases these facilities to the primary government in accordance to lease agreements. The board promulgates rules and regulations governing the usage and maintenance of the facilities.

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The *Water fund* serves the citizens of the Municipality of Fairmont by providing water services to the community. This fund accounts for the receipts and expenses of operating this facility. The rates for user charges and bond issuance authorizations are approved by the government's elected council.

The *Parking fund* serves the citizens of Fairmont by providing parking services to the community. The fund accounts for the receipts and expenses of operating this facility. The rates for user charges and bond issuances authorizations are approved by the government's elected council.

Additionally, the government reports the following fund types:

The *pension trust funds* account for the activities of the Public Safety Employees Retirement Systems, which accumulates resources for pension benefit payments to qualified public safety employees. These funds are accounted for in essentially the same manner as the proprietary funds, using the same measurement focus and basis of accounting.

The Municipality of Fairmont, West Virginia follows GASB guidance as applicable to proprietary funds and FASB Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with GASB Pronouncements in both the government-wide and proprietary fund financial statements.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the Building Commission and Water (enterprise funds) and the Fairmont Sanitary Sewer Board, a discretely presented component unit, are charges to customers for services. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Municipality of Fairmont, West Virginia's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of less than three months from the date of acquisition. For purposes of the Statement of Cash Flows, restricted assets may be considered cash equivalents based on liquidity.

In accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools", the Municipality reports its investments at fair value, except for non-participating investment contracts (certificates of deposit and repurchase agreements) which are reported at cost, which approximates fair value. All investment income, including changes in fair value of investments, are recognized as revenue in the operating statement. Fair value is determined by quoted market prices.

Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Managed funds related to the retirement systems not listed on an established market are reported at estimated fair value as determined by the respective fund managers based on quoted sales prices of underlying securities. Cash deposits are reported at carrying amount which reasonably estimates fair value. The composition of investments and fair values are presented in Note IV.A.

State statutes authorize the government to invest in the State Investment Pool or the Municipal Bond Commission or to invest such funds in the following classes of securities: Obligations of the United States or any agency thereof, certificates of deposit (which mature in less than one year), general and direct obligations of the State of West Virginia; obligations of the federal mortgage association; indebtedness secured by first lien deed of trusts for property situated within this state if the payment is substantially insured or guaranteed by the federal government; pooled mortgage trusts (subject to limitations); indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades; interest earning deposits which are fully insured or collateralized; and mutual funds registered with S.E.C. which have fund assets over three hundred million dollars.

State statute limitations concerning the aforementioned investments include the following: at no time can investment portfolios consist of more than seventy-five percent of the indebtedness of any private corporation nor can the portfolio have over twenty-five percent of its portfolio consisting of the indebtedness of a private corporation's debt which matures in less than one year; at no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association; and at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

Municipal Pension Funds are governed as to type of investments by *West Virginia Code 8-22-22*. Pension funds are permitted to invest in all of the above mentioned types of investments with the exceptions of (1) Direct and general obligations of the state and (2) Pooled mortgage trusts. Additionally, pension funds are permitted to invest funds in the following categories of investments: (1) Repurchase agreements and (2) Common stock, securities convertible into common stocks, or warrants and rights to purchase such securities. Pension funds have different rules concerning the purchase of marketable debt securities.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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The following restrictions apply only to pension portfolios and are separate and distinct from the limitations mentioned above: (1) fixed income securities which are issued by one issuer (with the exception of the United States government) are not to exceed ten percent of the total pension fund assets; and (2) at no time can the equity portion of the portfolio exceed sixty percent of the total portfolio.

2. Receivables and Payables

Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables or payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balance outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances".

Trade Receivables

All trade receivables are shown at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Property Tax Receivable

All current taxes assessed on real and personal property may be paid in two installments; the first installment is payable on September first of the year for which the assessment is made, and becomes delinquent on October first; the second installment is payable on the first day the following March and becomes delinquent on April first. Taxes paid on or before the date when they are payable, including both first and second installments, are subject to a discount of two and one-half percent. If the taxes are not paid on or before the date in which they become delinquent, including both first and second installments, interest at the rate of nine percent per annum is added from the date they become delinquent until the date they are paid.

All municipalities within the state are authorized to levy taxes not in excess of the following maximum levies per \$100 of assessed valuation: On Class I property, twelve and five-tenths cents (12.5 cents); On Class II property, twenty-five cents (25 cents); On Class IV property, fifty cents (50 cents). In addition, municipalities may provide for an election to lay an excess levy; the rates not to exceed statutory limitations, provided at least sixty percent of the voters cast ballots in favor of the excess levy.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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The rates levied by the Municipality per \$100 of assessed valuation for each class of property for the fiscal year ended June 30, 2007, were as follows:

Class of Property	Assessed Valuation For Tax Purposes	Current Expense
Class I	\$ 18,972	11.82 cents
Class II	\$ 170,765,300	23.64 cents
Class IV	\$ 252,897,621	47.28 cents

3. Inventories and Prepaid Items

For proprietary and governmental funds, inventories are valued at cost using the first- in/first-out (FIFO) method.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Restricted Assets

Certain assets of the General fund are classified as restricted assets because their use is restricted by customer agreements.

Certain proceeds of the Water enterprise fund revenue bonds, as well as certain proceeds set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

The "regular" account is used to segregate resources accumulated for debt service payments over the next twelve months.

The "reserve" account is used to report resources set aside to make up potential future deficiencies in the regular account.

The "renewal and replacement" account is used to report resources set aside to meet unexpected contingencies or fund asset renewals and replacements.

The "customer deposit" account is used to report the segregation of returnable cash deposits from customers of the utility upon initial receipt of the service.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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For the Fiscal Year Ended June 30, 2007

5. Capital Assets and Depreciation

Capital assets, which include property, plant, and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of \$1,000 or more and estimated to have a useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized in proprietary funds as projects are constructed. Interest incurred during the construction phase of proprietary fund capital assets is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds during the same period.

Capital assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	25 - 50
Structures and improvements	20 - 65
Transmission and distribution	10 - 20
Machinery and equipment	3 - 20

6. Compensated Absences

It is the government's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation and sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements in accordance with GASB Statement No. 16, Accounting for Compensated Absences.

7. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and the Government-wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds". The details of this \$1,779,020 difference are as follows:

Compensated absences	\$ 14,383
Net pension obligation - Police	754,416
Net pension obligation - Fire	<u>1,010,221</u>
Net adjustment to decrease net changes in fund balances-total governmental funds to arrive at changes in net assets of governmental activities	<u><u>\$ 1,779,020</u></u>

III. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund and the Coal Severance Tax Special Revenue Fund. All annual appropriations lapse at fiscal year end.

The Municipality of Fairmont, West Virginia prepares its budget on the cash basis of accounting. Therefore, a reconciliation has been performed on the Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual for the General Fund.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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The governing body of the municipality is required to hold a meeting or meetings between the seventh and twenty-eighth days of March to ascertain the financial condition of the Municipality and to prepare the levy estimate (budget) for the fiscal year commencing July 1. The budget is then forthwith submitted to the State Auditor for approval. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and formally lay the levy.

The appropriated budget is prepared by fund, function and department. Transfers of appropriations between departments and revenue related revisions to the budget require approval from the governing council and then submission to the State Auditor for approval. Revisions become effective when approved by the State Auditor and budgeted amounts in the financial statements reflect only such approved amounts. The governing body made the following material supplementary budgetary appropriations throughout the year.

<u>Amount</u>	<u>Description</u>
\$ 219,869	General Government Expenditure Increase
118,518	Public Safety Expenditure Increase
36,721	Streets and Transportation Expenditure Increase
4,430	Health and Sanitation Expenditure Increase
(2,243)	Culture and Recreation Expenditure Decrease
(500)	Social Services Expenditure Decrease

Encumbrance accounting is employed as an extension of the formal budgetary process. Encumbrances (e.g. purchase orders, contracts) are reported as reservations of fund balance and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At year end, the government had the following investments:

	<u>Fair Value</u>	<u>Credit Risk Rating</u>		
		<u>Standard & Poor's and Fitch</u>	<u>Moody's Investment Services</u>	
Primary Government				
U.S. Federal Securities	\$ 263,278	n/a	n/a	
Mutual Funds	938,003	not rated	not rated	
Municipal Bond Commission	4,160,462	not rated	not rated	
Total	<u>\$ 5,361,743</u>			
 <i>Interest Rate Risk</i>				
	<u>0-3 years</u>	<u>4-7 years</u>	<u>7-10 years</u>	<u>Over 10 years</u>
Mutual Funds	\$ 938,003	\$ --	\$ --	\$ --
Municipal Bond Commission	4,160,462	--	--	--
Total	<u>\$ 5,098,465</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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For the Fiscal Year Ended June 30, 2007

	Fair Value	Credit Risk Rating	
		Standard & Poor's and Fitch	Moody's Investment Services
Policemen's Pension and Relief			
Mutual Funds	\$ 2,713,488	not rated	not rated
Certificates of Deposit	1,186,237	n/a	n/a
Total	<u>\$ 3,899,725</u>		

Interest Rate Risk

	0-3 years	4-7 years	7-10 years	Over 10 years
Mutual Funds	\$ 2,713,488	\$ --	\$ --	\$ --
Certificates of Deposit	649,152	537,085	--	--
Total	<u>\$ 3,362,640</u>	<u>\$ 537,085</u>	<u>\$ --</u>	<u>\$ --</u>

	Fair Value	Credit Risk Rating	
		Standard & Poor's and Fitch	Moody's Investment Services
Firemen's Pension and Relief			
U.S. Federal Securities	\$ 233,559	n/a	n/a
Corporate Bonds	934,585	AAA - AA	AA - AA3
Common Stock	1,312,334	n/a	n/a
Total	<u>\$ 2,480,478</u>		

Interest Rate Risk

	0-3 years	4-7 years	7-10 years	Over 10 years
U.S. Federal Securities	\$ --	\$ --	\$ 233,559	\$ --
Corporate Bonds	315,539	409,583	206,319	3,144
Total	<u>\$ 315,539</u>	<u>\$ 409,583</u>	<u>\$ 439,878</u>	<u>\$ 3,144</u>

Interest Rate Risk

The government does not have a policy for interest rate risk.

Credit Risk

State law limit investments as described in Note I.D.1. The government does not have a policy for credit risk in addition to state regulations. As of June 30, 2007, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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Concentration of Credit Risk

The government does not have a policy for concentration of credit risk. In accordance with GASB Statement No. 40, "Deposit and Investment Risk Disclosures", requires disclosure when the investment in any one issuer equals or exceeds 5% of the total amount of investments. At year end, the government had the following investments held with these issuers:

Issuer	Fair Value	Percent
Federated GNMA Trust Fund # 16	345,871	6.41%
Federated Income Trust FD 36	294,793	5.46%
Municipal Bond Commission	4,160,461	77.08%

Custodial Credit Risk

For deposits, the government could be exposed to risk in the event of a bank failure where the government's deposits may not be returned. The government's policy for custodial credit risk is to require that all deposits in excess of FDIC amounts be collateralized. At year end, the primary government's and fiduciary funds' bank balances were \$4,404,588. The entire balance was collateralized with securities held by the pledging financial institution's trust department or agent in the government's name.

For investments, the government could be exposed to risk in the event of the failure of the counterparty where the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The government does not have a deposit policy for custodial credit risk. At year end, the primary government's and fiduciary funds' investment balances were \$11,741,946. The entire balance is secured either by collateral held with the pledging financial institution's trust department or agent in the government's name, by SIPC, or by the full faith and credit of the US government.

A reconciliation of cash and investments as shown on the Statement of Net Assets of the primary government and Statement of Net Assets of the Fiduciary Funds is as follows:

Cash and cash equivalents	\$ 4,404,588
Investments - collateralized and secured	11,741,946
Total	<u>\$ 16,146,534</u>
Cash and cash equivalents	\$ 3,991,054
Cash and cash equivalents-restricted	413,534
Investments	973,095
Investments-restricted	10,768,851
Total	<u>\$ 16,146,534</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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B. Receivables

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

	Economic		Water	Building	
	General	Development Grant		Commission	Parking
Receivables:					
Accounts	\$ 701,639	\$ --	\$ 764,831	\$ --	\$ 30,454
Accrued interest	--	--	--	7,410	--
Taxes	1,600,049	--	--	--	--
Other	68,372	--	13,376	--	--
Loans	--	--	--	137,501	--
Grants	--	1,967,613	26,852	--	--
Gross Receivables	<u>2,370,060</u>	<u>1,967,613</u>	<u>805,059</u>	<u>144,911</u>	<u>30,454</u>
Less: Allowance for Uncollectible	<u>(674,779)</u>	<u>--</u>	<u>(241,212)</u>	<u>--</u>	<u>(13,704)</u>
Net Total Receivables	<u>\$ 1,695,281</u>	<u>\$ 1,967,613</u>	<u>\$ 563,847</u>	<u>\$ 144,911</u>	<u>\$ 16,750</u>

	Fiduciary	Other nonmajor	Total
	Funds	Governmental Funds	
Receivables:			
Accounts	\$ --	\$ --	\$ 1,496,924
Accrued interest	18,637	3,804	29,851
Taxes	--	--	1,600,049
Other	--	--	81,748
Loans	--	--	137,501
Grants	--	156,082	2,150,547
Gross Receivables	<u>18,637</u>	<u>159,886</u>	<u>5,496,620</u>
Less: Allowance for Uncollectible	<u>--</u>	<u>--</u>	<u>(929,695)</u>
Net Total Receivables	<u>\$ 18,637</u>	<u>\$ 159,886</u>	<u>\$ 4,566,925</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
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Governmental fund report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental fund also defer revenue recognition in connections with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue and unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>
Delinquent property taxes receivable (general fund)	\$ 95,303
Total deferred/unearned revenue for governmental funds	\$ 95,303

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Governmental activities:				
Capital assets being depreciated:				
Structures and improvements	\$ 1,196,425	\$ 3,987	\$ --	\$ 1,200,412
Machinery and equipment	4,394,641	796,842	(19,894)	5,171,589
Infrastructure	29,447,620	102,500	--	29,550,120
Total accumulated depreciation	(28,383,239)	(910,257)	3,979	(29,289,517)
Total capital assets being depreciated, net	6,655,447	(6,928)	(15,915)	6,632,604
Governmental activities capital assets, net	\$ 6,655,447	\$ (6,928)	\$ (15,915)	\$ 6,632,604
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 970,456	\$ 1,931	\$ --	\$ 972,387
Construction in progress	6,711,889	345,088	(6,703,188)	353,789
Total capital assets, not being depreciated	7,682,345	347,019	(6,703,188)	1,326,176
Capital assets being depreciated:				
Buildings	137,440	3,770,144	--	3,907,584
Structures and improvements	10,198,587	2,005,047	--	12,203,634
Transmission and distribution	41,067,409	39,404	--	41,106,813
Machinery and equipment	2,194,266	3,163,134	--	5,357,400
Less: accumulated depreciation	(17,265,679)	(1,705,569)	--	(18,971,248)
Total capital assets being depreciated, net	36,332,023	7,272,160	--	43,604,183
Business-type activities capital assets, net	\$ 44,014,368	\$ 7,619,179	(\$ 6,703,188)	\$ 44,930,359

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
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For the Fiscal Year Ended June 30, 2007

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

Governmental activities:	
General government	\$ 73,651
Public safety	207,209
Streets and transportation	621,967
Culture and recreation	<u>7,430</u>
Total depreciation expense-governmental activities	<u><u>\$ 910,257</u></u>
Business-type activities:	
Water	\$ 1,454,336
Building Commission	246,791
Parking	<u>4,442</u>
Total depreciation expense-business-type activities	<u><u>\$ 1,705,569</u></u>

Construction in Progress

For business-type activities, the government has active construction projects to maintain the water facility and to construct the public safety building. These projects are funded by various debt and grant sources.

D. Interfund Receivables, Payables, and Transfers

The composition of interfund balances as of June 30, 2007, is as follows:

Interfund receivables/payables:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
General	Parking	collections, less fees	\$ 3,429
General	Water	loan	606,167
General	Water	collections, less fees	40,687
General	Economic Development Grant	remittance	66
General	Nonmajor Governmental Funds	expense reimbursement	10,961
Capital Reserve	General Fund	Construction projects	300,148
Capital Reserve	Nonmajor Governmental Fund	grant activity	156,082
Capital Reserve	Economic Development Grant	grant activity	800
Police Pension	Nonmajor Governmental Fund	Pension remittance	1,947
Fire Pension	Nonmajor Governmental Fund	Pension remittance	1,947
	Total		<u><u>\$ 1,122,234</u></u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

Interfund receivables/payables for the primary government and component units:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Amount</u>
Sanitary Sewer Board	Water	collections, less fees	\$ 93,573
Sanitary Sewer Board	Water	loan	91,825
Water	Sanitary Sewer Board	reimbursement	820
Total:			<u>\$ 186,218</u>

Interfund transfers:

	<u>Transfers In</u>				<u>Total Transfers Out</u>
	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Building Commission</u>	<u>Parking</u>	
Transfers out:					
General fund	\$ --	\$ 1,293,287	\$ 18,000	\$ 60,184	\$ 1,371,471
Parking	--	--	182,545	--	182,545
Building					
Commission	30,000	--	--	--	30,000
Nonmajor govern- mental funds	<u>25,018</u>	<u>--</u>	<u>366,279</u>	<u>74,760</u>	<u>466,057</u>
Total Transfers In	<u>\$ 55,018</u>	<u>\$ 1,293,287</u>	<u>\$ 566,824</u>	<u>\$ 134,944</u>	<u>\$ 2,050,073</u>

Interfund transfers provide appropriations to subsidize the funds to support the programs and activities of the government.

E. Leases

Capital Leases

The government has entered into lease agreements as lessee for financing the acquisition of various equipment. These lease agreements qualify as capital leases for accounting purposes; and, therefore have been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

<u>Asset</u>	<u>Governmental Activities</u>
Machinery, equipment and vehicles	\$ 666,580
Less: accumulated depreciation	<u>(187,216)</u>
Total	<u>\$ 479,364</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2007, were as follows:

Year Ending June 30	Governmental Activities
2008	\$ 83,744
2009	69,966
2010	61,576
2011	45,107
2012	45,107
2013 - 2017	105,207
Total minimum lease payments	\$ 410,707
Less: amount representing interest	(53,940)
Present value of minimum lease payments	<u>\$ 356,767</u>

F. Long-Term Debt

Notes Payable

The Municipality entered into loan agreements with various agencies to finance water system issues, equipment, and construction projects. In February 2007 the Fairmont Building Commission borrowed \$300,000 from WV Housing bearing an interest rate of 0%. In 2007, the Water fund borrowed \$115,481 bearing an interest rate of 9.25% from BB&T and \$733,000 bearing an interest rate of 4.45% from Chase.

Purpose	Maturity Dates	Interest Rates	Issued	Retired	Balance June 30, 2007
Business-type activities:					
Water	6/2008	9.25%	\$ 115,481	\$ --	\$ 115,481
Water	3/30/2017	4.45%	733,000	14,636	718,364
Water	5/1/2013	4.04%	1,545,700	549,751	995,949
Water	4/28/2008	3.33%	17,479	13,628	3,851
Water	7/23/2008	3.33%	29,987	21,471	8,516
Water	12/15/2009	4.40%	96,784	64,125	32,659
Fairmont Building Commission	4/1/2009	varies	100,000	--	100,000
Fairmont Building Commission	9/1/2013	0.00%	300,000	--	300,000
Total notes payable			<u>\$ 2,938,431</u>	<u>\$ 663,611</u>	<u>\$ 2,274,820</u>

Debt service requirements to maturity are as follows:

Year Ended	Business-type Activities	
	Principal	Interest
2008	\$ 352,968	\$ 69,094
2009	335,454	65,724
2010	234,953	49,564
2011	239,805	39,797
2012	249,897	29,706
Totals	<u>\$ 2,274,820</u>	<u>\$ 300,545</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

Revenue Bonds

The Municipality issues bonds where the government pledges income derived from acquired or constructed assets to pay debt service.

Purpose	Maturity Dates	Interest Rates	Issued	Retired	Balance June 30, 2007
Business-type activities:					
Water	2014	4.25 - 5.50	\$ 10,260,000	\$ 4,395,000	\$ 5,865,000
Water	2030	3.60 - 4.90	9,600,000	535,000	9,065,000
Water	2030	4.50 - 5.25	19,945,000	-	19,945,000
Building Commission	3/28/1945	4.25	2,999,450	49,356	2,950,094
Building Commission	1/18/2025	5.14	1,345,000	101,283	1,243,717
Building Commission	3/28/2015	5.75	500,000	95,766	404,234
Building Commission	7/1/2014	5.75	750,000	315,867	434,133
Total revenue bonds			<u>\$ 45,399,450</u>	<u>\$ 5,492,272</u>	<u>\$ 39,907,178</u>

Revenue bond debt service requirements to maturity are as follows:

Year Ended	Business-type Activities	
	Principal	Interest
2008	\$ 1,008,553	\$ 2,035,907
2009	1,045,445	1,983,780
2010	1,106,120	1,928,264
2011	1,161,226	1,868,169
2012	1,221,889	1,804,536
2013 - 2017	5,828,255	9,001,376
2018 - 2022	8,285,887	6,126,155
2023 - 2027	9,699,447	3,747,896
2028 - 2032	9,034,246	1,203,153
2033 - 2037	518,315	269,965
2038 - 2042	640,794	147,486
2043 - 2047	357,001	19,037
Totals	<u>\$ 39,907,178</u>	<u>\$ 30,135,724</u>

The Municipality is required to comply with the provisions of the Water bond agreements and to ensure the revenues are adequate to meet its operating expenses and debt service requirements. The following schedule summarizes these provisions for the fiscal year ended June 30, 2007.

Rate Covenant

	Net Gross Water Revenues	Maximum Amount Annual Debt Service	Percentage	Percentage Required
Water	\$ 2,663,604	\$ 2,556,693	104%	115%

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

As of June 30, 2007, the Municipality was not in compliance with the provisions of the Water revenue bond covenants which require revenues to be 115% or above the amount of the highest principal payment plus interest due in any given year. The Municipality has approved an ordinance increasing the charge rates for all customers of the system.

Changes in Long-Term Liabilities

	Governmental Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital leases	\$ 427,293	\$ --	\$ (70,526)	\$ 356,767	\$ 83,744
Net pension obligation	6,781,704	1,764,637	--	8,546,341	--
Compensated absences	1,306,542	14,343	--	1,320,885	355,988
Governmental activities					
Long-term liabilities	<u>\$ 8,515,539</u>	<u>\$ 1,778,980</u>	<u>\$ (70,526)</u>	<u>\$ 10,223,993</u>	<u>\$ 439,732</u>
	Business-type Activities				
	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Revenue bonds payable	\$ 40,606,384	\$ 272,942	\$ (972,148)	\$ 39,907,178	\$ 1,008,553
Notes payable	1,307,532	1,148,481	(181,193)	2,274,820	352,968
Total bonds payable	<u>41,913,916</u>	<u>1,421,423</u>	<u>(1,153,341)</u>	<u>42,181,998</u>	<u>1,361,521</u>
Compensated absences	259,120	907	--	260,027	--
Business-type activities					
Long-term liabilities	<u>\$ 42,173,036</u>	<u>\$ 1,422,330</u>	<u>\$ (1,153,341)</u>	<u>\$ 42,442,025</u>	<u>\$ 1,361,521</u>

G. Restricted Assets

The balances of the restricted asset accounts for the primary government are as follows:

	Governmental Activities	Business-type Activities
Customer deposits	\$ 21,393	\$ 30,373
Revenue bond operations and maintenance account	--	4,343,109
Revenue bond renewal and replacement account	--	2,015
Total restricted assets	<u>\$ 21,393</u>	<u>\$ 4,375,497</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

H. Benefits Funded by the State of West Virginia

For the year ended June 30, 2007, the State of West Virginia contributed estimated payments on behalf of the governments public safety employees as follows:

Plan	Amount
Policemen's Pension and Relief Fund	\$ 352,935
Firemen's Pension and Relief Fund	463,338
Total	816,273

State contributions are funded by allocations of the State's insurance premium tax.

I. Prior Period Adjustment

The following fund balances/net assets required restatement at the beginning of the year as follows:

	General Fund	Police Investigative	Capital Project Building Commission	Enterprise Building Commission
Fund balances, as previously stated	\$ 1,866,887	\$ --	\$ 512,628	\$ --
Add:				
Checking account balance	--	40,517	--	--
Capital assets, net	--	--	--	8,174,411
Deduct:				
Checking account balance	(40,517)	--	--	--
Liabilities	--	--	--	(4,923,864)
Reclassify fund type	--	--	(512,628)	512,628
Fund balances, restated	\$ 1,826,370	\$ 40,517	\$ --	\$ 3,763,175

The following net assets required restatement at the beginning of the year as follows:

	Governmental Activities	Business-type Activities
Net assets, as previously stated	\$ 14,112,451	\$ 15,138,688
Add:		
Building Commission	--	3,763,175
Operating leases	13,321	--
Deduct:		
Net Pension Obligation	(6,781,704)	--
Building Commission	(3,763,175)	--
Ad Valorem Accrual	(1,293,300)	--
Sanitary Sewer Board	--	(12,227,429)
Net assets, restated	\$ 2,287,593	\$ 6,674,434

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

V. OTHER INFORMATION

A. Risk Management

The government is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries insurance with St. Paul for umbrella (general liability) insurance for these various risks.

On July 5, 1983, the City of Fairmont adopted Ordinance No. 600 authorizing self-insured status for Workers' Compensation. This Ordinance provides for the payment to the West Virginia Workers' compensation for costs of administering the fund, and the required amounts into a surplus fund for coverage of catastrophe and second injury liability, and to pay all Workers' Compensation benefits anticipated to be payable that year. In addition, the Ordinance authorized all necessary procedures to insure that all Workers' Compensation payments are paid promptly to eligible employees. It further directed, the purchase of excess insurance for the purpose of indemnifying the City against losses per accident in excess of a specific retention level and for the purpose of indemnifying the City against annual losses in the aggregate in excess of a specific retention level.

Liabilities are reported when it is probable a loss has occurred and the amount of the loss can be reasonably estimated.

Claims liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of pay-outs and other economic and social factors. The liability for claims and judgments include an amount for claims that have been incurred but not reported. Changes in the balances of claims liabilities during the fiscal year are as follows:

	Year Ended June 30, 2007
Unpaid claims, beginning of fiscal year	\$ 117,827
Incurred claims	162,588
Claim payments	(122,667)
Unpaid claims, end of fiscal year	\$ 157,748

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds.

The amount, if any, of expenditures which may be disallowed by the grant or cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the government's counsel that resolution of these matters will not have a material effect on the financial condition of the government.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

C. Other Post-employment Benefits

In addition to the pension benefits described in Note VI, the government provides post retirement health benefits for certain retirees and their dependents. The benefits vary depending on the years of service and sick leave accumulated by the retiree.

The government pays 100 percent of the applicable premiums for employees based on sick leave hours capped at July 1, 1992, based on a maximum of 90 days or amount accrued at that time until all of the retirees sick leave is used for premiums. This maximum was later capped on July 1, 2003, to 60 days maximum for subsequent hired employees. Retirees may also choose to obtain a one time payout of 75% of sick leave accrued. Any employees hired after July 1, 2001, may not choose the option of being paid for medical benefits, but must choose either to increase their tenure by the Pers formula or receive the one time payout.

VI. Employee Retirement Systems and Plans

VI.A.1. Plan Descriptions, Contribution Information, and Finding Policies

The Municipality of Fairmont, West Virginia participates in two single employer, public employee retirement systems. Assets are held separately and may be used only for the payment of benefits to the members of the respective plans, as follows:

The Policemen's Pension and Relief Fund (PPRF) provides retirement benefits for substantially all full-time police employees. Unless otherwise indicated, PPRF information in this Note is provided as of the latest actuarial valuation, July 1, 2006.

The Firemen's Pension and Relief Fund (FPRF) provides retirement benefits for substantially all full-time fire employees. Unless otherwise indicated, FPRF information in this Note is provided as of the latest actuarial valuation, July 1, 2005.

Actuarial valuations are required to be performed once every three years per state statute. However, the actuarial valuations can be performed in shorter intervals at the discretion of the PPRF and FPRF's board. For additional information relating to basis of accounting and reported investment values, see Notes I.C., I.D.1. and IV.I.

Memberships of the plans are as follows:

<u>Group</u>	<u>PPRF</u>	<u>FPRF</u>	<u>Totals</u>
Active Employees	34	41	75
Vested Terminated Benefits	2	-	2
Retirees and Beneficiaries Currently Receiving Benefits	44	60	104
Total	<u>80</u>	<u>101</u>	<u>181</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

These plans are defined benefit plans. The following is a summary of funding policies, contribution methods and benefit provisions.

	<u>PPRF</u>	<u>FPRF</u>
Determination of contribution requirements	Actuarially determined	Actuarially determined
Employer	Contributes annually an amount which, together with contributions from the members and the allocable portion of the state premium tax fund, will be sufficient to meet the normal cost of the fund and amortize any actuarial deficiency over a period of not more than forty years. However, municipalities may utilize an alternative contribution method which allows the municipality to contribute no less than 107% of the prior year contribution provided the actuary certifies in writing that the fund will be solvent over the next 15 years under this method. In no event can the employer contribution be less than the normal cost as determined by the actuary.	
Plan Members	7% of covered payroll	7% of covered payroll
Period Required to Vest	No vesting occurs. If separation from employment occurs the member is entitled to a refund of his/her contributions only.	
Post-Retirement Benefit Increases	Cost of living adjustment after two years of retirement. Adjustment calculated on the first \$15,000 of the total annual benefit in the first year and then the cumulative index for the preceding year. The supplemental pension benefit shall not exceed four percent.	
Eligibility for Distribution	20 years of credited service or age 65; whichever comes first. Must be at least age 50.	
Provisions for:	<u>PPRF</u>	<u>FPRF</u>
Disability Benefits	Yes	Yes
Death Benefits	Yes	Yes

Annual Required Contributions and Significant Actuarial Assumptions

The actuarial assumptions and other information used to determine the annual required contributions (ARC) are as follows:

	<u>Policemen's Pension & Relief Fund</u>	<u>Firemen's Pension & Relief Fund</u>
	7/1/2006	7/1/2005
Valuation Date	7/1/2006	7/1/2005
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Amortization Method	Level Percentage Open	Level, closed period ending June 30, 2031
Amortization Period	40 Years (Level Percentage)	26 Years (Level Percentage)
Actuarial Asset Valuation Method	Market Value	Market Value
Actuarial Assumptions:		
Investment Rate of Return	6.06%	6.50%
Projected Salary Increases	5.0% per year	4.0% per year
Post Retirement Benefit Increases	None	None
Inflation	3.00%	3.00%
Cost of Living Adjustments	\$15,000 of annual pension is increased by the lesser of inflation and 4%, but 75% of purchasing power is maintained.	\$15,000 of annual pension is increased by the lesser of inflation and 4%, but 75% of purchasing power is maintained.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

VI.A.2. Annual Pension Cost, Net Pension Obligation and Reserves

Current year annual pension costs for the PPRF and FPRF are shown in the trend information provided in VI.A.4. The annual required contributions were not made by both the PPRF or FPRF. The net pension obligation is listed in VI.A.3.

Reserves

There are no assets legally reserved for purposes other than the payment of plan members benefits for either plan.

VI.A.3 Annual Pension Cost and Net Pension Obligation (NPO)

The Municipality's annual pension cost and net pension obligation for the Policemen's and Firemen's Pension and Relief funds are as follows:

	<u>PPRF</u>	<u>FPRF</u>
Annual required contribution	\$ 1,043,737	\$ 1,438,523
Interest on short-term	250,467	249,298
Adjustment to annual required contribution	<u>(147,079)</u>	<u>(146,310)</u>
Annual pension cost	1,147,125	1,541,511
Contributions made	<u>392,709</u>	<u>531,290</u>
Increase in net pension obligation	754,416	1,010,221
Net pension obligation at beginning of the year	<u>3,399,742</u>	<u>3,381,962</u>
Net pension obligation at the end of the year	<u>\$ 4,154,158</u>	<u>\$ 4,392,183</u>

VI.A.4. Trend Information

Policemen's Pension and Relief Fund (PPRF)

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 1,117,641	32%	\$ 4,154,158
2006	\$ 979,983	35%	\$ 3,399,742
2005	\$ 969,172	33%	\$ 2,759,222
2004	\$ 385,548	77%	\$ 2,107,305

Firemen's Pension and Relief Fund (FPRF)

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>	<u>Net Pension Obligation</u>
2007	\$ 1,512,041	33%	\$ 4,392,183
2006	\$ 785,807	60%	\$ 3,381,962
2005	\$ 906,566	48%	\$ 3,065,133
2004	\$ 883,123	46%	\$ 2,596,864

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2007

VI.B.1 Plan Descriptions Contribution Information and Funding Policies

Public Employee Retirement System (PERS)

The Municipality of Fairmont, West Virginia participates in a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of general Municipality employees. The system is administered by agencies of the State of West Virginia and funded by contributions from participants, employers, and state appropriations, as necessary.

The following is a summary of eligibility factors, contribution methods, and benefit provisions:

	Public Employees <u>Retirement System</u>
Eligibility to participate	All Municipality full-time employees, except those covered by other pension plans
Authority establishing contribution obligations and benefit provisions	State Statute
Plan member's contribution rate	4.50%
Municipality's contribution rate	10.50%
Period required to vest	Five Years
Benefits and eligibility for distribution	A member who has attained age 60 and has earned 5 years or more of contributing service or age 55 if the sum of his/her age plus years of credited service is equal to or greater than 80. The final average salary (three highest consecutive years in the last 10) times the years of service times 2% equals the annual retirement benefit.
Deferred retirement portion	No
Provisions for:	
Cost of Living	No
Death Benefits	Yes

VI.B.2. Trend Information

Public Employees' Retirement System (PERS)

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2007	\$ 226,090	100%

PERS issues a publicly available financial report that includes financial statements and required supplementary information. That information may be obtained by writing to the Public Employees' Retirement System, Building 5, Room 1000, 1900 Kanawha Boulevard East, Charleston, WV 25305.

REQUIRED SUPPLEMENTARY INFORMATION

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 REQUIRED SUPPLEMENTARY INFORMATION
 For the Fiscal Year Ended June 30, 2007

I. SCHEDULES OF FUNDING PROGRESS

Policemen's Pension and Relief Fund (PPRF)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % covered payroll (b-a)/c
7/1/01	\$ 2,664,788	\$ 13,821,571	\$ 11,156,783	19.28%	\$ 1,050,852	1062%
7/1/04	3,100,970	16,044,620	12,943,650	19.33%	1,194,569	1084%
7/1/07	4,038,740	18,155,269	14,116,529	22.25%	1,356,042	1041%

Firemen's Pension and Relief Fund (FPRF)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Entry Age (b)	Unfunded AAL (UAAL) (b)-(a)	Funded Ratio (a)/(b)	Covered Payroll (c)	UAAL as a % covered payroll (b-a)/c
7/1/02	\$ 3,353,845	\$ 21,031,260	\$ 17,677,415	15.95%	\$ 1,476,041	1198%
7/1/05	2,986,375	22,414,167	19,427,792	13.32%	1,480,774	1312%

SUPPLEMENTARY INFORMATION

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2007

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS			
Current:			
Cash and cash equivalents	\$ 380,429	\$ 874,291	\$ 1,254,720
Investments	949,206	--	949,206
Receivables:			
Grants	156,082	--	156,082
Accrued interest	3,804	--	3,804
Due from:			
Other funds	--	456,401	456,401
Other governments	1,000	--	1,000
	<u>1,490,521</u>	<u>1,330,692</u>	<u>2,821,213</u>
Total assets	\$ <u>1,490,521</u>	\$ <u>1,330,692</u>	\$ <u>2,821,213</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	6,317	3,512	9,829
Benefits payable	157,748	--	157,748
Due to:			
Other funds	170,937	--	170,937
Other governments	--	14,437	14,437
	<u>335,002</u>	<u>17,949</u>	<u>352,951</u>
Total liabilities	\$ <u>335,002</u>	\$ <u>17,949</u>	\$ <u>352,951</u>
Fund balances:			
Reserved for:			
Recycling	1,062,665	--	1,062,665
Public safety	83,603	--	83,603
Unreserved	9,251	1,312,743	1,321,994
	<u>1,155,519</u>	<u>1,312,743</u>	<u>2,468,262</u>
Total fund balances	\$ <u>1,155,519</u>	\$ <u>1,312,743</u>	\$ <u>2,468,262</u>
Total liabilities and fund balances	\$ <u>1,490,521</u>	\$ <u>1,330,692</u>	\$ <u>2,821,213</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 NONMAJOR GOVERNMENTAL FUNDS
 For the Fiscal Year Ended June 30, 2007

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>
REVENUES			
Taxes:			
Intergovernmental:			
Federal	\$ 526,673	\$ --	\$ 526,673
Fines and forfeits	237,566	--	237,566
Interest earnings	49,649	23,223	72,872
Contributions and donations	277,411	852,391	1,129,802
Miscellaneous	--	8,779	8,779
	<hr/>	<hr/>	<hr/>
Total revenues	1,091,299	884,393	1,975,692
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Current:			
General government	232,440	287,851	520,291
Public safety	44,740	--	44,740
Benefits paid	122,667	--	122,667
Insurance premiums	--	835,332	835,332
Capital projects	329,139	--	329,139
Education	23,193	--	23,193
Economic development	237,971	--	237,971
	<hr/>	<hr/>	<hr/>
Total expenditures	990,150	1,123,183	2,113,333
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	101,149	(238,790)	(137,641)
OTHER FINANCING SOURCES (USES)			
Transfers in	--	1,293,287	1,293,287
Transfers (out)	(8,485)	(457,572)	(466,057)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	(8,485)	835,715	827,230
	<hr/>	<hr/>	<hr/>
Net change in fund balance	92,664	596,925	689,589
Fund balances - beginning, as restated, Note IV.I	1,062,855	715,818	1,778,673
	<hr/>	<hr/>	<hr/>
Fund balances - ending	\$ 1,155,519	\$ 1,312,743	\$ 2,468,262
	<hr/>	<hr/>	<hr/>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING BALANCE SHEET - NONMAJOR SPECIAL REVENUE FUNDS
 June 30, 2007

	Boards and Commissions	Workers Compensation	Special Purpose Grant	Police Investigative	Police	Bureau of Justice	Total Special Revenue Funds
ASSETS							
Current:							
Cash and cash equivalents	\$ 5,297	\$ 271,378	\$ --	\$ 66,952	\$ 36,802	\$ --	\$ 380,429
Investments	3,954	945,252	--	--	--	--	949,206
Receivables:							
Grants	--	--	--	--	--	156,082	156,082
Accrued interest	--	3,804	--	--	--	--	3,804
Other governments	--	--	--	--	1,000	--	1,000
Total assets	\$ 9,251	\$ 1,220,434	\$ --	\$ 66,952	\$ 37,802	\$ 156,082	\$ 1,490,521

LIABILITIES AND FUND BALANCES

Liabilities:							
Accounts payable	--	21	--	412	5,884	--	6,317
Benefits payable	--	157,748	--	--	--	--	157,748
Due to:							
Other funds	--	--	--	--	14,855	156,082	170,937
Total liabilities	--	157,769	--	412	20,739	156,082	335,002
Fund balances:							
Reserved for:							
Benefit claims	--	1,062,665	--	--	--	--	1,062,665
Public safety	--	--	--	66,540	17,063	--	83,603
Unreserved	9,251	--	--	--	--	--	9,251
Total fund balances	9,251	1,062,665	--	66,540	17,063	--	1,155,519
Total liabilities and fund balances	\$ 9,251	\$ 1,220,434	\$ --	\$ 66,952	\$ 37,802	\$ 156,082	\$ 1,490,521

See accompanying notes to the financial statements.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2007

	Boards and Commissions	Workers Compensation	Special Purpose Grant	Police Investigative	Police	Bureau of Justice	Total Nonmajor Special Revenue Funds
REVENUES							
Taxes:							
Intergovernmental:							
Federal	\$ --	\$ --	\$ 237,971	--	--	\$ 288,702	\$ 526,673
Fines and forfeits	--	--	--	80,670	156,896	--	237,566
Interest and investment earnings	1	46,011	--	1,384	2,253	--	49,649
Contributions and donations	9,250	267,161	--	--	1,000	--	277,411
Total revenues	9,251	313,172	237,971	82,054	160,149	288,702	1,091,299
EXPENDITURES							
Current:							
General government	--	96,538	--	--	135,902	--	232,440
Public safety	--	--	--	38,652	--	6,088	44,740
Benefits paid	--	122,667	--	--	--	--	122,667
Capital projects	--	--	--	9,002	37,523	282,614	329,139
Education	--	--	--	--	23,193	--	23,193
Economic development	--	--	237,971	--	--	--	237,971
Total expenditures	--	219,205	237,971	47,654	196,618	288,702	990,150
Excess (deficiency) of revenues over (under) expenditures	9,251	93,967	--	34,400	(36,469)	--	101,149

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 NONMAJOR SPECIAL REVENUE FUNDS

For the Fiscal Year Ended June 30, 2007

	Boards and Commissions	Workers Compensation	Special Purpose Grant	Police Investigative	Police	Bureau of Justice	Total Nonmajor Special Revenue Funds
OTHER FINANCING SOURCES (USES)							
Transfers (out)	\$ --	\$ --	\$ --	\$ (8,377)	\$ (108)	\$ --	\$ (8,485)
Total other financing sources (uses)	--	--	--	(8,377)	(108)	--	(8,485)
Net change in fund balance	9,251	93,967	--	26,023	(36,577)	--	92,664
Fund balances - beginning	--	968,698	--	40,517	53,640	--	1,062,855
Fund balances - ending	\$ 9,251	\$ 1,062,665	\$ --	\$ 66,540	\$ 17,063	\$ --	\$ 1,155,519

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING BALANCE SHEET - NONMAJOR CAPITAL PROJECTS FUNDS
 June 30, 2007

	<u>Capital Reserve Fund</u>	<u>Sharon Steel Reconstruction</u>	<u>Total Nonmajor Capital Projects Funds</u>
ASSETS			
Current:			
Cash and cash equivalents	\$ 859,854	\$ 14,437	\$ 874,291
Due from:			--
Other funds	<u>456,401</u>	<u>--</u>	<u>456,401</u>
 Total assets	 <u>1,316,255</u>	 <u>14,437</u>	 <u>1,330,692</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	3,512	--	3,512
Due to:			
Other governments	<u>--</u>	<u>14,437</u>	<u>14,437</u>
 Total liabilities	 <u>3,512</u>	 <u>14,437</u>	 <u>17,949</u>
FUND BALANCES			
Unreserved	<u>1,312,743</u>	<u>--</u>	<u>1,312,743</u>
 Total fund balances	 <u>1,312,743</u>	 <u>--</u>	 <u>1,312,743</u>
 Total liabilities and fund balances	 <u><u>\$ 1,316,255</u></u>	 <u><u>\$ 14,437</u></u>	 <u><u>\$ 1,330,692</u></u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES -
 NONMAJOR CAPITAL PROJECTS FUNDS
 For the Fiscal Year Ended June 30, 2007

	<u>Capital Reserve</u>	<u>Sharon Steel Reconstruction</u>	<u>Total Nonmajor Capital Projects Funds</u>
REVENUES			
Taxes:			
Interest and investment earnings	\$ 23,223	\$ --	\$ 23,223
Contributions and donations	--	852,391	852,391
Miscellaneous	8,779	--	8,779
	<hr/>	<hr/>	<hr/>
Total revenues	32,002	852,391	884,393
	<hr/>	<hr/>	<hr/>
EXPENDITURES			
Current:			
General government	287,851	--	287,851
Insurance premiums	--	835,332	835,332
	<hr/>	<hr/>	<hr/>
Total expenditures	287,851	835,332	1,123,183
	<hr/>	<hr/>	<hr/>
Excess (deficiency) of revenues over (under) expenditures	(255,849)	17,059	(238,790)
OTHER FINANCING SOURCES (USES)			
Transfers in	1,293,287	--	1,293,287
Transfers (out)	(441,039)	(16,533)	(457,572)
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	852,248	(16,533)	835,715
	<hr/>	<hr/>	<hr/>
Net change in fund balance	596,399	526	596,925
Fund balances - beginning, as restated Note IV.I	716,344	(526)	715,818
	<hr/>	<hr/>	<hr/>
Fund balances - ending	\$ 1,312,743	\$ --	\$ 1,312,743
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS
 June 30, 2007

	Pension Trust Funds		
	Firemen's Pension and Relief	Policemen's Pension and Relief	Totals
ASSETS			
Non-pooled cash	\$ 4,188	\$ 35,457	\$ 39,645
Pooled cash	301,181	64,466	365,647
	305,369	99,923	405,292
Investments, at fair value:			
Commercial paper	--	1,186,237	1,186,237
Federal government securities	233,559	--	233,559
Mutual Funds	--	2,713,488	2,713,488
Common stock	1,312,334	--	1,312,334
Corporate bonds	934,585	--	934,585
	2,480,478	3,899,725	6,380,203
Receivables:			
Interest receivable	10,775	7,862	18,637
Due from other funds	1,947	1,947	3,894
Due from other governments	38,550	29,364	67,914
	51,272	39,173	90,445
Total assets	\$ 2,837,119	\$ 4,038,821	\$ 6,875,940
LIABILITIES			
Accounts payable	--	83	83
Total liabilities	--	83	83
NET ASSETS			
Net assets held in trust for pension benefits	\$ 2,837,119	\$ 4,038,738	\$ 6,875,857

(1) A schedule of funding progress for each plan is presented in the Required Supplementary Information section of this report.

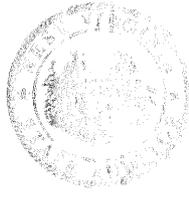
MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
 PENSION TRUST FUNDS

June 30, 2007

	Pension Trust Funds		Totals
	Firemen's Pension and Relief	Policemen's Pension and Relief	
ADDITIONS			
Contributions:			
Employer	\$ 531,290	\$ 392,709	\$ 923,999
Plan members	136,805	101,705	238,510
Insurance premium surtax	463,338	352,935	816,273
Total contributions	<u>1,131,433</u>	<u>847,349</u>	<u>1,978,782</u>
Investment income:			
Net increase (decrease) in fair value of investments	138,081	388,267	526,348
Net gain (loss) on sale of investments	63,149	--	63,149
Interest and dividends	99,305	150,744	250,049
Miscellaneous	28	65	93
Net investment income	<u>300,563</u>	<u>539,076</u>	<u>839,639</u>
Total additions	<u>1,431,996</u>	<u>1,386,425</u>	<u>2,818,421</u>
DEDUCTIONS			
Benefits	1,405,397	868,888	2,274,285
Administrative expenses	19,021	3,885	22,906
Refunds of contributions	1,936	3,851	5,787
Miscellaneous	3,739	--	3,739
Total deductions	<u>1,430,093</u>	<u>876,624</u>	<u>2,306,717</u>
Change in net assets	1,903	509,801	511,704
Net assets held in trust for pension benefits:			
Beginning of year	<u>2,835,216</u>	<u>3,528,937</u>	<u>6,364,153</u>
End of year	<u>\$ 2,837,119</u>	<u>\$ 4,038,738</u>	<u>\$ 6,875,857</u>

(1) A schedule of funding progress for each plan is presented in the Required Supplementary Information section of this report.

ACCOMPANYING INFORMATION



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Office of the State Auditor

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State Capitol Complex, Building 1, Room W-100
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Glen B. Gainer III
State Auditor

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*

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26555

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Fairmont, West Virginia (the Municipality), as of and for the year ended June 30, 2007, which collectively comprise the Municipality's basic financial statements 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 the Municipality's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Municipality's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Municipality'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 combinations of control deficiencies, that adversely affects the Municipality'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 Municipality's financial statements that is more than inconsequential will not be prevented or detected by the Municipality's internal control.

Honorable Mayor and Council
Municipality of Fairmont
Page 2

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 Municipality'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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Municipality's basic 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 Questioned Costs as items 2007-1 through 2007-4.

We noted certain matters that we have reported to management of the Municipality of Fairmont, West Virginia, in a separate letter dated February 7, 2008.

The Municipality's response to findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the Municipality's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, and City Council and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Glen B. Gainer III
West Virginia State Auditor

February 7, 2008



State of West Virginia

Office of the State Auditor
1900 Kanawha Boulevard, East
State Capitol Complex, Building 1, Room W-100
Charleston, West Virginia 25305

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26555

Compliance

We have audited the compliance of the Municipality of Fairmont, West Virginia (the Municipality), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2007. The Municipality's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Municipality's management. Our responsibility is to express an opinion on the Municipality's compliance based on our audit.

We conducted our audit of compliance in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Municipality's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Municipality's compliance with those requirements.

In our opinion, the Municipality complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of the Municipality is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Municipality's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Municipality's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Municipality of Fairmont, West Virginia as of and for the year ended June 30, 2007, and have issued our report thereon dated February 7, 2008. Our audit was performed for the purpose of forming opinions on the basic financial statements taken as a whole. The accompanying of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such 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.

Honorable Mayor and Council
Municipality of Fairmont
Page 3

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

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Glen B. Gainer III". The signature is written in a cursive style with a horizontal line at the end.

Glen B. Gainer III
West Virginia State Auditor

February 7, 2008

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2007

	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Number</u>	<u>Total Expenditures</u>
U. S. Department of Housing and Urban Development			
Direct programs:			
<u>Program Title</u>			
Economic Development Initiative - Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	N/A	\$ 3,831
Pass-through Programs From:			
West Virginia Development Office			
<u>Program Title</u>			
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B03DC540001	554,186
Emergency Shelter Grants Program	14.231	S06DC540001	<u>82,226</u>
Total U. S. Department of Housing and Urban Development			<u>\$ 640,243</u>
 U. S. Department of Justice			
Direct Programs:			
<u>Program Title</u>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	N/A	5,552
Bullet Proof Vest Partnership Program	16.607	N/A	537
Pass-through Programs From:			
West Virginia Department of Criminal Justice Services			
<u>Program Title</u>			
Edward Byrne Memorial Formula Grant Program	16.579	2006DJBX0057	32,050
Public Safety Partnership and Community Policing Grants	16.710	F07COPS-86	<u>28,500</u>
Total U. S. Department of Justice			<u>\$ 66,639</u>

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Fiscal Year Ended June 30, 2007

	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Number</u>	<u>Total Expenditures</u>
U.S. Department of Transportation			
Pass-through Programs From:			
West Virginia Department of Transportation			
<u>Program Title</u>			
Highway Planning and Construction	20.205	TEAOQ2 S35-FAI/RM3.00	\$ 3,127 504
Total U.S. Department of Transportation			<u>\$ 3,631</u>
 U.S. Environmental Protection Agency			
Direct Programs:			
<u>Program Title</u>			
Brownsfield Assessment and Cleanup Cooperative Agreements	66.818	N/A	\$ 14,242
Total U.S. Environmental Protection Agency			<u>\$ 14,242</u>
 Department of Homeland Security			
Pass-through Programs From:			
West Virginia Office of Emergency Services			
<u>Program Title</u>			
Homeland Security Grant Program	97.067	2005GET50045	\$ 254,113
Total U.S. Homeland Security			<u>\$ 254,113</u>
 TOTAL FEDERAL AWARDS EXPENDITURES			 <u><u>\$ 978,868</u></u>

The accompanying notes are an integral part of this schedule.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2007

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Municipality and is presented on the modified 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, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Section I -Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified</u>
Internal Control over Financial Reporting:	
Material weakness(es) identified?	<u>No</u>
Reportable condition(s) identified that is/are not considered to be material weakness(es)?	<u>No</u>
Non compliance material to the financial statements noted?	<u>Yes</u>

Federal Awards

Internal Control over Major Programs:

Material weakness(es) identified?	<u>No</u>
Reportable condition(s) identified that is/are not considered to be material weakness(es)?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with § 510(a) of Circular A-133?	<u>No</u>

Identification of major programs:

<u>CFDA Number</u>	<u>Name of Federal Program</u>
14.228	Community Development Block Grants-State's Program and Non-Entitlement Grants in Hawaii

Dollar threshold used to distinguish between Type A and Type B Program:	\$ 300,000
---	------------

Auditee qualify as a low-risk auditee?	<u>No</u>
--	-----------

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Subsidizing Operation of Water Fund
through Loans from the General Fund
2007-1**

CONDITION:

It was determined during this examination that the officials of the Municipality of Fairmont paid certain expenses of the Water fund through loans from the General fund. The total amount of the loans due to the General fund is \$606,167 as of June 30, 2007.

CRITERIA:

Water systems should be self sufficient to cover operating expenses through user charges. Any loans made between funds should be paid in full the following fiscal year. In addition an opinion of the State Attorney General rendered April 3, 1979, (38Op. Att'y Gen. 60 (1979) states in part that:

"...It is the opinion that

(1) a municipal corporation may not loan monies to its utility systems
no matter what the source of the funds..."

EFFECT:

The Water fund is not operating as an independent fund and is being subsidized through loans by the General fund.

RECOMMENDATION:

The municipal officials are directed to evaluate the user charges to increase rates to insure the Water Fund is self sufficient. All loans made to the Water Fund should be paid in full in the next fiscal year.

AUDITED AGENCY'S RESPONSE:

The municipal officials have completed a rate study to increase the water charges which includes the amounts owed to the general fund. The loans are anticipated to be paid in full by fiscal year 2009.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Failure to Submit Budget Revision to Appropriate
the Unexpended Balance -Coal Severance Tax Fund
2007-2**

CONDITION:

We determined during our audit that the officials of the Municipality of Fairmont failed to submit a budget revision for the Coal Severance Tax Fund to appropriate \$9,589, the actual unexpended fund balance at June 30, 2006.

CRITERIA:

The West Virginia Code §6-9-3 states in part that:

"...All unexpended balances or appropriations shall be transferred to the credit of the fund from which originally appropriated or levied whenever the account with an appropriation is closed."

In addition, a State Supreme Court decision stated that:

"...Any excesses or balances should be carried into the proper funds of the succeeding fiscal year and proper credit made therefore when levies are being laid for that year... Ireland v Board of Education, 115 WV 614, 177 S.E. 452 (1934)."

CAUSE:

The Municipality failed to revise the cash balance for the Coal Severance Tax Fund.

EFFECT:

The Municipality did not appropriate all funds available.

RECOMMENDATION:

The Municipality should exercise proper budgetary practices.

AUDITED AGENCY'S RESPONSE:

This a conservative approach to budgeting.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**Failure to Submit Budget Revision to Appropriate
the Unexpended Balance -General Fund**

2007-3

CONDITION:

We determined during our audit that the officials of the Municipality of Fairmont failed to submit a budget revision for the General Fund to appropriate \$605,975 of the actual unexpended fund balance at June 30, 2006.

CRITERIA:

The West Virginia Code §6-9-3 states in part that:

"...All unexpended balances or appropriations shall be transferred to the credit of the fund from which originally appropriated or levied whenever the account with an appropriation is closed."

In addition, a State Supreme Court decision stated that:

"...Any excesses or balances should be carried into the proper funds of the succeeding fiscal year and proper credit made therefore when levies are being laid for that year... Ireland v Board of Education, 115WV614, 177S.E.452(1934)."

CAUSE:

The Municipality of Fairmont failed to revise the cash balance of the general fund.

EFFECT:

The Municipality did not appropriate all funds available for expenditure.

RECOMMENDATION:

The Municipality should exercise proper budgetary practices.

AUDITED AGENCY'S RESPONSE:

This a conservative approach to budgeting.

**MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

Bond Reserve Requirements

2007-4

CONDITION:

The Water fund did not maintain the proper amounts in the Municipal Bond Commission reserve accounts to meet debt service requirements for fiscal year ended June 30, 2007. Specifically, the bond reserve requirement was deficient by approximately \$378,637.

CRITERIA:

The bond document states in part that:

...to provide debt service on Local Bonds by depositing in a sinking fund one-third (1/3) of the interest payment next coming due on the Local Bonds and one-third (1/3) of the principal payment next coming due on the Local Bonds and, beginning three (3) months prior to the first date of payment of principal of the Local Bonds, if the reserve account for the Local Bonds (the "Reserve Account") was not funded from proceeds of the Local Bonds or otherwise concurrently with the issuance thereof in an amount equal to the maximum amount of principal and interest which will come due on the Local Bonds in the then current or any succeeding year (the "Reserve Requirement"), by depositing in the Reserve Account an amount not less than one-twelfth (1/12) of one-tenth (1/10) of the Reserve Requirement or, if the Reserve Account has been so funded (whether by Local Bond proceeds, monthly deposits or otherwise), any amount necessary to maintain the Reserve Account at the Reserve Requirement;

CAUSE:

The Water fund failed to maintain the reserve requirement through paying monthly deposits during the fiscal year.

EFFECT:

The Water fund is in violation with the debt service compliance requirements.

RECOMMENDATION:

The Water fund should make the necessary payments to fully fund the reserve accounts and maintain these accounts in accordance with the bond compliance requirements.

AUDITED AGENCY'S RESPONSE:

The Water fund will make the necessary payments to fully fund the reserve accounts and maintain compliance with the bond requirements in the future.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2007

There were no findings at the federal program level therefore no corrective action plan is necessary.

MUNICIPALITY OF FAIRMONT, WEST VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS - SINGLE AUDIT
For the Fiscal Year Ended June 30, 2007

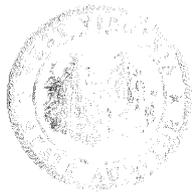
Status of Prior Year Audit Findings

Finding
Number

Title

Status

There were no findings in the prior year.



State of West Virginia

Office of the State Auditor
1900 Kanawha Boulevard, East
State Capitol Complex, Building 1, Room W-100
Charleston, West Virginia 25305

Glen B. Gainer III
State Auditor

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MANAGEMENT LETTER

February 7, 2008

Honorable Mayor and Council
Municipality of Fairmont
Fairmont, West Virginia 26555

In accordance with *Government Auditing Standards* applicable to financial audits, we have audited the financial statements of the Municipality of Fairmont, as of and for the year ended June 30, 2007, and have issued our report thereon dated February 7, 2008.

Government Auditing Standards also require that we describe the scope of our testing of compliance with laws and regulations and internal control over financial reporting and report any irregularities, illegal acts, other material noncompliance and significant deficiencies in internal control, related to major federal financial assistance programs. We have issued the required report dated February 7, 2008, for the year ended June 30, 2007.

We are also submitting for your consideration the following comments that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. These comments reflect matters that, while in our opinion do not represent material instances of noncompliance or reportable internal control conditions, we believe represent matters for which improvements in compliance or internal controls or operational efficiencies might be achieved. Due to the limited nature of our audit, we have not fully assessed the cost-benefit relationship of implementing the recommendations suggested below. However, these comments reflect our continuing desire to assist your government. We have already discussed many of these comments and suggestions with management and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. If you have any questions, please do not hesitate to contact us.

Suggestions For Improving Operations

Investment Monitoring

The Municipality maintains two pension funds for public safety employees, which are governed by separate Boards. With the implementation of GASB 40, the reporting requirements for investments mandate additional information that includes assessments of credit, interest rate, custodial credit, and foreign currency risks the plans may be exposed to as described in the statement. The Boards do not have written investment policies to help monitor these risks which would aid in the prevention of unnecessary exposure to loss for the pension plans.

Recommendation

The Boards should adopt formal policies in addition to State Code to address the risks that could potentially be associated with the investments for the pension plans. The investment portfolios should be periodically monitored by Board officials throughout the fiscal year to ensure compliance with the written investment policies and to ensure compliance with GASB 40.

Net Assets Net of Related Debt - Water Fund

The Municipality maintains a water system to provide safe drinking water to its citizens. The majority of the expenses for the water fund are capital assets including infrastructure of water mains and facilities. The water fund has issued debt to maintain and upgrade the infrastructure of the water system. The calculation for net assets, net of related debt for the current fiscal year and in prior fiscal years equates to a negative number indicating that the Water fund has more debt than capital assets. This is unusual but could occur for numerous reasons, such as not capitalizing expenditures as assets whether obtained through debt or grant funds, not paying the debt service timely, or depreciating the capitalized assets too aggressively.

Recommendation

The Municipality should conduct research in the Water Fund to determine that all assets related to debt issuances are properly capitalized, to evaluate the debt payment schedule to determine the timeliness of payments and to insure the accumulated depreciation account balance is reasonable and accurate.

Honorable Mayor and Council
Municipality of Fairmont
Management Letter
Page 3

These comments are intended for the Council members, management, grantor agencies and federal awarding agencies, and are not intended to be and should not be used by anyone other than these specified parties.

In closing, on behalf of the audit staff, we appreciate the opportunity to present these comments and recommendations for your consideration. We would like to thank management for its hospitality, cooperation, positive attitude and openness to suggestion.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Glen B. Gainer III". The signature is stylized and written in a cursive-like font.

Glen B. Gainer III
West Virginia State Auditor

February 7, 2008