

CITY OF TULLAHOMA, TENNESSEE

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2009**

DEPARTMENT OF FINANCE

**CITY OF TULLAHOMA, TENNESSEE
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INTRODUCTORY SECTION



March 26, 2010

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, 2009.

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, 2009, 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 2009.

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 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. In late March, the Mayor presents his goals and objectives for the upcoming fiscal year to the Board of Mayor and Aldermen. Based on those initiatives, 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 then 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 budget draft for the upcoming fiscal year is first presented to the Board of Mayor and Aldermen in late April 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.

During June, the Board of Mayor and Aldermen will conduct 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 either the first or 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 as necessary 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 this practice each year to ensure public participation at each step in the decision-making process and that the budget procedure is an informative and complete plan for 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

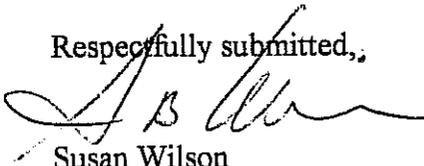
As a recipient of federal and state financial assistance, the City is responsible for ensuring that adequate internal controls are in place to ensure compliance with applicable laws and regulations related to those programs. As part of the City's single audit, tests are performed to determine the adequacy 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 2009 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 1996-2008. 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,



Susan Wilson
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, 2008

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 stylized handwritten signature in black ink.

President

A handwritten signature in black ink that reads "Jeffrey R. Emmer".

Executive Director

**CITY OF TULLAHOMA, TENNESSEE
PUBLIC OFFICIALS**

Mayor	Troy L. Bisby
Mayor Pro-Tem	Mike Norris
Alderman	Jimmy Blanks
Alderman	James Eads
Alderman	Jerry Mathis
Alderman	Greg Sandlin
Alderman	Mike Stanton
City Administrator	Louis J. Baltz, III
City Attorney	Randall Morrison
Director of Finance	Susan Wilson
City Recorder	Rosemary Womack
Accountant	Donna Graham
Director of Public Works	Wayne Limbaugh
Fire Chief	Richard Shasteen
Police Chief	Paul Blackwell
Director of Parks and Recreation	Kurt Glick
General Manager, Tullahoma Utilities Board	Brian Skelton
Director of Schools, Tullahoma Board of Education	Dr. Dan Lawson
Executive Director, Tullahoma Municipal Airport Authority	Jon Glass
Treasurer, Tullahoma Industrial Development Board	Susan Wilson

Citizens of Tullahoma

Board of Mayor and Alderman

City Attorney

City Administrator
Louis J. Baltz, III

Executive Secretary
Robin Morrison

Community Development
Debi Graham
Grants Administration, Public Information,
Retail/Service/Tourism Development

Finance
Sue Wilson, Director
Treasury, Purchasing, Accounting,
Budgeting, Payroll, Fixed Assets

Public Works
Wayne Limbaugh, Director
Streets, Sanitation, Fleet Maintenance,
Animal Control, Information Technology

Recreation Department
Kurt Glick, Director
Parks & Recreation, Aquatics,
Community Centers, Maintenance, City Forestry

Planning & Codes Department
Dwayne Hicks, Director
Building Inspection, Codes Enforcement,
Planning and Development

Police Department
Paul Blackwell, Chief
Patrol, Investigation, Tactical Unit,
Traffic Enforcement, Community Services

Fire Department
Richard Shasteen, Chief
Suppression, Prevention, Fire Inspection,
Emergency Management

Human Resources
Casta Brice, Director
Recruitment, Benefits, Compensation,
Policy Development, Safety Director, Title VI

City Recorder
Rosemary Womack, City Recorder
Tax Collection, Records Management,
Licenses, Permits, Court Clerk

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

March 26, 2010

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 (the City), as of and for the year ended June 30, 2009, 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, 2009, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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, 2009, 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, 2009, 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 March 26, 2010, 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.

The management's discussion and analysis, the schedule of funding progress and the schedule of employer contributions on pages A-1 through A-16 and page B-45 through B-46 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.

Howsholde Antman PLLC

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(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, 2009. 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, the GFOA certificate of achievement for fiscal year 2008, the government's organizational chart and a list of principal 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 - 2008. 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, 2009
(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. It is projected that the 2010 census number should reach 20,000. 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 serve 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 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 10,500 electric customers. TUB purchases wholesale water from the Duck River Utility Commission to serve its 9,500 water customers. TUB also operates a wastewater treatment facility with 7,300 sewer customers. TUB recently expanded into the fiber optics area and now offers television, telephone and internet services.

Tullahoma Airport Authority (A Component Unit)

The Tullahoma Airport Authority 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, 2009
(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.

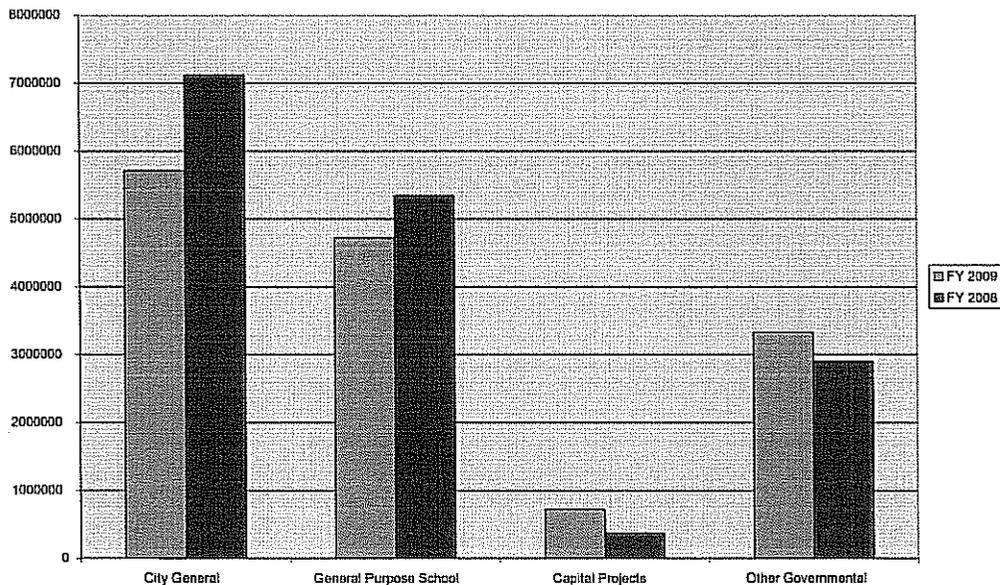
FINANCIAL HIGHLIGHTS

- The assets of the Governmental Activities group exceeded its liabilities at the close of the most recent fiscal year by \$13,638 (net assets). Of this amount, \$4,135 is restricted for debt service and other use, with \$9,508 available to meet other ongoing obligations. The Governmental Activities group's net assets increased by \$769.
- The Governmental Activities group indicates an increase in capital assets net of related debt of \$2,481. This reflects the City's near completion of the \$2,500 renovation of the D.W. Wilson Community Center, as well as \$2,425 in construction in progress for school projects, offset by the associated debt. Streets and infrastructure are included in the balance sheet in compliance with GASB34.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

- The Business-type Activities group's total net assets increased by only \$727. Although there were substantial increases from FY2008, this reduced the cash and cash equivalents balance, resulting in very little change to the bottom line.
- The Capital assets in the Business Activities group increased by \$5,867 due to an additional \$3,720 in construction in process as progress continued on the Utility's fiber-optics build out.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$15,307, a decrease of \$331 from the prior year. While the other governmental funds balance increased by \$1,621, the City general fund decreased by \$1,293 and the general purpose School fund also decreased by \$659.

Changes in Fund Balance



- At the end of the current fiscal year, fund balance for the city general fund was \$5,725, or 25% of total general fund expenditures including transfers out.
- The ending general purpose school fund balance was \$4,683 or 17% of total expenses for that fund.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

- The City governmental activities' total gross debt increased by \$1,444 or 4.4% during the 2008 fiscal year. The Utilities Board's gross debt decreased by \$1,847 or about 6.7% during this period.
- The City of Tullahoma closed on 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 themselves.

Government-wide Financial Statements

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

The statement of net assets presents 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, 2009
(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 two categories: Governmental Funds and Proprietary Funds.

- **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the citywide 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, and the capital project fund, the UDAG Revolving Loan Fund and the non-major governmental funds, all of which are combined into a single, aggregated presentation. Individual fund data for non-major governmental funds 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, 2009
(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 medial coverage and changed to a commercial carrier. The balance of this fund is retained as a benefits reserve.

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

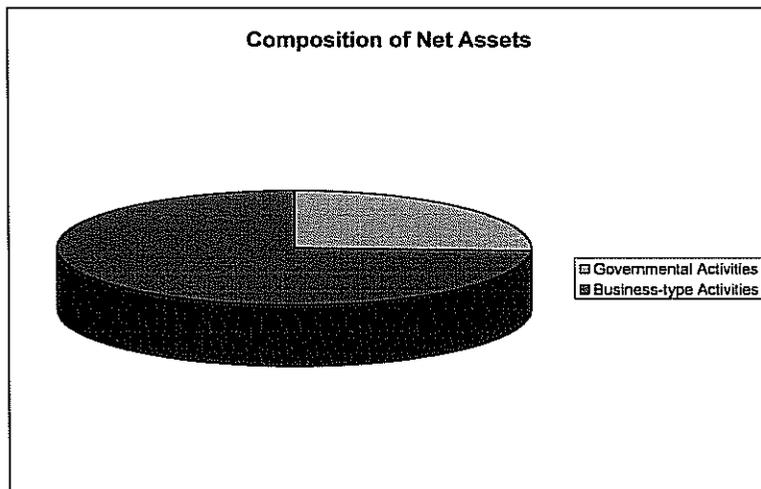
As noted earlier, net assets may serve over time as a useful indicator of a City's financial position. In the case of the City's Government Activities funds, assets exceed liabilities by \$13,638 at the close of the most recent fiscal year. The City's investment in capital assets (e.g. land, buildings, equipment); is largely offset by accumulated assets. The Business-type Activities funds show net assets of \$37,526 with 71% 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, 2009
(amounts expressed in thousands)

City of Tullahoma's Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 19,013	\$ 20,919	\$ 21,772	\$ 27,238	\$ 40,785	\$ 48,157
Capital assets	30,723	28,125	45,729	41,778	76,452	69,903
Total assets	49,736	49,044	67,501	69,016	117,237	118,060
Long-term liabilities outstanding	34,045	31,050	24,333	25,910	58,378	56,960
Other Liabilities	2,052	5,225	5,642	6,307	7,694	11,532
Total liabilities	36,097	36,275	29,975	32,217	66,072	68,492
Net assets:						
Invested in capital assets, net of related debt	639	(2,119)	26,717	25,537	27,356	23,418
Restricted	3,498	2,070	4,610	3,630	8,108	5,700
Unrestricted	9,501	12,818	6,199	7,632	15,701	20,450
Total net assets	\$ 13,639	\$ 12,769	\$ 37,526	\$ 36,799	\$ 51,165	\$ 49,568

A portion of the Governmental Activities' total net assets \$3,498 (26%) 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 assets and assets for capital construction and projects. The remaining balance of unrestricted net assets \$9,501 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, 2009
(amounts expressed in thousands)

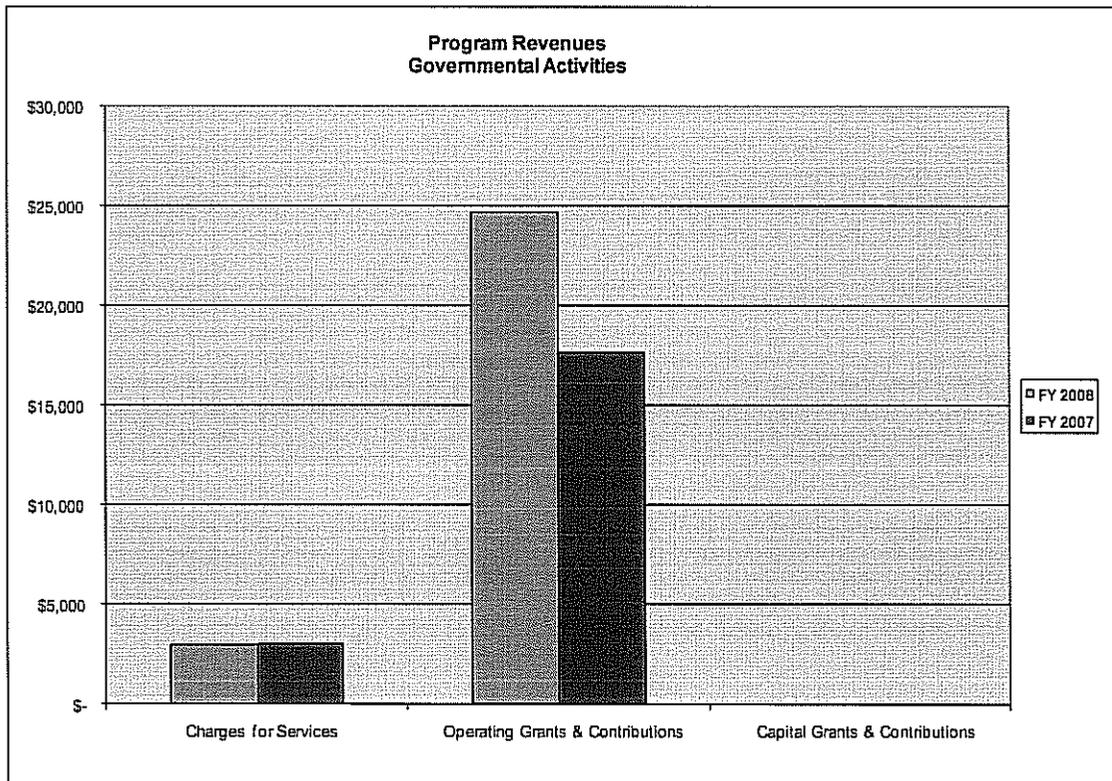
City of Tullahoma's Change in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 2,894	\$ 2,934	\$35,925	\$31,555	\$ 38,819	\$ 34,489
Operating grants & contributions	25,133	24,680	-	-	25,133	24,680
Capital grants & contributions	0	16	3	59	3	75
General revenues:						
Taxes	18,031	18,235	-	-	18,031	18,235
Other revenues	375	464	110	33	485	497
Investment earnings	165	605	311	989	476	1,594
Transfers	405	396	(405)	(396)	-	-
Total revenues:	47,003	47,330	35,944	32,240	82,947	79,570
Expenses:						
General government	1,997	2,507	-	-	1,997	2,507
Public safety	4,734	4,185	-	-	4,734	4,185
Public works	4,612	3,963	-	-	4,612	3,963
Community services	259	280	-	-	259	280
Waste management	1,773	1,818	-	-	1,773	1,818
Education	31,525	31,094	-	-	31,525	31,094
Utilities	-	-	35,218	30,034	35,218	30,034
Interest and debt	1,334	1,367	-	-	1,334	1,367
Total expenses:	46,234	45,214	35,218	30,034	81,452	75,248
Change in net assets	769	2,116	727	2,206	1,496	4,322
Net assets, beginning of period	12,769	10,653	36,799	34,593	49,568	45,291
Prior period adjustment	101	-	-	-	101	-
Net assets, beginning of period (re-stated)	12,870	10,653	36,799	34,593	49,669	45,246
Nets assets, end of period	\$ 13,639	\$ 12,769	\$ 37,526	\$ 36,799	\$ 51,165	\$ 49,568

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

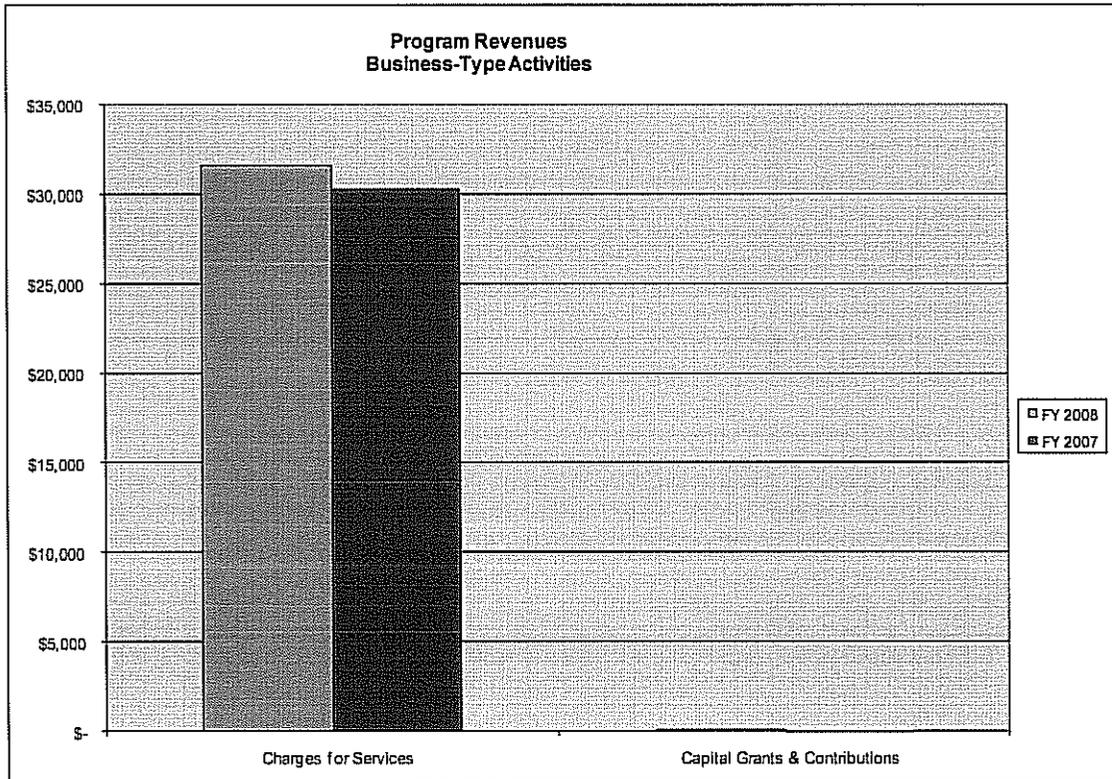
Changes in Net Assets

- Governmental activities increased the City's net assets by \$769 while Business-type Activities increased net assets by \$727. Revenues from year to year remained fairly consistent, as indicated below. Investment interest continued to decline due to another year of extremely low interest rates.



- Fiscal year 2009 saw a slight increase of \$415 in operating grants and contributions for the Tullahoma City Schools. Sales tax collections declined from \$8,136 to \$7,927, or 3%, which impacted both city and school operations.
- Although the Board of Mayor and Aldermen did not pass a property tax increase, that revenue area did improve \$52 due to a slight growth in the tax base.
- Flat or declining revenues, reflecting state and national economic trends, have constrained governmental spending and postponed some capital project plans. The city has benefited from conservative financial management and a healthy reserve balance.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(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.

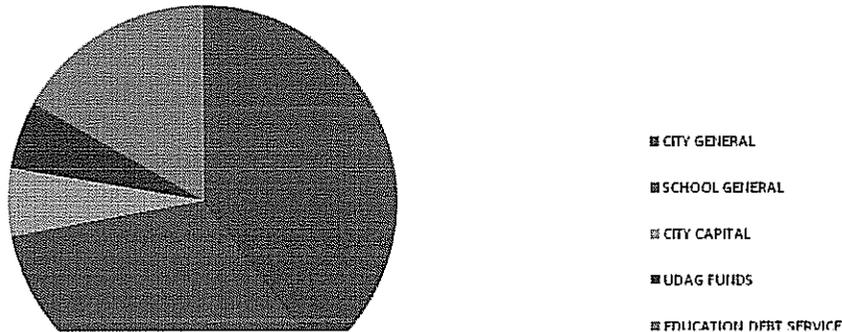
Governmental Funds

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 \$15,307, a decrease of \$331 from the prior year. This primarily reflects the net impact of the decrease in city general fund of \$1,293 offset by increase in capital projects and school debt service funds.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

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.

GOVERNMENTAL FUND BALANCES



- The general fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved undesignated fund balance of the General Fund was \$4,739 while total fund balance amounted to \$5,724. 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 24% of total general fund expenditures and transfers out. The fund balance of the City's General Fund decreased by \$1,293 as a result of the current fiscal year operations. While \$313 was utilized from fund balance for operating purposes, the additional \$1,000 was transferred to capital projects. The general fund had \$181 in outstanding encumbrances at year end.
- The general-purpose school fund has a total fund balance of \$4,683, with no restricted amounts. The net decrease in fund balance during the current year in the general-purpose school fund was \$658. The school had no outstanding encumbrances at year end.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

- The capital projects fund had a beginning fund balance of \$371, which increased to \$801 at year end, due to reimbursement of grant expenses.
- 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 2009 with a balance of \$817, an increase of \$95 from 2008.
- Non-major (other) governmental funds have an ending fund balance of \$3,281, an increase of \$1,103 from the prior year. This grouping consists primarily of smaller city capital projects funds, and school federal projects, debt service, cafeteria, after school program and capital projects funds. \$1,037 of the \$1,103 increase was in the education debt service fund, which ended the year with a fund balance of \$2,401.

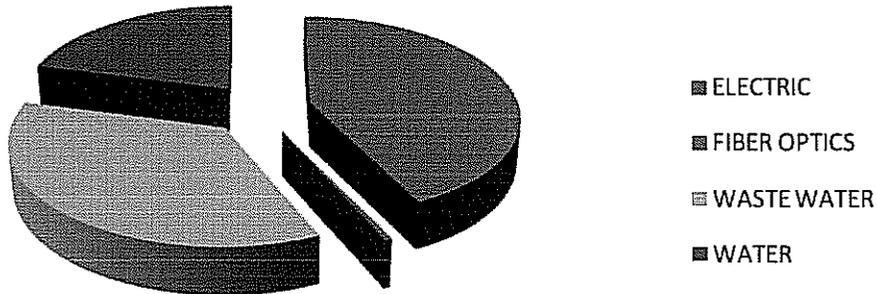
Proprietary Funds

The Business-type activities at the Tullahoma Utilities Board have seen a change in composition due to the addition of a fourth enterprise fund in 2007 for the construction of a fiber optics system which began providing services to Tullahoma residents commencing in October, 2008.

- The Electric system provided an increase in net assets of \$980 in 2009, whereas the Water and Waste Water system reflected nominal increases of \$42 and \$32 respectively.
- The Fiber Optics system decreased by \$327 reflecting start-up costs and associated debt service.

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

PROPRIETARY FUNDS



CAPITAL ASSETS AND DEBT ADMINISTRATION

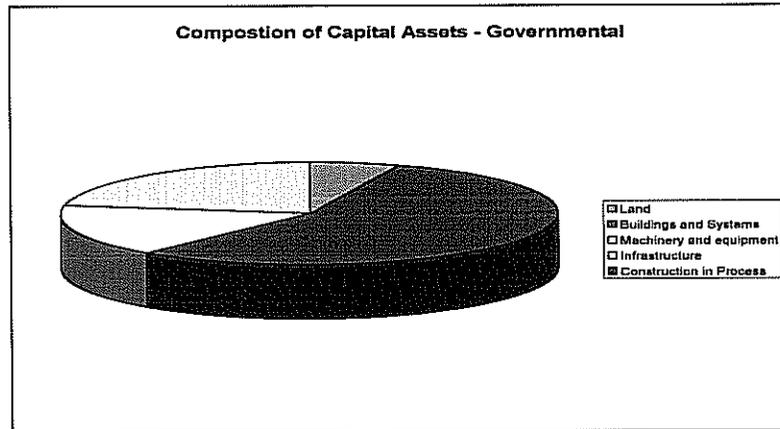
Capital Assets

The City's investment in capital assets from its governmental and business type activities as of June 30, 2008, is shown below. The 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 was reflected in the construction in process line in the table below and 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
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

CITY OF TULLAHOMA'S CAPITAL ASSETS

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 3,824	\$ 3,824	\$ 476	\$ 476	\$ 4,300	\$ 4,300
Buildings and systems	38,100	36,743	15,107	15,033	53,207	51,776
Machinery and equipment	10,843	10,903	4,374	3,459	15,217	14,362
Infrastructure	15,062	14,659	46,700	45,543	61,762	60,202
Construction in process	2,425	79	11,727	8,008	14,152	8,087
Total capital assets	\$ 70,254	\$ 66,208	\$ 78,384	\$ 72,519	\$ 148,638	\$ 138,727



Long-Term Debt

- **Governmental**

The City of Tullahoma did not issue debt for its governmental activities in FY 2008. Plans were evaluated to address education capital needs requiring a \$12,000 debt issuance in August 2008. The Board of Mayor and Aldermen of the City of Tullahoma and the Coffee County Commission supported a ¾ 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 with principal payments commencing May 2011. The City is

CITY OF TULLAHOMA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2009
(amounts expressed in thousands)

utilizing construction draws through the Tennessee Municipal Bond Fund, and paid monthly interest only on the outstanding amount in 2009.

- **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. \$11,727 of this project is reflected in the construction in process of 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.

- **Component Units**

No direct debt was issued by or on behalf of either the Airport Authority or the Tullahoma Industrial Development Board in FY 2009. 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		Business-type		Total	
	2009	2008	2009	2008	2009	2008
Notes payable	\$ 703	\$ 775	\$ 8,015	\$ 9,029	\$ 8,718	\$ 9,804
General obligation bonds	31,692	30,080	17,390	18,310	49,082	48,390
Capital leases	10	121	-	-	10	121
Total long-term debt	\$ 32,405	\$ 30,976	\$ 25,405	\$ 27,339	\$ 57,810	\$ 58,315

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 Department, P.O. Box 807, Tullahoma, TN 37388.

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF NET ASSETS
JUNE 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 13,650,660	\$ 5,451,923	\$ 19,102,583	\$ 916,406
Receivables	1,431,729	1,912,321	3,344,050	5,924
Allowance for doubtful accounts	(265,398)	(36,054)	(301,452)	-
Due from component units	24,406	-	24,406	-
Due from other governments	2,419,367	-	2,419,367	185,303
Accrued interest receivable	9,838	-	9,838	-
Inventory	-	1,344,149	1,344,149	-
Other assets	781,171	431,343	1,212,514	766
Restricted assets:				
Cash and cash equivalents	-	11,083,244	11,083,244	-
Notes receivable	960,018	1,585,886	2,545,904	-
Capital assets:				
Utility plant in service	-	46,699,849	46,699,849	-
Land	3,824,195	476,080	4,300,275	1,738,799
Buildings and improvements	38,099,914	15,107,682	53,207,596	3,723,561
Furniture, machinery, and equipment	10,843,481	4,374,948	15,218,429	342,316
Construction in progress	2,424,843	11,726,915	14,151,758	5,496,706
Infrastructure	15,062,088	-	15,062,088	-
Accumulated depreciation	(39,530,729)	(32,656,799)	(72,187,528)	(1,516,715)
Total assets	<u>49,735,583</u>	<u>67,501,487</u>	<u>117,237,070</u>	<u>10,893,066</u>
LIABILITIES:				
Accounts payable	368,689	2,500,830	2,869,519	190,393
Accrued liabilities	754,828	531,592	1,286,420	-
Accrued interest payable	312,998	-	312,998	-
Due to the primary government	-	-	-	24,404
Due to other governments	10,234	-	10,234	-
Unearned revenue	604,566	-	604,566	-
Other liabilities	-	1,002,118	1,002,118	9,807
TVA advances	-	455,506	455,506	-
Liabilities payable from restricted assets:				
Accrued interest	-	5,851	5,851	-
Contracts and retainage	-	74,864	74,864	-
Current portion of long-term liabilities	-	1,072,065	1,072,065	-
Noncurrent liabilities:				
Due within one year	1,539,054	-	1,539,054	34,865
Due in more than one year	32,506,252	24,332,589	56,838,841	260,679
Total liabilities	<u>36,096,621</u>	<u>29,975,415</u>	<u>66,072,036</u>	<u>520,148</u>
NET ASSETS:				
Invested in capital assets, net of related debt	639,595	26,716,611	27,356,206	9,469,719
Restricted for debt service	2,402,922	-	2,402,922	-
Restricted for construction	962,894	4,609,939	5,572,833	-
Restricted for drug enforcement	132,105	-	132,105	-
Unrestricted	9,501,446	6,199,522	15,700,968	903,199
Total net assets	<u>\$ 13,638,962</u>	<u>\$ 37,526,072</u>	<u>\$ 51,165,034</u>	<u>\$ 10,372,918</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, 2009**

FUNCTIONS/PROGRAMS	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Units
	Expenses	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	\$ 1,997,201	\$ 455,051	\$ 2,476,831	\$ -	\$ 934,681	\$ -	\$ 934,681	\$ -
Public safety								
Police	2,520,092	82,432	-	-	(2,437,660)	-	(2,437,660)	-
Fire	2,214,420	-	-	-	(2,214,420)	-	(2,214,420)	-
Public works	4,612,790	-	-	-	(4,612,790)	-	(4,612,790)	-
Community services	258,862	-	499,650	-	240,688	-	240,688	-
Waste management	1,772,753	702,726	-	-	(1,070,027)	-	(1,070,027)	-
Education	31,524,951	1,653,950	22,156,558	-	(7,714,443)	-	(7,714,443)	-
Interest and other debt related costs	1,333,800	-	-	-	(1,333,800)	-	(1,333,800)	-
Total governmental activities	46,234,969	2,894,159	25,133,039	-	(18,207,771)	-	(18,207,771)	-
Business-type activities:								
Electric System	27,414,811	28,664,625	-	-	-	1,249,814	1,249,814	-
Fiber Optics System	1,329,760	856,143	-	-	-	(473,617)	(473,617)	-
Waste Water System	3,322,443	3,237,376	-	3,000	-	(82,067)	(82,067)	-
Water System	3,150,974	3,167,094	-	-	-	16,120	16,120	-
Total business-type activities	35,217,988	35,925,238	-	3,000	-	710,250	710,250	-
Total primary government	\$ 81,452,957	\$ 38,819,397	\$ 25,133,039	\$ 3,000	(18,207,771)	710,250	(17,497,521)	-
Component units:								
Industrial Development Board	\$ 53,213	\$ 50,247	\$ -	\$ -	-	-	-	(3,066)
Municipal Airport Authority	315,332	84,255	107,699	5,101,913	-	-	-	4,978,535
Total component units	\$ 368,645	\$ 134,502	\$ 107,699	\$ 5,101,913	-	-	-	4,975,469
General revenues								
Taxes:								
Property					8,643,741	-	8,643,741	-
Sales					7,927,112	-	7,927,112	-
Wholesale beer					495,208	-	495,208	-
Wholesale liquor					179,444	-	179,444	-
Business					466,322	-	466,322	-
Cable television franchise					191,666	-	191,666	-
Hotel-Motel					127,918	-	127,918	-
Other revenues					364,450	108,956	473,406	4,336
Unrestricted investment earnings					164,840	311,483	476,323	9,208
Gain on sale of property					11,710	1,000	12,710	-
Transfers					404,579	(404,579)	-	-
Total general revenues and transfers					18,976,990	16,860	18,993,850	13,544
Change in net assets					769,219	727,110	1,496,329	4,989,013
Net assets, beginning					12,768,490	36,799,048	49,567,538	5,369,947
Prior period adjustment					101,253	(86)	101,167	13,958
Net assets, ending					\$ 13,638,962	\$ 37,526,072	\$ 51,165,034	\$ 10,372,918

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

**CITY OF TULLAHOMA, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009**

	General	General Purpose School	2005 Capital Projects	UDAG	Other Governmental Funds	Total Governmental Funds
ASSETS:						
Cash and cash equivalents	\$ 5,109,558	\$ 3,879,756	\$ 482,267	\$ 816,645	\$ 3,136,034	\$ 13,424,260
Accrued interest receivable	-	-	-	-	9,838	9,838
Receivables	1,367,221	-	-	-	64,508	1,431,729
Allowance for doubtful accounts	(254,427)	-	-	-	(10,971)	(265,398)
Due from other governments	903,093	535,863	325,757	-	654,654	2,419,367
Due from other funds of the primary government	6,620	742,101	-	-	47,435	796,156
Due from component units	-	-	-	-	24,406	24,406
Notes receivable	-	-	-	912,689	47,329	960,018
Total assets	\$ 7,132,065	\$ 5,157,720	\$ 808,024	\$ 1,729,334	\$ 3,973,233	\$ 18,800,376
LIABILITIES:						
Accounts payable	\$ 121,408	\$ 178,131	\$ 6,884	\$ -	\$ 62,266	\$ 368,689
Accrued liabilities	79,246	157,921	-	-	136,714	373,881
Accrued payroll	170,277	138,410	-	-	72,260	380,947
Unearned revenue	604,566	-	-	912,689	47,329	1,564,584
Due to other governments	10,234	-	-	-	-	10,234
Due to other funds of the primary government	421,515	-	-	-	373,421	794,936
Total liabilities	1,407,246	474,462	6,884	912,689	691,990	3,493,271
FUND BALANCES:						
Reserve for encumbrances	181,327	213,645	-	-	18,104	413,076
Reserve for capital improvements	-	-	-	-	96,722	96,722
Reserve for debt service	-	-	-	-	2,402,922	2,402,922
Reserve for drug enforcement	-	-	-	-	132,105	132,105
Reserve for grant projects	-	-	-	-	101,677	101,677
Unreserved reported in:						
General fund:						
Designated for specific projects	804,032	-	-	-	-	804,032
Undesignated	4,739,460	-	-	-	-	4,739,460
Capital projects fund:						
Undesignated	-	-	801,140	-	-	801,140
Special revenue funds:						
Undesignated	-	4,469,613	-	816,645	529,713	5,815,971
Total fund balances	5,724,819	4,683,258	801,140	816,645	3,281,243	15,307,105
Total liabilities and fund balances	\$ 7,132,065	\$ 5,157,720	\$ 808,024	\$ 1,729,334	\$ 3,973,233	\$ 18,800,376

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, 2009

Fund balances - total governmental funds \$ 15,307,105

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	70,254,521
Less accumulated depreciation	(39,530,729)

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

Bonds payable	(31,692,463)
Less deferred charge on refunding	466,769
Less deferred charge for issuance costs	314,402
Add bond premium	(110,523)
Accrued interest payable	(312,998)
Net pension obligation	(399,249)
Notes payable	(703,000)
Capital leases payable	(10,368)
Compensated absences	(1,129,703)

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>960,018</u>
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Net assets - total governmental activities	<u><u>\$ 13,638,962</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, 2009

	General	General Purpose School	2005 Capital Projects	UDAG	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property taxes	\$ 8,643,741	\$ -	\$ -	\$ -	\$ -	\$ 8,643,741
Local option sales taxes	7,927,112	-	-	-	-	7,927,112
Other taxes	1,273,335	-	-	-	-	1,273,335
Payment in lieu of tax	187,223	-	-	-	-	187,223
Licenses and permits	138,158	-	-	-	-	138,158
Fines and forfeitures	244,343	-	-	-	-	244,343
Intergovernmental	2,476,831	19,276,051	450,000	-	2,930,157	25,133,039
Charges for services	72,550	330,507	-	-	2,026,169	2,429,226
Investment income	74,361	14,098	1,461	39,651	35,269	164,840
Note repayments	-	-	-	85,949	9,664	95,613
Sale of property	19,852	-	-	-	-	19,852
Other revenues	212,178	107,263	-	-	127,441	446,882
Total revenues	21,269,684	19,727,919	451,461	125,600	5,128,700	46,703,364
EXPENDITURES:						
Current:						
General government	1,182,578	-	-	-	-	1,182,578
Public safety:						
Police Protection	2,492,739	-	-	-	-	2,492,739
Fire Protection	2,233,860	-	-	-	-	2,233,860
Public works	2,087,564	-	-	-	-	2,087,564
Parks and Recreation	1,256,631	-	-	-	-	1,256,631
Community services	253,497	-	-	-	-	253,497
Education:						
Administration	-	2,694,044	-	-	-	2,694,044
Regular education	-	13,835,573	-	-	879,951	14,715,524
Special education	-	2,655,994	-	-	766,156	3,422,150
Vocational education	-	965,619	-	-	138,607	1,104,226
Adult education	-	169,467	-	-	-	169,467
Attendance	-	239,265	-	-	-	239,265
Health services	-	177,887	-	-	-	177,887
Other student support	-	681,325	-	-	15,194	696,519
Instructional staff	-	720,556	-	-	103,960	824,516
Plant operations	-	2,725,509	-	-	-	2,725,509
Plant maintenance	-	1,202,551	-	-	-	1,202,551
Transportation	-	96,830	-	-	-	96,830
Community services	-	6,851	-	-	-	6,851
Program costs	-	-	-	706	4,423,047	4,423,753
Debt service:						
Principal retirement	-	111,025	-	-	1,352,000	1,463,025
Interest	-	3,534	-	-	1,307,945	1,311,479
Fiscal charges	-	-	7,875	-	86,953	94,828
Capital outlay	588,503	551,616	1,621,346	-	2,606,752	5,368,217
Loans disbursed	-	-	-	30,000	49,650	79,650
Total expenditures	10,095,372	26,837,646	1,629,221	30,706	11,730,215	50,323,160
Excess (deficiency) of revenues over (under) expenditures	11,174,312	(7,109,727)	(1,177,760)	94,894	(6,601,515)	(3,619,796)
OTHER FINANCING SOURCES (USES):						
Bond proceeds	-	-	1,007,875	-	1,884,588	2,892,463
Transfers in	517,192	7,367,523	600,000	-	9,353,901	17,838,616
Transfers out	(12,984,573)	(916,199)	-	-	(3,533,265)	(17,434,037)
Total other financing sources (uses)	(12,467,381)	6,451,324	1,607,875	-	7,705,224	3,297,042
Net change in fund balances	(1,293,069)	(658,403)	430,115	94,894	1,103,709	(322,754)
Fund balances, July 1, 2008	7,017,888	5,341,661	371,025	722,960	2,184,599	15,638,133
Prior period adjustment (See Note 2)	-	-	-	(1,209)	(7,065)	(8,274)
Fund balances, June 30, 2009	\$ 5,724,819	\$ 4,683,258	\$ 801,140	\$ 816,645	\$ 3,281,243	\$ 15,307,105

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, 2009

Net change in fund balances - governmental funds \$ (322,754)

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	4,645,710
Depreciation expense	(2,147,149)
Principal payments on capital leases	111,025

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. (8,142)

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 proceeds	(2,892,463)
Bond and note principal repayments	1,352,000
Bond issuance costs	92,463
Amortization of issuance costs	(17,109)
Amortization of deferred charges	(26,674)
Amortization of premium	6,711
Decrease in accrued interest expense	13,580
Loans disbursed	79,650
Principal received on notes receivable	(95,413)

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. -

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 expended when they are incurred for governmental activities.

Decrease in net pension obligation	10,829
Increase in compensated absences	(33,045)

Change in net assets - governmental activities \$ 769,219

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Taxes:							
Property taxes	\$ 8,643,741	\$ -	\$ -	\$ 8,643,741	\$ 8,319,307	\$ 8,643,001	\$ 740
Local option sales tax	7,927,112	-	-	7,927,112	8,422,360	7,928,000	(888)
Wholesale beer	495,208	-	-	495,208	466,375	495,000	208
Wholesale liquor	179,444	-	-	179,444	207,000	179,000	444
Business	279,099	-	-	279,099	286,000	280,000	(901)
Cable TV	191,666	-	-	191,666	179,000	190,000	1,666
Hotel and motel	127,918	-	-	127,918	135,187	128,000	(82)
Total taxes	17,844,188	-	-	17,844,188	18,015,229	17,843,001	1,187
Payment in lieu of taxes	187,223	-	-	187,223	682,000	593,000	(405,777)
Licenses and permits	138,158	-	-	138,158	127,855	141,855	(3,697)
Fines and forfeitures	244,343	-	-	244,343	500,439	250,750	(6,407)
Intergovernmental:							
State of Tennessee sales tax	1,198,023	-	-	1,198,023	1,329,873	1,200,000	(1,977)
State of Tennessee gas tax	472,835	-	-	472,835	525,465	475,000	(2,165)
State of Tennessee income tax	293,483	-	-	293,483	214,400	295,000	(1,517)
TVA gross receipts	173,230	-	-	173,230	167,721	175,000	(1,770)
State and federal grants	55,766	-	-	55,766	-	40,000	15,766
Mixed drink tax	70,010	-	-	70,010	74,423	74,423	(4,413)
Excise tax	73,703	-	-	73,703	46,125	74,000	(297)
Streets and transportation	38,711	-	-	38,711	40,576	40,576	(1,865)
State street contracts	1,625	-	-	1,625	-	2,000	(375)
Supplemental pay	40,800	-	-	40,800	-	41,000	(200)
State of Tennessee beer tax	9,386	-	-	9,386	9,000	9,000	386
Telecommunications tax	2,292	-	-	2,292	3,119	3,119	(827)
Other local agencies	46,967	-	-	46,967	-	-	46,967
Total intergovernmental	2,476,831	-	-	2,476,831	2,410,702	2,429,118	47,713
Charges for services	72,550	-	-	72,550	123,655	79,555	(7,005)
Investment income	74,361	-	-	74,361	162,000	80,000	(5,639)
Sale of property	19,852	-	-	19,852	-	-	19,852
Other revenues	212,178	-	-	212,178	1,182,922	1,467,929	(1,255,751)
Total revenues	21,269,684	-	-	21,269,684	23,204,802	22,855,208	(1,615,524)
EXPENDITURES:							
General government:							
Legislative and judicial:							
Current:							
Salaries	37,614	-	-	37,614	37,614	37,614	-
Payroll Taxes	2,991	-	-	2,991	2,878	2,878	(113)
Benefits	29,580	-	-	29,580	111,000	30,000	420
Telephone and utility	-	-	-	-	1,200	-	-
Contract and professional	88,836	(3,700)	8,445	93,581	80,000	98,500	4,919
Travel and training	3,205	-	-	3,205	4,738	3,500	295
Supplies	915	-	-	915	750	860	(55)
Operating insurance	8,572	-	-	8,572	9,081	8,581	9
Other	45,979	-	-	45,979	33,944	44,769	(1,210)
Total legislative and judicial	217,692	(3,700)	8,445	222,437	281,205	226,702	4,265
Court system:							
Current:							
Salaries	31,508	-	-	31,508	31,809	30,210	(1,298)
Payroll taxes	3,029	-	-	3,029	2,433	3,050	21
Benefits	3,565	-	-	3,565	3,967	3,967	402
Contract and professional	10,575	-	-	10,575	12,000	10,600	25
Repairs and maintenance	-	-	-	-	4,000	-	-
Travel and training	127	-	-	127	600	200	73
Supplies	145	-	-	145	150	150	5
Operating insurance	250	-	-	250	250	250	-
Other	211	-	-	211	342	342	131
Total court system	49,410	-	-	49,410	55,551	48,769	(641)

(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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
City administrator:							
Current:							
Salaries	121,796	-	-	121,796	121,628	122,093	297
Payroll taxes	9,279	-	-	9,279	9,304	9,304	25
Benefits	29,862	-	-	29,862	34,239	30,002	140
Telephone and utility	57	-	-	57	600	75	18
Repairs and maintenance	467	-	-	467	-	501	34
Travel and training	2,628	-	-	2,628	2,000	2,800	172
Supplies	300	-	-	300	250	300	-
Gas and oil	723	-	-	723	600	800	77
Operating insurance	2,337	-	-	2,337	2,589	2,489	152
Depreciation expense	-	-	-	-	2,218	1,480	1,480
Other	293	-	-	293	874	395	102
Total city administrator	167,742	-	-	167,742	174,302	170,239	2,497
Finance director:							
Current:							
Salaries	162,909	-	-	162,909	154,332	163,100	191
Payroll taxes	12,275	-	-	12,275	11,806	12,300	25
Benefits	32,046	-	-	32,046	33,309	33,309	1,263
Telephone and utility	25,151	-	-	25,151	24,000	25,200	49
Repairs and maintenance	14,940	-	-	14,940	19,000	16,000	1,060
Travel and training	1,980	-	-	1,980	5,000	2,200	220
Supplies	19,119	-	401	19,520	100	900	(18,620)
Uniforms	-	-	-	-	500	800	800
Operating insurance	2,715	-	-	2,715	3,041	2,741	26
Other	10,061	-	-	10,061	34,447	29,652	19,591
Total finance director	281,196	-	401	281,597	285,535	286,202	4,605
Purchasing:							
Current:							
Salaries	39,867	-	-	39,867	39,715	39,900	33
Payroll taxes	3,036	-	-	3,036	3,038	3,038	2
Benefits	7,619	-	-	7,619	8,369	8,369	750
Telephone and utility	15	-	-	15	100	100	85
Supplies	215	-	-	215	400	400	185
Operating insurance	693	-	-	693	972	700	7
Other	367	-	-	367	1,557	372	5
Total purchasing	51,812	-	-	51,812	54,151	52,879	1,067
Human resources:							
Current:							
Salaries	57,165	-	-	57,165	52,345	57,205	40
Payroll taxes	4,328	-	-	4,328	4,004	4,330	2
Benefits	7,823	-	-	7,823	8,488	8,488	665
Telephone and utility	680	-	-	680	875	700	20
Contract and professional	-	-	-	-	-	-	-
Travel and training	1,101	-	-	1,101	1,200	1,200	99
Supplies	500	-	-	500	500	500	-
Operating insurance	692	-	-	692	763	700	8
Other	3,890	-	2,088	5,978	4,973	6,033	55
Total human resources	76,179	-	2,088	78,267	73,148	79,156	889
Community development:							
Current:							
Salaries	41,424	-	-	41,424	41,209	41,430	6
Payroll taxes	3,158	-	-	3,158	3,152	3,160	2
Benefits	9,849	-	-	9,849	8,447	9,854	5
Telephone and utility	447	-	-	447	480	480	33
Contract and professional	7,000	-	-	7,000	-	7,000	-
Repairs and maintenance	-	-	-	-	-	-	-
Travel and training	557	-	-	557	500	600	43
Supplies	351	-	-	351	550	550	199
Operating insurance	482	-	-	482	535	500	18
Other	1,360	-	-	1,360	1,432	1,432	72
Total community development	64,628	-	-	64,628	56,305	65,006	378

(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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Planning:							
Current:							
Salaries	154,764	-	-	154,764	153,855	154,829	65
Payroll taxes	10,544	-	-	10,544	11,770	11,770	1,226
Benefits	41,875	-	-	41,875	56,830	42,400	525
Telephone and utility	6,964	-	-	6,964	7,500	7,520	556
Contract and professional	-	-	-	-	5,000	-	-
Repairs and maintenance	652	-	-	652	1,000	750	98
Travel and training	3,004	-	-	3,004	1,500	3,250	246
Supplies	2,517	-	-	2,517	2,000	2,650	133
Uniforms	347	(191)	900	1,056	2,000	2,000	944
Gas and oil	2,443	-	-	2,443	2,235	2,500	57
Operating insurance	7,287	-	-	7,287	7,180	7,305	18
Depreciation expense	-	-	-	-	5,000	3,336	3,336
Other	5,728	-	1,190	6,918	8,050	7,450	532
Total planning	236,125	(191)	2,090	238,024	263,920	245,760	7,736
Information technology:							
Current:							
Salaries	-	-	-	-	30,000	-	-
Contract and professional	-	-	8,800	8,800	-	9,000	200
Printing and publication	82	-	-	82	-	100	18
Total information technology	82	-	8,800	8,882	30,000	9,100	218
Municipal building:							
Current:							
Telephone and utility	21,915	-	-	21,915	23,800	23,800	1,885
Rent	1,534	-	-	1,534	500	1,537	3
Repairs and maintenance	4,707	-	-	4,707	5,000	4,775	68
Operating insurance	9,556	-	-	9,556	10,500	9,688	132
Total municipal building	37,712	-	-	37,712	39,800	39,800	2,088
Total current	1,182,578	(3,891)	21,824	1,200,511	1,313,917	1,223,613	23,102
Capital outlay	4,414	-	-	4,414	4,000	4,600	186
Total general government	1,186,992	(3,891)	21,824	1,204,925	1,317,917	1,228,213	23,288
Public safety:							
Police:							
Current:							
Salaries	1,625,158	-	-	1,625,158	1,679,010	1,633,440	8,282
Payroll taxes	125,159	-	-	125,159	128,445	129,556	4,397
Benefits	409,973	-	-	409,973	533,659	418,679	8,706
Telephone and utility	7,572	-	-	7,572	7,238	8,000	428
Repairs and maintenance	69,794	-	424	70,218	30,000	71,200	982
Travel and training	12,862	-	-	12,862	14,540	13,740	878
Supplies	25,073	(205)	-	24,868	25,190	23,390	(1,478)
Uniforms	19,254	(932)	561	18,883	19,500	19,775	892
Gas and oil	72,998	-	-	72,998	111,500	74,550	1,552
Operating insurance	106,754	-	-	106,754	110,020	107,851	1,097
Depreciation expense	-	-	-	-	88,380	58,920	58,920
Other	18,142	-	-	18,142	24,246	21,944	3,802
Total current	2,492,739	(1,137)	985	2,492,587	2,771,728	2,581,045	88,458
Capital outlay	130,629	-	-	130,629	27,000	49,137	(81,492)
Total police	2,623,368	(1,137)	985	2,623,216	2,798,728	2,630,182	6,966
Fire:							
Current:							
Salaries	1,379,388	-	-	1,379,388	1,319,940	1,380,633	1,245
Payroll taxes	105,244	-	-	105,244	100,976	105,623	379
Benefits	362,492	-	-	362,492	432,293	363,963	1,471
Telephones and utility	30,407	-	-	30,407	29,850	30,600	193
Rent	132,321	-	-	132,321	132,350	132,350	29
Repairs and maintenance	39,579	(125)	3,500	41,954	40,500	42,385	431
Travel and training	14,576	-	-	14,576	16,000	15,000	424
Supplies	13,795	-	-	13,795	11,650	13,950	155
Uniforms	29,542	-	33,724	63,266	21,525	63,332	66
Gas and oil	16,665	-	-	16,665	18,750	17,900	1,235
Operating insurance	102,519	-	-	102,519	127,627	103,689	1,170
Depreciation expense	-	-	-	-	4,000	2,664	2,664
Other	7,332	-	-	7,332	8,478	7,931	599
Total current	2,233,860	(125)	36,224	2,269,959	2,263,939	2,280,020	10,061
Capital outlay	54,158	(170)	-	53,988	28,900	56,343	2,355
Total fire	2,288,018	(295)	36,224	2,323,947	2,292,839	2,336,363	12,416
Total public safety	4,911,386	(1,432)	37,209	4,947,163	5,091,567	4,966,545	19,382

(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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Public works:							
Current:							
Salaries	593,610	-	-	593,610	605,923	598,351	4,741
Payroll taxes	50,568	-	-	50,568	50,485	51,782	1,214
Benefits	195,803	-	-	195,803	240,718	197,268	1,465
Telephone and utility	42,764	-	-	42,764	45,117	44,550	1,786
Street lights	408,836	(3,277)	-	405,559	400,000	410,000	4,441
Contract and professional	224,028	(24,356)	19,610	219,282	119,700	231,664	12,382
Repairs and maintenance	78,011	(1,605)	1,211	77,617	76,150	78,720	1,103
State street aid	154,070	(44,120)	63,641	173,591	250,000	207,600	34,009
Travel and training	3,936	-	-	3,936	3,800	4,473	537
Supplies	23,397	-	-	23,397	18,150	19,450	(3,947)
Uniforms	9,182	(105)	736	9,813	9,900	9,945	132
Gas and oil	136,062	-	-	136,062	92,283	141,860	5,798
Parts and supplies	28,366	(443)	-	27,923	36,500	30,000	2,077
Materials	55,765	(1,416)	1,090	55,439	42,070	55,400	(39)
Operating insurance	56,933	-	-	56,933	69,403	58,548	1,615
Depreciation expense	-	-	-	-	69,926	47,004	47,004
Other	26,233	-	-	26,233	34,110	41,638	15,405
Total current	2,087,564	(75,322)	86,388	2,098,530	2,164,235	2,228,253	129,723
Capital outlay	329,172	(85,611)	17,206	260,767	7,950	6,200	(254,567)
Total public works	2,416,736	(160,933)	103,494	2,359,297	2,172,185	2,234,453	(124,844)
Parks and recreation:							
Current:							
Salaries	584,002	-	-	584,002	615,390	587,363	3,561
Payroll taxes	44,223	-	-	44,223	47,077	44,984	761
Benefits	122,838	-	-	122,838	166,039	126,289	3,451
Telephone and utility	171,785	-	-	171,785	160,549	172,110	325
Street lights	11,112	-	-	11,112	12,430	12,430	1,318
Contract and professional	55,593	-	-	55,593	56,600	59,710	4,117
Repairs and maintenance	128,433	(4,233)	6,478	130,678	93,950	132,400	1,722
State contract	-	-	-	-	250	-	-
Travel and training	6,046	-	-	6,046	8,800	6,500	454
Supplies	58,989	(1,009)	-	57,980	52,425	54,760	(3,220)
Uniforms	2,847	-	-	2,847	4,900	3,950	1,103
Gas and oil	10,912	-	-	10,912	12,195	11,250	338
Operating insurance	53,704	-	-	53,704	58,111	55,515	1,811
Depreciation expense	-	-	-	-	19,041	12,693	12,693
Other	6,147	-	-	6,147	5,873	7,317	1,170
Total current	1,256,631	(5,242)	6,478	1,257,867	1,313,630	1,287,471	29,604
Capital outlay	70,130	(41,781)	2,177	30,526	32,750	32,300	1,774
Total parks and recreation	1,326,761	(47,023)	8,655	1,288,393	1,346,380	1,319,771	31,378
Community services:							
Current:							
Telephone and utilities	31,042	-	-	31,042	26,252	32,442	1,400
Contract and professional	3,420	-	-	3,420	-	3,500	80
Operating insurance	13,573	-	-	13,573	18,800	15,050	1,477
Other	3,840	-	-	3,840	1,600	3,850	10
Appropriations	201,622	-	10,145	211,767	130,134	128,184	(83,583)
Total community services	253,497	-	10,145	263,642	176,786	183,026	(80,616)
Program costs	-	-	-	-	-	-	-
Total expenditures	10,095,372	(213,279)	181,327	10,063,420	10,104,835	9,932,008	(131,412)
Excess revenues over (under) expenditures	11,174,312	213,279	(181,327)	11,206,264	13,099,967	12,953,200	(1,746,936)
OTHER FINANCING SOURCES (USES):							
Transfers in	517,192	-	-	517,192	45,000	45,000	472,192
Transfers out	(12,984,573)	-	-	(12,984,573)	(13,144,965)	(12,998,199)	13,626
Total other financing sources (uses)	(12,467,381)	-	-	(12,467,381)	(13,099,965)	(12,953,199)	485,818
Net change in fund balance	(1,293,069)	213,279	(181,327)	(1,261,117)	2	1	(1,261,118)
Fund balance, July 1, 2008	7,017,888	(213,279)	-	6,804,609	7,017,888	7,017,888	(213,279)
Fund balance, June 30, 2009	\$ 5,724,819	\$ -	\$ (181,327)	\$ 5,543,492	\$ 7,017,890	\$ 7,017,889	\$ (1,474,397)

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental							
Local shared taxes	\$ 5,037,795	\$ -	\$ -	\$ 5,037,795	\$ 5,002,904	\$ 5,002,904	\$ 34,891
Federal and state	14,238,256	-	-	14,238,256	13,730,526	13,730,526	507,730
Charges for services	330,507	-	-	330,507	342,500	342,500	(11,993)
Interest income	14,098	-	-	14,098	93,000	93,000	(78,902)
Other	107,263	-	-	107,263	35,000	35,000	72,263
Total revenues	19,727,919	-	-	19,727,919	19,203,930	19,203,930	523,989
EXPENDITURES:							
Current:							
Administration							
Salaries	1,247,970	-	-	1,247,970	1,351,521	1,351,521	103,551
Payroll taxes	89,506	-	-	89,506	104,974	104,974	15,468
Benefits	737,210	-	-	737,210	759,161	759,161	21,951
Contract services	235,902	(39,875)	-	196,027	210,525	210,525	14,498
Travel	24,000	-	-	24,000	10,800	10,800	(13,200)
Supplies	35,382	-	-	35,382	35,100	35,100	(282)
Other	84,357	-	-	84,357	100,400	100,400	16,043
Insurance	239,717	-	-	239,717	266,000	266,000	26,283
Total administration	2,694,044	(39,875)	-	2,654,169	2,838,481	2,838,481	184,312
Regular education							
Salaries	10,062,849	-	-	10,062,849	10,119,351	10,119,351	56,502
Payroll taxes	740,577	-	-	740,577	804,731	804,731	64,154
Benefits	2,221,532	-	-	2,221,532	2,304,573	2,304,573	83,041
Travel	111,092	-	-	111,092	30,000	30,000	(81,092)
Supplies	382,893	(13,360)	-	369,533	250,000	250,000	(119,533)
Books	305,946	(7,817)	-	298,129	280,000	280,000	(18,129)
Other	10,684	-	-	10,684	-	-	(10,684)
Total regular education	13,835,573	(21,177)	-	13,814,396	13,788,655	13,788,655	(25,741)
Special education							
Salaries	1,798,974	-	-	1,798,974	1,962,489	1,962,489	163,515
Payroll taxes	134,995	-	-	134,995	135,680	135,680	685
Benefits	478,943	-	-	478,943	467,420	467,420	(11,523)
Contract services	176,585	-	-	176,585	64,000	64,000	(112,585)
Travel	19,513	-	-	19,513	3,500	3,500	(16,013)
Supplies	28,897	-	-	28,897	21,800	21,800	(7,097)
Other	18,087	-	-	18,087	7,250	7,250	(10,837)
Total special education	2,655,994	-	-	2,655,994	2,662,139	2,662,139	6,145
Vocational education							
Salaries	696,474	-	-	696,474	697,305	697,305	831
Payroll taxes	46,389	-	-	46,389	51,431	51,431	5,042
Benefits	172,757	-	-	172,757	173,321	173,321	564
Travel	10,000	-	-	10,000	10,000	10,000	-
Supplies	30,000	-	-	30,000	30,000	30,000	-
Other	9,999	-	-	9,999	10,000	10,000	1
Total vocational education	965,619	-	-	965,619	972,057	972,057	6,438
Adult education							
Salaries	131,826	-	-	131,826	133,290	133,290	1,464
Payroll taxes	9,281	-	-	9,281	10,196	10,196	915
Benefits	13,226	-	-	13,226	24,746	24,746	11,520
Contract services	1,803	-	-	1,803	-	-	(1,803)
Travel	392	-	-	392	1,300	1,300	908
Supplies	6,823	-	-	6,823	2,000	2,000	(4,823)
Other	6,116	-	-	6,116	2,400	2,400	(3,716)
Total adult education	169,467	-	-	169,467	173,932	173,932	4,465
Attendance							
Salaries	187,048	-	-	187,048	188,249	188,249	1,201
Payroll taxes	14,035	-	-	14,035	15,319	15,319	1,284
Benefits	30,642	-	-	30,642	31,703	31,703	1,061
Travel	3,447	-	-	3,447	4,500	4,500	1,053
Other	4,093	-	-	4,093	3,000	3,000	(1,093)
Total attendance	239,265	-	-	239,265	242,771	242,771	3,506

(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 PURPOSE SCHOOL FUND
FOR THE YEAR ENDED JUNE 30, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
Health services							
Salaries	114,973	-	-	114,973	112,908	112,908	(2,065)
Payroll taxes	8,068	-	-	8,068	8,637	8,637	569
Benefits	32,225	-	-	32,225	32,025	32,025	(200)
Supplies	22,621	-	-	22,621	25,000	25,000	2,379
Total health services	177,887	-	-	177,887	178,570	178,570	683
Other student support							
Salaries	493,384	-	-	493,384	510,934	510,934	17,550
Payroll taxes	36,800	-	-	36,800	43,141	43,141	6,341
Benefits	115,485	-	-	115,485	112,528	112,528	(2,957)
Other	35,656	-	-	35,656	15,000	15,000	(20,656)
Total other student support	681,325	-	-	681,325	681,603	681,603	278
Instructional staff							
Salaries	518,728	-	-	518,728	525,553	525,553	6,825
Payroll taxes	38,813	-	-	38,813	40,205	40,205	1,392
Benefits	93,292	-	-	93,292	95,734	95,734	2,442
Contract services	21,916	-	-	21,916	7,000	7,000	(14,916)
Travel	3,040	-	-	3,040	-	-	(3,040)
Books	44,228	-	-	44,228	55,000	55,000	10,772
Other	539	-	-	539	1,500	1,500	961
Total instructional staff	720,556	-	-	720,556	724,992	724,992	4,436
Plant operations							
Salaries	609,727	-	-	609,727	652,522	652,522	42,795
Payroll taxes	43,824	-	-	43,824	49,918	49,918	6,094
Benefits	188,322	-	-	188,322	188,160	188,160	(162)
Contract services	473,883	-	-	473,883	475,000	475,000	1,117
Supplies	105,033	-	-	105,033	100,000	100,000	(5,033)
Utilities	1,245,547	-	-	1,245,547	1,220,000	1,220,000	(25,547)
Insurance	59,173	-	-	59,173	55,235	55,235	(3,938)
Total plant operations	2,725,509	-	-	2,725,509	2,740,835	2,740,835	15,326
Plant maintenance							
Salaries	392,938	-	-	392,938	422,567	422,567	29,629
Payroll taxes	28,549	-	-	28,549	31,220	31,220	2,671
Benefits	86,333	-	-	86,333	92,818	92,818	6,485
Maintenance and repairs	694,464	-	-	694,464	651,000	651,000	(43,464)
Other	267	-	-	267	4,000	4,000	3,733
Total plant maintenance	1,202,551	-	-	1,202,551	1,201,605	1,201,605	(946)
Transportation							
Salaries	31,570	-	-	31,570	40,770	40,770	9,200
Payroll taxes	2,379	-	-	2,379	3,119	3,119	740
Benefits	2,660	-	-	2,660	3,788	3,788	1,128
Maintenance and repairs	17,028	-	-	17,028	20,000	20,000	2,972
Other	25,819	-	-	25,819	33,000	33,000	7,181
Insurance	17,374	-	-	17,374	20,000	20,000	2,626
Total transportation	96,830	-	-	96,830	120,677	120,677	23,847
Community services							
Other	6,851	-	-	6,851	7,000	7,000	149
Capital outlay	551,616	(269,385)	213,645	495,876	476,000	476,000	(19,876)
Debt service:							
Principal retirement	111,025	-	-	111,025	-	-	(111,025)
Interest	3,534	-	-	3,534	-	-	(3,534)
Total debt service	114,559	-	-	114,559	-	-	(114,559)
Total expenditures	26,837,646	(330,437)	213,645	26,720,854	26,809,317	26,809,317	88,463
Excess revenues over (under) expenditure:	(7,109,727)	330,437	(213,645)	(6,992,935)	(7,605,387)	(7,605,387)	612,452
OTHER FINANCING SOURCES (USES):							
Transfer from City of Tullahoma	7,367,523	-	-	7,367,523	7,373,205	7,373,205	(5,682)
Transfer to other funds	(916,199)	-	-	(916,199)	-	-	(916,199)
Total other financing sources (uses)	6,451,324	-	-	6,451,324	7,373,205	7,373,205	(921,881)
Net change in fund balance	(658,403)	330,437	(213,645)	(541,611)	(232,182)	(232,182)	(309,429)
Fund balance, July 1, 2008	5,341,661	(330,437)	-	5,011,224	5,341,661	5,341,661	(330,437)
Fund balance, June 30, 2009	\$ 4,683,258	\$ -	\$ (213,645)	\$ 4,469,613	\$ 5,109,479	\$ 5,109,479	\$ (639,866)

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Note repayments	\$ 85,949	\$ -	\$ -	\$ 85,949	\$ -	\$ 110,000	\$ (24,051)
Interest income	39,651	-	-	39,651	-	10,000	29,651
Total revenues	<u>125,600</u>	<u>-</u>	<u>-</u>	<u>125,600</u>	<u>-</u>	<u>120,000</u>	<u>5,600</u>
EXPENDITURES:							
Program costs	706	-	-	706	-	2,000	1,294
Sign grant	-	-	-	-	-	20,000	20,000
Loans disbursed	30,000	-	-	30,000	-	98,000	68,000
Total expenditures	<u>30,706</u>	<u>-</u>	<u>-</u>	<u>30,706</u>	<u>-</u>	<u>120,000</u>	<u>89,294</u>
Net change in fund balance	94,894	-	-	94,894	-	-	94,894
Fund balance, July 1, 2008	722,960	-	-	722,960	722,960	722,960	-
Prior period adjustment	(1,209)	-	-	(1,209)	-	-	(1,209)
Fund balance, June 30, 2009	<u>\$ 816,645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 816,645</u>	<u>\$ 722,960</u>	<u>\$ 722,960</u>	<u>\$ 93,685</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, 2009

	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	\$ 3,048,046	\$ 23,812	\$ 866,201	\$ 1,513,864	\$ 5,451,923	\$ 226,400
Accounts receivable	1,167,633	190,814	272,401	281,473	1,912,321	-
Allowance for doubtful accounts	(24,780)	-	(5,541)	(5,733)	(36,054)	-
Inventory	555,086	348,275	189,277	251,511	1,344,149	-
Due from other funds of the primary government	967,780	-	4,793	1,830	974,403	-
Other assets	122,335	1,605	17,439	7,470	148,849	-
Restricted assets:						
Bond funds - cash and cash equivalents	227,100	-	56,286	112,454	395,840	-
Construction funds - cash and cash equivalents	3,998,389	6,414,861	204,721	69,433	10,687,404	-
Total current assets	10,061,589	6,979,367	1,605,577	2,232,302	20,878,835	226,400
CAPITAL AND OTHER NONCURRENT ASSETS:						
Capital assets:						
Plant in service	18,100,063	-	18,022,549	10,577,237	46,699,849	-
Land	333,168	-	134,588	8,324	476,080	-
Buildings and improvements	1,350,936	1,330	10,762,971	2,992,445	15,107,682	-
Furniture, machinery, and equipment	1,802,207	506,990	1,306,389	759,362	4,374,948	-
Construction in progress	189,048	10,692,054	629,154	216,659	11,726,915	-
Less accumulated depreciation	(12,546,351)	(114,416)	(14,126,528)	(5,869,504)	(32,656,799)	-
Capital assets, net	9,229,071	11,085,958	16,729,123	8,684,523	45,728,675	-
Other noncurrent assets:						
Notes receivable	441,167	-	-	1,144,719	1,585,886	-
Other assets	-	250,043	-	32,451	282,494	-
Total capital and other noncurrent assets	9,670,238	11,336,001	16,729,123	9,861,693	47,597,055	-
Total assets	19,731,827	18,315,368	18,334,700	12,093,995	68,475,890	226,400
LIABILITIES						
CURRENT LIABILITIES:						
Accounts payable	1,925,229	148,084	299,751	127,766	2,500,830	-
Accrued expenses and other liabilities	279,521	53,093	101,751	97,227	531,592	-
Due to other funds of the primary government	-	937,812	18,094	18,497	974,403	1,220
Customer deposits	994,098	8,020	-	-	1,002,118	-
Liabilities payable from restricted assets:						
Bonds and notes payable - current portion	-	-	622,363	449,702	1,072,065	-
Accrued interest	-	-	224	5,627	5,851	-
Contracts and retainage payable	-	22,271	52,593	-	74,864	-
Total current liabilities	3,198,848	1,169,280	1,094,776	698,819	6,161,723	1,220
NONCURRENT LIABILITIES:						
Conservation - TVA program	455,506	-	-	-	455,506	-
Revenue and tax bonds and other obligations payable - non current portion	-	16,975,000	3,831,568	3,526,021	24,332,589	-
Total noncurrent liabilities	455,506	16,975,000	3,831,568	3,526,021	24,788,095	-
Total liabilities	3,654,354	18,144,280	4,926,344	4,224,840	30,949,818	1,220
NET ASSETS						
Invested in capital assets, net of related debt	9,229,071	503,548	12,275,193	4,708,799	26,716,611	-
Restricted	4,225,489	-	208,190	176,260	4,609,939	-
Unrestricted	2,622,913	(332,460)	924,973	2,984,096	6,199,522	225,180
Total net assets	\$ 16,077,473	\$ 171,088	\$ 13,408,356	\$ 7,869,155	\$ 37,526,072	\$ 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, 2009

	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	\$ 27,974,026	\$ 856,143	\$ 3,154,939	\$ 3,067,207	\$ 35,052,315	\$ -
Forfeited discounts and penalties	192,728	-	21,760	19,520	234,008	-
Rental income	298,858	-	-	-	298,858	-
Other operating revenue	199,013	-	60,677	80,367	340,057	-
Total operating revenues	<u>28,664,625</u>	<u>856,143</u>	<u>3,237,376</u>	<u>3,167,094</u>	<u>35,925,238</u>	<u>-</u>
OPERATING EXPENSES:						
Purchased power	23,884,894	-	-	-	23,884,894	-
Purchased water	-	-	-	1,080,989	1,080,989	-
Distribution and transmission	598,910	633,402	817,796	667,619	2,717,727	-
Customer accounting and collection	427,165	155,492	182,976	193,993	959,626	-
Maintenance expense	900,375	133,176	644,786	249,804	1,928,141	-
Administrative and general	831,135	297,277	559,287	505,440	2,193,139	-
Depreciation	731,502	96,586	844,701	365,854	2,038,643	-
Amortization	13,267	13,827	1,577	10,991	39,662	-
Medical and insurance benefits	-	-	-	-	-	-
Total operating expenses	<u>27,387,248</u>	<u>1,329,760</u>	<u>3,051,123</u>	<u>3,074,690</u>	<u>34,842,821</u>	<u>-</u>
OPERATING INCOME (LOSS)	1,277,377	(473,617)	186,253	92,404	1,082,417	-
NONOPERATING REVENUES (EXPENSES):						
Interest income	113,921	147,048	24,780	25,734	311,483	-
Other income	19,854	-	89,102	-	108,956	-
Gain on sale of property	1,000	-	-	-	1,000	-
Interest expense	(27,563)	-	(271,320)	(76,284)	(375,167)	-
Total non-operating revenues (expenses)	<u>107,212</u>	<u>147,048</u>	<u>(157,438)</u>	<u>(50,550)</u>	<u>46,272</u>	<u>-</u>
INCOME BEFORE TRANSFERS AND CAPITAL CONTRIBUTIONS	<u>1,384,589</u>	<u>-</u>	<u>28,815</u>	<u>41,854</u>	<u>1,128,689</u>	<u>-</u>
Capital contributions	-	-	3,000	-	3,000	-
Transfers	(404,579)	-	-	-	(404,579)	-
Change in net assets	980,010	(326,569)	31,815	41,854	727,110	-
Total net assets, beginning of year	15,096,578	497,657	13,376,541	7,828,272	36,799,048	225,180
Prior period adjustment	885	-	-	(971)	(86)	-
Total net assets, end of year	<u>\$ 16,077,473</u>	<u>\$ 171,088</u>	<u>\$ 13,408,356</u>	<u>\$ 7,869,155</u>	<u>\$ 37,526,072</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, 2009

	Business-type Activities - Enterprise Funds					Governmental Activities - Internal Service Fund
	Power System	Fiber Optics System	Waste Water System	Water System	Total Enterprise Funds	
CASH FLOWS FROM OPERATING ACTIVITIES:						
Cash received from customers	\$ 28,661,914	\$ 672,001	\$ 3,244,497	\$ 3,168,722	\$ 35,747,134	\$ -
Cash paid to suppliers	(25,877,890)	(618,836)	(807,179)	(1,209,552)	(28,504,457)	-
Cash paid to employees	(1,515,120)	(497,645)	(1,053,106)	(666,677)	(3,732,548)	-
Other payments	(82,206)	(36,180)	(73,378)	(41,301)	(233,065)	-
Insurance recoveries and refunds	-	-	-	-	-	-
Net cash provided by operating activities	<u>1,186,698</u>	<u>(480,660)</u>	<u>1,310,834</u>	<u>1,260,192</u>	<u>3,277,064</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:						
Increase in customer deposits	46,116	8,020	-	-	54,136	-
Repayment and disbursement of notes receivable	-	-	-	-	-	-
Advances from TVA-Home Weatherization Program	7,979	-	-	-	7,979	-
Payments to other funds of the primary government	(404,579)	-	-	-	(404,579)	-
Other receipts (payments)	19,854	-	-	164,635	184,489	-
Net cash provided (used) by non-capital financing activities	<u>(330,630)</u>	<u>8,020</u>	<u>-</u>	<u>164,635</u>	<u>(157,975)</u>	<u>-</u>
CASH FLOWS FOR CAPITAL AND RELATED FINANCING ACTIVITIES:						
Acquisition and construction of capital assets	(760,955)	(4,697,242)	(873,467)	(759,159)	(7,090,823)	-
Proceeds from the sale of capital assets	-	-	-	-	-	-
Proceeds from borrowing	-	-	-	-	-	-
Principal paid on long-term debt	(670,000)	-	(679,320)	(504,461)	(1,853,781)	-
Interest paid on long-term debt	(36,025)	-	(271,813)	(76,731)	(384,569)	-
Capital contributions received	-	-	3,000	-	3,000	-
Net cash provided (used) by capital financing activities	<u>(1,466,980)</u>	<u>(4,697,242)</u>	<u>(1,821,600)</u>	<u>(1,340,351)</u>	<u>(9,326,173)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES:						
Interest and other income	113,921	147,048	113,882	25,735	400,586	-
Net cash provided (used) in investing activities	<u>113,921</u>	<u>147,048</u>	<u>113,882</u>	<u>25,735</u>	<u>400,586</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(496,991)	(5,022,834)	(396,884)	110,211	(5,806,498)	-
Cash and cash equivalents, beginning of year	7,770,526	11,461,507	1,524,092	1,585,540	22,341,665	226,400
Cash and cash equivalents, end of year	<u>\$ 7,273,535</u>	<u>\$ 6,438,673</u>	<u>\$ 1,127,208</u>	<u>\$ 1,695,751</u>	<u>\$ 16,535,167</u>	<u>\$ 226,400</u>
Cash accounts consists of:						
Cash and cash equivalents	\$ 3,048,046	\$ 23,812	\$ 866,201	\$ 1,513,864	\$ 5,451,923	\$ 226,400
Bond funds - cash and cash equivalents	227,100	-	56,286	112,454	395,840	-
Construction funds - cash and cash equivalents	3,998,389	6,414,861	204,721	69,433	10,687,404	-
	<u>\$ 7,273,535</u>	<u>\$ 6,438,673</u>	<u>\$ 1,127,208</u>	<u>\$ 1,695,751</u>	<u>\$ 16,535,167</u>	<u>\$ 226,400</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATIONS						
Operating Income	\$ 1,277,377	\$ (473,617)	\$ 186,253	\$ 92,404	\$ 1,082,417	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:						
Depreciation and amortization	744,769	110,413	846,278	376,845	2,078,305	-
(Increase) decrease in:						
Accounts receivable	(36,007)	(184,142)	4,413	279	(215,457)	-
Inventory	(24,896)	(348,275)	17,568	(7,635)	(363,238)	-
Other assets	33,296	(1,661)	13,622	812,667	857,924	-
Due from other funds	(774,780)	757,549	11,635	5,596	-	-
Increase (decrease) in:						
Accounts payable	(9,603)	(280,074)	231,819	(20,128)	(77,986)	-
Accrued expenses	(23,458)	(60,853)	(754)	164	(84,901)	-
Total adjustments	<u>(90,679)</u>	<u>(7,843)</u>	<u>1,124,581</u>	<u>1,167,788</u>	<u>2,194,647</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 1,186,698</u>	<u>\$ (480,660)</u>	<u>\$ 1,310,834</u>	<u>\$ 1,260,192</u>	<u>\$ 3,277,064</u>	<u>\$ -</u>

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

CITY OF TULLAHOMA, TENNESSEE
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2009

	<u>Governmental Type</u>	<u>Proprietary Type</u>	<u>Total Component Units</u>
	<u>Industrial Development Board</u>	<u>Municipal Airport Authority</u>	
ASSETS:			
Cash and cash equivalents	\$ 424,840	\$ 491,566	\$ 916,406
Accounts receivable	-	5,924	5,924
Interest receivable	-	-	-
Due from other governments	-	185,303	185,303
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	-	5,496,706	5,496,706
Accumulated depreciation	-	(1,516,715)	(1,516,715)
Total assets	<u>424,840</u>	<u>10,468,226</u>	<u>10,893,066</u>
LIABILITIES:			
Accounts payable	-	190,393	190,393
Due to primary government	5,000	19,404	24,404
Other liabilities	-	9,807	9,807
Long-term liabilities:			
Due within one year	-	34,865	34,865
Due in more than one year	-	260,679	260,679
Total liabilities	<u>5,000</u>	<u>515,148</u>	<u>520,148</u>
NET ASSETS:			
Invested in capital assets, net of related debt	-	9,469,719	9,469,719
Unrestricted	<u>419,840</u>	<u>483,359</u>	<u>903,199</u>
Total net assets	<u>\$ 419,840</u>	<u>\$ 9,953,078</u>	<u>\$ 10,372,918</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, 2009

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Proprietary Type		
				Industrial Development Board	Municipal Airport Authority	Total Component Units
Expenses	\$ 53,313	\$ -	\$ -	\$ (3,066)	\$ -	\$ (3,066)
Industrial Development Board	\$ 315,332	\$ 107,699	\$ 5,101,913	\$ -	\$ 4,978,535	\$ 4,978,535
Municipal Airport Authority	\$ 368,645	\$ 107,699	\$ 5,101,913	\$ (3,066)	\$ 4,978,535	\$ 4,975,469
Total component units						
General revenues:						
Unrestricted investment earnings				8,501	707	9,208
Gain on sale of property				-	-	-
Other income				2,681	1,655	4,336
Total general revenues and transfers				11,182	2,362	13,544
Change in net assets				8,116	4,980,897	4,989,013
Net assets, beginning				411,724	4,958,223	5,369,947
Prior period adjustment (See Note 2)				-	13,958	13,958
Net assets, ending				\$ 419,840	\$ 9,953,078	\$ 10,372,918

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

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

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 \$2,753,888 as of June 30, 2009. 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, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 2009, these costs amounted to \$368,850 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 \$576,732 as of June 30, 2009. 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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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.

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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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, 2009. Amounts which were available at June 30, 2009 have been recorded as revenue.

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 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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 implemented retroactive reporting in 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.

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, 2009.

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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)

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 \$8,103,136 for the fiscal year ended June 30, 2009 were approximately 96 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.

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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

- 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, 2009 are as follows:

Fund	Outstanding Encumbrances
General Fund	\$ 181,327
General Purpose School Fund	213,645
Special Revenue Fund:	
Solid Waste Management	18,104
	\$ 413,076

B. Excess Expenditures

For the year ended June 30, 2009, the following funds had total expenditures exceeding total appropriations. These over expenditures were funded by available fund balances.

Budgeted Unit:	Final Budget	Actual	Variance
General Fund:			
Court system	\$ 48,769	\$ 49,410	\$ (641)
Public works	2,234,453	2,359,297	(124,844)
Community services	183,026	263,642	(80,616)
General Purpose School:			
Regular education	13,788,655	13,814,397	(25,742)
Plant maintenance	1,201,605	1,202,551	(946)
Debt Service:			
Principal	-	111,025	(111,025)
Interest	-	3,533	(3,533)
Total Education	14,990,260	15,131,506	(141,246)
Federal and State Projects:			
Special education	761,069	766,156	(5,087)
Vocational education	4,500	6,669	(2,169)
Capital outlay	241,119	279,892	(38,773)
Total Federal and State Projects	1,006,688	1,052,717	(46,029)
Extended School Program	506,913	507,996	(1,083)

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (cont.)

C. Deficit Fund Balances

The following fund has a deficit balance as of June 30, 2009:

	<u>Undesignated Fund Balance/Unrestricted Net Assets</u>	<u>Reserved</u>	<u>Total Fund Balance/Total Net Assets</u>
Special Revenue Fund:			
2009 Capital Projects	\$ -	\$ (13,552)	\$ (13,552)

The responsibility for funding the above deficit balance is from general fund transfers.

D. Prior Period Adjustments

Adjustments to prior period financial statements were made to correct errors discovered during the audit.

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 2009, 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: The City's policies limit deposits to those instruments allowed by applicable state laws and described above. As of June 30, 2009, all deposits were fully collateralized or insured.

B. Investments

Interest Rate Risk: Investments held for longer periods are subject to increased risk for adverse interest rate changes. City policy provides that to the extent practicable, investments are matched with anticipated cash flows. Typically certificates of deposit are issued for periods less than one year and investments in the Local Government Investment Pool are available daily.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 4 - AMOUNTS RECEIVABLE

A. Accounts receivable

A summary of accounts receivable as of June 30, 2009 is as follows:

Primary Government:

	Governmental Activities	Business-type Activities	Total
Property tax	\$ 604,566	\$ -	\$ 604,566
Court receivables	679,246	-	679,246
Customer accounts receivable	64,508	1,912,321	1,976,829
Other	83,409	-	83,409
	<u>\$ 1,431,729</u>	<u>\$ 1,912,321</u>	<u>\$ 3,344,050</u>

NOTE 5 - CAPITAL ASSETS

A. Transaction Summary

Capital asset activity for the year ended June 30, 2009 is as follows:

Primary Government:

Governmental Activities:

	Balance July 1, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 3,824,195	\$ -	\$ -	\$ 3,824,195
Construction in process	79,152	2,345,691	-	2,424,843
Total capital assets, not being depreciated	3,903,347	2,345,691	-	6,249,038
Capital assets, being depreciated				
Buildings and improvements	36,742,663	1,357,251	-	38,099,914
Furniture, machinery, and equipment	10,902,910	539,428	(598,857)	10,843,481
Infrastructure	14,658,748	403,340	-	15,062,088
Total capital assets, being depreciated	62,304,321	2,300,019	(598,857)	64,005,483
Less accumulated depreciation:				
Buildings and improvements	(22,182,428) *	(663,916)	-	(22,846,344)
Furniture, machinery, and equipment	(7,957,086)	(765,725)	590,715	(8,132,096)
Infrastructure	(7,834,781) *	(717,508)	-	(8,552,289)
Total accumulated depreciation	(37,974,295)	(2,147,149)	590,715	(39,530,729)
Total capital assets being depreciated, net	24,330,026	152,870	(8,142)	24,474,754
Governmental activities capital assets, net	<u>\$ 28,233,373</u>	<u>\$ 2,498,561</u>	<u>\$ (8,142)</u>	<u>\$ 30,723,792</u>

* Beginning balances of accumulated depreciation have been adjusted to accurately reflect the net book value of real property and infrastructure.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 5 - CAPITAL ASSETS (cont.)

Business-type Activities:

	Balance July 1, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 476,080	\$ -	\$ -	\$ 476,080
Construction in process	8,007,988	6,330,331	(2,611,404)	11,726,915
Total capital assets, not being depreciated	8,484,068	6,330,331	(2,611,404)	12,202,995
Capital assets, being depreciated				
Utility plant in service	45,543,237	1,372,220	(215,606)	46,699,850
Buildings and improvements	15,033,259	74,423	-	15,107,682
Furniture, machinery, and equipment	3,458,440	937,386	(20,878)	4,374,948
Total capital assets, being depreciated	64,034,936	2,384,028	(236,484)	66,182,480
Less accumulated depreciation:				
Utility plant in service	(19,890,943)	(1,427,626)	253,434	(21,065,135)
Buildings and improvements	(8,442,819)	(437,612)	-	(8,880,431)
Furniture, machinery, and equipment	(2,407,546)	(318,820)	15,133	(2,711,233)
Total accumulated depreciation	(30,741,308)	(2,184,058)	268,567	(32,656,799)
Total capital assets being depreciated, net	33,293,628	199,971	32,083	33,525,681
Business-type activities capital assets, net	<u>\$ 41,777,696</u>	<u>\$ 6,530,302</u>	<u>\$ (2,579,321)</u>	<u>\$ 45,728,676</u>

Component Units:

Tullahoma Municipal Airport:

	Balance July 1, 2008	Increase	Decrease	Balance June 30, 2009
Capital assets, not being depreciated:				
Land	\$ 1,738,799	\$ -	\$ -	\$ 1,738,799
Construction in process	825,638	4,671,068	-	5,496,706
Total capital assets, not being depreciated	2,564,437	4,671,068	-	7,235,505
Capital assets, being depreciated				
Buildings and improvements	3,723,561	-	-	3,723,561
Furniture, machinery, and equipment	342,316	-	-	342,316
Total capital assets, being depreciated	4,065,877	-	-	4,065,877
Less accumulated depreciation:				
Buildings and improvements	(1,082,303)	(139,240)	-	(1,221,543)
Furniture, machinery, and equipment	(287,859)	(7,313)	-	(295,172)
Total accumulated depreciation	(1,370,162)	(146,553)	-	(1,516,715)
Total capital assets being depreciated, net	2,695,715	(146,553)	-	2,549,162
Component unit capital assets, net	<u>\$ 5,260,152</u>	<u>\$ 4,524,515</u>	<u>\$ -</u>	<u>\$ 9,784,667</u>

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 5 - CAPITAL ASSETS (cont.)

B. Depreciation

Depreciation expense was charged to functions/programs as follows:

Primary Government:

Governmental activities:

General government	\$ 795,936
Public works	717,508
Education	625,405
Food Service	8,300
Total depreciation expense, governmental activities	<u>\$2,147,149</u>

Business-type activities:

Tullahoma Utilities Board	<u>\$2,184,058</u>
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Component Units:

Business-type activities:

Tullahoma Airport Authority	<u>\$ 146,553</u>
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CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS

A. Transaction Summary

Bonds, notes, and other obligations activity for the year ended June 30, 2009 is as follows:

Primary Government:

Governmental Activities:

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009	Due Within 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	4,730,000	-	(595,000)	4,135,000	620,000
General Obligation School Refunding Bonds, Series 2002	6,065,000	-	(130,000)	5,935,000	180,000
General Public Improvement and Refunding Bonds, Series 2005	9,480,000	-	(535,000)	8,945,000	550,000
General Obligation Refunding Bonds, Series 2006	9,290,000	-	(20,000)	9,270,000	20,000
TMBF City Note 2009 *	-	1,007,875	-	1,007,875	-
TMBF 12M School Note 2009 **	-	1,884,588	-	1,884,588	-
	<u>30,080,000</u>	<u>2,892,463</u>	<u>(1,280,000)</u>	<u>31,692,463</u>	<u>1,370,000</u>
Bond premium	117,234	-	(6,711)	110,523	-
Total General Obligation Bonds	<u>30,197,234</u>	<u>2,892,463</u>	<u>(1,286,711)</u>	<u>31,802,986</u>	<u>1,370,000</u>
<u>Capital Outlay Notes Payable</u>					
Capital Outlay Notes, Series 2007	775,000	-	(72,000)	703,000	76,000
Total Capital Outlay Notes Payable	<u>775,000</u>	<u>-</u>	<u>(72,000)</u>	<u>703,000</u>	<u>76,000</u>
<u>Capital Leases</u>					
HVAC Systems - Schools	121,393	-	(111,025)	10,368	10,368
<u>Other Obligations Payable</u>					
Net pension obligation (TCSDBP)	410,078	-	(10,829)	399,249	-
Compensated absences	1,096,657	33,046	-	1,129,703	82,686
Total Other Obligations Payable	<u>1,506,735</u>	<u>33,046</u>	<u>(10,829)</u>	<u>1,528,952</u>	<u>82,686</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 32,600,362</u>	<u>\$ 2,925,509</u>	<u>\$ (1,480,565)</u>	<u>\$ 34,045,306</u>	<u>\$ 1,539,054</u>

* In December 2008, the City authorized \$1,125,000 in loans through the Tennessee Municipal Bond Fund. These funds are to be used for construction projects. The amount drawn as of June 30, 2009 totaled \$1,007,875.

** In August 2008, the City authorized \$12,084,000 in loans through the Tennessee Municipal Bond Fund. These funds are to be used for education construction projects. The amount drawn as of June 30, 2009 totaled \$1,884,588.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS (cont.)

Business-type Activities:

	Balance			Balance June 30, 2009	Due Within One Year
	July 1, 2008	Additions	Reductions		
<u>Bonds Payable</u>					
Electric System Revenue Bonds, Series 1997	\$ 670,000	\$ -	\$ (670,000)	\$ -	\$ -
Broadband Network Revenue and Tax Bonds, Series 2007	16,975,000	-	-	16,975,000	-
Water and Wastewater Revenue and Tax Refunding Bonds, Series 2002	215,000	-	(215,000)	-	-
Water and Wastewater Revenue and Tax Bonds, Series 1997	450,000	-	(35,000)	415,000	35,000
	18,310,000	-	(920,000)	17,390,000	35,000
Less deferred charges, net	(87,178)	-	87,178	-	-
Total Bonds Payable	18,222,822	-	(832,822)	17,390,000	35,000
<u>Notes Payable</u>					
Water System-					
State Loan 76-6, Series 1996C	190,029	-	(100,760)	89,269	89,269
State Loan 76-6A, Series 2003	186,543	-	(68,088)	118,455	70,433
TML Loan 1999	3,599,000	-	(246,000)	3,353,000	255,000
Total Notes Payable - Water System	3,975,572	-	(414,848)	3,560,724	414,702
Wastewater System-					
Loan Fund 319-01, Series 1996C	3,418	-	(1,813)	1,605	1,605
Loan Fund 319-02, Series 2003	60,372	-	(7,687)	52,685	8,132
Loan Fund 319-03, Series 2003	206,180	-	(32,345)	173,835	33,988
State Revolving Loan Fund, 93-053	3,204,160	-	(396,540)	2,807,620	411,864
State Revolving Loan Fund, 94-077	1,578,806	-	(160,621)	1,418,185	166,774
Total Notes Payable - Wastewater System	5,052,936	-	(599,006)	4,453,930	622,363
Total Business-type Activities Long-term Liabilities	\$ 27,251,330	\$ -	\$ (1,846,676)	\$ 25,404,654	\$ 1,072,065

Component Units:

	Balance			Balance June 30, 2009	Due Within One Year
	July 1, 2008	Additions	Reductions		
UDAG Note Payable	\$ 316,133	\$ -	\$ (20,589)	\$ 295,544	\$ 34,865

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS (cont.)

B. Annual Debt Service Requirements

The annual requirements to amortize all general obligation bonds, notes, and revenue bonds outstanding as of June 30, 2009 are as follows:

Primary Government:

Governmental Activities:

June 30,	General Obligation Bonds		Notes Payable		Total Governmental Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
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	1,920,000	917,108	89,000	16,264	2,009,000	933,372
2015-2019	11,195,000	3,140,602	291,000	25,252	11,486,000	3,165,854
2020-2024	6,730,000	1,358,728	-	-	6,730,000	1,358,728
2025-2026	2,720,000	165,405	-	-	2,720,000	165,405
	<u>28,800,000</u>	<u>10,008,929</u>	<u>703,000</u>	<u>141,839</u>	<u>29,503,000</u>	<u>10,150,768</u>
Bond premium	110,523	-	-	-	110,523	-
	<u>\$ 28,910,523</u>	<u>\$ 10,008,929</u>	<u>\$ 703,000</u>	<u>\$ 141,839</u>	<u>\$ 29,613,523</u>	<u>\$ 10,150,768</u>

Business-type Activities:

June 30,	Revenue Bonds		Notes Payable		Total Proprietary Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 35,000	\$ 741,635	\$ 1,037,065	\$ 273,308	\$ 1,072,065	\$ 1,014,943
2011	40,000	739,677	957,311	232,123	997,311	971,800
2012	740,000	723,557	943,779	197,048	1,683,779	920,605
2013	775,000	691,737	980,293	162,355	1,755,293	854,092
2014-2018	4,390,000	2,932,500	3,388,206	347,421	7,778,206	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>\$ 17,390,000</u>	<u>\$ 8,479,304</u>	<u>\$ 8,014,654</u>	<u>\$ 1,244,295</u>	<u>\$ 25,404,654</u>	<u>\$ 9,723,599</u>

Amounts drawn on notes financing capital projects in progress are not included above as permanent financing arrangements have not been made.

Component Units:

June 30,	Notes Payable	
	Principal	Interest
2010	\$ 34,865	\$ 2,618
2011	28,142	1,858
2012	28,353	1,647
2013	28,567	1,433
2014-2018	146,092	3,908
2019-2022	29,525	119
	<u>\$ 295,544</u>	<u>\$ 11,583</u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS (cont.)

Business-type Activities:

	Balance			Balance June 30, 2009	Due Within One Year
	July 1, 2008	Additions	Reductions		
<u>Bonds Payable</u>					
Electric System Revenue Bonds, Series 1997	\$ 670,000	\$ -	\$ (670,000)	\$ -	\$ -
Broadband Network Revenue and Tax Bonds, Series 2007	16,975,000	-	-	16,975,000	-
Water and Wastewater Revenue and Tax Refunding Bonds, Series 2002	215,000	-	(215,000)	-	-
Water and Wastewater Revenue and Tax Bonds, Series 1997	450,000	-	(35,000)	415,000	35,000
	18,310,000	-	(920,000)	17,390,000	35,000
Less deferred charges, net	(87,178)	-	87,178	-	-
Total Bonds Payable	18,222,822	-	(832,822)	17,390,000	35,000
<u>Notes Payable</u>					
Water System-					
State Loan 76-6, Series 1996C	190,029	-	(100,760)	89,269	89,269
State Loan 76-6A, Series 2003	186,543	-	(68,088)	118,455	70,433
TML Loan 1999	3,599,000	-	(246,000)	3,353,000	255,000
Total Notes Payable - Water System	3,975,572	-	(414,848)	3,560,724	414,702
Wastewater System-					
Loan Fund 319-01, Series 1996C	3,418	-	(1,813)	1,605	1,605
Loan Fund 319-02, Series 2003	60,372	-	(7,687)	52,685	8,132
Loan Fund 319-03, Series 2003	206,180	-	(32,345)	173,835	33,988
State Revolving Loan Fund, 93-053	3,204,160	-	(396,540)	2,807,620	411,864
State Revolving Loan Fund, 94-077	1,578,806	-	(160,621)	1,418,185	166,774
Total Notes Payable - Wastewater System	5,052,936	-	(599,006)	4,453,930	622,363
Total Business-type Activities Long-term Liabilities	\$ 27,251,330	\$ -	\$ (1,846,676)	\$ 25,404,654	\$ 1,072,065

Component Units:

	Balance			Balance June 30, 2009	Due Within One Year
	July 1, 2008	Additions	Reductions		
UDAG Note Payable	\$ 316,133	\$ -	\$ (20,589)	\$ 295,544	\$ 34,865

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS (cont.)

B. Annual Debt Service Requirements

The annual requirements to amortize all general obligation bonds, notes, and revenue bonds outstanding as of June 30, 2009 are as follows:

Primary Government:

Governmental Activities:

June 30,	General Obligation Bonds		Notes Payable		Total Governmental Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
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	1,920,000	917,108	89,000	16,264	2,009,000	933,372
2015-2019	11,195,000	3,140,602	291,000	25,252	11,486,000	3,165,854
2020-2024	6,730,000	1,358,728	-	-	6,730,000	1,358,728
2025-2026	2,720,000	165,405	-	-	2,720,000	165,405
	<u>28,800,000</u>	<u>10,008,929</u>	<u>703,000</u>	<u>141,839</u>	<u>29,503,000</u>	<u>10,150,768</u>
Bond premium	110,523	-	-	-	110,523	-
	<u>\$ 28,910,523</u>	<u>\$ 10,008,929</u>	<u>\$ 703,000</u>	<u>\$ 141,839</u>	<u>\$ 29,613,523</u>	<u>\$ 10,150,768</u>

Business-type Activities:

June 30,	Revenue Bonds		Notes Payable		Total Proprietary Funds	
	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 35,000	\$ 741,635	\$ 1,037,065	\$ 273,308	\$ 1,072,065	\$ 1,014,943
2011	40,000	739,677	957,311	232,123	997,311	971,800
2012	740,000	723,557	943,779	197,048	1,683,779	920,605
2013	775,000	691,737	980,293	162,355	1,755,293	854,092
2014-2018	4,390,000	2,932,500	3,388,206	347,421	7,778,206	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>\$ 17,390,000</u>	<u>\$ 8,479,304</u>	<u>\$ 8,014,654</u>	<u>\$ 1,244,295</u>	<u>\$ 25,404,654</u>	<u>\$ 9,723,599</u>

Amounts drawn on notes financing capital projects in progress are not included above as permanent financing arrangements have not been made.

Component Units:

June 30,	Notes Payable	
	Principal	Interest
2010	\$ 34,865	\$ 2,618
2011	28,142	1,858
2012	28,353	1,647
2013	28,567	1,433
2014-2018	146,092	3,908
2019-2022	29,525	119
	<u>\$ 295,544</u>	<u>\$ 11,583</u>

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS (cont.)

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 \$558,372 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 \$1,144,719 as of June 30, 2009.

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 2009.

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, 2009 was 0.75%. 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, 2009, \$13,440,000 of general obligations bonds are considered defeased.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 6 - BONDS, NOTES, AND OTHER OBLIGATIONS (cont.)

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, 2009 the leased equipment is carried in the governmental funds at \$964,017, less accumulated depreciation of \$964,017. A summary of the future minimum lease payments as of June 30, 2009 is as follows:

Fiscal Year 2010	\$	10,368
Less: Amount imputed as interest at 5.4%		-
Total capital lease payable		10,368
Less: Current portion of lease payable		(10,368)
Long-term capitalized lease obligation	\$	-

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, 2009, the City contributed \$217,116 to the plan for participating employees, while employees contributed \$256,081.

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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 7 - RETIREMENT PLANS (cont.)

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.

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, 2008 (LATEST ACTUARIAL INFORMATION)	TCSDBP
Annual required contribution	\$ 464,393
Interest on net pension obligation	30,756
Adjustment to annual required contribution	(34,722)
Annual pension cost	460,427
Contributions made	471,256
Increase (decrease) in net pension obligation	(10,829)
Net pension obligation beginning of plan year	410,078
Net pension obligation end of plan year	\$ 399,249

THREE YEAR TREND INFORMATION

2008*	
Annual pension cost (APC)	\$ 460,427
Percentage of APC contributed	102.35%
Net pension obligation	\$ 399,249
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	\$ 298,445

PARTICIPANTS

Active:	
Fully vested	87
Non-vested and partially vested	5
Total active	92
Retirees and beneficiaries receiving benefits	
Total	4
	96

* 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, 2009
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, 2009

NOTE 7 - RETIREMENT PLANS (cont.)

(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 SETHEEPP. 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, 2009 is 6.42% 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, 2009, 2008, and 2007 were \$874,659, \$836,796, \$796,084, 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, 2009 is as follows:

	Target plan	Money Purchase plan
Employee contribution	\$ 58,185	\$ 96,149
Employer contribution	333,499	193,065
Total plan assets as of June 30, 2009	4,482,945	614,107

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, 2009 was \$1,981,346. Total payroll was \$3,520,050.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Primary Government:

Governmental Activities:

A. City Plan

Plan Description

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 6 employees that receive post employment benefits. Benefits for the year ended June 30, 2009 totaled \$25,416. The City currently funds the benefits on a pay-as-you-go basis. 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.

Funding Policy

The City intends to continue its policy of funding OPEB liabilities on a pay-as-you-go basis and to not pre-fund any unfunded annual required contribution as determined under GASB 45.

Annual OPEB Cost and Net OPEB Obligation

The City's annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess over a period of not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation.

Components of the Net OPEB Obligation

Annual required contribution	\$ 111,573
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	111,573
Contributions made	(56,294)
Increase in net OPEB obligation	\$ 55,279
 Net OPEB obligation - January 1, 2008	 \$ -
Net OPEB obligation - December 31, 2008	\$ 55,279

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-2009 is as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2009	\$ 111,573	-50.45%	\$ 55,279

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (cont.)

Funded Status and Funding Progress

As of January 1, 2008, the most recent actuarial valuation date, the plan was 0% funded. The actuarial accrued liability for benefits was \$1,453,099, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,453,099. The covered payroll (annual payroll of active employees covered by the plan) was \$4,657,403, and the ratio of the UAAL to the covered payroll was 31.2%.

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

Actuarial Methods and Assumptions

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

In the January 1, 2008 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets and on the employer's own investments calculated based on the funded level of the plan assets at the valuation date, and an annual healthcare cost trend rate of 10% initially, reduced by the decrements to an ultimate ratio of 5% after 5 years. The actuarial value of assets was determined using a standard balanced portfolio expectation for retirement of plan asset returns. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2008 was 30 years.

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. For the year ended June 30, 2009, the System paid medical insurance benefits for 38 eligible retirees totaling \$146,574 and dental and life insurance benefits for 42 and 41 eligible retirees totaling \$10,083 and \$3,509, respectively.

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 8 - OTHER POST EMPLOYMENT BENEFITS (OPEB) (cont.)

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.

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

Component Unit:

The Tullahoma Municipal Airport Authority has several contracts in process for airport improvements and renovations. These improvements are funded by state and federal grants. The amount expended to date totals \$5,496,706 as presented on the balance sheet as construction in progress.

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.

CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 10 - EMPLOYEE HEALTH INSURANCE AND RISK MANAGEMENT (cont.)

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, 2009 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	
2006-2007	(205,856)	205,856	-	-
2007-2008	-	-	-	-
2008-2009	-	-	-	-

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, 2009 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

Transferred To	Transferred From				Total
	General Fund	General Purpose School	Nonmajor Governmental Funds	Power System	
General Fund	-	-	112,613	404,579	517,192
General Purpose School	7,367,523	-	-	-	7,367,523
2005 Capital Projects	600,000	-	-	-	600,000
Nonmajor Governmental Funds	5,017,050	916,199	3,420,652	-	9,353,901
Total	\$ 12,984,573	\$ 916,199	\$ 3,533,265	\$ 404,579	\$ 17,838,616

Interfund receivables and payables and amounts due to and due from funds of the primary government at June 30, 2009 are attributable to unsettled balances at year-end primarily for charges and transfers between funds. Balances at June 30, 2009 are as follows:

Due To	Due From					Total
	General Fund	Nonmajor Governmental Funds	Fiber System	Water System	Wastewater System	
General Fund	\$ -	\$ 5,400	\$ -	\$ -	\$ -	6,620
General Purpose School	375,715	366,386	-	-	-	742,101
Nonmajor Governmental Funds	45,800	1,635	-	-	-	47,435
Power System	-	-	937,201	13,868	16,711	967,780
Water System	-	-	447	-	1,383	1,830
Wastewater System	-	-	164	4,629	-	4,793
Total	\$ 421,515	\$ 373,421	\$ 937,812	\$ 18,497	\$ 18,094	\$ 1,770,559

**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%
January 1, 2009	2,761,688	6,813,611	(4,051,923)	40.53%	2,441,280	165.98%

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	101.48%
2009	640,332	(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
REQUIRED SUPPLEMENTARY INFORMATION
SELECTED PENSION INFORMATION**

Unaudited - See Accompanying Accountants' Report

SCHEDULE OF FUNDING PROGRESS - City of Tullahoma Other Post Employment Retirement Benefits

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b) - (a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
1/1/2008	\$ -	\$ 1,453,099	\$ 1,453,099	0%	\$ 4,657,403	31.2%

SCHEDULE OF EMPLOYER CONTRIBUTIONS - City of Tullahoma Other Post Employment Retirement Benefits

<u>Year Ended December 31,</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2008	\$ 111,573	50.45%

CITY OF TULLAHOMA, TENNESSEE
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2009

	Special Revenue Funds					Debt Service					Capital Projects Funds					Total Nonmajor Governmental Funds
	School and State Projects	School Food Services	Elementary School Program	Solid Waste Management	Drug Enforcement	USDA Reimburse Loans	General Debt Service	Educational Debt Service	Education Capital Projects	1999 Capital Projects	Industrial Development Projects	2006 Capital Projects	2009 School Projects			
ASSETS:																
Cash and cash equivalents																
Receivables																
Allowance for doubtful accounts																
Accrued interest receivable																
Notes receivable																
Due from other governments																
Due from other funds of primary government																
Due from component units																
Total assets	\$ 532,437	\$ 306,923	\$ 134,659	\$ 87,362	\$ 132,170	\$ 65,146	\$ 2,064	\$ 2,400,858	\$ 97,405	\$ 13,023	\$ 103,511	\$ 7,655	\$ -	\$ -	\$ 3,973,233	
LIABILITIES:																
Accrued liabilities																
Accrued payroll																
Accounts payable																
Unearned revenue																
Due to other funds of the primary government																
Total liabilities	\$ 448,463	\$ -	\$ 9,780	\$ 61,347	\$ 65	\$ 47,443	\$ -	\$ -	\$ 97,405	\$ 8,535	\$ 5,400	\$ -	\$ 13,552	\$ -	\$ 691,990	
FUND BALANCES:																
Reserved for:																
Encumbrances																
Debt service																
Capital improvements																
Drug enforcement																
Grant projects																
Special Revenue Funds:																
Unreserved																
Total fund balances	\$ 83,974	\$ 306,923	\$ 124,879	\$ 26,015	\$ 132,105	\$ 17,703	\$ 2,064	\$ 2,400,858	\$ 4,988	\$ 98,131	\$ 7,655	\$ -	\$ (13,552)	\$ -	\$ 3,281,243	
Total liabilities and fund balances	\$ 532,437	\$ 306,923	\$ 134,659	\$ 87,362	\$ 132,170	\$ 65,146	\$ 2,064	\$ 2,400,858	\$ 97,405	\$ 13,023	\$ 103,511	\$ 7,655	\$ -	\$ -	\$ 3,973,233	

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 CONDENSING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 NON-MAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED JUNE 30, 2009

	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	Educational Capital Projects	1999 Capital Projects	Industrial Development Projects	2006 Capital Projects		2009 School Projects
REVENUES:														
Intergovernmental	\$ 2,016,785	\$ 842,148	\$ 21,574	\$ -	\$ -	\$ 49,650	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,920,157
Charges for services	-	896,881	432,562	702,726	-	-	-	-	-	-	-	-	-	2,038,169
Investment income	-	5,486	1,099	-	678	9,664	-	27,568	-	75	-	-	443	35,769
Proceeds from notes	-	-	-	-	-	481	-	-	-	-	-	-	-	9,664
Other revenues	-	-	43,238	-	82,232	-	-	-	-	-	-	-	-	127,470
Total revenues	2,016,785	1,738,435	497,971	702,726	83,110	59,795	-	27,568	-	75	-	-	443	5,128,730
EXPENDITURES:														
Current:														
Education:														
Regular education	879,951	-	-	-	-	-	-	-	-	-	-	-	-	879,951
Special education	766,156	-	-	-	-	-	-	-	-	-	-	-	-	766,156
Vocational education	138,697	-	-	-	-	-	-	-	-	-	-	-	-	138,697
Other student support	15,194	-	-	-	-	-	-	-	-	-	-	-	-	15,194
Instructional staff	103,960	-	-	-	-	-	-	-	-	-	-	-	-	103,960
Program costs	-	1,667,226	507,997	1,741,816	23,047	2,108	-	-	-	-	-	-	-	4,423,047
Debt service:														
Principal retirement	-	-	-	-	-	-	1,352,000	-	-	-	-	-	-	1,352,000
Interest	-	-	-	-	-	-	1,307,945	-	-	-	-	-	-	1,307,945
Fiscal charges	-	-	-	-	-	-	2,165	-	-	-	-	-	-	8,693
Capital outlay	55,195	3,215	-	66,425	58,617	-	-	2,414,765	-	8,535	-	-	84,588	2,606,522
Loans disbursed	-	-	-	-	-	49,650	-	-	-	-	-	-	-	49,650
Total expenditures	1,959,005	1,670,641	507,997	1,807,841	81,664	51,758	2,662,310	2,414,765	8,535	8,535	481,453	-	84,588	11,730,215
Excess (deficiency) revenues over (under) expenditures	57,722	67,794	(8,234)	(1,104,715)	1,446	8,037	(2,662,310)	(2,414,765)	(8,460)	(81,453)	-	-	(84,145)	(6,601,315)
OTHER FINANCING SOURCES (USES):														
fund proceeds	-	-	-	1,263,123	-	-	2,660,384	2,616,199	-	-	-	-	1,884,588	1,884,588
Transfers in	-	-	-	(112,613)	-	-	-	(1,606,657)	-	-	-	-	(1,813,995)	9,253,981
Transfers out	-	-	-	-	-	-	2,660,384	1,869,542	-	408,809	-	-	70,575	(3,533,263)
Total other financing sources (uses)	-	-	-	1,150,510	-	-	-	-	-	408,809	-	-	70,575	7,795,224
Net change in fund balances	57,722	67,794	(8,234)	45,795	1,446	8,037	(1,750)	(770)	(8,460)	(81,453)	-	-	(13,552)	1,103,709
Fund balances, July 1, 2008	26,252	336,194	133,113	(19,780)	130,659	9,666	3,790	1,563,748	12,948	179,584	7,655	-	-	2,184,599
Prior period adjustment (See Note 2)	-	(7,065)	-	-	-	-	-	-	-	-	-	-	-	(7,065)
Fund balances, June 30, 2009	\$ 83,074	\$ 396,023	\$ 124,879	\$ 26,015	\$ 132,105	\$ 17,703	\$ 2,064	\$ 2,400,858	\$ 4,988	\$ 98,131	\$ 7,655	\$ -	\$ (13,552)	\$ 3,281,233

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental							
State and federal	\$ 2,016,785	\$ -	\$ -	\$ 2,016,785	\$ 1,959,064	\$ 1,959,064	\$ 57,721
Total revenues	<u>2,016,785</u>	<u>-</u>	<u>-</u>	<u>2,016,785</u>	<u>1,959,064</u>	<u>1,959,064</u>	<u>57,721</u>
EXPENDITURES:							
Regular education							
Salaries	579,836	-	-	579,836	618,370	618,370	38,534
Payroll taxes	38,643	-	-	38,643	45,055	45,055	6,412
Benefits	147,453	-	-	147,453	143,887	143,887	(3,566)
Supplies	114,019	-	-	114,019	16,195	16,195	(97,824)
Total regular education	<u>879,951</u>	<u>-</u>	<u>-</u>	<u>879,951</u>	<u>823,507</u>	<u>823,507</u>	<u>(56,444)</u>
Special education							
Salaries	526,052	-	-	526,052	528,779	528,779	2,727
Payroll taxes	33,585	-	-	33,585	37,535	37,535	3,950
Benefits	190,579	-	-	190,579	185,168	185,168	(5,411)
Contract services	5,739	-	-	5,739	5,748	5,748	9
Travel	10,201	-	-	10,201	3,839	3,839	(6,362)
Total special education	<u>766,156</u>	<u>-</u>	<u>-</u>	<u>766,156</u>	<u>761,069</u>	<u>761,069</u>	<u>(5,087)</u>
Vocational education							
Travel	1,227	-	-	1,227	500	500	(727)
Supplies	134,401	-	-	134,401	1,000	1,000	(133,401)
Other	2,979	-	-	2,979	3,000	3,000	21
Total vocational education	<u>138,607</u>	<u>-</u>	<u>-</u>	<u>138,607</u>	<u>4,500</u>	<u>4,500</u>	<u>(134,107)</u>
Other student support							
Salaries	-	-	-	-	250	250	250
Travel	10,534	-	-	10,534	10,000	10,000	(534)
Other	4,660	-	-	4,660	13,354	13,354	8,694
Total other student support	<u>15,194</u>	<u>-</u>	<u>-</u>	<u>15,194</u>	<u>23,604</u>	<u>23,604</u>	<u>8,410</u>
Instructional staff							
Travel	103,960	-	-	103,960	105,265	105,265	1,305
Total instructional staff	<u>103,960</u>	<u>-</u>	<u>-</u>	<u>103,960</u>	<u>105,265</u>	<u>105,265</u>	<u>1,305</u>
Capital outlay	55,195	-	-	55,195	241,119	241,119	185,924
Total expenditures	<u>1,959,063</u>	<u>-</u>	<u>-</u>	<u>1,959,063</u>	<u>1,959,064</u>	<u>1,959,064</u>	<u>1</u>
Net change in fund balance	57,722	-	-	57,722	-	-	57,722
Fund balance, July 1, 2008	26,252	-	-	26,252	26,252	26,252	-
Fund balance, June 30, 2009	<u>\$ 83,974</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,974</u>	<u>\$ 26,252</u>	<u>\$ 26,252</u>	<u>\$ 57,722</u>

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental:							
State and federal	\$ 842,148	\$ -	\$ -	\$ 842,148	\$ 805,000	\$ 805,000	\$ 37,148
Charges for services	890,881	-	-	890,881	1,135,000	1,135,000	(244,119)
Interest income	5,406	-	-	5,406	12,000	12,000	(6,594)
Total revenues	<u>1,738,435</u>	<u>-</u>	<u>-</u>	<u>1,738,435</u>	<u>1,952,000</u>	<u>1,952,000</u>	<u>(213,565)</u>
EXPENDITURES:							
Current:							
Salaries	603,315	-	-	603,315	627,000	627,000	23,685
Payroll taxes	40,661	-	-	40,661	42,000	42,000	1,339
Benefits	183,428	-	-	183,428	185,000	185,000	1,572
Contract services	10,178	-	-	10,178	10,000	10,000	(178)
Maintenance and repairs	21,745	-	-	21,745	5,000	5,000	(16,745)
Travel	4,417	-	-	4,417	6,000	6,000	1,583
Supplies	730,344	-	-	730,344	950,000	950,000	219,656
Other	73,338	-	-	73,338	90,000	90,000	16,662
Capital outlay	3,215	-	-	3,215	37,000	37,000	33,785
Total expenditures	<u>1,670,641</u>	<u>-</u>	<u>-</u>	<u>1,670,641</u>	<u>1,952,000</u>	<u>1,952,000</u>	<u>281,359</u>
Net change in fund balance	67,794	-	-	67,794	-	-	67,794
Fund balance, July 1, 2008	336,194	-	-	336,194	336,194	336,194	-
Prior period adjustment	(7,065)	-	-	(7,065)	-	-	(7,065)
Fund balance, June 30, 2009	<u>\$ 396,923</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 396,923</u>	<u>\$ 336,194</u>	<u>\$ 336,194</u>	<u>\$ 60,729</u>

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental:							
State and federal	\$ 21,574	\$ -	\$ -	\$ 21,574	\$ -	\$ -	\$ 21,574
Charges for services	432,562	-	-	432,562	506,913	506,913	(74,351)
Interest income	1,099	-	-	1,099	-	-	1,099
Other income	44,528	-	-	44,528	-	-	44,528
Total revenues	<u>499,763</u>	<u>-</u>	<u>-</u>	<u>499,763</u>	<u>506,913</u>	<u>506,913</u>	<u>(7,150)</u>
EXPENDITURES:							
Salaries	359,019	-	-	359,019	386,096	386,096	27,077
Payroll taxes	21,782	-	-	21,782	29,442	29,442	7,660
Benefits	24,197	-	-	24,197	12,705	12,705	(11,492)
Supplies	55,180	-	-	55,180	55,100	55,100	(80)
Other	47,819	-	-	47,819	23,570	23,570	(24,249)
Total expenditures	<u>507,997</u>	<u>-</u>	<u>-</u>	<u>507,997</u>	<u>506,913</u>	<u>506,913</u>	<u>(1,084)</u>
Net change in fund balance	(8,234)	-	-	(8,234)	-	-	(8,234)
Fund balance, July 1, 2008	<u>133,113</u>	<u>-</u>	<u>-</u>	<u>133,113</u>	<u>133,113</u>	<u>133,113</u>	<u>-</u>
Fund balance, June 30, 2009	<u>\$ 124,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 124,879</u>	<u>\$ 133,113</u>	<u>\$ 133,113</u>	<u>\$ (8,234)</u>

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Charges for services	702,726	-	-	702,726	606,980	566,480	136,246
Other revenues	-	-	-	-	187,000	135,000	(135,000)
Total revenues	702,726	-	-	702,726	793,980	701,480	1,246
EXPENDITURES:							
Current:							
Salaries	725,581	-	-	725,581	675,387	726,078	497
Payroll taxes	55,296	-	-	55,296	51,668	55,312	16
Benefits	218,498	-	-	218,498	260,655	220,204	1,706
Telephone and utility	188	-	-	188	-	190	2
Contract and professional	13,209	(4,117)	11,743	20,835	38,000	24,952	4,117
Repairs and maintenance	158,287	(1,637)	5,439	162,089	89,200	165,000	2,911
Supplies	26,584	(818)	345	26,111	14,750	28,387	2,276
Uniforms	9,273	-	577	9,850	9,850	9,850	-
Gas and oil	114,896	-	-	114,896	149,430	124,430	9,534
Parts and supplies	300	-	-	300	300	300	-
Operating insurance	47,641	-	-	47,641	58,584	56,918	9,277
Landfill	368,850	-	-	368,850	370,750	370,400	1,550
Other	2,413	-	-	2,413	3,409	3,322	909
Total program costs	1,741,016	(6,572)	18,104	1,752,548	1,721,983	1,785,343	32,795
Capital outlay	66,425	-	-	66,425	80,000	66,649	223
Total expenditures	1,807,441	(6,572)	18,104	1,818,973	1,801,983	1,851,991	33,018
Excess (deficiency) of revenues over (under) expenditures	(1,104,715)	6,572	(18,104)	(1,116,247)	(1,008,003)	(1,150,511)	34,264
OTHER FINANCING SOURCES (USES):							
Transfers in	1,263,123	-	-	1,263,123	1,177,014	1,263,123	-
Transfers out	(112,613)	-	-	(112,613)	(169,012)	(112,613)	-
Total other financing sources (uses)	1,150,510	-	-	1,150,510	1,008,002	1,150,510	-
Net change in fund balance	45,795	6,572	(18,104)	34,263	(1)	(1)	34,264
Fund balance, July 1, 2008	(19,780)	(6,572)	-	(26,352)	(19,780)	(19,780)	(6,572)
Fund balance, June 30, 2009	\$ 26,015	\$ -	\$ (18,104)	\$ 7,911	\$ (19,781)	\$ (19,781)	\$ 27,692

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Drug fines	\$ 36,150	\$ -	\$ -	\$ 36,150	\$ 28,000	\$ 36,000	\$ 150
State substance tax	1,268	-	-	1,268	-	1,200	68
Confiscated money	25,144	-	-	25,144	-	25,000	144
Sale of confiscated equipment	19,870	-	-	19,870	-	19,600	180
Interest income	678	-	-	678	10,000	1,000	(322)
Total revenues	<u>83,110</u>	<u>-</u>	<u>-</u>	<u>83,110</u>	<u>38,000</u>	<u>82,800</u>	<u>220</u>
EXPENDITURES:							
Current:							
Salaries	1,965	-	-	1,965	1,500	2,000	35
Payroll taxes	136	-	-	136	115	140	4
Telephone and utility	470	-	-	470	500	500	30
Repairs and maintenance	-	-	-	-	-	-	-
Travel and training	-	-	-	-	1,000	-	-
Supplies	5,160	-	-	5,160	11,250	5,315	155
Other	14,891	-	-	14,891	8,200	14,935	44
Capital outlay	59,042	(850)	-	58,192	60,000	60,000	1,808
Total expenditures	<u>81,664</u>	<u>(850)</u>	<u>-</u>	<u>80,814</u>	<u>82,565</u>	<u>82,890</u>	<u>2,076</u>
Excess (deficiency) of revenues over (under) expenditures	1,446	850	-	2,296	(44,565)	-	2,296
OTHER FINANCING SOURCES (USES):							
Transfers in	-	-	-	-	44,565	-	-
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	44,565	-	-
Net change in fund balance	1,446	850	-	2,296	-	-	2,296
Fund balance, July 1, 2008	<u>130,659</u>	<u>(850)</u>	<u>-</u>	<u>129,809</u>	<u>130,659</u>	<u>130,659</u>	<u>(850)</u>
Fund balance, June 30, 2009	<u>\$ 132,105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 132,105</u>	<u>\$ 130,659</u>	<u>\$ 130,659</u>	<u>\$ 1,446</u>

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Intergovernmental:							
State and federal grants	\$ 49,650	\$ -	\$ -	\$ 49,650	\$ 199,000	\$ 199,000	\$ (149,350)
Other local agencies	-	-	-	-	-	-	-
Note repayments	9,664	-	-	9,664	8,000	8,000	1,664
Interest Income	-	-	-	-	-	-	-
Other revenues	481	-	-	481	1,100	1,100	(619)
Total revenues	<u>59,795</u>	<u>-</u>	<u>-</u>	<u>59,795</u>	<u>208,100</u>	<u>208,100</u>	<u>(148,305)</u>
EXPENDITURES:							
Program costs	2,108	-	-	2,108	6,100	6,100	3,992
Loans disbursed	49,650	-	-	49,650	212,000	212,000	162,350
Total expenditures	<u>51,758</u>	<u>-</u>	<u>-</u>	<u>51,758</u>	<u>218,100</u>	<u>218,100</u>	<u>166,342</u>
Excess (deficiency) of revenues over (under) expenditures	8,037	-	-	8,037	(10,000)	(10,000)	18,037
OTHER FINANCING SOURCES (USES):							
Transfers in	-	-	-	-	10,000	10,000	(10,000)
Transfers out	-	-	-	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,000</u>	<u>10,000</u>	<u>(10,000)</u>
Net change in fund balance	8,037	-	-	8,037	-	-	8,037
Fund balance, July 1, 2008	9,666	-	-	9,666	9,666	9,666	-
Fund balance, June 30, 2009	<u>\$ 17,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,703</u>	<u>\$ 9,666</u>	<u>\$ 9,666</u>	<u>\$ 8,037</u>

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Interest	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
EXPENDITURES:							
Principal retirement	1,352,000	-	-	1,352,000	1,352,000	1,352,000	-
Interest	1,307,945	-	-	1,307,945	2,120,370	2,077,870	769,925
Fiscal charges	2,365	-	-	2,365	-	2,500	135
Total expenditures	2,662,310	-	-	2,662,310	3,472,370	3,432,370	770,060
Excess (deficiency) of revenues over (under) expenditures	(2,662,310)	-	-	(2,662,310)	(3,472,370)	(3,432,370)	770,060
OTHER FINANCING SOURCES (USES):							
Transfers in	2,660,584	-	-	2,660,584	3,472,370	3,432,370	(771,786)
Net change in fund balance	(1,726)	-	-	(1,726)	-	-	(1,726)
Fund balance, July 1, 2008	3,790	-	-	3,790	3,790	3,790	-
Fund balance, June 30, 2009	\$ 2,064	\$ -	\$ -	\$ 2,064	\$ 3,790	\$ 3,790	\$ (1,726)

See accompanying accountants' report.

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, 2009

	Actual (GAAP Basis)	Less: Encumbrances July 1, 2008	Add: Encumbrances June 30, 2009	Actual Revenues/ Expenditures (Budgetary Basis)	Budgeted Amounts		Variance with Final Budget - Positive (Negative)
					Original	Final	
REVENUES:							
Interest income	\$ 27,568	\$ -	\$ -	\$ 27,568	\$ 27,568	\$ 27,568	\$ -
EXPENDITURES:							
Program costs	-	-	-	-	-	-	-
Excess (deficiency) of revenues over (under) expenditure	27,568	-	-	27,568	27,568	27,568	-
OTHER FINANCING SOURCES (USES):							
Transfers in	2,616,199	-	-	2,616,199	2,300,000	2,300,000	316,199
Transfers out	(1,606,657)	-	-	(1,606,657)	(1,606,657)	(1,606,657)	-
Total other financing sources (uses)	1,009,542	-	-	1,009,542	693,343	693,343	316,199
Net change in fund balance	1,037,110	-	-	1,037,110	720,911	720,911	316,199
Fund balance, July 1, 2008	1,363,748	-	-	1,363,748	1,363,748	1,363,748	-
Fund balance, June 30, 2009	\$ 2,400,858	\$ -	\$ -	\$ 2,400,858	\$ 2,084,659	\$ 2,084,659	\$ 316,199

See accompanying accountants' report.

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 TULLAHOOMA, TENNESSEE
SCHEDULE OF BONDS AND NOTES PAYABLE - PRIMARY GOVERNMENT
JUNE 30, 2009

Description	Interest Rate	Date of Issue	Date of Final Maturity	Amount of Issue	Principal Amount Outstanding June 30, 2009	Interest to Maturity as of June 30, 2009
Governmental Activities:						
General Obligation Bonds Payable						
General Obligation School Improvement and Refunding, Series 1997	5.4%-5.5%	March 1, 1997	October 1, 2017	\$ 515,000	\$ 515,000	\$ 199,048
General Obligation Refunding Bonds, Series 1998	4%-5.1%	December 1, 1997	October 1, 2014	7,845,000	4,135,000	647,297
General Obligation School Refunding, Series 2002	3.35%-4.7%	June 1, 2002	October 1, 2017	6,265,000	5,835,000	1,674,887
General Public Improvement and Refunding Bonds, Series 2005	3.25%-5%	November 1, 2005	April 1, 2026	9,880,000	8,945,000	2,796,733
General Obligation Refunding Bonds, Series 2006	3.5%-4%	December 15, 2006	April 1, 2026	9,320,000	9,270,000	4,690,964
TMBF 12M School Note 2009	4.5%	August 6, 2008	May 25, 2033	1,884,588	1,884,588	
TMBF City Note 2009	4.5%	December 29, 2008	December 25, 2033	1,007,875	1,007,875	
Total General Obligation Bonds Payable - Governmental Activities				36,717,463	31,692,463	10,008,929
Notes Payable						
Capital Outlay Note, Series 2007	4.28%	February 7, 2007	February 1, 2017	845,000	703,000	141,839
Total Bonds and Notes Payable - Governmental Activities				\$ 37,562,463	\$ 32,395,463	\$ 10,150,768
Business-type Activities:						
Revenue Bonds Payable						
Electric System Revenue Bonds, Series 1997	4.7%-5.1%	March 1, 1997	April 1, 2012	\$ 1,440,000	\$ -	\$ -
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	8,368,946
Water and Wastewater Revenue and Tax Bonds, Series 1997	4.75%-6.5%	July 1, 1997	October 1, 2017	720,000	415,000	110,358
Total Revenue Bonds Payable - Business-type Activities				19,135,000	17,390,000	8,479,304
Notes Payable						
Wastewater System-						
Loan Fund 319-01, Series 1996C	7.25%-10.03%	March 1, 1996	March 1, 2010	21,525	1,605	166
Loan Fund 319-02, Series 2003	7.25%-10.03%	March 1, 2003	March 1, 2015	94,844	52,685	10,657
Loan Fund 319-03, Series 2003	7.25%-10.03%	March 1, 2003	March 1, 2014	354,177	173,835	25,992
State Revolving Loan Fund, 93-053	3.80%	September 1, 1995	August 1, 2015	7,157,000	2,807,620	346,220
State Revolving Loan Fund, 94-077	3.80%	January 1, 1997	December 1, 2016	3,050,000	1,418,185	210,972
Water System-						
State Loan 76-6, Series 1996C	5%-8.43%	March 1, 1996	March 1, 2010	1,217,597	89,269	6,424
State Loan 76-6A, Series 2003	5%-8.43%	March 1, 2003	March 1, 2011	513,399	118,455	5,734
TML Loan 1999	4.50%	May 25, 1999	May 25, 2020	4,708,000	3,353,000	638,130
Total Notes Payable - Business-type Activities				17,116,542	8,014,654	1,244,295
Total Bonds and Notes Payable - Business-type Activities				\$ 36,251,542	\$ 25,404,654	\$ 9,723,599

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION BONDS
 JUNE 30, 2009

Year	General Obligation School Refunding and Improvement Bonds Series 1997		General Fund		School Fund		General Obligation Refunding Bonds, Series 1998		Total		General Obligation School Refunding Bonds Series 2002	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ -	\$ 28,278	\$ 26,660	\$ 7,820	\$ 593,340	\$ 182,306	\$ 620,000	\$ 190,126	\$ 180,000	\$ 266,198	\$ 180,000	\$ 266,198
2011	-	28,278	27,735	6,515	617,265	153,252	645,000	159,767	230,000	257,710	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	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	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	490,000	211,263
2015	40,000	24,200	25,612	656	734,388	18,724	760,000	19,380	575,000	187,934	575,000	187,934
2016	120,000	19,800	-	-	-	-	-	-	1,090,000	148,980	1,090,000	148,980
2017	140,000	12,650	-	-	-	-	-	-	1,260,000	93,840	1,260,000	93,840
2018	160,000	4,400	-	-	-	-	-	-	1,380,000	32,430	1,380,000	32,430
2019	-	-	-	-	-	-	-	-	-	-	-	-
2020	-	-	-	-	-	-	-	-	-	-	-	-
2021	-	-	-	-	-	-	-	-	-	-	-	-
2022	-	-	-	-	-	-	-	-	-	-	-	-
2023	-	-	-	-	-	-	-	-	-	-	-	-
2024	-	-	-	-	-	-	-	-	-	-	-	-
2025	-	-	-	-	-	-	-	-	-	-	-	-
2026	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 515,000</u>	<u>\$ 199,048</u>	<u>\$ 170,737</u>	<u>\$ 25,882</u>	<u>\$ 3,964,263</u>	<u>\$ 621,415</u>	<u>\$ 4,135,000</u>	<u>\$ 647,297</u>	<u>\$ 5,935,000</u>	<u>\$ 1,674,887</u>	<u>\$ 5,935,000</u>	<u>\$ 1,674,887</u>

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 CAPITAL OUTLAY NOTES
 JUNE 30, 2009

Year	Principal	Interest	Total
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
	\$ 703,000	\$ 141,839	\$ 844,839

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 TULLAHOMA AIRPORT AUTHORITY
 JUNE 30, 2009

Year	Principal	Interest (11-1-05)	Total Notes
	City of Tullahoma UDAG Loan		
2010	\$ 34,865	\$ 2,618	\$ 37,483
2011	28,142	1,858	30,000
2012	28,353	1,647	30,000
2013	28,567	1,433	30,000
2014	28,782	1,218	30,000
2015	28,998	1,002	30,000
2016	29,217	783	30,000
2017	29,437	563	30,000
2018	29,658	342	30,000
2019	29,525	119	29,644
	<u>\$ 295,544</u>	<u>\$ 11,583</u>	<u>\$ 307,127</u>

See accompanying accountant's report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 TULLAHOMA UTILITIES BOARD
 JUNE 30, 2009

Year	Electric System Revenue Bonds Series 1997 (5-1-97) *		Water & Wastewater Revenue & Tax Bonds Series 1997 (3-1-97)		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
2010	-	-	35,000	21,591	-	720,044	35,000	741,635
2011	-	-	40,000	19,633	-	720,044	40,000	739,677
2012	-	-	40,000	17,513	700,000	706,044	740,000	723,557
2013	-	-	45,000	15,206	730,000	676,531	775,000	691,737
2014	-	-	45,000	12,765	760,000	645,818	805,000	658,583
2015	-	-	50,000	10,175	790,000	614,818	840,000	624,993
2016	-	-	50,000	7,425	825,000	581,487	875,000	588,912
2017	-	-	55,000	4,537	860,000	545,681	915,000	550,218
2018	-	-	55,000	1,513	900,000	508,281	955,000	509,794
2019	-	-	-	-	935,000	469,872	935,000	469,872
2020	-	-	-	-	975,000	430,478	975,000	430,478
2021	-	-	-	-	1,020,000	389,331	1,020,000	389,331
2022	-	-	-	-	1,060,000	345,769	1,060,000	345,769
2023	-	-	-	-	1,105,000	299,763	1,105,000	299,763
2024	-	-	-	-	1,155,000	251,016	1,155,000	251,016
2025	-	-	-	-	1,205,000	199,391	1,205,000	199,391
2026	-	-	-	-	1,260,000	145,469	1,260,000	145,469
2027	-	-	-	-	1,320,000	89,031	1,320,000	89,031
2028	-	-	-	-	1,375,000	30,078	1,375,000	30,078
	\$ -	\$ -	\$ 415,000	\$ 110,358	\$ 16,975,000	\$ 8,368,946	\$ 17,390,000	\$ 8,479,304
								\$ 25,869,304

* Bonds totaling \$670,000 at July 1, 2008 due in April 2012 were paid in full during the current year ended June 30, 2009.

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 TULLAHOMA UTILITIES BOARD
 JUNE 30, 2009

Year	Tennessee Local Development Authority						Subtotal	
	Loan Fund 319-01		Loan Fund 319-02		Loan Fund 319-03		Principal	Interest
	Principal	Interest	Principal	Interest	Principal	Interest		
2010	\$ 1,605	\$ 166	\$ 8,132	\$ 3,046	\$ 33,988	\$ 8,832	\$ 43,725	\$ 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	-	-	-	-	-	-	-	-
	\$ 1,605	\$ 166	\$ 52,685	\$ 10,657	\$ 173,835	\$ 25,992	\$ 228,125	\$ 36,815

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
	2010	\$ 411,864	\$ 99,564	\$ 166,774	\$ 50,606	\$ 578,638	\$ 150,170	\$ 622,363
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	-	-	107,498	-	107,498	-	107,498	-
	\$ 2,807,620	\$ 346,220	\$ 1,418,185	\$ 210,972	\$ 4,225,805	\$ 557,192	\$ 4,453,930	\$ 594,007

See accompanying accountants' report.

CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF DEBT SERVICE REQUIREMENTS
 TULLAHOMA UTILITIES BOARD
 JUNE 30, 2009

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
2010	\$ 70,433	\$ 4,080	\$ 89,269	\$ 6,424	\$ 159,702	\$ 10,504	\$ 255,000	\$ 100,590	\$ 414,702	\$ 111,094	\$ 1,037,065	\$ 273,308
2011	48,022	1,654	-	-	48,022	1,654	264,000	92,940	312,022	94,594	957,311	232,123
2012	-	-	-	-	-	-	273,000	85,020	273,000	85,020	943,779	197,048
2013	-	-	-	-	-	-	283,000	76,830	283,000	76,830	980,293	162,355
2014	-	-	-	-	-	-	293,000	68,340	293,000	68,340	1,003,586	126,286
2015	-	-	-	-	-	-	303,000	59,550	303,000	59,550	1,009,259	89,563
2016	-	-	-	-	-	-	314,000	50,460	314,000	50,460	607,863	59,212
2017	-	-	-	-	-	-	324,000	41,040	324,000	41,040	431,498	41,040
2018	-	-	-	-	-	-	336,000	31,320	336,000	31,320	336,000	31,320
2019	-	-	-	-	-	-	348,000	21,240	348,000	21,240	348,000	21,240
2020	-	-	-	-	-	-	360,000	10,800	360,000	10,800	360,000	10,800
	<u>\$ 118,455</u>	<u>\$ 5,734</u>	<u>\$ 89,269</u>	<u>\$ 6,424</u>	<u>\$ 207,724</u>	<u>\$ 12,158</u>	<u>\$ 3,353,000</u>	<u>\$ 638,130</u>	<u>\$ 3,560,724</u>	<u>\$ 650,288</u>	<u>\$ 8,014,654</u>	<u>\$ 1,244,295</u>
												<u>\$ 9,258,949</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, 2009

ELECTRIC RATES

TVA Rate Schedule RP-9

Residential Rate

Energy charge:

- 7.585 cents per kWh per month on first 800 kWh
- 7.137 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: 8.365 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 \$12.23 per kW
Energy charge: First 15,000 kWh per month at 8.440 cents per kWh
Additional kWh per month at 4.389 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 \$11.32 per kW
Excess over 1,000 kW of billing demand per month, at \$13.29 per kW
Energy charge: 4.454 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, 2009

ELECTRIC RATES (Continued)

Outdoor Lighting for Individual Customers

Type Fixture	Rated kWh	Energy Charge per kWh	Energy Charge	Facility Charge	Monthly Total
100 watt high pressure sodium	45	\$ 0.0635	\$ 2.86	\$ 5.86	\$ 8.72
175 watt mercury vapor	77	\$ 0.0635	\$ 4.89	\$ 5.35	\$ 10.24
250 watt high pressure sodium	111	\$ 0.0635	\$ 7.05	\$ 7.55	\$ 14.60
1000 watt metal halide	394	\$ 0.0635	\$ 25.03	\$ 15.45	\$ 40.48
400 watt mercury vapor	174	\$ 0.0635	\$ 11.05	\$ 7.02	\$ 18.07
Steel pole	-	\$ -	\$ -	\$ 11.49	\$ 11.49
100 watt HPS Cobra Head	45	\$ 0.0635	\$ 2.86	\$ 5.97	\$ 8.83
150 watt HPS Acorn w/ concrete pole	68	\$ 0.0635	\$ 4.32	\$ 31.66	\$ 35.98
175 watt MH Acorn w/ concrete pole	75	\$ 0.0635	\$ 4.76	\$ 33.68	\$ 38.44
250 watt HPS Flood	111	\$ 0.0635	\$ 7.05	\$ 10.40	\$ 17.45
250 watt HPS Acorn w/ concrete pole	111	\$ 0.0635	\$ 7.05	\$ 31.80	\$ 38.85
250 watt HPS shoebox w/ sq. steel pole	111	\$ 0.0635	\$ 7.05	\$ 55.47	\$ 62.52
400 watt HPS Flood	171	\$ 0.0635	\$ 10.86	\$ 10.69	\$ 21.55
400 watt MH Cobra Head	164	\$ 0.0635	\$ 10.42	\$ 8.41	\$ 18.83
400 watt MH Flood	164	\$ 0.0635	\$ 10.42	\$ 12.59	\$ 23.01

Extra Pole* Monthly Charge

35' or less	\$ 3.21
40'	\$ 11.49
13 ft concrete pole	\$ 15.53
Square steel pole	\$ 41.52

*Includes an amount for typical footage of conductor

WATER RATES

	(Per 1,000 Gallons)		
	City Limits		County Line
	Inside	Outside	Cooperative
First 100,000 gallons	\$2.66	\$3.89	\$4.19
All over 100,000 gallons	\$2.45	\$3.57	\$3.63
Customer charge (minimum)	\$5.50/mo.	\$8.25/mo.	\$10.82/mo.
Multi-unit charge (minimum)	\$4.82/mo.	\$4.82/mo.	\$4.82/mo.

WASTEWATER RATES

	(Per 1,000 Gallons)	
	Residential	Commercial
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.	\$4.94/mo.

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2009

BROADBAND SERVICES RATES

Residential Rates

Video Packages		Bundles	
Lifeline Basic	\$ 19.95	LightTUBE Lifeline TriplePlay	\$ 79.95
Expanded Basic	\$ 47.95	Lifeline Basic	
Digital Plus	\$ 59.95	10Mbps Internet	
Digital Bronze	\$ 74.95	Home Phone	
Digital Silver	\$ 86.95		
Digital Gold	\$ 98.95	LightTUBE TriplePlay	\$ 99.95
		Expanded Basic	
Digital Tiers		10Mbps Internet	
Sports Tier	\$ 3.00	Home Phone	
Movie Tier	\$ 3.00		
Latino Tier	\$ 3.00	LightTUBE TriplePlay Plus	\$ 111.95
		Digital Plus	
Optional Services		10Mbps Internet	
HBO	\$ 15.00	Home Phone	
Showtime	\$ 15.00		
Cinimax	\$ 15.00	LightTUBE TriplePlay HD	\$ 121.95
Starz!	\$ 15.00	Digital Plus with HD/DVR	
		10Mbps Internet	
Equipment		Home Phone	
Standard Digital Box - Primary	Included		
Standard Digital Box - Additinoal	\$ 5.00	LightTUBE TriplePlay Max	\$ 188.95
HD Digital Box - Primary	\$ 3.00	Digital Gold with HD/DVR	
HD Digital Box - Additional	\$ 8.00	Sports, Movie and HD Tiers	
HD/DVR Digital Box - Primary	\$ 10.00	20Mbps Internet	
HD/DVR Digital Box - Additional	\$ 15.00	Home Phone	
Remote Control	Included		
Unreturned Digital Box	\$ 150.00	Telephone Services	
Unreturned Digital HD Box	\$ 200.00	Home Phone	\$ 31.95
Unreturned Digital HD/DVR Box	\$ 350.00	800 Service (monthly)	\$ 5.00
		Lifeline	\$ 12.95
Installation, Repair, & Other		Additional Line with Unlimited LD	\$ 24.95
Standard Install - Prewired	\$ 29.95	Personal Mailbox	\$ 1.95
Standard Install - Unwired	\$ 29.95		
Home Theater/HD Setup - At Initial Install	\$ 19.95	Premium Directory Listing	
Home Theater/HD Setup - Separate Trip	\$ 39.95	Non-Published Listing	\$ 5.00
Custom Install Hourly Rate	\$ 39.95	Non-Listed Listing	\$ 3.10
Change of Service - Technician	\$ 29.95	Additional Listing	\$ 2.10
Change of Service - Electronic	Free	Alternate Listing	\$ 1.80
Additional/Relocate Outlet - At Initial Install	\$ 15.00	Foreign Listing	\$ 1.20
Service Call - Customer Premise Issue	\$ 40.00		
Trip charge	\$ 25.00	Directory Assistance	
Wall Fish	\$ 25.00	Call Completion	\$ 0.45
NSF Check Fee	\$ 25.00	Local	\$ 0.98
Late Fee	\$ 0.05	National	\$ 0.98
Reactivation Fee	\$ 35.00	Operated Assisted Service Surcharge	\$ 2.25
Inside Wire Maintenance (All Services)	\$ 3.95		
Internet Parking	\$10.00/mo		

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2009

Residential (continued)

High Speed Internet		
10Mbps Tier	\$	37.95
15Mbps Tier	\$	49.95
20Mbps Tier	\$	59.95
50Mbps Tier	\$	149.95
100Mbps Tier	\$	299.95

Commercial Rates

(Note: Minimum Purchase Level of \$59.90 for all Commercial Accounts)

Video Packages		Additional Email and Hosting Services	
Expanded Basic	\$ 47.95	LightTUBe Domain	Included
Expanded Basic (Hospitality)	Varies	Vanity Domain	\$5.00/ea
Digital Basic (no music)	\$ 79.95	Additional email addresses (block of 25)	\$ 40.00
Commercial Music Only	\$ 39.95	Web Hosting	\$ 10.00
Equipment		Telephone Services	
Standard Digital Box - Primary	Included	Business Phone	
Standard Digital Box - Additional	\$ 5.00	No Term	\$ 39.95
HD Digital Box - Primary	\$ 3.00	2 Year Term	\$ 34.95
HD Digital Box - Additional	\$ 8.00	3 Year Term	\$ 29.95
HD/DVR Digital Box - Primary	\$ 10.00	Analog T1	
HD/DVR Digital Box - Additional	\$ 15.00	Fixed fee per T1	\$ 100.00
Remote Control	Included	PerChannel Charge (minimum of 9)	\$ 20.00
Unreturned Digital Box	\$ 150.00	Digital T1 (PRI)	
Unreturned Digital HD Box	\$ 200.00	Full 2-Way T1	\$ 500.00
Unreturned Digital HD/DVR Box	\$ 350.00	Half 2-Way T1	\$ 300.00
Installation, Repair, & Other		Full Inbound-Only T1	\$ 250.00
Standard Install - Prewired	Varies	Block of 20 DIDs	\$ 5.00
Standard Install - Unwired	Varies	Long Distance (per minute)	\$ 0.05
Custom Install Hourly Rate	\$ 39.95	800 Service (monthly)	\$ 5.00
Change of Service - Technician	\$ 29.95	Remote Call Forward Line (monthly)	\$ 16.00
Change of Service - Electronic	Free	Remote Call Forward Line (per minute)	\$ 0.05
Additional/Relocate Outlet - At Initial Install	\$ 15.00	Toll Free Vanity Search	\$ 5.00
Service Call - Customer Premise Issue	\$ 40.00	Account Codes - Verified	\$ 5.00
Trip Charge	\$ 25.00	Account Codes - Non-Verified	\$ 4.00
Wall Fish	\$ 25.00		
NSF Check Fee	\$ 25.00		
Late Fee	5%		
Reactivation Fee	\$ 35.00		

CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF UTILITY RATES IN FORCE AND AVERAGE NUMBER OF CUSTOMERS
TULLAHOMA UTILITIES BOARD
JUNE 30, 2009

Commercial (continued)

High Speed Internet			Premium Directory Listing		
2Mbps Tier (36 month term)	\$	39.95	Non-Published Listing	\$ 5.00	
10Mbps Tier			Non-Listed Listing	\$ 5.00	
		No Term	\$ 79.95	Additional Listing	\$ 5.00
		36 Month Term	\$ 69.95	Alternate Listing	\$ 2.10
		Non-Profit No Term	\$ 69.95	Foreign Listing	\$ 2.10
		Non-Profit 36 Month Term	\$ 49.95		
15Mbps Tier			Directory Assistance		
		No Term	\$ 129.95	Call Completion	\$ 0.45
		36 Month Term	\$ 99.95	Local	\$ 0.98
20Mbps Tier			National	\$ 0.98	
		No Term	\$ 249.95	Operated Assited Service Surcharge	\$ 2.25
		36 Month Term	\$ 199.95		
50Mbps Tier					
		No Term	\$ 599.95		
		36 Month Term	\$ 499.95		
Static IP Addresses					
1 Address		Free			
5 Addresses	\$	10.00			
13 Addresses	\$	15.00			
29 Addresses	\$	20.00			

Average number of customers during the year:

Power System	10,950
Water System	9,480
Wastewater System	7,298
Fiber System	1,393

**CITY OF TULLAHOMA, TENNESSEE
 SCHEDULE OF UNACCOUNTED FOR WATER
 TULLAHOMA UTILITIES BOARD
 JUNE 30, 2009**

(All amounts in gallons)

Unaudited - See Accompanying Accountants' Report

A	Water Treated and Purchased:		
B	Water pumped (potable)	-	
C	Water Purchased	985,070,000	
D	Total Water Treated and Purchased	<u>985,070,000</u>	985,070,000
	(Sum Lines B and C)		
E	Accounted for Water:		
F	Water Sold	753,162,600	
G	Metered for Consumption (in house usage)	-	
H	Fire Department Usage	216,800	
I	Flushing	7,509,918	
J	Tank cleaning/filling	392,424	
K	Street cleaning	-	
L	Bulk sales	-	
M	Water bill adjustments / plus or (minus)	53,300	
N	Other	64,144	
O	Total Accounted for Water	<u>761,399,186</u>	761,399,186
	(Sum Lines F through N)		
P	Unaccounted for Water		223,670,814
	(Line D minus Line O)		
Q	Percent Unaccounted for Water		22.706%
	(Line P divided by Line D times 100)		

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2009**

Program Name	State Grant Number	Grant Period	Award Amount	Receivable (Deferred) July 1, 2008	Adjustment	Grant Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2009
STATE FINANCIAL ASSISTANCE PROGRAMS								
Tennessee Department of Education:								
ACT-Explore/Internet Connectivity	N/A	7/1/07-6/30/08	N/A	\$ -	\$ -	\$ (8,188)	\$ 12,316	\$ 4,128
After School program (LEAPS)	Z-05-027734	7/1/07-6/30/08	N/A	42,817	-	(42,817)	-	41,250
After School program (LEAPS)	N/A	7/1/08-6/30/09	N/A	-	-	-	41,250	-
AP Test Reimbursement	N/A	7/1/07-6/30/08	N/A	-	-	(324)	324	-
Basic Education Program	N/A	7/1/08-6/30/09	N/A	-	-	(12,664,000)	12,664,000	-
Breakfast and Lunch State Matching	N/A	7/1/08-6/30/09	N/A	-	-	(19,393)	19,393	-
Career ladder supplement	N/A	7/1/07-6/30/08	N/A	-	-	(104,774)	104,774	-
CEO Supplement	N/A	7/1/08-6/30/09	N/A	-	-	(1,141)	1,141	-
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	58,002	-	(58,002)	100,000	67,333
Coordinated School Health	GZ8/AA9	7/1/08-6/30/09	100,000	-	-	(32,647)	-	-
Drop Out Prevention	GU8/AA	7/1/07-6/30/08	6,000	4,242	-	(6,000)	1,758	6,000
Drop Out Prevention	N/A	7/1/08-6/30/09	6,000	-	-	-	6,000	-
Early Childhood Education	MX8/AA	7/1/07-6/30/08	332,888	114,992	-	(114,992)	59,850	-
Extended Contract	N/A	7/1/08-6/30/09	N/A	-	-	(59,850)	59,850	-
Pre-K	N/A	7/1/08-6/30/09	346,133	-	-	-	346,133	-
Safe Schools Act	MX9/AA	7/1/08-6/30/09	16,300	16,300	-	(16,300)	-	-
Safe Schools Act	N/A	10/1/07-6/30/08	16,300	-	-	(16,100)	16,100	-
1 Time Bonus	N/A	8/12/08-6/30/09	16,100	-	-	(89,169)	89,169	-
	N/A	7/1/08-6/30/09	N/A	237,492	-	(13,234,836)	13,462,208	464,864
Total Tennessee Department of Education								
Tennessee Department of Environment and Conservation:								
Local Park and Recreation Fund	Z-07-031416-00	11/15/06-11/14/09	450,000	-	-	(124,242)	450,000	325,758
Recycling Equipment Grant	N/A	5/30/07-6/30/13	17,090	15,843	-	(15,843)	-	325,758
Tennessee Department of Labor and Workforce Development:								
Adult Basic Education	N/A	7/1/07-6/30/09	25,691	1,468	-	(1,468)	-	-
Adult Basic Education	N/A	12/1/07-6/30/08	15,211	-	-	(15,211)	15,211	-
Adult Basic Education	N/A	9/1/08-6/30/09	7,514	-	-	(7,514)	7,514	-
Adult Basic Education	N/A	7/1/08-6/30/09	27,835	-	-	(24,642)	27,484	2,842
	N/A			1,468	-	(48,835)	50,209	2,842
Total Tennessee Department of Labor and Workforce Development								
Tennessee Department of Agriculture:								
Urban Forestry	Z-08-21279-00	7/1/07-9/30/08	1,000	-	-	(1,000)	1,000	-
Tree Planting Grant			2,500	-	-	(2,500)	2,500	-
				-	-	(3,500)	3,500	-
Tennessee Emergency Management:								
Fire Turnout Gear Grant	EMW-2008-FQ-04464	2009-2010	52,027	-	-	-	20,078	20,078
Community Foundation of Middle Tennessee								
Discretionary Grant - Pre K	N/A	12/1/08-11/30/09	4,961	-	-	(4,961)	4,961	-
Total State Financial Assistance Programs								
				\$ 254,803	\$ -	\$ (13,432,217)	\$ 13,990,956	\$ 813,542

continued

See accompanying accountants' report.

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
FOR THE YEAR ENDED JUNE 30, 2009**

Component Units:	Program Name	State Grant Number	Grant Period	Award Amount	(Deferred) July 1, 2008	Adjustment	Grant Receipts	Grant Expenditures/ Uses	(Deferred) June 30, 2009
Municipal Airport Authority									
	Tennessee Department of Transportation								
	Airport Improvement Program	Z-06-02-9514-00	10/01/05-09/30/10	3,012,568	\$ -	\$ (2,824,609)	\$ -	\$ 2,895,772	\$ 71,103
	Airport layout update	Z-06-02-9521-00	10/01/05-09/30/10	52,200	-	(5,719)	-	5,719	-
	Airport maintenance and improvements	Z-08-02-1624-00	07/01/07-06/30/08	16,500	-	-	-	-	-
	Airport maintenance and improvements	Z-09-21-3423-00	07/01/08-06/30/09	18,000	-	(9,699)	-	9,699	-
	Construction and engineering	Z-09-21-3957-00	12/31/08-09/30/13	700,000	-	-	-	35,435	35,435
	Drainage study and repairs	Z-07-03-7714-00	12/01/06-11/30/11	99,000	-	-	-	-	-
	Emergency repairs on 18/36	Z-07-03-7632-00	12/01/06-11/30/11	22,800	-	-	-	-	-
	Fencing & security camera & gate	Z-09-21-4053-00	09/03/09-09/30/13	40,000	-	-	-	-	-
	Install security fencing and gate	Z-07-03-7582-00	12/01/06-11/30/11	9,000	-	-	-	-	-
	Install security fencing and gate	Z-08-20-0674-00	01/01/08-09/30/12	17,000	-	(10,311)	(1,146)	11,457	-
	Obstruction Survey	Z-06-02-9511-00	10/01/05-09/30/10	65,550	-	-	-	65,550	65,550
	Parking apron concrete repairs	Z-08-20-0666-00	12/01/07-09/30/12	351,840	22,500	(286,514)	-	270,486	6,392
	Ramp and taxiway construction	Z-07-09-7546-00	12/01/06-11/30/11	134,063	-	-	-	300	300
	Ramp/taxiway pavement repairs	Z-07-03-7634-00	12/01/06-11/30/11	5,400	-	-	-	-	-
	Repair and overlay of south taxiway	Z-08-20-0667-00	12/01/07-09/30/12	1,314,305	38,000	(1,088,067)	-	1,056,590	6,523
	Security fencing and vehicle gate	Z-09-21-3912-00	10/03/08-09/30/13	9,500	-	(2,278)	-	2,278	-
	Security fencing and vehicle gate	Z-09-21-4052-00	09/03/09-09/30/13	94,000	-	-	-	-	-
	Taxiway Drainage repair	10-125-00	11/20/09-09/30/14	19,000	-	-	-	-	-
	Tractor & bush hog	10-125-00	11/20/09-09/30/14	80,000	-	-	-	-	-
	Tree clearing	Z-07-03-7584-00	12/01/06-11/30/11	9,682	-	-	-	-	-
	Tree clearing	10-123-00	11/20/09-09/30/14	12,000	-	-	-	-	-
	Total State Financial Assistance Programs				\$ 60,500	\$ (4,227,257)	\$ (1,146)	\$ 4,353,206	\$ 185,303

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

CFDA Number	Program Name	State Grant Number	Grant Period	Award Amount	Receivable (Deferred) July 1, 2008	Adjustment	Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2009
FEDERAL FINANCIAL ASSISTANCE PROGRAMS									
U.S. Department of Agriculture:									
Passed Through Tennessee Department of Agriculture:									
10.553	National School Breakfast Program	N/A	7/1/07-6/30/08	N/A	\$ 18,482	\$ -	\$ (18,482)	\$ -	\$ -
10.553	National School Breakfast Program	N/A	7/1/08-6/30/09	N/A	-	-	(159,466)	179,661	20,195
10.555	National School Lunch Program	N/A	7/1/07-6/30/08	N/A	63,180	-	(63,180)	-	-
10.555	National School Lunch Program	N/A	7/1/08-6/30/09	N/A	-	-	(549,095)	615,751	66,656
10.582	Child Nutrition - Fruits and Veg	N/A	7/1/08-6/30/09	N/A	-	-	(13,551)	27,342	13,791
Passed Through Tennessee Rural Development:									
10.769	Rural Business Enterprise Grant	N/A	11/1/07-11/1/10	199,000	(15,000)	-	(34,650)	49,650	-
Total U.S. Department of Agriculture					66,662	-	(838,424)	872,404	100,642
U.S. Department of Education:									
Passed Through Tennessee Department of Education:									
84.002	Adult Basic Education	Z-08-020835-00	7/1/07-6/30/08	77,074	9,959	-	(12,250)	2,291	-
84.002	Adult Basic Education	Z-09-213517-01	7/1/08-6/30/09	83,504	-	-	(73,925)	82,453	8,528
84.027A	IDEA - Part B	N/A	7/1/08-9/30/09	715,769	-	-	(600,000)	715,769	115,769
84.027	IDEA - Part B Competitive	N/A	N/A	25,000	5,341	-	(5,341)	-	-
84.027	IDEA - Part B Competitive	N/A	N/A	5,024	4,992	-	(4,992)	-	-
84.027	IDEA - Part B Competitive	N/A	7/1/08-6/30/09	N/A	-	-	(109,694)	109,694	-
84.027	IDEA - Part B Competitive	N/A	7/1/08-6/30/09	24,960	-	-	(13,745)	13,745	-
84.027	IDEA - Part B Discretionary	N/A	7/1/08-6/30/09	24,950	-	-	(18,770)	24,960	6,190
84.173A	IDEA - Part B Discretionary	N/A	7/1/08-9/30/09	36,288	-	-	(15,045)	24,950	9,905
84.364A	IDEA - Preschool	N/A	9/1/07-8/31/08	299,618	291,796	-	(36,621)	36,621	-
84.041	Literacy Through Reading Achievement	N/A	N/A	N/A	-	-	(299,618)	7,822	-
84.357	Public Law 874	GG-05-11254-00	7/1/07-6/30/08	228,163	128,525	-	(296,284)	205,509	37,741
84.357	Reading First Program	N/A	N/A	N/A	-	-	(41,696)	-	-
84.357	Reading First Tech Assistance and Prof Dev	N/A	7/1/07-9/30/07	267,139	267,139	-	(267,139)	-	-
84.357	Targued Assistance Grant	GG05-11254-00	7/1/08-9/30/08	78,468	-	-	(78,468)	78,468	-
84.010	Targued Assistance Grant	N/A	7/1/07-6/30/08	740,166	170,166	-	(170,166)	-	-
84.010	Title I	N/A	7/1/08-6/30/09	776,952	-	-	(460,000)	776,952	316,952
84.367A	Title II, Part A - Teacher and Principal Training	N/A	7/1/07-6/30/08	172,385	30,183	-	(34,193)	-	-
84.367A	Title II, Part A - Teacher and Principal Training	N/A	7/1/08-6/30/09	168,133	-	-	(115,000)	168,133	53,133
84.318X	Title II, Part D - Enhancing Education through Technology	N/A	7/1/08-6/30/09	8,231	-	-	(4,400)	8,231	3,831
84.186A	Title IV, Part A - Drug Free Schools	N/A	7/1/07-6/30/08	16,393	(90)	90	-	-	-
84.186A	Title IV, Part A - Drug Free Schools	N/A	7/1/08-6/30/09	13,357	-	-	(13,357)	13,357	-
84.358	Title VI, Part B, Subpart 2	N/A	7/1/08-6/30/09	88,829	-	-	(88,829)	88,829	-
84.048	Vocational Education - Carl Perkins	N/A	7/1/07-6/30/08	65,054	35,054	-	(35,054)	-	-
84.048	Vocational Education - Carl Perkins	N/A	7/1/07-6/30/09	151,172	-	-	(124,515)	151,172	26,657
84.048	Carl Perkins - Test Prep	N/A	N/A	N/A	-	-	(3,711)	3,711	-
Total U.S. Department of Education					943,065	90	(2,976,701)	2,612,252	578,706
U.S. Department of Justice:									
Passed Through Tennessee Department of Finance and Administration									
16.738	Byrne/Justice Assistance Grant Program	Z-06-027527-00	7/1/07-6/30/08	6,000	-	-	(784)	784	-
16.607	Direct Program:	N/A	7/1/08-6/30/09	3,084	-	-	(1,614)	1,614	-
Total U.S. Department of Justice					-	-	(2,398)	2,398	-

(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, 2008	Adjustment	Grant Receipts	Grant Expenditures/ Uses	Receivable (Deferred) June 30, 2009
U.S. Department of Transportation Passed Through Tennessee Department of Transportation Tullahoma Wireless Wi-Fi Laptop Data Collection Network Total U.S. Department of Transportation	20.600/20.607	Z-09-214434-00	10/1/08-9/30/09	29,790	-	-	(25,455)	29,790	4,335
Total Federal Financial Assistance Programs					\$ 1,009,727	\$ 90	\$ (3,842,978)	\$ 3,516,844	\$ 683,683
FEDERAL FINANCIAL NON-CASH ASSISTANCE PROGRAM Non-Cash Federal Assistance: U.S. Department of Agriculture Food Distribution Program	10.569	N/A	7/1/08-6/30/09	N/A	-	-	(104,891)	104,891	-
Component Units: Municipal Airport Authority: U.S. Department of Transportation Passed through Tennessee Department of Transportation: Airport Improvement Program Total Federal Financial Assistance Programs	20.106	Z-06-02-9514-00	10/01/05-09/30/10	306,700	\$ 9,600	(112,700)	-	103,100	-
					\$ 9,600	(112,700)	-	103,100	-

**CITY OF TULLAHOMA, TENNESSEE
NOTES TO THE SCHEDULES OF EXPENDITURES OF
FEDERAL AND STATE ASSISTANCE
YEAR ENDED JUNE 30, 2009**

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-18

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 SEVEN 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>	<u>2009</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)	\$ 360,871
Restricted	353,626	2,651,408	1,729,969	6,471,142	5,313,488	2,070,179	3,482,921
Unrestricted	25,642,670	13,145,534	10,507,752	10,676,971	10,980,482	12,818,368	9,591,892
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>	<u>\$ 13,435,684</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	\$ 26,716,611
Restricted	1,462,708	949,514	997,246	419,759	426,842	3,630,315	4,609,939
Unrestricted	6,499,312	7,244,500	8,842,918	6,486,202	7,328,172	7,631,682	6,199,522
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>	<u>\$ 37,526,072</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	\$ 27,077,482
Restricted	1,816,334	3,600,922	2,727,215	6,890,901	5,740,330	5,700,494	8,092,860
Unrestricted	32,141,982	20,390,034	19,350,670	17,163,173	18,308,654	20,450,050	15,791,414
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>	<u>\$ 50,961,756</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 SEVEN FISCAL YEARS
(accrual basis of accounting)

	2003	2004	2005	Fiscal Year 2006	2007	2008	2009
Expenses							
Governmental activities:							
General government	\$ 4,123,078	\$ 3,491,871	\$ 2,060,857	\$ 2,356,527	\$ 2,338,809	\$ 2,507,541	\$ 2,098,177
Public safety	3,908,427	3,951,629	4,419,039	4,428,570	4,340,678	4,185,343	4,734,512
Public works	1,763,015	2,415,407	1,936,419	2,284,521	2,099,073	3,963,002	4,512,959
Community services	1,172,524	1,096,514	1,111,865	1,147,695	1,317,433	280,122	258,962
Waste management	1,480,131	1,556,027	1,660,610	1,532,964	1,634,359	1,817,619	1,772,753
Education	22,926,701	24,648,170	27,635,585	28,271,669	28,325,099	31,092,600	31,524,951
Interest and other debt related costs	-	-	1,404,653	1,610,079	1,333,255	1,367,020	1,333,800
Total governmental activities expenses	35,373,876	37,159,618	40,229,028	41,632,025	41,388,706	45,213,247	46,236,114
Business-type activities:							
Tullahoma Utilities Board	25,013,186	25,619,951	25,548,623	28,085,806	28,796,440	30,033,871	35,217,988
Total primary government expenses	\$ 60,387,062	\$ 62,779,569	\$ 65,777,651	\$ 69,717,831	\$ 70,185,146	\$ 75,247,118	\$ 81,454,102
Program Revenues							
Governmental activities:							
Charges for services:							
General government	\$ 140,064	\$ 532,885	\$ 553,297	\$ 667,906	\$ 589,999	\$ 672,665	\$ 455,051
Public safety	-	80,637	-	-	-	29,998	82,432
Waste management	618,639	608,230	644,117	702,155	709,810	575,730	702,726
Education	1,632,633	1,690,839	1,784,840	1,791,503	1,683,500	1,655,108	1,653,950
Operating grants and contributions	18,672,812	19,418,057	20,118,618	21,563,840	21,562,279	24,679,632	25,097,961
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	27,993,120
Business-type activities:							
Charges for services:							
Tullahoma Utilities Board	25,236,051	26,233,252	26,350,363	29,135,117	30,263,169	31,554,533	35,925,238
Operating grants and contributions	-	-	-	-	-	-	-
Capital grants and contributions	386,198	59,657	7,000	-	2,500	59,364	3,000
Total business-type activities program revenues	25,622,249	26,292,909	26,357,363	29,135,117	30,265,669	31,613,897	35,928,238
Total primary government program revenues	\$ 46,686,397	\$ 48,623,557	\$ 49,458,235	\$ 53,860,521	\$ 54,811,257	\$ 59,242,873	\$ 63,920,358
Net (Expense)/Revenue							
Governmental activities	\$ (14,309,728)	\$ (14,828,970)	\$ (17,128,156)	\$ (16,906,621)	\$ (16,843,118)	\$ (17,584,271)	\$ (18,243,994)
Business-type activities	609,063	672,858	808,740	1,049,311	1,469,229	1,580,026	710,250
Total primary government net (expense)/revenue	\$ (13,700,665)	\$ (14,156,112)	\$ (16,319,416)	\$ (15,857,310)	\$ (15,373,889)	\$ (16,004,245)	\$ (17,533,744)
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	\$ 8,643,741
Local option sales tax	5,813,649	5,981,793	5,524,615	5,738,417	6,179,743	8,135,657	7,927,112
Other taxes	1,068,346	1,095,301	1,166,282	1,835,898	1,422,193	1,507,065	1,460,558
Investment earnings	695,866	226,860	222,363	589,450	916,930	604,899	164,840
Other revenues	516,365	110,665	141,654	254,879	313,487	464,469	364,450
Gain on sale of property	-	-	-	638,450	4,500	-	-
Transfers	-	-	-	-	337,047	396,924	404,579
Total governmental activities	15,318,119	14,750,690	15,637,574	17,206,476	17,639,127	19,701,136	18,965,280
Business-type activities:							
Investment earnings	109,926	87,652	156,930	352,934	514,059	989,279	311,483
Other revenues	54,727	32,606	35,647	57,195	46,215	25,713	108,956
Gain on disposal of equipment	-	-	1,173	4,523	25,241	8,001	1,000
Transfers	-	-	-	-	(383,085)	(396,924)	(404,579)
Total business-type activities	164,653	120,258	193,750	414,652	202,430	626,069	16,860
Total primary government	\$ 15,482,772	\$ 14,870,948	\$ 15,831,324	\$ 17,621,128	\$ 17,841,557	\$ 20,327,205	\$ 18,982,140
Change in Net Assets							
Governmental activities	\$ 1,008,394	\$ (78,280)	\$ (1,490,582)	\$ 299,855	\$ 796,009	\$ 2,116,865	\$ 721,286
Business-type activities	773,716	793,216	1,002,490	1,463,963	1,671,659	2,206,095	727,110
Total primary government	1,782,107	714,936	(488,092)	1,763,818	2,467,668	4,322,960	1,448,396
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	\$ 1,448,396

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 SEVEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
General Fund							
Reserved	\$ 218,664	\$ 447,142	\$ 450,917	\$ 110,677	\$ 141,968	\$ 213,279	\$ 181,327
Unreserved	10,614,188	8,876,010	7,086,095	6,732,698	6,356,936	6,804,609	5,523,414
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>	<u>\$ 5,704,741</u>
All Other Governmental Funds							
Reserved, reported in:							
Special revenue funds	\$ 101,618	\$ 126,230	\$ 160,010	\$ 162,207	\$ 1,535,859	\$ 503,586	\$ 236,886
Capital projects funds	8,313,711	2,044,692	1,119,042	4,968,801	3,679,499	1,919,975	96,722
Debt service funds	2,290,291	1,660,611	1,444,108	1,343,576	1,359,445	1,367,538	2,402,922
Unreserved, reported in:							
Special revenue funds	4,844,558	4,882,815	3,818,457	3,726,753	3,827,797	6,177,139	6,029,616
Capital projects funds	-	-	-	-	-	(1,347,993)	801,140
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>	<u>\$ 9,567,286</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 SEVEN FISCAL YEARS
(modified accrual basis of accounting)

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Revenues							
Taxes	\$ 14,105,888	\$ 14,413,165	\$ 15,273,557	\$ 15,723,697	\$ 19,997,350	\$ 18,075,027	\$ 17,844,188
Payment in lieu of tax	-	-	-	-	-	159,817	187,223
Intergovernmental	18,259,432	19,388,278	20,088,688	21,563,840	17,632,092	24,695,475	25,097,961
Licenses and permits	141,841	122,121	127,421	165,487	129,021	146,560	138,158
Fines and forfeitures	258,341	302,838	313,710	368,985	334,293	410,656	244,343
Charges for services	2,337,894	2,361,749	2,448,006	2,528,097	2,518,375	2,346,287	2,429,226
Investment income	890,872	472,244	377,017	372,317	741,567	379,913	164,840
Sale of property	-	-	101,775	907,072	4,500	400	19,852
Note repayments	-	-	25,174	125,859	130,180	43,009	95,613
Other	-	133,976	107,937	530,884	488,851	719,051	446,882
Total revenues	35,994,268	37,194,371	38,863,285	42,286,238	41,976,229	46,976,195	46,668,286
Expenditures							
General government	1,124,920	1,257,003	1,338,757	1,577,057	1,295,275	1,177,901	1,182,578
Public Safety	3,869,616	3,837,478	4,311,464	4,427,745	4,376,307	4,665,946	4,726,599
Public Works	1,763,016	1,780,863	1,727,364	2,148,030	1,876,706	2,056,101	2,087,564
Parks and recreation	-	-	-	-	-	1,153,305	1,256,631
Community Services	1,172,230	1,074,192	1,092,692	1,152,278	1,177,283	262,571	253,497
Waste Management	1,480,131	1,527,422	1,634,335	1,508,520	1,599,771	1,832,253	1,807,441
Public Education	20,369,435	20,528,958	22,949,852	23,340,576	23,441,793	26,957,513	28,075,339
Program Costs	2,192,617	3,894,546	4,044,267	4,465,542	3,966,098	2,292,566	2,616,312
Capital outlay	3,298,626	8,198,295	2,423,705	2,704,993	2,840,558	5,563,226	5,368,217
Loans disbursed	-	-	280,000	269,780	125,000	7,055	79,650
Debt service							
Principal	2,482,024	2,087,473	1,615,000	1,170,000	1,233,310	1,312,068	1,463,025
Interest	1,578,724	1,353,671	1,402,123	1,375,461	1,339,747	1,353,384	1,311,479
Fiscal charges	-	-	2,597	122,294	149,512	2,599	94,828
Total expenditures	39,331,339	45,539,901	42,822,156	44,262,276	43,421,360	48,636,488	50,323,160
Excess of revenues over (under) expenditures	(3,337,071)	(8,345,530)	(3,958,871)	(1,976,038)	(1,445,131)	(1,660,293)	(3,654,874)
Other Financing Sources (Uses)							
Issuance of refunding bonds	-	-	-	9,880,000	9,320,000	-	2,892,463
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	17,838,616
Transfers out	(13,175,762)	(12,167,655)	(12,061,877)	(12,639,783)	(12,785,602)	(13,799,414)	(17,434,037)
Total other financing sources (uses)	(145,100)	-	-	5,099,068	1,260,628	396,924	3,297,042
Net change in fund balances	(3,482,171)	(8,345,530)	(3,958,871)	3,123,030	(184,503)	(1,263,369)	(357,832)
Debt service as a percentage of noncapital expenditures	12.70%	9.93%	7.98%	6.82%	7.21%	6.42%	6.72%

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

Fiscal Year	Tax Year	Residential Property		Commercial Property		Total Taxable Assessed Value	County ^a	Total Direct Tax Rate	Estimated Actual Taxable Value	Taxable Assessed Value as a Percentage of Actual Taxable Value
		Property	Property	Property	Property					
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	933,837,961	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	2.49	1,052,832,610	30.098%		
		13,588,000	3,183,952	16,771,952	Franklin	2.84	64,768,674	25.895%		
2008	2007	157,042,475	163,527,494	320,569,969	Coffee	2.44	1,066,319,358	30.063%		
		17,746,850	4,298,649	22,045,499	Franklin	2.44	84,379,680	26.127%		
2009	2008	159,404,850	164,136,385	323,541,235	Coffee	2.44	1,086,798,263	29.770%		
		18,423,550	5,027,499	23,451,049	Franklin	2.11	89,401,911	26.231%		

^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⁾
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
2009	2.44	2.46	4.90	2.44	2.11	4.55

(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>2009</u> (for tax year 2008)			<u>2000</u> (for tax year 1999)		
	<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.	\$ 6,134,280	1	1.77%	\$ 4,936,000	1	2.08%
Forest Gallery, LLC	3,504,640	2	1.01%	2,711,600	3	1.14%
Lowe's Home Center	3,446,720	3	0.99%	2,634,440	4	1.11%
Centro NP Commerce Central	3,258,680	4	0.94%	-	-	-
Bell South	2,868,037	5	0.83%	3,982,701	2	1.68%
Northgate Limited (1)	2,007,280	6	0.58%	2,192,720	5	0.94%
Development Enterprises	1,794,260	7	0.52%	1,403,160	7	0.59%
Briarwood Apartments	1,786,640	8	0.51%	-	-	-
Northgate Limited (2)	1,617,520	9	0.47%	1,368,520	9	0.58%
B. C. Wood Investment	1,466,320	10	0.42%	-	-	-
Goodrich Company	-	-	-	1,677,760	6	0.71%
Ada Ferrell Apartments	-	-	-	1,378,840	8	0.58%
Sverdrup Investments	-	-	-	1,337,120	10	0.56%
Total	\$ 27,884,377		8.04%	\$ 23,622,861		9.97%

Source: Tullahoma Director of Finance

**CITY OF TULLAHOMA, TENNESSEE
PROPERTY TAX LEVIES AND COLLECTIONS
LAST FIVE 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	96.72%	231,154	8,323,226	99.48%
2008	2007	8,504,506	8,115,564	95.43%	-	8,115,564	95.43%
2009	2008	8,466,612	8,103,136	95.71%	-	8,103,136	95.71%

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			
2000	26,980,000	1,047,000	1,047,000	44,599	6,982,185	10,899,280	45,953,064	4.13%	2,554
2001	25,555,000	839,000	839,000	48,921	6,252,466	10,418,897	43,114,284	3.66%	2,387
2002	33,180,000	619,000	619,000	38,536	5,432,307	10,952,842	50,222,685	3.99%	2,778
2003	30,910,000	410,000	410,000	659,407	5,170,000	12,151,155	49,300,562	3.67%	2,701
2004	29,295,220	70,000	70,000	784,940	4,460,000	13,542,677	48,152,837	3.33%	2,607
2005	27,700,220	50,000	50,000	560,320	3,720,000	11,660,404	43,690,944	N/A	2,337
2006	31,827,794	30,000	30,000	336,551	2,960,000	10,760,592	45,914,937	N/A	2,428
2007	31,349,165	855,000	855,000	208,241	2,165,000	9,867,293	44,444,699	N/A	2,350
2008	30,080,000	775,000	775,000	121,393	18,310,000	9,028,508	58,314,901	N/A	3,083
2009	31,692,463	703,000	703,000	10,368	17,390,000	7,840,819	57,636,650	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**

Fiscal Year	General Obligation Bonds	Percentage of Actual Taxable Value of Property	Per Capita
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
2009	31,692,463	0.03	1,695.06

CITY OF TULLAHOMA, TENNESSEE
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2009

<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	\$ 8,673,000	38.62%	\$ 3,349,817
Franklin County Bonds	39,758,000	2.88%	1,143,951
Other debt:			
Coffee County	11,117,601	38.62%	4,293,618
Franklin County	95,011	2.88%	2,736
Subtotal, overlapping debt			\$ 8,790,122
City of Tullahoma direct debt			<u>32,395,463</u>
Total direct and overlapping debt			<u><u>\$ 41,185,585</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>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>	<u>2009</u>
Debt limit	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to limit	-	-	-	-	-	-	-	-	-	-
Legal debt margin	-	-	-	-	-	-	-	-	-	-
Total net debt applicable to 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
 PLEDGED-REVENUE COVERAGE
 LAST TEN FISCAL YEARS**

Fiscal Year	Tullahoma Utilities Board Revenue Bonds									
	Total Operating Revenues	Direct* Operating Expense	Net Revenue Available for Debt Service		Debt Service Requirements			Total	Coverage	
			Operating	Expense	Principal	Interest	Total			
2009	\$ 35,925,238	\$ 32,764,516	\$ 3,160,722	\$ 35,000	\$ 741,635	\$ 776,635	4.07			
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			

* 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
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	4.6%
2007	18,909	N/A	28,716	38.1	3,597	4.2%
2008	18,913	N/A	28,716	38.1	3,631	5.5%
2009	18,697	N/A	29,337	38.2	3,636	10.3%

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.

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.

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

<u>Employer</u>	<u>2009</u>			<u>1998</u>		
	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>	<u>Number of Employees</u>	<u>Rank</u>	<u>Percentage of Total City Employment</u>
City of Tullahoma	759	1	3.17%	670	1	3.35%
Harton Regional Medical Center	570	2	2.38%	220	6	1.10%
Fujicolor Processing, Inc.	377	3	1.57%	-		-
Tennessee Apparel Corporation	342	4	1.43%	374	2	1.87%
Wisco Envelope Co., Inc.	265	5	1.11%	255	3	1.28%
Goodrich Landing Gear Corporation	263	6	1.10%	-		0.00%
Cubic Transportation System	180	7	0.75%	226	5	1.13%
Schmiede Corporation	155	8	0.65%	-		-
Jacobs Engineering	154	9	0.64%	186	9	0
Createc Corporation	125	10	0.52%	-		-
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	<u><u>3,190</u></u>		<u><u>13.30%</u></u>	<u><u>2,741</u></u>		<u><u>13.71%</u></u>

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

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

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

	For the year ended June 30,					
	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
Governmental Activities:						
Administrative	7	7	6	4	4	4
Finance	7	7	8	7	6	6
Planning	3	3	4	4	4	4
Building	2	2	2	2	2	2
Police						
Personnel and officers	44	45	41	44	46	47
Fire						
Firefighters and officers	35	38	38	38	38	40
Public Works	41	40	41	42	42	42
Parks and recreation	60	51	51	36	35	35
Education	493	493	491	490	517	502
Business-type Activities:						
Tullahoma Utilities Board	68	69	66	70	72	77
Total	<u>760</u>	<u>755</u>	<u>748</u>	<u>737</u>	<u>766</u>	<u>759</u>

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

Source: Various city departments.

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

<u>Function/Program</u>	<u>Fiscal Year</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>	<u>2009</u>
Police										
Physical arrests	725	1,162	1,048	919	1,174	1,180	1,203	866	2,294	1,534
Parking violations	506	315	27	-	N/A	N/A	N/A	N/A	N/A	6
Traffic violations	1,593	3,543	3,768	2,278	N/A	N/A	N/A	4,513	6,414	2,757
Fire										
Emergency response	517	541	571	467	457	422	449	457	564	487
Inspections	1,041	802	902	1,072	995	1,116	1,127	1,389	652	463
Average daily consumption (thousand gallons)	2,756	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	9,705	9,705	9,876	9,938	9,938	10,180	10,284	10,393	11,004	10,287
Customers - water system	8,773	8,773	8,974	9,167	9,167	9,365	9,364	9,439	9,463	9,500
Wastewater										
Customers	6,777	6,777	6,871	6,979	6,979	7,136	7,212	7,320	7,321	7,321
Average daily sewerage treatment (thousand gallons)	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	2,880	3,000

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.

Source: Various city departments.

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

Function	Fiscal Year									
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
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	187	187	187	187	187	187	187	330	330
Parks and recreation										
Parks	6	8	8	8	8	8	8	8	8	8
Acreage	161	161	161	161	161	161	161	200	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	11	11
Baseball fields	6	6	6	6	6	6	6	6	6	6
Softball fields	-	-	-	-	-	-	-	-	-	4
Business-type activities										
Tullahoma Utilities Board										
Electric										
Streetlights	2,612	2,951	2,951	2,951	2,951	2,951	2,951	2,829	2,829	2,854
Water										
Water mains (miles)	240	240	240	240	240	240	240	265	265	270
Fire hydrants	1,100	1,100	1,100	1,100	1,100	1,100	1,100	1,009	1,009	1,032
Storage capacity (thousand gallons)	N/A	N/A	N/A	N/A	N/A	N/A	4,000	4,000	4,000	4,000
Wastewater										
Sanitary sewers (miles)	160	160	160	160	160	160	160	155	160	160
Storm sewers (miles)	7	7	7	7	7	7	7	7	7	7
Daily treatment capacity (thousand gallons)	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600	12,600

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.

Source: Various city departments.

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**

March 26, 2010

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, 2009, which collectively comprise the City of Tullahoma, Tennessee's basic financial statements and have issued our report thereon dated March 26, 2010. 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, 2009. 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 2009-1 to 2009-8 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.

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 2009-2 through 2009-3 and 2009-5 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*.

We noted certain matters that we reported to management of the City of Tullahoma, Tennessee, in a separate letter dated March 26, 2010.

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

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. However, this report is a matter of public record and its distribution is not limited.

Honsholder Antma PLLC

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

March 26, 2010

Honorable Mayor and Board of Aldermen
City of 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, 2009. 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, 2009. The results of our auditing procedures disclosed no instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of the City of Tullahoma, Tennessee, is responsible for establishing and maintaining effective internal control over compliance with the 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 the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of 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.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider any of the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

The City'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'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. However, this report is a matter of public record and its distribution is not limited.

Honorable Auditor PLLC

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

I. Summary of Auditors' Results

1. The June 30, 2009 Auditors' Report on the Financial Statements is an unqualified opinion.
2. Significant deficiencies in internal control were disclosed by the audit of the basic financial statements – see part II.

Material weaknesses were also disclosed by the audit of the basic 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, 2009 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
Food service cluster:	
10.553	National School Breakfast Program
10.555	National School Lunch Program
10.582	Child Nutrition-Fruits and Vegetables
Other Programs:	
84.01	Title I

8. Type A programs have been distinguished as those programs with expenditures greater than \$300,000.
9. City of Tullahoma does not qualify to be a low risk auditee.

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

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

GENERAL GOVERNMENT

Significant Deficiency:

Finding 2009-1: 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.

TULLAHOMA BOARD OF EDUCATION

Material Weakness:

Finding 2009-2: 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 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 Response

We concur with the auditors' finding and recommendation.

**CITY OF TULLAHOMA, TENNESSEE
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2009**

Finding 2009-3: Audit Adjustments

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

- Prior year encumbrances of \$300,437 were not reversed.
- The amount due from the primary government and transfers in were understated by \$1,606 in the General Fund and \$1,635 in the Capital Projects Fund.
- Construction retainage of \$97,405 was not recorded.
- Grants receivables were overstated by \$297,324 in the General Fund, \$179,827 in the Federal Projects Fund, and \$325 in the Extended School Program.
- Accounts payable and related expense accounts were erroneously recorded for \$213,645; whereas they should have properly been classified as encumbrances since purchase orders were issued, but the products and/or services had not been received by June 30, 2009.
- Several outstanding checks totaling \$378, which dated back to 2002, were still on the books at June 30, 2009 in the Extended School Program.
- The prior year adjusting journal entries were not recorded in the Extended School Program; therefore, fund balance was overstated by \$2,103.
- The allowance for doubtful accounts in the Extended School Program was understated by \$1,677.

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

Management Response

We concur with the auditors' finding and recommendation.

Significant Deficiency:

Finding 2009-4: 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 auditors' finding and recommendation.

TULLAHOMA MUNICIPAL AIRPORT AUTHORITY

Material Weakness:

Finding 2009-05: 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.

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Management may wish to acknowledge and accept this deficiency or develop compensating controls.

Management Response

The Authority has implemented changes in the bookkeeping services beginning in July 2009.

Significant Deficiency:

Finding 2009-6: Incorrect Deposit Dates

Deposits were recorded in the general ledger as of the last day of the month instead of the day money was actually collected. We were unable to determine if money collected were being deposited within 3 business days of collection. This is a repeat finding.

Deposits should be recorded in the general ledger on the date actually deposited to the bank.

Management Response

We concur with the auditor's finding and recommendation.

Finding 2009-7: Basis of Accounting

While it appears the accounts payable are now being recorded on an accrual basis, receivables are not currently being recorded on the cash basis of accounting. This would include not only the grant receivables but also the hangar lease income.

Entries to record amounts owed at month end should be recorded to reflect receivables on the Airport's monthly financial statements.

Management Response

We concur with the auditor's finding and recommendation.

Finding 2009-8: Bookkeeping errors

During the audit fieldwork it was noted that numerous bookkeeping errors were made during the year. Examples of these errors follow:

1. Several invoices were paid twice or paid without proper documentation.
2. Payroll tax deposits were made for amounts different from amounts withheld by employees.
3. Payroll tax withholdings were incorrectly calculated for several payments.
4. Sales tax was paid on five invoices.

Many of these errors were noted and corrected with the change in bookkeeping services beginning in July 2009.

Management Response

We concur with the auditor's finding and recommendation.

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.

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DISPOSITION OF PRIOR YEAR FINDINGS
JUNE 30, 2009**

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.

Current Status

See Finding 2009-1

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.

Current Status

Improvement noted and government is working to further centralize grant process.

TULLAHOMA BOARD OF EDUCATION

Material Weaknesses:

Finding 2008-3: 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.

Current Status

Implemented for project basis.

**CITY OF TULLAHOMA, TENNESSEE
DISPOSITION OF PRIOR YEAR FINDINGS
JUNE 30, 2009**

Finding 2008-4: 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

Current Status

See Finding 2009-3

Significant Deficiency:

Finding 2008-5: 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.

Current Status

See Finding 2009-4

TULLAHOMA MUNICIPAL AIRPORT AUTHORITY

Material Weaknesses:

Finding 2008-6: 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.

**CITY OF TULLAHOMA, TENNESSEE
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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.

Current Status

Implemented

Findings 2008-7: 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.

Current Status

Implemented

Finding 2008-8: 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 complimentary 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.

Current Status

See Finding 2009-7

Finding 2008-9: 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.

**CITY OF TULLAHOMA, TENNESSEE
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We recommend all adjusting journal entries should have backup documentation supporting the dollar amounts and reasons for creating and posting the entries.

Current Status

See Finding 2009-8

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.

Current Status

Implemented

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.

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.

Current Status

See Finding 2009-6