

CITY OF TULLAHOMA, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2008**

DEPARTMENT OF FINANCE

CITY OF TULLAHOMA, TENNESSEE
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January 27, 2009

To the Honorable Mayor Troy L. Bisby, Aldermen and Citizens of Tullahoma, Tennessee

State law requires that all general-purpose local governments publish within six months of the close of each fiscal year, a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Tullahoma for the fiscal year ended June 30, 2008.

This report consists of management's representations concerning the finances of the City of Tullahoma, Tennessee. Consequently, management assumes full responsibility for the completeness and reliability of all information presented in this report. To provide a reasonable basis for making these representations, management of the City of Tullahoma has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Tullahoma's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Tullahoma's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material aspects.

The City of Tullahoma's financial statements have been audited by Housholder Artman, PLLC, a firm of licensed certified public accountants. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Tullahoma's financial statements for the year ended June 30, 2008, are fairly presented in conformity with GAAP.

The Comprehensive Annual Financial Report is presented in four sections: introductory, financial, statistical, and the independent auditor's report on compliance and internal controls. The introductory section includes this transmittal letter, a listing of public officials, and an organizational chart of the Government's public service departments.

The financial section includes the independent auditors' report, management's discussion and analysis (MD&A), the basic financial statements, notes to the financial statements,

required supplementary information, and statements of individual funds and component units. The Government is required to include MD&A as an analysis of the government's financial performance for the year. This letter of transmittal is intended as an introduction and should be read in conjunction with MD&A.

The statistical section includes demographic and financial information with multiple years shown for comparison.

The fourth section contains the independent auditors' reports on the internal control structure and compliance with laws and regulations as required by the provisions of Single Audit Act and U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Profile of the Government

The City of Tullahoma had a 2000 census population of 17,994 and is located in both Coffee and Franklin Counties in southern middle Tennessee. The Government provides a wide range of services including: education, public works, parks and recreation, planning and codes, fire and police protection, public power, water and wastewater services, and general administrative services. This year, The Tullahoma Utilities Board added the provision of fiber optics carried telephone, television and internet to its array of customer services. The City also operates its own award winning K-12 school system. Tullahoma High School students' ACT and SAT scores consistently exceed state and national averages.

A Board of Mayor and Aldermen govern the City of Tullahoma. The board members serve the city at-large. The Board of Mayor and Aldermen set policy for the city government, appoint committee and board members, approve an annual budget, enact laws and ordinances, enter into contracts, and set public hearings.

Economic Conditions

Tullahoma's central location has fostered its growth into a thriving regional, commercial, shopping and medical hub that boasts a healthy business environment and is home to over 68 service and manufacturing industries. 34% of the State's 5.689 million citizens reside in the Middle Tennessee area and many pass through Tullahoma; the daily average traffic count for Tullahoma's main retail area is approximately 24,000. This excellent "hub" location has allowed Tullahoma retailers to average over \$400 million in retail sales for each of the past five years.

Since the opening of Arnold Air Force Base here in 1951, Tullahoma has been an aviation and aeronautics industry center. Arnold Engineering Development Center at Arnold Air Force Base is home to the world's largest and most complex collection of flight simulation test facilities.

Tullahoma has continued to partner with Coffee County and the State of Tennessee for economic development projects and has been honored with the Governor's Three Star Award for the past 15 years. With a large expansion in progress at the local hospital and

credit union, the establishment of two new local banks, and a diverse growing retail, Tullahoma continued to thrive in 2008.

Tullahoma is situated near several lakes and parks making it a great recreational haven. It is also a regional center for the arts, with community plays, annual cultural fairs and events, a fine arts center and science contributing to the quality of life for residents and generating tourism revenue.

Primary Government and Component Units

As detailed later in the Management Discussion and Analysis portion of this financial report, the City of Tullahoma is comprised of several related entities. The City of Tullahoma Board of Mayor and Aldermen have varying degrees of authority for the operations of these entities by state law, or by local charter and ordinance. The City of Tullahoma and the Tullahoma City Schools are shown in the financial report categorized under “Primary Government – Governmental Activities.” The Tullahoma City Schools are governed by an elected Board of Education empowered with the daily operations of the school system. Approval of the Board of Mayor and Aldermen is required for the annual budget, capital projects and debt issuance. The Board of Education, by state law, cannot levy taxes, and therefore has limited power to generate revenues other than establishing tuition or service-related fees. A City Alderman is appointed annually as the non-voting liaison to the Board of Education, and the City provides a large portion of the school’s operating budget as periodic transfer throughout the year.

The Tullahoma Utilities Board is reported as a “Primary Government – Business Type Activities”, since it is not dependant on the City of Tullahoma for operating revenues, but derives its income from service fees charged for provision of electricity and water, and for wastewater collection. The Board of Mayor and Aldermen appoint all voting members of the Utilities Board to staggered terms. An Alderman also sits on this Board.

The Tullahoma Airport Authority is also reported as a component unit of the City of Tullahoma. The Board of Mayor and Aldermen appoint the members of this board as well, with an Alderman as a non-voting liaison. The City of Tullahoma also provides the majority of the operating budget for the airport.

Long –Term Financial Planning

The Board of Mayor and Alderman adopted “Building Our Future: Tullahoma’s Strategic Plan.” This document incorporates previous committee and community planning meetings, growth studies, development studies and plans to provide a comprehensive tool for immediate and long-term planning. This forty-six page document serves as the basis for long range capital and operating forecasts as well as annual budgetary decisions. The City of Tullahoma joined with the City of Manchester and Coffee County in 2005 to participate in the Governor’s Three Star Program. As part of that process, the City of Tullahoma’s strategic plan, “Building Tullahoma’s Future: Tullahoma’s Strategic Plan”, was folded into a new county-wide economic development plan entitled, “Our Future Together: Coffee County Tennessee Strategic Development Plan FY2006-2010. This new plan uses a five-year planning horizon. The plan covers several broad themes such

as creating a vibrant economy, developing a safe, caring and diverse community as well as promoting goals and objectives to facilitate a sustainable healthy environment. The annual budget process relies heavily on this document for capital expenditure planning and direction.

Budget Process

The Tullahoma Municipal Code (Title 6, Chapter 1, Section 6-102) provides that no later than fifteen (15) days prior to the beginning of each fiscal year, the City Administrator shall prepare and submit to the Board of Mayor and Alderman a proposed budget for the next fiscal year, showing separately for the general fund and for each other fund the following information: Revenue and expenditures during the preceding fiscal year; Appropriations and estimated revenue and expenditures for the current fiscal year; and Estimated revenue and recommended expenditures for the next fiscal year.

The Mayor and/or City Administrator may recommend and estimate additional revenue measures including increases in property tax rates, provided estimates are separated clearly from normal revenue estimates. The budget will be accomplished by a message from the Mayor containing a statement of the general fiscal policies of the City, the important features of the budget, explanations of major changes recommended for the next fiscal year as compared with the current fiscal year, a general summary of the budget and such other comments and information as may be deemed pertinent to the budget process. To ensure compliance with this Municipal Code requirement, a budget schedule is prepared to facilitate the decision-making process by providing overall direction to City departments and independent boards and agencies that derive funding from City government. The budget preparation process begins in late winter when the City departments begin preparation of long-term capital improvement project requests.

In early March, City departments begin assessing new resource needs for the coming year relative to equipment, maintenance requirements, information technology, and proposed new and expanded work programs. Budget requests and supporting documentation as prepared by individual departments and submitted in early April for review by the City Administrator. The Director of Finance and Administration creates a preliminary budget for review by staff and the Board during the budget process. The budget documentation submitted by individual departments also includes a statement of proposed departmental goals and objectives, performance measures and estimates of performance for the coming fiscal year, and a detailed line item budget outlining expenditure and justifications for maintaining current and expanded expenditure levels. During April, the City Administrator conducts a review and evaluation of each request in light of available revenues and in accordance with the City's overall goals and objectives.

During May, the Director of Finance and Administration, with direction from the City Administrator, compiles the information from earlier steps in the budget process into one budget document for review by the Board of Mayor and Aldermen. Generally, the last half of April and early May is set aside for the City Administrator's budget review sessions with department heads and elected officials. Departmental objectives, measures of performance and operating budgets are refined for consolidation in the Proposed Budget document during the month of May. Expenditures and revenue projections for

the current fiscal year and estimates for the proposed fiscal year are updated with the latest available data. Final adjustments to routine operating expenditures and anticipated revenues can be introduced for inclusion in the Proposed Budget during this time.

The City Administrator's Proposed Budget for the upcoming fiscal year is presented to the Board of Mayor and Aldermen in May for initial review. Budget Work Sessions are held with the Board of Mayor and Aldermen to review the proposed operating budget and proposed allocations to independent boards and agencies deriving funds from City government. These work sessions provide opportunities for the Board, independent boards and agencies, department heads, and the public to comment and ask questions about the proposed budget and to request additional information as needed.

After Budget Work Sessions, the Mayor will present a budget message during the first meeting of the Board of Mayor and Aldermen in June. During June, the Board of Mayor and Aldermen will conduct three public hearings on the Proposed Budget. These hearings provide formal citizen input to the Board on decisions and issues related to the budget. The first reading of the Budget Ordinance is held at the second regular meeting in June. The Board of Mayor and Aldermen will formally consider and may amend the proposed budget as deemed necessary and adopt the authorized ordinances pertaining to the budget process. The Board of Mayor and Aldermen schedule special call meetings specifically for the purpose of reviewing and adopting the proposed budget. Upon the third and final reading by the Board of Mayor and Alderman, the Board will set the appropriate tax rate for the upcoming year.

The City of Tullahoma's budget process encourages interaction among the City Administrator, members of the Board of Mayor and Aldermen, City departments, independent boards and agencies, and the general public. The City continues to review and refine the budget process each year to ensure public participation at each step in the decision-making process and that the budget process is an informative and complete process in identifying the revenues and expenditures, and the purposes thereof for the coming fiscal year.

Annual Independent Audit

Section 5-106 of the Code of Ordinances of the City of Tullahoma dictates that "The Board shall employ a certified public accountant to make an annual audit of all financial books and records of the city." It further cites Tennessee Code Annotated §6-56-105 which states that the governing body of each municipality shall cause an annual audit to be made of the accounts and records of all departments, boards, and agencies under its jurisdiction that receive and disburse funds. All audits must be submitted to the comptroller of the treasury for approval. The city periodically solicits professional proposals for audit services and currently contracts with Housholder Artman, PLLC in Tullahoma for the annual audit of all municipal entities.

Single Audit

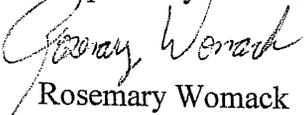
As a recipient of federal and state financial assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. As part of the City's single audit, tests are performed to determine the adequacy of the internal control structure, including the portion related to federal and state financial assistance programs, as well as to determine that the City has complied, in all material respects, with applicable laws and regulations. The results of the City's single audit for fiscal year 2008 are included in this financial report under the Reports on Compliance and Internal Controls section.

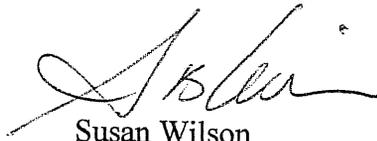
Awards and Acknowledgements

The City of Tullahoma has received the Government Finance Officers Association Certification of Achievement for Excellence in Financial Reporting for the Comprehensive Annual Financial Report for the year 1992-1994 and 1996-2007. The certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of the state and local government financial reports. This Comprehensive Annual Financial Report will also be submitted for eligibility for another year.

Many individuals in all our boards and agencies assisted in the preparation of this Comprehensive Annual Financial Report and we appreciate their cooperation and dedication. I would also like to recognize the Finance Department staff and Housholder Artman, PLLC for the additional efforts put forth and continuing to meet the GFOA standards for excellence in reporting.

Respectfully submitted,


Rosemary Womack
Finance Director


Susan Wilson
Asst. Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Tullahoma
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2007

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A handwritten signature in black ink, appearing to read "K. L. R.", is written above the title.

President

A handwritten signature in black ink, appearing to read "Jeffrey R. Emmer", is written above the title.

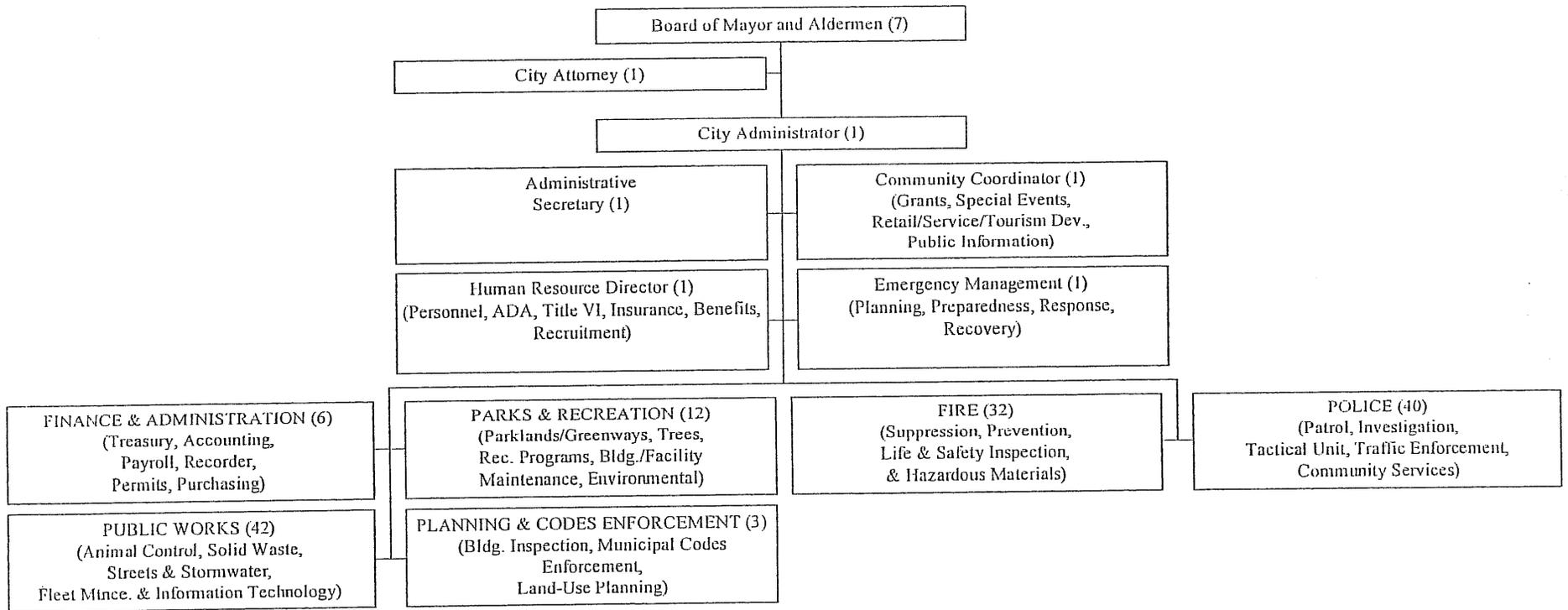
Executive Director

CITY OF TULLAHOMA

Public Officials

Mayor	Troy L. Bisby
Mayor Pro-Tem	Mike Norris
Alderman	James Eads
Alderman	Jonathan James
Alderman	Sandy Lindeman
Alderman	Jerry Mathis
Alderman	Mike Stanton
City Administrator	Louis J. Baltz, III
City Attorney	Randall Morrison
Director of Finance & Administration	Rosemary Womack
Asst. Finance Director/Treasurer, TIDB	Susan Wilson
Director of Public Works	Wayne Limbaugh
Fire Chief	Richard Shasteen
Police Chief	Paul Blackwell
Director of Parks & Recreation	Kurt Glick
General Manager, Tullahoma Utilities Board	Brian Skelton
Director of Schools, Tullahoma Board of Education	Dr. Dan Lawson
Executive Director, Tullahoma Airport Authority	Jon Glass

CITY OF TULLAHOMA, TENNESSEE ORGANIZATION CHART



FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

February 27, 2009

Honorable Mayor and Board of Aldermen
City of Tullahoma, Tennessee

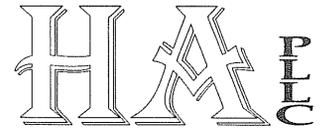
We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tullahoma, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited the financial statements of each of the City's nonmajor governmental funds, which are presented as supplementary information in the accompanying financial statements, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Tullahoma, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Tullahoma, Tennessee, as of June 30, 2008, and the respective changes in financial position, the respective budgetary comparison for the General Fund, the General Purpose School Fund and the UDAG Fund, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each of the nonmajor governmental funds of the City of Tullahoma, Tennessee, as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated February 27, 2009, on our consideration of the City of Tullahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

HOUSHOLDER ARTMAN, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



P.O. Box 1568
Tullahoma, Tennessee 37388

Telephone 931-455-4248
Fax 931-393-2122

The management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions on pages A-1 through A-15 and page B-42 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Tullahoma, Tennessee's basic financial statements and on the financial statements of each of the discretely presented component units and each of the nonmajor governmental funds. The schedules on pages C-3 through C-10 and pages D-1 through D-14, which are also the responsibility of the management of the City, are presented for purposes of additional analysis and are not a required part of the basic financial statements of the City. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying schedules of expenditures of federal and state financial and non-cash assistance are 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 the State of Tennessee, and are also not a required part of the basic financial statements of the City of Tullahoma, Tennessee. The schedules of expenditures of federal and state financial and non-cash assistance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The introductory section and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements of the City of Tullahoma. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Housholder Artman, PLLC



CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

As management of the City of Tullahoma, Tennessee, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City and its related agencies for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

The comprehensive annual financial report is presented in four sections: introductory, financial, statistical and single audit. The introductory section includes a transmittal letter, GFOA certificate of achievement for fiscal year 2007, the government's organization chart and a list of public officials. The financial section includes the independent auditor's report, management's discussion and analysis and general financial statements for the City of Tullahoma and its component units. The statistical section includes selected financial and demographic information, generally presented on a multi year basis. The fourth section is the independent auditors' reports on compliance and internal controls.

Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting

The City of Tullahoma has received the Government Finance Officers Association Certification of Achievement for Excellence in Financial Reporting for the Comprehensive Annual Financial Report (CAFR) for the years 1992 - 1994, and 1996 - 2007. This has been a major achievement for the City. This recognition also reflects significant cooperation between all boards and agencies of the City included in the CAFR and the auditing firms that prepared the CAFR.

THE REPORTING ENTITY AND ITS COMPONENT UNITS

This report contains all of the funds and component units of the City of Tullahoma. It includes all activities considered to be part of the "reporting entity" of the City of Tullahoma in compliance with authoritative criteria. In evaluating as to how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in the Governmental Accounting Standards Board Statement Number 14.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

The City of Tullahoma (Primary Government – Governmental Activities)

Tullahoma is located in Southern Middle Tennessee approximately equal distances from Nashville and Chattanooga, Tennessee, and Huntsville, Alabama. The City comprises 25.8 square miles of area located in both Coffee and Franklin Counties. The 2000 census listed Tullahoma's population as 17,994, while the State of Tennessee's estimate for 2003 was 18,434. The City of Tullahoma provides general municipal services in the areas of public safety, public works, planning, and recreation. The Public Works Department also provides solid waste, brush and leaf collection and disposal.

Tullahoma City Schools (Primary Government – Governmental Activities)

Tullahoma City Schools encompasses four elementary schools, two middle schools and one high school. The school system employs 281 certified staff and 168 classified staff that served approximately 3,600 students in grades K-12. An extended school program is in place to provide before and after school child care for our students. The school system is recognized within the State of Tennessee for its academic excellence.

Tullahoma Utilities Board (Primary Government – Business-type Activities)

The Tullahoma Utilities Board (TUB) is a municipal public utility and an independent agency of the City of Tullahoma, and provides electricity, water and wastewater services to the residents of Tullahoma and parts of the surrounding area. A distributor of TVA power, with rates among the lowest in the country, TUB currently serves 11,000 electric customers. TUB purchases wholesale water from the Duck River Utility Commission to serve its 9,400 water customers. TUB also operates a wastewater treatment facility with 7,300 sewer customers.

Tullahoma Airport Authority (A Component Unit)

The Tullahoma Airport Authority (TAA) operates the Tullahoma Regional Airport. The airport was originally constructed in 1942 for the U.S. Army Air Corps and features wide heavy duty runways, a large ramp, taxiways and large hangars. Over 100 aircraft are presently based at the airport, with additional capacity available. Over 2000 transient aircraft visit the airport annually. The TAA partners with local aviation groups such as the University of Tennessee Space Institute, Tennessee Skydiving, Staggerwing Museum, Ragwing Aircraft and has a residential airpark. The Tri-County Chamber, City of Tullahoma, Arnold Engineering and Development Center, and many other civic groups and local corporations coordinated efforts to host bi-annual air shows, which generally draw over 50,000 in daily attendance.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

Tullahoma Industrial Development Board (A Component Unit)

The Tullahoma Industrial Development Board (TIDB) is a component unit of City Government. The TIDB was incorporated in 1965. The TIDB's original mission was to acquire, sell, lease, and dispose of properties in an effort to create jobs, promote industry and develop trade by inducing manufacturing, industrial, and commercial enterprises to locate in and near the City of Tullahoma. In June, 2005, the TIDB consolidated those functions with the Coffee County Industrial Board. The TIDB retained its charter and bylaws and amended its mission to monitor and service existing industrial revenue bond issues and to perform any and all acts as set forth and authorized in Section 6-2801 et seq. of the Tennessee Code Annotated. The TIDB turned over management of all assets to the City of Tullahoma. The City continues to utilize those financial assets for economic development activities.

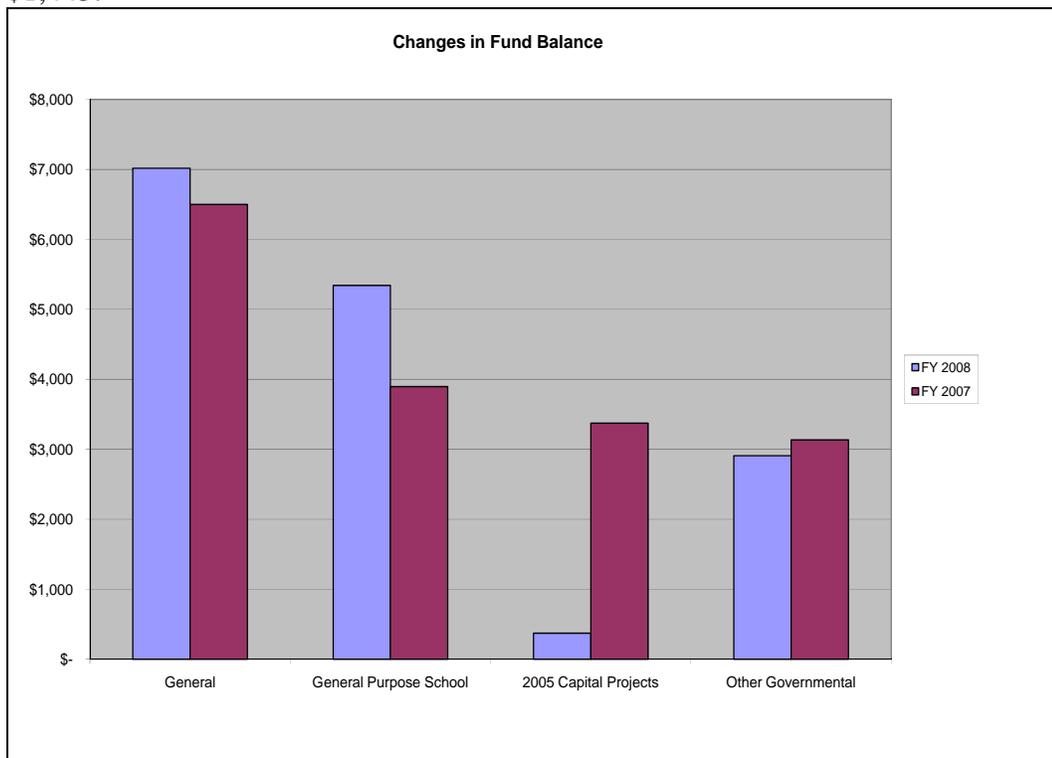
For purposes of this report, the City of Tullahoma and the Tullahoma City Schools financial information has been consolidated and identified as Governmental Activities under the Primary Government sector, while Business-type Activities refers to the Tullahoma Utilities Board and internal service fund data. Component units presented in this report are the Tullahoma Industrial Development Board and the Tullahoma Airport Authority.

FINANCIAL HIGHLIGHTS

- The assets of the Governmental Activities exceeded its liabilities at the close of the most recent fiscal year by \$12,769 (net assets). Of this amount, \$2,070 is restricted for debt service and other use, with \$12,818 available to meet other ongoing obligations.
- The Governmental Activities indicates an increase in capital assets net of related debt of \$4,295. This reflects the inclusion of City owned streets and bridges, as well as accumulated depreciation identified as fixed assets. Streets were valued and included in the balance sheet in compliance with GASB34.
- The City's total net assets increased by \$2,071 due primarily to the completion of street and sidewalk infrastructure projects as well as ball fields and recreation center improvements financed by a previous bond issue, offset by depreciation.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

- In fiscal year 2008, the City completed \$4,630 in capital projects and equipment purchases financed from bonds issued in 2005.
- The Tullahoma Utilities Board reported current and other assets increased by \$11,974, up 78% from the prior fiscal year, due to the issuance of \$16,975 in revenue bonds to construct a fiber optics system. While part of this construction is reflected as \$6,819 construction in process, the remainder of the bond proceeds was reflected in restricted cash and cash equivalents.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,638, a decrease of \$1,263 from the prior year. While the capital projects fund balance decreased by \$3,000 and the general fund increased by \$519 and the general purpose school fund saw an increase of \$1,445.



- At the end of the current fiscal year, fund balance for the general fund was \$7,017, or 32% of total general fund expenditures including transfers out.
- The general purpose school fund balance increased by \$1,445 or 37% to \$5,342. This amounts to 21% of total expenses for that fund.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

(amounts expressed in thousands)

- The City governmental activities' total gross debt decreased by \$487 or 2% during the 2008 fiscal year. The Utilities Board's gross debt increased by \$15,276 or about 128% during this period.
- The City of Tullahoma began the process to issue bonds for several major city school renovations. A \$12,000 loan through the Tennessee Municipal Bond Fund was authorized in August, 2008 for the construction of a new elementary school, new football stadium and renovation of the high school auditorium.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The city's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

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

The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes or earned but unused vacation leave, etc).

The government-wide income statement distinguishes functions of the city that are principally supported by taxes, licenses and permits, and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, public works, culture and recreation, and education. The business-type activities of the City include water, sewer, electricity, and fiber optics.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

Fund Financial Statements

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

- **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the city-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a city's near-term financing requirements. Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains sixteen (16) individual government funds, twelve (12) of these governmental funds are classified as non-major and are summarized under the heading Other Governmental Funds in the governmental fund presentation. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, the general-purpose school fund, the 2005 capital project fund, and the UDAG fund. The non-major governmental funds, all of which are combined into a single, aggregated presentation is provided in the form of combining statements elsewhere in this report.

The city adopts an annual appropriation budget for its general and other major special revenue funds. Budgetary comparison statements have been provided for these funds to demonstrate compliance with this budget.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

- **Proprietary Funds**

The City maintains four (4) different types of proprietary funds, which are also enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water, sewer, electric, and fiber optic activities at the Tullahoma Utilities Board.

- **Internal Service Fund**

The City maintains one (1) internal service fund, a medical trust fund, which is used to account for the operations of self-sustaining agencies rendering services to other agencies of the government on a cost reimbursement basis. During fiscal year 2007, the City discontinued use of its internal service fund for medical coverage and changed to a commercial insurance carrier.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. They further define the audited entities, partnerships and financial relationships.

Other Information

The combining statements referred to earlier in connection with non-major governmental funds, budget comparison schedules for funds with legal budgets other than the general fund and other major special revenue funds, and internal service funds are presented immediately following the required supplementary information.

GOVERNMENTAL-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City's Governmental Activities funds, assets exceed liabilities by \$12,769 at the close of the most recent fiscal year. The City's investment in capital assets (e.g. land, buildings, equipment) is largely offset by accumulated depreciation due to the age of the assets. The Business-type Activities funds show net assets of \$36,799 with 69% reflecting investment in capital assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

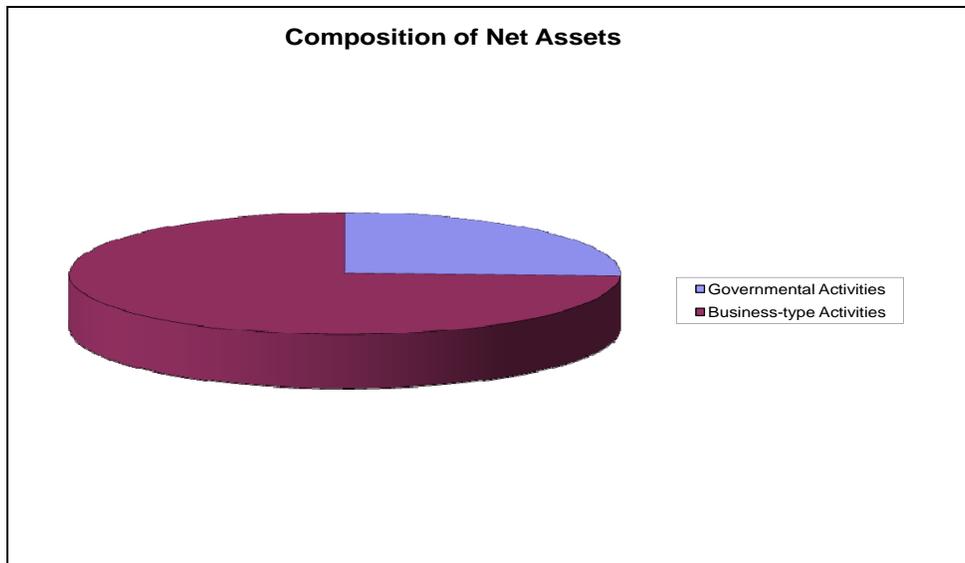
CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

(amounts expressed in thousands)

City of Tullahoma's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 20,919	\$ 21,327	\$ 27,238	\$ 15,264	\$ 48,157	\$ 36,591
Capital assets	28,125	25,988	41,778	35,262	69,903	61,250
Total assets	<u>49,044</u>	<u>47,315</u>	<u>69,016</u>	<u>50,526</u>	<u>118,060</u>	<u>97,841</u>
Long-term liabilities	31,050	32,400	25,910	10,201	56,960	42,601
Other liabilities	5,225	4,262	6,307	5,732	11,532	9,994
Total liabilities	<u>36,275</u>	<u>36,662</u>	<u>32,217</u>	<u>15,933</u>	<u>68,492</u>	<u>52,595</u>
Net assets:						
Invested in capital assets, net of related debt	(2,119)	(5,641)	25,537	26,838	23,418	21,197
Restricted	2,070	5,314	3,630	427	5,700	5,741
Unrestricted	12,818	10,980	7,632	7,328	20,450	18,308
Total net assets	<u>\$ 12,769</u>	<u>\$ 10,653</u>	<u>\$ 36,799</u>	<u>\$ 34,593</u>	<u>\$ 49,568</u>	<u>\$ 45,246</u>

A portion of the City's total net asset \$5,700 (11%) represents resources that are subject to external restrictions on how they may be used. These include assets restricted for payments on bonded debts and notes, drug prevention and capital construction and projects. The remaining balance of unrestricted net assets \$20,450 may be used to meet the government's ongoing obligations to citizens and short-term creditors.



CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

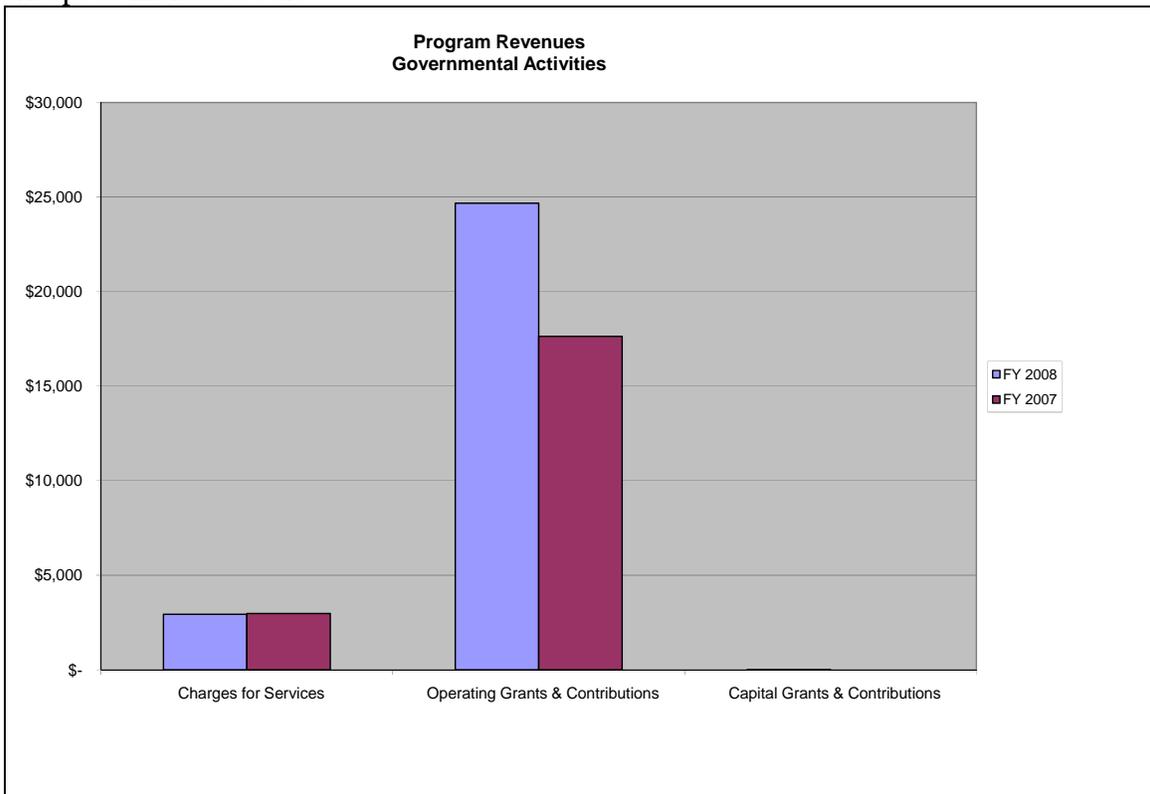
City of Tullahoma's Changes in Net Assets

	Governmental		Business-type		Total	
	Activities		Activities			
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 2,934	\$ 2,983	\$ 31,555	\$ 30,263	\$ 34,489	\$ 33,246
Operating grants & contributions	24,680	17,632	-	-	24,680	17,632
Capital grants & contributions	16	-	59	3	75	3
General revenues:						
Taxes	18,235	19,997	-	-	18,235	19,997
Other revenues	464	272	33	71	497	343
Investment earnings	605	917	989	514	1,594	1,431
Transfers	396	383	(396)	(383)	-	-
Total revenues	<u>47,330</u>	<u>42,184</u>	<u>32,240</u>	<u>30,468</u>	<u>79,570</u>	<u>72,652</u>
Expenses:						
General government	2,507	2,339	-	-	2,507	2,339
Public safety	4,185	4,341	-	-	4,185	4,341
Public works	3,963	2,099	-	-	3,963	2,099
Community services	280	1,317	-	-	280	1,317
Waste management	1,818	1,634	-	-	1,818	1,634
Education	31,094	28,325	-	-	31,094	28,325
Utilities	-	-	30,034	28,796	30,034	28,796
Interest and debt	1,367	1,333	-	-	1,367	1,333
Total expenses	<u>45,214</u>	<u>41,388</u>	<u>30,034</u>	<u>28,796</u>	<u>75,248</u>	<u>70,184</u>
Change in net assets	2,116	796	2,206	1,672	4,322	2,468
Net assets, beginning of period	10,653	6,564	34,593	32,929	45,246	39,493
Prior period adjustment	-	3,293	-	(8)	-	3,285
Net assets, beginning of period, restated	<u>10,653</u>	<u>9,857</u>	<u>34,593</u>	<u>32,921</u>	<u>45,246</u>	<u>42,778</u>
Net assets, end of period	<u>\$ 12,769</u>	<u>\$ 10,653</u>	<u>\$ 36,799</u>	<u>\$ 34,593</u>	<u>\$ 49,568</u>	<u>\$ 45,246</u>

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

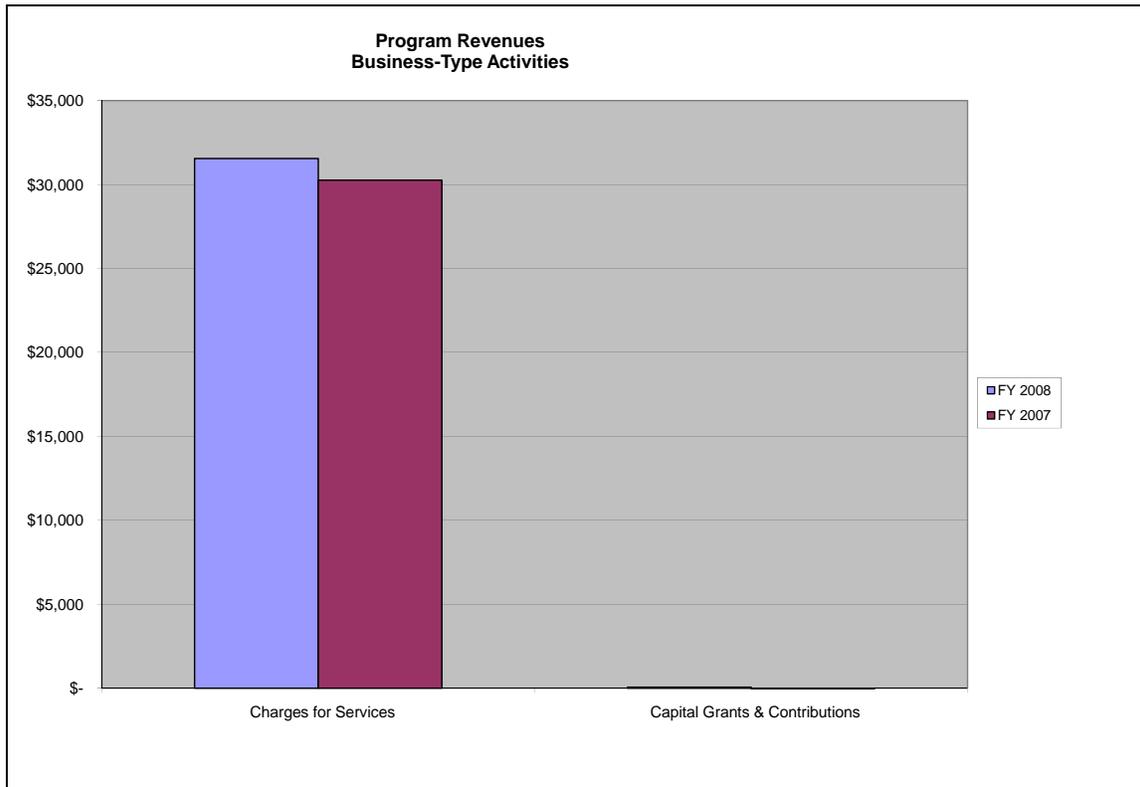
Changes in Net Assets

Governmental activities increased the City's net assets by \$2,116 while Business-type activities increased net assets by \$2,206. The increase in net assets in Business-type Activities was primarily due to strong cost controls and operating efficiencies constraining budgeted expenses at the Tullahoma Utilities Board, while the Governmental Activities assets increased due to revenues exceeding projections in the general purpose school fund. Revenues from year to year remained fairly consistent, except as indicated below.



Fiscal year 2008 saw an increase of \$7,047 in operating grants and contributions for the Tullahoma City Schools. This is primarily due to reclassifications of local shared tax allocations to the school system. School system revenues in these areas exceeded projections and resulted in the 19% increase in net assets.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)



Business-type activities are financed almost entirely by service charges.

Financial Analysis of the City's Funds

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

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Tullahoma's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a City's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year the City of Tullahoma's governmental funds reported combined ending fund balances of \$15,638, a decrease of \$1,263 from the prior year. This primarily reflects the net impact of the increase in general purpose school fund assets offset by the decrease of \$3,000 in the 2005 capital projects fund. The city also operates a solid waste fund, but this is not operated as a business-type activity as although the city charges commercial customers for solid waste collection, residential collection, brush disposal, and litter collection are subsidized by a transfer of property tax dollars from the general fund. Recycling charges in this fund are primarily funded through the revenues it generates.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

- The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$6,005 while total fund balance amounted to \$7,018. As a matter of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures and transfers out.
- Unreserved fund balance represents 28% of total general fund expenditures and transfers out. The fund balance of the General Fund increased by \$519 as a result of the current fiscal year operations.
- The general-purpose school fund has a total fund balance of \$5,341, with no restricted amounts. The net increase in fund balance during the current year in the general-purpose school fund was \$1,445. The school had outstanding encumbrances in year end of \$330.
- The 2005 capital projects fund had a beginning fund balance of \$3,372, but completed most of the projects slated for these funds in fiscal year 2008. Only \$371 remained in this fund at year end. The City is anticipating grant funds to be available in fiscal year 2009 and also the potential for additional \$1,000 in notes to complete the projects associated with this fund.
- The UDAG Revolving Loan Fund was created through a federal grant for a commercial job creation loan. Loan repayment was then utilized for new commercial loans. The UDAG fund ended 2008 with a balance of \$723, as opposed to \$623 in 2007.
- Non-major (other) governmental funds have an ending fund balance of \$2,184, a decrease of \$327 from the prior year. The non-major governmental funds consist primarily of smaller city capital projects funds, and school federal projects, debt service, cafeteria, after school program and capital projects funds.

The Business- type activities at the Tullahoma Utilities Board have seen changes due to the construction of a fiber optics system anticipated to provide services to Tullahoma residents commencing in October, 2008. An additional fund has been added, bonds issued and system construction is well underway.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008

(amounts expressed in thousands)

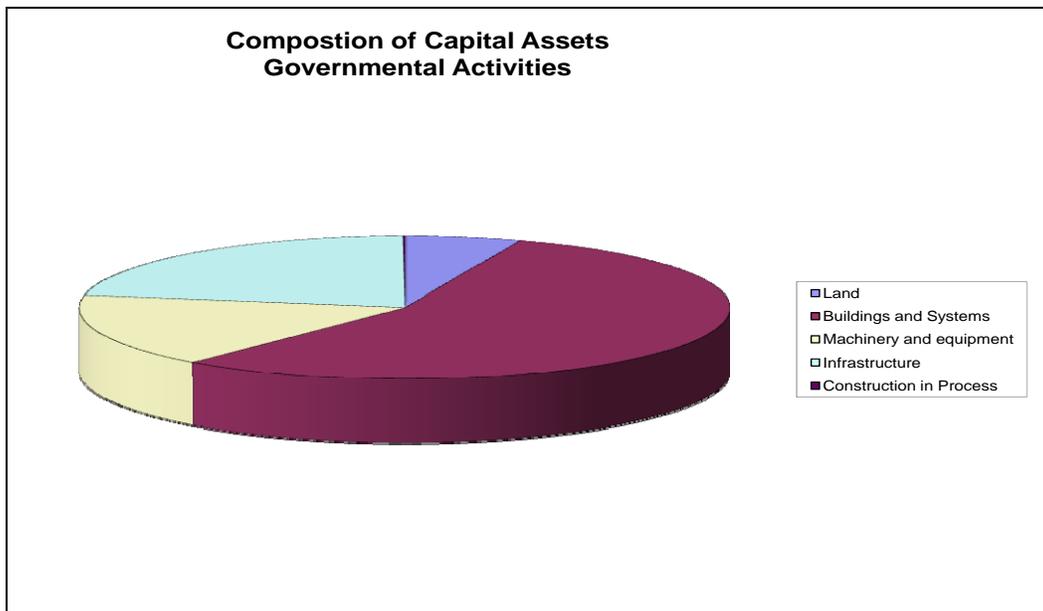
CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The City's investment in capital assets from its governmental and business-type activities as of June 30, 2008, is shown below. Total capital assets in the governmental activities increased by \$4,336. This was primarily due to adding approximately \$3,000 in completed capital projects from a 2005 bond issuance which included construction of a new soccer complex for \$836 and street paving in the amount of \$1,463. The Government Accounting Standards Board required that infrastructure assets be inventoried and carried on the balance sheet as of 2007. The business-type activities capital assets increased by \$8,108. This is reflected in construction in process mirrors the progress on the utilities new fiber optics system. Other items reflect modest increases for building improvements and equipment needed to operate the utility.

City of Tullahoma's Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Land	\$ 3,824	\$ 3,742	\$ 476	\$ 476	\$ 4,300	\$ 4,218
Buildings and systems	36,743	35,574	15,033	14,915	51,776	50,489
Machinery and equipment	10,903	9,626	3,459	3,324	14,362	12,950
Infrastructure	14,659	12,474	45,543	44,527	60,202	57,001
Construction in process	79	456	8,008	1,169	8,087	1,625
Total capital assets	\$66,208	\$61,872	\$72,519	\$64,411	\$138,727	\$126,283



CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

Long-Term Debt

During the 2006 fiscal year, favorable interest rates allowed the City to refinance an outstanding \$4,690 issue and utilize the interest expense savings to accommodate additional annual debt payments without adversely impacting the annual operating budget. The new bond issuance totaled \$9,880, which resulted in \$5,000 available to tackle planned capital projects and equipment purchases, including the purchase of a new fire truck. Most of these projects were completed and added to complete assets in fiscal year 2008, leaving only a \$371 in the project fund. In 2007, the City was able to refinance an outstanding 2001 school bond issue for \$9,320, resulting in savings in interest expense of over \$600 over the life of the bond. The City also issued a capital outlay note for \$845 to repair the roof on East Middle School that year.

- **Governmental**

The City of Tullahoma did not issue debt for its governmental activities in fiscal year 2008. Plans were evaluated to address education capital needs which will require a \$12,000 debt issuance in fiscal year 2009. The Board of Mayor and Aldermen of the City of Tullahoma and the Coffee County Commission supported a $\frac{3}{4}$ cent increase in the local sales tax, which was then passed by referendum in April 2007. The City utilized its portion of the increase to fund deficits in both the city and school operating budgets, and is expecting sales tax allocations to fund the new debt service.

In addition to providing for operations, sales tax has always been the revenue source for the Tullahoma City School sinking fund. The additional revenues directed toward this fund should provide more options for improvements to school facilities, while continuing to address previous debt obligations. It is anticipated that the additional debt payment capacity generated by the sales tax will enable both the city and the county to prioritize and commence their capital programs.

The City also anticipates the issuance of \$1,000 in debt for funding the local share of airport grant improvements including a new terminal building, as well as paying for a new roof over the indoor pool at D.W. Wilson Community Center.

- **Business-type Activities**

The Board of Mayor and Aldermen authorized the issuance of \$16,975 in General Obligation and Revenue Bonds for the construction of a new fiber optics system. \$6,819 of this project is reflected in the construction in process line of the capital assets as previously discussed. Principal payments were deferred during the construction period. It is projected that system revenues will be sufficient to provide annual debt service payments. The general obligation backing was attached to the issuance to assure the optimum interest rate.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2008
(amounts expressed in thousands)

- Component Units

In fiscal year 2007, The Tullahoma Airport Authority also defeased \$150 in outstanding bonds to save \$65 in interest expense. No direct debt was issued by or on behalf of either the Airport Authority or the Tullahoma Industrial Development Board. The Airport Authority does have an outstanding note through the UDAG revolving loan program in the amount of \$316. The loan was used to finance construction of a hangar for life flight helicopters. The tenant provides monthly rental payments to the Airport Authority, who in turn pays back into the City's UDAG revolving loan fund.

City of Tullahoma's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Notes payable	\$ 775	\$ 855	\$ 9,029	\$ 10,010	\$ 9,804	\$ 10,865
Bonds payable	30,080	31,225	18,310	2,165	48,390	33,390
Capital leases	121	208	-	-	121	208
Total long-term debt	<u>\$ 30,976</u>	<u>\$ 32,288</u>	<u>\$ 27,339</u>	<u>\$ 12,175</u>	<u>\$ 58,315</u>	<u>\$ 44,463</u>

Requests for Information

This financial report is designed to provide a general overview of the City's finances for all those with an interest in such. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Tullahoma, Finance Director, P.O. Box 807, Tullahoma, TN 37388.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF NET ASSETS
JUNE 30, 2008

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 15,816,581	\$ 7,187,508	\$ 23,004,089	\$ 524,244
Receivables	1,392,694	1,696,762	3,089,456	-
Allowance for doubtful accounts	(231,674)	(35,952)	(267,626)	-
Due from component units	29,404	-	29,404	-
Due from other governments	2,194,053	-	2,194,053	70,100
Accrued interest receivable	9,838	-	9,838	-
Inventory	-	980,911	980,911	-
Other assets	732,488	553,461	1,285,949	766
Restricted assets:				
Cash and cash equivalents	-	15,154,157	15,154,157	-
Notes receivable	975,781	1,701,756	2,677,537	-
Capital assets:				
Utility plant in service	-	45,543,237	45,543,237	-
Land	3,824,195	476,080	4,300,275	1,738,799
Buildings and improvements	36,742,663	15,033,259	51,775,922	3,723,561
Furniture, machinery, and equipment	10,902,910	3,458,440	14,361,350	342,316
Construction in progress	79,152	8,007,988	8,087,140	825,638
Infrastructure	14,658,748	-	14,658,748	-
Accumulated depreciation	(38,082,613)	(30,741,308)	(68,823,921)	(1,370,162)
Total assets	<u>49,044,220</u>	<u>69,016,299</u>	<u>118,060,519</u>	<u>5,855,262</u>
LIABILITIES:				
Accounts payable	1,371,464	2,578,816	3,950,280	121,770
Accrued liabilities	1,400,122	614,382	2,014,504	-
Accrued interest payable	326,578	-	326,578	-
Due to the primary government	-	-	-	29,404
Due to other governments	3,695	-	3,695	-
Deferred revenue	572,302	-	572,302	-
Other liabilities	-	947,982	947,982	18,008
TVA advances	-	398,762	398,762	-
Liabilities payable from restricted assets:				
Accrued interest	-	15,253	15,253	-
Contracts and retainage	-	410,726	410,726	-
Current portion of long-term liabilities	-	1,340,793	1,340,793	-
Noncurrent liabilities:				
Due within one year	1,550,159	-	1,550,159	18,287
Due in more than one year	31,050,203	25,910,537	56,960,740	297,846
Total liabilities	<u>36,274,523</u>	<u>32,217,251</u>	<u>68,491,774</u>	<u>485,315</u>
NET ASSETS:				
Invested in capital assets, net of related debt	(2,118,850)	25,537,051	23,418,201	4,944,019
Restricted for debt service	1,367,538	-	1,367,538	-
Restricted for construction	571,982	3,630,315	4,202,297	-
Restricted for drug enforcement	130,659	-	130,659	-
Unrestricted	12,818,368	7,631,682	20,450,050	425,928
Total net assets	<u>\$ 12,769,697</u>	<u>\$ 36,799,048</u>	<u>\$ 49,568,745</u>	<u>\$ 5,369,947</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008**

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government								
Governmental activities:								
General government	\$ 2,507,541	\$ 672,665	\$ 2,605,340	\$ -	\$ 770,464	\$ -	\$ 770,464	\$ -
Public safety								
Police	2,028,296	29,998	-	-	(1,998,298)	-	(1,998,298)	-
Fire	2,157,047	-	-	-	(2,157,047)	-	(2,157,047)	-
Public works	3,963,002	-	-	15,843	(3,947,159)	-	(3,947,159)	-
Community services	280,122	-	17,055	-	(263,067)	-	(263,067)	-
Waste management	1,817,619	575,730	-	-	(1,241,889)	-	(1,241,889)	-
Education	31,092,600	1,655,108	22,057,237	-	(7,380,255)	-	(7,380,255)	-
Interest and other debt related costs	1,367,020	-	-	-	(1,367,020)	-	(1,367,020)	-
Total governmental activities	45,213,247	2,933,501	24,679,632	15,843	(17,584,271)	-	(17,584,271)	-
Business-type activities:								
Electric System	23,825,209	24,983,261	-	-	-	1,158,052	1,158,052	-
Fiber Optics System	78,834	-	-	-	-	(78,834)	(78,834)	-
Waste Water System	3,164,726	3,310,201	-	1,750	-	147,225	147,225	-
Water System	2,965,102	3,261,071	-	57,614	-	353,583	353,583	-
Total business-type activities	30,033,871	31,554,533	-	59,364	-	1,580,026	1,580,026	-
Total primary government	\$ 75,247,118	\$ 34,488,034	\$ 24,679,632	\$ 75,207	\$ (17,584,271)	\$ 1,580,026	\$ (16,004,245)	\$ -
Component units:								
Industrial Development Board	\$ 72,868	\$ 50,878	\$ -	\$ -	-	-	-	(21,990)
Municipal Airport Authority	347,884	102,532	102,797	644,813	-	-	-	502,258
Total component units	\$ 420,752	\$ 153,410	\$ 102,797	\$ 644,813	-	-	-	480,268
General revenues								
Taxes:								
Property					8,592,122	-	8,592,122	-
Sales					8,135,657	-	8,135,657	-
Wholesale beer					472,665	-	472,665	-
Wholesale liquor					181,514	-	181,514	-
Business					502,457	-	502,457	-
Cable television franchise					212,051	-	212,051	-
Hotel-Motel					138,378	-	138,378	-
Other revenues					464,469	25,713	490,182	-
Unrestricted investment earnings					604,899	989,279	1,594,178	15,407
Gain on sale of property					-	8,001	8,001	500
Transfers					396,924	(396,924)	-	-
Total general revenues and transfers					19,701,136	626,069	20,327,205	15,907
Change in net assets					2,116,865	2,206,095	4,322,960	496,175
Net assets, beginning					10,652,832	34,592,953	45,245,785	4,873,772
Net assets, ending					\$ 12,769,697	\$ 36,799,048	\$ 49,568,745	\$ 5,369,947

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	General	General Purpose School	2005 Capital Projects	UDAG	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 7,159,903	\$ 4,876,523	\$ 1,025,854	\$ 723,478	\$ 1,804,423	\$ 15,590,181
Accrued interest receivable	-	-	-	-	9,838	9,838
Receivables	1,288,610	35,586	-	-	68,498	1,392,694
Allowance for doubtful accounts	(219,328)	-	-	-	(12,346)	(231,674)
Due from other governments	914,523	919,796	-	-	359,734	2,194,053
Due from other funds of the primary government	6,620	816,972	-	-	251,605	1,075,197
Due from component units	-	-	-	-	29,404	29,404
Notes receivable	-	-	-	968,726	7,055	975,781
Total assets	\$ 9,150,328	\$ 6,648,877	\$ 1,025,854	\$ 1,692,204	\$ 2,518,211	\$ 21,035,474
LIABILITIES:						
Accounts payable	\$ 392,041	\$ 239,995	\$ 654,829	\$ 518	\$ 84,081	\$ 1,371,464
Accrued liabilities	91,734	147,929	-	-	20,567	260,230
Accrued payroll	144,149	919,292	-	-	76,451	1,139,892
Deferred revenue	557,302	-	-	968,726	22,055	1,548,083
Due to other governments	3,695	-	-	-	-	3,695
Due to other funds of the primary government	943,519	-	-	-	130,458	1,073,977
Total liabilities	2,132,440	1,307,216	654,829	969,244	333,612	5,397,341
FUND BALANCES:						
Reserve for encumbrances	213,279	330,437	1,719,018	-	7,422	2,270,156
Reserve for capital improvements	-	-	-	-	200,957	200,957
Reserve for debt service	-	-	-	-	1,367,538	1,367,538
Reserve for drug enforcement	-	-	-	-	129,809	129,809
Reserve for grant projects	-	-	-	-	35,918	35,918
Unreserved reported in:						
General fund:						
Designated for specific projects	799,400	-	-	-	-	799,400
Undesignated	6,005,209	-	-	-	-	6,005,209
Special revenue funds:						
Undesignated	-	5,011,224	(1,347,993)	722,960	442,955	4,829,146
Total fund balances	7,017,888	5,341,661	371,025	722,960	2,184,599	15,638,133
Total liabilities and fund balances	\$ 9,150,328	\$ 6,648,877	\$ 1,025,854	\$ 1,692,204	\$ 2,518,211	\$ 21,035,474

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT OF NET ASSETS
GOVERNMENTAL FUNDS
JUNE 30, 2008

Fund balances - total governmental funds \$ 15,638,133

Amounts reported for governmental activities in the Statement of Net Assets are different from amounts reported for governmental funds in the Balance Sheet because:

Capital assets used in governmental activities are not financial resources and therefore not reported in governmental funds.

Capital assets	66,207,668
Less accumulated depreciation	(38,082,613)

Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.

Bonds payable	(30,080,000)
Less deferred charge on refunding	493,441
Less deferred charge for issuance costs	239,047
Add bond premium	(117,234)
Accrued interest payable	(326,578)
Net pension obligation	(410,078)
Notes payable	(775,000)
Capital leases payable	(121,393)
Compensated absences	(1,096,657)

An internal service fund is used by management to charge the costs of the employee health insurance program. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net assets.	225,180
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Principal payments on notes receivable are revenues for governmental funds and therefore are reported as unearned revenues until they are received.	<u>975,781</u>
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Net assets - total governmental activities	<u><u>\$ 12,769,697</u></u>
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The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	General	General Purpose School	2005 Capital Projects	UDAG	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property taxes	\$ 8,592,122	\$ -	\$ -	\$ -	\$ -	\$ 8,592,122
Local option sales taxes	8,135,657	-	-	-	-	8,135,657
Other taxes	1,347,248	-	-	-	-	1,347,248
Payment in lieu of tax	159,817	-	-	-	-	159,817
Licenses and permits	146,560	-	-	-	-	146,560
Fines and forfeitures	410,656	-	-	-	-	410,656
Intergovernmental	2,605,340	19,406,713	-	-	2,683,422	24,695,475
Charges for services	115,449	349,164	-	-	1,881,674	2,346,287
Investment income	188,450	-	86,724	57,099	47,640	379,913
Note repayments	-	-	-	43,009	-	43,009
Sale of property	400	-	-	-	-	400
Other revenues	219,390	180,971	-	-	318,690	719,051
Total revenues	21,921,089	19,936,848	86,724	100,108	4,931,426	46,976,195
EXPENDITURES:						
Current:						
General government	1,177,901	-	-	-	-	1,177,901
Public safety:						
Police Protection	2,474,718	-	-	-	-	2,474,718
Fire Protection	2,191,228	-	-	-	-	2,191,228
Public works	2,056,101	-	-	-	-	2,056,101
Parks and Recreation	1,153,305	-	-	-	-	1,153,305
Community services	262,571	-	-	-	-	262,571
Education:						
Administration	-	2,526,993	-	-	-	2,526,993
Regular education	-	14,005,102	-	-	829,463	14,834,565
Special education	-	2,360,748	-	-	780,764	3,141,512
Vocational education	-	909,640	-	-	11,729	921,369
Adult education	-	180,862	-	-	-	180,862
Attendance	-	241,269	-	-	-	241,269
Health services	-	180,965	-	-	-	180,965
Other student support	-	629,901	-	-	18,139	648,040
Instructional staff	-	718,186	-	-	106,341	824,527
Plant operations	-	2,390,169	-	-	-	2,390,169
Plant maintenance	-	942,668	-	-	-	942,668
Transportation	-	117,660	-	-	-	117,660
Community services	-	6,914	-	-	-	6,914
Program costs	78,945	-	-	518	4,045,356	4,124,819
Debt service:						
Principal retirement	-	86,848	-	-	1,225,220	1,312,068
Interest	-	6,882	-	-	1,346,502	1,353,384
Fiscal charges	-	-	-	-	2,599	2,599
Capital outlay	446,590	951,580	3,719,501	-	445,555	5,563,226
Loans disbursed	-	-	-	-	7,055	7,055
Total expenditures	9,841,359	26,256,387	3,719,501	518	8,818,723	48,636,488
Excess (deficiency) of revenues over (under) expenditures	12,079,730	(6,319,539)	(3,632,777)	99,590	(3,887,297)	(1,660,293)
OTHER FINANCING SOURCES (USES):						
Transfers in	565,848	7,764,917	632,271	-	5,233,302	14,196,338
Transfers out	(12,126,594)	-	-	-	(1,672,820)	(13,799,414)
Total other financing sources (uses)	(11,560,746)	7,764,917	632,271	-	3,560,482	396,924
Net change in fund balances	518,984	1,445,378	(3,000,506)	99,590	(326,815)	(1,263,369)
Fund balances, July 1, 2007	6,498,904	3,896,283	3,371,531	623,370	2,511,414	16,901,502
Fund balances, June 30, 2008	<u>\$ 7,017,888</u>	<u>\$ 5,341,661</u>	<u>\$ 371,025</u>	<u>\$ 722,960</u>	<u>\$ 2,184,599</u>	<u>\$ 15,638,133</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
JUNE 30, 2008

Net change in fund balances - governmental funds \$ (1,263,369)

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

Governmental funds report capital outlays which include principal and interest payments on capital leases as expenditures. However, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense for governmental activities.

Acquisition of capital assets	4,438,452
Depreciation expense	(2,302,514)
Principal payments on capital leases	86,848

The gain or loss on the sale of capital assets is reported for governmental activities, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs in the change in fund balances by the net book value of the capital assets sold. (9,580)

Bonds proceeds provide current financial resources to governmental funds, but the issuance of debt increases long-term liabilities for governmental activities. Repayment of principal on bonds and notes payable is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities. Governmental funds include interest paid in debt service expenditures, whereas interest is accrued and expensed as it becomes payable for governmental activities.

Bond and note principal repayments	1,225,220
Amortization of issuance costs	(13,410)
Amortization of deferred charges	(26,674)
Amortization of premium	6,712
Decrease in accrued interest expense	15,452
Loans disbursed	7,055
Principal received on notes receivable	(43,009)

An internal service fund is used by management to charge the costs of the employee health insurance program. The net revenue of the internal service fund is included in governmental activities. 119,561

Some expenses reported for governmental activities do not require the use of current financial resources and therefore not reported as expenditures for governmental funds. Compensated absences are an expenditure when they are paid in the governmental funds, but are accrued and expensed when they are incurred for governmental activities.

Increase in net pension obligation	(111,633)
Increase in compensated absences	(12,246)

Change in net assets - governmental activities \$ 2,116,865

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 BUDGETARY BASIS (NON-GAAP)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Taxes:							
Property taxes	\$ 8,592,122	\$ -	\$ -	\$ 8,592,122	\$ 8,499,935	\$ 8,219,000	\$ 373,122
Local option sales tax	8,135,657	-	-	8,135,657	8,027,978	8,142,000	(6,343)
Wholesale beer	472,665	-	-	472,665	455,000	471,238	1,427
Wholesale liquor	181,514	-	-	181,514	168,000	201,000	(19,486)
Business	342,640	-	-	342,640	286,110	342,000	640
Cable TV	212,051	-	-	212,051	119,402	212,000	51
Hotel and motel	138,378	-	-	138,378	131,250	135,250	3,128
Total taxes	18,075,027	-	-	18,075,027	17,687,675	17,722,488	352,539
Payment in lieu of taxes	159,817	-	-	159,817	682,000	600,000	(440,183)
Licenses and permits	146,560	-	-	146,560	125,035	164,035	(17,475)
Fines and forfeitures	410,656	-	-	410,656	359,750	418,500	(7,844)
Intergovernmental:							
State of Tennessee sales tax	1,293,933	-	-	1,293,933	1,316,706	1,316,706	(22,773)
State of Tennessee gas tax	510,255	-	-	510,255	525,465	525,465	(15,210)
State of Tennessee income tax	272,888	-	-	272,888	150,000	272,000	888
TVA gross receipts	167,722	-	-	167,722	129,107	170,000	(2,278)
State and federal grants	91,576	-	-	91,576	-	96,378	(4,802)
Mixed drink tax	73,531	-	-	73,531	74,423	74,423	(892)
Excise tax	65,416	-	-	65,416	46,125	65,000	416
Streets and transportation	39,259	-	-	39,259	40,576	40,576	(1,317)
Supplemental pay	33,600	-	-	33,600	-	33,600	-
State of Tennessee beer tax	9,842	-	-	9,842	9,591	9,591	251
Telecommunications tax	2,318	-	-	2,318	3,119	3,119	(801)
Other local agencies	45,000	-	-	45,000	45,000	45,000	-
Total intergovernmental	2,605,340	-	-	2,605,340	2,340,112	2,651,858	(46,518)
Charges for services	115,449	-	-	115,449	133,775	139,775	(24,326)
Investment income	188,450	-	-	188,450	241,182	181,182	7,268
Sale of property	400	-	-	400	4,500	4,500	(4,100)
Other revenues	219,390	-	-	219,389	146,476	230,007	(10,618)
Total revenues	21,921,089	-	-	21,921,088	21,720,505	22,112,345	(191,257)
EXPENDITURES:							
General Government:							
Legislative and Judicial							
Current:							
Salaries	37,614	-	-	37,614	37,614	37,614	-
Payroll Taxes	2,877	-	-	2,877	2,878	2,878	1
Benefits	47,981	-	-	47,981	97,063	57,377	9,396
Telephone and Utility	1,093	-	-	1,093	1,200	1,200	107
Contract and Professional	78,673	-	3,700	82,373	154,569	125,569	43,196
Travel and Training	3,418	-	-	3,418	5,000	5,000	1,582
Supplies	733	-	-	733	750	750	17
Operating Insurance	9,081	-	-	9,081	8,819	9,081	-
Other	38,660	-	-	38,660	35,844	42,744	4,084
Total Legislative and Judicial	220,130	-	3,700	223,830	343,737	282,213	58,383
Court System							
Current:							
Salaries	32,254	-	-	32,254	30,410	32,265	11
Payroll Taxes	3,154	-	-	3,154	2,326	3,155	1
Benefits	3,459	-	-	3,459	3,952	3,952	493
Contract and Professional	10,000	-	-	10,000	12,000	10,000	-
Repairs and Maintenance	-	-	-	-	4,000	1,000	1,000
Travel and Training	-	-	-	-	600	600	600
Supplies	173	-	-	173	100	180	7
Operating Insurance	214	-	-	214	250	250	36
Other	322	-	-	322	328	348	26
Total Court System	49,576	-	-	49,576	53,966	51,750	2,174

(continued)

CITY OF TULLAHOMA, TENNESSEE
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 BUDGETARY BASIS (NON-GAAP)
 GENERAL FUND
 FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
City Administrator							
Current:							
Salaries	120,068	-	-	120,068	119,395	120,074	6
Payroll Taxes	9,124	-	-	9,124	9,134	9,134	10
Benefits	29,934	-	-	29,934	37,337	31,061	1,127
Telephone and Utility	61	-	-	61	600	600	539
Repairs and Maintenance	183	-	-	183	-	200	17
Travel and Training	2,648	-	-	2,648	2,000	2,784	136
Supplies	250	-	-	250	250	250	-
Gas and Oil	980	-	-	980	488	1,000	20
Operating Insurance	2,589	-	-	2,589	2,498	2,589	-
Depreciation Expense	-	-	-	-	2,218	2,218	2,218
Other	811	-	-	811	884	894	83
Total City Administrator	166,648	-	-	166,648	174,804	170,804	4,156
Finance Director							
Current:							
Salaries	146,901	-	-	146,901	172,105	163,105	16,204
Payroll Taxes	11,343	-	-	11,343	13,166	13,166	1,823
Benefits	25,968	-	-	25,968	41,147	35,147	9,179
Telephone and Utility	29,864	-	-	29,864	31,000	31,000	1,136
Repairs and Maintenance	17,400	-	-	17,400	19,000	19,000	1,600
Travel and Training	1,928	-	-	1,928	2,500	2,500	572
Supplies	15,229	-	-	15,229	13,800	15,350	121
Uniforms	-	-	-	-	500	500	500
Operating Insurance	2,897	-	-	2,897	3,041	3,041	144
Other	27,265	-	-	27,265	18,947	21,318	(5,947)
Total Finance Director	278,795	-	-	278,795	315,206	304,127	25,332
Purchasing							
Current:							
Salaries	39,053	-	-	39,053	38,906	39,060	7
Payroll Taxes	2,974	-	-	2,974	2,976	2,976	2
Benefits	7,666	-	-	7,666	8,330	8,330	664
Telephone and Utility	49	-	-	49	100	100	51
Supplies	300	-	-	300	300	300	-
Operating Insurance	763	-	-	763	972	972	209
Other	358	-	-	358	942	386	28
Total Purchasing	51,163	-	-	51,163	52,526	52,124	961
Human Resources							
Current:							
Salaries	51,370	-	-	51,370	51,290	51,373	3
Payroll Taxes	3,921	-	-	3,921	3,924	3,924	3
Benefits	7,558	-	-	7,558	8,437	8,437	879
Telephone and Utility	622	-	-	622	875	675	53
Contract and Professional	9,500	-	-	9,500	15,000	12,987	3,487
Travel and Training	2,007	(494)	-	1,513	1,200	1,551	38
Supplies	423	-	-	423	500	430	7
Operating Insurance	763	-	-	763	744	763	-
Other	7,658	(1,983)	-	5,675	3,973	5,803	128
Total Human Resources	83,822	(2,477)	-	81,345	85,943	85,943	4,598
Community Development							
Current:							
Salaries	40,463	-	-	40,463	40,367	40,465	2
Payroll Taxes	3,086	-	-	3,086	3,088	3,088	2
Benefits	7,423	-	-	7,423	8,407	8,407	984
Telephone and Utility	489	-	-	489	480	490	1
Repairs and Maintenance	1,290	-	-	1,290	300	1,290	-
Travel and Training	281	-	-	281	300	281	-
Supplies	617	-	-	617	400	630	13
Operating Insurance	535	-	-	535	516	535	-
Other	1,356	-	-	1,356	1,497	1,497	141
Total Community Development	55,540	-	-	55,540	55,355	56,683	1,143

(continued)

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Planning:							
Current:							
Salaries	152,720	-	-	152,720	147,045	152,740	20
Payroll Taxes	11,514	-	-	11,514	11,249	11,515	1
Benefits	47,052	-	-	47,052	54,524	48,493	1,441
Telephone and Utility	1,287	-	-	1,287	2,000	2,000	713
Contract and Professional	1,962	-	-	1,962	5,000	2,000	38
Repairs and Maintenance	425	-	-	425	500	500	75
Travel and Training	2,204	-	-	2,204	2,000	2,307	103
Supplies	988	-	-	988	1,550	1,550	562
Uniforms	117	-	191	308	1,000	560	252
Gas and Oil	3,256	-	-	3,256	1,690	3,260	4
Operating Insurance	7,180	-	-	7,180	7,047	7,180	-
Depreciation Expense	-	-	-	-	2,366	2,366	2,366
Other	5,396	-	-	5,396	5,568	6,068	-
Total Planning	234,101	-	191	234,292	241,539	240,539	5,575
Municipal Building							
Current:							
Telephone and Utility	20,490	-	-	20,490	26,780	24,981	4,491
Rent	1,632	-	-	1,632	2,000	2,000	368
Repairs and Maintenance	6,315	-	-	6,315	4,000	6,315	-
Operating Insurance	9,689	-	-	9,689	10,500	9,984	295
Total Municipal Building	38,126	-	-	38,126	43,280	43,280	5,154
Total Current	1,177,901	(2,477)	3,891	1,179,315	1,366,356	1,287,463	107,476
Capital Outlay	4,614	-	-	4,614	5,000	4,686	72
Total General Government	1,182,515	(2,477)	3,891	1,183,929	1,371,356	1,292,149	107,548
Public Safety:							
Police:							
Current:							
Salaries	1,605,300	-	-	1,605,300	1,581,172	1,609,037	3,737
Payroll Taxes	122,420	-	-	122,420	120,961	123,198	778
Benefits	416,548	-	-	416,548	512,349	423,283	6,735
Telephone and Utility	6,701	-	-	6,701	8,595	7,145	444
Repairs and Maintenance	39,892	-	-	39,892	24,550	39,980	88
Travel and Training	8,241	-	-	8,241	13,000	10,169	1,928
Supplies	27,892	(155)	205	27,942	13,205	28,433	491
Uniforms	20,821	(855)	932	20,898	18,075	20,338	(560)
Gas and Oil	101,501	-	-	101,501	76,230	101,935	434
Operating Insurance	111,986	-	-	111,986	110,020	112,085	99
Depreciation Expense	-	-	-	-	88,380	88,380	88,380
Other	13,416	(387)	-	13,029	16,993	13,608	579
Total Current	2,474,718	(1,397)	1,137	2,474,458	2,583,530	2,577,591	103,133
Capital Outlay	123,634	(490)	-	123,144	120,000	123,642	498
Total Police	2,598,352	(1,887)	1,137	2,597,602	2,703,530	2,701,233	103,631
Fire:							
Current:							
Salaries	1,363,115	-	-	1,363,115	1,294,544	1,363,865	750
Payroll Taxes	103,486	-	-	103,486	99,033	103,530	44
Benefits	339,947	-	-	339,947	427,782	349,167	9,220
Telephone and Utility	25,712	-	-	25,712	27,100	26,286	574
Rent	131,814	-	-	131,814	136,258	131,814	-
Repairs and Maintenance	49,194	(4,361)	125	44,958	37,600	45,040	82
Travel and Training	12,221	-	-	12,221	11,600	12,300	79
Supplies	12,447	-	-	12,447	9,750	12,540	93
Uniforms	17,960	(84)	-	17,876	16,125	17,975	99
Gas and Oil	19,418	-	-	19,418	12,140	19,500	82
Operating Insurance	108,787	-	-	108,787	127,646	112,937	4,150
Depreciation Expense	-	-	-	-	4,000	4,000	4,000
Other	7,127	(2,706)	-	4,421	7,602	7,570	3,149
Total Current	2,191,228	(7,151)	125	2,184,202	2,211,180	2,206,524	22,322
Capital Outlay	16,399	-	170	16,569	13,900	13,600	(2,969)
Total Fire	2,207,627	(7,151)	295	2,200,771	2,225,080	2,220,124	19,353
Total Public Safety	4,805,979	(9,038)	1,432	4,798,373	4,928,610	4,921,357	122,984

(continued)

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Public Works:							
Current:							
Salaries	607,892	-	-	607,892	598,346	608,818	926
Payroll Taxes	52,392	-	-	52,392	49,447	52,415	23
Benefits	208,575	-	-	208,575	238,436	209,831	1,256
Telephone and Utility	40,873	-	-	40,873	44,850	41,050	177
Street Lights	397,803	-	3,277	401,080	388,000	401,100	20
Contract and Professional	106,868	(40,391)	24,356	90,833	131,200	105,686	14,853
Repairs and Maintenance	79,322	(3,855)	1,605	77,072	73,950	77,549	477
State Street Aid	164,582	-	44,120	208,702	203,000	208,750	48
Travel and Training	1,104	-	-	1,104	1,850	1,200	96
Supplies	23,403	(400)	-	23,003	17,100	23,445	442
Uniforms	9,817	-	105	9,922	8,900	9,925	3
Gas and Oil	168,799	-	-	168,799	68,550	169,520	721
Parts and Supplies	61,089	(750)	443	60,782	36,500	62,440	1,658
Materials	42,736	(3,683)	1,416	40,469	60,180	42,110	1,641
Operating Insurance	63,171	-	-	63,171	69,403	64,556	1,385
Depreciation Expense	-	-	-	-	69,926	69,996	69,996
Other	27,675	(776)	-	26,899	27,858	27,395	-
Total Current	<u>2,056,101</u>	<u>(49,855)</u>	<u>75,322</u>	<u>2,081,568</u>	<u>2,087,496</u>	<u>2,175,786</u>	<u>93,722</u>
Capital Outlay	244,609	(62,544)	85,611	267,676	281,000	278,297	10,621
Total Public Works	<u>2,300,710</u>	<u>(112,399)</u>	<u>160,933</u>	<u>2,349,244</u>	<u>2,368,496</u>	<u>2,454,083</u>	<u>104,343</u>
Parks and Recreation:							
Current:							
Salaries	551,032	-	-	551,032	588,329	568,684	17,652
Payroll Taxes	41,761	-	-	41,761	45,008	43,403	1,642
Benefits	121,749	-	-	121,749	163,428	148,497	26,748
Telephone and Utility	159,740	-	-	159,740	162,930	167,672	7,932
Street Lights	12,142	-	-	12,142	11,000	12,150	8
Contract and Professional	52,579	(5,819)	-	46,760	49,650	53,133	6,373
Repairs and Maintenance	83,841	(3,959)	4,233	84,115	93,900	89,413	5,298
State Contract	4,025	-	-	4,025	4,300	4,200	175
Travel and Training	5,255	-	-	5,255	7,800	7,800	2,545
Supplies	43,170	(970)	1,009	43,209	52,625	44,900	1,691
Uniforms	3,645	-	-	3,645	4,050	4,100	455
Gas and Oil	11,072	-	-	11,072	18,750	13,184	2,112
Operating Insurance	58,225	-	-	58,225	57,839	58,111	(114)
Other	5,069	-	-	5,069	5,668	5,770	-
Total Current	<u>1,153,305</u>	<u>(10,748)</u>	<u>5,242</u>	<u>1,147,799</u>	<u>1,265,277</u>	<u>1,221,017</u>	<u>72,517</u>
Capital Outlay	57,334	-	41,781	99,115	54,500	99,915	800
Total Parks and Recreation	<u>1,210,639</u>	<u>(10,748)</u>	<u>47,023</u>	<u>1,246,914</u>	<u>1,319,777</u>	<u>1,320,932</u>	<u>73,317</u>
Community Services:							
Current:							
Telephone and utilities	30,252	-	-	30,252	26,252	32,012	1,760
Operating insurance	15,917	-	-	15,917	18,800	18,800	2,883
Appropriations	216,402	(7,306)	-	209,096	207,434	216,480	7,384
Total Community Services	<u>262,571</u>	<u>(7,306)</u>	<u>-</u>	<u>255,265</u>	<u>252,486</u>	<u>267,292</u>	<u>12,027</u>
Program costs	78,945	-	-	78,945	-	78,948	3
Total expenditures	<u>9,841,359</u>	<u>(141,968)</u>	<u>213,279</u>	<u>9,912,670</u>	<u>10,240,725</u>	<u>10,334,761</u>	<u>420,222</u>
Excess revenues over (under) expenditures	12,079,730	141,968	(213,279)	12,008,418	11,479,780	11,777,584	230,834
OTHER FINANCING SOURCES (USES):							
Transfers in	565,848	-	-	565,848	169,012	169,012	396,836
Transfers out	(12,126,594)	-	-	(12,126,594)	(11,739,253)	(12,220,643)	94,049
Total other financing sources (uses)	<u>(11,560,746)</u>	<u>-</u>	<u>-</u>	<u>(11,560,746)</u>	<u>(11,570,241)</u>	<u>(12,051,631)</u>	<u>490,885</u>
Net change in fund balance	518,984	141,968	(213,279)	447,672	(90,461)	(274,047)	721,719
Fund balance, July 1, 2007	6,498,904	(141,968)	-	6,356,936	6,498,904	6,498,904	(141,968)
Fund balance, June 30, 2008	<u>\$ 7,017,888</u>	<u>\$ -</u>	<u>\$ (213,279)</u>	<u>\$ 6,804,608</u>	<u>\$ 6,408,443</u>	<u>\$ 6,224,857</u>	<u>\$ 579,751</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 BUDGETARY BASIS (NON-GAAP)
 GENERAL PURPOSE SCHOOL FUND
 FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental							
Local shared taxes	\$ 4,834,809	\$ -	\$ -	\$ 4,834,809	\$ 4,222,302	\$ 4,222,302	\$ 612,507
Federal and state	14,571,904	-	-	14,571,904	13,410,514	13,410,514	1,161,390
Charges for services	349,164	-	-	349,164	332,270	332,270	16,894
Interest income	117,058	-	-	117,058	93,000	93,000	24,058
Other	63,913	-	-	63,913	-	-	63,913
Total revenues	19,936,848	-	-	19,936,848	18,058,086	18,058,086	1,878,762
EXPENDITURES:							
Current:							
Education:							
Administration							
Current:							
Salaries	1,222,422	-	-	1,222,422	1,319,945	1,319,945	97,523
Payroll taxes	87,691	-	-	87,691	100,976	100,976	13,285
Benefits	705,066	-	-	705,066	716,628	716,628	11,562
Contract Services	182,039	-	39,875	221,914	152,433	152,433	(69,481)
Travel	20,429	-	-	20,429	10,800	10,800	(9,629)
Supplies	30,396	-	-	30,396	34,100	34,100	3,704
Other	63,523	-	-	63,523	93,400	93,400	29,877
Insurance	215,427	-	-	215,427	294,449	294,449	79,022
Total Administration	<u>2,526,993</u>	<u>-</u>	<u>39,875</u>	<u>2,566,868</u>	<u>2,722,731</u>	<u>2,722,731</u>	<u>155,863</u>
Regular education							
Current:							
Salaries	9,924,697	-	-	9,924,697	10,595,589	10,595,589	670,892
Payroll taxes	730,997	-	-	730,997	810,563	810,563	79,566
Benefits	2,148,134	-	-	2,148,134	2,166,473	2,166,473	18,339
Travel	108,747	-	-	108,747	30,000	30,000	(78,747)
Supplies	551,480	(19,519)	13,360	545,321	250,000	250,000	(295,321)
Books	528,281	(226,255)	7,817	309,843	280,000	280,000	(29,843)
Other	12,766	-	-	12,766	-	-	(12,766)
Total Regular Education	<u>14,005,102</u>	<u>(245,774)</u>	<u>21,177</u>	<u>13,780,505</u>	<u>14,132,625</u>	<u>14,132,625</u>	<u>352,120</u>
Special education							
Current:							
Salaries	1,699,737	-	-	1,699,737	1,708,152	1,708,152	8,415
Payroll taxes	124,805	-	-	124,805	130,673	130,673	5,868
Benefits	441,715	-	-	441,715	365,492	365,492	(76,223)
Contract Services	54,235	-	-	54,235	60,000	60,000	5,765
Travel	6,076	-	-	6,076	3,500	3,500	(2,576)
Supplies	19,447	-	-	19,447	21,800	21,800	2,353
Other	14,733	-	-	14,733	7,250	7,250	(7,483)
Total Special Education	<u>2,360,748</u>	<u>-</u>	<u>-</u>	<u>2,360,748</u>	<u>2,296,867</u>	<u>2,296,867</u>	<u>(63,881)</u>
Vocational education							
Current:							
Salaries	652,512	-	-	652,512	576,451	576,451	(76,061)
Payroll taxes	45,485	-	-	45,485	44,099	44,099	(1,386)
Benefits	158,172	-	-	158,172	136,083	136,083	(22,089)
Travel	10,000	-	-	10,000	10,000	10,000	-
Supplies	33,471	-	-	33,471	30,000	30,000	(3,471)
Other	10,000	-	-	10,000	10,000	10,000	-
Total Vocational Education	<u>909,640</u>	<u>-</u>	<u>-</u>	<u>909,640</u>	<u>806,633</u>	<u>806,633</u>	<u>(103,007)</u>
Adult education							
Current:							
Salaries	130,788	-	-	130,788	143,540	143,540	12,752
Payroll taxes	9,478	-	-	9,478	10,981	10,981	1,503
Benefits	12,587	-	-	12,587	29,158	29,158	16,571
Contract Services	700	-	-	700	-	-	(700)
Travel	525	-	-	525	500	500	(25)
Supplies	23,887	-	-	23,887	2,000	2,000	(21,887)
Other	2,897	-	-	2,897	2,400	2,400	(497)
Total Adult Education	<u>180,862</u>	<u>-</u>	<u>-</u>	<u>180,862</u>	<u>188,579</u>	<u>188,579</u>	<u>7,717</u>
Attendance							
Current:							
Salaries	184,537	-	-	184,537	194,002	194,002	9,465
Payroll taxes	13,842	-	-	13,842	14,841	14,841	999
Benefits	29,670	-	-	29,670	30,119	30,119	449
Travel	3,635	-	-	3,635	4,500	4,500	865
Other	9,585	-	-	9,585	3,000	3,000	(6,585)
Total Attendance	<u>241,269</u>	<u>-</u>	<u>-</u>	<u>241,269</u>	<u>246,462</u>	<u>246,462</u>	<u>5,193</u>

(continued)

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
GENERAL PURPOSE SCHOOL FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Health Services							
Current:							
Salaries	109,619	-	-	109,619	106,603	106,603	(3,016)
Payroll taxes	7,707	-	-	7,707	8,155	8,155	448
Benefits	30,514	-	-	30,514	25,953	25,953	(4,561)
Supplies	33,125	-	-	33,125	25,000	25,000	(8,125)
Total Health Services	180,965	-	-	180,965	165,711	165,711	(15,254)
Other student support							
Current:							
Salaries	477,767	-	-	477,767	545,679	545,679	67,912
Payroll taxes	34,631	-	-	34,631	41,132	41,132	6,501
Benefits	103,144	-	-	103,144	102,708	102,708	(436)
Other	14,359	-	-	14,359	15,000	15,000	641
Total Other Student Support	629,901	-	-	629,901	704,519	704,519	74,618
Instructional staff							
Current:							
Salaries	506,662	-	-	506,662	512,873	512,873	6,211
Payroll taxes	37,613	-	-	37,613	39,235	39,235	1,622
Benefits	90,997	-	-	90,997	87,612	87,612	(3,385)
Contract Services	35,956	-	-	35,956	7,000	7,000	(28,956)
Travel	2,020	-	-	2,020	-	-	(2,020)
Books	44,743	-	-	44,743	55,000	55,000	10,257
Other	195	-	-	195	1,500	1,500	1,305
Total Instructional Staff	718,186	-	-	718,186	703,220	703,220	(14,966)
Plant operations							
Current:							
Salaries	617,396	-	-	617,396	633,517	633,517	16,121
Payroll taxes	44,607	-	-	44,607	48,464	48,464	3,857
Benefits	178,782	-	-	178,782	169,710	169,710	(9,072)
Contract Services	324,351	-	-	324,351	273,000	273,000	(51,351)
Supplies	97,452	-	-	97,452	83,000	83,000	(14,452)
Utilities	1,074,581	-	-	1,074,581	1,310,313	1,310,313	235,732
Insurance	53,000	-	-	53,000	101,200	101,200	48,200
Total Plant Operations	2,390,169	-	-	2,390,169	2,619,204	2,619,204	229,035
Plant maintenance							
Current:							
Salaries	404,732	-	-	404,732	410,259	410,259	5,527
Payroll taxes	29,612	-	-	29,612	31,385	31,385	1,773
Benefits	85,145	-	-	85,145	83,967	83,967	(1,178)
Maintenance and Repairs	423,179	(4,578)	-	418,601	400,000	400,000	(18,601)
Other	-	-	-	-	4,000	4,000	4,000
Total Plant Maintenance	942,668	(4,578)	-	938,090	929,611	929,611	(8,479)
Transportation							
Current:							
Salaries	37,389	-	-	37,389	38,591	38,591	1,202
Payroll taxes	2,844	-	-	2,844	2,953	2,953	109
Benefits	3,787	-	-	3,787	3,788	3,788	1
Maintenance and Repairs	17,414	-	-	17,414	20,000	20,000	2,586
Other	38,028	-	-	38,028	30,000	30,000	(8,028)
Insurance	18,198	-	-	18,198	25,000	25,000	6,802
Total Transportation	117,660	-	-	117,660	120,332	120,332	2,672
Community Services							
Current:							
Other	6,914	-	-	6,914	7,000	7,000	86
Capital outlay	951,580	(387,224)	269,385	833,741	476,000	476,000	(357,741)
Debt service:							
Principal retirement	86,848	-	-	86,848	-	-	(86,848)
Interest	6,882	-	-	6,882	-	-	(6,882)
Total Debt Service	93,730	-	-	93,730	-	-	(93,730)
Total Expenditures	26,256,387	(637,576)	330,437	25,949,248	26,119,494	26,119,494	170,246
Excess revenues over (under) expenditures	(6,319,539)	637,576	(330,437)	(6,012,400)	(8,061,408)	(8,061,408)	1,708,516
OTHER FINANCING SOURCES (USES):							
Transfer from City of Tullahoma	7,764,917	-	-	7,764,917	7,721,210	7,721,210	43,707
Total other financing sources (uses)	7,764,917	-	-	7,764,917	7,721,210	7,721,210	43,707
Net change in fund balance	1,445,378	637,576	(330,437)	1,752,517	(340,198)	(340,198)	1,412,319
Fund Balance, July 1, 2007	3,896,283	(637,576)	-	3,258,707	3,896,283	3,896,283	637,576
Fund Balance, June 30, 2008	\$ 5,341,661	\$ -	\$ (330,437)	\$ 5,011,224	\$ 3,556,085	\$ 3,556,085	\$ 1,455,139

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 BUDGETARY BASIS (NON-GAAP)
 UDAG
 FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Note repayments	\$ 43,009	\$ -	\$ -	\$ 43,009	\$ -	\$ 70,000	\$ (26,991)
Interest Income	57,099	-	-	57,099	-	20,000	37,099
Total revenues	<u>100,108</u>	<u>-</u>	<u>-</u>	<u>100,108</u>	<u>-</u>	<u>90,000</u>	<u>37,099</u>
EXPENDITURES:							
Current:							
Program costs	518	-	-	518	-	2,000	1,482
Loans disbursed	-	-	-	-	-	88,000	88,000
Total expenditures	<u>518</u>	<u>-</u>	<u>-</u>	<u>518</u>	<u>-</u>	<u>90,000</u>	<u>89,482</u>
Net change in fund balance	99,590	-	-	99,590	-	-	(52,383)
Fund balance, July 1, 2007	<u>623,370</u>	<u>-</u>	<u>-</u>	<u>623,370</u>	<u>623,370</u>	<u>623,370</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ 722,960</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 722,960</u>	<u>\$ 623,370</u>	<u>\$ 623,370</u>	<u>\$ (52,383)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2008

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Electric System	Fiber Optics System	Waste Water System	Water System		
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	\$ 5,015,003	\$ 6,706	\$ 762,597	\$ 1,403,202	\$ 7,187,508	\$ 226,400
Accounts receivable	1,130,905	6,672	277,168	282,017	1,696,762	-
Allowance for doubtful accounts	(24,059)	-	(5,895)	(5,998)	(35,952)	-
Inventory	530,190	-	206,845	243,876	980,911	-
Due from other funds of the primary government	193,000	-	7,501	3,179	203,680	-
Other assets	155,631	-	31,061	51,717	238,409	-
Restricted assets:						
Bond funds - cash and cash equivalents	274,312	-	74,920	112,901	462,133	-
Construction funds - cash and cash equivalents	2,481,211	11,454,801	686,575	69,437	14,692,024	-
Total current assets	9,756,193	11,468,179	2,040,772	2,160,331	25,425,475	226,400
CAPITAL AND OTHER NONCURRENT ASSETS:						
Capital assets:						
Plant in service	17,633,427	-	17,630,465	10,279,345	45,543,237	-
Land	333,168	-	134,588	8,324	476,080	-
Buildings and improvements	1,320,388	-	10,720,426	2,992,445	15,033,259	-
Furniture, machinery, and equipment	1,625,241	-	1,102,603	730,596	3,458,440	-
Construction in progress	165,186	6,819,968	474,399	548,435	8,007,988	-
Less accumulated depreciation	(11,879,677)	-	(13,362,124)	(5,499,507)	(30,741,308)	-
Capital assets, net	9,197,733	6,819,968	16,700,357	9,059,638	41,777,696	-
Other noncurrent assets:						
Notes receivable	392,402	-	-	1,309,354	1,701,756	-
Other assets	13,267	263,871	1,577	36,337	315,052	-
Total capital and other noncurrent assets	9,603,402	7,083,839	16,701,934	10,405,329	43,794,504	-
Total assets	19,359,595	18,552,018	18,742,706	12,565,660	69,219,979	226,400
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	1,934,832	428,158	67,933	147,893	2,578,816	-
Accrued expenses and other liabilities	302,979	114,002	102,505	94,896	614,382	-
Due to other funds of the primary government	-	180,263	9,167	14,250	203,680	1,220
Customer deposits	947,982	-	-	-	947,982	-
Liabilities payable from restricted assets:						
Bonds and notes payable - current portion	155,000	-	679,477	506,316	1,340,793	-
Accrued interest	8,462	-	717	6,074	15,253	-
Contracts and retainage payable	-	356,938	52,593	1,195	410,726	-
Total current liabilities	3,349,255	1,079,361	912,392	770,624	6,111,632	1,220
NONCURRENT LIABILITIES:						
Conservation - TVA program	398,762	-	-	-	398,762	-
Revenue and tax bonds and other obligations payable - non current portion	515,000	16,975,000	4,453,773	3,966,764	25,910,537	-
Total noncurrent liabilities	913,762	16,975,000	4,453,773	3,966,764	26,309,299	-
Total liabilities	4,263,017	18,054,361	5,366,165	4,737,388	32,420,931	1,220
NET ASSETS						
Invested in capital assets, net of related debt	8,527,733	942,831	11,487,033	4,579,454	25,537,051	-
Restricted	2,747,061	-	708,185	175,069	3,630,315	-
Unrestricted	3,821,784	(445,174)	1,181,323	3,073,749	7,631,682	225,180
Total net assets	\$ 15,096,578	\$ 497,657	\$ 13,376,541	\$ 7,828,272	\$ 36,799,048	\$ 225,180

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities- Internal Service Fund
	Electric System	Fiber Optics System	Waste Water System	Water System		
OPERATING REVENUES:						
Charges for services	\$ 24,435,472	\$ -	\$ 3,210,107	\$ 3,151,140	\$ 30,796,719	\$ -
Forfeited discounts and penalties	160,380	-	21,245	19,267	200,892	-
Rental income	226,143	-	-	-	226,143	-
Other operating revenue	161,266	-	78,849	90,664	330,779	119,743
Total operating revenues	<u>24,983,261</u>	<u>-</u>	<u>3,310,201</u>	<u>3,261,071</u>	<u>31,554,533</u>	<u>119,743</u>
OPERATING EXPENSES:						
Purchased power	20,634,756	-	-	-	20,634,756	-
Purchased water	-	-	-	1,068,643	1,068,643	-
Distribution and transmission	563,067	4,754	737,517	461,864	1,767,202	-
Customer accounting and collection	457,801	-	190,531	199,038	847,370	-
Maintenance expense	594,567	-	625,517	237,728	1,457,812	-
Administrative and general	816,624	61,405	553,778	495,950	1,927,757	-
Depreciation	717,728	-	775,090	361,402	1,854,220	-
Amortization	1,488	12,675	1,721	10,991	26,875	-
Medical and insurance benefits	-	-	-	-	-	182
Total operating expenses	<u>23,786,031</u>	<u>78,834</u>	<u>2,884,154</u>	<u>2,835,616</u>	<u>29,584,635</u>	<u>182</u>
OPERATING INCOME (LOSS)	1,197,230	(78,834)	426,047	425,455	1,969,898	119,561
NONOPERATING REVENUES (EXPENSES):						
Interest income	266,743	576,491	81,645	64,400	989,279	-
Other income	158	-	25,555	-	25,713	-
Gain on sale of property	8,001	-	-	-	8,001	-
Interest expense	(39,178)	-	(280,572)	(129,486)	(449,236)	-
Total non-operating revenues (expenses)	<u>235,724</u>	<u>576,491</u>	<u>(173,372)</u>	<u>(65,086)</u>	<u>573,757</u>	<u>-</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>1,432,954</u>	<u>-</u>	<u>252,675</u>	<u>360,369</u>	<u>2,543,655</u>	<u>119,561</u>
Capital contributions	-	-	1,750	57,614	59,364	-
Transfers	(396,924)	-	-	-	(396,924)	-
Change in net assets	1,036,030	497,657	254,425	417,983	2,206,095	119,561
Total net assets, beginning of year	14,060,548	-	13,122,116	7,410,289	34,592,953	105,619
Total net assets, end of year	<u>\$ 15,096,578</u>	<u>\$ 497,657</u>	<u>\$ 13,376,541</u>	<u>\$ 7,828,272</u>	<u>\$ 36,799,048</u>	<u>\$ 225,180</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2008**

	Business-type Activities - Enterprise Funds				Total Enterprise Funds	Governmental Activities - Internal Service Fund
	Power System	Fiber Optics System	Waste Water System	Water System		
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	\$ 24,986,837	\$ -	\$ 3,373,511	\$ 3,299,930	\$ 31,660,278	\$ -
Cash paid to suppliers	(21,271,679)	-	(1,011,232)	(1,772,229)	(24,055,140)	(183)
Cash paid to employees	(1,490,749)	-	(1,066,896)	(671,914)	(3,229,559)	-
Other payments	(79,841)	-	(74,071)	(43,731)	(197,643)	38,420
Insurance recoveries and refunds	-	-	-	-	-	-
Net cash provided by operating activities	<u>2,144,568</u>	<u>-</u>	<u>1,221,312</u>	<u>812,056</u>	<u>4,177,936</u>	<u>38,237</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Increase in customer deposits	15,832	-	-	-	15,832	-
Repayment and disbursement of notes receivable	-	-	-	-	-	-
Advances from TVA-Home Weatherization Program	(8,736)	-	-	-	(8,736)	-
Payments to other funds of the primary government	(396,924)	-	-	-	(396,924)	-
Other receipts (payments)	158	-	25,554	167,139	192,851	-
Net cash provided (used) by non-capital financing activities	<u>(389,670)</u>	<u>-</u>	<u>25,554</u>	<u>167,139</u>	<u>(196,977)</u>	<u>-</u>
CASH FLOWS FOR CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(830,851)	(5,826,113)	(366,124)	(344,509)	(7,367,597)	-
Proceeds from the sale of capital assets	-	-	-	-	-	-
Proceeds from borrowing	-	16,711,129	-	-	16,711,129	-
Principal paid on long-term debt	(145,000)	-	(1,007,443)	(610,624)	(1,763,067)	-
Interest paid on long-term debt	(40,956)	-	(282,738)	(129,914)	(453,608)	-
Capital contributions received	-	-	1,750	57,614	59,364	-
Net cash provided (used) by capital financing activities	<u>(1,016,807)</u>	<u>10,885,016</u>	<u>(1,654,555)</u>	<u>(1,027,433)</u>	<u>7,186,221</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest and other income	266,743	576,491	81,645	64,400	989,279	-
Net cash provided (used) in investing activities	<u>266,743</u>	<u>576,491</u>	<u>81,645</u>	<u>64,400</u>	<u>989,279</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,004,834	11,461,507	(326,044)	16,162	12,156,459	38,237
Cash and cash equivalents, beginning of year	6,765,692	-	1,850,136	1,569,378	10,185,206	188,163
Cash and cash equivalents, end of year	<u>\$ 7,770,526</u>	<u>\$ 11,461,507</u>	<u>\$ 1,524,092</u>	<u>\$ 1,585,540</u>	<u>\$ 22,341,665</u>	<u>\$ 226,400</u>
Cash accounts consists of:						
Cash and cash equivalents	\$ 5,015,003	\$ 6,706	\$ 762,597	\$ 1,403,202	\$ 7,187,508	\$ 226,400
Bond funds - cash and cash equivalents	274,312	-	74,920	112,901	462,133	-
Construction funds - cash and cash equivalents	2,481,211	11,454,801	686,575	69,437	14,692,024	-
	<u>\$ 7,770,526</u>	<u>\$ 11,461,507</u>	<u>\$ 1,524,092</u>	<u>\$ 1,585,540</u>	<u>\$ 22,341,665</u>	<u>\$ 226,400</u>

RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATIONS

Operating Income	\$ 1,197,230	\$ (78,834)	\$ 426,047	\$ 425,455	\$ 1,969,898	\$ 119,561
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	719,216	12,675	776,811	372,393	1,881,095	-
(Increase) decrease in:						
Accounts receivable	88,692	-	34,601	37,251	160,544	-
Inventory	40,377	-	(2,790)	(10,199)	27,388	-
Other assets	51,564	-	19,030	12,299	82,893	-
Due from other funds	(136,680)	66,159	9,295	(8,656)	(69,882)	(81,324)
Increase (decrease) in:						
Accounts payable	230,549	-	(52,313)	(23,552)	154,684	-
Accrued expenses	(46,380)	-	10,631	7,065	(28,684)	-
Total adjustments	<u>947,338</u>	<u>78,834</u>	<u>795,265</u>	<u>386,601</u>	<u>2,208,038</u>	<u>(81,324)</u>
Net cash provided by operating activities	<u>\$ 2,144,568</u>	<u>\$ -</u>	<u>\$ 1,221,312</u>	<u>\$ 812,056</u>	<u>\$ 4,177,936</u>	<u>\$ 38,237</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2008

	<u>Governmental Type Industrial Development Board</u>	<u>Proprietary Type Municipal Airport Authority</u>	<u>Total Component Units</u>
ASSETS:			
Cash and cash equivalents	\$ 437,354	\$ 86,890	\$ 524,244
Accounts receivable	-	-	-
Interest receivable	-	-	-
Due from other governments	-	70,100	70,100
Other assets	-	766	766
Capital assets:			
Land	-	1,738,799	1,738,799
Buildings and improvements	-	3,723,561	3,723,561
Furniture, machinery, and equipment	-	342,316	342,316
Construction in progress	-	825,638	825,638
Accumulated depreciation	-	(1,370,162)	(1,370,162)
Total assets	<u>437,354</u>	<u>5,417,908</u>	<u>5,855,262</u>
 LIABILITIES:			
Accounts payable	15,630	106,140	121,770
Due to primary government	10,000	19,404	29,404
Other liabilities	-	18,008	18,008
Long-term liabilities:			
Due within one year	-	18,287	18,287
Due in more than one year	-	297,846	297,846
Total liabilities	<u>25,630</u>	<u>459,685</u>	<u>485,315</u>
 NET ASSETS:			
Invested in capital assets, net of related debt	-	4,944,019	4,944,019
Unrestricted	<u>411,724</u>	<u>14,204</u>	<u>425,928</u>
Total net assets	<u>\$ 411,724</u>	<u>\$ 4,958,223</u>	<u>\$ 5,369,947</u>

The accompanying notes are an integral part of this financial statement.

**CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2008**

	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Type	Proprietary Type	Total Component Units
					Industrial Development Board	Municipal Airport Authority	
Industrial Development Board	\$ 72,868	\$ 50,878	\$ -	\$ -	\$ (21,990)	\$ -	\$ (21,990)
Municipal Airport Authority	347,884	102,532	102,797	644,813	-	502,258	502,258
Total component units	<u>\$ 420,752</u>	<u>\$ 153,410</u>	<u>\$ 102,797</u>	<u>\$ 644,813</u>	<u>(21,990)</u>	<u>502,258</u>	<u>480,268</u>
General revenues:							
Unrestricted investment earnings					12,674	2,733	15,407
Gain on sale of property					-	500	500
Total general revenues and transfers					<u>12,674</u>	<u>3,233</u>	<u>15,907</u>
Change in net assets					(9,316)	505,491	496,175
Net assets, beginning					421,040	4,452,732	4,873,772
Net assets, ending					<u>\$ 411,724</u>	<u>\$ 4,958,223</u>	<u>\$ 5,369,947</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Tullahoma, Tennessee (the City) was chartered by private act in 1903. The City operates under a Mayor-Aldermen form of government and provides the following services as authorized by its charter: public safety (police and fire protection), highways and streets, health and social services, recreation, public improvements, planning and zoning, general administrative, utility services and public education.

A. Reporting Entity

The financial statements of the City present the primary government and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City. Each discretely presented component unit is reported separately in the basic financial statements to emphasize that it is legally separate from the City.

The financial statements of the following component units have been discretely presented:

Tullahoma Municipal Airport Authority operates and maintains the airport and its related property. The purpose of the Authority is to provide rental services for the Tullahoma Municipal Airport. The Authority is required to submit an annual budget document to the Mayor and Aldermen for their approval and receives an annual operating subsidy from the City.

Tullahoma Industrial Development Board was established in order to promote industry and develop trade for the City and surrounding county government. The Board is required to have annual budgets and debt issues approved by the Mayor and Aldermen and receive an annual operating subsidy from the City.

Complete financial statements of the individual component units can be obtained from their respective administrative offices listed below:

Tullahoma Industrial Development Board
201 West Grundy Street
Tullahoma, Tennessee 37388

Tullahoma Municipal Airport Authority
P.O. Box 1584
Tullahoma, Tennessee 37388

All discretely presented component units have a June 30 fiscal year end.

B. Jointly Governed Organizations

Jointly governed organizations are excluded from the financial reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement 14, due to the City's lack of financial accountability for their operations. The following related agencies provide services within the City:

Duck River Utility Commission:

The City, in conjunction with the City of Manchester, appoints the Board of the Duck River Utility Commission, which operates a water treatment plant providing the citizens of the two cities with water. Each city elects three of the six member board. Neither city has any other responsibility for the commission. The City has no equity interest in the net resources of the Commission. Assets of the Utility are pledged to the cities to secure indebtedness to the State of Tennessee which is being repaid from earnings of the Utility. The Commission reported net assets of \$3,221,635 as of June 30, 2008. Complete financial statements can be obtained by writing P.O. Box 1237, Tullahoma, TN 37388.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Interlocal Solid Waste Authority:

The Interlocal Solid Waste Authority was created pursuant to an interlocal agreement authorized by State Statutes in March 1993. Its Board is composed of two members from each of the adjoining counties of Lincoln, Giles and Franklin. The purpose of the Authority is to provide solid waste recycling and disposal services to the City and the three county areas. The Authority entered into agreement with a waste recycling company for recycling of its solid waste. The City has an ongoing financial responsibility to fund its Pro Rata share of costs incidental to the operation of the Authority. During 2008, these costs amounted to \$385,578 and were paid from the Solid Waste Fund of the City. The City has no equity interest in the Authority. The Authority had reported net assets of \$451,976 as of June 30, 2007, the latest audited balance available. Complete financial statements can be obtained by writing Interlocal Solid Waste, C/O City of Tullahoma, P.O. Box 807, Tullahoma, TN 37388.

C. Government-Wide and Fund Financial Statements

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

The **Statement of Net Assets** presents the Government's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, and reduced by outstanding debt that is attributable to the acquisition, construction, and improvement of those assets. The outstanding debt is offset by any unspent proceeds for such debt.

Restricted net assets result from restrictions placed on net assets by external sources such as creditors, grantors and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

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

Separate financial statements are provided for governmental and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements; nonmajor funds are combined in a single column.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. All material interfund activity has been removed from these statements. However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary financial statements of City component units also report using this same focus and basis of accounting although internal activity is not eliminated in these 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 revenue in the year in which the levy is assessed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

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 of the end of the current fiscal period. Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as receivables in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the Government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to non-vested sick pay, compensated absences and other long-term commitments and contingencies are recorded only when payment is due.

Enterprise Funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the balance sheet. The Enterprise Funds operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The Enterprise Funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned and expenses are recognized when they are incurred.

The City has adopted GASB Statement No. 20, Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting. The City applies all applicable GASB pronouncements as well as Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) Opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements. The City has elected not to apply FASB Statements and interpretations issued after November 30, 1989.

Deferred revenues arise when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the occurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to resources, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements, except for services provided and used, which are not eliminated in the process of consolidation.

Amounts reported as **program revenues** include 1) charges to customers for goods, services or privileges provided, and fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Amounts reported as **general revenues** include 1) all taxes, 2) unrestricted revenues for the use of money or property, 3) unrestricted revenues from other governmental agencies, and 4) compensation for loss, sale or damage of property.

Expenses reported by function include **direct expenses** that are specifically associated with a service or program and are clearly identifiable to a particular program. Some functions, such as general government and fiscal administration, include expenses that are in essence **indirect expenses** of other functions. The City has elected not to charge these indirect expenses to other functions.

Proprietary funds distinguish **operating** revenues and expenses from **non-operating** items. Operating revenues and expenses generally result from providing services and producing and delivering goods and services in connection with the fund’s principal ongoing operations and consist primarily of charges to customers or departments, cost of sales and services, administrative expense and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

The Government reports the following major governmental funds:

The **General Fund** is the Government's primary operating fund which is used to account for all financial resources of the general operations of the Government, except those required to be accounted for in another fund.

The **General Purpose School Fund** is used to account for the receipt and disbursement of federal, state and local funds for education purposes, except those required to be accounted for in another fund.

The **2005 Capital Projects** is used to account for funds received from General Obligation Bonds, Series 2005 for construction and improvement of public facilities and various projects.

The **Urban Development Action Growth (UDAG)** is used to account for loans originally made from funds received from the Tennessee Economic and Community Development and related transactions.

The Government reports the following major proprietary funds:

The **Electric System** is used to account for the electric operations of the Tullahoma Utilities Board.

The **Fiber Optics System** is used to account for the fiber optics operations of the Tullahoma Utilities Board.

The **Waste Water System** is used to account for the waste water operations of the Tullahoma Utilities Board.

The **Water System** is used to account for the water operations of the Tullahoma Utilities Board.

These funds provide services to customers on a self-supporting basis utilizing a rate structure designed to produce revenues sufficient to fund debt service requirements, operating expenses and adequate working capital.

Additionally, the Government reports the following fund types:

An **Internal Service Fund** is used to account for the operations of self-sustaining agencies rendering services to other agencies of the government on a cost reimbursement basis. These services include the medical trust fund used to account for employee health insurance program.

E. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents – Cash and cash equivalents consist of demand deposits, savings accounts and certificates of deposit having an original maturity date of three months or less.

For purposes of reporting cash flows in the Enterprise Fund, cash and cash equivalents includes designated amounts classified on the balance sheet as "Restricted Assets."

Investments – The City is reporting investments at fair value, except for investments with a remaining maturity, at the time of purchase, of one year or less, which are reported on an amortized cost basis. Investments consist of Treasury notes and repurchase agreements.

Inventories and Prepaid Items – Material and supply inventories in the enterprise funds are valued at the lower of cost or market, with cost being determined on an average cost basis. All funds account for inventories using the consumption method. Prepaid items in both the government-wide and fund financial statements represent payments to vendors that reflect costs applicable to future periods.

Receivables – Customer utility accounts receivable of the Enterprise Fund is presented net of an allowance for uncollectible accounts. Delinquent taxes receivable have been included in the balance sheet with offsetting deferred revenue to reflect amounts which were not available at June 30, 2008. Amounts which were available at June 30, 2008 have been recorded as revenue.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Interfund Receivables and Payables and Transactions Between Funds – Short-term amounts owed between funds are classified as “Due to/from other funds.” Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Restricted Assets – Certain accounts of the Enterprise Fund are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants.

Capital Assets – Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are generally defined as assets with an individual cost in excess of \$5,000 and a useful life in excess of one year. Such assets are recorded at historical cost at the time of acquisition. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest is not capitalized on assets acquired with tax-exempt debt.

Depreciation is provided on the straight-line method over the estimated useful lives of the respective assets. The estimated useful lives are as follows:

Utility plant in service	7	-	100	years
Buildings and improvements			30	years
Improvements other than buildings			20	years
Furniture, machinery and equipment	5	-	15	years
Infrastructure	17	-	20	years

Property under capital leases is stated at the lower of the present value of minimum lease payments or the fair market value at the inception of the lease. Once placed in use, such property is amortized on the straight-line method over the shorter of the economic useful life of the asset or the remaining lease term.

The City began prospectively reporting general infrastructure additions (including roadways, bridges, and stormwater systems) after implementation of GASB Statement No. 34 in fiscal year 2003. Also required by GASB Statement No. 34 is retroactive reporting of all major general infrastructure assets based on phase-in periods. This retroactive reporting will include all infrastructure additions made before fiscal year 2003. The City plans to implement retroactive reporting for fiscal year 2008, as required by the Statement.

Appropriations – Appropriations to other funds are accounted for as interfund transfers.

Compensated Absences – City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation leave and sick leave, if vested. After five years of employment, employee sick leave vests at varying percentages up to a maximum of 50% after 10 years of service. Accumulated unpaid vacation pay related to proprietary fund type operations is reported as a liability in the appropriate individual proprietary funds.

School Board employees’ vacation time must be used in each fiscal year and cannot be carried forward to subsequent fiscal years, therefore no adjustment has been made for vacation time. For sick time, non-certified personnel, after a minimum of ten years of service with Tullahoma City Schools, will be paid \$25 for each unused accumulated sick day upon termination of employment by resignation or retirement. Sick time for certified personnel is rolled into their retirement time.

CITY OF TULLAHOMA, TENNESSEE
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Accumulated unpaid vacation and sick pay related to governmental fund type operations that has not matured is reported in the applicable governmental activities in the Statements of Net Assets and Activities, but is not a governmental fund liability, because it is not expected to be liquidated with expendable available resources. The current portion of this debt is estimated based on historical trends. Accumulated unpaid vacation pay related to proprietary fund type operations is reported as a liability in the appropriate individual proprietary funds.

Claims Payable – Losses for medical claim liabilities, as determined in accordance with GASB Statement No. 10 are recorded in the internal service fund. Claims payable include reported claims and an estimated liability for claims incurred but not reported at June 30, 2008.

Reserves, Designations of Fund Balances – Portions of fund balance are not appropriable for expenditure. These include reserves for encumbrances, capital improvements, debt service, and drug enforcement. The various designations of fund balance represent management's proposed use of financial resources.

Bond Premiums, Discounts, and Issuance Costs – In the governmental funds, bond premiums, discounts, and issuance costs are treated as other financing sources or uses or expenditures in the year of issue. In the government-wide and proprietary fund statements, bond premiums, discounts, and issuance costs are deferred and amortized over the life of the bonds.

F. Revenues, Expenditures and Expenses

Property Tax – The City's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the City's legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made.

Assessed values are established by the State of Tennessee at the following rates of assessed market value:

Public Utility Property	55%
Industrial and Commercial Property – Real	30%
Industrial and Commercial Property – Personal	30%
Farm and Residential Property	5%

Taxes are levied at a rate of \$2.44 for property located in Coffee and Franklin Counties per \$100 of assessed valuation.

Payments may be made during the period from October 1 through February 28. Current tax collections of \$8,115,564 for the fiscal year ended June 30, 2008 were approximately 95 percent of the tax levy.

During March of each tax year, delinquent taxes are turned over to the County for collection.

Grants – The City receives grant revenues from various federal, state, and non-profit agencies. The City reports capital contributions, including capital grants, in the Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds as a separate line item after non-operating revenues and expenses. In the Statement of Activities, capital grants and contributions are presented as program revenues.

Estimates – Estimates used in the preparation of financial statements require management to make assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets and Budgetary Accounting

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

- a. On or before the first of May of each year, all agencies of the City submit requests for appropriations to the City Administrator and Finance Director so that a budget may be prepared and submitted to the Board of Mayor and Aldermen.
- b. Prior to July 1, the budget is legally enacted through passage of an ordinance for the General, Special Revenue and Debt Service Funds of the City.
- c. The City Administrator and Finance Director are authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the Mayor and Board of Aldermen. Expenditures may not exceed appropriations at the fund level.
- d. Budgets for all funds use the encumbrance method of accounting whereby encumbrances are treated as expenditures in the year of incurrence of the commitment to purchase. The adjustments to convert budget basis excess revenues over expenditures to GAAP represent the net changes in encumbrances outstanding at year end after consideration is given to prior year encumbrances liquidated during the current year. Budgeted amounts reflected in the accompanying budget and actual comparison are as originally adopted and as amended by the Board. Individual amendments are not material in relation to the original appropriations. Capital Projects Funds adopt their budgets on a project length basis; therefore, budgetary comparison statements on an annual basis would not provide meaningful information and are not presented.
- e. All appropriations which are not expended or encumbered lapse at year-end.

Encumbrances – Information regarding encumbrances is available to assist in the management of commitments against appropriations. Encumbrance accounting is utilized for budgetary control purposes. Encumbrances, however, are not treated as expenditures in the governmental fund financial statements. Outstanding encumbrances at June 30, 2008 are as follows:

Fund	Outstanding Encumbrances
General Fund	\$ 213,279
General Purpose School	330,437
Special Revenue Funds:	
Drug Fund	850
Solid Waste Management	6,572
Capital Projects Fund:	
2005 Capital Projects	1,719,018
	\$ 2,270,156

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

B. Excess Expenditures

For the year ended June 30, 2008, the following funds had total expenditures exceeding total appropriations. These over expenditures were funded by available fund balances.

<u>Budgeted Unit:</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
General Purpose School:			
Special education	\$ 2,296,867	\$ 2,360,748	\$ (63,881)
Vocational education	806,633	909,640	(103,007)
Health services	165,711	180,965	(15,254)
Instructional staff	703,220	718,186	(14,966)
Plant maintenance	929,611	938,090	(8,479)
Capital outlay	476,000	833,741	(357,741)
Debt Service:			
Principal	-	86,848	(86,848)
Interest	-	6,882	(6,882)
Total Education	<u>5,378,042</u>	<u>6,035,100</u>	<u>(657,058)</u>
Federal and State Projects:			
Regular education	803,623	829,463	(25,840)
Vocational education	4,500	11,729	(7,229)
Capital outlay	<u>227,370</u>	<u>228,729</u>	<u>(1,359)</u>
Total Federal and State Projects	<u>1,035,493</u>	<u>1,069,921</u>	<u>(34,428)</u>
Extended School Program	479,767	529,629	(49,862)

C. Deficit Fund Balances

The following fund has a deficit balance as of June 30, 2008:

	<u>Undesignated Fund Balance/Unrestricted Net Assets</u>	<u>Reserved</u>	<u>Total Fund Balance/Total Net Assets</u>
Special Revenue Fund:			
Solid Waste Management	\$ (26,352)	\$ 6,572	\$ (19,780)

The responsibility for funding the above deficit balance is from future user charges.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 3 – DEPOSITS AND INVESTMENTS

The City and component units are authorized by policy to invest funds in financial institutions and direct obligations of the Federal Government. During 2008, the City and component units invested funds that are not immediately needed in certificates of deposit, savings accounts, money market accounts, and the State of Tennessee Local Government Investment Pool. Deposits in financial institutions are required by State Statute to be secured and collateralized by the institutions. The collateral must meet certain requirements and be deposited in an escrow account or in a second bank for the benefit of the City and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. Collateral requirements are not applicable for financial institutions that participate in the State of Tennessee’s collateral pool.

A. Deposits

Custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be returned to it. As of June 30, 2008, School Food Services had \$1,850 in deposits that were not insured or collateralized and were subject to custodial credit risk.

NOTE 4 – AMOUNTS RECEIVABLE

A. Accounts receivable

A summary of accounts receivable as of June 30, 2008 is as follows:

Primary Government:

	Governmental Activities	Business-type Activities	Total
Property tax	\$ 557,895	\$ -	\$ 557,895
Court receivables	612,033	-	612,033
Customer accounts receivable	54,080	1,696,762	1,750,842
Other	168,686	-	168,686
	<u>\$ 1,392,694</u>	<u>\$ 1,696,762</u>	<u>\$ 3,089,456</u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 5 – CAPITAL ASSETS

A. Transaction Summary

Capital asset activity for the year ended June 30, 2008 is as follows:

Primary Government:

Governmental Activities:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 3,742,195	\$ 82,000	\$ -	\$ 3,824,195
Construction in process	456,061	-	(376,909)	79,152
Total capital assets, not being depreciated	<u>4,198,256</u>	<u>82,000</u>	<u>(376,909)</u>	<u>3,903,347</u>
Capital assets, being depreciated				
Buildings and improvements	35,573,619	1,169,044	-	36,742,663
Furniture, machinery, and equipment	9,625,553	1,380,019	(102,662)	10,902,910
Infrastructure	12,474,450	2,184,298	-	14,658,748
Total capital assets, being depreciated	<u>57,673,622</u>	<u>4,733,361</u>	<u>(102,662)</u>	<u>62,304,321</u>
Less accumulated depreciation:				
Buildings and improvements	(21,556,989)	(764,620)	-	(22,321,609)
Furniture, machinery, and equipment	(7,206,056)	(844,112)	93,082	(7,957,086)
Infrastructure	(7,110,136)	(693,782)	-	(7,803,918)
Total accumulated depreciation	<u>(35,873,181)</u>	<u>(2,302,514)</u>	<u>93,082</u>	<u>(38,082,613)</u>
Total capital assets being depreciated, net	<u>21,800,441</u>	<u>2,430,847</u>	<u>(9,580)</u>	<u>24,221,708</u>
Governmental activities capital assets, net	<u>\$ 25,998,697</u>	<u>\$ 2,512,847</u>	<u>\$ (386,489)</u>	<u>\$ 28,125,055</u>

Business-type Activities:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 476,080	\$ -	\$ -	\$ 476,080
Construction in process	1,169,223	8,728,234	(1,889,469)	8,007,988
Total capital assets, not being depreciated	<u>1,645,303</u>	<u>8,728,234</u>	<u>(1,889,469)</u>	<u>8,484,068</u>
Capital assets, being depreciated				
Utility plant in service	44,526,990	1,298,741	(282,494)	45,543,237
Buildings and improvements	14,915,014	118,245	-	15,033,259
Furniture, machinery, and equipment	3,323,774	227,960	(93,294)	3,458,440
Total capital assets, being depreciated	<u>62,765,778</u>	<u>1,644,946</u>	<u>(375,788)</u>	<u>64,034,936</u>
Less accumulated depreciation:				
Utility plant in service	(18,844,127)	(1,345,984)	299,168	(19,890,943)
Buildings and improvements	(8,006,169)	(436,650)	-	(8,442,819)
Furniture, machinery, and equipment	(2,298,322)	(193,548)	84,324	(2,407,546)
Total accumulated depreciation	<u>(29,148,618)</u>	<u>(1,976,182)</u>	<u>383,492</u>	<u>(30,741,308)</u>
Total capital assets being depreciated, net	<u>33,617,160</u>	<u>(331,236)</u>	<u>7,704</u>	<u>33,293,628</u>
Business-type activities capital assets, net	<u>\$ 35,262,463</u>	<u>\$ 8,396,998</u>	<u>\$ (1,881,765)</u>	<u>\$ 41,777,696</u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Component Units:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2008</u>
Capital assets, not being depreciated:				
Land	\$ 1,738,799	\$ -	\$ -	\$ 1,738,799
Construction in process	285,006	592,103	(51,471)	825,638
Total capital assets, not being depreciated	<u>2,023,805</u>	<u>592,103</u>	<u>(51,471)</u>	<u>2,564,437</u>
Capital assets, being depreciated				
Buildings and improvements	3,657,093	66,468	-	3,723,561
Furniture, machinery, and equipment	345,816	-	(3,500)	342,316
Total capital assets, being depreciated	<u>4,002,909</u>	<u>66,468</u>	<u>(3,500)</u>	<u>4,065,877</u>
Less accumulated depreciation:				
Buildings and improvements	(943,445)	(138,858)	-	(1,082,303)
Furniture, machinery, and equipment	(283,175)	(8,184)	3,500	(287,859)
Total accumulated depreciation	<u>(1,226,620)</u>	<u>(147,042)</u>	<u>3,500</u>	<u>(1,370,162)</u>
Total capital assets being depreciated, net	<u>2,776,289</u>	<u>(80,574)</u>	<u>-</u>	<u>2,695,715</u>
Component unit capital assets, net	<u>\$ 4,800,094</u>	<u>\$ 511,529</u>	<u>\$ (51,471)</u>	<u>\$ 5,260,152</u>

B. Depreciation

Depreciation expense was charged to functions/programs as follows:

Primary Government:

Governmental activities:

General government	\$ 887,102
Public works	693,782
Education	707,081
Food Service	14,549
Total depreciation expense, governmental activities	<u>\$ 2,302,514</u>

Business-type activities:

Tullahoma Utilities Board	<u>\$ 1,854,220</u>
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Component Units:

Business-type activities:

Tullahoma Airport Authority	<u>\$ 147,042</u>
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CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 6 – BONDS, NOTES, AND OTHER OBLIGATIONS

A. Transaction Summary

Bonds, notes, and other obligations activity for the year ended June 30, 2008 is as follows:

Primary Government:

Governmental Activities:

	Balance			Balance	Due Within
	July 1, 2007	Additions	Reductions	June 30, 2008	One Year
<u>General Obligation Bonds</u>					
General Obligation School Improvement and Refunding Bonds, Series 1997	\$ 515,000	\$ -	\$ -	\$ 515,000	\$ -
General Obligation Refunding Bonds, Series 1998	5,295,220	-	(565,220)	4,730,000	595,000
General Obligation Refunding Bonds, Series 1999	420,000	-	(420,000)	-	-
General Obligation School Refunding Bonds, Series 2002	6,095,000	-	(30,000)	6,065,000	130,000
General Public Improvement and Refunding Bonds, Series 2005	9,580,000	-	(100,000)	9,480,000	535,000
General Obligation Refunding Bonds, Series 2006	9,320,000	-	(30,000)	9,290,000	20,000
	<u>31,225,220</u>	<u>-</u>	<u>(1,145,220)</u>	<u>30,080,000</u>	<u>1,280,000</u>
Bond premium	123,946	-	(6,712)	117,234	-
Total General Obligation Bonds	<u>31,349,166</u>	<u>-</u>	<u>(1,151,932)</u>	<u>30,197,234</u>	<u>1,280,000</u>
<u>Capital Outlay Notes Payable</u>					
Capital Outlay Note, Series 1995	10,000	-	(10,000)	-	-
Capital Outlay Notes, Series 2007	845,000	-	(70,000)	775,000	72,000
Total Capital Outlay Notes Payable	<u>855,000</u>	<u>-</u>	<u>(80,000)</u>	<u>775,000</u>	<u>72,000</u>
<u>Capital Leases</u>					
HVAC Systems - Schools	208,241	-	(86,848)	121,393	121,393
<u>Other Obligations Payable</u>					
Net pension obligation (TCSDBP)	298,445	111,633	-	410,078	-
Compensated absences	1,084,411	12,246	-	1,096,657	76,766
Total Other Obligations Payable	<u>1,382,856</u>	<u>123,879</u>	<u>-</u>	<u>1,506,735</u>	<u>76,766</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 33,795,263</u>	<u>\$ 123,879</u>	<u>\$ (1,318,780)</u>	<u>\$ 32,600,362</u>	<u>\$ 1,550,159</u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Business-type Activities:

	Balance			Balance	Due Within
	July 1, 2007	Additions	Reductions	June 30, 2008	One Year
<u>Bonds Payable</u>					
Electric System Revenue Bonds, Series 1997	\$ 815,000	\$ -	\$ (145,000)	\$ 670,000	\$ 155,000
Broadband Network Revenue and Tax Bonds, Series 2007	-	16,975,000	-	16,975,000	-
Water and Wastewater Revenue and Tax Refunding Bonds, Series 2002	865,000	-	(650,000)	215,000	215,000
Water and Wastewater Revenue and Tax Bonds, Series 1997	485,000	-	(35,000)	450,000	35,000
	<u>2,165,000</u>	<u>16,975,000</u>	<u>(830,000)</u>	<u>18,310,000</u>	<u>405,000</u>
Less deferred charges, net	(143,098)	-	55,920	(87,178)	(87,178)
Total Bonds Payable	<u>2,021,902</u>	<u>16,975,000</u>	<u>(774,080)</u>	<u>18,222,822</u>	<u>317,822</u>
<u>Notes Payable</u>					
Water System-					
State Loan 76-6, Series 1996C	291,761	-	(101,732)	190,029	109,718
State Loan 76-6A, Series 2003	252,365	-	(65,822)	186,543	68,089
TML Loan 1999	3,837,000	-	(238,000)	3,599,000	246,000
Total Notes Payable - Water System	<u>4,381,126</u>	<u>-</u>	<u>(405,554)</u>	<u>3,975,572</u>	<u>423,807</u>
Wastewater System-					
Loan Fund 319-01, Series 1996C	5,251	-	(1,833)	3,418	1,978
Loan Fund 319-02, Series 2003	67,639	-	(7,267)	60,372	7,687
Loan Fund 319-03, Series 2003	236,961	-	(30,781)	206,180	32,345
State Revolving Loan Fund, 93-053	3,585,928	-	(381,768)	3,204,160	396,540
State Revolving Loan Fund, 94-077	1,733,486	-	(154,680)	1,578,806	160,614
Total Notes Payable - Wastewater System	<u>5,629,265</u>	<u>-</u>	<u>(576,329)</u>	<u>5,052,936</u>	<u>599,164</u>
Total Business-type Activities Long-term Liabilities	<u>\$ 12,032,293</u>	<u>\$ 16,975,000</u>	<u>\$ (1,755,963)</u>	<u>\$ 27,251,330</u>	<u>\$ 1,340,793</u>

Component Units:

UDAG Note Payable	<u>\$ 324,132</u>	<u>\$ -</u>	<u>\$ (7,999)</u>	<u>\$ 316,133</u>	<u>\$ 18,287</u>
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CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

B. Annual Debt Service Requirements

The annual requirements to amortize all general obligation bonds, notes, and revenue bonds outstanding as of June 30, 2008 are as follows:

Primary Government:

Governmental Activities:

June 30,	General Obligation Bonds		Notes Payable		Total Governmental Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,280,000	\$ 1,256,741	\$ 72,000	\$ 33,170	\$ 1,352,000	\$ 1,289,911
2010	1,370,000	1,204,014	76,000	30,088	1,446,000	1,234,102
2011	1,465,000	1,144,529	79,000	26,836	1,544,000	1,171,365
2012	1,625,000	1,076,880	82,000	23,454	1,707,000	1,100,334
2013	1,775,000	1,001,662	86,000	19,945	1,861,000	1,021,607
2014-2018	11,250,000	3,617,005	380,000	41,516	11,630,000	3,658,521
2019-2023	7,240,000	1,634,743	-	-	7,240,000	1,634,743
2024-2026	4,075,000	330,095	-	-	4,075,000	330,095
	<u>30,080,000</u>	<u>11,265,670</u>	<u>775,000</u>	<u>175,009</u>	<u>30,855,000</u>	<u>11,440,679</u>
Bond premium	117,234	-	-	-	117,234	-
	<u>\$ 30,197,234</u>	<u>\$ 11,265,670</u>	<u>\$ 775,000</u>	<u>\$ 175,009</u>	<u>\$ 30,972,234</u>	<u>\$ 11,440,679</u>

Business-type Activities:

June 30,	Revenue Bonds		Notes Payable		Total Proprietary Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 405,000	\$ 425,875	\$ 1,022,971	\$ 316,005	\$ 1,427,971	\$ 741,880
2010	200,000	767,735	1,027,942	273,308	1,227,942	1,041,043
2011	210,000	757,527	957,310	232,123	1,167,310	989,650
2012	920,000	732,737	943,779	197,048	1,863,779	929,785
2013	775,000	691,737	980,293	162,355	1,755,293	854,092
2014-2018	4,390,000	2,932,500	3,388,213	347,421	7,778,213	3,279,921
2019-2023	5,095,000	1,935,213	708,000	32,040	5,803,000	1,967,253
2024-2028	6,315,000	714,985	-	-	6,315,000	714,985
	<u>18,310,000</u>	<u>8,958,309</u>	<u>9,028,508</u>	<u>1,560,300</u>	<u>27,338,508</u>	<u>10,518,609</u>
Deferred charges	(87,178)	-	-	-	(87,178)	-
	<u>\$ 18,222,822</u>	<u>\$ 8,958,309</u>	<u>\$ 9,028,508</u>	<u>\$ 1,560,300</u>	<u>\$ 27,251,330</u>	<u>\$ 10,518,609</u>

Component Units:

June 30,	Notes Payable	
	Principal	Interest
2009	\$ 18,287	\$ 11,713
2010	19,892	10,108
2011	20,600	9,400
2012	21,333	8,667
2013	22,091	7,909
2014-2018	122,817	27,183
2019-2022	91,113	5,358
	<u>\$ 316,133</u>	<u>\$ 80,338</u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

C. Other Debt Information

Primary Government:

Governmental Activities:

General Obligation Bonds and Capital Outlay notes of the Primary Government are secured by the City, which is obligated to levy taxes to the extent necessary to serve this debt.

The City is contingently liable on \$678,578 in debt being serviced by the Duck River Utility Commission, a joint venture. The debt is recorded by the Commission and accordingly not presented above. Notes payable by the Utilities Board to the State of Tennessee includes debt assumed by the Duck River Utility Commission. The balance of the debt assumed by the Duck River Utility Commission and included in notes payable and notes receivable is \$1,309,354 as of June 30, 2008.

The City is secondarily liable for the revenue bonds of the Tullahoma Utilities Board. The primary sources of repayment for the bonds are the board's operating revenues.

Compensated absences are liquidated in the various funds in which the corresponding salary expenditures are paid, primarily the General Fund and General Purpose School Fund. Net pension obligation will primarily be liquidated by the school funds incurring the related employees' compensation, primarily the General Purpose School Fund.

Business-type Activities:

Revenue bond covenants of the Proprietary Fund generally provide that the related bonds are primarily secured by net revenues of the system. Bond covenants relating to the issues require the establishment of various reserve funds for payment of principal and interest, and for renewal and replacement. These reserves have been satisfactorily maintained during 2008.

Component Units:

The Tullahoma Municipal Airport Authority's note payable has a variable rate, determined each November 1 at four percentage points below prime. The interest rate at June 30, 2008 was 3.5%. Future principal and interest payments have been calculated using this rate.

D. Advance and Current Refunding of Bonds

In prior years, the City has defeased certain other obligation bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service requirements of the retired bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. As of June 30, 2008, \$13,440,000 of general obligations bonds are considered defeased.

E. Leases

Primary Government:

The Tullahoma Board of Education entered into a capital lease with Johnson Controls, Inc. in 1999. Under the terms of the agreement, the School System will lease the HVAC systems. At June 30, 2008 the leased equipment is carried in the governmental funds at \$964,017, less accumulated depreciation of \$875,649. A summary of the future minimum lease payments as of June 30, 2008 is as follows:

Fiscal Year 2009	\$ 124,973
Less: Amount imputed as interest at 5.4%	<u>(3,580)</u>
Total capital lease payable	121,393
Less: Current portion of lease payable	<u>(121,393)</u>
Long-term capitalized lease obligation	<u><u>\$ -</u></u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 7 – RETIREMENT PLANS

Primary Government:

Governmental Activities:

A. City Plan

The City offers all employees of the governmental activities (exclusive of employees of the School System) a deferred compensation plan created in accordance with Internal Revenue Code Section 457. Participation in the plan is optional for full-time employees with one year of service. The City contributes 5% of each participating employee's compensation to the plan. Employees can contribute additional funds to the plan through an elective deferred compensation arrangement up to the Section 457 limits. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan assets are held in a qualifying trust for the benefit of each participant. A third-party provider, ICMA-RC, administers the plan and trust. The plan assets are not subject to the claims of the City's general creditors and are not considered assets of the City. For the year ended June 30, 2008, the City contributed \$203,138 to the plan for participating employees, while employees contributed \$\$252,852.

B. Tullahoma Board of Education

The Board of Education (1) maintains a single-employer defined benefit pension plan, the Tullahoma City Schools Defined Benefit Plan (TCSDBP) which covers employees other than teachers, as defined by state statute, and (2) participates in the statewide Tennessee Consolidated Retirement System (TCRS), a multiple-employer, public employer pension plan which covers all of the teachers, as defined by state statute, of the Board.

(1) Tullahoma City Schools Defined Benefit Plan (TCSDBP) Plan Description:

All of the System's employees, except teachers, participate in the Tullahoma City Schools Defined Benefit Plan (TCSDBP) defined benefit pension plan.

Plan assets are invested in annuity contracts with the Principal Financial Group. Separate financial statements of the single-employee pension trust have not been presented as part of these financial statements. That report may be obtained by writing to the Principal Financial Group, 711 West High, Des Moines, IA 50392.

Participants must complete 1000 hours of service and be at least age 18 to be eligible to join the plan.

Normal retirement occurs upon reaching age 65 and completing one year of service. Monthly benefits are equal to 2.3% of average compensation times accrual service. Average compensation is the average of monthly compensation for the 60 highest consecutive compensation dates. In accordance with federal regulations, participants are always fully vested upon reaching their normal retirement date.

Early retirement is available upon reaching age 55 and completing 5 years of vesting service (measured by plan participation). Monthly benefits are calculated using the accrued benefit on retirement date and an actuarially determined reduction factor.

Death benefits are available to participants that are fully or partially vested in an accrued benefit. For a participant age 55 or older, the single-sum death benefit will be equal to the present value of his vested accrued benefit but not less than his required contribution account. If a participant dies prior to age 55, the single-sum death benefit will be equal to his required contribution account. Required contribution accrued benefit is defined as the amount of a participants required contribution account converted to a monthly straight life benefit using UP-1984 mortality without age setback and interest of 5%. Required contribution account is defined as a participant's required contributions with 5% interest per annum compounded annually.

The amount of disability benefits is defined as a monthly pension payable at normal retirement equal to the participant's accrued monthly pension. A participant must have completed 10 years of service at the date of disability in order to be eligible for disability benefits.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

Any employee who terminates after completion of at least 5 years of service and before eligibility for normal retirement or early retirement shall be entitled to the normal retirement benefit, multiplied by the vesting percentage, with income deferred until normal retirement age. A year of vesting shall be credited for each year during which the employee is credited with 1,000 hours of service.

Participants are required to contribute 3% of total annual compensation to the TCSDBP. The System is required to contribute the remaining amounts necessary to fund the TCSDBP. The contribution requirement of plan members and the System are established and may be amended by the Board of Trustees.

a. Selected Pension Information

Additional information regarding annual pension cost and net pension obligation, trend information, and participant information for the plan is summarized on the following schedules.

b. Required Supplementary Information

A Schedule of Funding Progress (Unaudited) and a Schedule of Employer Contributions (Unaudited) as required by GASB No. 25 are included as Required Supplementary Information following the notes to the financial statements.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
SELECTED PENSION INFORMATION

ANNUAL PENSION COST AND NET PENSION OBLIGATION - DECEMBER 31, 2007 (LATEST ACTUARIAL INFORMATION)	<u>TCSDBP</u>
Annual required contribution	\$ 442,254
Interest on net pension obligation	22,383
Adjustment to annual required contribution	<u>(25,270)</u>
Annual pension cost	439,367
Contributions made	<u>327,734</u>
Increase (decrease) in net pension obligation	111,633
Net pension obligation beginning of plan year	<u>298,445</u>
Net pension obligation end of plan year	<u><u>\$ 410,078</u></u>

THREE YEAR TREND INFORMATION

2007*	
Annual pension cost (APC)	\$ 439,367
Percentage of APC contributed	74.59%
Net pension obligation	\$ 410,078
2006*	
Annual pension cost (APC)	\$ 329,053
Percentage of APC contributed	51.73%
Net pension obligation	\$ 439,367
2005*	
Annual pension cost (APC)	\$ 311,465
Percentage of APC contributed	84.56%
Net pension obligation	\$ 139,597

PARTICIPANTS

Active:	
Fully vested	71
Non-vested and partially vested	<u>26</u>
Total active	97
Retirees and beneficiaries receiving benefits	<u>5</u>
Total	<u><u>102</u></u>

* Plan year is January 1 to December 31.

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
SELECTED PENSION INFORMATION**

ACTUARIAL VALUATION DATE	<u>TCSDBP</u>
Valuation date	January 1, 2008
Actuarial cost method	entry age normal
Amortization method	level dollar open
Amortization period	30 years (28 remaining)
Asset valuation method	market
Actuarial assumptions:	
Valuation interest	
Pretirement	7.50%
Postretirement	6.50%
Inflation rate	2.75%
Projected salary increases	4.50%
Interest rate for employee accumulations	5.00%
Retirement age	65
Disability	none

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

(2) Tennessee Consolidated Retirement System (TCRS) Plan Description and Provisions

The Tullahoma City Schools contribute to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits to plan members and their beneficiaries. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at age 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members who are at least 55 years of age or have 25 years of service. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury while the member was in the performance of duty. Members joining the plan on or after July 1, 1979 are vested after five years of service. Members joining prior to July 1, 1979 are vested after four years of service. Benefit provisions are established in the state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Cost of living adjustments (COLA) are provided to retirees each July based on the percentage change in the Consumer Price Index (CPI) during the previous calendar year. No COLA is granted if the CPI increases less than one-half percent. The annual COLA is capped at three percent.

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

Most teachers are required by state statute to contribute 5% of salary to the plan. The employer contribution rate for Tullahoma City Schools is established at an actuarially determined rate. The employer rate for the fiscal year ending June 30, 2008 is 6.24% of annual covered payroll. The employer contribution requirement for Tullahoma City Schools is established and may be amended by the TCRS Board of Trustees. The employer's contribution to TCRS for the years ending June 30, 2008, 2007, and 2006 were \$836,796, \$796,084, \$711,959, respectively, equal to the required contributions for each year.

Business-type Activities:

The Board has a defined contribution plan "Tullahoma Utilities Board Employees' Pension Trust" covering all of its eligible employees. The Board is the plan's administrator. The Board has the right to amend or terminate the plan at any time. This plan includes all full time employees that have attained age 21, and have worked 1,000 hours in a twelve-month period to be eligible on July 1 of that plan year. The employer's costs are determined by the individual level premium cost method using a 6% interest assumption. The financial information for the year ended June 30, 2008 is as follows:

	Target plan	Money Purchase plan
Employee contribution	\$ 58,151	\$ 89,796
Employer contribution	286,591	179,594
Total plan assets as of June 30, 2008	4,511,466	420,380

Employee contributions to the plan are required annually in accordance with the plan document. Participating employees must contribute a minimum of 3% of their compensation not to exceed 50% of the total required contribution.

The payroll for employees covered under the plan for the year ended June 30, 2008 was \$2,613,374. Total payroll was \$3,278,004.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

NOTE 8 – OTHER POST EMPLOYMENT BENEFITS (OPEB)

Primary Government:

Governmental Activities:

A. City Plan

The City of Tullahoma is not presently required to implement GASB Statement 43 and GASB Statement 45, which require disclosure of the nature and size of the City's long-term financial obligations and commitments relative to OPEB. The City plans to implement GASB 43 and GASB 45 as required for its fiscal year ending June 30, 2009.

The City's current defined benefit post employment healthcare plan only provides health insurance benefits, under a fully insured health plan, to eligible retired City employees and their beneficiaries. There are currently only 5 employees that receive post employment benefits. Benefits for the year ended June 30, 2008 totaled \$47,981. The City currently funds the minimal requirements of the OPEB on an annual basis. In planning for implementation of GASB 45 reporting requirement in fiscal year 2009, the City plans to hire an actuarial firm to evaluate the estimated cost of future obligation benefits. The benefits of post employment obligations will be reviewed by the City in the future allowing for any improvements or changes to the present plan.

B. Tullahoma Board of Education

Certified employees of Tullahoma City Schools belonging to the Tennessee Consolidated Retirement System, who have a minimum of ten years of experience with the System in a certified position, who retire with at least 30 years of creditable service, or who retire having reached the age of 60 years with a minimum of ten years of creditable service prior to the beginning of the next contract year, may elect to continue in the Systems medical, dental, and life insurance programs. The ten year minimum employment for certified employees will be waived for certified staff employed prior to the 1999-2000 school year. Non-certified employees of the System who are age 62 with at least 25 years of service in the System, and who meet requirements of the insurance companies for continuation of coverage, may elect to continue in the Systems medical, dental, and life insurance programs. The System will assume the cost of the benefit until age 65 or until covered by Medicare or Medicaid if under the age of 65.

The retiring employees may have the same options for the insurance package as current employees, and the system will assume the same percentage of costs for the package as for the current employees. The System currently pays 100% of premiums. Medical, dental, and life insurance benefits paid by the System for 37 eligible retirees for the year ended June 30, 2008 totaled \$144,052, \$10,004, and \$4,134, respectively.

Business-type Activities:

The Tullahoma Utilities Board does not currently offer retirement benefits except the pension discussed in the preceding note.

NOTE 9 – CONTINGENT LIABILITIES AND COMMITMENTS

A. Federal and State Financial Assistance

The City has received federal and state financial assistance for specific purposes that is subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the programs, the City believes that any required reimbursements would not be material to the basic financial and individual fund and component unit financial statements. Accordingly, no provision has been made for any potential reimbursements to the grantor agencies.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2008

B. Other Commitments

Primary Government:

Governmental Activities:

The City generally follows the practice of recording liabilities from claims and legal actions only when it is probable that both (1) an asset has been impaired and a liability has been incurred, and (2) the amount of loss can be reasonably estimated. Settlement of all potential claims from various lawsuits in which the City is involved would not, in management's estimation, materially affect the financial statements of the City.

Business-type Activities:

In conjunction with the Tennessee Valley Authority, the Power System makes loans to individuals wishing to make their homes more energy efficient. The System is required to use the funds, including repayments, in making further loans, or to reduce the advances to the System by TVA.

NOTE 10 – EMPLOYEE HEALTH INSURANCE AND RISK MANAGEMENT

Primary Government:

Governmental Activities:

During the year ended June 30, 2007, the City chose to discontinue use of the Employee Health Insurance Program and obtained private insurance coverage. Previously, the City had chosen to establish the Employee Health Insurance Program for risks associated with the employees' health insurance plan. The activities of the Employee Health Insurance Program have been accounted for within the internal service fund where assets are set aside for claim settlements. The City retains the risk of loss to a limit of \$25,000 per specific loss. The City had obtained a stop/loss commercial insurance policy to cover claims beyond this liability.

All full-time employees of the governmental activities of the primary government exclusive of employees of the Tullahoma Board of Education were eligible to participate. A premium charge was allocated to each fund that accounts for full-time employees. The charge is based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a reserve for catastrophic losses. That reserve was \$225,180 at June 30, 2008 and is reported as fund equity of the internal service fund. Liabilities of the program are reported in the internal service fund when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Employee Health Insurance Program establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The process used to compute claims liabilities does not necessarily result in an exact amount.

Changes in the balance of claims liabilities during the past three fiscal years are as follows:

Fiscal Year	Claim Liability (Receivable) Beginning of Year	Changes During Year		Claim Liability (Receivable) End of Year
		Claims and Changes in Estimates	Claims Payments	
2005-2006	(336,783)	1,995,752	(1,864,825)	(205,856)
2006-2007	(205,856)	205,856	-	-
2007-2008	-	-	-	-

The City has commercial insurance for all other risks of loss, including general liability, property and casualty, workers' compensation and environmental. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2008**

NOTE 11 – INTERFUND TRANSACTIONS

Interfund transfers for the year ended June 30, 2008 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

Transferred To	Transferred From			
	General Fund	Nonmajor Governmental Funds	Power System	Total
General Fund	-	168,924	396,924	565,848
General Purpose School	7,764,917	-	-	7,764,917
2005 Capital Projects	632,271	-	-	632,271
Nonmajor Governmental Funds	3,729,406	1,503,896	-	5,233,302
Total	<u>\$ 12,126,594</u>	<u>\$ 1,672,820</u>	<u>\$ 396,924</u>	<u>\$ 14,196,338</u>

Interfund receivables and payables and amounts due to and due from funds of the primary government at June 30, 2008 are attributable to unsettled balances at year-end primarily for charges and transfers between funds. Balances at June 30, 2008 are as follows:

Due To	Due From				Due From			Total
	General Fund	Nonmajor Governmental Funds	Fiber System	Water System	Wastewater System	Internal Service Fund		
General Fund	\$ -	\$ 5,400	\$ -	\$ -	\$ -	\$ 1,220	6,620	
General Purpose School	691,914	125,058	-	-	-	-	816,972	
Nonmajor Governmental Funds	251,605	-	-	-	-	-	251,605	
Power System	-	-	180,187	6,752	6,061	-	193,000	
Water System	-	-	73	-	3,106	-	3,179	
Wastewater System	-	-	3	7,498	-	-	7,501	
Total	<u>\$ 943,519</u>	<u>\$ 130,458</u>	<u>\$ 180,263</u>	<u>\$ 14,250</u>	<u>\$ 9,167</u>	<u>\$ 1,220</u>	<u>\$ 1,278,877</u>	

NOTE 12 - SUBSEQUENT EVENTS

In August 2008, the City authorized approximately \$12,000,000 in loans through the Tennessee Municipal Bond Fund. These funds are to be used for education construction projects.

**CITY OF TULLAHOMA, TENNESSEE
REQUIRED SUPPLEMENTARY INFORMATION
SELECTED PENSION INFORMATION**

Unaudited - See Accompanying Accountants' Report

SCHEDULE OF FUNDING PROGRESS - TCSDBP

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Overfunded (Underfunded) AAL	Funded Ratio	Covered Payroll	Unfunded AAL as a Percentage of Covered Payroll
January 1, 2003	\$ 1,524,160	\$ 3,111,132	\$ (1,586,972)	48.99%	\$ 2,256,294	70.34%
January 1, 2004	1,827,450	3,630,770	(1,803,320)	50.33%	2,303,446	78.29%
January 1, 2005	2,157,555	3,923,687	(1,766,132)	54.99%	2,297,918	76.86%
January 1, 2006	2,483,891	4,309,858	(1,825,967)	57.63%	2,253,954	81.01%
January 1, 2007	2,931,772	5,497,629	(2,565,857)	57.89%	2,272,130	100.88%
January 1, 2008	3,339,880	6,040,767	(2,700,887)	55.29%	2,314,275	116.71%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - TCSDBP

Year Ended December 31,	Annual Required Contribution	Percentage Contributed
2003	\$ 270,502	77.00%
2004	307,476	99.00%
2005	312,088	75.74%
2006	330,403	51.51%
2007	442,254	74.11%
2008	464,393	(a)

(a) Plan year is January 1 to December 31, therefore the contribution period is still open and contributions can still be made at the System's fiscal year end.



CITY OF TULLAHOMA, TENNESSEE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2008

	Special Revenue Funds					Debt Service		Capital Projects Funds				Total Nonmajor Governmental Funds	
	School Federal and State Projects	School Food Services	Extended School Program	Solid Waste Management	Drug Enforcement	USDA Revolving Loans	General Debt Service	Education Debt Service	Education Capital Projects	1999 Capital Projects	Industrial Development Projects		2006 Capital Projects
ASSETS:													
Cash and cash equivalents	\$ -	\$ 240,114	\$ 83,627	\$ 1,823	\$ 170,815	\$ 14,996	\$ 3,790	\$ 1,102,305	\$ 770	\$ 12,948	\$ 165,580	\$ 7,655	\$ 1,804,423
Receivables	-	14,418	25,476	28,604	-	-	-	-	-	-	-	-	68,498
Allowance for doubtful accounts	-	-	(2,907)	(9,439)	-	-	-	-	-	-	-	-	(12,346)
Accrued interest receivable	-	-	-	-	-	-	-	9,838	-	-	-	-	9,838
Notes receivable	-	-	-	-	-	7,055	-	-	-	-	-	-	7,055
Due from other governments	235,312	81,662	26,917	15,843	-	-	-	-	-	-	-	-	359,734
Due from other funds of primary government	-	-	-	-	-	-	-	251,605	-	-	-	-	251,605
Due from component units	-	-	-	-	-	10,000	-	-	-	19,404	-	-	29,404
Total assets	\$ 235,312	\$ 336,194	\$ 133,113	\$ 36,831	\$ 170,815	\$ 32,051	\$ 3,790	\$ 1,363,748	\$ 770	\$ 12,948	\$ 184,984	\$ 7,655	\$ 2,518,211
LIABILITIES:													
Accrued liabilities	\$ -	\$ -	\$ -	\$ 20,567	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,567
Accrued payroll	76,451	-	-	-	-	-	-	-	-	-	-	-	76,451
Accounts payable	7,551	-	-	36,044	40,156	330	-	-	-	-	-	-	84,081
Deferred revenue	-	-	-	-	-	22,055	-	-	-	-	-	-	22,055
Due to other funds of the primary government	125,058	-	-	-	-	-	-	-	-	5,400	-	-	130,458
Total liabilities	209,060	-	-	56,611	40,156	22,385	-	-	-	5,400	-	-	333,612
FUND BALANCES:													
Reserved for:													
Encumbrances	-	-	-	6,572	850	-	-	-	-	-	-	-	7,422
Debt service	-	-	-	-	-	-	3,790	1,363,748	-	-	-	-	1,367,538
Capital improvements	-	-	-	-	-	-	-	-	770	12,948	179,584	7,655	200,957
Drug enforcement	-	-	-	-	129,809	-	-	-	-	-	-	-	129,809
Grant projects	26,252	-	-	-	-	9,666	-	-	-	-	-	-	35,918
Special Revenue Funds:													
Unreserved	-	336,194	133,113	(26,352)	-	-	-	-	-	-	-	-	442,955
Total fund balances	26,252	336,194	133,113	(19,780)	130,659	9,666	3,790	1,363,748	770	12,948	179,584	7,655	2,184,599
Total liabilities and fund balances	\$ 235,312	\$ 336,194	\$ 133,113	\$ 36,831	\$ 170,815	\$ 32,051	\$ 3,790	\$ 1,363,748	\$ 770	\$ 12,948	\$ 184,984	\$ 7,655	\$ 2,518,211

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds						Debt Service		Capital Projects Funds				Total Nonmajor Governmental Funds
	School Federal and State Projects	School Food Services	Extended School Program	Solid Waste Management	Drug Enforcement	USDA Revolving Loans	General Debt Service	Education Debt Service	Education Capital Projects	1999 Capital Projects	Industrial Development Projects	2006 Capital Projects	
REVENUES:													
Intergovernmental	\$ 1,975,165	\$ 648,441	\$ 26,918	\$ 15,843	\$ -	\$ 17,055	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,683,422
Charges for services	-	845,001	460,943	575,730	-	-	-	-	-	-	-	-	1,881,674
Investment income	-	-	-	-	8,274	-	-	39,008	-	358	-	-	47,640
Proceeds from notes	-	-	-	-	-	-	-	-	-	-	-	-	-
Other revenues	-	11,572	32,441	244,653	29,998	26	-	-	-	-	-	-	318,690
Total revenues	1,975,165	1,505,014	520,302	836,226	38,272	17,081	-	39,008	-	358	-	-	4,931,426
EXPENDITURES:													
Current:													
Education:													
Regular education	829,463	-	-	-	-	-	-	-	-	-	-	-	829,463
Special education	780,764	-	-	-	-	-	-	-	-	-	-	-	780,764
Vocational education	11,729	-	-	-	-	-	-	-	-	-	-	-	11,729
Other student support	18,139	-	-	-	-	-	-	-	-	-	-	-	18,139
Instructional staff	106,341	-	-	-	-	-	-	-	-	-	-	-	106,341
Program costs	-	1,599,778	529,629	1,832,253	29,042	360	-	-	-	-	54,294	-	4,045,356
Debt service:													
Principal retirement	-	-	-	-	-	-	1,225,220	-	-	-	-	-	1,225,220
Interest	-	-	-	-	-	-	1,346,502	-	-	-	-	-	1,346,502
Fiscal charges	-	-	-	-	-	-	2,599	-	-	-	-	-	2,599
Capital outlay	228,729	10,636	-	-	153,115	-	-	-	53,075	-	-	-	445,555
Loans disbursed	-	-	-	-	-	7,055	-	-	-	-	-	-	7,055
Total expenditures	1,975,165	1,610,414	529,629	1,832,253	182,157	7,415	2,574,321	-	53,075	-	54,294	-	8,818,723
Excess (deficiency) revenues over (under) expenditures	-	(105,400)	(9,327)	(996,027)	(143,885)	9,666	(2,574,321)	39,008	(53,075)	358	(54,294)	-	(3,887,297)
OTHER FINANCING SOURCES (USES):													
Transfers in	-	-	-	1,186,000	-	-	2,571,722	1,475,580	-	-	-	-	5,233,302
Transfers out	-	-	-	(168,924)	-	-	-	(1,503,896)	-	-	-	-	(1,672,820)
Total other financing sources (uses)	-	-	-	1,017,076	-	-	2,571,722	(28,316)	-	-	-	-	3,560,482
Net change in fund balances	-	(105,400)	(9,327)	21,049	(143,885)	9,666	(2,599)	10,692	(53,075)	358	(54,294)	-	(326,815)
Fund balance, July 1, 2007	26,252	441,594	142,440	(40,829)	274,544	-	6,389	1,353,056	53,845	12,390	233,878	7,655	2,511,414
Fund balance, June 30, 2008	\$ 26,252	\$ 336,194	\$ 133,113	\$ (19,780)	\$ 130,659	\$ 9,666	\$ 3,790	\$ 1,363,748	\$ 770	\$ 12,948	\$ 179,584	\$ 7,655	\$ 2,184,599

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
SCHOOL FEDERAL AND STATE PROJECTS
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental							
State and federal	\$ 1,975,165	\$ -	\$ -	\$ 1,975,165	\$ 1,877,646	\$ 1,877,646	\$ 97,519
Total revenues	<u>1,975,165</u>	<u>-</u>	<u>-</u>	<u>1,975,165</u>	<u>1,877,646</u>	<u>1,877,646</u>	<u>97,519</u>
EXPENDITURES:							
Regular education							
Current:							
Salaries	622,791	-	-	622,791	616,656	616,656	(6,135)
Payroll taxes	41,773	-	-	41,773	47,083	47,083	5,310
Benefits	143,605	-	-	143,605	109,884	109,884	(33,721)
Supplies	21,294	-	-	21,294	30,000	30,000	8,706
Total Regular Education	<u>829,463</u>	<u>-</u>	<u>-</u>	<u>829,463</u>	<u>803,623</u>	<u>803,623</u>	<u>(25,840)</u>
Special education							
Current:							
Salaries	532,622	-	-	532,622	538,964	538,964	6,342
Payroll taxes	37,605	-	-	37,605	38,300	38,300	695
Benefits	186,708	-	-	186,708	185,168	185,168	(1,540)
Contract Services	20,358	-	-	20,358	15,300	15,300	(5,058)
Travel	3,471	-	-	3,471	5,123	5,123	1,652
Total Special Education	<u>780,764</u>	<u>-</u>	<u>-</u>	<u>780,764</u>	<u>782,855</u>	<u>782,855</u>	<u>2,091</u>
Vocational education							
Current:							
Travel	5,130	-	-	5,130	500	500	(4,630)
Supplies	2,405	-	-	2,405	1,000	1,000	(1,405)
Other	4,194	-	-	4,194	3,000	3,000	(1,194)
Total Vocational Education	<u>11,729</u>	<u>-</u>	<u>-</u>	<u>11,729</u>	<u>4,500</u>	<u>4,500</u>	<u>(7,229)</u>
Other student support							
Current:							
Salaries	-	-	-	-	250	250	250
Travel	3,725	-	-	3,725	10,000	10,000	6,275
Other	14,414	-	-	14,414	15,641	15,641	1,227
Total Other Student Support	<u>18,139</u>	<u>-</u>	<u>-</u>	<u>18,139</u>	<u>25,891</u>	<u>25,891</u>	<u>7,752</u>
Instructional staff							
Current:							
Travel	106,341	-	-	106,341	135,027	135,027	28,686
Total Instructional Staff	<u>106,341</u>	<u>-</u>	<u>-</u>	<u>106,341</u>	<u>135,027</u>	<u>135,027</u>	<u>28,686</u>
Capital Outlay	<u>228,729</u>	<u>-</u>	<u>-</u>	<u>228,729</u>	<u>227,370</u>	<u>227,370</u>	<u>(1,359)</u>
Total Expenditures	<u>1,975,165</u>	<u>-</u>	<u>-</u>	<u>1,975,165</u>	<u>1,979,266</u>	<u>1,979,266</u>	<u>4,101</u>
Net change in fund balance	-	-	-	-	(101,620)	(101,620)	93,418
Fund balance, July 1, 2007	<u>26,252</u>	<u>-</u>	<u>-</u>	<u>26,252</u>	<u>26,252</u>	<u>26,252</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ 26,252</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,252</u>	<u>\$ (75,368)</u>	<u>\$ (75,368)</u>	<u>\$ 93,418</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
SCHOOL FOOD SERVICES
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental:							
State and federal	\$ 648,441	\$ -	\$ -	\$ 648,441	\$ 731,000	\$ 731,000	\$ (82,559)
Charges for services	845,001	-	-	845,001	1,020,000	1,020,000	(174,999)
Interest income	11,572	-	-	11,572	9,000	9,000	2,572
Total revenues	<u>1,505,014</u>	<u>-</u>	<u>-</u>	<u>1,505,014</u>	<u>1,760,000</u>	<u>1,760,000</u>	<u>(254,986)</u>
EXPENDITURES:							
Food services							
Current:							
Salaries	587,291	-	-	587,291	620,200	620,200	32,909
Payroll taxes	39,987	-	-	39,987	49,000	49,000	9,013
Benefits	172,675	-	-	172,675	180,000	180,000	7,325
Contract Services	9,154	-	-	9,154	25,000	25,000	15,846
Maintenance and Repairs	2,039	-	-	2,039	10,000	10,000	7,961
Travel	6,461	-	-	6,461	6,000	6,000	(461)
Supplies	707,295	-	-	707,295	720,000	720,000	12,705
Other	74,876	-	-	74,876	100,000	100,000	25,124
Total Food Service	<u>1,599,778</u>	<u>-</u>	<u>-</u>	<u>1,599,778</u>	<u>1,710,200</u>	<u>1,710,200</u>	<u>110,422</u>
Capital Outlay	10,636	-	-	10,636	49,800	49,800	39,164
Total expenditures	<u>1,610,414</u>	<u>-</u>	<u>-</u>	<u>1,610,414</u>	<u>1,760,000</u>	<u>1,760,000</u>	<u>149,586</u>
Net change in fund balance	(105,400)	-	-	(105,400)	-	-	(105,400)
Fund balance, July 1, 2007	441,594	-	-	441,594	441,594	441,594	-
Fund balance, June 30, 2008	<u>\$ 336,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 336,194</u>	<u>\$ 441,594</u>	<u>\$ 441,594</u>	<u>\$ (105,400)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
EXTENDED SCHOOL PROGRAM
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental:							
State and federal	\$ 26,918	\$ -	\$ -	\$ 26,918	\$ -	\$ -	26,918
Charges for services	460,943	-	-	460,943	479,767	479,767	(18,824)
Interest income	1,726	-	-	1,726	-	-	1,726
Other income	30,715	-	-	30,715	-	-	30,715
Total revenues	<u>520,302</u>	<u>-</u>	<u>-</u>	<u>520,302</u>	<u>479,767</u>	<u>479,767</u>	<u>40,535</u>
EXPENDITURES:							
Extended School Program:							
Current:							
Salaries	366,161	-	-	366,161	367,710	367,710	1,549
Payroll taxes	22,458	-	-	22,458	23,072	23,072	614
Benefits	24,009	-	-	24,009	12,100	12,100	(11,909)
Supplies	67,363	-	-	67,363	54,000	54,000	(13,363)
Other	49,638	-	-	49,638	22,885	22,885	(26,753)
Total Extended School Program	<u>529,629</u>	<u>-</u>	<u>-</u>	<u>529,629</u>	<u>479,767</u>	<u>479,767</u>	<u>(49,862)</u>
Net change in fund balance	(9,327)	-	-	(9,327)	-	-	90,397
Fund balance, July 1, 2007	<u>142,440</u>	<u>-</u>	<u>-</u>	<u>142,440</u>	<u>142,440</u>	<u>142,440</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ 133,113</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 133,113</u>	<u>\$ 142,440</u>	<u>\$ 142,440</u>	<u>\$ 90,397</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
SOLID WASTE MANAGEMENT
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental	\$ 15,843	\$ -	\$ -	\$ 15,843	\$ -	\$ -	\$ 15,843
Charges for services	575,730	-	-	575,730	576,700	577,700	(1,970)
Other revenues	244,653	-	-	244,653	140,000	246,327	(1,674)
Total revenues	836,226	-	-	836,226	716,700	824,027	12,199
EXPENDITURES:							
Current:							
Program costs							
Salaries	684,426	-	-	684,426	662,926	684,442	16
Payroll taxes	52,201	-	-	52,201	50,791	52,205	4
Benefits	227,834	-	-	227,834	245,397	228,303	469
Contract and professional	23,839	-	4,117	27,956	28,000	28,000	44
Repairs and Maintenance	190,019	-	1,637	191,656	78,200	191,730	74
Supplies	16,211	(369)	818	16,660	18,250	16,990	330
Uniforms	8,834	-	-	8,834	9,250	8,900	66
Gas and oil	133,071	-	-	133,071	105,200	133,175	104
Parts and supplies	180	-	-	180	300	300	120
Operating insurance	53,745	-	-	53,745	58,584	54,333	588
Landfill	385,578	-	-	385,578	392,000	386,050	472
Other	56,315	-	-	56,315	39,109	56,369	254
Total expenditures	1,832,253	(369)	6,572	1,838,456	1,689,007	1,840,997	2,541
Excess (deficiency) of revenues over (under) expenditures	(996,027)	369	(6,572)	(1,002,230)	(972,307)	(1,016,970)	9,658
OTHER FINANCING SOURCES (USES):							
Transfers in	1,186,000	-	-	1,186,000	1,141,319	1,186,000	-
Transfers out	(168,924)	-	-	(168,924)	(169,012)	(169,030)	106
	1,017,076	-	-	1,017,076	972,307	1,016,970	106
Net change in fund balance	21,049	369	(6,572)	14,846	-	-	9,764
Fund balance, July 1, 2007	(40,829)	(369)	-	(41,198)	(40,829)	(40,829)	(369)
Fund balance, June 30, 2008	\$ (19,780)	\$ -	\$ (6,572)	\$ (26,352)	\$ (40,829)	\$ (40,829)	\$ 9,395

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
DRUG ENFORCEMENT
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Drug Fines	\$ 26,600	\$ -	\$ -	\$ 26,600	\$ 27,000	\$ 27,000	\$ (400)
State Substance Tax	-	-	-	-	1,000	1,000	(1,000)
Confiscated Money	3,398	-	-	3,398	8,000	8,000	(4,602)
Interest Income	8,274	-	-	8,274	4,000	4,000	4,274
Total revenues	<u>38,272</u>	<u>-</u>	<u>-</u>	<u>38,272</u>	<u>40,000</u>	<u>40,000</u>	<u>(1,728)</u>
EXPENDITURES:							
Current:							
Program costs							
Salaries	3,824	-	-	3,824	3,000	3,900	76
Payroll Taxes	306	-	-	306	230	310	4
Telephone and Utility	771	-	-	771	1,000	800	29
Repairs and Maintenance	-	-	-	-	1,000	100	100
Travel and Training	2,000	-	-	2,000	2,000	2,000	-
Supplies	11,081	(274)	-	10,807	10,350	11,550	743
Other	11,060	-	-	11,060	3,700	11,200	140
Total current	<u>29,042</u>	<u>(274)</u>	<u>-</u>	<u>28,768</u>	<u>21,280</u>	<u>29,860</u>	<u>1,092</u>
Capital outlay	153,115	-	850	153,965	116,000	155,000	1,035
Total expenditures	<u>182,157</u>	<u>(274)</u>	<u>850</u>	<u>182,733</u>	<u>137,280</u>	<u>184,860</u>	<u>2,127</u>
Net change in fund balance	(143,885)	274	(850)	(144,461)	(97,280)	(144,860)	399
Fund balance, July 1, 2007	274,544	(274)	-	274,270	274,544	274,544	274
Fund balance, June 30, 2008	<u>\$ 130,659</u>	<u>\$ -</u>	<u>\$ (850)</u>	<u>\$ 129,809</u>	<u>\$ 177,264</u>	<u>\$ 129,684</u>	<u>\$ 125</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
USDA REVOLVING LOANS
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental:							
State and federal grants	\$ 7,055	\$ -	\$ -	\$ 7,055	\$ -	\$ 209,000	\$ (201,945)
Other local agencies	10,000	-	-	10,000	-	-	10,000
Note repayments	-	-	-	-	-	8,000	(8,000)
Interest Income	-	-	-	-	-	-	-
Other revenues	26	-	-	26	-	1,100	(1,074)
Total revenues	<u>17,081</u>	<u>-</u>	<u>-</u>	<u>17,081</u>	<u>-</u>	<u>218,100</u>	<u>(201,019)</u>
EXPENDITURES:							
Current:							
Program costs	360	-	-	360	-	6,100	5,740
Loans disbursed	7,055	-	-	7,055	-	212,000	204,945
Total expenditures	<u>7,415</u>	<u>-</u>	<u>-</u>	<u>7,415</u>	<u>-</u>	<u>218,100</u>	<u>210,685</u>
Net change in fund balance	9,666	-	-	9,666	-	-	(411,704)
Fund balance, July 1, 2007	-	-	-	-	-	-	-
Fund balance, June 30, 2008	<u>\$ 9,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,666</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (411,704)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
 BUDGETARY BASIS (NON-GAAP)
 GENERAL DEBT SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES:							
Debt service:							
Principal Retirement	1,225,220	-	-	1,225,220	1,225,000	1,225,000	(220)
Interest	1,346,502	-	-	1,346,502	1,346,722	1,346,722	220
Fiscal charges	2,599	-	-	2,599	3,000	3,000	401
Total expenditures	<u>2,574,321</u>	<u>-</u>	<u>-</u>	<u>2,574,321</u>	<u>2,574,722</u>	<u>2,574,722</u>	<u>401</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,574,321)</u>	<u>-</u>	<u>-</u>	<u>(2,574,321)</u>	<u>(2,574,722)</u>	<u>(2,574,722)</u>	<u>401</u>
OTHER FINANCING SOURCES (USES):							
Transfers in	2,571,722	-	-	2,571,722	2,574,722	2,574,722	(3,000)
Net change in fund balance	(2,599)	-	-	(2,599)	-	-	(2,599)
Fund balance, July 1, 2007	<u>6,389</u>	<u>6,389</u>	<u>6,389</u>	<u>6,389</u>	<u>6,389</u>	<u>6,389</u>	<u>-</u>
Fund balance, June 30, 2008	<u>\$ 3,790</u>	<u>\$ 6,389</u>	<u>\$ 6,389</u>	<u>\$ 3,790</u>	<u>\$ 6,389</u>	<u>\$ 6,389</u>	<u>\$ (2,599)</u>

The accompanying notes are an integral part of this financial statement.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
BUDGETARY BASIS (NON-GAAP)
EDUCATION DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2008

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2007	Add: Encumbrances June 30, 2008	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Interest income	\$ 39,008	\$ -	\$ -	\$ 39,008	\$ 3,786	\$ 3,786	\$ 35,222
EXPENDITURES:							
Program costs	-	-	-	-	2,400	2,400	2,400
Excess revenues over (under) expenditures	39,008	-	-	39,008	1,386	1,386	37,622
OTHER FINANCING SOURCES (USES):							
Transfers in	1,475,580	-	-	1,475,580	1,502,510	1,502,510	(26,930)
Transfers out	(1,503,896)	-	-	(1,503,896)	(1,503,896)	(1,503,896)	-
Total other financing sources (uses)	(28,316)	-	-	(28,316)	(1,386)	(1,386)	(26,930)
Net change in fund balance	10,692	-	-	10,692	-	-	10,692
Fund balance, July 1, 2007	1,353,056	-	-	1,353,056	1,353,056	1,353,056	-
Fund balance, June 30, 2008	\$ 1,363,748	\$ -	\$ -	\$ 1,363,748	\$ 1,353,056	\$ 1,353,056	\$ 10,692

The accompanying notes are an integral part of these financial statements.

CITY OF TULLAHOMA, TENNESSEE
DESCRIPTION OF NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

SCHOOL FEDERAL AND STATE PROJECTS FUND

To account for federal and state funds to be utilized in carrying out the special terms of various state and federal grants

SCHOOL FOOD SERVICES FUND

To account for funds received from the federal and state governments and from sale of meals from the school system food service operations

EXTENDED SCHOOL PROGRAM FUND

To account for funds received from participants in the school system's extended school program.

SOLID WASTE FUND

To account for the receipts from garbage collection fees and expenses related to the City's solid waste activities.

DRUG FUND

To account for funds confiscated by the City in drug law enforcement actions.

USDA REVOLVING LOAN FUND

To account for loans originally made from funds received from Rural Development.

CAPITAL PROJECTS FUNDS

EDUCATION CAPITAL PROJECTS FUND

To account for the use of bond proceeds for the construction and equipping of various school facilities.

1999 CAPITAL PROJECTS FUND

To account for the use of bond proceeds for construction of public facilities and other public works projects.

INDUSTRIAL DEVELOPMENT PROJECTS

To account for the use of funds for projects to attract industrial development.

DEBT SERVICE FUNDS

GENERAL DEBT SERVICE FUND

To account for proceeds from the issuance of debt and funds received to make debt service payments.

EDUCATION DEBT SERVICE FUND

To account for special sales tax receipts which fund the School Board's portion of debt service payments.



CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF BONDS AND NOTES PAYABLE - PRIMARY GOVERNMENT
JUNE 30, 2008

Description	Interest Rate	Date of Issue	Date of Final Maturity	Amount of Issue	Principal Amount Outstanding June 30, 2008	Interest to Maturity as of June 30, 2008
Governmental Activities:						
<u>General Obligation Bonds Payable</u>						
General Obligation School Improvement and Refunding, Series 1997	5.4%-5.5%	March 1, 1997	October 1, 2017	\$ 515,000	\$ 515,000	\$ 227,326
General Obligation Refunding Bonds, Series 1998	4%-5.1%	December 1, 1997	October 1, 2014	7,845,000	4,730,000	866,286
General Obligation School Refunding, Series 2002	3.35%-4.7%	June 1, 2002	October 1, 2017	6,265,000	6,065,000	1,946,862
General Public Improvement and Refunding Bonds, Series 2005	3.25%-5%	November 1, 2005	April 1, 2026	9,880,000	9,480,000	3,170,769
General Obligation Refunding Bonds, Series 2006	3.5%-4%	December 15, 2006	April 1, 2026	9,320,000	9,290,000	5,054,427
Total General Obligation Bonds Payable - Governmental Activities				33,825,000	30,080,000	11,265,670
<u>Notes Payable</u>						
Capital Outlay Note, Series 2007	4.28%	February 7, 2007	February 1, 2017	845,000	775,000	175,009
Total Bonds and Notes Payable - Governmental Activities				<u>\$ 34,670,000</u>	<u>\$ 30,855,000</u>	<u>\$ 11,440,679</u>
Business-type Activities:						
<u>Revenue Bonds Payable</u>						
Electric System Revenue Bonds, Series 1997	4.7%-5.1%	March 1, 1997	April 1, 2012	\$ 1,440,000	\$ 670,000	\$ 86,980
Fiber Optics System Revenue and Tax Bonds, Series 2007	4.0%-4.375%	August 1, 2007	July 1, 2027	16,975,000	16,975,000	8,728,968
Water and Wastewater Revenue and Tax Bonds, Series 1997	4.75%-6.5%	July 1, 1997	October 1, 2017	720,000	450,000	133,761
Water and Wastewater Revenue and Tax Refunding Bonds, Series 2002	3%-4%	June 1, 2002	June 1, 2009	3,790,000	215,000	8,600
Total Revenue Bonds Payable - Business-type Activities				22,925,000	18,310,000	8,958,309
<u>Notes Payable</u>						
Wastewater System-						
Loan Fund 319-01, Series 1996C	7.25%-10.03%	March 1, 1996	March 1, 2010	21,525	3,418	490
Loan Fund 319-02, Series 2003	7.25%-10.03%	March 1, 2003	March 1, 2015	94,844	60,372	14,148
Loan Fund 319-03, Series 2003	7.25%-10.03%	March 1, 2003	March 1, 2014	354,177	206,180	36,468
State Revolving Loan Fund, 93-053	3.80%	September 1, 1995	August 1, 2015	7,157,000	3,204,160	461,120
State Revolving Loan Fund, 94-077	3.80%	January 1, 1997	December 1, 2016	3,050,000	1,578,806	267,738
Water System-						
State Loan 76-6, Series 1996C	5%-8.43%	March 1, 1996	March 1, 2010	1,217,597	190,029	22,077
State Loan 76-6A, Series 2003	5%-8.43%	March 1, 2003	March 1, 2011	513,399	186,543	12,159
TML Loan 1999	4.50%	May 25, 1999	May 25, 2020	4,708,000	3,599,000	746,100
Total Notes Payable - Business-type Activities				17,116,542	9,028,508	1,560,300
Total Bonds and Notes Payable - Business-type Activities				<u>\$ 40,041,542</u>	<u>\$ 27,338,508</u>	<u>\$ 10,518,609</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION BONDS
JUNE 30, 2008

Year	General Obligation School Refunding and Improvement Bonds Series 1997		General Obligation Refunding Bonds, Series 1998						General Obligation School Refunding Bonds Series 2002	
	Principal	Interest	General Fund		School Fund		Total		Principal	Interest
			Principal	Interest	Principal	Interest	Principal	Interest		
2009	\$ -	\$ 28,278	\$ 25,585	\$ 9,061	\$ 569,415	\$ 209,928	\$ 595,000	\$ 218,989	\$ 130,000	\$ 271,975
2010	-	28,278	26,660	7,820	593,340	182,306	620,000	190,126	180,000	266,198
2011	-	28,278	27,735	6,515	617,265	153,252	645,000	159,767	230,000	257,710
2012	10,000	28,003	29,025	5,131	645,975	122,450	675,000	127,581	320,000	246,022
2013	15,000	27,329	30,315	3,655	674,685	89,595	705,000	93,250	410,000	230,510
2014	30,000	26,110	31,390	2,105	698,610	55,088	730,000	57,193	490,000	211,263
2015	40,000	24,200	25,612	656	734,388	18,724	760,000	19,380	575,000	187,934
2016	120,000	19,800	-	-	-	-	-	-	1,090,000	148,980
2017	140,000	12,650	-	-	-	-	-	-	1,260,000	93,840
2018	160,000	4,400	-	-	-	-	-	-	1,380,000	32,430
2019	-	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-	-
	<u>\$ 515,000</u>	<u>\$ 227,326</u>	<u>\$ 196,322</u>	<u>\$ 34,943</u>	<u>\$ 4,533,678</u>	<u>\$ 831,343</u>	<u>\$ 4,730,000</u>	<u>\$ 866,286</u>	<u>\$ 6,065,000</u>	<u>\$ 1,946,862</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION BONDS
JUNE 30, 2008

Year	General Obligation Public Improvement Bonds Series 2005		General Obligation Refunding Bonds Series 2006		Total General Obligation Bonds		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	535,000	374,036	20,000	363,463	1,280,000	1,256,741	2,536,741
2010	550,000	356,649	20,000	362,763	1,370,000	1,204,014	2,574,014
2011	570,000	336,711	20,000	362,063	1,465,000	1,144,529	2,609,529
2012	600,000	313,911	20,000	361,363	1,625,000	1,076,880	2,701,880
2013	615,000	289,911	30,000	360,662	1,775,000	1,001,662	2,776,662
2014	640,000	263,005	30,000	359,537	1,920,000	917,108	2,837,108
2015	675,000	231,005	30,000	358,413	2,080,000	820,932	2,900,932
2016	710,000	197,255	30,000	357,288	1,950,000	723,323	2,673,323
2017	740,000	161,755	35,000	356,162	2,175,000	624,407	2,799,407
2018	765,000	139,555	820,000	354,850	3,125,000	531,235	3,656,235
2019	800,000	116,605	1,065,000	324,100	1,865,000	440,705	2,305,705
2020	285,000	92,605	1,055,000	284,163	1,340,000	376,768	1,716,768
2021	300,000	81,490	1,040,000	244,600	1,340,000	326,090	1,666,090
2022	310,000	69,490	1,035,000	203,000	1,345,000	272,490	1,617,490
2023	325,000	57,090	1,025,000	161,600	1,350,000	218,690	1,568,690
2024	340,000	44,090	1,015,000	120,600	1,355,000	164,690	1,519,690
2025	350,000	30,065	1,005,000	80,000	1,355,000	110,065	1,465,065
2026	370,000	15,540	995,000	39,800	1,365,000	55,340	1,420,340
	<u>\$ 9,480,000</u>	<u>\$ 3,170,769</u>	<u>\$ 9,290,000</u>	<u>\$ 5,054,427</u>	<u>\$ 30,080,000</u>	<u>\$ 11,265,670</u>	<u>\$ 41,345,670</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
CAPITAL OUTLAY NOTES
JUNE 30, 2008

Capital Outlay Notes			
Series 2007			
(2-7-07)			
<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 72,000	\$ 33,170	\$ 105,170
2010	76,000	30,088	106,088
2011	79,000	26,836	105,836
2012	82,000	23,454	105,454
2013	86,000	19,945	105,945
2014	89,000	16,264	105,264
2015	93,000	12,455	105,455
2016	97,000	8,474	105,474
2017	101,000	4,323	105,323
	<u>\$ 775,000</u>	<u>\$ 175,009</u>	<u>\$ 950,009</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 TULLAHOMA AIRPORT AUTHORITY
 JUNE 30, 2008

City of Tullahoma UDAG Loan (11-1-05)			
Year	Principal	Interest	Total Notes
2009	\$ 18,287	\$ 11,713	\$ 30,000
2010	19,892	10,108	30,000
2011	20,600	9,400	30,000
2012	21,333	8,667	30,000
2013	22,091	7,909	30,000
2014	22,877	7,123	30,000
2015	23,691	6,309	30,000
2016	24,533	5,467	30,000
2017	25,406	4,594	30,000
2018	26,310	3,690	30,000
2019	27,245	2,755	30,000
2020	28,214	1,786	30,000
2021	29,218	782	30,000
2022	6,436	35	6,471
	\$ 316,133	\$ 80,338	\$ 396,471

See accompanying accountant's report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2008

Year	Electric System Revenue Bonds Series 1997 (3-1-97)		Water & Wastewater Revenue & Tax Bonds Series 1997 (7-1-97)		Water & Wastewater Revenue & Tax Refunding Bonds Series 2002 (6-1-02)		Fiber Optics System Revenue and Tax Bonds Series 2007 (8-1-07)		Total Proprietary Funds Revenue & Tax Bond Debt Service		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	\$ 155,000	\$ 33,850	\$ 35,000	\$ 23,403	\$ 215,000	\$ 8,600	\$ -	\$ 360,022	\$ 405,000	\$ 425,875	\$ 830,875
2010	165,000	26,100	35,000	21,591	-	-	-	720,044	200,000	767,735	967,735
2011	170,000	17,850	40,000	19,633	-	-	-	720,044	210,000	757,527	967,527
2012	180,000	9,180	40,000	17,513	-	-	700,000	706,044	920,000	732,737	1,652,737
2013	-	-	45,000	15,206	-	-	730,000	676,531	775,000	691,737	1,466,737
2014	-	-	45,000	12,765	-	-	760,000	645,818	805,000	658,583	1,463,583
2015	-	-	50,000	10,175	-	-	790,000	614,818	840,000	624,993	1,464,993
2016	-	-	50,000	7,425	-	-	825,000	581,487	875,000	588,912	1,463,912
2017	-	-	55,000	4,537	-	-	860,000	545,681	915,000	550,218	1,465,218
2018	-	-	55,000	1,513	-	-	900,000	508,281	955,000	509,794	1,464,794
2019	-	-	-	-	-	-	935,000	469,872	935,000	469,872	1,404,872
2020	-	-	-	-	-	-	975,000	430,478	975,000	430,478	1,405,478
2021	-	-	-	-	-	-	1,020,000	389,331	1,020,000	389,331	1,409,331
2022	-	-	-	-	-	-	1,060,000	345,769	1,060,000	345,769	1,405,769
2023	-	-	-	-	-	-	1,105,000	299,763	1,105,000	299,763	1,404,763
2024	-	-	-	-	-	-	1,155,000	251,016	1,155,000	251,016	1,406,016
2025	-	-	-	-	-	-	1,205,000	199,391	1,205,000	199,391	1,404,391
2026	-	-	-	-	-	-	1,260,000	145,469	1,260,000	145,469	1,405,469
2027	-	-	-	-	-	-	1,320,000	89,031	1,320,000	89,031	1,409,031
2028	-	-	-	-	-	-	1,375,000	30,078	1,375,000	30,078	1,405,078
	<u>\$ 670,000</u>	<u>\$ 86,980</u>	<u>\$ 450,000</u>	<u>\$ 133,761</u>	<u>\$ 215,000</u>	<u>\$ 8,600</u>	<u>\$ 16,975,000</u>	<u>\$ 8,728,968</u>	<u>\$ 18,310,000</u>	<u>\$ 8,958,309</u>	<u>\$ 27,268,309</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2008

Year	Tennessee Local Development Authority							
	Loan Fund 319-01		Loan Fund 319-02		Loan Fund 319-03		Subtotal	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 1,978	\$ 324	\$ 7,687	\$ 3,491	\$ 32,345	\$ 10,476	\$ 42,010	\$ 14,291
2010	1,440	166	8,132	3,046	33,988	8,832	43,560	12,044
2011	-	-	8,602	2,576	35,715	7,105	44,317	9,681
2012	-	-	9,099	2,079	37,530	5,291	46,629	7,370
2013	-	-	9,625	1,553	39,436	3,384	49,061	4,937
2014	-	-	10,182	996	27,166	1,380	37,348	2,376
2015	-	-	7,045	407	-	-	7,045	407
2016	-	-	-	-	-	-	-	-
2017	-	-	-	-	-	-	-	-
	<u>\$ 3,418</u>	<u>\$ 490</u>	<u>\$ 60,372</u>	<u>\$ 14,148</u>	<u>\$ 206,180</u>	<u>\$ 36,468</u>	<u>\$ 269,970</u>	<u>\$ 51,106</u>

Year	State Revolving Loan Fund 93-053		State Revolving Loan Fund 94-077		Subtotal		Total Wastewater System Note Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
	2009	\$ 396,540	\$ 114,900	\$ 160,614	\$ 56,766	\$ 557,154	\$ 171,666	\$ 599,164
2010	411,864	99,564	166,774	50,606	578,638	150,170	622,198	162,214
2011	427,800	83,640	173,172	44,208	600,972	127,848	645,289	137,529
2012	444,336	67,092	179,814	37,566	624,150	104,658	670,779	112,028
2013	461,520	49,920	186,712	30,668	648,232	80,588	697,293	85,525
2014	479,364	32,064	193,874	23,506	673,238	55,570	710,586	57,946
2015	497,904	13,536	201,310	16,070	699,214	29,606	706,259	30,013
2016	84,832	404	209,031	8,348	293,863	8,752	293,863	8,752
2017	-	-	107,505	-	107,505	-	107,505	-
	<u>\$ 3,204,160</u>	<u>\$ 461,120</u>	<u>\$ 1,578,806</u>	<u>\$ 267,738</u>	<u>\$ 4,782,966</u>	<u>\$ 728,858</u>	<u>\$ 5,052,936</u>	<u>\$ 779,964</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF DEBT SERVICE REQUIREMENTS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2008

Year	State Loan 76-6A		State Loan 76-6		Subtotal		TML Loan 1999		Total Water System Note Obligations		Water & Wastewater Systems Total Note Obligations		
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	\$ 68,089	\$ 6,425	\$ 109,718	\$ 15,653	\$ 177,807	\$ 22,078	\$ 246,000	\$ 107,970	\$ 423,807	\$ 130,048	\$ 1,022,971	\$ 316,005	\$ 1,338,976
2010	70,433	4,080	80,311	6,424	150,744	10,504	255,000	100,590	405,744	111,094	1,027,942	273,308	1,301,250
2011	48,021	1,654	-	-	48,021	1,654	264,000	92,940	312,021	94,594	957,310	232,123	1,189,433
2012	-	-	-	-	-	-	273,000	85,020	273,000	85,020	943,779	197,048	1,140,827
2013	-	-	-	-	-	-	283,000	76,830	283,000	76,830	980,293	162,355	1,142,648
2014	-	-	-	-	-	-	293,000	68,340	293,000	68,340	1,003,586	126,286	1,129,872
2015	-	-	-	-	-	-	303,000	59,550	303,000	59,550	1,009,259	89,563	1,098,822
2016	-	-	-	-	-	-	314,000	50,460	314,000	50,460	607,863	59,212	667,075
2017	-	-	-	-	-	-	324,000	41,040	324,000	41,040	431,505	41,040	472,545
2018	-	-	-	-	-	-	336,000	31,320	336,000	31,320	336,000	31,320	367,320
2019	-	-	-	-	-	-	348,000	21,240	348,000	21,240	348,000	21,240	369,240
2020	-	-	-	-	-	-	360,000	10,800	360,000	10,800	360,000	10,800	370,800
	<u>\$ 186,543</u>	<u>\$ 12,159</u>	<u>\$ 190,029</u>	<u>\$ 22,077</u>	<u>\$ 376,572</u>	<u>\$ 34,236</u>	<u>\$ 3,599,000</u>	<u>\$ 746,100</u>	<u>\$ 3,975,572</u>	<u>\$ 780,336</u>	<u>\$ 9,028,508</u>	<u>\$ 1,560,300</u>	<u>\$ 10,588,808</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2008

ELECTRIC RATES

TVA Rate Schedule RP-9

Residential Rate

Energy charge:

7.365 cents per kwh per month on first 800 kwh; 6.917 cents for each additional kwh.

Customer charge:

\$8.00 per delivery point per month

General Power Base Charges

1. If (a) the higher of (i) the customer's currently effective contract demand, if any, or (ii) its highest billing demand during the latest 12-month period is not more than 50 kw and (b) customer's monthly energy taking for any month during such period does not exceed 15,000 kwh:

Customer charge: \$16.00 per delivery point per month

Energy charge: 8.116 cents per kwh per month

2. If (a) the higher of (i) the customer's currently effective contract demand or (ii) its highest billing demand during the latest 12-month period is greater than 50 kw but not more than 1,000 kw or (b) if the customer's billing demand is less than 50 kw and its energy taking for any month during such period exceeds 15,000 kwh:

Customer charge: \$80.00 per delivery point per month

Demand charge: First 50 kw of billing demand per month, no demand charge
Excess over 50 kw of billing demand per month, at \$11.89 per kw

Energy charge: First 15,000 kwh per month at 8.191 cents per kwh
Additional kwh per month at 4.249 cents per kwh

3. If (a) the higher of the customer's currently effective contract demand or (b) its highest billing demand during the latest 12-month period is greater than 1,000 kw:

Customer charge: \$200.00 per delivery point per month

Demand charge: First 1,000 kw of billing demand per month, at \$10.96 per kw
Excess over 1,000 kw of billing demand per month, at \$12.87 per kw

Energy charge: 4.314 cents per kwh per month

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2008

ELECTRIC RATES (Continued)

Outdoor Lighting for Individual Customers

<u>Type Fixture</u>	<u>Rated kwh</u>	<u>Energy Charge Per kwh</u>	<u>Energy Charge</u>	<u>Facility Charge</u>	<u>Monthly Total</u>
100 watt high pressure sodium	45	5.350¢	\$ 2.67	\$ 5.86	\$ 8.53
175 watt mercury vapor	77	5.350¢	\$ 4.57	\$ 5.35	\$ 9.92
250 watt high pressure sodium	111	5.350¢	\$ 6.59	\$ 7.55	\$14.14
1000 watt metal halide	394	5.350¢	\$23.38	\$15.45	\$38.83
400 watt mercury vapor	174	5.350¢	\$ 10.32	\$ 7.02	\$17.34
Steel pole	-	-	-	\$11.49	\$11.49
100 Watt HPS Cobra Head	45	5.350¢	\$ 2.67	\$ 5.97	\$ 8.64
150 Watt HPS Acorn w/ concrete pole	68	5.350¢	\$ 4.03	\$31.66	\$35.69
175 Watt MH Acorn w/ concrete pole	75	5.350¢	\$ 4.45	\$33.68	\$38.13
250 Watt HPS Flood	111	5.350¢	\$ 6.59	\$10.40	\$16.99
250 Watt HPS Acorn w/ concrete pole	111	5.350¢	\$ 6.59	\$31.80	\$38.39
250 Watt HPS shoebox w/sq. steel pole	111	5.350¢	\$ 6.59	\$55.47	\$62.06
400 Watt HPS Flood	171	5.350¢	\$ 10.15	\$10.69	\$20.84
400 Watt MH Cobra Head	164	5.350¢	\$ 9.73	\$ 8.41	\$18.14
400 Watt MH Flood	164	5.350¢	\$ 9.73	\$12.59	\$22.32

<u>Extra Pole</u>	<u>Monthly Charge</u>
35' or less	\$3.21
40'	\$11.49
13 ft concrete pole	\$15.53
Square steel pole	\$41.52

WATER RATES (per 1,000 gallons)

	<u>City Limits</u>	<u>County Line</u>
	<u>Inside</u>	<u>Outside</u>
<u>Cooperative</u>		
First 100,000 gallons	\$2.66	\$3.89
All over 100,000 gallons	\$2.45	\$3.57
Customer charge (minimum)	\$5.50/mo.	\$8.25/mo.
Multi-unit charge (minimum)	\$4.82/mo.	\$4.82/mo.

WASTEWATER RATES (per 1,000 gallons)

	<u>Residential</u>	<u>Commercial</u>
First 100,000 gallons	\$4.23	\$ 4.65
All over 100,000 gallons	\$3.74	\$ 3.74
Customer charge (minimum)	\$7.00/mo.	\$15.00/mo.
Multi-unit charge (minimum)	\$4.94/mo.	

Average number of customers during the year:

Power System	11,004
Water System	9,463
Wastewater System	7,321

**CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF UNACCOUNTED FOR WATER
 TULLAHOMA UTILITIES BOARD
 JUNE 30, 2008**

(All amounts in gallons)

Unaudited - See Accompanying Accountants' Report

Water Treated and Purchased:

Water pumped (potable)	\$ -	
Water Purchased	971,494,000	
Total Water Treated and Purchased	971,494,000	971,494,000

Accounted for Water:

Water Sold	779,673,300	
Metered for Consumption	44,705,000	
Fire Department Usage	-	
Flushing	-	
Tank cleaning/filling	-	
Street cleaning	-	
Bulk sales	-	
Water bill adjustments	-	
Other	-	
Total Accounted for Water	824,378,300	824,378,300

Unaccounted for Water		147,115,700
Percent Unaccounted for Water		15.143%
Cost per 1,000 Gallons of Water	\$	1.10
Cost of Unaccounted for Water		\$ 161,827.27

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2008

Program Name	State Grant Number	Grant Period	Award Amount	Receivable (Deferred) July 1, 2007	Adjustment	Grant Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2008
STATE FINANCIAL ASSISTANCE PROGRAMS								
Tennessee Arts Commission:								
Arts Builds Communities	006-2008	7/1/07-6/30/08	\$ 2,100	\$ -	\$ -	\$ 2,100	\$ 2,100	\$ -
Tennessee Department of Education:								
ACT-Explore/Plan	N/A	7/1/07-6/30/08	N/A	-	-	4,339	4,339	-
ACT-Explore/Internet Connectivity	N/A	7/1/07-6/30/08	N/A	-	-	13,721	13,721	-
After School Program (LEAPS)	Z-05-027734	7/1/06-6/30/07	N/A	45,000	-	45,000	42,817	42,817
Basic Education Program	N/A	7/1/07-6/30/08	N/A	-	-	12,639,000	12,639,000	-
Breakfast and Lunch State Matching	N/A	7/1/07-6/30/08	N/A	-	-	20,030	20,030	-
Career Ladder Supplement	N/A	7/1/07-6/30/08	N/A	-	-	213,949	213,949	-
CEO Supplement	N/A	7/1/06-6/30/07	N/A	1,138	-	1,138	-	-
CEO Supplement	N/A	7/1/07-6/30/08	N/A	-	-	-	1,139	1,139
Coordinated School Health	N/A	7/1/07-6/30/08	100,000	-	-	41,998	100,000	58,002
Drop Out Prevention	GG-05-11583-00	7/1/06-6/30/07	6,000	6,000	-	6,000	-	-
Drop Out Prevention	GUX/AAX	7/1/07-6/30/08	6,000	-	-	-	4,242	4,242
Early Childhood Education	MX8/AAX	7/1/07-6/30/08	332,888	-	-	217,896	332,888	114,992
Extended Contract	N/A	7/1/07-6/30/08	N/A	-	-	137,519	137,519	-
Nutrition Physical Education Equipment	N/A	7/1/07-6/30/08	N/A	-	-	3,552	3,552	-
Safe Schools Act	N/A	10/1/06-6/30/07	17,440	-	-	17,440	-	-
Safe Schools Act	N/A	10/1/07-6/30/08	16,300	-	-	-	16,300	16,300
Total Tennessee Department of Education				69,578	-	13,361,582	13,529,496	237,492
Tennessee Department of Environment and Conservation:								
Local Park and Recreation Fund	Z-07-031416-00	11/15/06-11/14/09	450,000	1,806	(1,806)	-	-	-
Recycling Equipment Grant	N/A	5/30/07-6/30/13	17,090	-	-	-	15,843	15,843
				1,806	(1,806)	-	15,843	15,843
Tennessee Department of Labor and Workforce Development:								
Adult Basic Education	N/A	7/1/06-6/30/07	15,211	3,168	-	3,168	-	-
Adult Basic Education	N/A	7/1/07-6/30/09	25,691	-	-	23,651	25,119	1,468
Adult Basic Education	N/A	12/1/07-6/30/08	15,211	-	-	15,211	15,211	-
Total Tennessee Department of Labor and Workforce Development				3,168	-	42,030	40,330	1,468
Tennessee Department of State:								
Community Enhancement Grant	N/A	N/A	10,000	-	-	10,000	10,000	-
Total State Financial Assistance Programs				\$ 74,552	\$ (1,806)	\$ 13,415,712	\$ 13,597,769	\$ 254,803
Component Units:								
Municipal Airport Authority								
Tennessee Department of Transportation								
Airport layout update	Z-06-02-9521-00	10/1/05-9/30/10	52,200	34,314	-	51,471	17,157	-
Airport improvements and general maintenance	Z-07-03-5634-00	7/1/06-6/30/07	16,500	8,671	-	8,671	-	-
Tree clearing	Z-07-03-7581-00	12/1/06-11/30/11	9,682	9,682	-	9,682	-	-
Ramp and taxiway construction	Z-07-09-7546-00	12/1/06-11/30/11	134,063	18,250	-	281,757	263,507	-
Install security fencing and gate	Z-07-03-7582-00	12/1/06-11/30/11	9,000	-	-	9,000	-	-
Emergency repairs on 18/36	Z-07-03-7632-00	12/1/06-11/30/11	22,800	-	-	20,244	20,244	-
Ramp/taxiway pavement repairs	Z-07-03-7634-00	12/1/06-11/30/11	5,400	-	-	5,397	5,397	-
Drainage study and repairs	Z-07-03-7714-00	12/1/06-11/30/11	99,000	-	-	50,800	50,800	-
Airport maintenance and improvements	Z-08-02-1624-00	7/1/07-6/30/08	16,500	-	-	12,597	12,597	-
Parking apron concrete repairs	Z-08-20-0666-00	12/1/07-9/30/12	351,840	-	-	32,100	54,600	22,500
Repair and overlay of south taxiway	Z-08-20-0667-00	12/1/07-9/30/12	1,314,305	-	-	54,600	92,600	38,000
Total State Financial Assistance Programs				\$ 70,917	\$ -	\$ 536,319	\$ 525,902	\$ 60,500

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AND NON-CASH ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2009

Program Name	CFDA Number	State Grant Number	Grant Period	Award Amount	Receivable (Deferred) July 1, 2007	Adjustment	Grant Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2008
FEDERAL FINANCIAL ASSISTANCE PROGRAMS									
U.S. Department of Agriculture:									
Passed Through Tennessee Department of Agriculture:									
National School Breakfast Program	10.553	N/A	7/1/06-6/30/07	N/A	\$ 17,890	\$ -	\$ 17,890	\$ -	\$ -
National School Breakfast Program	10.553	N/A	7/1/07-6/30/08	N/A	-	-	119,002	137,484	18,482
National School Lunch Program	10.555	N/A	7/1/06-6/30/07	N/A	68,161	-	68,161	-	-
National School Lunch Program	10.555	N/A	7/1/07-6/30/08	N/A	-	-	427,747	490,927	63,180
Passed Through Tennessee Rural Development:									
Rural Business Enterprise Grant	10.769	N/A	11/1/07-11/1/10	199,000	-	-	22,055	7,055	(15,000)
Total U.S. Department of Agriculture					86,051	-	654,855	635,466	66,662
U.S. Department of Education:									
Passed Through Tennessee Department of Education:									
Adult Basic Education	84.002	Z-07-033746-00	7/1/06-6/30/07	105,791	9,502	-	9,502	-	-
Adult Basic Education	84.002	Z-08-020835-00	7/1/07-6/30/08	77,074	-	-	65,397	75,356	9,959
IDEA- Part B	84.027A	N/A	7/1/06-9/30/07	736,571	148,571	-	148,571	-	-
IDEA- Part B	84.027A	N/A	7/1/07-9/30/08	735,325	-	-	735,325	735,325	-
IDEA- Part B Competitive	84.027	N/A	7/1/06-9/30/07	5,852	5,852	-	19,659	19,148	5,341
IDEA- Part B Competitive	84.027	N/A	7/1/07-9/30/08	5,024	-	-	-	4,992	4,992
IDEA- Part B Excess Costs	84.027	N/A	7/1/07-9/30/08	N/A	-	-	23,741	23,741	-
IDEA- Preschool	84.027	N/A	7/1/07-9/30/08	36,806	-	-	36,806	36,806	-
Literacy Through Reading Achievement	84.364A	N/A	9/1/07-8/31/08	299,618	-	-	-	291,796	291,796
Public Law 874	84.041	N/A	N/A	N/A	-	-	62,600	62,600	-
Reading First Program	84.357	GG-04-011039-00	7/1/06-6/30/07	N/A	72,644	-	72,644	-	-
Reading First Program	84.357	GG-05-11254-00	7/1/06-6/30/08	228,163	-	-	99,638	228,163	128,525
Targeted Assistance Grant	84.357	N/A	7/1/07-9/30/07	267,139	-	-	-	267,139	267,139
TEAM Grant	N/A	N/A	N/A	12,770	-	-	12,770	12,770	-
Title I	84.010	N/A	7/1/06-6/30/07	N/A	81,641	-	182,737	101,096	-
Title I	84.010	N/A	7/1/07-6/30/08	740,166	-	-	570,000	740,166	170,166
Title II, Part A-Teacher and Principal Training	84.367A	N/A	4/1/06-6/30/07	N/A	16,795	-	16,795	-	-
Title II, Part A-Teacher and Principal Training	84.367A	N/A	7/1/07-6/30/08	172,385	-	-	130,000	160,183	30,183
Title II, Part D-Enhancing Education through Technology	84.318X	N/A	7/1/07-6/30/08	7,619	-	-	7,619	7,619	-
Title III, Part A	84.365A	N/A	7/1/07-6/30/08	11,631	-	-	11,631	11,631	-
Title IV, Part A-Drug Free Schools	84.186A	N/A	7/1/06-6/30/07	16,768	(523)	-	-	523	-
Title IV, Part A-Drug Free Schools	84.186A	N/A	4/1/07-6/30/08	16,393	-	-	16,393	16,303	(90)
Title V, Part A-Innovative Programs	84.298A	N/A	7/1/07-6/30/08	6,094	-	-	6,094	6,094	-
Title VI - Part B, Subpart 2	84.358	N/A	7/1/07-6/30/08	105,996	-	-	105,996	105,996	-
Vocational Education - Carl Perkins	84.048	N/A	7/1/06-6/30/07	70,563	22,563	-	22,563	-	-
Vocational Education - Carl Perkins	84.048	N/A	7/1/07-6/30/08	65,054	-	-	30,000	65,054	35,054
Total U.S. Department of Education					357,045	-	2,386,481	2,972,501	943,065
U.S. Department of Health and Human Services:									
Passed Through Tennessee Department of Labor and Workforce Development									
Families First	93.558	Z-07-034266-00	7/1/06-6/30/07	46,444	4,232	-	4,232	-	-
U.S. Department of Homeland Security:									
Passed Through Tennessee Department of Military									
Hazard Mitigation Grant Program	97.039	GG-04-12565-00	11/6/03-11/6/05	18,954	6,209	(6,209)	705	705	-
U.S. Department of Housing and Urban Redevelopment:									
Passed Through Tennessee Department of Economic and Community Development									
Community Development Block Grant	14.228	Z-00-097695	N/A	N/A	-	-	78,948	78,948	-

(continued)

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF EXPENDITURES OF FEDERAL FINANCIAL AND NON-CASH ASSISTANCE
 FOR THE YEAR ENDED JUNE 30, 2009

Program Name	CFDA Number	State Grant Number	Grant Period	Award Amount	Receivable (Deferred) July 1, 2007	Adjustment	Grant Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2008
U.S. Department of Justice:									
Passed Through Tennessee Department of Finance and Administration Byrne/Justice Assistance Grant Program	16.738	Z-06-027527-00	7/1/07-6/30/08	\$ 6,000	-	-	3,357	3,357	-
Direct Program:									
Bullet Proof Vest Partnership	16.607	N/A	7/1/07-6/30/08	1,470	-	-	1,470	1,470	-
Total U.S. Department of Justice					-	-	4,827	4,827	-
U.S. Department of Labor:									
Passed Through Tennessee Department of Labor:									
Adult Basic Education - GED Program	17.267	GG-08-23127-00	1/1/08-6/30/08	20,000	-	-	20,000	20,000	-
WIA Youth Activities	17.259	07-06-031-010-YOUTH	7/1/06-6/30/07	23,843	2,119	-	2,119	-	-
WIA Youth Activities	17.259	08-06-031-010-YOUTH	7/1/07-6/30/08	25,999	-	-	21,690	21,690	-
Total U.S. Department of Labor					2,119	-	43,809	41,690	-
U.S. Department of Transportation									
Passed Through Tennessee Department of Transportation									
High Visibility Law Enforcement Campaign	20.600-20.601	Z-07-036011-00	10/1/06-9/30/07	5,000	4,768	-	4,768	-	-
High Visibility Law Enforcement Campaign	20.600-20.601	Z-08-023714-00	10/1/07-9/30/08	5,000	-	-	4,995	4,995	-
Total U.S. Department of Transportation					4,768	-	9,763	4,995	-
Total Federal Financial Assistance Programs					<u>\$ 460,424</u>	<u>\$ (6,209)</u>	<u>\$ 3,183,620</u>	<u>\$ 3,739,132</u>	<u>\$ 1,009,727</u>
FEDERAL FINANCIAL NON-CASH ASSISTANCE PROGRAM									
Non Cash Federal Assistance:									
U.S. Department of Agriculture									
Food Distribution Program	10.550	N/A	7/1/07-6/30/08	N/A	\$ -	\$ -	\$ 99,795	\$ 99,795	\$ -
Component Units:									
Municipal Airport Authority:									
U.S. Department of Transportation									
Passed through Tennessee Department of Transportation:									
Airport Improvement Program	20.106	Z-06-02-9514-00	10/1/05-9/30/10	306,700	\$ 25,500	\$ -	\$ 47,900	\$ 32,000	\$ 9,600
Total Federal Financial Assistance Programs					<u>\$ 25,500</u>	<u>\$ -</u>	<u>\$ 47,900</u>	<u>\$ 32,000</u>	<u>\$ 9,600</u>

See accompanying accountants' report.

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AND STATE ASSISTANCE
YEAR ENDED JUNE 30, 2008**

NOTE 1 – BASIS OF PRESENTATION

A. Noncash Federal Programs – OMB Circular A-133

The City is the recipient of federal awards that do not result in cash receipts or disbursements, including the distribution of U.S. Department of Agriculture (USDA) Food Commodities (CFDA No. 10.555), which are valued based on a USDA price list obtained from the Tennessee Department of Health. Distributions under such programs are included in the accompanying schedule of expenditures of federal and state awards in the non-cash assistance section.

B. Federal Financial Assistance without CFDA Numbers

Federal Awards which have no assigned CFDA number have been included in the last section of the appropriate federal agency section.

C. Schedule of Expenditures of State Awards

In compliance with Tennessee state law, the accompanying schedule of expenditures of state awards is included with this report. Such schedule presents all state funded financial awards, as defined by the State Comptroller's Office, and is prepared and presented in a manner consistent with the schedule of expenditures of federal awards.

NOTE 2 – BASIS OF ACCOUNTING

The expenditures presented in the accompanying schedule of expenditures of federal and state awards were developed from agency records and federal and state financial reports which have been reconciled to the accounting records of the System. Governmental funds are reported using a modified accrual basis of accounting. The System's records serve as the primary source of information in preparation of the System's basic financial statements.

NOTE 3 – MATCHING COST

The State of Tennessee's portion of joint programs with the City are included in the accompanying schedule of expenditures of state awards except in those cases where the state's portion is combined with the federal portion and cannot be separately identified. In such cases, the state's portion is included in the accompanying schedule of expenditures of federal awards. The City's portion of such joint awards is not included.

NOTE 4 – INDIRECT COSTS

Along with all other central service costs allowable under OMB Circular A-87 is the amount which may be "allocated" among all programs of the City in a consistent manner, the cost for the audit of the City's financial statements and single audits are included in the City's Cost Allocation Plan.

Many of the City's federal and state funded programs allow indirect costs to be charged and include them as a line item in the grant budget. However, if the grant budget does not specifically provide for indirect costs to be charged, none of the indirect costs are reported as costs to the grantor nor are the costs included or presented in the schedule of expenditures of federal and state awards.



**STATISTICAL SECTION
(UNAUDITED)**

This part of the City of Tullahoma's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health. This section has not been audited by the independent auditors.

<u>Contents</u>	<u>Page</u>
Financial Trends	
These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.	E-2
Revenue Capacity	
These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	E-6
Debt Capacity	
These schedules present information to help the reader assess the affordability of the city's current levels of outstanding debt and the City's ability to issue additional debt in the future.	E-10
Demographic and Economic Information	
These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place and to help make comparisons over time and with other governments.	E-15
Operating Information	
These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the city provides and the activities it performs.	E-17

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The City implemented GASB Statement No. 34 for the fiscal year ended June 30, 2003; schedules presenting government-wide information include information beginning in that year.

CITY OF TULLAHOMA, TENNESSEE
NET ASSETS BY COMPONENTS
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental activities						
Invested in capital assets, net of related debt	\$ (18,744,106)	\$ (7,801,092)	\$ (5,732,453)	\$ (10,583,923)	\$ (5,641,138)	\$ (2,118,850)
Restricted	353,626	2,651,408	1,729,969	6,471,142	5,313,488	2,070,179
Unrestricted	<u>25,642,670</u>	<u>13,145,534</u>	<u>10,507,752</u>	<u>10,676,971</u>	<u>10,980,482</u>	<u>12,818,368</u>
Total governmental activities net assets	<u>\$ 7,252,190</u>	<u>\$ 7,995,850</u>	<u>\$ 6,505,268</u>	<u>\$ 6,564,190</u>	<u>\$ 10,652,832</u>	<u>\$ 12,769,697</u>
Business-type activities						
Invested in capital assets, net of related debt	\$ 21,639,047	\$ 22,200,269	\$ 21,556,609	\$ 26,023,453	\$ 26,837,939	\$ 25,537,051
Restricted	1,462,708	949,514	997,246	419,759	426,842	3,630,315
Unrestricted	<u>6,499,312</u>	<u>7,244,500</u>	<u>8,842,918</u>	<u>6,486,202</u>	<u>7,328,172</u>	<u>7,631,682</u>
Total business-type activities net assets	<u>\$ 29,601,067</u>	<u>\$ 30,394,283</u>	<u>\$ 31,396,773</u>	<u>\$ 32,929,414</u>	<u>\$ 34,592,953</u>	<u>\$ 36,799,048</u>
Primary government						
Invested in capital assets, net of related debt	\$ 2,894,941	\$ 14,399,177	\$ 15,824,156	\$ 15,439,530	\$ 21,196,801	\$ 23,418,201
Restricted	1,816,334	3,600,922	2,727,215	6,890,901	5,740,330	5,700,494
Unrestricted	<u>32,141,982</u>	<u>20,390,034</u>	<u>19,350,670</u>	<u>17,163,173</u>	<u>18,308,654</u>	<u>20,450,050</u>
Total primary government net assets	<u>\$ 36,853,257</u>	<u>\$ 38,390,133</u>	<u>\$ 37,902,041</u>	<u>\$ 39,493,604</u>	<u>\$ 45,245,785</u>	<u>\$ 49,568,745</u>

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

CITY OF TULLAHOMA, TENNESSEE
CHANGES IN NET ASSETS
LAST SIX FISCAL YEARS
(accrual basis of accounting)

	Fiscal Year					
	2003	2004	2005	2006	2007	2008
Expenses						
Governmental activities:						
General government	\$ 4,123,078	\$ 3,491,871	\$ 2,060,857	\$ 2,356,527	\$ 2,338,809	\$ 2,507,541
Public safety	3,908,427	3,951,629	4,419,039	4,428,570	4,340,678	4,185,343
Public works	1,763,015	2,415,407	1,936,419	2,284,521	2,099,073	3,963,002
Community services	1,172,524	1,096,514	1,111,865	1,147,695	1,317,433	280,122
Waste management	1,480,131	1,556,027	1,660,610	1,532,964	1,634,359	1,817,619
Education	22,926,701	24,648,170	27,635,585	28,271,669	28,325,099	31,092,600
Interest and other debt related costs	-	-	1,404,653	1,610,079	1,333,255	1,367,020
Total governmental activities expenses	35,373,876	37,159,618	40,229,028	41,632,025	41,388,706	45,213,247
Business-type activities:						
Tulahoma Utilities Board	25,013,186	25,619,951	25,548,623	28,085,806	28,796,440	30,033,871
Total primary government expenses	\$ 60,387,062	\$ 62,779,569	\$ 65,777,651	\$ 69,717,831	\$ 70,185,146	\$ 75,247,118
Program Revenues						
Governmental activities:						
Charges for services:						
General government	\$ 140,064	\$ 532,885	\$ 553,297	\$ 667,906	\$ 589,999	\$ 672,665
Public safety	-	80,637	-	-	-	29,998
Waste management	618,639	608,230	644,117	702,155	709,810	575,730
Education	1,632,633	1,690,839	1,784,840	1,791,503	1,683,500	1,655,108
Operating grants and contributions	18,672,812	19,418,057	20,118,618	21,563,840	21,362,279	24,679,632
Capital grants and contributions	-	-	-	-	-	15,843
Total governmental activities program revenues	21,064,148	22,330,648	23,100,872	24,725,404	24,545,588	27,628,976
Business-type activities:						
Charges for services:						
Tulahoma Utilities Board	25,236,051	26,233,252	26,350,363	29,135,117	30,263,169	31,554,533
Operating grants and contributions	-	-	-	-	-	-
Capital grants and contributions	386,198	59,657	7,000	-	2,500	59,364
Total business-type activities program revenues	25,622,249	26,292,909	26,357,363	29,135,117	30,265,669	31,613,897
Total primary government program revenues	\$ 46,686,397	\$ 48,623,557	\$ 49,458,235	\$ 53,860,521	\$ 54,811,257	\$ 59,242,873
Net (Expense)/Revenue						
Governmental activities	\$ (14,309,728)	\$ (14,828,970)	\$ (17,128,156)	\$ (16,906,621)	\$ (16,843,118)	\$ (17,584,271)
Business-type activities	609,063	672,958	808,740	1,049,311	1,469,229	1,580,026
Total primary government net (expense)/revenue	\$ (13,700,665)	\$ (14,156,012)	\$ (16,319,416)	\$ (15,857,310)	\$ (15,373,889)	\$ (16,004,245)
General Revenues and Other Changes in Net Assets						
Governmental activities:						
Taxes						
Property taxes	\$ 7,223,893	\$ 7,336,071	\$ 8,582,660	\$ 8,149,382	\$ 8,465,227	\$ 8,592,122
Local option sales tax	5,813,649	5,981,793	5,524,615	5,738,417	6,179,743	8,135,657
Other taxes	1,068,346	1,095,301	1,166,282	1,835,898	1,422,193	1,507,065
Investment earnings	695,866	226,860	222,363	589,450	916,930	604,899
Other revenues	516,365	110,665	141,654	254,879	313,487	464,469
Gain on sale of property	-	-	-	638,450	4,500	-
Transfers	-	-	-	-	337,047	396,924
Total governmental activities	15,318,119	14,750,690	15,637,574	17,206,476	17,639,127	19,701,136
Business-type activities:						
Investment earnings	109,926	87,652	156,930	352,934	514,059	989,279
Other revenues	54,727	32,606	35,647	57,195	46,215	25,713
Gain on disposal of equipment	-	-	1,173	4,523	25,241	8,001
Transfers	-	-	-	-	(383,085)	(396,924)
Total business-type activities	164,653	120,258	193,750	414,652	202,430	626,069
Total primary government	\$ 15,482,772	\$ 14,870,948	\$ 15,831,324	\$ 17,621,128	\$ 17,841,557	\$ 20,327,205
Change in Net Assets						
Governmental activities	\$ 1,008,391	\$ (78,280)	\$ (1,490,582)	\$ 299,855	\$ 796,009	\$ 2,116,865
Business-type activities	773,716	793,216	1,002,490	1,463,963	1,671,659	2,206,095
Total primary government	1,782,107	714,936	(488,092)	1,763,818	2,467,668	4,322,960
Prior period adjustment ⁽¹⁾	-	821,940	-	(172,255)	3,284,513	-
Total change in net assets	\$ 1,782,107	\$ 1,536,876	\$ (488,092)	\$ 1,591,563	\$ 5,752,181	\$ 4,322,960

Note: The city began to report accrual information when it implemented GASB Statement 34 in fiscal year 2003.

⁽¹⁾ The City implemented retro active reporting of infrastructure, as permitted by GASB 34, in FY2007.

CITY OF TULLAHOMA, TENNESSEE
FUND BALANCES OF GOVERNMENTAL FUNDS
LAST SIX FISCAL YEARS
(modified accrual basis of accounting)

	<u>2003</u>	<u>2004</u>	Fiscal Year <u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
General Fund						
Reserved	\$ 218,664	\$ 447,142	\$ 450,917	\$ 110,677	\$ 141,968	\$ 213,279
Unreserved	10,614,188	8,876,010	7,086,095	6,732,698	6,356,936	6,804,609
Total general fund	<u>\$ 10,832,852</u>	<u>\$ 9,323,152</u>	<u>\$ 7,537,012</u>	<u>\$ 6,843,375</u>	<u>\$ 6,498,904</u>	<u>\$ 7,017,888</u>
All Other Governmental Funds						
Reserved, reported in:						
Special revenue funds	\$ 101,618	\$ 126,230	\$ 160,010	\$ 162,207	\$ 1,535,859	\$ 503,586
Capital projects funds	8,313,711	2,044,692	1,119,042	4,968,801	3,679,499	1,919,975
Debt service funds	2,290,291	1,660,611	1,444,108	1,343,576	1,359,445	1,367,538
Unreserved, reported in:						
Special revenue funds	4,844,558	4,882,815	3,818,457	3,726,753	3,827,797	6,177,139
Capital projects funds	-	-	-	-	-	(1,347,993)
Total all other governmental funds	<u>\$ 15,550,178</u>	<u>\$ 8,714,348</u>	<u>\$ 6,541,617</u>	<u>\$ 10,201,337</u>	<u>\$ 10,402,600</u>	<u>\$ 8,620,245</u>

Note: For consistency purposes, only the years since implementation of GASB Statement No. 34 are presented. Ultimately, there will be ten years of information provided.

CITY OF TULLAHOMA, TENNESSEE
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
LAST SIX FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year					
	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Revenues						
Taxes	\$ 14,105,888	\$ 14,413,165	\$ 15,273,557	\$ 15,723,697	\$ 19,997,350	\$ 18,075,027
Payment in lieu of tax	-	-	-	-	-	159,817
Intergovernmental	18,259,432	19,388,278	20,088,688	21,563,840	17,632,092	24,695,475
Licenses and permits	141,841	122,121	127,421	165,487	129,021	146,560
Fines and forfeitures	258,341	302,838	313,710	368,985	334,293	410,656
Charges for services	2,337,894	2,361,749	2,448,006	2,528,097	2,518,375	2,346,287
Interest income	890,872	472,244	377,017	372,317	741,567	379,913
Sale of property	-	-	101,775	907,072	4,500	400
Note repayments	-	-	25,174	125,859	130,180	43,009
Other	-	133,976	107,937	530,884	488,851	719,051
Total revenues	<u>35,994,268</u>	<u>37,194,371</u>	<u>38,863,285</u>	<u>42,286,238</u>	<u>41,976,229</u>	<u>46,976,195</u>
Expenditures						
General government	1,124,920	1,257,003	1,338,757	1,577,057	1,295,275	1,177,901
Public Safety	3,869,616	3,837,478	4,311,464	4,427,745	4,376,307	4,665,946
Public Works	1,763,016	1,780,863	1,727,364	2,148,030	1,876,706	2,056,101
Parks and recreation	-	-	-	-	-	1,153,305
Community Services	1,172,230	1,074,192	1,092,692	1,152,278	1,177,283	262,571
Waste Management	1,480,131	1,527,422	1,634,335	1,508,520	1,599,771	1,832,253
Public Education	20,369,435	20,528,958	22,949,852	23,340,576	23,441,793	26,957,513
Program Costs	2,192,617	3,894,546	4,044,267	4,465,542	3,966,098	2,292,566
Capital outlay	3,298,626	8,198,295	2,423,705	2,704,993	2,840,558	5,563,226
Loans disbursed	-	-	280,000	269,780	125,000	7,055
Debt service						
Principal	2,482,024	2,087,473	1,615,000	1,170,000	1,233,310	1,312,068
Interest	1,578,724	1,353,671	1,402,123	1,375,461	1,339,747	1,353,384
Fiscal charges	-	-	2,597	122,294	149,512	2,599
Total expenditures	<u>39,331,339</u>	<u>45,539,901</u>	<u>42,822,156</u>	<u>44,262,276</u>	<u>43,421,360</u>	<u>48,636,488</u>
Excess of revenues over (under) expenditures	(3,337,071)	(8,345,530)	(3,958,871)	(1,976,038)	(1,445,131)	(1,660,293)
Other Financing Sources (Uses)						
Issuance of refunding bonds	-	-	-	9,880,000	9,320,000	-
Issuance of notes	-	-	-	-	845,000	-
Payment to refunding bond escrow agent	-	-	-	(4,873,115)	(9,283,450)	-
Bond issue premium	-	-	-	92,183	42,031	-
Transfers in	13,030,662	12,167,655	12,061,877	12,639,783	13,122,649	14,196,338
Transfers out	(13,175,762)	(12,167,655)	(12,061,877)	(12,639,783)	(12,785,602)	(13,799,414)
Total other financing sources (uses)	(145,100)	-	-	5,099,068	1,260,628	396,924
Net change in fund balances	(3,482,171)	(8,345,530)	(3,958,871)	3,123,030	(184,503)	(1,263,369)
Debt service as a percentage of noncapital expenditures	12.70%	9.93%	7.98%	6.82%	7.21%	6.42%

Note: For consistency purposes, only the years since implementation of GASB Statement No. 34 are presented. Ultimately, there will be ten years of information provided.

CITY OF TULLAHOMA, TENNESSEE
ASSESSED VALUE AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
LAST TEN FISCAL YEARS

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Residential Property</u>	<u>Commercial Property</u>	<u>Total Taxable Assessed Value</u>	<u>County^a</u>	<u>Total Direct Tax Rate</u>	<u>Estimated Actual Taxable Value</u>	<u>Taxable Assessed Value as a Percentage of Actual Taxable Value</u>
1999	1998	114,403,425	120,776,609	235,180,034		2.39	783,934,340	30.000%
2000	1999	117,167,175	120,214,378	237,381,553		2.39	795,288,655	29.848%
2001	2000	125,335,313	120,622,725	245,958,038		2.39	824,449,227	29.833%
2002	2001	122,863,500	123,313,682	246,177,182		2.39	832,602,282	29.567%
2003	2002	138,168,750	136,063,882	274,232,632		2.39	916,690,980	29.915%
2004	2003	141,056,575	137,961,634	279,018,209		2.39	933,857,961	29.878%
2005	2004	144,288,750	140,348,404	284,637,154		2.81	955,604,765	29.786%
2006	2005	143,179,375	144,416,030	287,595,405		2.81	968,403,216	29.698%
2007	2006	154,094,200	162,784,471	316,878,671	Coffee County	2.49	1,052,832,610	30.098%
		13,588,000	3,183,952	16,771,952	Franklin County	2.84	64,768,674	25.895%
2008	2007	174,789,325	167,306,843	342,615,468		2.44	1,150,699,038	29.775%

^a From fiscal year 1999 to fiscal year 2006, Coffee and Franklin Counties were taxed at the same rate.

Ratio of assessed value to appraised value:
25 % Residential, Farm, Agricultural, and Forest
40 % Commercial and Industrial
30 % Personal (equipment)

**CITY OF TULLAHOMA, TENNESSEE
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS**

Fiscal Year	City Direct Rate	Coffee County Rate	Total Rate (1)	City Direct Rate	Franklin County Rate	Total Rate (2)
1999	2.39	2.37	4.76	2.39	2.37	4.76
2000	2.39	2.37	4.76	2.39	2.46	4.85
2001	2.39	2.40	4.79	2.39	2.46	4.85
2002	2.39	2.54	4.93	2.39	2.46	4.85
2003	2.39	2.56	4.95	2.39	2.16	4.55
2004	2.39	2.56	4.95	2.39	2.35	4.74
2005	2.81	2.56	5.37	2.81	2.62	5.43
2006	2.81	2.56	5.37	2.81	2.62	5.43
2007	2.49	2.25	4.74	2.84	2.62	5.46
2008	2.44	2.37	4.81	2.44	2.01	4.45

(1) Total rate is levied on Coffee County residents living in Tullahoma.

(2) Total rate is levied on Franklin County residents living in Tullahoma.

Property tax rates are per \$100 of assessed value.

Sources: Tennessee Comptroller of the Treasury, Division of Property Assessments, 2006 Property Tax Rates.

**CITY OF TULLAHOMA, TENNESSEE
PRINCIPAL PROPERTY TAXPAYERS
CURRENT YEAR AND NINE YEARS AGO**

<u>Taxpayer</u>	<u>2008</u> (for tax year 2007)			<u>1999</u> (for tax year 1998)		
	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>	<u>Taxable Assessed Value</u>	<u>Rank</u>	<u>Percentage of Total City Taxable Assessed Value</u>
Tullahoma HMA, Inc.	\$ 6,481,480	1	1.89%	\$ 4,936,000	1	2.10%
Forest Gallery, LLC	4,595,680	2	1.34%	3,680,000	4	1.56%
Excell Realty Partners	4,199,640	3	1.23%	3,372,920	5	1.43%
Northgate Limited	3,798,440	4	1.11%	2,192,720	6	0.93%
Lowes Home Center	3,446,720	5	1.01%	-		-
Bell South	3,271,856	6	0.95%	3,752,503	3	1.60%
Ascend Federal Credit Union	2,756,440	7	0.80%	-		-
Harton Regional Medical	2,711,089	8	0.79%	-		-
Harton Family Partners	2,687,305	9	0.78%	-		-
Goodrich Aerospace	2,606,231	10	0.76%	4,551,354	2	1.94%
Fuji Color Processing	-		-	1,901,386	7	0.81%
Continental, LTD	-		-	1,846,720	8	0.79%
Development Enterprises	-		-	1,403,160	9	0.60%
Ada Ferrell Apartments	-		-	1,378,840	10	0.59%
Total	\$ 36,554,881		10.66%	\$ 29,015,603		12.35%

Source: Tullahoma Director of Finance

CITY OF TULLAHOMA, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST FOUR FISCAL YEARS

Fiscal Year Ended June 30,	Tax Year	Taxes Levied for the Tax Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2005	2004	7,999,287	7,759,253	97.00%	\$ 165,994	7,925,247	99.07%
2006	2005	8,081,892	7,865,646	97.32%	172,134	8,037,780	99.45%
2007	2006	8,366,611	8,092,072	96.7%	231,154	8,323,226	99.48%
2008	2007	8,504,506	8,115,564	95.4%	-	8,115,564	95.43%

Note: This format was not required until fiscal year 2006; there will ultimately be ten years of information provided.

Source: City of Tullahoma Finance Department.

**CITY OF TULLAHOMA, TENNESSEE
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS**

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	General Obligation Bonds	Capital Outlay Notes	Capital Leases	Revenue Bonds	Notes			
1999	27,885,000	1,070,000	15,143	7,671,907	11,464,730	48,106,780	4.63%	2,772
2000	26,980,000	1,047,000	44,599	6,982,185	10,899,280	45,953,064	4.13%	2,554
2001	25,555,000	839,000	48,921	6,252,466	10,418,897	43,114,284	3.66%	2,387
2002	33,180,000	619,000	38,536	5,432,307	10,952,842	50,222,685	3.99%	2,778
2003	30,910,000	410,000	659,407	5,170,000	12,151,155	49,300,562	3.67%	2,701
2004	29,295,220	70,000	784,940	4,460,000	13,542,677	48,152,837	3.33%	2,607
2005	27,700,220	50,000	560,320	3,720,000	11,660,404	43,690,944	N/A	2,337
2006	31,827,794	30,000	336,551	2,960,000	10,760,592	45,914,937	N/A	2,428
2007	31,349,165	855,000	208,241	2,165,000	9,867,293	44,444,699	N/A	2,350
2008	30,080,000	775,000	121,393	18,310,000	9,028,508	58,314,901	N/A	3,083

Note: Certain amounts are not available due to (1) the data is not available for some older years, (2) the data available for some years was not accumulated in a manner consistent in a manner with current years, or (3) the data has yet to be accumulated for the current year. Some amounts are estimated.

**CITY OF TULLAHOMA, TENNESSEE
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS**

<u>Fiscal Year</u>	<u>General Obligation Bonds</u>	<u>Percentage of Actual Taxable Value of Property</u>	<u>Per Capita</u>
1999	27,885,000	0.04	1,606.56
2000	26,980,000	0.03	1,499.39
2001	25,555,000	0.03	1,414.61
2002	33,180,000	0.04	1,835.08
2003	30,910,000	0.03	1,693.42
2004	29,295,220	0.03	1,585.93
2005	27,700,220	0.03	1,481.37
2006	31,827,794	0.03	1,683.21
2007	31,349,165	0.03	1,657.90
2008	30,080,000	0.03	1,590.44

**CITY OF TULLAHOMA, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2008**

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable ⁽¹⁾</u>	<u>Estimated Share of Direct and Overlapping Debt</u>
Debt repaid with property taxes:			
Coffee County Bonds	\$ 9,502,000	38.27%	\$ 3,636,415
Franklin County Bonds	38,957,981	0.77%	299,976
Other debt:			
Coffee County	9,530,869	38.27%	3,647,464
Franklin County	207,646	0.77%	1,599
Subtotal, overlapping debt			\$ 7,585,454
City of Tullahoma direct debt			<u>30,855,000</u>
Total direct and overlapping debt			<u><u>\$ 38,440,454</u></u>

⁽¹⁾ The percentage of overlapping debt is calculated by dividing the City of Tullahoma's assessed property values by the total of each county's assessments.

Note: Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City of Tullahoma. This process recognizes that, when considering the government's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident, and therefore responsible for repaying the debt of each overlapping government.

**CITY OF TULLAHOMA, TENNESSEE
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Debt limit	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to the limit as a percentage of debt limit	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Note: There is no legal debt margin for the City of Tullahoma. Therefore, the calculation is not presented.

**CITY OF TULLAHOMA, TENNESSEE
PLEGDED-REVENUE COVERAGE
LAST TEN FISCAL YEARS**

Fiscal Year	Tullahoma Utilities Board Revenue Bonds							Coverage
	Total Operating Revenues	Direct* Operating Expense	Net Revenue Available for Debt Service	Debt Service Requirements			Total	
				Principal	Interest	Total		
2008	\$ 31,554,533	\$ 27,973,540	\$ 3,580,993	\$ 830,000	\$ 101,249	\$ 931,249	3.85	
2007	30,263,169	26,305,850	3,957,319	795,000	132,590	927,590	4.27	
2006	29,135,117	25,556,218	3,578,899	760,000	161,408	921,408	3.88	
2005	26,350,363	23,013,236	3,337,127	740,000	189,316	929,316	3.59	
2004	26,233,252	22,941,866	3,291,386	710,000	214,718	924,718	3.56	
2003	25,236,051	22,186,602	3,049,449	685,000	200,983	885,983	3.44	
2002	24,319,113	21,036,752	3,282,361	710,000	331,138	1,041,138	3.15	
2001	24,389,001	21,392,178	2,996,823	760,000	371,083	1,131,083	2.65	
2000	23,377,261	20,334,215	3,043,046	720,000	407,133	1,127,133	2.70	
1999	22,962,032	19,422,329	3,539,703	670,000	447,997	1,117,997	3.17	

* Net of depreciation and amortization

**CITY OF TULLAHOMA, TENNESSEE
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN CALENDAR YEARS**

Calendar Year	Population	Personal Income (in thousands)	Per Capita Personal Income*	Median Age**	School Enrollment	Unemployment Rate
1999	17,357	1,040,025	21,892	35.0	3,480	3.7%
2000	17,994	1,112,622	23,095	35.0	3,508	3.9%
2001	18,065	1,177,729	24,236	38.1	3,607	3.7%
2002	18,081	1,257,744	25,578	37.5	3,625	4.3%
2003	18,253	1,343,451	27,033	38.3	3,603	4.3%
2004	18,472	1,447,873	28,887	38.0	3,606	4.0%
2005	18,699	N/A	28,716	38.1	3,642	5.0%
2006	18,909	N/A	28,716	38.1	3,600	4.60%
2007	18,909	N/A	28,716	38.1	3,597	4.20%
2008	18,913	N/A	28,716	38.1	3,631	5.50%

Sources: Population estimates provided by Middle Tennessee Industrial Association. Personal income and per capita personal income provided by U.S. Bureau of Economic Analysis. School enrollment provided by the Tennessee Department of Education, Average Daily Membership Report.

Note: Certain amounts are not available due to (1) the data is not available for some older years, (2) the data available for some years was not accumulated in a manner consistent in a manner with current years, or (3) the data has yet to be accumulated for the current year. Some amounts are estimated.

*The latest per capita personal income published was in 2005.

**The latest median age available was the 2000 census.

**CITY OF TULLAHOMA, TENNESSEE
PRINCIPAL EMPLOYERS
CURRENT YEAR AND TEN YEARS AGO**

Employer	2008			1998		
	Number of Employees	Rank	Percentage of Total City Employment	Number of Employees	Rank	Percentage of Total City Employment
City of Tullahoma	766	1	3.19%	670	1	3.35%
Harton Regional Medical Center	550	2	2.29%	220	6	1.10%
Goodrich Landing Gear Corporation	269	3	1.12%	-	-	-
Wisco Envelope Co., Inc.	265	4	1.11%	255	3	1.28%
Cubic Transportation System	223	5	0.93%	226	5	1.13%
Tennessee Apparel Corporation	220	6	0.92%	374	2	1.87%
Jacobs Engineering	174	7	0.73%	186	9	0.93%
Fujicolor Processing, Inc.	158	8	0.66%	-	-	-
Schmiede Corporation	136	9	0.57%	-	-	-
Createc Corporation	120	10	0.50%	-	-	-
Wilson Sporting Goods Company	-	-	-	250	4	1.25%
Wagner Division/Cooper Industries	-	-	-	205	7	1.03%
Worth, LLC	-	-	-	193	8	0.97%
Cleveland Pneumatic	-	-	-	162	10	0.81%
Total	2,881		12.01%	2,741		13.71%

Source: Middle Tennessee Industrial Development Association and Industrial Board of Coffee County.

Note: 1999 comparative information was not available, therefore 1998 was used for comparison.

CITY OF TULLAHOMA, TENNESSEE
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION
LAST FIVE FISCAL YEARS

	For the year ended June 30,				
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Governmental Activities:					
Administrative	7	7	6	4	4
Finance	7	7	8	7	6
Planning	3	3	4	4	4
Building	2	2	2	2	2
Police					
Personnel and officers	44	45	41	44	46
Fire					
Firefighters and officers	35	38	38	38	38
Public Works	41	40	41	42	42
Parks and recreation	60	51	51	36	35
Education	493	493	491	490	517
Business-type Activities:					
Tullahoma Utilities Board	68	69	66	70	72
	-----	-----	-----	-----	-----
Total	<u>760</u>	<u>755</u>	<u>748</u>	<u>737</u>	<u>766</u>

Source: Various city departments.

Note: This format was not required until fiscal year 2006; there will ultimately be ten years of information provided.

**CITY OF TULLAHOMA, TENNESSEE
OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

<u>Function/Program</u>	Fiscal Year									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Police										
Physical arrests	513	725	1,162	1,048	919	1,174	1,180	1,203	866	2,294
Parking violations	34	506	315	27	-	N/A	N/A	N/A	N/A	N/A
Traffic violations	971	1,593	3,543	3,768	2,278	N/A	N/A	N/A	4,513	6,414
Fire										
Emergency response	647	517	541	571	467	457	422	449	457	564
Inspections	1,084	1,041	802	902	1,072	995	1,116	1,127	1,389	652
Average daily consumption (thousand gallons)	2,055	2,756	2,756	2,756	2,756	2,756	2,756	2,756	2,756	2,756
Business-type activities:										
Tullahoma Utilities Board										
Customers - power system	9,696	9,705	9,705	9,876	9,938	9,938	10,180	10,284	10,393	11,004
Customers - water system	8,647	8,773	8,773	8,974	9,167	9,167	9,365	9,364	9,439	9,463
Wastewater										
Customers	6,731	6,777	6,777	6,871	6,979	6,979	7,136	7,212	7,320	7,321
Average daily sewerage treatment (thousand gallons)	3,235	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880

Source: Various city departments.

Note: Certain amounts are not available due to (1) the data is not available for some older years, (2) the data available for some years was not accumulated in a manner consistent in a manner with current years, or (3) the data has yet to be accumulated for the current year. Some amounts are estimated.

**CITY OF TULLAHOMA, TENNESSEE
CAPITAL ASSET AND INFRASTRUCTURE STATISTICS BY FUNCTION
LAST TEN FISCAL YEARS**

<u>Function</u>	<u>Fiscal Year</u>									
	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Police stations	1	1	1	1	1	1	1	1	1	1
Fire stations	2	2	2	2	2	2	2	2	2	2
Other public works										
Streets (miles)	149.84	149.84	187	187	187	187	187	187	187	330
Parks and recreation										
Parks	5	6	8	8	8	8	8	8	8	8
Acreage	161	161	161	161	161	161	161	161	200	200
Community centers	2	2	2	2	2	2	2	2	2	2
Swimming pools	2	2	2	2	2	2	2	2	2	2
Soccer fields	7	7	7	7	7	7	7	7	7	11
Baseball fields	6	6	6	6	6	6	6	6	6	6
Business-type activities:										
Tullahoma Utilities Board										
Electric										
Streetlights	2,612	2,612	2,951	2,951	2,951	2,951	2,951	2,951	2,829	2,829
Water										
Water mains (miles)	222	240	240	240	240	240	240	240	265	265
Fire hydrants	909	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,009	1,009
Storage capacity (thousands gallons)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	4,000	4,000	4,080
Wastewater										
Sanitary sewers (miles)	152	160	160	160	160	160	160	160	155	160
Storm sewers (miles)	20	7	7	7	7	7	7	7	7	7
Daily treatment capacity (thousand gallons)	12,000	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600

Source: Various city departments.

Note: Certain amounts are not available due to (1) the data is not available for some older years, (2) the data available for some years was not accumulated in a manner consistent in a manner with current years, or (3) the data has yet to be accumulated for the current year. Some amounts are estimated.

REPORTS ON COMPLIANCE AND INTERNAL CONTROLS

**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***

February 27, 2009

Mayor and Board of Aldermen
of the City of Tullahoma
Tullahoma, Tennessee

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 Tullahoma, Tennessee as of and for the year ended June 30, 2008, which collectively comprise the City of Tullahoma, Tennessee's basic financial statements and have issued our report thereon dated February 27, 2009. We have also audited the financial statements of each of the discretely presented component units of the City's basic financial statements, and the financial statements of each of the City's nonmajor governmental funds as of and for the year ended June 30, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

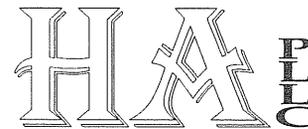
In planning and performing our audit, we considered the City of Tullahoma, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not the purpose of expressing an opinion on the effectiveness of the City of Tullahoma, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Tullahoma, Tennessee's internal control over financial reporting.

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Tullahoma, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than remote likelihood that a misstatement of the City of Tullahoma, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Tullahoma, Tennessee's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2008-1 to 2008-11 to be significant deficiencies in internal control over financial reporting.

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

HOUSHOLDER ARTMAN, PLLC
CERTIFIED PUBLIC ACCOUNTANTS



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Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2008-01 through 2008-04 and 2008-06 through 2008-10 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Tullahoma, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the 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*.

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

This report is intended solely for the information of the State Comptroller's Office, Board of Mayor and Aldermen, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Housholder Artman, PLLC

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

February 27, 2009

Mayor and Board of Aldermen
of the City of Tullahoma
Tullahoma, Tennessee

Compliance

We have audited the compliance of the City of Tullahoma, Tennessee, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The City of Tullahoma, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Tullahoma, Tennessee's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

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 the City of Tullahoma, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Tullahoma, Tennessee's compliance with those requirements.

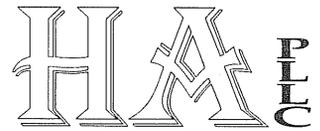
In our opinion, the City of Tullahoma complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

This report is intended solely for the information of the State Comptroller's Office, Board of Mayor and Aldermen, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Housholder Artman, PLLC

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

I. Summary of Auditors' Results

1. The June 30, 2008 Auditors' Report on the Financial Statements is an unqualified opinion.
2. Significant deficiencies in internal control were disclosed by the audit of the basis financial statements – see part II.

Material weaknesses were also disclosed by the audit of the basis financial statements – see part II.

3. The audit did not disclose any instances of noncompliance which is material to the financial statements.
4. No significant deficiencies in internal control over major programs were disclosed by the audit.
5. The June 30, 2008 report on compliance for major programs is an unqualified opinion.
6. No audit findings required to be reported under § .510a were noted.
7. Major Programs include:

<u>CFDA Number</u>	<u>Name of federal program or cluster</u>
Special Education Cluster:	
84.027	IDEA – Part B
84.173	IDEA - Preschool
Other Programs:	
84.357	Reading First Program

8. Type A programs have been distinguished as those programs with expenditures greater than \$300,000.
9. City of Tullahoma is considered to be a low risk auditee.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

II. Findings related to the Financial Statements reported in accordance with *Government Auditing Standards*:

GENERAL GOVERNMENT

Material Weaknesses:

Finding 2008-1: Preparation of Financial Statements and Related Disclosures

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Organization possesses an accounting department that is staffed with personnel with the requisite skills and training to perform such functions and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us by management that were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the disclosures required by professional standards.

We recommend management either acknowledge and accept this deficiency or develop compensating controls.

Management response

Due to current staffing levels and budget constraints, it is not feasible at this time for the City to perform these functions internally. The current financial statements and related notes have been reviewed by management and management has taken responsibility for the information contained therein. Management will continue to monitor the situation and consider other options in future years.

Finding 2008-2: Decentralized Grant Processes

During the fiscal year 2008, the community coordinator initiated the grant process, and the head of the department receiving the award administered the grant. There was no follow centralized accountability to ensure expenditures are allowable, that reports are timely and accurate, that all expenditures are reimbursed, and grant expenditures and revenues are properly reflected in the accounting records.

We recommend the City designate an individual with appropriate knowledge to oversee the entire process and provide appropriate records of all grant transactions.

Management response

We concur with the auditor's findings and recommendation.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

TULLAHOMA BOARD OF EDUCATION

Material Weaknesses:

Finding 2008-03: Budget Adoption

The Education Capital Projects Fund did not have a budget approved by the Board of Education for the current fiscal year.

As required by Tennessee state law, we recommend all funds have budgets adopted by the Board of Education before funds are expended.

Management response

We concur with the auditor's findings and recommendation. Management made all efforts to correct the situation and all funds will have legally adopted budgets in the future.

Finding 2008-04: Receivables and Liabilities Procedures and Cut-Off

We identified the following audit adjustments through the performance of our audit procedures:

- Several state grant payments received subsequent to year-end totaling approximately \$264,447 in the General Purpose School Fund and \$331,939 in the Federal and State Projects Fund should have been accrued and recorded as revenue in fiscal year 2008.
- A receivable of \$81,662 and corresponding revenues was duplicated; recorded in both the General Purpose School Fund and School Food Services Fund.
- The amount due from the primary government and transfers in at June 30, 2008 were understated by \$238,739 in the General Purpose School Fund and \$251,605 in the Education Debt Service Fund.
- Accounts payable and related expense accounts were erroneously recorded for \$300,437; whereas they should have properly been classified as encumbrances since purchased orders were issued, but the products and/or services had not been received by June 30, 2008.
- Grant expenditures of approximately \$15,643 were recorded in the Federal and State Projects Fund, while the corresponding revenue was recorded in the General Purpose School Fund.

We recommend that management implement more stringent cut-off review procedures to identify possible unrecorded liabilities and receivables

Management Response

We concur with the auditor's findings and recommendations.

Significant Deficiency:

Finding 2008-05: Time Deposits

In our confirmation of cash deposits, we found that several certificates of deposit totaling more than \$1 million only require one signature to withdraw funds.

We recommend all cash deposits have at least dual signers to withdraw funds. Also, the list of authorized signers should be updated at regular intervals to monitor access to funds.

Management Response

We concur with the auditor's findings and recommendations.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

TULLAHOMA MUNICIPAL AIRPORT AUTHORITY

Material Weaknesses:

Finding 2008-06: Incomplete and Inaccurate Capital Assets Records

The Governmental Accounting Standards Board requires capital asset reporting in order for a governmental entity to be in conformity with generally accepted accounting principles. A primary objective in the development of any capital asset system for governmental entities planning to prepare their financial statements according to generally accepted accounting principles is the ability to meet the various requirements for correct classification and complete presentation of capital asset financial information. Adequate records must be maintained for assets acquired or constructed, including which capital assets were acquired or constructed using grant funds. This information should be made available for audit.

Various projects still in the construction phase were erroneously classified as land improvements in the financial records at June 30, 2007. Detailed records are not currently being maintained of the construction in progress general ledger account. Also several payments to contractors for various construction projects were expensed instead of being capitalized with the appropriate project.

To comply with grant requirements and generally accepted accounting principles, we recommend thorough documentation and reconciliation of the progress of construction projects and general ledger accounting for such projects.

Management Response

The Tullahoma Airport Authority (TAA) is reviewing current accounting services for needed change in accounting structure.

Findings 2008-07: Cash Disbursements

A check written on November 30, 2007 for \$66,164.08 was not reflected in general ledger records until February 1, 2008, at which time a journal entry for \$66,132.91 was made to adjust the cash account. It appears interest income between November and February was not recorded in the accounting records.

We recommend the Airport Authority put procedures in place to ensure this does not reoccur. While the difference in dollar amounts in this instance does not appear material, all checks should be recorded at properly authorized amounts and recorded in the general ledger at the same time checks are written (when manual checks have to be prepared). All checks should be entered using the cash disbursement register; cash should only be adjusted with journal entries when absolutely necessary; all interest on cash accounts should be properly recorded.

Management Response

Bank reconciliations will be reviewed monthly by the Executive Director and Treasurer for variances to ensure transactions are recorded timely.

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008**

Finding 2008-08: Basis of Accounting

Bookkeeping is currently being prepared on the cash basis of accounting, whereas accrual basis for proprietary funds using a standard chart of accounts should be utilized. Audit adjustments were made to record grant receivables and account payables at June 30, 2008. This is a repeat finding.

U.S. generally accepted accounting principles (GAAP) as applied to governmental units requires use of the accrual basis, whereby economic activities (rather than cash flow) of financial events are considered, because of two complementary principles, which together determine the point at which expenses and revenues are recognized. According to revenue recognition principle, revenues should be recorded when they are realized and earned, whether or not they are received in cash. Jointly, according to the matching principle, incurred expenses are matched to related (recognized) revenues, whether or not such expenses are actually paid in cash. We recommend the Airport Authority utilize the accrual basis of accounting to comply with GAAP.

Management Response

We concur with the auditor's recommendations and the accrual accounting system was implemented in summer of 2008. Additionally, TAA is reviewing current accounting services for needed change in accounting structure.

Finding 2008-09: Adjusting Entries with No Supporting Documentation

Significant bookkeeping adjustments were made to the accounting records between May 31, 2008 and June 1, 2008 and at June 30, 2008, but no documentation was provided to support the adjustments.

We recommend all adjusting journal entries should have backup documentation supporting the dollar amounts and reasons for creating and posting the entries.

Management Response

We concur with auditors' recommendation.

Finding 2008-10: Due to Primary Government

Transactions between the primary government and the Airport Authority are not being recorded properly. Advances from the primary government are being erroneously classified as revenue, while the repayments are being classified as expenses.

We recommend the advances should be recorded as payable to the primary government, while the repayments should be recorded as a reduction in the payable.

Management Response

In the future we will account for these transactions as inter-agency loans.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2008

Significant Deficiency:

Finding 2008-11: Deposit Dates

Beginning in December 2007, all deposits were recorded in the general ledger as of the first day of the month instead of the day money was actually collected. We were unable to determine if money collected was being deposited within 3 business days of collection, as required by state law.

We recommend all cash collections be recorded in the general ledger as of the collection date.

Management Response

Our internal records indicate deposits were made timely.

Rebuttal to Management Response

The Airport Authority utilizes Quicken to track operations. A monthly Quicken report is forwarded to an outsourced bookkeeping firm, adjustments are posted, and monthly reports are given back to the Airport Authority. These monthly reports were furnished to us as audit evidence and therefore, information we used to base our finding.

III. Findings related to Federal Awards (no questioned costs):

There were no findings related to the Federal awards for the year ended June 30, 2008.

**CITY OF TULLAHOMA, TENNESSEE
SUMMARY SCHEDULE OF PRIOR YEAR FINDING
JUNE 30, 2008**

Finding 2007-1:

Under professional standards promulgated by the American Institute of Certified Public Accountants, there is a presumed deficiency in internal control when the financial statements and related disclosures are drafted by the auditor, unless the Organization possesses an accounting department that is staffed with personnel with the requisite skills and training to perform such functions and the function was performed by the auditor as an accommodation to management. For this engagement, financial statements were submitted to us by management that were generated as a by-product of the bookkeeping system. We proposed certain adjustments to these financial statements as a result of our audit and we drafted the disclosures required by professional standards.

Recommendation:

Due to the nature and size of the Organization, it is not practical nor would it be financially feasible for the Organization to perform these functions internally. Therefore management may wish to acknowledge and accept this deficiency or develop compensating controls, such as by engaging the services of other CPA's to draft the financial statements and related disclosures or to review a draft of the financial statements and related disclosures.

Management comment:

Due to current time and budget constraints, it is not feasible for the City to perform these functions internally. The current financial statements and related notes have been reviewed by management and management has taken responsibility for the information contained therein. Management will continue to monitor the situation and consider other options in future years.

Finding 2007-02:

The Education Debt Service Fund did not have a budget approved by the Board of Education for the current fiscal year.

Recommendation:

As required by Tennessee state law, all funds should have budgets adopted by the Board of Directors before funds are expended.

Management comment:

We concur with the auditor's findings and recommendation. Management made all efforts to correct the situation and all funds will have legally adopted budgets in the future.

Finding 2007-03:

Under Tennessee Code Annotated 9-4-105, all deposits of the Tullahoma Municipal Airport Authority must be insured or collateralized. The collateral must meet certain requirements and must have a total minimum market value of 105% of the value of the deposits placed in the institutions, less the amount protected by federal depository insurance. At June 30, 2007, the Authority had deposits with a carrying value of \$4,903 which were not insured or collateralized.

Recommendation:

We recommend moving the funds to a financial institution where they would be covered by FDIC deposit insurance, securities pledged in the Authority's name, or state collateral pool coverage. We also recommend management more closely monitor deposits at each financial institution in the future.