

**CITY OF FAIRMONT, WEST VIRGINIA
A CLASS II MUNICIPALITY IN MARION COUNTY**

**INDEPENDENT AUDITOR'S REPORT AND
RELATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2013
RFP #13-088 (Marion County)

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**CITY OF FAIRMONT, WEST VIRGINIA
MUNICIPAL OFFICIALS
FOR THE YEAR ENDED JUNE 30, 2013**

Office	Name	Term
	<i>Elective</i>	
Mayor:	Ron Straight	01/01/11 – 12/31/14
Council Members:		
1 st District	Robert Gribben	01/01/11 – 12/31/14
2 nd District	Travis Blosser	01/01/13 – 12/31/16
3 rd District	Deborah Seifrit	01/01/11 – 12/31/14
4 th District	William Burdick	01/01/13 – 12/31/16
5 th District	Chuck Warner	01/01/11 – 12/31/14
6 th District	Daniel Weber	01/01/13 – 12/31/16
7 th District	Robert Garcia	01/01/13 – 12/31/16
8 th District	Robin Smith	01/01/11 – 12/31/14
9 th District	Ronald J. Straight	01/01/11 – 12/31/14
	<i>Appointed</i>	
City Manager:	Jay Rogers, III	
Finance Director:	Eileen Layman	
City Clerk:	Janet Keller	
Municipal Judge:	Anthony Julian	

CITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FUNDS INCLUDED IN REPORT
FOR THE YEAR ENDED JUNE 30, 2013

GOVERNMENTAL FUND TYPES

MAJOR FUNDS

General
Coal Severance Tax

PROPRIETARY FUND TYPES

MAJOR FUNDS

Water
Building Commission
Parking
Park Commission

NONMAJOR FUNDS

Special Revenue Funds

Bureau of Justice
Boards and Commissions
Workers Compensation
Urban Renewal Authority
Economic Development Grant

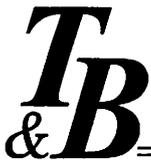
FIDUCIARY FUND TYPES

Pension Trust Funds

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

COMPONENT UNITS

Discretely Presented
Sanitary Board



INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and Council
City of Fairmont
Fairmont, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Fairmont, West Virginia, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial

statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Fairmont, West Virginia as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison of the General Fund and the Coal Severance Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements for the year ended June 30, 2013, the City of Fairmont, West Virginia adopted new accounting guidance, GASB 60, *Accounting and Financial Reporting for Service Concession Arrangements*, GASB 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Schedule of Funding Progress – Policemen's Pension (PPRF) and Firemen's Pension and Relief Fund (FPRF) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in a appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquired of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Fairmont, West Virginia's basic financial statements. The 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 12, 2014, on our consideration of the City of Fairmont, West Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws,

regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Fairmont, West Virginia's internal control over financial reporting and compliance.

Dulick + Bartlett, PLLC

March 12, 2014

CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF NET POSITION
JUNE 30, 2013

	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type</u> <u>Activities</u>	<u>Total</u>	<u>Component</u> <u>Unit</u> <u>Sanitary</u> <u>Sewer</u> <u>Board</u>
Assets				
Cash	\$ 1,956,687	\$ 575,579	\$ 2,532,266	\$ 200,633
Investments	10,147,252	152,197	10,299,449	-0-
Receivables	1,857,565	806,989	2,664,554	421,894
Internal balances	177,250	(177,250)	-0-	-0-
Inventory	-0-	200,361	200,361	41,280
Prepaid expenses	1,551	6,392	7,943	6,726
Restricted assets	2,571,814	8,854,646	11,426,460	2,315,439
Capital assets, net	<u>8,321,241</u>	<u>54,367,759</u>	<u>62,689,000</u>	<u>20,259,564</u>
Total assets	<u>25,033,360</u>	<u>64,786,673</u>	<u>89,820,033</u>	<u>23,245,536</u>
Deferred Outflows of Resources				
Unamortized bond discount and issue costs	<u>-0-</u>	<u>326,174</u>	<u>326,174</u>	<u>39,560</u>
Total deferred outflows of resources	<u>-0-</u>	<u>326,174</u>	<u>326,174</u>	<u>39,560</u>
Total assets and deferred outflows of resources	<u>25,033,360</u>	<u>65,112,847</u>	<u>90,146,207</u>	<u>23,285,096</u>
Liabilities				
Accounts payable	666,443	252,858	919,301	23,891
Claims payable	159,592	-0-	159,592	-0-
Other accrued expenses	23,161	3,751	26,912	36,374
Accrued other post-employment benefits	6,344,441	844,319	7,188,760	719,137
Unearned revenues	108,000	-0-	108,000	-0-
Customer deposits	-0-	148,008	148,008	-0-
Accrued interest payable	-0-	533,678	533,678	-0-
Long-term liabilities				
Due within one year	517,283	2,778,792	3,296,075	507,772
Due in more than one year	<u>16,877,199</u>	<u>40,322,460</u>	<u>57,199,659</u>	<u>4,836,980</u>
Total liabilities	<u>24,696,119</u>	<u>44,883,866</u>	<u>69,579,985</u>	<u>6,124,154</u>
Net Position				
Net investment in capital assets	7,606,448	11,623,874	19,230,322	15,344,457
Restricted	115,561	7,714,722	7,830,283	2,315,439
Unrestricted	<u>(7,384,768)</u>	<u>890,385</u>	<u>(6,494,383)</u>	<u>(498,954)</u>
Total net position	<u>\$ 337,241</u>	<u>\$ 20,228,981</u>	<u>\$ 20,566,222</u>	<u>\$ 17,160,942</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Unit Sanitary Sewer Board</u>
Governmental Activities								
General government	\$ 1,475,945	\$ 172,234	\$ -0-	\$ -0-	\$(1,303,711)	\$ -0-	\$(1,303,711)	\$ -0-
Public safety	7,460,616	1,265,199	68,386	12,004	(6,115,027)	-0-	(6,115,027)	-0-
Streets and transportation	2,439,987	1,466,001	-0-	-0-	(973,986)	-0-	(973,986)	-0-
Sanitation	1,294,757	1,286,747	-0-	-0-	(8,010)	-0-	(8,010)	-0-
Culture and recreation	127,754	-0-	-0-	-0-	(127,754)	-0-	(127,754)	-0-
Community development	326,560	31,252	-0-	315,997	20,689	-0-	20,689	-0-
Total governmental activities	<u>13,125,619</u>	<u>4,221,433</u>	<u>68,386</u>	<u>328,001</u>	<u>(8,507,799)</u>	<u>-0-</u>	<u>(8,507,799)</u>	<u>-0-</u>
Business-Type Activities								
Water	7,291,096	9,031,371	-0-	-0-	-0-	1,740,275	1,740,275	-0-
Building Commission	552,576	100	-0-	-0-	-0-	(552,476)	(552,476)	-0-
Parking	90,001	111,959	-0-	-0-	-0-	21,958	21,958	-0-
Park Commission	25,966	2,800	-0-	-0-	-0-	(23,166)	(23,166)	-0-
Total business-type activities	<u>7,959,639</u>	<u>9,146,230</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>1,186,591</u>	<u>1,186,591</u>	<u>-0-</u>
Total primary government	<u>\$ 21,085,258</u>	<u>\$ 13,367,663</u>	<u>\$ 68,386</u>	<u>\$ 328,001</u>	<u>(8,507,799)</u>	<u>1,186,591</u>	<u>(7,321,208)</u>	<u>-0-</u>
Component Units								
Sanitary sewer board	\$ 4,475,186	\$ 4,445,263	\$ -0-	\$ -0-	-0-	-0-	-0-	(29,923)

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF ACTIVITIES (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Unit Sanitary Sewer Board</u>
General Revenues								
Taxes								
Ad valorem					\$ 1,941,522	\$ -0-	4 1,941,522	\$ -0-
Business and occupation					5,794,156	-0-	5,794,156	-0-
Alcoholic beverage					187,820	-0-	187,820	-0-
Utility service					1,414,465	-0-	1,414,465	-0-
Hotel occupancy					55,865	-0-	55,865	-0-
Animal control					4,963	-0-	4,963	-0-
Gas and oil severance					17,586	-0-	17,586	-0-
Other					167,477	-0-	167,477	-0-
Intergovernmental state					82,004	-0-	82,004	-0-
Licenses and permits					169,939	-0-	169,939	-0-
Investment income					500,701	283,866	784,567	42,137
Franchise fees					260,353	-0-	260,353	-0-
Reimbursements					58,553	-0-	58,553	-0-
Miscellaneous					160,798	234,064	394,862	-0-
Total governmental revenues					<u>10,816,202</u>	<u>517,930</u>	<u>11,334,132</u>	<u>42,137</u>
Change in net assets before transfers					2,308,403	1,704,521	4,012,924	12,214
Transfers between activities					(644,597)	644,597	-0-	-0-
Change in net assets after transfers between activities					1,663,806	2,349,118	4,012,924	12,214
Net position – beginning – restated					(1,326,565)	17,879,863	16,553,298	17,148,728
Net position – ending					\$ <u>337,241</u>	\$ <u>20,228,981</u>	\$ <u>20,566,222</u>	\$ <u>17,160,942</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF FAIRMONT, WEST VIRGINIA
 FUND BALANCE SHEETS
 GOVERNMENTAL FUNDS
 JUNE 30, 2013

	<u>General</u> <u>Fund</u>	<u>Coal</u> <u>Severance</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS				
Cash	\$ 1,654,596	\$ 33,290	\$ 268,801	\$ 1,956,687
Investments	8,675,980	-0-	1,471,272	10,147,252
Receivables, net of allowances:				
Taxes	1,345,692	21,722	-0-	1,367,414
Accounts	271,540	-0-	-0-	271,540
Other	70,853	-0-	82,989	153,842
Interest	4,206	-0-	658	4,864
Due from (to):				
Other funds	176,631	-0-	619	177,250
Other governments	59,905	-0-	-0-	59,905
Prepaid expenses	1,551	-0-	-0-	1,551
Restricted assets	<u>2,571,814</u>	<u>-0-</u>	<u>-0-</u>	<u>2,571,814</u>
TOTAL ASSETS	\$ <u>14,832,768</u>	\$ <u>55,012</u>	\$ <u>1,824,339</u>	\$ <u>16,712,119</u>

	<u>General</u> <u>Fund</u>	<u>Coal</u> <u>Severance</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 574,238	\$ -0-	\$ 92,205	\$ 666,443
Claims payable	33,640	-0-	125,952	159,592
Other accrued expenses	23,161	-0-	-0-	23,161
Accrued compensated absences	284,119	-0-	-0-	284,119
Accrued other post-employment benefits	6,344,441	-0-	-0-	6,344,441
Unearned revenue	108,000	-0-	-0-	108,000
Deferred revenue	<u>213,671</u>	<u>-0-</u>	<u>-0-</u>	<u>213,671</u>
Total liabilities	<u>7,581,270</u>	<u>-0-</u>	<u>218,157</u>	<u>7,799,427</u>
Fund Balances				
Nonspendable	1,551	-0-	-0-	1,551
Committed	1,205,613	55,012	-0-	1,260,625
Restricted	105,772	-0-	9,789	115,561
Assigned	2,701,096	-0-	1,596,393	4,297,489
Unassigned	<u>3,237,466</u>	<u>-0-</u>	<u>-0-</u>	<u>3,237,466</u>
Total fund balances	<u>7,251,498</u>	<u>55,012</u>	<u>1,606,182</u>	<u>8,912,692</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>14,832,768</u>	\$ <u>55,012</u>	\$ <u>1,824,339</u>	\$ <u>16,712,119</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
RECONCILIATION OF FUND BALANCE SHEETS OF
GOVERNMENTAL FUNDS TO STATEMENT OF NET POSITION
JUNE 30, 2013**

Fund balance, fund level statement June 30, 2013 \$ 8,912,692

The total fund balance of the City of Fairmont's governmental funds differs from net position of the governmental activities reported on the Statement of Net Position as follows:

Some liabilities are not due and payable in the current period and therefore, are not reported in the fund level statements:

Obligations under capital leases	(714,793)
Unfunded pension and post retirement obligation	(15,307,386)
Accrued compensated absences – due in more than one year	(1,088,184)

Capital assets, that are used in governmental activities and are purchased or constructed, the costs of those assets are reported as expenditures in the governmental funds. However, the Statement of Net Position includes those assets and their associated accumulated depreciation.	8,321,241
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Some assets do not provide current financial resources and are not reported as assets in the fund level statements:

Reduction in deferred revenue at June 30, 2013	<u>213,671</u>
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Net position of governmental activities	\$ <u><u>337,241</u></u>
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The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u> <u>Fund</u>	<u>Coal</u> <u>Severance</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues				
Taxes (including interest and penalties):				
Ad valorem	\$ 1,953,127	\$ -0-	\$ -0-	\$ 1,953,127
Business and occupation	5,794,156	-0-	-0-	5,794,156
Alcoholic beverage	187,820	-0-	-0-	187,820
Utility service	1,414,465	-0-	-0-	1,414,465
Hotel occupancy	55,865	-0-	-0-	55,865
Animal control	4,963	-0-	-0-	4,963
Gas and oil severance	17,586	-0-	-0-	17,586
Other	167,477	-0-	-0-	167,477
Licenses and permits	169,939	-0-	-0-	169,939
Intergovernmental:				
Federal	68,386	-0-	298,932	367,318
State	-0-	82,004	25,069	107,073
Charges for services	3,830,005	-0-	-0-	3,830,005
Contributions:				
From employer	-0-	-0-	154,113	154,113
Fines and forfeits	478,308	-0-	-0-	478,308
Donations	12,053	-0-	6,501	18,554
Investment income	225,430	12	51,250	276,692
Franchise fees	260,353	-0-	-0-	260,353
Reimbursements	58,553	-0-	-0-	58,553
Gain (loss) on investments	190,663	-0-	33,346	224,009
Gain (loss) on sale of capital asset	154,061	-0-	-0-	154,061
Miscellaneous	6,737	-0-	-0-	6,737
Total revenues	<u>15,049,947</u>	<u>82,016</u>	<u>569,211</u>	<u>15,701,174</u>

CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

	<u>General</u> <u>Fund</u>	<u>Coal</u> <u>Severance</u> <u>Fund</u>	<u>Other</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Expenditures				
General government	\$ 2,005,399	\$ -0-	\$ 107,574	\$ 2,112,973
Public safety	6,264,079	-0-	16,973	6,281,052
Streets and transportation	1,018,315	108,295	-0-	1,126,610
Sanitation	1,290,779	-0-	-0-	1,290,779
Culture and recreation	126,003	-0-	-0-	126,003
Social services	1,853	-0-	-0-	1,853
Community development	2,812,018	-0-	330,435	3,142,453
Police refunds and remittances	99,505	-0-	-0-	99,505
Retirement of debt service:				
Principal	189,881	-0-	-0-	189,881
Interest	28,177	-0-	-0-	28,177
Benefit payments	<u>-0-</u>	<u>-0-</u>	<u>2,673</u>	<u>2,673</u>
Total expenditures	<u>13,836,009</u>	<u>108,295</u>	<u>457,655</u>	<u>14,401,959</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,213,938</u>	<u>(26,279)</u>	<u>111,556</u>	<u>1,299,215</u>
Other Financing Sources (Uses)				
Operating transfers in	4,146,539	-0-	-0-	4,146,539
Proceeds from debt	219,304	-0-	-0-	219,304
Operating transfers (out)	<u>(4,791,136)</u>	<u>-0-</u>	<u>-0-</u>	<u>(4,791,136)</u>
Total other financing sources (uses)	<u>(425,293)</u>	<u>-0-</u>	<u>-0-</u>	<u>(425,293)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	788,645	(26,279)	111,556	873,922
Fund balance at beginning of year	<u>6,462,853</u>	<u>81,291</u>	<u>1,494,626</u>	<u>8,038,770</u>
Fund balance at end of year	\$ <u>7,251,498</u>	\$ <u>55,012</u>	\$ <u>1,606,182</u>	\$ <u>8,912,692</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY 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 YEAR ENDED JUNE 30, 2013**

Net change in fund balance – total governmental funds \$ 873,922

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

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the amount by which capital outlay exceeded depreciation in the current period. 2,125,736

Loss on disposal of capital assets (11,696)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds at June 30, 2013:

Recognition of deferred income 15,174

Capital leases and bonds provide current financial resources to governmental funds, but entering into capital leases increases long-term liabilities in the Statement of Net Position. Repayment of capital lease obligations and bonds are an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position.

Acquisition of capital assets from capital lease (219,304)
Repayment of obligation under capital lease 192,912

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.

Change in net pension obligation (1,154,382)
Change in long-term accrued compensated absences (158,556)

Change in Net Position of Governmental Activities \$ 1,663,806

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF FINANCIAL POSITION
PROPRIETARY FUNDS
JUNE 30, 2013**

	<u>Business Type Activities</u>					<u>Component</u>
	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Park Commission</u>	<u>Total</u>	<u>Unit Sanitary Sewer Board</u>
ASSETS						
Current Assets						
Cash	\$ 369,859	\$ 44,470	\$ 156,783	\$ 4,467	\$ 575,579	\$ 200,633
52 197Investments	112,470	39,727	-0-	-0-	152,197	-0-
Receivables, net of allowances:						
Accounts	732,484	-0-	5,916	-0-	738,400	421,894
Notes	-0-	66,918	-0-	-0-	66,918	-0-
Interest	1,602	69	-0-	-0-	1,671	-0-
Due from (to) other funds	(177,368)	-0-	118	-0-	(177,250)	-0-
Prepaid expenses	6,392	-0-	-0-	-0-	6,392	6,726
Inventory, at cost	200,361	-0-	-0-	-0-	200,361	41,280
Total current assets	<u>1,245,800</u>	<u>151,184</u>	<u>162,817</u>	<u>4,467</u>	<u>1,564,268</u>	<u>670,533</u>
Noncurrent Assets						
Restricted assets	8,854,646	-0-	-0-	-0-	8,854,646	2,315,439
Capital Assets						
Land	227,647	744,740	-0-	-0-	972,387	346,889
Buildings	-0-	3,770,144	137,440	193,146	4,100,730	-0-
Land improvements	-0-	4,452,648	16,148	14,119	4,482,915	-0-
Structures and improvements	17,381,662	-0-	-0-	-0-	17,381,662	276,399
Building improvements	-0-	155,065	-0-	2,200	157,265	-0-
Transmission and distribution	51,128,834	-0-	-0-	-0-	51,128,834	37,551,018
Machinery and equipment	2,824,345	16,193	129,412	-0-	2,969,950	4,004,157
Office furniture and equipment	-0-	-0-	25,014	-0-	25,014	-0-
Construction in progress	400,866	-0-	-0-	-0-	400,866	-0-
Less: Accumulated depreciation	(25,057,930)	(1,924,430)	(172,106)	(97,398)	(27,251,864)	(21,918,899)
Net capital assets	<u>46,905,424</u>	<u>7,214,360</u>	<u>135,908</u>	<u>112,067</u>	<u>54,367,759</u>	<u>20,259,564</u>
Total assets	<u>57,005,870</u>	<u>7,365,544</u>	<u>298,725</u>	<u>116,534</u>	<u>64,786,673</u>	<u>23,245,536</u>
Deferred Outflows of Resources						
Unamortized bond discount and issue costs	306,067	20,107	-0-	-0-	326,174	39,560
Total deferred outflows of resources	<u>306,067</u>	<u>20,107</u>	<u>-0-</u>	<u>-0-</u>	<u>326,174</u>	<u>39,560</u>
Total assets and deferred outflows of resources	<u>57,311,937</u>	<u>7,385,651</u>	<u>298,725</u>	<u>116,534</u>	<u>65,112,847</u>	<u>23,285,096</u>

	<u>Business Type Activities</u>					<u>Component</u>
	<u>Water</u>	<u>Building</u> <u>Commission</u>	<u>Parking</u>	<u>Park</u> <u>Commission</u>	<u>Total</u>	<u>Unit</u> <u>Sanitary</u> <u>Sewer</u> <u>Board</u>
LIABILITIES						
Current Liabilities (payable from current assets)						
Notes payable	\$ 145,468	\$ 4,224	\$ -0-	\$ -0-	4 149,692	\$ -0-
Accounts payable	252,185	-0-	579	94	252,858	23,891
Other accrued expenses	3,751	-0-	-0-	-0-	3,751	36,374
Other post-employment benefits	844,319	-0-	-0-	-0-	844,319	719,137
Security deposits	-0-	-0-	-0-	200	200	-0-
Accrued compensated absences	<u>287,919</u>	<u>-0-</u>	<u>2,178</u>	<u>-0-</u>	<u>290,097</u>	<u>242,083</u>
Total current liabilities (payable from current assets)	<u>1,533,642</u>	<u>4,224</u>	<u>2,757</u>	<u>294</u>	<u>1,540,917</u>	<u>1,021,485</u>
Current Liabilities (payable from restricted assets)						
Revenue bonds payable	2,136,333	202,670	-0-	-0-	2,339,003	265,689
Accrued revenue bond interest payable	533,678	-0-	-0-	-0-	533,678	-0-
Customer deposits	<u>147,808</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>147,808</u>	<u>-0-</u>
Total current liabilities (payable from restricted assets)	<u>2,817,819</u>	<u>202,670</u>	<u>-0-</u>	<u>-0-</u>	<u>3,020,489</u>	<u>265,689</u>
Long-Term Liabilities (net of current portion)						
Revenue bonds payable	36,501,454	3,410,786	-0-	-0-	39,912,240	4,649,418
Notes payable	347,174	63,046	-0-	-0-	410,220	-0-
Customer advances	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>187,562</u>
Total long-term liabilities (net of current portion)	<u>36,848,628</u>	<u>3,473,832</u>	<u>-0-</u>	<u>-0-</u>	<u>40,322,460</u>	<u>4,836,980</u>
Total liabilities	<u>41,200,089</u>	<u>3,680,726</u>	<u>2,757</u>	<u>294</u>	<u>44,883,866</u>	<u>6,124,154</u>
Net Position						
Net investment in capital assets	7,774,995	3,600,904	135,908	112,067	11,623,874	15,344,457
Restricted	7,714,722	-0-	-0-	-0-	7,714,722	2,315,439
Unrestricted	<u>622,131</u>	<u>104,021</u>	<u>160,060</u>	<u>4,173</u>	<u>890,385</u>	<u>(498,954)</u>
Total net position	\$ <u>16,111,848</u>	\$ <u>3,704,925</u>	\$ <u>295,968</u>	\$ <u>116,240</u>	\$ <u>20,228,981</u>	\$ <u>17,160,942</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Business Type Activities</u>					<u>Component</u>
	<u>Water</u>	<u>Building</u> <u>Commission</u>	<u>Parking</u>	<u>Park</u> <u>Commission</u>	<u>Total</u>	<u>Unit</u> <u>Sanitary</u> <u>Sewer</u> <u>Board</u>
Operating Revenues						
Charges for services	\$ 9,016,345	\$ 100	\$ 111,959	\$ 2,800	\$ 9,131,204	\$ 4,391,434
Miscellaneous	<u>15,026</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>15,026</u>	<u>53,829</u>
Total operating revenues	<u>9,031,371</u>	<u>100</u>	<u>111,959</u>	<u>2,800</u>	<u>9,146,230</u>	<u>4,445,263</u>
Operating Expenses						
Personal services	1,442,843	-0-	44,328	-0-	1,487,171	1,844,939
Administrative and general	688,658	126,332	23,963	-0-	838,953	455,419
Pumping	-0-	-0-	-0-	-0-	-0-	142,328
Treatment and disposal	-0-	-0-	0-	-0-	-0-	578,086
Billing and collection	-0-	-0-	-0-	-0-	-0-	204,101
Rents and utilities	489,090	-0-	7,612	2,314	499,016	-0-
Bad debt expense	43,498	-0-	-0-	-0-	43,498	-0-
Fuel and oil	62,456	-0-	-0-	-0-	62,456	-0-
Materials and supplies	526,480	-0-	2,452	-0-	528,932	-0-
Depreciation	2,177,823	257,040	8,188	23,652	2,466,703	1,125,326
Amortization	62,407	-0-	-0-	-0-	62,407	-0-
Benefits	<u>583,067</u>	<u>-0-</u>	<u>3,458</u>	<u>25,966</u>	<u>586,525</u>	<u>-0-</u>
Total operating expenses	<u>6,076,322</u>	<u>383,372</u>	<u>90,001</u>	<u>25,966</u>	<u>6,575,661</u>	<u>4,350,199</u>
Operating income (loss)	<u>2,955,049</u>	<u>(383,272)</u>	<u>21,958</u>	<u>(23,166)</u>	<u>2,570,569</u>	<u>95,064</u>
Nonoperating Revenues (Expenses)						
Investment income	110,470	476	34	1	110,981	42,137
Miscellaneous income	234,064	-0-	-0-	-0-	234,064	-0-
Gain on sale of investments	172,885	-0-	-0-	-0-	172,885	-0-
Loss on disposal of capital assets	-0-	(11,536)	-0-	-0-	(11,536)	-0-
Interest and fiscal charges	(1,214,774)	(118,640)	-0-	-0-	(1,333,414)	(122,643)
Amortization of bond discount and issue costs	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(2,344)</u>
Total nonoperating revenues (expenses)	<u>(697,355)</u>	<u>(129,700)</u>	<u>34</u>	<u>1</u>	<u>(827,020)</u>	<u>(82,850)</u>

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN
NET POSITION – PROPRIETARY FUNDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Business Type Activities</u>					<u>Component</u>
	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Park Commission</u>	<u>Total</u>	<u>Unit Sanitary Sewer Board</u>
Income (loss) before nonoperating grants and capital contributions	\$ 2,257,694	\$(512,972)	\$ 21,992	\$(23,165)	\$ 1,743,549	\$ 12,214
Contribution from other funds	-0-	646,791	169,761	-0-	816,552	-0-
Contribution to other funds	-0-	-0-	(171,955)	-0-	(171,955)	-0-
(Loss) on loan forgiveness	<u>-0-</u>	<u>(39,028)</u>	<u>-0-</u>	<u>-0-</u>	<u>(39,028)</u>	<u>-0-</u>
Change in net position	2,257,694	94,791	19,798	(23,165)	2,349,118	12,214
Total net position – beginning – restated	<u>13,854,154</u>	<u>3,610,134</u>	<u>276,170</u>	<u>139,405</u>	<u>17,879,863</u>	<u>17,148,728</u>
Total net position – ending	\$ <u>16,111,848</u>	\$ <u>3,704,925</u>	\$ <u>295,968</u>	\$ <u>116,240</u>	\$ <u>20,228,981</u>	\$ <u>17,160,942</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CASH FLOWS –
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Business Type Activities</u>					<u>Component</u>
	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Park Commission</u>	<u>Total</u>	<u>Unit Sanitary Sewer Board</u>
Cash Flows from Operating Activities						
Receipts from customers	\$ 9,023,688	\$ 100	\$ 115,881	\$ 2,800	\$ 9,142,469	\$ 4,429,556
Receipts from other sources	90,960	646,791	-0-	1,670	739,421	8,349
Payments to suppliers	(3,289,574)	(84,134)	(30,715)	(4,136)	(3,408,559)	(1,358,257)
Payment to employees	(2,019,131)	-0-	(47,673)	-0-	(2,066,804)	(1,844,939)
Net cash provided by operating activities	<u>3,805,943</u>	<u>562,757</u>	<u>37,493</u>	<u>334</u>	<u>4,406,527</u>	<u>1,234,709</u>
Cash Flows from Capital and Related Financing Activities						
(Increase) decrease in restricted assets	(830,342)	-0-	-0-	-0-	(830,342)	(1,053,282)
Increase (decrease) in restricted liabilities	26,558	-0-	-0-	-0-	26,558	39,365
Repayment of obligation under capital leases	(169,523)	-0-	-0-	-0-	(169,523)	-0-
Repayment of revenue bonds	(27,598,309)	(4,056,291)	-0-	-0-	(31,654,600)	(193,989)
Proceeds from revenue bonds	27,491,497	3,568,143	-0-	-0-	31,059,640	-0-
Repayment of notes payable	(139,022)	-0-	-0-	-0-	(139,022)	-0-
(Increase) in bond issue costs	-0-	(20,107)	-0-	-0-	(20,107)	-0-
Interest expense	(1,461,600)	(155,274)	-0-	-0-	(1,616,874)	(122,643)
Net cash (used in) provided by capital and related financing activities	<u>(2,680,741)</u>	<u>(663,529)</u>	<u>-0-</u>	<u>-0-</u>	<u>(3,344,270)</u>	<u>(1,330,549)</u>
Cash Flows from Investing Activities						
(Increase) decrease in investments	10,449	157,130	-0-	-0-	167,579	-0-
(Loss) on loan forgiveness	-0-	(39,028)	-0-	-0-	(39,028)	-0-
Acquisition of capital assets	(1,440,145)	(20,439)	-0-	-0-	(1,460,584)	(780,758)
Interest on investments	109,642	793	34	1	110,470	42,137
Net cash (used in) provided by investing activities	<u>(1,320,054)</u>	<u>98,456</u>	<u>34</u>	<u>1</u>	<u>(1,221,563)</u>	<u>(738,621)</u>
Net (decrease) increase in cash	(194,852)	(2,316)	37,527	335	(159,306)	(834,461)
Cash at beginning of year	<u>564,711</u>	<u>46,786</u>	<u>119,256</u>	<u>4,132</u>	<u>734,885</u>	<u>1,035,094</u>
Cash at end of year	\$ <u>369,859</u>	\$ <u>44,470</u>	\$ <u>156,783</u>	\$ <u>4,467</u>	\$ <u>575,579</u>	\$ <u>200,633</u>

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Business Type Activities</u>					<u>Component</u>
	<u>Water</u>	<u>Building Commission</u>	<u>Parking</u>	<u>Park Commission</u>	<u>Total</u>	<u>Unit Sanitary Sewer Board</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	\$ 2,955,049	\$(383,272)	\$ 21,958	\$(23,166)	\$ 2,570,569	\$ 95,064
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:						
Depreciation and amortization	2,240,230	257,040	8,188	23,652	2,529,110	1,125,326
Nonoperating miscellaneous income	234,064	-0-	-0-	-0-	234,064	-0-
Transfers (to) from other funds	-0-	646,791	(2,194)	-0-	644,597	-0-
(Increase) decrease in:						
Accounts receivable	(7,683)	42,198	3,922	-0-	38,437	(27,800)
Other receivable	90,960	-0-	-0-	1,670	92,630	8,349
Due from (to) other funds	(357,052)	-0-	(1,148)	-0-	(358,200)	36,967
Prepaid expenses	(634)	-0-	6,230	-0-	5,596	243
Inventory	(31,018)	-0-	-0-	-0-	(31,018)	(11,539)
Increase (decrease) in:						
Accounts payable	(1,281,156)	-0-	426	(2,022)	(1,282,752)	(77,467)
Due to (from) component unit	(36,967)	-0-	-0-	-0-	(36,967)	-0-
Other accrued expenses	(51,223)	-0-	(463)	-0-	(51,686)	(20,917)
Other post-employment benefits	19,862	-0-	-0-	-0-	19,862	79,306
Customer deposits	-0-	-0-	-0-	200	200	-0-
Accrued compensated absences	31,511	-0-	574	-0-	32,085	27,177
Net cash provided by operating activities	\$ <u>3,805,943</u>	\$ <u>562,757</u>	\$ <u>37,493</u>	\$ <u>334</u>	\$ <u>4,406,527</u>	\$ <u>1,234,709</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND - BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>GAAP</u>	<u>Amounts</u>	<u>With Final</u>
			<u>Basis)</u>	<u>Difference</u>	<u>GAAP Basis</u>	<u>Budget</u>
						<u>Favorable</u>
						<u>(Unfavorable)</u>
Revenues						
Taxes (including interest and penalties):						
Ad valorem	\$ 2,385,612	\$ 2,353,212	\$ 1,950,127	\$(11,605)	\$ 1,938,522	\$(403,085)
Business and occupation	5,231,500	5,452,250	5,794,156	-0-	5,794,156	341,906
Alcoholic beverage	140,000	154,000	171,647	-0-	171,647	17,647
Utility service	920,000	999,000	1,414,464	-0-	1,414,464	415,464
Hotel occupancy	40,000	45,800	55,865	-0-	55,865	10,065
Animal control	4,500	5,100	4,963	-0-	4,963	(137)
Gas and oil severance	19,000	19,000	17,586	-0-	17,586	(1,414)
Licenses and permits	178,000	198,000	186,112	-0-	186,112	(11,888)
Charges for services	3,618,228	3,626,873	3,849,029	-0-	3,849,029	222,156
Fines and forfeitures	195,000	211,000	221,489	-0-	221,489	10,489
Interest	2,000	2,000	113,721	-0-	113,721	111,721
Franchise fees	280,000	251,000	260,353	-0-	260,353	9,353
Intergovernmental:						
State	28,000	28,000	-0-	-0-	-0-	(28,000)
Federal	26,200	36,800	68,386	-0-	68,386	31,586
Reimbursements	-0-	45,138	55,919	-0-	55,919	10,781
Video lottery and gaming income	108,000	108,000	119,906	-0-	119,906	11,906
Miscellaneous	26,240	30,928	40,919	-0-	40,919	9,991
Total revenues	<u>13,202,280</u>	<u>13,566,101</u>	<u>14,324,642</u>	<u>(11,605)</u>	<u>14,313,037</u>	<u>758,541</u>
Expenditures						
General government	2,975,103	3,805,654	3,219,236	52,852	3,272,088	586,418
Public safety	6,461,840	6,364,231	6,064,740	1,260,086	7,324,826	299,491
Streets and transportation	2,318,048	2,386,589	1,018,315	-0-	1,018,315	1,368,274
Sanitation	1,302,819	1,304,664	1,290,779	-0-	1,290,779	13,885
Culture and recreation	142,615	130,737	126,003	-0-	126,003	4,734
Social services	1,855	1,855	1,853	-0-	1,853	2
Total expenditures	<u>13,202,280</u>	<u>13,993,730</u>	<u>11,720,926</u>	<u>1,312,938</u>	<u>13,033,864</u>	<u>2,272,804</u>
(Deficiency) excess of revenues						
(under) over expenditures	<u>-0-</u>	<u>(427,629)</u>	<u>2,603,716</u>	<u>(1,324,543)</u>	<u>1,279,173</u>	<u>3,031,345</u>

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL -
GENERAL FUND - BUDGETARY BASIS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>GAAP</u>	<u>Amounts</u>	<u>With Final</u>
			<u>Basis)</u>	<u>Difference</u>	<u>GAAP Basis</u>	<u>Budget</u>
						<u>Favorable</u>
						<u>(Unfavorable)</u>
Other Financing Sources (Uses)						
Operating transfers in	\$ -0-	\$ 8,891	\$ 8,891	\$ -0-	\$ 8,891	\$ -0-
Total other financing sources						
(uses)	<u>-0-</u>	<u>8,891</u>	<u>8,891</u>	<u>-0-</u>	<u>8,891</u>	<u>-0-</u>
Net change in fund balance	-0-	(418,738)	2,612,607	(1,324,543)	1,288,064	3,031,345
Fund balance at beginning of year	<u>-0-</u>	<u>418,738</u>	<u>418,738</u>	<u>(14,441,236)</u>	<u>(14,022,498)</u>	<u>-0-</u>
Fund balance at end of year	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>3,031,345</u>	\$ <u>(15,765,779)</u>	\$ <u>(12,734,434)</u>	\$ <u>3,031,345</u>

Explanation of Differences:

- (1) The City budgets for capital expenditures as a current period expenditure rather than a capital expenditure on the accrual basis of accounting.
- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures, and changes in fund balances because of the cumulative effect of transactions such as those described above.

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL –
COAL SEVERANCE FUND – BUDGETARY BASIS
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Budget to</u>	<u>Actual</u>	<u>Variance</u>
	<u>Original</u>	<u>Final</u>	<u>(Budgetary</u>	<u>GAAP</u>	<u>Amounts</u>	<u>With Final</u>
			<u>Basis)</u>	<u>Difference</u>	<u>GAAP</u>	<u>Budget</u>
					<u>Basis</u>	<u>Favorable</u>
						<u>(Unfavorable)</u>
Revenues						
Interest	\$ 10	\$ 10	\$ 12	\$ -0-	\$ 12	\$ 2
Intergovernmental:						
State	<u>96,000</u>	<u>96,000</u>	<u>82,004</u>	<u>-0-</u>	<u>82,004</u>	<u>(13,996)</u>
Total revenues	<u>96,010</u>	<u>96,010</u>	<u>82,016</u>	<u>-0-</u>	<u>82,016</u>	<u>(13,994)</u>
Expenditures						
Streets and transportation	<u>96,010</u>	<u>177,301</u>	<u>108,295</u>	<u>-0-</u>	<u>108,295</u>	<u>69,006</u>
Total expenditures	<u>96,010</u>	<u>177,301</u>	<u>108,295</u>	<u>-0-</u>	<u>108,295</u>	<u>69,006</u>
Net change in fund balance	-0-	(81,291)	(26,279)	-0-	(26,279)	55,012
Fund balance at beginning of year	<u>-0-</u>	<u>81,291</u>	<u>81,291</u>	<u>-0-</u>	<u>81,291</u>	<u>-0-</u>
Fund balance at end of year	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>55,012</u>	\$ <u>-0-</u>	\$ <u>55,012</u>	\$ <u>55,012</u>

Explanation of Differences:

- (1) The City budgets for capital expenditures as a current period expenditure rather than a capital expenditure on the accrual basis of accounting.
- (2) The amount reported as "fund balance" on the budgetary basis of accounting derives from the basis of accounting used in preparing the City's budget. This amount differs from the fund balance reported in the statement of revenues, expenditures and changes in fund balances because of the cumulative effect of transactions such as those described above.

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
 FIDUCIARY RESPONSIBILITIES
 STATEMENT OF NET POSITION
 JUNE 30, 2013**

	<u>Pension and Relief</u>
Assets	
Cash	\$ 212,785
Investments	5,609,462
Receivables:	
Other	4,766
Interest	<u>8,053</u>
Total assets	<u>5,835,066</u>
 Liabilities	
Accounts payable	<u>50</u>
 Net Position	
Held in trust for pension benefits	\$ <u>5,835,016</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
 FIDUCIARY RESPONSIBILITIES
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Total</u>
Additions	
Contributions:	
Employer	\$ 1,362,386
Employee	275,792
Insurance premium tax allocation	<u>775,359</u>
Total contributions	<u>2,413,537</u>
Investment income:	
Net appreciation in fair value of investments	35,643
Interest income and dividends	175,814
Capital gains (losses)	<u>278,808</u>
Net investment income	490,265
Miscellaneous	<u>32</u>
Total additions	<u>2,903,834</u>
Deductions	
General and administrative	7,915
Benefit payments	<u>2,668,111</u>
Total deductions	<u>2,676,026</u>
Net increase	227,808
Net position – beginning of year	<u>5,607,208</u>
Net position – end of year	\$ <u>5,835,016</u>

The accompanying independent auditor's report and notes are an integral part of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

1. Summary of Significant Accounting Policies

The City of Fairmont, West Virginia is incorporated under the provisions of the State of West Virginia. The City operates under a Council - Manager form of government and provides the following services as authorized by its charter: public safety (police and fire), streets, sanitation, water, waste, recreation, education, public improvements, planning and zoning, and general administrative services.

The remainder of the Notes are organized to provide explanations, including required disclosures, of the City's financial activities for the fiscal year ended June 30, 2013.

The City's financial statements are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the City are discussed below.

During the year ended June 30, 2013, the City adopted the following GASB statements:

GASB 60 – Accounting and Financial Reporting for Service Concession Arrangements –
The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements, which are a type of public – private or public – public partnership. This statement had no effect on the accompanying financial statements.

GASB 61 – The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34 – This Statement modifies certain requirements for inclusion of component units in the financial reporting entities financial statements.

GASB 62 – Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements – The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Principles.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, thereby eliminating the election provided in that Statement for enterprise funds and business-type activities to apply post November 30, 1989 FASB Statements and Interpretations that do not conflict with or contradict GASB pronouncements.

GASB 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* – The purpose of this Statement was to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53* – The purpose of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and the hedge accounting should continue to be applied. This statement had no effect on the accompanying financial statements.

Basic Financial Statements – Government Wide Statements

The City's basic financial statements include both government-wide (reporting the City as a whole) and fund financial statements (reporting the City's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The City's police and fire protection, parks, public works and general administrative services are classified as governmental activities. The City's water, sewer, parking, building commission and park commission are classified as business-type activities.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The City's net position are reported in three parts – net invested in capital assets; restricted net position; and unrestricted net position. The City first utilizes restricted resources to finance qualifying activities.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013

The government-wide Statement of Activities reports both the gross and net cost of each of the City's functions and business-type activities (police, fire, public works, etc.). The functions are also supported by general government revenues (taxes, certain intergovernmental revenues, fines, permits and charges, etc.). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function (police, public works, etc.) or a business-type activity. Operating grants include operating-specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function or business-type activity) are normally covered by general revenue (taxes, intergovernmental revenues, interest income, etc.).

The City does not allocate indirect costs. An administrative service fee is charged by the General Fund to the other operating funds that is eliminated like a reimbursement (reducing the revenue and expense in the General Fund) to recover the direct costs of General Fund services provided (finance, personnel, purchasing, etc.).

This government-wide focus is more on the sustainability of the City as an entity and the change in the City's net assets resulting from the current year's activities.

(a) Reporting Entity

The City of Fairmont is a municipal corporation governed by an elected mayor and nine member council. 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 City, health and sanitation services, cultural and recreation programs, and other governmental services.

The City complies with GASB Statement No. 61, "*The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*". This statement established standards for defining and reporting component units in the financial statements of the reporting entity. It defines component units as legally separate organizations for which the component unit not only has a fiscal dependency on the reporting entity but also a financial benefit or burden relationship must be present between the reporting entity and the entity that is to be included as a component unit. In addition, an entity may be included as a component unit in the financial statements of the reporting entity, if the reporting entity's management determines that it would be misleading to exclude them.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Blended Component Units

The entities below are legally separate from the City and meet GAAP criteria for component units. These entities are blended with the primary government because they provide services entirely or almost entirely to the City.

The *Fairmont Building Commission* serves City of Fairmont, West Virginia, by providing facilities for the City. The Commission leases these facilities to the City in accordance with lease agreements. This fund accounts for the debt services, receipts and expenses of the system. This fund is reported as a major proprietary fund. The Building Commission acquires property and debt on behalf of the Municipality. The Municipality of Fairmont Building Commission is reported as an enterprise fund.

Discretely Presented Component Units

Discretely presented component units are entities which are legally separate from the City, but are financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. Because of the nature of services they provide and the City'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 units are presented on the government-wide statements.

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

Complete financial statements for each of the individual component units can be obtained at the entity's administrative offices.

(b) Government-Wide Financial Statements

The government-wide financial statements report information on all the nonfiduciary activities of the government. For the most part, the effect of internal activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to significant extent on fees and charges for support.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants whose purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported 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 governmental-wide statements. Major individual funds are reported as separate columns in the fund statements.

(c) Measurement Focus and Financial Statement Presentation – Government-Wide Financial Statements

Funds are classified into three categories: governmental, proprietary and fiduciary. Each category, in turn, is divided into separate “fund types”. Governmental funds are used to account for governmental activities, where the focus of attention is on the providing of services to the public as opposed to proprietary funds where the focus of attention is on recovering the cost of providing services to the public through service charges or user fees. Fiduciary funds are used to account for assets held by the City in a trustee or agency capacity. The fund types used by the City of Fairmont are described as follows:

Governmental Fund Types

General Fund: The General Fund is the general operating fund of the municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for capital purposes.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Proprietary Fund Types

Enterprise Funds: Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs (expenses including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The City of Fairmont 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 municipalities.

The City of Fairmont reports the following major proprietary funds:

The *Park Commission fund* serves the City by providing park facilities to the public. This fund accounts for the receipts and expenses of operating these facilities.

The *Parking fund* serves the City by providing parking facilities to the public. This fund accounts for the receipts and expenses of operating these parking facilities.

The *Water fund* serves the citizens of the City 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 *Building Commission* is also a major proprietary fund, and is described in section A.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

(d) **Funds – Fund Financial Statements**

The accounts of the City are organized into funds, each of which is considered to be a separate accounting entity. The major fund categories and account groups for the fund financial statements are:

Governmental Fund Types

Governmental funds are accounted for using the current financial resources measurement focus. Only current assets and current liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available resources during a given period.

General Fund: The General Fund is the general operating fund of the municipality. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds: Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

Proprietary Fund Types

Proprietary funds are accounted for using the economic resources measurement focus; the accounting objectives are determination of net income, financial position, and cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its balance sheet.

Enterprise Funds: Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

Fiduciary Funds

Fiduciary funds account for assets held by the City in a trustee or agency capacity.

Pension trust funds are accounted for in essentially the same manner as proprietary funds.

(e) Cash, Cash Equivalents and Investments

Cash on hand and deposits with banking institutions either in checking or savings accounts are presented as cash and cash equivalent in the accompanying financial statements.

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: (a) obligations of the United States or any agency thereof, (b) certificates of deposit (which mature in less than one year), (c) general and direct obligations of the State of West Virginia, (d) obligations of the Federal National Mortgage Association, (e) indebtedness secured by first lien deed of trust for property situated within the State if the payment is substantially insured or guaranteed by the federal government, (f) pooled mortgage trusts (subject to limitations), (g) indebtedness of any private corporation that is properly graded as in the top two or three highest rating grades, (h) interest earning deposits which are fully insured or collateralized, and (i) mutual funds registered with the Security and Exchange Commission which have fund assets over three hundred million dollars. State statute limitations concerning the aforementioned investments include the following:

- (1) at no time can investment portfolios consist of more than seventy-five percent of the indebtedness of any private corporations 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.
- (2) at no time may more than nine percent of the portfolio be invested in securities issued by a single private corporation or association.
- (3) at no time can more than sixty percent of the portfolio be invested in equity mutual funds.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

Investment risk is categorized as follows:

Interest rate risk – The risk that changes in interest rates will adversely affect the fair value of an investment.

Credit risk – The risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Custodial credit risk – The risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

(f) Receivables

All receivables are shown net of allowance for uncollectibles.

Allowance for doubtful accounts are as follows:

Water fund	\$ 317,287
Sewer fund	\$ 287,995
General Fund:	
Taxes	\$ 125,483
Accounts	\$ 336,829

(g) Capital Assets

The accounting and reporting treatment applied to capital assets and long-term liabilities associated with a fund are determined by its measurement focus. The City of Fairmont records the purchase of capital assets used in governmental fund type operations as expenditures in the governmental funds. The government-wide financial statements of the City of Fairmont are accounted for on a cost of service or “capital maintenance” measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of net position.

All proprietary funds and pension trust funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with their activity are included on the statement of financial position. The reported fund equity (net total position) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increase (revenues) and decreases (expenses) in net total position.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Depreciation of all exhaustible capital assets is charged as an expense against operations. Accumulated depreciation is reported on the statements of net assets. Depreciation has been provided over the estimated useful lives using the straight line method. The estimated useful lives are as follows:

Governmental Funds

Buildings and improvements	20 - 50 years
Infrastructure	20 - 65 years
Machinery and equipment	5 - 20 years
Vehicles	8 - 10 years

Proprietary Funds

Buildings	25 - 50 years
Improvements	10 - 20 years
Utility plant	10 - 20 years
Equipment	3 - 10 years

The City has defined capital assets for the governmental funds with an initial cost of over \$1,000 and for the water and sewer fund with an initial cost of over \$5,000 and an estimated useful life of greater than one year. Capital assets donated to the City are recorded at their estimated fair value at the date of the donation.

(h) Basis of Accounting

Fund Financial Statements

Modified Accrual Basis of Accounting

The City used the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means that amount can be determined. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred.

Major revenue sources susceptible to accrual include: business & occupation tax, hotel/motel tax, wine tax, liquor tax, property taxes, fire service fees, intergovernmental revenues, and investment income.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013

Accrual Basis of Accounting

The accrual basis of accounting is used in proprietary fund types and the pension trust funds. The accrual basis of accounting recognized revenues when earned. Expenses are recorded when incurred. Plan member contributions to the pension trust funds are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the City has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds (when appropriate) 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 in which they are levied. Grants and similar items are recognized as revenues 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 to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after the end of the current fiscal year. 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 are recorded only when payment is due.

Taxes, grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

(i) Budgets and Budgetary Accounting

All municipalities within West Virginia, are required by statute to prepare annual budgets (levy estimates) on prescribed forms for the General and Coal Severance Funds and submit these for approval to the State Tax Commissioner. These budgets are prepared in accordance with the following procedures:

1. 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.
2. The budget is then forthwith submitted to the State Tax Commissioner for approval.
3. The governing body then reconvenes on the third Tuesday in April to hear objections from the public and to formally lay the levy.

Revisions are authorized only with the prior written approval of the State Tax Commissioner. The budgeted amounts reflected in the accompanying financial statements are such approved amounts.

A) Unused appropriations for all of the above annually budgeted funds lapse at the year end.

B) The budget amounts shown in the financial statements are the final authorized amounts as revised during the year.

(j) Committed – Fund Financial Statements

Commitments accounting is used for the General Fund and special revenue funds.

Commitments are recorded when purchase orders are issued but are not considered expenditures until liabilities for payments are incurred. Commitments are reported as a reservation of fund balance on the balance sheet. Commitments do not lapse at the close of the fiscal year but are carried forward as reserved fund balance until liquidated.

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

(k) Inventories

The City considers inventories of materials and supplies utilized in governmental fund types operations as expended at the time of purchase therefore, they do not appear in the City's financial statements. Inventories of materials and supplies utilized in the proprietary fund type operation, are considered expended at the time of consumption; therefore, balances on hand at year end, valued at cost (first-in, first-out) are presented in the City's financial statements.

(l) Amortization

Debt discount and expense on bonds is amortized on the straight-line method from the date of issuance to the date of maturity. Amortization of debt discount and issue costs for fiscal year ended June 30, 2013 was \$62,407 for the government and \$2,344 for the component unit.

(m) Compensated Absences

The liability for compensated absences reported in the government-wide financial statements consists of unpaid, accumulated annual sick and accrued vacations. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payment upon termination are included.

(n) Pension Plans

The City provides separate defined benefit pension plans for uniformed police and fire department personnel. It is the City's policy to fund the normal cost and amortization of the unfunded prior service cost.

All other eligible employees are covered under the West Virginia Public Employee Retirement System due to the City's electing to be a participating public employer.

(o) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

(p) Equity Classification

Effective July 1, 2010, the City adopted GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions," which establishes new standards for accounting and financial reporting that are intended to improve the clarity and consistency of the fund balance information provided to financial report users. The classifications are based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which the amounts in those funds can be spent. Fund balances are reported in the following categories:

Net Position Classifications:

GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position – divided net position for Government-wide net position into three components:

- a. Net investment in capital assets – consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- b. Restricted net position – consists of net position that is restricted by the City's creditors (for example through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- c. Unrestricted – all other net position is reported in this category

GASB 54 – "Fund Balance Reporting and Governmental Fund Type Definitions" divide fund balance for governmental fund financial statements into five components.

- a. Nonspendable – Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- b. Restricted – Amounts that can be spent only for specific purposes because of the City's code, state or federal laws, or externally imposed conditions by grantors or creditors.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

- c. Committed – Amounts that can be used only for specific purposes determined by a formal action by the City's council.
- d. Assigned – Amounts that are designed by the City's council for a particular purpose but are not spendable until there is a majority vote approval by the City's council.
- e. Unassigned – All amounts not included in other spendable classifications.

(q) Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

(r) Restricted Assets

Certain proceeds of the water and sewer enterprise fund revenue bonds, as well as certain proceeds set aside for their repayment, are classified as restricted assets on the statement of net assets because their use is limited by applicable bond covenants.

(s) Accounts Receivable

Accounts receivable are shown net of allowance for doubtful accounts.

2. Reconciliation of Government-Wide and Fund Financial Statements

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported on the government-wide statement of net assets. The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balances – total governmental fund and changes in net assets of governmental activities as reported in the government – wide statement of activities. The individual elements of those reconciliations are included with the statements.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

3. Deposits and Investments

The City reporting entity considers highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. Exceptions include the City of Fairmont, West Virginia's Policemen's Pension and Relief Fund and the Firemen's Pension and Relief Fund which classify only cash as cash equivalents in order to appropriately report investment activity.

Deposits

It is the City's policy for deposits to be 100% secured by collateral valued at market or par, whichever is lower, less the amount of the Federal Deposit Insurance Corporation insurance.

The City's deposits are categorized to give an indication of the level of risk assumed by the City at June 30, 2013. The categories are described as follows:

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

Category 2 – Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name.

Category 3 – Uncollateralized.

<u>Pooled Deposits – Primary Government</u>	<u>Bank Balance</u>	<u>1</u>	<u>Category 2</u>	<u>3</u>	<u>Carrying Amount</u>
General Fund	\$ 2,955,341	\$ 185,035	\$ 2,770,306	\$ -0-	\$ 1,654,596
Special Revenue Funds	303,362	24,568	278,794	-0-	302,091
Enterprise Funds	<u>554,587</u>	<u>47,577</u>	<u>507,010</u>	<u>-0-</u>	<u>575,579</u>
Total deposits	\$ <u>3,813,290</u>	\$ <u>257,180</u>	\$ <u>3,556,110</u>	\$ <u>-0-</u>	\$ <u>2,532,266</u>
Component Unit	\$ <u>200,445</u>	\$ <u>12,550</u>	\$ <u>187,895</u>	\$ <u>-0-</u>	\$ <u>200,633</u>
Fiduciary Funds	\$ <u>212,785</u>	\$ <u>212,785</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>212,785</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Investments

Investment pools are under the custody of the City. Investing is performed in accordance with investment policies complying with State Statutes and the City Charter. Pooled funds may be invested in the State Investment Pool or the Municipal Bond Commission for investment purposes, or invested in the following classes of securities: Commercial paper rated A-1 by Standard & Poor's Corporation or P-1 by Moody's Commercial Paper Record, bankers' acceptances, repurchase agreements and reverse repurchase agreements. The pension trust fund is also authorized to invest in corporate bonds rated AA or better by Standard & Poor's Corporation or AA or better by Moody's Bond Rating.

The City's investments are categorized to give an indication of the level of risk assumed by the City at June 30, 2013. The categories are described as follows:

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Investments made by the City are summarized below. The investments that are presented by specific identifiable investment securities are classified as to credit risk by the three categories.

Category 1 – Insured or registered, securities held by the City or its agent in the entity's name.

Category 2 – Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 – Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the entity's name.

Primary Government

<u>Type of Investments</u>	<u>Category</u>			<u>Market</u>	<u>Cost</u>
	<u>1</u>	<u>2</u>	<u>3</u>	<u>Value</u>	
Cash equivalents	\$ 3,616,118	\$ -0-	\$ -0-	\$ 3,616,118	\$ 3,616,118
Corporate equities	770,085	-0-	-0-	770,085	529,838
Mutual funds	<u>12,527,846</u>	<u>-0-</u>	<u>-0-</u>	<u>12,527,846</u>	<u>12,052,266</u>
Total investments	<u>\$ 16,914,049</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	16,914,049	16,198,222
Investments at WV State Treasurer's Office				446,723	446,723
Investments in municipal bond commission				<u>4,365,137</u>	<u>4,365,137</u>
Total investments				<u>\$ 21,725,909</u>	<u>\$ 21,010,082</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Investments are presented in the statement of net position as follows:

Investments	\$ 10,299,449
Restricted assets	. <u>11,426,460</u>
 Total investments	 \$ <u>21,725,909</u>

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to the State of West Virginia Code Chapter 8. As of June 30, 2013, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

As of June 30, 2013, the City 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>
Money Market	\$ 3,616,118	N/A	N/A
Mutual funds	\$ 12,527,846	AAA	AAA
Corporate equities	\$ 770,085	AAA	AAA

Component Units

<u>Type of Investments</u>	<u>Category</u>			<u>Market Value</u>	<u>Cost</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash equivalents	\$ 357,277	\$ -0-	\$ -0-	\$ 357,277	\$ 357,277
Certificates of deposit	<u>1,739,303</u>	<u>-0-</u>	<u>-0-</u>	<u>1,739,303</u>	<u>1,743,000</u>
Total investments	\$ <u>2,096,580</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	2,096,580	2,100,277
Investments in municipal bond commission				<u>218,859</u>	<u>218,859</u>
Total investments				\$ <u>2,315,439</u>	\$ <u>2,319,136</u>

Investments are presented in the statement of net position as follows:

Investments	\$ -0-
Restricted assets	<u>2,315,439</u>
 Total investments	 \$ <u>2,315,439</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to the State of West Virginia Code Chapter 8. As of June 30, 2013, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

As of June 30, 2013, the City 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>
Money Market	\$ 357,277	N/A	N/A
Certificates of deposit	\$ 1,739,303	N/A	N/A

Interest Rate Risk

As of June 30, 2013, the City had the following investments and maturities exposed to interest rate risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Certificates of deposit	\$ <u>1,739,303</u>	\$ <u>1,739,303</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>-0-</u>

Fiduciary Funds

<u>Type of Investments</u>	<u>Category</u>			<u>Market Value</u>	<u>Cost</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Money Market	\$ 110,031	\$ -0-	\$ -0-	\$ 110,031	\$ 110,031
Mutual funds	4,543,069	-0-	-0-	4,543,069	3,451,512
Certificates of deposit	234,996	-0-	-0-	234,996	235,000
Corporate bonds and notes	345,867	-0-	-0-	345,867	282,668
Corporate stocks	373,980	-0-	-0-	373,980	436,759
U.S. Government obligations	<u>1,519</u>	<u>-0-</u>	<u>-0-</u>	<u>1,519</u>	<u>1,400</u>
Total investments	\$ <u>5,609,462</u>	\$ <u>-0-</u>	\$ <u>-0-</u>	\$ <u>5,609,462</u>	\$ <u>4,517,370</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Credit Risk: State law limits investments in corporate debt to commercial paper rated AA or better by Standard & Poor's Corporation or AA or better by Moody's Bond Rating.

Interest Risk: The pension investments are at risk of declines in market value due to interest rate risk.

Custodial Credit Risk: The City's investments were 100% insured by brokerage insurance and were not subject to custodial credit risk.

Credit Risk

State law limits investments. It is the government's policy that no investment be purchased which does not conform to the State of West Virginia Code Chapter 8. As of June 30, 2013, the government's investments were rated using Standard & Poor's and Fitch and Moody's Investment Services.

As of June 30, 2013, the City had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Credit Risk Rating</u>	
		<u>Standard & Poor's and Fitch</u>	<u>Moody's Investment Services</u>
Money Market	\$ 110,031	AAA	AAA
Mutual funds	\$ 4,543,069	AAA	AAA
Certificates of deposit	\$ 234,996	N/A	N/A
Corporate bonds and notes	\$ 345,867	BB+ – AAA	BAA2 – A3
Corporate stocks	\$ 373,980	N/A	N/A
U.S. Government obligations	\$ 1,519	AAA	AAA

Interest Rate Risk

As of June 30, 2013, the City had the following investments and maturities exposed to interest rate risk.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Certificates of deposit	\$ 234,996	\$ 234,996	\$ -0-	\$ -0-	\$ -0-
Corporate bonds and notes	\$ 345,867	\$ -0-	\$ 52,619	\$ -0-	\$ 293,248
Federal obligations	\$ 1,519	\$ 91	\$ 318	\$ 1,110	\$ 1,400

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2013

4. Property Taxes

The taxes on real property and the interest and other charges upon such taxes attach as an enforceable lien on the first day of July. There is no lien denominated as such on personal property; however, statutes provide that the sheriff of a county may distrain for delinquent taxes any goods and chattels belonging to a person assessed. 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 become delinquent on October first, and the second installment is payable on the first day of 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 taxes are not paid on or before the date on which they become delinquent, including both first and second installments, interest at the rate of nine percent annum is added from the date they become delinquent until 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¢); on Class II property, twenty-five cents (25.0¢); and on Class IV property, fifty cents (50.0¢). In addition, municipalities may provide for an election to lay an excess levy, the rates not to exceed fifty percent of such authorized maximum levies, provided that at least sixty percent of the voters cast ballots in favor of the excess levy.

The levy rates levied by the City of Fairmont, West Virginia, per \$100 of assessed valuation for each class of property for the fiscal year ended June 30, 2013 were as follows:

<u>Class of Property</u>	<u>Assessed Valuations For Tax Purposes</u>	<u>Current Expense</u>
Class I	\$ -0-	11.54¢
Class II	281,248,498	23.08¢
Class IV	425,821,814	46.16¢

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

5. Capital Assets and Capital Assets Net of Depreciation

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental Activities				
<i>Non-depreciable Assets</i>				
Land	\$ <u>149,635</u>	\$ <u>30,249</u>	\$ <u>-0-</u>	\$ <u>179,884</u>
Total non-depreciable assets	<u>149,635</u>	<u>30,249</u>	<u>-0-</u>	<u>179,884</u>
<i>Depreciable Assets</i>				
Buildings	963,381	790,903	60,575	1,693,709
Land improvements	535,838	113,472	-0-	649,310
Machinery and equipment	1,441,511	97,223	-0-	1,538,734
Building improvements	135,051	5,518	-0-	140,569
Office furniture and equipment	513,418	215,246	-0-	728,664
Vehicles	4,292,691	437,836	203,803	4,526,724
Infrastructure	<u>25,508,487</u>	<u>1,319,817</u>	<u>-0-</u>	<u>26,828,304</u>
Totals at historical cost	<u>33,390,377</u>	<u>2,980,015</u>	<u>264,378</u>	<u>36,106,014</u>
Less: Accumulated depreciation				
Buildings	691,332	15,986	51,291	656,027
Land improvements	146,765	26,670	-0-	173,435
Machinery and equipment	1,138,053	68,748	-0-	1,206,801
Building improvements	66,241	7,398	-0-	73,639
Office furniture and equipment	320,281	40,596	-0-	360,877
Vehicles	2,927,785	240,534	201,391	2,966,928
Infrastructure	<u>22,042,354</u>	<u>484,596</u>	<u>-0-</u>	<u>22,526,950</u>
Total accumulated depreciation	<u>27,332,811</u>	<u>884,528</u>	<u>252,682</u>	<u>27,964,657</u>
Total depreciable assets	<u>6,057,566</u>	<u>2,095,487</u>	<u>11,696</u>	<u>8,141,357</u>
Governmental activities capital assets, net	\$ <u>6,207,201</u>	\$ <u>2,125,736</u>	\$ <u>11,696</u>	\$ <u>8,321,241</u>

The accompanying independent auditor's report is an integral part of these notes.

CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Business-Type Activities				
<i>Non-depreciable Assets</i>				
Land	\$ 972,387	\$ -0-	\$ -0-	\$ 972,387
Construction in progress	<u>1,149,687</u>	<u>-0-</u>	<u>748,821</u>	<u>400,866</u>
Total non-depreciable assets	<u>2,122,074</u>	<u>-0-</u>	<u>748,821</u>	<u>1,373,253</u>
<i>Depreciable Assets</i>				
Buildings	4,100,730	-0-	-0-	4,100,730
Structures and improvements	158,220	18,877	19,832	157,265
Land improvements	4,481,353	1,562	-0-	4,482,915
Machinery and equipment	2,969,950	-0-	-0-	2,969,950
Structures and improvements	16,642,958	738,704	-0-	17,381,662
Transmission and distribution	49,607,174	1,608,902	87,242	51,128,834
Office furniture and equipment	<u>25,014</u>	<u>-0-</u>	<u>-0-</u>	<u>25,014</u>
Totals at historical cost	77,985,399	2,368,045	107,074	80,246,370
Less: Accumulated depreciation	<u>24,881,080</u>	<u>2,466,703</u>	<u>95,919</u>	<u>27,251,864</u>
Total depreciable assets	<u>53,104,319</u>	<u>(98,658)</u>	<u>11,155</u>	<u>52,994,506</u>
Business-type activities capital assets, net	\$ <u>55,226,393</u>	\$ <u>(98,658)</u>	\$ <u>759,976</u>	\$ <u>54,367,759</u>
	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending</u> <u>Balance</u>
Component Unit Activities				
<i>Non-depreciable Assets</i>				
Land	\$ <u>341,873</u>	\$ <u>5,016</u>	\$ -0-	\$ <u>346,889</u>
Total non-depreciable assets	<u>341,873</u>	<u>5,016</u>	<u>-0-</u>	<u>346,889</u>
<i>Depreciable Assets</i>				
Structures and improvements	276,399	-0-	-0-	276,399
Transmission and distribution	36,977,669	573,349	-0-	37,551,018
Machinery and equipment	<u>3,801,763</u>	<u>202,394</u>	<u>-0-</u>	<u>4,004,157</u>
Total at historical cost	41,055,831	775,743	-0-	41,831,574
Less: Accumulated depreciation	<u>20,793,573</u>	<u>1,125,326</u>	<u>-0-</u>	<u>21,918,899</u>
Total depreciable assets	<u>20,262,258</u>	<u>(349,583)</u>	<u>-0-</u>	<u>19,912,675</u>
Business type activities capital assets net	\$ <u>20,604,131</u>	\$ <u>(344,567)</u>	\$ <u>-0-</u>	\$ <u>20,259,564</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Depreciation expense was charged to governmental activities as follows:

General government	\$ 64,593
Public safety	269,333
Highways and streets	<u>539,903</u>
 Total depreciation expense	 \$ <u>873,829</u>

6. Long-Term Debt

Long-term liability activity for the year ended June 30, 2013 was as follows:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due After</u> <u>One Year</u>
Governmental Activities						
Obligation under capital lease	\$ 688,401	\$ 219,304	\$ 192,912	\$ 714,793	\$ 233,164	\$ 481,629
Compensated absences	1,166,523	205,780	-0-	1,372,303	284,119	1,088,184
Net pension obligation	<u>14,153,004</u>	<u>1,154,382</u>	<u>-0-</u>	<u>15,307,386</u>	<u>-0-</u>	<u>15,307,386</u>
 Governmental activities long-term liabilities	 \$ <u>16,007,928</u>	 \$ <u>1,579,466</u>	 \$ <u>192,912</u>	 \$ <u>17,394,482</u>	 \$ <u>517,283</u>	 \$ <u>16,877,199</u>

The General Fund of the City of Fairmont entered into a lease agreement to finance the acquisition of a Smeal Class A Pumper. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of its inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2013:

<u>Fiscal Year Ending June 30,</u>	
2014	\$ 41,987
2015	<u>41,987</u>
	83,974
Less: Amount representing interest	<u>2,587</u>
 Present value of future minimum lease payments	 \$ <u>81,387</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

The General Fund of the City of Fairmont entered into a lease agreement on July 25, 2007 for the acquisition of a Pierce Aerial Platform Fire Truck. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of its inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2013:

Fiscal Year Ending June 30,

		\$ 99,364
2014		99,364
2015		99,364
2016		99,364
2017		<u>99,364</u>
		397,456
Less: Amount representing interest		<u>42,067</u>
Present value of future minimum lease payments		\$ <u>355,389</u>

The General Fund of the City of Fairmont entered into a lease agreement on August 13, 2010 for the acquisition of a Street Sweeper. This lease qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments as of the date of its inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2013:

Fiscal Year Ending June 30,

		\$ 51,043
2014		8,508
2015		<u>59,551</u>
Less: Amount representing interest		<u>838</u>
Present value of future minimum lease payments		\$ <u>58,713</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

The General Fund of the City of Fairmont entered into a lease agreement on February 5, 2013 for the acquisition of a Pierce Responder Pumper for the fire department. This lease qualifies as a capital lease for accounting purposes and therefore, has been recorded at the present value of the minimum lease payments as of the date of its inception. The following is a schedule of future minimum lease payments required under this capital lease and the present value of the net minimum lease payments at June 30, 2013:

<u>Fiscal Year Ending June 30,</u>		
2014		\$ 56,705
2015		56,705
2016		56,705
2017		<u>56,705</u>
		226,820
Less: Amount representing interest		<u>7,516</u>
Present value of future minimum lease payments		\$ <u>219,304</u>

The following is a schedule of all future minimum lease payments together with the present value of net minimum lease payments as of June 30, 2013:

<u>Fiscal Year Ending June 30,</u>		
2014		\$ 249,099
2015		206,564
2016		156,069
2017		<u>156,069</u>
		767,801
Less: Amount representing interest		<u>53,008</u>
Present value of future minimum lease payments		714,793
Less: Current portion		<u>233,164</u>
Non-current portion		\$ <u>481,629</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a summary of bonds payable at June 30, 2013:

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due After</u> <u>One Year</u>
Business-Type Activities						
Bonds and notes payable:						
1997 Waterworks Refunding Bonds	\$ 1,905,000	\$ -0-	\$ 1,905,000	\$ -0-	\$ -0-	\$ -0-
1998 Water Revenue Bonds	8,415,000	-0-	8,415,000	-0-	-0-	-0-
1999 Water Revenue Bonds	19,945,000	-0-	16,945,000	3,000,000	890,000	2,110,000
2008A Water Revenue Bonds	2,428,165	-0-	91,668	2,336,497	91,668	2,244,829
Veterans Plaza Parking Garage Series 1999	146,453	-0-	68,116	78,337	72,138	6,199
Municipal Building Lease Revenue Bonds Series B	157,945	-0-	157,945	-0-	-0-	-0-
Municipal Building Lease Revenue Bonds Series A	2,767,991	-0-	2,767,991	-0-	-0-	-0-
Municipal Building Lease Revenue Bonds Series 2005	996,484	-0-	996,484	-0-	-0-	-0-
West Virginia Housing Development Fund	100,000	-0-	32,730	67,270	4,224	63,046
Chase Bank	281,464	-0-	54,424	227,040	56,896	170,144
2010A Water Revenue Bonds	3,821,233	552,257	148,256	4,225,234	148,256	4,076,978
2010C Water Revenue Bonds	2,000,000	-0-	60,485	1,939,515	63,509	1,876,006
2010D Water Revenue Bonds	230,201	973,658	32,900	1,170,959	32,900	1,138,059
Page Valley Bank	350,200	-0-	84,598	265,602	88,572	177,030
Municipal Building Lease Revenue Bonds, Series 2013A	-0-	965,435	8,936	956,499	35,318	921,181
Municipal Building Lease Revenue Bonds, Series 2013B	-0-	2,602,708	24,088	2,578,620	95,214	2,483,406
Water Revenue Bonds Series 2013A	-0-	120,536	-0-	120,536	-0-	120,536
Water Revenue Bonds Series 2013B	-0-	290,046	-0-	290,046	-0-	290,046
Water Refunding Revenue Bonds Series 2012D	-0-	25,555,000	-0-	25,555,000	910,000	24,645,000
Total bonds and notes payable	<u>43,545,136</u>	<u>31,059,640</u>	<u>31,793,621</u>	<u>42,811,155</u>	<u>2,488,695</u>	<u>40,322,460</u>
Other Long-Term Debt						
Obligation under capital lease	169,523	-0-	169,523	-0-	-0-	-0-
Accrued compensated absences	258,012	32,085	-0-	290,097	290,097	-0-
Total other long-term debt	<u>427,535</u>	<u>32,085</u>	<u>169,523</u>	<u>290,097</u>	<u>290,097</u>	<u>-0-</u>
Total long-term debt – primary government	<u>\$ 43,972,671</u>	<u>\$ 31,091,725</u>	<u>\$ 31,963,144</u>	<u>\$ 43,101,252</u>	<u>\$ 2,778,792</u>	<u>\$ 40,322,460</u>

	<u>Beginning</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending</u> <u>Balance</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>	<u>Amounts</u> <u>Due After</u> <u>One Year</u>
Component Unit						
Bonds and notes payable:						
2003 Sewerage Bonds	\$ 360,094	\$ -0-	\$ 16,184	\$ 343,910	\$ 16,188	\$ 327,722
2007 Sewerage Bonds	4,815,770	-0-	244,573	4,571,197	249,501	4,321,696
Total bonds and notes payable	5,175,864	-0-	260,757	4,915,107	265,689	4,649,418
Accrued compensated absences	214,906	-0-	20,816	194,090	74,612	119,478
Total long-term debt – component unit	<u>\$ 5,390,770</u>	<u>\$ -0-</u>	<u>\$ 281,573</u>	<u>\$ 5,109,197</u>	<u>\$ 340,301</u>	<u>\$ 4,768,896</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

a. 1999 Series - Water Revenue Bonds

Series 1999 Water Revenue Bonds in the amount of \$19,945,000 were issued pursuant to an ordinance enacted by the City of Fairmont on November 10, 1998 and sold as of December 30, 1998. The bonds mature serially through 2029 and bear interest from 4.50% to 5.25% per the following schedule.

<u>Maturity</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2014	\$ 890,000	5.25%
2015	<u>2,110,000</u>	5.25%
	<u>\$ 3,000,000</u>	

The 1999 bonds were issued by the City in order to: (1) to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing water system of the City, including capitalized interest on the Bonds; (2) to fund a reserve account in each of the sinking funds; and (3) to pay certain costs of issuance of the Bonds and related costs.

The 1999 bonds are secured by a lien on and pledge of the net revenues derived from the operation of the System. These bonds are insured by the Ambac Financial Group, Inc. unconditionally guaranteeing the timely payment of principal and interest on the 1999 Series Bonds.

The Series 1999 bonds shall be redeemable prior to their stated dates of maturity at the option of the Issuer, as a whole at any time, or in part on any interest payment date, in inverse order of their maturities and by lot within a maturity, at the respective redemption prices as set forth in the bond ordinance.

As required by the 1999 Revenue Bond Ordinance, a sinking fund has been established with the West Virginia Municipal Bond Commission. Moneys in the sinking fund are to be used only for the purposes of paying principal of and interest on the bonds. Monthly payments are required to be made into the sinking fund of amounts equaling 1/6th of the amount of interest due on the next semiannual interest date plus 1/12th of the amount of principal due on the next principal payment date. The sinking fund account balance at June 30, 2013 was \$378,977.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

No additional payments are required to be made into the sinking fund when the aggregate amount in the sinking fund, including the reserve account, is equal to the aggregate principal amount of bonds outstanding plus the amount of interest due or thereafter to become due on the bonds outstanding.

b. Water Revenue Bonds Series 2008A

The Series 2008A bonds were issued by the City in order to (i) pay a portion of the costs of acquisition and construction of certain extensions, additions, betterments and improvements to the waterworks system of the City of Fairmont, (ii) to fully fund the Series 2008A Bonds Reserve Account; and (iii) to pay certain costs of issuance hereof and related costs.

The 2008A bonds are secured by a lien on and pledge of the net revenues derived from the operations of the System. These bonds are insured by the Municipal Bond Insurance Association unconditionally guaranteeing the timely payment of principal and interest on the 2008A Series Bonds.

The Series 2008A bonds shall be redeemable prior to their stated dates of maturity upon written consent of the West Virginia Water Development Authority and the West Virginia Bureau for Public Health and upon payment of the redemption premium.

As required by the 2008A Revenue Bond Ordinance, a sinking fund has been established with the West Virginia Municipal Bond Commission. Moneys in the sinking fund are to be used only for the purposes of paying principal of and interest on the bonds. Monthly payments are required to be made into the sinking fund of amounts equaling $1/6^{\text{th}}$ of the amount of interest due on the next semiannual interest date plus $1/12^{\text{th}}$ of the amount of principal due on the next principal payment date. The sinking fund account balance at June 30, 2013 was \$100,483.

No additional payments are required to be made into the sinking fund when the aggregate amount in the sinking fund, including the reserve, is equal to the aggregate principal amount of bonds outstanding plus the amount of interest due or thereafter to become due on the bonds outstanding.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 91,668	\$ -0-	\$ 91,668
2015	91,668	-0-	91,668
2016	91,668	-0-	91,668
2017	91,668	-0-	91,668
2018	91,668	-0-	91,668
2019 – 2023	458,340	-0-	458,340
2024 – 2028	458,340	-0-	458,340
2029 – 2033	458,340	-0-	458,340
2034 – 2038	458,340	-0-	458,340
2039	<u>44,797</u>	<u>-0-</u>	<u>44,797</u>
Total	\$ <u>2,336,497</u>	\$ <u>-0-</u>	\$ <u>2,336,497</u>

c. Veterans Plaza Parking Garage Bond Series 1999

Series 1999 Veterans Plaza Parking Garage Bonds in the amount of \$750,000 were issued pursuant to an ordinance enacted by the City of Fairmont.

The Commission owns property situated at the corner of Adams and Madison Streets in Fairmont, West Virginia as conveyed by the City of Fairmont (City) known as Vets Plaza. On June 29, 1999 the Commission issued 15 year revenue bonds in the amount of \$750,000 to complete construction of Veteran's Plaza and parking facility with Crews and Associates, Inc. the registered owner and Wesbanco Bank, Fairmont the Trustee. The bonds are subject to mandatory redemption on the first day of each month until and including June 1, 2014 in the amount of \$6,230.04 which includes a principal amount plus accrued interest to the date of mandatory redemption set forth in a debt service schedule. This bond is payable solely from the rent payable by the City pursuant to a lease agreement between the City and the Commission dated June 29, 1999. Upon expiration of the lease, the City has the option to purchase this property from the Commission for \$1. The bonds pay interest at the rate of 5.75% with a principal balance of \$78,337 as of the date of these financial statements and mature as per the following schedule.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 72,138	\$ 2,622	\$ 74,760
2015	<u>6,199</u>	<u>33</u>	<u>6,232</u>
Total	\$ <u>78,337</u>	\$ <u>2,655</u>	\$ <u>80,992</u>

d. West Virginia Housing Development Fund

On February 24, 2004 the Commission entered into a loan and pledge agreement and signed a promissory note with the West Virginia Housing Development Fund (Fund) to participate in its demolition loan program. The Commission received \$100,000 in loan proceeds to be repaid on or before April 1, 2009 with interest on a sliding scale 0% to 5% per annum. On April 27, 2009 the Fund agreed to modify the terms of the note and extend the due date to September 1, 2013 with interest continuing to accrue at 5.0%. These funds were made available to businesses and individuals for their demolition needs. The Commission held three notes totaling \$96,006.58 with an additional amount of capitalized interest of \$13,109.16 for a total of \$109,115.74 outstanding. The notes were due the sooner of the sale or transfer of the property or March 1, 2013. On April 29, 2013 a second loan modification was executed by the Fund whereby all accrued and future interest was forgiven on the loan and an immediate payment of \$32,025.97, which represented the cash balance in the demolition loan program, was made, reducing the loan balance to \$67,974.03. In addition, the Commission modified the terms on the three notes it held, forgiving the paid and future interest and setting monthly payments of principal to mirror payments due the Fund. Principal payments are due as follows:

<u>Year</u>	<u>Amount</u>
2014	\$ 4,224
2015	6,480
2016	7,608
2017	9,776
2018	10,860
2019	10,860
2020	10,860
2021	<u>6,602</u>
	\$ <u>67,270</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

e. Chase Bank Note Payable

On March 30, 2007, the Water Fund of the City of Fairmont purchased a water filtration system with loan proceeds from Chase Bank. The loan bears interest at a rate of 4.45% and is payable in monthly installments of \$5,487. The loan is secured by equipment.

Future debt retirement based on current financing arrangements at June 30, 2013 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 56,896	\$ 8,952	\$ 65,848
2015	59,480	6,368	65,848
2016	62,182	3,666	65,848
2017	<u>48,482</u>	<u>904</u>	<u>49,386</u>
Total	\$ <u>227,040</u>	\$ <u>19,890</u>	\$ <u>246,930</u>

f. Water Revenue Bonds Series 2010A – West Virginia DWTRF Program

Water Revenue Bonds Series 2010A – West Virginia DWTRF Program Bonds in the amount of \$4,447,618 were issued pursuant to an ordinance enacted by the City of Fairmont on December 15, 2009 and supplemented by a resolution adopted on January 15, 2010. The bonds were sold to the West Virginia Water Development Authority and mature serially through December 1, 2041 and bear interest at 0%.

The Series 2010A bonds were issued by the City in order to (i) to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing public waterworks system of the Issuer; and (ii) to pay certain costs of issuance of the Bonds and related costs.

The 2010A bonds were secured by a lien on and pledge of the net revenues derived from the operation of the system. The bond is issued on a parity with respect to the liens, pledges and source of and security for payment of prior issued Water Revenue Bonds of the City of Fairmont.

The bond may be redeemed prior to its stated date of maturity in whole or in part, but only with the express written consent of the West Virginia Water Development Authority and the West Virginia Bureau for Public Health and upon the terms and conditions prescribed by, and otherwise in compliance with, the ARRA Assistance Agreement by and between the Issuer and the Authority, on behalf of the West Virginia Bureau for Public Health, dated January 21, 2010.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

As required by the 2010 Revenue Bond Ordinance, a Sinking Fund has been established with the West Virginia Municipal Bond Commission. Moneys in the Sinking Fund are to be used only for the purpose of paying principal of and interest on the bonds. The sinking fund account balance at June 30, 2013 was \$162,841.

The following is a schedule of future debt retirement based on current financing arrangement.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 148,256	\$ -0-
2015	148,256	-0-
2016	148,256	-0-
2017	148,256	-0-
2018	148,256	-0-
2019 – 2023	741,280	-0-
2024 – 2028	741,280	-0-
2029 – 2033	741,280	-0-
2034 – 2038	741,280	-0-
2039 – 2041	<u>518,834</u>	<u>-0-</u>
Total	\$ <u>4,225,234</u>	\$ <u>-0-</u>

- g. Water Revenue Bonds Series 2010C – West Virginia Development Authority**
Water Revenue Bonds Series 2010C – West Virginia Water Development Authority Bonds in the amount of \$2,000,000 were issued pursuant to an ordinance enacted by the City of Fairmont on December 15, 2009 and supplemented by a resolution adopted on January 15, 2010. The bonds were sold to the West Virginia Water Development Authority and mature serially through October 1, 2031 and bear interest at 5%.

The Series 2010C bonds were issued by the City in order to (i) pay prior notes; (ii) pay a portion of the costs of acquisition and construction of certain extensions, additions, betterments and improvements to the existing public waterworks system of the Issuer; (iii) pay interest on the Series 2010C bonds during the construction of the project and for not more than 6 months thereafter; and (iv) pay certain costs of issuance hereof and related costs.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The 2010C bonds were secured by a lien on and pledge of the net revenues derived from the operation of the system. The bond is issued on parity with respect to the liens, pledges and source of and security for payment of prior issued Water Revenue Bonds of the City of Fairmont.

The bond may be redeemed prior to its stated date of maturity in whole or in part, but only with the express written consent of the West Virginia Water Development Authority and upon the terms and conditions prescribed by, and otherwise in compliance with, the agreement between the City of Fairmont and the West Virginia Water Development Authority dated January 21, 2010.

As required by the 2010 Revenue Bond Ordinance, a Sinking Fund has been established with the West Virginia Municipal Bond Commission. Moneys in the Sinking Fund are to be used only for the purpose of paying principal of and interest on the bonds. The sinking fund account balance at June 30, 2013 was \$207,432.

The following is a schedule of future debt retirement based on current financing arrangement.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 63,509	\$ 95,388
2015	66,685	92,133
2016	70,019	93,716
2017	73,520	85,128
2018	77,196	81,360
2019	81,056	77,403
2020	85,109	73,249
2021	89,364	68,887
2022	93,832	64,307
2023	98,524	59,499
2024	103,450	54,449
2025	108,623	49,147
2026	114,054	43,580
2027	119,757	37,734
2028	125,744	31,597
2029	132,032	25,153
2030	138,633	18,386
2031	145,565	11,281
2032	<u>152,843</u>	<u>3,821</u>
Total	\$ <u>1,939,515</u>	\$ <u>1,066,218</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

h. Water Revenue Bonds Series 2010D – West Virginia Infrastructure Fund

Water Revenue Bonds Series 2010D – West Virginia Infrastructure Fund Bonds in the amount of \$1,250,104 were issued pursuant to an ordinance enacted by the City of Fairmont on December 15, 2009 and supplemented by a resolution adopted on January 15, 2010. The bonds were sold to the West Virginia Water Development Authority on behalf of the West Virginia Infrastructure Fund and mature serially through December 1, 2049 and bear interest at 0%.

The Series 2010D bonds were issued by the City in order to (i) pay a portion of the costs of acquisition and construction of certain extensions, additions, betterments and improvements to the public waterworks system of the City; and (ii) to pay certain costs of issuance hereof and related costs.

The 2010D bonds were secured by a lien on and pledge of the net revenues derived from the operation of the system. The bond is issued on parity with respect to the liens, pledges and source of and security for payment of prior issued Water Revenue Bonds of the City of Fairmont.

The bond may be redeemed prior to its stated date of maturity in whole or in part, but only with the express written consent of the West Virginia Development Authority and the West Virginia Infrastructure and Jobs Development Council and upon the terms and conditions prescribed by, and otherwise in compliance with, the Loan Agreement by and between the City of Fairmont and the West Virginia Water Development Authority, on behalf of the West Virginia Infrastructure and Jobs Development Council dated January 21, 2010.

As required by the 2010 Revenue Bond Ordinance, a Sinking Fund has been established with the West Virginia Municipal Bond Commission. Moneys in the Sinking Fund are to be used only for the purpose of paying principal of and interest on the bonds. The sinking fund account balance at June 30, 2013 was \$7,954.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a schedule of future debt retirement based on current financing arrangement.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 32,900	\$ -0-
2015	32,900	-0-
2016	32,900	-0-
2017	32,900	-0-
2018	32,900	-0-
2019 – 2023	164,500	-0-
2024 – 2028	164,500	-0-
2029 – 2033	164,500	-0-
2034 – 2038	164,500	-0-
2039 – 2043	164,500	-0-
2044 – 2048	164,500	-0-
2049	<u>19,459</u>	<u>-0-</u>
Total	\$ <u>1,170,959</u>	\$ <u>-0-</u>

i. Page Valley Bank

On September 9, 2009, the Water Fund of the City of Fairmont borrowed funds from Page Valley Bank through Comvest to finance the 2009 train #5 expansion. The loan bears interest at a rate of 4.60% and is payable in monthly installments of \$8,245.

Future debt retirement based on current financing arrangements at June 30, 2013 is as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 88,572	\$ 10,366	\$ 98,938
2015	92,734	6,204	98,938
2016	<u>84,296</u>	<u>1,851</u>	<u>86,147</u>
Total	\$ <u>265,602</u>	\$ <u>18,421</u>	\$ <u>284,023</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

j. Municipal Building Commission Lease Revenue Bonds, Series 2013A

On March 4, 2013 the Municipal Building Commission issued Municipal Building Lease Revenue Bonds, Series 2013A in the amount of \$965,435 with MVB Bank, Inc. as the holder. The bonds are subject to mandatory redemption of the fourth day of each month until and including March 4, 2033 and pay interest of 3.2%. This bond is payable solely from the rent payable by the City pursuant to a lease agreement between the City and the Building Commission dated January 18, 2005. Upon expiration of the lease, the City has the option to purchase the property from the Commission for \$1. The bonds have a principal balance of \$956,499 as of the date of these financial statements and mature as follows.

<u>Year Ending June 30,</u>	<u>Principal</u>
2014	\$ 35,318
2015	36,465
2016	37,605
2017	38,914
2018	40,134
2019 – 2023	221,085
2024 – 2028	259,275
2029 – 2033	<u>287,703</u>
 Total	 \$ <u>956,499</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

k. Municipal Building Commission Lease Revenue Bonds, Series 2013B

On March 4, 2013 the Municipal Building Commission issued Municipal Building Lease Revenue Bonds, Series 2013B in the amount of \$2,602,708 with MVB Bank, Inc. as the holder. The bonds carry an interest rate of 3.20% per annum with principal and interest payable monthly for a term of 20 years. The proceeds of this financing were used to pay off the USDA Rural Development Bonds. At June 30, 2013 there is a principal balance of \$2,578,620 payable as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>
2014	\$ 95,214
2015	98,306
2016	101,380
2017	104,907
2018	108,197
2019 – 2023	595,573
2024 – 2028	699,246
2029 – 2033	<u>775,797</u>
Total	\$ <u>2,578,620</u>

l. Water Revenue Bonds Series 2013A – West Virginia DWTRF Program

Water Revenue Bonds Series 2013A – West Virginia DWTRF Program Bonds in the amount of \$3,780,000 were issued pursuant to an ordinance enacted by the City of Fairmont on February 1, 2013. The bonds were sold to the West Virginia Water Development Authority and mature serially through September 1, 2034 and bear interest at .5%.

The Series 2013A bonds were issued by the City in order to (i) to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing public waterworks system of the Issuer; and (ii) to pay certain costs of issuance of the Bonds and related costs.

The 2013A bonds were secured by a lien on and pledge of the net revenues derived from the operation of the system. The bond is issued on a parity with respect to the liens, pledges and source of and security for payment of prior issued Water Revenue Bonds of the City of Fairmont.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The bond may be redeemed prior to its stated date of maturity in whole or in part, but only with the express written consent of the West Virginia Water Development Authority and the West Virginia Bureau for Public Health and upon the terms and conditions prescribed by, and otherwise in compliance with, the Assistance Agreement by and between the Issuer and the Authority, on behalf of the West Virginia Bureau for Public Health.

As required by the 2013 Revenue Bond Ordinance, a Sinking Fund has been established with the West Virginia Municipal Bond Commission. Moneys in the Sinking Fund are to be used only for the purpose of paying principal of and interest on the bonds. The sinking fund account balance at June 30, 2013 was \$-0-.

At June 30, 2013 the City of Fairmont had drawn down \$120,536 of this bond issue.

The following is a schedule of future debt retirement based on current financing arrangement.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ -0-	\$ -0-	\$ -0-
2015	89,969	9,394	99,363
2016	<u>30,567</u>	<u>4,613</u>	<u>35,180</u>
Total	\$ <u>120,536</u>	\$ <u>14,007</u>	\$ <u>134,543</u>

m. Water Revenue Bonds Series 2013B – West Virginia Infrastructure Fund

Water Revenue Bonds Series 2013B – West Virginia Infrastructure Fund Bonds in the amount of \$1,000,000 were issued pursuant to an ordinance enacted by the City of Fairmont on February 1, 2013. The bonds were sold to the West Virginia Water Development Authority on behalf of the West Virginia Infrastructure Fund and mature serially through September 1, 2044 and bear interest at 2%.

The Series 2013B bonds were issued by the City in order to (i) pay a portion of the costs of acquisition and construction of certain extensions, additions, betterments and improvements to the public waterworks system of the City; and (ii) to pay certain costs of issuance hereof and related costs.

The 2013B bonds were secured by a lien on and pledge of the net revenues derived from the operation of the system. The bond is issued on parity with respect to the liens, pledges and source of and security for payment of prior issued Water Revenue Bonds of the City of Fairmont.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The bond may be redeemed prior to its stated date of maturity in whole or in part, but only with the express written consent of the West Virginia Development Authority and the West Virginia Infrastructure and Jobs Development Council and upon the terms and conditions prescribed by, and otherwise in compliance with, the Loan Agreement by and between the City of Fairmont and the West Virginia Water Development Authority, on behalf of the West Virginia Infrastructure and Jobs Development Council dated February 1, 2013.

As required by the 2013 Revenue Bond Ordinance, a Sinking Fund has been established with the West Virginia Municipal Bond Commission. Moneys in the Sinking Fund are to be used only for the purpose of paying principal of and interest on the bonds. The sinking fund account balance at June 30, 2013 was \$-0-.

At June 30, 2013 the City of Fairmont had drawn down \$290,046 of this bond issue.

The following is a schedule of future debt retirement based on current financing arrangement.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ -0-	\$ -0-
2015	18,398	14,908
2016	24,962	19,446
2017	25,465	18,943
2018	25,978	18,430
2019	26,502	17,906
2020	27,037	17,371
2021	27,581	16,827
2022	28,138	16,270
2023	28,704	15,704
2024	29,282	15,126
2044	<u>27,999</u>	<u>14,536</u>
Total	\$ <u>290,046</u>	\$ <u>185,467</u>

n. Water Refunding Revenue Bonds, Series 2012D

Water Refunding Revenue Bonds Series 2012D in the amount of \$30,000,000 were issued pursuant to an ordinance enacted by the City of Fairmont on March 27, 2012 and supplemented by a resolution adopted on September 12, 2012. The bonds mature serially through July 1, 2029 and bear interest from 2.00% - 4.00%.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
 NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
 FOR THE YEAR ENDED JUNE 30, 2013**

The Series 2012D bonds were issued by the City in order to refinance the Series 1997A bonds, Series 1998A bonds and a portion of the Series 1999 bonds and to finance the cost of issuance.

The 2012D bonds were secured by a lien on and pledge of the net revenues derived from the operation of the system. The bond is issued on a parity with respect to the liens, pledges and source of and security for payment of prior Water Revenue Bonds of the City of Fairmont.

The Series 2012D bonds are subject to optional redemption prior to their stated maturity on or after July 1, 2019, at the option of the City at par plus accrued interest thereon to the date set for redemption.

The Series 2012D bonds maturing on July 1, 2029, are subject to annual mandatory redemption prior to maturity by random selection on July 1 of the years and in the principal amounts set forth below, at the redemption price of 100% of the principal amount of each bond so called for redemption plus interest accrued to the date fixed for redemption:

<u>Bonds maturing 2029</u> <u>Year (July 1)</u>	<u>Principal Amount</u>
2028	\$ 2,100,000
2029	\$ 2,170,000

If less than all the Series 2012D bonds are redeemed, the Bonds to be redeemed shall be identified by reference to the Series designation, date of issue, CUSIP numbers and maturity dates.

As required by the 2012D Revenue Bond Ordinance, a sinking fund has been established with the West Virginia Municipal Bond Commission. Moneys in the sinking fund are to be used only for the purpose of paying principal of and interest on the bonds. The sinking fund account balance at June 30, 2013 was \$1,261,608.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a schedule of future debt retirement based on current financing arrangement.

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest Rate</u>
2013	\$ 910,000	2.00%
2014	1,400,000	2.00%
2015	1,425,000	2.00%
2016	1,455,000	2.00%
2017	1,485,000	2.00%
2018	1,510,000	3.00%
2019	1,560,000	2.00%
2020	690,000	2.25%
2021	655,000	2.50%
2022	620,000	2.70%
2023	1,795,000	2.75%
2024	1,845,000	4.00%
2025	1,920,000	3.00%
2026	1,975,000	3.10%
2027	2,040,000	3.15%
2029	<u>4,270,000</u>	3.20%
	<u>\$ 25,555,000</u>	

o. Sewer Revenue Bond Series 2003A

Series 2003A Sewer Revenue Bonds in the amount of \$600,000 are being issued pursuant to an ordinance enacted by the City of Fairmont on May 13, 2003. The bonds mature serially through September 1, 2034 and bear interest at 0%.

The 2003A bonds were issued by the City of Fairmont in order to: (1) to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing sewerage system of the City; (2) to fund a reserve account in the sinking fund; and (3) to pay certain costs of issuance of the Bonds and related costs.

The 2003A bonds are secured by a lien on and pledge of the net revenues derived from the operation of the System.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 16,188	\$ -0-	\$ 16,188
2015	16,188	-0-	16,188
2016	16,188	-0-	16,188
2017	16,188	-0-	16,188
2018	16,188	-0-	16,188
2019 – 2023	80,920	-0-	80,920
2024 – 2028	80,920	-0-	80,920
2029 – 2033	80,920	-0-	80,920
2034 – 2035	<u>20,210</u>	<u>-0-</u>	<u>20,210</u>
 Total	 \$ <u>343,910</u>	 \$ <u>-0-</u>	 \$ <u>343,910</u>

p. Sewer Revenue Bonds Series 2007

Series 2007 Sewer Revenue Bonds in the amount of \$5,577,760 are being issued pursuant to an ordinance enacted by the City of Fairmont. The bonds mature serially through March 1, 2029 and bear interest at 2%.

The 2007 bonds were issued by the City of Fairmont in order to pay a portion of the costs of acquisition and construction of certain additions, betterments and improvements to the existing sewerage system of the City.

The 2007 bonds are secured by a lien on and pledge of the net revenues derived from the operation of the System.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The following is a schedule of future debt retirement based on current financing arrangements:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 249,501	\$ 89,561	\$ 339,062
2015	254,529	84,533	339,062
2016	259,658	79,404	339,062
2017	264,890	74,172	339,062
2018	270,227	68,835	339,062
2019 – 2023	1,435,043	260,267	1,695,310
2024 – 2028	1,559,052	136,258	1,695,310
2029	<u>278,297</u>	<u>64,130</u>	<u>342,427</u>
Total	\$ <u>4,571,197</u>	\$ <u>857,160</u>	\$ <u>5,428,357</u>

7. Employees Retirement System

Plan Descriptions Contribution Information and Funding Policies

Public Employees' Retirement System (PERS)

The City of Fairmont, West Virginia, participates in a state-wide, cost-sharing, multiple-employer defined benefit plan on behalf of general City 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 accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

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

	<u>Public Employees' Retirement System (PERS)</u>
Eligibility to participate	All City 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%
Employer's contribution rate	14.00%
Period required to vest	Five Years
Benefits and eligibility for distribution	A member who has attained age 50 and has earned 5 years or more of contribution 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

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Trend Information

Public Employees' Retirement System (PERS)

<u>Fiscal Year</u>	<u>Annual Pension Cost</u>	<u>Percentage Contributed</u>
2013	\$ 579,756	100%
2012	\$ 739,827	100%
2011	\$ 489,721	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

Other Post-Employment Benefits

Plan Description:

The City of Fairmont, West Virginia contributes to the West Virginia Retiree Health Benefits Trust Fund (RHBT), a cost-sharing, multiple-employer defined benefit post-employment health care plan administered by the West Virginia Public Employees Insurance Agency (PEIA). RHBT provides medical benefits to eligible retired employees of participating employers. Eligibility is primarily established through participation in certain defined benefit plans. RHBT issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to: West Virginia Retiree Health Benefits Trust, Building 5, Room 1001, 1900 Kanawha Boulevard East, Charleston, West Virginia 25305-0170.

Authority Establishing the Plan and Fund Policy:

Chapter 5, Article 16D of the West Virginia State Code assigns the authority to establish and amend benefits and provisions to the RHBT. Plan members are currently required to contribute \$461.06 per month per active health policy. Participating employers are contractually required to contribute at a rate assessed each year by RHBT. The RHBT board sets the employer contribution rate based on the annual required contributions of the plan (ARC), an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board (GASB) Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period not to exceed thirty years.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Funding Policy: The City's contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2013, the City contributed \$-0- to the plan. Employees are not required to make contributions for basic life insurance.

The City of Fairmont has \$3,887,283 reserved for the outstanding OPEB liability.

Annual OPEB Cost: The City's annual OPEB cost (expense) for the plan is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress presented as required supplementary information follow in the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the Plans, and changes in the City's net OPEB obligations, as well as the assumptions used to calculate the net OPEB obligation for the covered active and retired employees.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

Annual OPEB cost		\$ 101,637
Contributions made		<u>-0-</u>
Increase (decrease) in net OPEB obligation		101,637
Net OPEB obligation (asset) beginning of year		<u>7,087,123</u>
Net OPEB obligation (asset) end of year		\$ <u>7,188,760</u>
Actuarial valuation date	6/30/2007	
Actuarial cost method	Entry age	
Amortization method	Level dollar	
Asset valuation method	Smoothed market approach	
Remaining amortization period	30 years	
Actuarial assumptions:		
Investment rate of return	4.50%	
Projected rate increase	4.60% - 5.60%	
Health care inflation rate	9.3% in 2008, grading to 6% in 2027	

Three-Year Trend Information

<u>Year Ending</u>	<u>Annual OPEB Cost (AOC)</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Obligation (Asset)</u>
June 30, 2013	\$ 101,637	0%	\$ 7,188,760
June 30, 2012	1,222,771	0%	7,087,123
June 30, 2011	1,237,259	0%	5,864,352

GASB Statement No. 45 was applied prospectively.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Defined Benefit Pension Plans

The City has established and maintains the following employees retirement and benefits funds, as authorized by West Virginia Code §8-22-1, et seq., for all eligible employees.

- (1) Policemen's Pension and Relief Fund
- (2) Firemen's Pension and Relief Fund

Plan Descriptions

At July 1, the plan's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them:

Firemen (July 1, 2011)	60
Policemen (July 1, 2011)	<u>48</u>
Total	<u>108</u>

Current employees:

Vested and nonvested:	
Firemen	41
Policemen	<u>33</u>
Total	<u>74</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Policemen's Pension Plan</u>	<u>Firemen's Pension Plan</u>
Other plan details:		
Eligibility	All paid members of the Police Department.	All paid members of the Fire Department.
Rate of employee contribution	7% of salary.	8.5% of salary.
Vesting period for normal retirement	20 years of service but no later than the date the participant reaches age 65.	20 years of service but no later than the date the participant reaches age 65.
Benefits	60% of average compensation, but not less than \$6,000, plus an additional 2% for each full year of credited service in excess of 20 years, but not in excess of 25 years, plus an additional 2% for each full year of credited service in excess of 25 years, but not in excess of 30 years. In addition, 1% is granted for each full year of military service up to 4 years. However, maximum benefit received may not exceed 75%.	60% of average compensation, but not less than \$6,000, plus an additional 2% for each full year of credited service in excess of 20 years, but not in excess of 25 years, plus an additional 1% for each full year of credited service in excess of 25 years, but not in excess of 30 years. In addition, 1% is granted for each full year of military service up to 4 years. However, maximum benefit received may not exceed 75%.

Funding Status and Progress

The amount shown on the following page as "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is the actuarial present value of credited projected benefits and is intended to help users assess progress made in accumulating sufficient assets to pay benefits when due.

The pension benefit obligation was determined as part of an actuarial valuation of the plan as of July 1, 2010. Significant actuarial assumptions used in determining the pension benefit obligation included: (1) a rate of return on the investment of present and future assets of 5.0 percent per year compounded annually for both the fire pension plan and the police pension plans, (2) the assumption that benefits will increase 3.0 percent per year after retirement, and (3) projected salary increases of 5.0 percent per year for the police plan and 4.0 percent for year for the fire plan.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The unfunded pension benefit obligations for the policemen's and firemen's pensions were \$5,621,744 and \$9,685,642, respectively.

Firemen's Pension and Relief

Annual Pension Cost and Contributions

Valuation Date	July 1, 2012
Valuation Interest Rate	5.00%
Cost-of-Living Adjustment	3.00%
Wage Inflation	4.00%
Salary Increase	5.00%
Actuarial Value of Assets	Market
Actuarial Cost Method	Entry Age Normal
Remaining Amortization Period	28 years, Level % of Pay

Annual Pension Cost and Contributions

Fiscal Year End	June 30, 2013
-----------------	---------------

1. Annual Pension Cost for FYE June 30

(a) Annual Required Contribution (ARC) for FYE June 30	\$ 1,875,854
(b) Interest on Net Pension Obligation (NPO) as of July 1 of FY	\$ 447,148
(c) Adjustment to ARC	\$ (362,353)
(d) Annual Pension Cost (a + b + c)	\$ 1,960,649

2. Net Pension Obligation as of FYE June 30

(a) NPO as of July 1 of FY	\$ 8,942,963
(b) Annual Pension Cost for FY	\$ 1,960,649
(c) Employer Contribution	\$ 785,179
(d) STO Contributions	\$ 432,791
(d) NPO as of FYE (a + b - c - d)	\$ 9,685,642

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

Pension Cost Summary

Fiscal Year End	June 30, 2013
1. Annual Pension Cost	\$ 1,960,649
2. Employer Contribution	\$ 785,179
3. STO Contribution	\$ 432,791
4. Percentage of Annual Pension Cost Contributed [(2 + 3)/1]	62%
5. Net Pension Obligation	\$ 9,685,642

Policemen's Pension and Relief

Valuation Date	July 1, 2012
Valuation Interest Rate	5.00%
Cost-of-Living Adjustment	3.00%
Wage Inflation	4.00%
Salary Increase	5.00%
Actuarial Value of Assets	Market
Actuarial Cost of Method	Entry Age Normal
Remaining Amortization Period	28 years, Level % of Pay

Annual Pension Cost and Contributions

Fiscal Year End	June 30, 2013
1. Annual Pension Cost for FYE June 30	
(a) Annual Required Contribution (ARC) for FYE June 30	\$ 1,282,078
(b) Interest on Net Pension Obligation (NPO) as of July 1 of FY	\$ 260,502
(c) Adjustment to ARC	\$ (211,102)
(d) Annual Pension Cost (a + b + c)	\$ 1,331,478

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

2. Net Pension Obligation as of FYE June 30

(a) NPO as of July 1 of FY	\$ 5,210,041
(b) Annual Pension Cost for FY	\$ 1,331,478
(c) Employer Contribution	\$ 577,207
(d) STO Contributions	\$ 342,568
(d) NPO as of FYE (a + b - c - d)	\$ 5,621,744

Pension Cost Summary

Fiscal Year End	June 30, 2013
1. Annual Pension Cost	\$ 1,331,478
2. Employer Contribution	\$ 577,207
3. STO Contribution	\$ 342,568
4. Percentage of Annual Pension Cost Contributed [(2 + 3)/1]	69%
5. Net Pension Obligation	\$ 5,621,744

(a) Policemen's Pension and Relief Fund

The Policemen's Pension and Relief Fund of the municipality covers all eligible employees of the police department paid on a full-time basis from public funds. The municipality's contribution for the fiscal year ended June 30, 2013, was \$577,207 and \$342,568 was provided by the insurance premium tax allocation, for a total contribution of \$919,775.

According to the latest actuarial study of the municipality's Policemen's Pension and Relief Fund, conducted by Gabriel Roeder Smith & Company, the unfunded past service liability as of July 1, 2012, was \$20,453,053.

As required by West Virginia Code §8-22-20, in no event will the municipality be allowed to contribute less than the greater of:

- (1) The average of the amounts contributed in the five fiscal years beginning fiscal year ending June 30, 1984.
- (2) One hundred and seven percent (107%) of the prior year's required city contribution.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

- (3) The amount which, when added to the member contribution and the revenue from the state premium tax, equals the overall plans normal cost.

It was determined during this examination that the municipality did comply with the minimum required contribution per West Virginia Code §8-22-20 for the fiscal year ended June 30, 2013.

In presenting these recommended funding levels, Gabriel Roeder Smith & Company, assumed that the premium tax allocation will continue to be paid to the municipality and that it will remain at about the same level for the next three years.

(b) Firemen's Pension and Relief Fund

The Firemen's Pension and Relief Fund of the municipality covers all eligible employees of the fire department paid on a full-time basis from public funds. The municipality's contribution for the fiscal year ended June 30, 2013, was \$785,179 and \$432,791 was provided by the insurance premium tax allocation, for a total contribution of \$1,217,970.

According to the latest actuarial study of the municipality's Firemen's Pension and Relief Fund, conducted by Gabriel Roeder Smith & Company, the unfunded past service liability as of July 1, 2012 was \$31,998,135.

As required by West Virginia Code §8-22-20, in no event will the municipality be allowed to contribute less than the greater of:

- (1) The average of the amounts contributed in the five fiscal years beginning fiscal year ending June 30, 1984.
- (2) One hundred and seven percent (107%) of the prior year's required city contribution.
- (3) The amount which, when added to the member contribution and the revenue from the state premium tax, equals the overall plans normal cost.

It was determined during this examination that the municipality did comply with the minimum required contribution per West Virginia Code §8-22-20 for the fiscal year ended June 30, 2013.

In presenting these recommended funding levels, Gabriel Roeder Smith & Company, assumed that the premium tax allocation will continue to be paid to the municipality and that it will remain at about the same level for the next three years.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONTD)
FOR THE YEAR ENDED JUNE 30, 2013**

8. Workers' Compensation Fund

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 the 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.

9. Lease

City of Fairmont is the lessor of land under an operating lease with an original lease term of 30 years expiring in 2014. The lease includes the option to renew for two (2) subsequent periods of ten years each, by giving notice of at least 30 days prior to the expiration of the lease. Minimum lease payments to be received as of June 30, 2013 for each of the next five years are:

<u>Year Ended June 30,</u>	<u>Amount</u>
2014	\$ <u>12,000</u>

10. Interfund Balances

Individual fund interfund receivable and payable balances at June 30, 2013 for fund financial:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 176,631	\$ -0-
Special Revenue Funds		
Board and Commissions Fund	619	-0-
Enterprise Funds		
Water Fund	-0-	177,368
Parking Fund	<u>118</u>	<u>-0-</u>
Total – primary government	\$ <u>177,368</u>	\$ <u>177,368</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

11. Debt Service Coverage

The debt service coverage factor for the Sanitary Sewer Board Fund has been calculated as follows for the year ended June 30, 2013:

Operating revenues		\$ 4,445,263
Operating expenses		<u>4,350,199</u>
Operating income		95,064
Add: Depreciation expense		1,125,326
Interest income		<u>42,137</u>
Amount available for debt service and capital expenditures		\$ <u>1,262,527</u>
Maximum annual debt service		\$ <u>355,250</u>
Calculated debt service coverage factor		3.55
Required debt service coverage factor		1.25

Based on this calculation, it appears that the Sanitary Sewer Board was in compliance with the provisions set forth in its bond ordinances as of June 30, 2013.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

The debt service coverage factor for the Water Fund has been calculated as follows for the year ended June 30, 2013:

Operating revenues	\$ 9,031,371
Operating expenses	<u>6,076,322</u>
Operating income	2,955,049
Add: Depreciation expense	2,177,823
Interest income	<u>110,470</u>
Amount available for debt service and capital expenditures	\$ <u>5,243,342</u>
Maximum annual debt service	\$ <u>2,472,557</u>
Calculated debt service coverage factor	2.12
Required debt service coverage factor	1.20

Based on this calculation, it appears that the Water Fund was in compliance with the provisions set forth in its bond ordinances as of June 30, 2013.

12. Pending Litigation

The City of Fairmont has been name defendant in several cases which in the opinion of the municipality's attorney will have no material adverse effect to the City.

13. Restricted Assets

Certain enterprise fund assets are restricted for repayment of long-term debt. Restricted net assets include the excess of assets over certain liabilities restricted for the debt service on revenue bonds.

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

14. Restricted Net Position/Fund Balance

It was determined during this examination that the fund balance at the beginning of the year of the General Fund required restatement as follows:

Fund balance at beginning of year	\$ 6,225,911
Restatement: Understatement of accounts receivable	<u>236,942</u>
Fund balance at beginning of year – restated	\$ <u>6,462,853</u>

It was determined during this examination that the net position of the Governmental Activities required restatement as follows:

Net position at beginning of year	\$ (1,576,419)
Restatement: Understatement of capital assets	12,912
Restatement: Understatement of accounts receivable	<u>236,942</u>
Net position at beginning of year – restated	\$ <u>(1,326,565)</u>

It was determined during this examination that the net position of the Sanitary Sewer Board required restatement as follows:

Net position at beginning of year	\$ 17,160,821
Restatement: Overstatement of accounts receivable	<u>(12,093)</u>
Net position at beginning of year – restated	\$ <u>17,148,728</u>

The accompanying independent auditor's report is an integral part of these notes.

**CITY OF FAIRMONT, WEST VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

15. Net Position/Fund Balance

Net Position is restricted as follows:

Governmental Activities	
Economic Development Grants	\$ 9,789
Customer deposits	95,983
Business Type Activities	
Debt retirement and capital asset acquisition	\$ 7,830,283
Business Type Activities – Component Unit	
Debt retirement and capital asset acquisition	\$ 2,315,439

Fund Balances are classified as follows:

Nonspendable	
General Fund	\$ <u>1,551</u>
Committed	
General Fund	\$ 1,205,613
Coal Severance Fund	<u>55,012</u>
	\$ <u>1,260,625</u>
Restricted	
General Fund	\$ 105,772
Economic Development Grant	<u>9,789</u>
	\$ <u>115,561</u>
Assigned	
General Fund	\$ 2,701,096
Boards and Commissions	11,605
Workers Compensation	1,583,832
Urban Renewal Authority	<u>956</u>
	\$ <u>4,297,489</u>

16. Subsequent Events

The City has considered all subsequent events through March 12, 2014, the date the financial statements were made available.

The accompanying independent auditor's report is an integral part of these notes.

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF FAIRMONT, WEST VIRGINIA
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

1. Schedules of Funding Progress

Policemen's Pension and Relief Fund (PPFR)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % Covered Payroll (b - a) / c</u>
7/1/2001	\$ 2,664,788	\$ 13,852,571	\$ 11,156,783	19.24%	\$ 1,207,014	924%
7/1/2004	\$ 3,100,970	\$ 16,044,620	\$ 12,943,650	19.33%	\$ 1,312,786	986%
7/1/2008	\$ 4,038,740	\$ 18,155,269	\$ 14,116,529	22.25%	\$ 1,356,042	954%
7/1/2010	\$ 3,368,627	\$ 24,238,478	\$ 20,869,851	13.90%	\$ 1,458,935	1430%
7/1/2011	\$ 3,840,024	\$ 24,842,350	\$ 21,002,326	15.46%	\$ 1,502,220	1398%
7/1/2012	\$ 3,872,522	\$ 24,325,575	\$ 20,453,053	15.92%	\$ 1,469,669	1392%

Firemen's Pension and Relief Fund (FPFR)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a) / (b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % Covered Payroll (b - a) / c</u>
7/1/2002	\$ 3,353,845	\$ 21,031,260	\$ 17,677,415	15.95%	\$ 1,476,041	1198%
7/1/2005	\$ 2,986,375	\$ 22,414,167	\$ 19,427,792	13.32%	\$ 1,480,774	1312%
7/1/2008	\$ 2,483,747	\$ 24,349,397	\$ 21,865,650	10.20%	\$ 1,568,485	1394%
7/1/2010	\$ 1,870,356	\$ 31,669,126	\$ 29,798,600	5.91%	\$ 1,671,862	1782%
7/1/2011	\$ 2,009,751	\$ 33,126,234	\$ 31,116,483	6.26%	\$ 1,845,536	1686%
7/1/2012	\$ 1,734,688	\$ 33,732,823	\$ 31,998,135	5.14%	\$ 1,781,502	1796%

**CITY OF FAIRMONT, WEST VIRGINIA
 COMBINING FUND BALANCE SHEETS
 NONMAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE FUNDS
 JUNE 30, 2013**

	<u>Boards and Commissions Fund</u>	<u>Workers Compensation Fund</u>	<u>Urban Renewal Authority</u>	<u>Economic Development Grant Fund</u>	<u>Total</u>
ASSETS					
Cash	\$ 5,958	\$ 251,373	\$ 956	\$ 10,514	\$ 268,801
Investments	5,028	1,466,244	-0-	-0-	1,471,272
Receivables:					
Other	-0-	-0-	-0-	82,989	82,989
Interest	-0-	658	-0-	-0-	658
Due from (to):					
Other funds	<u>619</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>619</u>
TOTAL ASSETS	\$ <u>11,605</u>	\$ <u>1,718,275</u>	\$ <u>956</u>	\$ <u>93,503</u>	\$ <u>1,824,339</u>
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ -0-	\$ 8,491	\$ -0-	\$ 83,714	\$ 92,205
Claims payable	<u>-0-</u>	<u>125,952</u>	<u>-0-</u>	<u>-0-</u>	<u>125,952</u>
Total liabilities	<u>-0-</u>	<u>134,443</u>	<u>-0-</u>	<u>83,714</u>	<u>218,157</u>
Fund Balances					
Restricted	-0-	-0-	-0-	9,789	9,789
Assigned	<u>11,605</u>	<u>1,583,832</u>	<u>956</u>	<u>-0-</u>	<u>1,596,393</u>
Total fund balances	<u>11,605</u>	<u>1,583,832</u>	<u>956</u>	<u>9,789</u>	<u>1,606,182</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>11,605</u>	\$ <u>1,718,275</u>	\$ <u>956</u>	\$ <u>93,503</u>	\$ <u>1,824,339</u>

The accompanying notes are an integral part of the combining financial statements.

**CITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR GOVERNMENTAL FUNDS – SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Boards and Commissions Fund</u>	<u>Workers Compensation Fund</u>	<u>Urban Renewal Authority</u>	<u>Economic Development Grant Fund</u>	<u>Total</u>
Revenues					
Intergovernmental:					
Federal	\$ -0-	\$ -0-	\$ -0-	\$ 298,932	\$ 298,932
State	-0-	-0-	-0-	25,069	25,069
Contributions:					
From employer	-0-	154,113	-0-	-0-	154,113
Donations	2,501	-0-	-0-	4,000	6,501
Investment income	38	51,207	-0-	5	51,250
Gain (loss) on investments	<u>261</u>	<u>33,085</u>	<u>-0-</u>	<u>-0-</u>	<u>33,346</u>
Total revenues	<u>2,800</u>	<u>238,405</u>	<u>-0-</u>	<u>328,006</u>	<u>569,211</u>
Expenditures					
General government	-0-	107,574	-0-	-0-	107,574
Public safety	-0-	-0-	-0-	16,973	16,973
Community development	1,750	-0-	-0-	328,685	330,435
Benefit payments	<u>-0-</u>	<u>2,673</u>	<u>-0-</u>	<u>-0-</u>	<u>2,673</u>
Total expenditures	<u>1,750</u>	<u>110,247</u>	<u>-0-</u>	<u>345,658</u>	<u>457,655</u>
(Deficiency) excess of revenues (under) over expenditures	<u>1,050</u>	<u>128,158</u>	<u>-0-</u>	<u>(17,652)</u>	<u>111,556</u>
(Deficiency) excess of revenues and other financing sources (under) over expenditures and other financing uses	1,050	128,158	-0-	(17,652)	111,556
Fund balance beginning of year	<u>10,555</u>	<u>1,455,674</u>	<u>956</u>	<u>27,441</u>	<u>1,494,626</u>
Fund balance end of year	\$ <u>11,605</u>	\$ <u>1,583,832</u>	\$ <u>956</u>	\$ <u>9,789</u>	\$ <u>1,606,182</u>

The accompanying notes are an integral part of the combining financial statements.

**CITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT OF FIDUCIARY RESPONSIBILITIES
 STATEMENT OF NET POSITION
 JUNE 30, 2013**

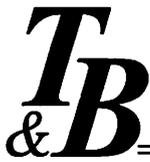
	<u>Policemen's Pension and Relief Fund</u>	<u>Firemen's Pension and Relief Fund</u>	<u>Total</u>
Assets			
Cash	\$ 94,861	\$ 117,924	\$ 212,785
Investments	4,115,733	1,493,729	5,609,462
Receivables:			
Other	2,383	2,383	4,766
Interest	<u>2,692</u>	<u>5,361</u>	<u>8,053</u>
Total assets	<u>4,215,669</u>	<u>1,619,397</u>	<u>5,835,066</u>
Liabilities			
Accounts payable	<u>18</u>	<u>32</u>	<u>50</u>
Net Position			
Held in trust for pension benefits	\$ <u>4,215,651</u>	\$ <u>1,619,365</u>	\$ <u>5,835,016</u>

The accompanying independent auditor's report and notes are integral parts of this statement.

**CITY OF FAIRMONT, WEST VIRGINIA
 COMBINING STATEMENT FIDUCIARY RESPONSIBILITIES
 STATEMENT OF CHANGES IN NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2013**

	<u>Policemen's Pension and Relief Fund</u>	<u>Firemen's Pension and Relief Fund</u>	<u>Total</u>
Additions:			
Contributions:			
Employer	\$ 577,207	\$ 785,179	\$ 1,362,386
Employees	120,200	155,592	275,792
Insurance premium tax allocation	<u>342,568</u>	<u>432,791</u>	<u>775,359</u>
Net contributions	<u>1,039,975</u>	<u>1,373,562</u>	<u>2,413,537</u>
Investment income:			
Net appreciation in fair value of investments	(8,337)	43,980	35,643
Interest income and dividends	113,944	61,870	175,814
Capital gains (losses)	<u>272,531</u>	<u>6,277</u>	<u>278,808</u>
Net investment income	<u>378,138</u>	<u>112,127</u>	<u>490,265</u>
Miscellaneous	<u>-0-</u>	<u>32</u>	<u>32</u>
Total additions	<u>1,418,113</u>	<u>1,485,721</u>	<u>2,903,834</u>
Deductions:			
General and administrative	1,984	5,931	7,915
Benefit payments	<u>1,073,000</u>	<u>1,595,111</u>	<u>2,668,111</u>
Total deductions	<u>1,074,984</u>	<u>1,601,042</u>	<u>2,676,026</u>
Net increase	343,129	(115,321)	227,808
Net position – beginning of year	<u>3,872,522</u>	<u>1,734,686</u>	<u>5,607,208</u>
Net position – end of year	\$ <u>4,215,651</u>	\$ <u>1,619,365</u>	\$ <u>5,835,016</u>

The accompanying independent auditor's report and notes are integral parts of this statements.



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
*GOVERNMENT AUDITING STANDARDS***

The Honorable Mayor and Council of
the City of Fairmont
Fairmont, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, blended component unit, each major fund, and the aggregate remaining fund information of City of Fairmont, West Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise City of Fairmont, West Virginia's basic financial statements, and have issued our report thereon date March 12, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Fairmont, West Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Fairmont, West Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Fairmont, West Virginia's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

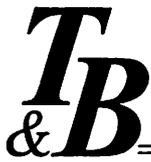
As part of obtaining reasonable assurance about whether the City of Fairmont, West Virginia's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Detrick + Bailliet, PLLC

March 12, 2014



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY *OMB CIRCULAR A-133***

The Honorable Mayor and Council of
the City of Fairmont
Fairmont, West Virginia

Report on Compliance for Each Major Federal Program

We have audited the City of Fairmont, West Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of City of Fairmont, West Virginia's major federal programs for the year ended June 30, 2013. The City of Fairmont, West Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of City of Fairmont, West Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with 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 City of Fairmont, West Virginia'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 on compliance for each major federal program. However, our audit does not provide a legal determination of City of Fairmont, West Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, City of Fairmont, West Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of City of Fairmont, West Virginia, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered City of Fairmont, West Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 City of Fairmont, West Virginia's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Honorable Mayor and Council of
the City of Fairmont

Page 3

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Deluck + Bassett, PLLC

March 12, 2014

**CITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

A. Summary of Audit Results

Financial Statements

Type of auditor's report issued:	<u>Unqualified Opinion</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u> No</u>
Deficiency(s) identified not considered to be material weaknesses?	<u> None reported</u>
Noncompliance material to financial statements noted?	<u> No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u> No</u>
Deficiency(s) identified that are not considered to be material weaknesses?	<u> None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified Opinion</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?	<u> No</u>
Identification of major programs:	
United States Environmental Protection Agency/ Office of Water ARRA – Capitalization Grants for Drinking Water State Revolving Funds	CFDA #66.468
Dollar threshold used to distinguish between Type A and Type B programs	<u> \$300,000</u>
Auditee qualified as low-risk auditee	___ yes <u> X </u> no

**CITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

B. Findings – Financial Statement Audit

No Findings

C. Findings and Questioned Costs – Major Federal Award Programs Audit

*United States Environmental Protection Agency – Office of Water – ARRA –
Capitalization Grants for Drinking Water State Revolving Funds – CFDA Number
66.468 – Year Ended June 30, 2013.*

No Findings

**CITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Receipts or Revenues Recognized</u>	<u>Federal Disbursements/ Expenditures</u>
United States Environmental Protection Agency/Office of Water					
<i>State of West Virginia Environmental Protection and West Virginia Water Development Authority</i>					
ARRA – Capitalization Grants for Drinking Water State Revolving Funds	66.468		\$ 3,780,000	\$ 120,536	\$ 120,536
ARRA – Capitalization Grants for Drinking Water State Revolving Funds	66.468		4,446,618	<u>552,257</u>	<u>552,257</u>
Total United States Environmental Protection Agency				<u>672,793</u>	<u>672,793</u>
United States Department of Housing and Urban Development/Office of Community Planning and Office of Community Planning and Development					
<i>State of West Virginia Office of Economic Opportunity</i>					
Emergency Solutions Grant Program	14.231	S-12-DC-54-0001	76,000	72,449	72,449
United States Department of Housing and Urban Development/Office of Community Planning and Office of Community Planning and Development					
<i>West Virginia Development Office</i>					
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	B-05-DC-54-0001	500,000	<u>175,047</u>	<u>175,047</u>
Total United States Department of Housing and Urban Development				<u>247,496</u>	<u>247,496</u>

**CITY OF FAIRMONT, WEST VIRGINIA
SCHEDULE OF EXPENDITURES AND FEDERAL AWARDS (CONT'D)
FOR THE YEAR ENDED JUNE 30, 2013**

<u>Federal Grantor/Pass-Through Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Program or Award Amount</u>	<u>Receipts or Revenues Recognized</u>	<u>Federal Disbursements/ Expenditures</u>
United States Department of Justice/Office of Community Oriented Policing Services					
ARRA – Public Safety Partnership and Community Policing Grants	16.710	2009RKWX0923	\$ 347,100	\$ 68,386	\$ 68,386
United States Department of Justice					
ARRA – Edward Byrne Memorial Justice Assistance Grant (JAG) Program/ Grants to Units of Local Government	16.804	2012-DJ-BX-0825	12,016	<u>12,004</u>	<u>12,004</u>
Total United States Department of Justice				<u>80,390</u>	<u>80,390</u>
United States Department of Energy					
ARRA – Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	DE-EE0001811	87,100	<u>39,432</u>	<u>39,432</u>
Total United States Department of Energy				<u>39,432</u>	<u>39,432</u>
Total Federal Funding				\$ <u>1,040,111</u>	\$ <u>1,040,111</u>

Notes to Schedule of Expenditures of Federal Awards

Note 1 - Significant Accounting Policies

The accompanying schedule of federal awards is a summary of the activity of the City of Fairmont, West Virginia's federal award programs and presents transactions that would be included in financial statements of the City presented on the accrual basis of accounting as contemplated by accounting principles generally accepted in the United States of America.

**CITY OF FAIRMONT, WEST VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Financial Audit

2012-01 Segregation of Duties

Condition: It was noted that the responsibilities for approving, executing, and recording transactions and custody of the resulting assets arising from the transactions were not assigned to different individuals.

Recommendation: The Municipality should distribute among the accounting staff the duties of approving, executing and recording transactions to the extent as being economically practicable.

Current Status: This finding was corrected at June 30, 2013.

2012-02 Failure to Submit Budget Revision to Appropriate the Unexpended Balance – General Fund

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 \$2,155,813 of the actual unexpended fund balance at June 30, 2011.

Recommendation: The Municipality should exercise proper budgetary practices.

Current Status: This finding was corrected at June 30, 2013.

Major Federal Award Programs Audit

United States Environmental Protection Agency – Office of Water – ARRA – Capitalization Grants for Drinking Water State Revolving Funds – CFDA Number 66.468 – Year Ended June 30, 2012.

There were no findings

**CITY OF FAIRMONT, WEST VIRGINIA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

***United States Environmental Protection Agency – Office of Water – ARRA – Capitalization
Grants for Drinking Water State Revolving Funds – CFDA Number 66.468 – Year Ended
June 30, 2013.***

There were no audit findings therefore a corrective action plan is not required.