

RESOLUTION 08-37

**A RESOLUTION TO ACCEPT THE AUDIT REPORT FOR CITY OF
SPRING HILL FINANCIAL RECORDS FOR FISCAL YEAR 2006-2007
PREPARED BY YORK DILLINGHAM AND COMPANY**

WHEREAS, pursuant to T.C.A. § 6-56-105, 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 at the close of each fiscal year; and

WHEREAS, the Board of Mayor and Aldermen of the City of Spring Hill has contracted with Mike Dillingham with York Dillingham and Company to perform this Audit Report for Fiscal Year 2006-2007; and

WHEREAS, the Board of Mayor and Aldermen of the City of Spring Hill has been presented the Audit Report for Fiscal Year 2006-2007 by Mike Dillingham with York Dillingham and Company on October 13, 2008; and

NOW, THEREFORE BE IT RESOLVED, by the Board of Mayor and Aldermen of the City of Spring Hill, the Spring Hill Board of Mayor and Aldermen do hereby accept the Audit Report of the financial records of the City of Spring Hill for the fiscal year 2006-2007.

Passed and adopted the 20th day of October, 2008.

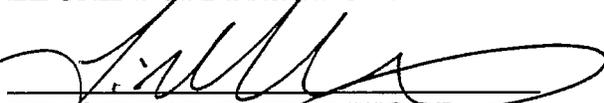


DANNY M. LEVERETTE, MAYOR

WITNESS:


APRIL GOAD, CITY RECORDER

LEGAL FORM APPROVED:


TIMOTHY P. UNDERWOOD
CITY ATTORNEY

CITY OF SPRING HILL, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2007

CITY OF SPRING HILL, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2007

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CITY OF SPRING HILL, TENNESSEE
COMPREHENSIVE ANNUAL FINANCIAL REPORT
JUNE 30, 2007

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FINANCIAL SECTION

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CERTIFIED PUBLIC ACCOUNTANTS

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AMERICAN INSTITUTE OF C.P.A.'S
TENNESSEE SOCIETY OF C.P.A.'S

INDEPENDENT AUDITORS' REPORT

The Honorable Board of Mayor and Aldermen,
City of Spring Hill, Tennessee
Spring Hill, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Spring Hill, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. We also have audited the financial statements of each of the City's nonmajor governmental funds presented as supplementary information in the accompanying combining and individual fund financial statements as of and for the year ended June 30, 2007, as listed in the table of contents. These financial statements are the responsibility of the City of Spring Hill's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller 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 general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose 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, each major fund, and the aggregate remaining fund information of the City of Spring Hill, Tennessee as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, 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 nonmajor governmental fund of the City of Spring Hill, Tennessee as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principals generally accepted in the United States of America.

The Honorable Board of Mayor and Aldermen,
City of Spring Hill, Tennessee
Spring Hill, Tennessee

In accordance with *Government Auditing Standards*, we have also issued a report dated June 2, 2008, on our consideration of the City of Spring Hill, Tennessee internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spring Hill, Tennessee basic financial statements and on the combining and individual nonmajor fund financial statements. The accompanying information listed as Supplemental Information in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the City of Spring Hill. Such information has been subjected to the auditing procedures applied in the audit of the basic, combining, and individual fund financial statements and, in our opinion, is stated fairly in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole. The statistical data listed in the Statistical Section of the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and on the combining and individual nonmajor fund financial statements and, accordingly, we express no opinion on them.

The City has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic financial statements.



York, Dillingham & Company, P.L.L.C.
Certified Public Accountants
Columbia, Tennessee
June 2, 2008

COMBINED STATEMENTS - OVERVIEW

CITY OF SPRING HILL, TENNESSEE
GOVERNMENT WIDE STATEMENT OF NET ASSETS
JUNE 30, 2007

	<u>Governmental</u> <u>Activities</u>	<u>Business-type</u> <u>Activities</u>	<u>Total</u>
<u>ASSETS</u>			
Cash	\$ 1,051,206	\$ 699,406	\$ 1,750,612
Certificate of deposit	490,404	1,129,089	1,619,493
Receivables (net)	6,502	650,263	656,765
Interest receivable	4,501	16,144	20,645
Due from other governments	320,200	-	320,200
Internal balances	(3,958,695)	3,958,695	-
Inventories	24,812	186,833	211,645
Restricted assets	-	812,342	812,342
Capital assets:			
Land, improvements, and construction in progress	233,931	4,135,194	4,369,125
Other capital assets, net of depreciation	<u>10,251,489</u>	<u>31,546,254</u>	<u>41,797,743</u>
 Total assets	 <u>8,424,350</u>	 <u>43,134,220</u>	 <u>51,558,570</u>
<u>LIABILITIES</u>			
Accounts payable and accrued expenses	259,093	1,002,533	1,261,626
Deferred revenues	9,346	-	9,346
Long term liabilities:			
Due within one year	334,527	369,340	703,867
Due in more than one year	<u>6,370,890</u>	<u>8,174,010</u>	<u>14,544,900</u>
 Total liabilities	 <u>6,973,856</u>	 <u>9,545,883</u>	 <u>16,519,739</u>
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	9,290,003	27,138,097	36,428,100
Unrestricted	<u>(7,839,509)</u>	<u>6,450,240</u>	<u>(1,389,269)</u>
 Total net assets	 <u>\$ 1,450,494</u>	 <u>\$ 33,588,337</u>	 <u>\$ 35,038,831</u>

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

CITY OF SPRING HILL, TENNESSEE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Program Activities	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities							
General government and administration	\$ 1,187,134	\$ 1,333,820	-	-	\$ 146,686	\$ -	\$ 146,686
Public safety	5,549,152	10,276	-	-	(5,538,876)	-	(5,538,876)
Public works	1,863,956	3,039,735	-	-	1,175,779	-	1,175,779
Culture	6,811,846	59,070	-	-	(6,752,776)	-	(6,752,776)
Total governmental activities	<u>15,412,088</u>	<u>4,442,901</u>	<u>-</u>	<u>-</u>	<u>(10,969,187)</u>	<u>-</u>	<u>(10,969,187)</u>
Business activities							
Water and sewer	<u>5,139,326</u>	<u>8,281,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,142,404</u>	<u>3,142,404</u>
Total business-type activities	<u>5,139,326</u>	<u>8,281,730</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,142,404</u>	<u>3,142,404</u>
Total government	<u>\$ 20,551,414</u>	<u>\$ 12,724,631</u>	<u>-</u>	<u>-</u>	<u>(10,969,187)</u>	<u>3,142,404</u>	<u>(7,826,783)</u>
General revenues:							
Taxes:							
Property					252,471	-	252,471
Sales					1,798,728	-	1,798,728
Other					786,558	-	786,558
Intergovernmental					1,964,742	-	1,964,742
Investment earnings					50,187	220,692	270,879
Miscellaneous					83,435	269,249	352,684
Transfers							
Total general revenues and transfers					<u>4,936,121</u>	<u>489,941</u>	<u>5,426,062</u>
Change in net assets					(6,033,066)	3,632,345	(2,400,721)
Net assets at beginning of year, as adjusted					<u>7,483,560</u>	<u>29,955,992</u>	<u>37,439,552</u>
Net assets at end of year					<u>\$ 1,450,494</u>	<u>\$ 33,588,337</u>	<u>\$ 35,038,831</u>

CITY OF SPRING HILL, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2007

<u>ASSETS</u>	<u>General</u>	<u>Adequate Facilities Tax Fund</u>	<u>Sanitation</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 583,319	\$ 377,150	\$ 65,324	\$ 25,413	\$ 1,051,206
Certificates of deposit	490,404	-	-	-	490,404
Receivables (net, where applicable, allowances for uncollectibles)					
Taxes	6,502	-	-	-	6,502
Interest	4,501	-	-	-	4,501
Due from other funds	-	-	80,360	-	80,360
Due from other governments	318,778	-	-	1,422	320,200
Inventory of supplies, at cost	<u>24,812</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>24,812</u>
 Total assets	 <u>\$ 1,428,316</u>	 <u>\$ 377,150</u>	 <u>\$ 145,684</u>	 <u>\$ 26,835</u>	 <u>\$ 1,977,985</u>
<u>LIABILITIES</u>					
Accounts payable	128,666	48,676	81,535	216	259,093
Due to other funds	2,425,665	1,548,523	64,866	-	4,039,054
Deferred revenues	<u>6,502</u>	<u>-</u>	<u>-</u>	<u>2,844</u>	<u>9,346</u>
 Total liabilities	 <u>2,560,833</u>	 <u>1,597,199</u>	 <u>146,401</u>	 <u>3,060</u>	 <u>4,307,493</u>
<u>FUND BALANCES</u>					
Fund balances					
Reserved	(1,658,427)	-	-	-	(1,658,427)
Unreserved	<u>525,910</u>	<u>(1,220,049)</u>	<u>(717)</u>	<u>23,775</u>	<u>(671,081)</u>
 Total fund equity	 <u>(1,132,517)</u>	 <u>(1,220,049)</u>	 <u>(717)</u>	 <u>23,775</u>	 <u>(2,329,508)</u>
 Total liabilities and fund equity	 <u>\$ 1,428,316</u>	 <u>\$ 377,150</u>	 <u>\$ 145,684</u>	 <u>\$ 26,835</u>	 <u>\$ 1,977,985</u>

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

TOWN OF SPRING HILL, TENNESSEE
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO STATEMENT OF NET ASSETS
JUNE 30, 2007

Fund Balances		
General Government Fund Balances		\$ (2,329,508)
Adjustments		
Capital assets net of depreciation		
Assets	15,517,292	
Accumulated depreciation	<u>(5,031,872)</u>	10,485,420
Notes payable		<u>(6,705,418)</u>
Net Asset Balances		<u>\$ 1,450,494</u>

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

CITY OF SPRING HILL, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2007

REVENUES	General	Adequate Facilities Tax Fund	Sanitation	Other Governmental Funds	Total Governmental Funds
Taxes	\$ 2,837,757	\$ -	\$ -	\$ -	\$ 2,837,757
Licenses and permits	1,082,511	-	-	-	1,082,511
Intergovernmental	2,023,812	-	-	-	2,023,812
Adequate Facilities Tax Fund	-	1,976,342	-	-	1,976,342
Charges for services	2,651	-	1,063,393	-	1,066,044
Fines and forfeits	248,658	-	-	10,276	258,934
Interest revenue	40,106	7,024	2,482	575	50,187
Other	68,047	-	-	15,388	83,435
Total revenues	6,303,542	1,983,366	1,065,875	26,239	9,379,022
EXPENDITURES					
Current					
General government					
Legislative, executive & general	567,296	-	-	-	567,296
Judicial	30,549	-	-	-	30,549
Financial administration	208,490	-	-	-	208,490
General government building	200,420	-	-	-	200,420
Information Management System	56,176	-	-	-	56,176
Municipal building	-	193,090	-	-	193,090
Public safety					
Police	2,567,904	132,263	-	24,402	2,724,569
Fire	2,034,936	-	-	-	2,034,936
Building inspection	398,089	-	-	-	398,089
911 dispatch	-	49,780	-	-	49,780
Public works					
Streets	491,378	1,194,238	-	-	1,685,616
Sanitation	-	-	1,054,468	-	1,054,468
Culture					
Parks and recreation	391,575	900,145	-	-	1,291,720
Library	552,971	118,832	-	18,424	690,227
Miscellaneous	-	138	-	-	138
Total expenditures	7,499,784	2,588,486	1,054,468	42,826	11,185,564
Excess of revenues over (under) expenditures	(1,196,242)	(605,120)	11,407	(16,587)	(1,806,542)
FUND BALANCES					
Beginning of year	63,725	(614,929)	(12,124)	40,362	(522,966)
End of year	<u>\$ (1,132,517)</u>	<u>\$ (1,220,049)</u>	<u>\$ (717)</u>	<u>\$ 23,775</u>	<u>\$ (2,329,508)</u>

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

TOWN OF SPRING HILL, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2007

Net change in fund balance - total governmental funds \$ (1,806,542)

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

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 2,172,330

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in governmental funds. (1,016,584)

Issuance of debt for an interlocal agreement with Williamson County. Spring Hill does not own any part of the assets, therefore, total amount of debt has been expensed on the government-wide statements. Payments on debt are to be expensed in the governmental statements. (5,510,000)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance cost, premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 127,730

Change in net assets of governmental activities \$(6,033,066)

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

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual GAAP Basis</u>	<u>Adjustment Budget Basis</u>	<u>Actual Budget Basis</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>				
REVENUES						
Taxes	\$ 2,606,000	\$ 2,785,899	\$ 2,837,757	\$ -	\$ 2,837,757	\$ 51,858
Licenses and permits	1,299,000	1,082,511	1,082,511	-	1,082,511	-
Intergovernmental	1,962,100	2,023,811	2,023,812	-	2,023,812	1
Charges for services	1,500	2,651	2,651	-	2,651	-
Fines and forfeits	145,000	248,658	248,658	-	248,658	-
Interest revenue	35,000	37,494	40,106	-	40,106	2,612
Other	50,500	68,391	68,047	-	68,047	(344)
Total revenues	6,099,100	6,249,415	6,303,542	-	6,303,542	54,127
EXPENDITURES						
Current						
General government						
Legislative, executive & general	474,398	567,514	567,296	-	567,296	218
Judicial	11,398	30,548	30,549	-	30,549	(1)
Finance and administration	214,945	232,528	208,490	-	208,490	24,038
General government building	129,248	201,266	200,420	-	200,420	846
Information Management System	24,800	58,814	56,176	-	56,176	2,638
Public safety						
Police	1,901,801	2,534,943	2,567,904	-	2,567,904	(32,961)
Fire	1,678,587	2,034,936	2,034,936	-	2,034,936	-
Building inspection, planning	321,348	412,537	398,089	-	398,089	14,448
Public works						
Streets	839,329	506,907	491,378	-	491,378	15,529
Culture						
Parks and recreation	135,080	500,360	391,575	-	391,575	108,785
Library	368,166	444,196	552,971	-	552,971	(108,775)
Total expenditures	6,099,100	7,524,549	7,499,784	-	7,499,784	24,765
Excess of revenues over (under) expenditures	-	(1,275,134)	(1,196,242)	-	(1,196,242)	78,892
FUND BALANCES						
Beginning of year	63,725	63,725	63,725	-	63,725	63,725
End of year	\$ 63,725	\$ (1,211,409)	\$ (1,132,517)	\$ -	\$ (1,132,517)	\$ 142,617

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
PROPRIETARY FUNDS
(WATER AND SEWER ENTERPRISE FUND ONLY)
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

Current assets	
Cash	\$ 699,406
Certificates of deposit	1,129,089
Accounts receivable, net of allowance for uncollectibles of \$5,000	650,263
Interest receivable	16,144
Due from other funds	3,958,695
Inventory of supplies, at cost	<u>186,833</u>
Total current assets	<u>6,640,430</u>
Restricted assets	
Cash	500,344
Certificate of deposit	<u>311,998</u>
	<u>812,342</u>
Utility plant	
Utility plant, at cost	41,967,738
Less accumulated depreciation	<u>(6,286,290)</u>
	<u>35,681,448</u>
 Total assets	 <u>\$ 43,134,220</u>

LIABILITIES

Current liabilities, payable from current assets	
Accounts payable	\$ 164,869
Current portion of long term debt	361,336
Due to other governments	<u>25,322</u>
Total current liabilities, payable from current assets	<u>551,527</u>
Current liabilities, payable from restricted assets	
Contracts payable	<u>812,342</u>
Total current liabilities, payable from restricted assets	<u>812,342</u>
Long-Term Debt	
State of Tennessee Loan	3,209,252
State municipal bond	5,304,000
Capital lease	30,098
Less current portion	<u>(361,336)</u>
Total long-term debt	<u>8,182,014</u>
 Total liabilities	 <u>9,545,883</u>

NET ASSETS

Invested in capital assets, net of related debt	27,138,097
Unrestricted	<u>6,450,240</u>
 Total net assets	 <u>\$ 33,588,337</u>

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

CITY OF SPRING HILL, TENNESSEE
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
(WATER AND SEWER ENTERPRISE FUND ONLY)
YEAR ENDED JUNE 30, 2007

OPERATING REVENUES	
Water sales	\$ 2,070,005
Penalties	85,452
Service charges	1,576,287
Installation fees	290,735
Tap fees	2,246,163
Development fees	2,013,088
Miscellaneous	<u>269,249</u>
Total revenues	<u>8,550,979</u>
OPERATING EXPENSES	
Purchase of water	7,245
Salaries	1,389,501
Employee benefits	515,447
Postage	31,339
Dues and subscriptions	5,500
Utility services	413,178
Professional services	376,725
Repair and maintenance	210,797
Travel	3,008
Other contractual services	168,331
Office supplies and materials	15,006
Operating supplies	707,719
Uniforms	28,195
Automobile expenses	16,251
Insurance	112,843
State fees	11,755
Miscellaneous expense	6,228
Depreciation	<u>795,193</u>
Total operating expenses	<u>4,814,261</u>
Operating income	<u>3,736,718</u>
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	220,692
Interest expense	<u>(325,065)</u>
Total non-operating expenses	<u>(104,373)</u>
Change in net assets	3,632,345
Net Assets at beginning of year	<u>29,955,992</u>
Net Assets at end of year	<u>\$ 33,588,337</u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
(WATER AND SEWER ENTERPRISE FUND ONLY)
YEAR ENDED JUNE 30, 2007

Cash Flows From Operating Activities	
Receipts from customers	\$ 8,100,573
Payments to suppliers	(7,245)
Payments to employees	(1,387,522)
Other operating receipts	269,250
Other operating expenses	<u>(2,484,037)</u>
Net cash provided by operating activities	<u>4,491,019</u>
Cash Flows From Noncapital Financing Activities	
Advances to other funds	<u>(2,887,307)</u>
Cash Flows From Capital and Related Financing Activities	
Principal payments on long term debt	(361,115)
Interest paid on revolving line of credit	(325,065)
Cash payments for the purchase of plant assets	<u>(4,887,488)</u>
Net cash used in capital and related financing activities	<u>(5,573,668)</u>
Cash Flows From Investing Activities	
Interest received on cash deposits	<u>221,055</u>
Net decrease in cash	(3,748,901)
Cash, Beginning of Year	<u>4,948,651</u>
Cash, End of Year	<u>\$ 1,199,750</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 3,736,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation	795,191
Inventory of supplies	(24,766)
Changes in assets and liabilities:	
Receivables, trade	(180,792)
Accounts payable	148,937
Other accrued liabilities	<u>15,731</u>
Net cash provided by operating activities	<u>\$ 4,491,019</u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are prepared in conformity with, and the accounting policies of the City of Spring Hill conform to, generally accepted accounting principles as set forth in the pronouncements of the Governmental Accounting Standards Board (GASB). As allowed by GASB, the City has elected to not apply to its proprietary activities Financial Accounting Board Statements and Interpretations issued after November 30, 1989. The following is a summary of the more significant policies:

A. Financial reporting entity

The City of Spring Hill is a charter town in which citizens elect the mayor at large and eight council members by wards. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City.

B. Basic Financial Statements

Basic financial statements consist of the following:

Government-wide financial statements,

Fund financial statements, and

Notes to the basic financial statements.

The government-wide financial statements consist of the statement of net assets and the statement of activities and report information on all of the nonfiduciary activities of the Primary Government and its component units. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. All internal balances in the statement of net assets have been eliminated, with the exception of those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total government column. In the statement of activities, those transactions between governmental and business-type activities have not been eliminated. Exceptions to this general rule are charges between the City's Water Fund and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Both the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety (police and fire), public improvements, library, cultural and recreation, and general administration support services. The business-type activities of the City include water and sewer.

The statement of activities demonstrates the degree to which the direct and indirect expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Indirect expenses are allocated based on the annual cost allocation plan. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or activity, and 2) grants and contributions, including special assessments, 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 fund financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned or, for property tax revenues, in the period for which levied. Expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental funds 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. The City in general considers revenues available if they are collected within 180 days after year-end, except for property taxes, which the City considers available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences and claims and judgments which are recognized when payment is due.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For the governmental funds financial statements, the City considers all revenues susceptible to accrual and recognizes revenue if the accrual criteria are met. Specifically, sales taxes, franchise taxes, licenses, interest, special assessments, charges for services, and other miscellaneous revenue are all considered to be susceptible to accrual and have been recognized as revenue in the current fiscal period. Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met and are recorded at the time of receipt or earlier, if the susceptible to accrual criteria are met.

The accounts of the City are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

The City reports the following major governmental funds:

The General Fund is the City's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the City except those required to be accounted for in other specialized funds.

Adequate Facilities Tax Fund and the Sanitation Fund are Special Revenue Funds. They account for revenue from specific sources that are restricted by legal and regulatory provisions to financial specific activities.

The City reports the following major proprietary funds:

The Water and Sewer Fund accounts for the activities of providing water and sewer service to the citizens of the City.

Proprietary funds have elected not to apply Financial Accounting Standards Board (FASB) statements and interpretations issued after November 30, 1989, for proprietary funds. The proprietary funds apply all applicable GASB pronouncements as well as statements and interpretations of the FASB, the Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds and of the City's Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets

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

- (1) The City Administrator and Recorder prepare a proposed budget in May.
- (2) The budget is adopted by the Board of Mayor and Aldermen prior to June 30.
- (3) The budget is amended by the Board of Mayor and Aldermen as required.

The budget amounts reflected in the financial statements are as amended. The budgets are presented on a modified accrual basis.

All annual appropriations lapse at year end.

E. Encumbrances

The City does not record encumbrances in the accounting records.

F. Inventory

The Water and Sewer Enterprise Fund inventory of supplies is stated at cost using the first in, first out method. The costs of inventory items are recognized as expenditures in governmental funds when purchased, since they are not of a material nature, and as expenses in the enterprise fund when used.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Capital assets

Capital assets, which include land, buildings, and improvements, equipment, and infrastructure assets (e.g., roads, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Such assets are recorded at historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the year ended June 30, 2007.

Capital assets of the City are depreciation using a straight-line method over the following estimated useful lives:

<u>Assets</u>	Years
Buildings	5 to 50
Improvements other than buildings	5 to 50
Infrastructure	15 to 75
Utility systems	40
Machinery and equipment	5 to 30

H. Property, plant, and equipment - enterprise fund

Property, plant, and equipment of the enterprise fund is stated at cost less accumulated depreciation. Depreciation has been provided on the straight-line method over the estimated useful lives of the assets as follows: equipment - 10 years; sewer pumping station - 25 years; other utility plants in service 40 to 50 years; and structures and improvements - 20 to 50 years.

I. Certificates of Deposit

All certificates of deposit have original maturities in excess of 90 days and therefore are not considered cash equivalents.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Grants

The City receives grant revenues from various federal and state agencies. Grant revenues are recognized as earned, generally in the period a liability is incurred for the related expenditures. Grants in aid of construction received by the Water and Sewer Enterprise Fund are credited to contributed capital as such grants are earned.

K. Capitalized Interest

The City capitalizes net interest costs, if any, as part of the cost of constructing various capital projects when material.

L. Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Water and Sewer Enterprise Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

M. Net Assets and Fund Equity

In the government-wide financial statements and proprietary funds financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt represents capital assets less accumulated depreciation less outstanding principal of related debt. Net assets invested in capital assets, net of related debt does not include the unspent proceeds of capital debt. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, laws, and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The nonexpendable portion of permanent funds is reported as a component of restricted net assets. The City's other restricted net assets are temporarily restricted (ultimately expendable) assets. All other net assets are considered unrestricted.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Use of Estimates

The preparation of basic financial statements in conformance with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

O. Budgetary principles

The City is required by its charter to adopt an annual budget on or before June 30 for the ensuing fiscal year. The General, special revenue, governmental fund types and proprietary fund types have legally adopted budgets. From the effective date of the budget, the amounts stated therein as proposed expenditures/expenses become appropriations to the various City departments. Throughout the fiscal year the budget was amended to add supplemental appropriations. All amendments to the budget which change the total appropriation amount for any department require City Council approval and all increases in appropriations must be accompanied by an increase in revenue sources of a like amount to maintain a balanced budget. The City Manager has the authority to change individual budget line items within a department as long as the total department's appropriation amount is not changed.

GASB Statement No. 34 requires that budgetary comparison statements for the General Fund and major special revenue funds be presented in the basic financial statements. These statements must display original budget, amended budget and actual results (on a budgetary basis).

Budgeted revenue amounts represent the original budget modified by City Council-authorized adjustments during the year, which were contingent upon new or additional revenue sources. Budgeted expenditure amounts represent original appropriations adjusted for supplemental appropriations during the year. Budgets are prepared in conformity with GAAP using the modified accrual basis of accounting.

NOTE 2 - CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT

The City is authorized to invest funds in Federal treasury bills and notes, State of Tennessee Local Government Investment Pool and financial institution demand deposit accounts and certificates of deposit. During 2007, the City invested funds that were not immediately needed in certificates of deposits. 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 in a second bank for the benefit of the City and must total a minimum 105% of the value of the deposits placed in the institutions less the amount protected by federal depository insurance.

The City's deposits are categorized below to give an indication of the level of risk assumed by the City at year end.

	<u>Carrying Amounts</u>	<u>Bank Balance</u>
Cash Deposits:		
Insured (FDIC)	\$ 200,000	\$ 200,000
Category 1-Collateral held by the City's agent in the City's name or in State Collateral Pool	<u>2,050,856</u>	<u>2,493,545</u>
Total Cash in bank	2,250,856	2,693,545
Certificates of deposit	1,931,491	1,931,491
Cash on hand	<u>100</u>	<u>100</u>
Total Cash, Cash Equivalents and Certificates of Deposit	<u>\$ 4,182,447</u>	<u>\$ 4,625,136</u>

Cash deposits are included in the financial statements as follows:

Cash	\$ 1,750,612
Certificates of deposit	1,619,493
Restricted assets	
Cash	500,344
Certificates of deposit	<u>311,998</u>
Total cash deposits	<u>\$ 4,182,447</u>

The City has restricted certain cash and cash equivalents and certain investment amounts for construction projects. These amounts totaled \$812,342.

NOTE 2 - CASH, CASH EQUIVALENTS AND CERTIFICATES OF DEPOSIT
(CONTINUED)

The City's deposits are categorized to give an indication of the level of risk assumed by the City at June 30, 2007. The categories are described as follows:

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

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

Category 3 - Uncollateralized.

There was no Category 2 or Category 3 credit risk at June 30, 2007.

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007, consist of the following:

<u>Fund</u>	<u>Other Governments</u>	<u>Property Taxes</u>	<u>Customer Accounts</u>	<u>Total</u>
General Fund	\$ 320,200	\$ 8,670	\$ -	\$ 328,870
Enterprise Fund	-	-	655,263	655,263
Less allowance for doubtful accounts	-	(2,168)	(5,000)	(7,168)
Total	<u>\$ 320,200</u>	<u>\$ 6,502</u>	<u>\$ 650,263</u>	<u>\$ 976,965</u>

NOTE 4 - INTERFUND RECEIVABLES AND PAYABLE

Interfund receivables and payables at June 30, 2007, consisted of the following:

Fund	Interfund Receivable	Interfund Payable
<u>DUE TO/FROM OTHER FUNDS</u>		
General Fund	\$ -	\$2,425,666
Sanitation Fund	80,359	64,866
Adequate Facilities Tax Fund	-	1,548,522
Water and Sewer Enterprise Fund	<u>3,958,695</u>	<u>-</u>
Total all funds	<u>\$4,039,054</u>	<u>\$4,039,054</u>

The Water and Sewer Enterprise Fund owes \$80,359 to the Sanitation Fund.

The other interfund receivables and payables result from expenditures on behalf of the other fund that has not yet been reimbursed.

NOTE 5 - RESTRICTED ASSETS

Restricted assets, consisting primarily of cash on deposit in savings accounts and certificates of deposit, include funds set aside for construction projects, debt service, and other purposes. Restricted assets as of June 30, 2007, are as follows:

Water and Sewer Enterprise Fund	
Water and Sewer Plant expansion and improvement	<u>\$ 812,342</u>

NOTE 6 - NOTE PAYABLE - WATER AND SEWER ENTERPRISE FUND

The City has obtained a loan from the State of Tennessee for the construction of a sewer plant in the amount of \$4,406,838. The note bears an interest rate of 2.58% and matures in 210 monthly payments of \$23,481 including interest.

Maturities of long-term debt are as follows:

Maturities	Principal	Interest	Total
2008	\$ 201,336	\$ 80,434	\$ 281,770
2009	206,598	75,174	281,772
2010	211,992	69,780	281,772
2011 - 2015	1,145,924	262,936	1,408,860
2016 - 2021	<u>1,443,402</u>	<u>106,389</u>	<u>1,549,791</u>
	<u>\$ 3,209,252</u>	<u>\$ 594,713</u>	<u>\$ 3,803,965</u>

NOTE 7 - BOND PAYABLE - WATER AND SEWER ENTERPRISE FUND

On January 31, 2002, the City obtained a bond from the Tennessee Municipal Bond Fund for the construction of a water treatment plant in the amount of \$6,000,000. As of June 30, 2007, the complete \$6,000,000 had been drawn. The note bears a variable interest rate. The interest rate at June 30, 2007 was 3.87%. Payment requirements are monthly payments of interest and payments of principal on May 25th of each year. During the year ended June 30, 2007, interest was paid in the amount of \$76,890 and principal was paid in the amount of \$153,000.

Maturities of long-term debt are as follows:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 160,000	\$ 205,265	\$ 365,265
2009	168,000	199,073	367,073
2010	177,000	192,571	369,571
2011 - 2015	1,027,000	852,987	1,879,987
2016 - 2020	1,309,000	633,480	1,942,480
2021 - 2025	1,672,000	353,524	2,025,524
2026 - 2027	<u>791,000</u>	<u>46,285</u>	<u>837,285</u>
	<u>\$ 5,304,000</u>	<u>\$ 2,483,185</u>	<u>\$ 7,787,185</u>

NOTE 8 - NOTE PAYABLE

The City has obtained a loan from GMAC Financial Services for the purchase of six police cars in the amount of \$172,854. As of June 30, 2007, \$61,585 had been paid against this amount, leaving a balance due of \$111,269 as of June 30, 2007. The note bears an interest rate of 7.05%.

The City has obtained a loan from Citi Corp Vender Financing, Inc. for the purchase of equipment in the amount of \$60,500. As of June 30, 2007, \$30,394 had been paid against this amount, leaving a balance due of \$30,206 as of June 30, 2007. The note bears an interest rate of 5.52% and matures in one annual payment of \$16,365 including interest.

The City has obtained a loan from E-One, Inc. for the purchase of a fire truck in the amount of \$804,301. As of June 30, 2007, \$0 had been paid against this amount, leaving a balance due of \$804,301 as of June 30, 2007. The note bears an interest rate of 5.25% and matures in one annual payment of \$105,429 including interest.

The City has obtained a loan from BSFS Equipment Leasing for the purchase of 911 BellSouth Equipment in the amount of \$284,243. As of June 30, 2007, \$125,795 had been paid against this amount, leaving a balance due of \$188,448 as of June 30, 2007. The note bears an interest rate of 4.53% and matures in 67 monthly payments of \$3,955 including interest.

NOTE 8 - NOTE PAYABLE (CONTINUED)

The City has obtained a loan from BSFS Equipment Leasing for the purchase of 911 BellSouth Equipment in the amount of \$93,911. As of June 30, 2007, \$2,718 had been paid against this amount, leaving a balance due of \$91,193 as of June 30, 2007. The note bears an interest rate of 6.27% and matures in 60 monthly payments of \$1,827 including interest.

The City has entered into an interlocal agreement with Williamson County for one half the cost of the Community Recreation Center located in Williamson County in the amount of \$5,385,000. As of June 30, 2007, \$-0- has been paid against this amount, leaving a balance due of \$5,385,000 as of June 30, 2007. The note bears an interest rate between 4.00% to 5.00% and matures in 19 annual payments.

The City has entered into an interlocal agreement with Williamson County for one half the cost of the land for the Community Recreation Center located in Williamson County in the amount of \$375,000. As of June 30, 2007, \$250,000 has been paid against this amount, leaving a balance due of \$125,000 as of June 30, 2007.

Maturities of long-term debt are as follows:

<u>Maturities</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 344,527	\$ 307,658	\$ 652,185
2009	265,426	288,827	554,253
2010	229,021	274,332	503,353
2011	277,818	263,250	541,068
2012 and thereafter	<u>5,588,625</u>	<u>2,118,096</u>	<u>7,706,721</u>
	<u>\$ 6,705,417</u>	<u>\$ 3,252,163</u>	<u>\$ 9,957,580</u>

NOTE 9 - FIXED ASSETS

A summary of changes in general fixed assets follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Land	\$ 193,931	\$ 40,000	\$ -	\$ 233,931
Building and improvements	5,632,092	657,451	-	6,289,543
Equipment	4,423,823	401,304	-	4,825,127
Infrastructure	<u>2,012,199</u>	<u>2,156,492</u>	<u>-</u>	<u>4,168,691</u>
Total	<u>\$ 12,262,045</u>	<u>\$ 3,255,247</u>	<u>\$ -</u>	<u>\$ 15,517,292</u>

NOTE 9 - FIXED ASSETS (CONTINUED)

Accumulated Depreciation

	Balance			Balance
	July 1, 2006	Additions	Deletions	June 30, 2007
Land	\$ -	\$ -	\$ -	\$ -
Building and improvements	1,051,612	141,519	-	1,193,131
Equipment	2,807,720	715,489	-	3,523,209
Infrastructure	<u>155,956</u>	<u>159,576</u>	<u>-</u>	<u>315,532</u>
Total	<u>\$ 4,015,288</u>	<u>\$ 1,016,584</u>	<u>\$ -</u>	<u>\$ 5,031,872</u>

A summary of the Water and Sewer Enterprise Fund property, plant, and equipment at June 30, 2007, is presented below:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net</u>
Water plant			
Land	\$ 11,330	\$ -	\$ 11,330
Easements	82,941	-	82,941
Water system in operation	17,051,957	2,104,506	14,947,451
Equipment	<u>558,507</u>	<u>370,687</u>	<u>187,820</u>
Total water plant	<u>17,704,735</u>	<u>2,475,193</u>	<u>15,229,542</u>
Sewer plant in service			
Land	46,798	-	46,798
Easements	90,714	-	90,714
Buildings	6,414	4,693	1,721
Sewerage treatment plant	7,344,358	1,347,827	5,996,531
Lines and services	12,534,604	2,142,558	10,392,046
Lab equipment	52,399	52,399	-
Other equipment	<u>284,305</u>	<u>263,620</u>	<u>20,685</u>
Total sewer plant in service	<u>20,359,592</u>	<u>3,811,097</u>	<u>16,548,495</u>
Construction in progress - water	-	-	-
Construction in progress - sewer	<u>3,903,411</u>	<u>-</u>	<u>3,903,411</u>
Total utility plant	<u>\$ 41,967,738</u>	<u>\$ 6,286,290</u>	<u>\$ 35,681,448</u>

Total depreciation for the year was \$795,191.

NOTE 10 - DEFERRED REVENUES

The deferred revenues in the General Fund represent property taxes that have been recognized as receivable before the period of revenue recognition.

NOTE 11 - INTERLOCAL AGREEMENT

The City has entered into an Interlocal Agreement with Williamson County for a community recreation center. According to the agreement Spring Hill has agreed to pay one half of the cost of the land and building with Williamson County retaining ownership of the center. The City's debt obligation relating to the recreation center at June 30, 2007 totals \$5,510,000.

NOTE 12- PENSION PLAN

Plan Description

Employees of the Spring Hill Town of are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with five years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who became disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979 become vested after five years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as Spring Hill Town of participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

NOTE 12- PENSION PLAN (CONTINUED)

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

Funding Policy

Spring Hill Town of requires employees to contribute 5.0 percent of earnable compensation.

Spring Hill Town of is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2007 was 5.27% of annual covered payroll. The contribution requirement of plan members are set by state statute. The contribution requirement for Spring Hill Town of is established and may be amended by the TCRS Board of Trustees.

Annual Pension Cost

For the year ending June 30, 2007, Spring Hill Town of's annual pension cost of \$252,423 to TCRS was equal to Spring Hill Town of's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5 percent a year compounded annually, (b) projected salary increases of 4.75 percent (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5 percent annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0 percent annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of equities over a five-year period. Spring Hill Town of's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 19 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

NOTE 12- PENSION PLAN (CONTINUED)

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of APC</u> <u>Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
June 30, 2007	\$252,423	100.00%	\$0.00
June 30, 2006	\$218,039	100.00%	\$0.00
June 30, 2005	\$173,210	100.00%	\$0.00

Required Supplementary Information

Schedule of Funding Progress for Spring Hill Town, 88820

(Dollar amounts in thousands)

<u>Date</u>	<u>Actuarial</u> <u>Value of</u> <u>Assets</u> <u>(a)</u>	<u>Actuarial</u> <u>Accrued</u> <u>Liability</u> <u>(AAL)(b)</u>	<u>Unfunded</u> <u>AAL</u> <u>(UAAL)</u> <u>(b)-(a)</u>	<u>Funded</u> <u>Ratio</u> <u>(a/b)</u>	<u>Covered</u> <u>Payroll</u> <u>(c)</u>	<u>UAAL as</u> <u>a % of</u> <u>Covered</u> <u>Payroll</u> <u>((b-a/c))</u>
July 1, 2005	\$1,714	\$1,889	\$175	90.73%	\$3,192	5.48%
July 1, 2003	\$1,078	\$1,261	\$183	85.49%	\$1,983	9.23%
July 1, 2001	\$698	\$884	\$186	78.96%	\$1,175	15.83%

NOTE 13- RISK MANAGEMENT

The City of Spring Hill is exposed to various risks related to general liability and property and casualty losses. The City is a member of the Tennessee Municipal League Risk Management Pool (TML Pool) which is a nonprofit, risk sharing pool of Tennessee municipalities and local public agencies established by the Tennessee Municipal League, an association of cities and towns in Tennessee. Participating members contribute premiums to the TML Pool based on that member's exposure and underwriting standards.

Reinsurance is purchase by the Pool to cover losses that exceed the Pool's loss fund. Members can be assessed to cover losses exceeding the reinsurance. The City contributes an annual premium to the TML for its general and automobile liability, errors and omissions liability, automobile physical damage, and workers' compensation insurance.

The City carries commercial insurance for other risks of loss, including property coverage, boiler and machinery, excess liability, and employee health insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 14- ECONOMIC DEPENDENCE

The City is party to an agreement with Saturn Corporation (a subsidiary of General Motors Corporation), providing in lieu of tax payments in the amount of \$250,000 annually for a 40 year period, extending through the fiscal year ending June 30, 2025. For the fiscal year ended June 30, 2007, approximately 5.2% of General Fund revenues were derived from this source. There is no reason to doubt the continued receipt of these monies.

NOTE 15- ACCRUED COMPENSATED ABSENCES

The City does not accrue a liability for compensated absences which relates to employees' services already rendered because reliable estimates cannot be reasonably determined.

COMBINING FINANCIAL STATEMENTS

GENERAL FUND

The General Fund is used for all current operations which are unrestricted in nature. The Fund accounts for all current assets, current liabilities, revenues, and expenditures not accounted for in another fund.

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Taxes	\$ 2,785,899	\$ 2,837,757	\$ 51,858
Licenses and permits	1,082,511	1,082,511	-
Intergovernmental	2,023,811	2,023,812	1
Charges for services	2,651	2,651	-
Fines and forfeits	248,658	248,658	-
Interest revenue	37,494	40,106	2,612
Other	68,391	68,047	(344)
	<u>6,249,415</u>	<u>6,303,542</u>	<u>54,127</u>
Total revenues			
EXPENDITURES			
Current			
General government			
Legislative, executive & general	567,514	567,296	218
Judicial	30,548	30,549	(1)
Financial administration	232,528	208,490	24,038
Information Management System	58,814	56,176	2,638
General government building	201,266	200,420	846
Public safety			
Police	2,534,943	2,567,904	(32,961)
Fire	2,034,936	2,034,936	-
Building inspection	412,537	398,089	14,448
Public works			
Streets	506,907	491,378	15,529
Culture			
Parks and recreation	500,360	391,575	108,785
Library	444,196	552,971	(108,775)
	<u>7,524,549</u>	<u>7,499,784</u>	<u>24,765</u>
Total expenditures			
Excess of revenues over (under) expenditures	(1,275,134)	(1,196,242)	78,892
Fund balance at beginning of year	<u>63,725</u>	<u>63,725</u>	<u>-</u>
Fund balance at end of year	<u>\$ (1,211,409)</u>	<u>\$ (1,132,517)</u>	<u>\$ 78,892</u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF REVENUES -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
TAXES			
Real and personal property	\$ 591	\$ 591	\$ -
Interest and penalty on taxes	1,880	1,880	-
Payments in lieu of property taxes	250,000	250,000	-
Local sales tax	1,746,870	1,798,728	51,858
Wholesale beer tax	264,208	264,208	-
Wholesale liquor tax	83,702	83,702	-
Business tax	247,516	247,516	-
Franchise tax	184,430	184,430	-
Utility taxes	6,702	6,702	-
Total taxes	<u>2,785,899</u>	<u>2,837,757</u>	<u>51,858</u>
LICENSES AND PERMITS			
Beer permit applications	7,500	7,500	-
Building permits	1,027,008	1,027,008	-
Sign permits	8,362	8,362	-
Alarm registrations	10,522	10,522	-
Mixed drink taxes	29,119	29,119	-
Total licenses and permits	<u>1,082,511</u>	<u>1,082,511</u>	<u>-</u>
INTERGOVERNMENTAL			
TVA payments in lieu of taxes	143,770	143,770	-
State sales tax	1,262,684	1,262,684	-
State grants	13,899	13,900	1
State beer tax	9,500	9,500	-
State city streets and transportation	38,232	38,232	-
State gas & motor fuel tax	486,901	486,901	-
Other state revenue allocations	1,655	1,655	-
Library revenue	59,070	59,070	-
Miscellaneous	8,100	8,100	-
Total intergovernmental	<u>2,023,811</u>	<u>2,023,812</u>	<u>1</u>
CHARGES FOR SERVICES			
Other charges for services	2,651	2,651	-
Total charges for services	<u>2,651</u>	<u>2,651</u>	<u>-</u>
FINES AND FORFEITS			
City court fines and costs	177,777	177,777	-
City court traffic school fees	34,000	34,000	-
County court fines and costs	36,181	36,181	-
Reserved for sexual offenders	700	700	-
Total fines and forfeits	<u>248,658</u>	<u>248,658</u>	<u>-</u>
INTEREST REVENUE			
General	37,303	39,915	2,612
Sale of surplus property	191	191	-
Total interest revenue	<u>37,494</u>	<u>40,106</u>	<u>2,612</u>
OTHER REVENUES			
Rents received	4,300	4,301	1
Insurance recoveries	57,714	57,714	-
Miscellaneous revenues	6,377	6,032	(345)
Total other	<u>68,391</u>	<u>68,047</u>	<u>(344)</u>
Total revenues	<u>\$ 6,249,415</u>	<u>\$ 6,303,542</u>	<u>\$ 54,127</u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF EXPENDITURES -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
CURRENT			
GENERAL GOVERNMENT			
Legislative, executive, and general			
Salaries	\$ 138,228	\$ 138,228	\$ -
Employee benefits	34,290	34,290	-
Board expense	1,285	1,285	-
Election expense	9,626	9,626	-
Other contractual services	27,866	27,866	-
Memberships and subscriptions	8,996	8,996	-
Telephone	5,520	5,520	-
Legal services	101,765	101,765	-
Auditing services	23,058	23,058	-
Engineering services	162,036	162,036	-
Other professional services	15,005	15,005	-
Repairs and maintenance	257	257	-
Insurance and bonds	27,394	27,394	-
Travel	1,140	1,140	-
Donations	7,000	7,000	-
Miscellaneous	2,478	2,478	-
Gas, oil and vehicle expense	1,352	1,352	-
Office supplies	<u>218</u>	<u>-</u>	<u>218</u>
Total legislative, executive, and general	<u>567,514</u>	<u>567,296</u>	<u>218</u>
Judicial			
Salaries	7,954	7,955	(1)
Fines remitted to State	9,916	9,916	-
Employee benefits	74	74	-
Insurance	<u>12,604</u>	<u>12,604</u>	<u>-</u>
Total judicial	<u>30,548</u>	<u>30,549</u>	<u>(1)</u>

(Continued on next page)

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF EXPENDITURES -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL GOVERNMENT (Continued)			
Financial administration			
Salaries	\$ 91,056	\$ 91,055	\$ 1
Employee benefits	37,827	37,828	(1)
Other contractual services	7,243	7,243	-
Postage	13,389	13,389	-
Publications of notices	9,947	9,947	-
Memberships and subscriptions	325	325	-
Travel	794	794	-
Business taxes to Dept. of Revenue	10,868	-	10,868
Report maintenance	1,180	1,180	-
Office supplies	20,971	20,971	-
Miscellaneous	747	747	-
Insurance	20,914	20,914	-
Equipment	4,097	4,097	-
Operating supplies	155	-	155
Capital outlay	<u>13,015</u>	<u>-</u>	<u>13,015</u>
Total financial administration	<u>232,528</u>	<u>208,490</u>	<u>24,038</u>
Information Management System			
Contract services	22,115	22,115	-
Data processing service	11,558	11,558	-
Repair and maintenance	-	-	-
Office/Computer supplies	14,281	14,281	-
Insurance	2,558	2,558	-
Other equipment	5,664	5,664	-
Miscellaneous	<u>2,638</u>	<u>-</u>	<u>2,638</u>
Total Information Management System	<u>58,814</u>	<u>56,176</u>	<u>2,638</u>

(Continued on next page)

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF EXPENDITURES -
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
GENERAL GOVERNMENT (Continued)			
General government building			
Salaries	\$ 31,895	\$ 31,895	\$ -
Employee benefits	7,573	7,573	-
Electricity and gas	50,818	50,818	-
Telephone	54,780	54,780	-
Repairs and maintenance	26,107	26,107	-
Operating supplies	17,545	17,274	271
Insurance	10,372	10,372	-
Miscellaneous and uniforms	1,601	1,601	-
Contractual services	<u>575</u>	<u>-</u>	<u>575</u>
Total general government building	<u>201,266</u>	<u>200,420</u>	<u>846</u>
Total general government	<u>1,090,670</u>	<u>1,062,931</u>	<u>27,739</u>
PUBLIC SAFETY			
Police			
Telephone	57,885	57,885	-
Medical	6,026	6,026	-
Services	2,599	2,599	-
Salaries	1,556,370	1,556,370	-
Employee benefits	406,638	441,825	(35,187)
Other contractual services	13,525	13,525	-
Postage	232	232	-
Printing and duplicating	2,601	2,601	-
Memberships and subscriptions	2,274	2,274	-
Public relations	367	367	-
Repairs and maintenance	103,541	103,542	(1)
Travel expenses	13,265	13,265	-
Office supplies	24,117	24,117	-
Operating supplies	18,848	18,651	197
Uniforms	29,828	29,828	-
Gas, oil, and vehicle supplies	90,264	88,234	2,030
Insurance	143,803	143,803	-
Miscellaneous	1,546	1,546	-
Capital outlay	<u>61,214</u>	<u>61,214</u>	<u>-</u>
Total police	<u>2,534,943</u>	<u>2,567,904</u>	<u>(32,961)</u>

(Continued on next page)

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF EXPENDITURES -
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
PUBLIC SAFETY (Continued)			
Fire			
Salaries	\$ 1,385,371	\$ 1,385,371	\$ -
Employee benefits	326,729	326,729	-
Other contractual services	1,489	1,489	-
Memberships	1,849	1,849	-
Electricity and gas	108,070	108,070	-
Telephone	17,997	17,997	-
Other professional services	3,304	3,304	-
Repairs and maintenance	30,553	30,553	-
Travel and training	4,829	4,829	-
Office supplies	419	419	-
Operating supplies	60,141	60,141	-
Uniforms	18,113	18,113	-
Gas, oil, and vehicle supplies	20,100	20,100	-
Insurance	50,824	50,824	-
Miscellaneous	1,552	1,552	-
Equipment	3,596	3,596	-
	<u>2,034,936</u>	<u>2,034,936</u>	<u>-</u>
Total fire			
Building inspection			
Salaries	\$ 242,120	\$ 242,010	\$ 110
Employee benefits	64,041	64,040	1
Other contractual services	347	347	-
Memberships	100	100	-
Engineering services	29,737	29,737	-
Repairs and maintenance	7,743	7,676	67
Travel expenses	770	770	-
Office supplies	8,117	8,117	-
Operating supplies	70	-	70
Uniforms	5,043	5,043	-
Gas, oil, and vehicle supplies	11,704	11,704	-
Insurance	23,530	23,530	-
Miscellaneous	2,153	2,153	-
Telephone	2,862	2,862	-
Capital outlay	14,200	-	14,200
	<u>412,537</u>	<u>398,089</u>	<u>14,448</u>
Total building inspection			
Total public safety			
	<u>4,982,416</u>	<u>5,000,929</u>	<u>(18,513)</u>

(Continued on next page)

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF EXPENDITURES -
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
PUBLIC WORKS			
Streets			
Salaries	\$ 51,294	\$ 51,294	\$ -
Employee benefits	11,026	11,026	-
Other contractual services	10,430	10,430	-
Repairs and maintenance	177,364	176,167	1,197
Telephone	2,451	2,451	-
Travel	240	240	-
Operating supplies	37,987	37,987	-
Uniforms	511	511	-
Gas, oil, and vehicle supplies	67,188	67,188	-
Insurance	21,313	21,313	-
Miscellaneous	660	660	-
Street improvements	84,060	82,174	1,886
Equipment	41,840	29,937	11,903
Office supplies and publications	543	-	543
	<u>506,907</u>	<u>491,378</u>	<u>15,529</u>
State street aid			
Street			
Street and bridge repair	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total state street aid	<u>-</u>	<u>-</u>	<u>-</u>
Total public works	<u>506,907</u>	<u>491,378</u>	<u>15,529</u>

(Continued on next page)

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
GENERAL FUND
DETAILED STATEMENT OF EXPENDITURES -
BUDGET AND ACTUAL (CONTINUED)
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
CULTURE AND RECREATION			
Parks and recreation			
Salaries	\$ 101,150	\$ -	\$ 101,150
Employee benefits	28,118	-	28,118
Other contractual services	7,342	7,342	-
Electricity and gas	13,769	13,769	-
Telephone	5,995	5,995	-
Travel	491	-	491
Repairs and maintenance	18,413	25,012	(6,599)
Clothing and uniforms	1,531	-	1,531
Senior citizens	12,654	4,000	8,654
Operating supplies	18,573	20,104	(1,531)
Insurance	13,976	37,005	(23,029)
Miscellaneous	5,002	5,002	-
Capital outlay	<u>273,346</u>	<u>273,346</u>	<u>-</u>
Total parks and recreation	<u>500,360</u>	<u>391,575</u>	<u>108,785</u>
Library			
Salaries	239,343	333,306	(93,963)
Employee benefits	69,424	81,701	(12,277)
Contractual services	3,356	3,356	-
Postage	1,746	1,746	-
Publications and subscriptions	2,903	2,903	-
Electricity & Gas	24,420	24,420	-
Repairs and maintenance	7,157	9,201	(2,044)
Telephone	380	380	-
Office supplies	3,997	3,997	-
Operating supplies	60,369	60,369	-
Insurance	16,659	16,659	-
Travel	636	1,127	(491)
Miscellaneous	1,723	1,723	-
Furniture and equipment	<u>12,083</u>	<u>12,083</u>	<u>-</u>
Total library	<u>444,196</u>	<u>552,971</u>	<u>(108,775)</u>
Total culture and recreation	<u>944,556</u>	<u>944,546</u>	<u>10</u>
Total expenditures	<u>\$ 7,524,549</u>	<u>\$ 7,499,784</u>	<u>\$ 24,765</u>

The notes to financial statements are an integral part of this statement.

SPECIAL REVENUE FUNDS

Special Revenue Funds are governmental funds used to account for certain tax and nontax revenues which are legally restricted to finance functions or activities of government and which, therefore, cannot be diverted to other uses.

CITY OF SPRING HILL, TENNESSEE
COMBINING BALANCE SHEET -
ALL SPECIAL REVENUE FUNDS
JUNE 30, 2007

	<u>LIBRARY FUND</u>	<u>DRUG FUND</u>	<u>SANITATION FUND</u>	<u>ADEQUATE FACILITIES TAX FUND</u>	<u>TOTAL</u>
<u>ASSETS</u>					
Cash	\$ 15,939	\$ 9,474	\$ 65,324	\$ 377,150	\$ 467,887
Due from other funds	-	-	80,359	-	80,359
Due from other governments	-	1,422	-	-	1,422
Total assets	<u>\$ 15,939</u>	<u>\$ 10,896</u>	<u>\$ 145,683</u>	<u>\$ 377,150</u>	<u>\$ 549,668</u>
<u>LIABILITIES AND FUND BALANCE</u>					
Liabilities					
Accounts payable	\$ -	\$ 216	\$ 81,534	\$ 48,676	\$ 130,426
Money received from evidence	-	2,844	-	-	2,844
Due to other funds	-	-	64,866	1,548,523	1,613,389
Total liabilities	<u>-</u>	<u>3,060</u>	<u>146,400</u>	<u>1,597,199</u>	<u>1,746,659</u>
Fund balances					
Unreserved	<u>15,939</u>	<u>7,836</u>	<u>(717)</u>	<u>(1,220,049)</u>	<u>(1,196,991)</u>
Total fund balances	<u>15,939</u>	<u>7,836</u>	<u>(717)</u>	<u>(1,220,049)</u>	<u>(1,196,991)</u>
Total liabilities and fund balances	<u>\$ 15,939</u>	<u>\$ 10,896</u>	<u>\$ 145,683</u>	<u>\$ 377,150</u>	<u>\$ 549,668</u>

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

CITY OF SPRING HILL, TENNESSEE
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
ALL SPECIAL REVENUE FUNDS
YEAR ENDED JUNE 30, 2007

	<u>LIBRARY FUND</u>	<u>DRUG FUND</u>	<u>SANITATION FUND</u>	<u>ADEQUATE FACILITIES TAX FUND</u>	<u>TOTAL</u>
REVENUES					
Charges for services	\$ -	\$ -	\$ 1,063,393	\$ -	\$ 1,063,393
Licences and permits	-	-	-	1,976,342	1,976,342
Fines and forfeits	-	10,276	-	-	10,276
Contributions	15,088	300	-	-	15,388
Interest revenue	-	575	2,482	7,024	10,081
	<u>-</u>	<u>575</u>	<u>2,482</u>	<u>7,024</u>	<u>10,081</u>
Total revenues	<u>15,088</u>	<u>11,151</u>	<u>1,065,875</u>	<u>1,983,366</u>	<u>3,075,480</u>
EXPENDITURES					
Current					
General Government					
Municipal building	-	-	-	193,090	193,090
Public safety					
Police	-	24,402	-	132,263	156,665
911 Dispatch	-	-	-	49,780	49,780
Public Works					
Streets	-	-	-	1,194,238	1,194,238
Sanitation	-	-	1,054,468	-	1,054,468
Culture and Recreation					
Recreation	-	-	-	900,145	900,145
Public Library	18,424	-	-	118,832	137,256
Miscellaneous	-	-	-	138	138
	<u>-</u>	<u>-</u>	<u>-</u>	<u>138</u>	<u>138</u>
Total expenditures	<u>18,424</u>	<u>24,402</u>	<u>1,054,468</u>	<u>2,588,486</u>	<u>3,685,780</u>
Excess of revenues over (under) expenditures	(3,336)	(13,251)	11,407	(605,120)	(610,300)
Fund balance at beginning of year	<u>19,275</u>	<u>21,087</u>	<u>(12,124)</u>	<u>(614,929)</u>	<u>(586,691)</u>
Fund balance at end of year	<u>\$ 15,939</u>	<u>\$ 7,836</u>	<u>\$ (717)</u>	<u>\$ (1,220,049)</u>	<u>\$ (1,196,991)</u>

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

CITY OF SPRING HILL, TENNESSEE
DRUG FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Fines and forfeits			
Drug related fines	\$ 11,151	\$ 10,276	\$ (875)
Interest revenue	-	575	575
Donations	-	300	300
	<u>11,151</u>	<u>11,151</u>	<u>-</u>
EXPENDITURES - PUBLIC SAFETY			
Police			
Operating supplies	<u>24,402</u>	<u>24,402</u>	<u>-</u>
	<u>24,402</u>	<u>24,402</u>	<u>-</u>
Excess of revenues over/(under) expenditures	(13,251)	(13,251)	-
Fund balance at beginning of year	<u>21,087</u>	<u>21,087</u>	<u>-</u>
Fund balance at end of year	<u><u>\$ 7,836</u></u>	<u><u>\$ 7,836</u></u>	<u><u>\$ -</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
SANITATION FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Charges for Services			
Sanitation service fees	\$ 1,153,404	\$ 1,063,393	\$ (90,011)
Interest revenue	<u>2,482</u>	<u>2,482</u>	<u>-</u>
Total revenues	<u>1,155,886</u>	<u>1,065,875</u>	<u>(90,011)</u>
EXPENDITURES - PUBLIC WORKS			
Sanitation			
Refuse collection and disposal service	<u>1,054,549</u>	<u>1,054,468</u>	<u>81</u>
Excess of revenues over/(under) expenditures	101,337	11,407	(89,930)
Fund balance at beginning of year	<u>(12,124)</u>	<u>(12,124)</u>	<u>-</u>
Fund balance at end of year	<u>\$ 89,213</u>	<u>\$ (717)</u>	<u>\$ (89,930)</u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
ADEQUATE FACILITIES TAX FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Licenses and Permits			
Adequate Facilities Tax Fund	\$ 1,975,342	\$ 1,976,342	\$ 1,000
Interest Revenue	<u>7,024</u>	<u>7,024</u>	<u>-</u>
Total revenues	<u>1,982,366</u>	<u>1,983,366</u>	<u>1,000</u>
EXPENDITURES			
General Government			
Municipal building	180,404	193,090	(12,686)
Public Safety			
Police	123,573	132,263	(8,690)
Fire	-	-	-
911 dispatch	46,508	49,780	(3,272)
Public Works			
Streets	1,115,773	1,194,238	(78,465)
Culture and Recreation			
Recreation	841,003	900,145	(59,142)
Library	111,024	118,832	(7,808)
Miscellaneous	<u>-</u>	<u>138</u>	<u>(138)</u>
Total expenditures	<u>2,418,286</u>	<u>2,588,486</u>	<u>(170,200)</u>
Excess of revenues over/(under) expenditures	(435,920)	(605,120)	(169,200)
Fund balances at beginning of year	<u>(614,929)</u>	<u>(614,929)</u>	<u>-</u>
Fund balances at end of year	<u>\$ (1,050,849)</u>	<u>\$ (1,220,049)</u>	<u>\$ (169,200)</u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
LIBRARY FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2007

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
REVENUES			
Revenues			
Contributions	\$ -	\$ 15,088	\$ 15,088
Total revenues	<u>-</u>	<u>15,088</u>	<u>15,088</u>
EXPENDITURES			
Contractual services	-	-	-
Office/operating supplies	-	12,774	(12,774)
Capital outlay	<u>-</u>	<u>5,650</u>	<u>(5,650)</u>
	<u>-</u>	<u>18,424</u>	<u>(18,424)</u>
Excess of revenues over/(under) expenditures	-	(3,336)	(3,336)
Fund balance at beginning of year	<u>19,275</u>	<u>19,275</u>	<u>-</u>
Fund balance at end of year	<u>\$ 19,275</u>	<u>\$ 15,939</u>	<u>\$ (3,336)</u>

The notes to financial statements are an integral part of this statement.

ENTERPRISE FUND

Enterprise Funds are used to account for the operations of self-sustaining agencies rendering services to the general public on a user charge basis. The Water and Sewer Enterprise Fund is currently the only Enterprise Fund used by the City.

CITY OF SPRING HILL, TENNESSEE
WATER AND SEWER ENTERPRISE FUND
STATEMENT OF NET ASSETS
JUNE 30, 2007

ASSETS

Current assets	
Cash	\$ 699,406
Certificates of deposit	1,129,089
Accounts receivable, net of allowance for uncollectibles of \$5,000	650,263
Interest receivable	16,144
Due from other funds	3,958,695
Inventory of supplies, at cost	<u>186,833</u>
Total current assets	<u>6,640,430</u>
Restricted assets	
Cash	500,344
Certificate of deposit	<u>311,998</u>
	<u>812,342</u>
Utility plant	
Utility plant, at cost	41,967,738
Less accumulated depreciation	<u>(6,286,290)</u>
	<u>35,681,448</u>
 Total assets	 <u>\$ 43,134,220</u>

LIABILITIES

Current liabilities, payable from current assets	
Accounts payable	\$ 164,869
Current portion of long term debt	361,336
Due to other governments	<u>25,322</u>
Total current liabilities, payable from current assets	<u>51,527</u>
Current liabilities, payable from restricted assets	
Contracts payable	<u>812,342</u>
Total current liabilities, payable from restricted assets	<u>812,342</u>
Long-Term Debt	3,209,252
State of Tennessee Loan	5,304,000
State municipal bond	30,098
Capital lease	<u>(361,336)</u>
Less current portion	<u>8,182,014</u>
 Total liabilities	 <u>9,545,883</u>

NET ASSETS

Invested in capital assets, net of related debt	27,138,097
Unrestricted	<u>6,450,240</u>
 Total net assets	 <u>33,588,337</u>
 Total liabilities and net assets	 <u>\$ 43,134,220</u>

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

CITY OF SPRING HILL, TENNESSEE
STATEMENT OF REVENUES AND EXPENSES BY DEPARTMENT.
AND CHANGES IN FUND NET ASSETS
YEAR ENDED JUNE 30, 2007

	<u>Water</u>	<u>Sewer</u>	<u>Billing and Collections</u>	<u>Total</u>
OPERATING REVENUES				
Water sales	\$ 2,070,005	\$ -	\$ -	\$ 2,070,005
Penalties	-	85,452	-	85,452
Service charges	87	1,576,200	-	1,576,287
Installation fees	290,735	-	-	290,735
Tap fees	1,141,960	1,104,202	-	2,246,162
Development fees	191,150	1,821,938	-	2,013,088
Miscellaneous	<u>245,249</u>	<u>-</u>	<u>24,000</u>	<u>269,249</u>
Total operating revenues	<u>3,939,186</u>	<u>4,587,792</u>	<u>24,000</u>	<u>8,550,978</u>
OPERATING EXPENSES				
Purchase of water	7,245	-	-	7,245
Salaries	1,039,519	273,193	76,790	1,389,502
Employee benefits	382,791	104,790	27,866	515,447
Equipment rental	-	-	-	-
Postage	-	-	31,338	31,338
Dues and subscriptions	5,425	75	-	5,500
Utility services	275,717	137,460	-	413,177
Professional services	107,107	269,618	-	376,725
Repair and maintenance	28,813	181,984	-	210,797
Travel	2,763	245	-	3,008
Other contractual services	48,613	119,718	-	168,331
Office supplies and materials	-	-	15,006	15,006
Operating supplies	553,323	154,396	-	707,719
Uniforms	22,237	5,958	-	28,195
Automobile expenses	11,333	4,918	-	16,251
Insurance	67,479	45,364	-	112,843
State fees	7,255	4,500	-	11,755
Miscellaneous expense	4,142	448	1,638	6,228
Depreciation	<u>407,696</u>	<u>387,497</u>	<u>-</u>	<u>795,193</u>
Total operating expense	<u>2,971,458</u>	<u>1,690,164</u>	<u>152,638</u>	<u>4,814,260</u>
Operating income (loss)	<u>967,727</u>	<u>2,897,628</u>	<u>(128,638)</u>	<u>3,736,718</u>
NONOPERATING REVENUES (EXPENSES)				
Interest income				220,692
Interest expenses				<u>(325,065)</u>
Total nonoperating revenues (expenses)				<u>(104,373)</u>
Change in net assets				3,632,345
Net assets at beginning of year				<u>29,955,992</u>
Net assets at end of year				<u><u>\$ 33,588,337</u></u>

The notes to financial statements are an integral part of this statement.

CITY OF SPRING HILL, TENNESSEE
WATER AND SEWER FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2007

Cash Flows From Operating Activities	
Receipts from customers	\$ 8,100,573
Payments to suppliers	(7,245)
Payments to employees	(1,387,522)
Other operating receipts	269,250
Other operating expenses	<u>(2,484,037)</u>
Net cash provided by operating activities	<u>4,491,019</u>
Cash Flows From Noncapital Financing Activities	
Advances to other funds	<u>(2,887,307)</u>
Cash Flows From Capital and Related Financing Activities	
Principal payments on long term debt	(361,115)
Interest paid on revolving line of credit	(325,065)
Cash payments for the purchase of plant assets	<u>(4,887,488)</u>
Net cash used in capital and related financing activities	<u>(5,573,668)</u>
Cash Flows From Investing Activities	
Interest received on cash deposits	
Cash payments for investments	<u>221,055</u>
Net cash provided by investing activities	<u>221,055</u>
Net decrease in cash	(3,748,901)
Cash, Beginning of Year	<u>4,948,651</u>
Cash, End of Year	<u>\$ 1,199,750</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities	
Operating Income	\$ 3,736,718
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Cash flows reported in other categories:	
Depreciation	795,191
Inventory of supplies	(24,766)
Changes in assets and liabilities:	
Receivables, trade	(180,792)
Accounts payable	148,937
Other accrued liabilities	<u>15,731</u>
Net cash provided by operating activities	<u>\$ 4,491,019</u>

The notes to financial statements are an integral part of this statement.

SUPPLEMENTAL INFORMATION

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF CERTIFICATES OF DEPOSIT
JUNE 30, 2007

<u>Description</u>	<u>Interest Rates</u>	<u>Maturities</u>	<u>Amount</u>
GENERAL FUND			
Certificate of deposit	5.45%	10/25/07	\$ 128,811
Certificate of deposit	5.39%	12/12/07	261,593
Certificate of deposit	5.40%	08/08/07	<u>100,000</u>
Total General Fund			<u>490,404</u>
WATER AND SEWER ENTERPRISE FUND			
Current assets			
Certificate of deposit	5.42%	09/08/07	300,000
Certificate of deposit	5.42%	09/08/07	100,000
Certificate of deposit	5.42%	09/08/07	100,000
Certificate of deposit	5.39%	12/12/07	117,389
Certificate of deposit	5.39%	12/12/07	117,506
Certificate of deposit	5.35%	12/20/07	86,144
Certificate of deposit	5.40%	08/08/07	205,367
Certificate of deposit	5.40%	08/08/07	<u>102,683</u>
Total current assets			<u>1,129,089</u>
Restricted assets			
Certificate of deposit	5.35%	12/20/07	104,012
Certificate of deposit	5.35%	12/20/07	103,993
Certificate of deposit	5.35%	12/20/07	<u>103,993</u>
Total restricted assets			<u>311,998</u>
Total Water and Sewer			<u>1,441,087</u>
Total investments			<u>\$ 1,931,491</u>

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2007

Tax Year	Balance July 1, 2006	Levy	Collections and Changes in Assessment	Balance June 30, 2007
2004	\$ 4,745	\$ -	\$ -	\$ 4,745
2003	1,129	-	-	1,129
Prior Years	2,796	-	-	2,796
	\$ 8,670	\$ -	\$ -	\$ 8,670
Less allowance for estimated uncollectibles				(2,168)
				\$ 6,502

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF INSURANCE COVERAGE
JUNE 30, 2007

<u>Type of Coverage</u>	<u>Limits of Liability</u>
Municipal Liability and Auto Policy	
Liability	
General	\$250,000/600,000/85,000
Automobile	\$250,000/600,000/85,000
Other losses not covered by tort liability act	\$5,000,000
Automobile physical coverage	
Comprehensive	ACV/\$500 Deductible
Collision	ACV/\$500 Deductible
Public officials errors and omissions liability	\$5,000,000/\$2,500 Deductible
Workers' compensation	Statutory
Commercial Property Policy	
Building and Equipment	\$19,270,156
Water/waste water treatment facility	\$9,406,650
Public Employees Blanket Bond	\$100,000
Employee bonds	
City Recorder	\$400,000

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF NOTES PAYABLE
ALL FUND TYPES
JUNE 30, 2007

NOTE PAYABLE OUTSTANDING FOR YEAR ENDING JUNE 30,	2.58% STATE OF TENNESSEE NOTE	
	PRINCIPAL	INTEREST
2008	\$ 201,342	\$ 80,430
2009	206,598	75,174
2010	211,992	69,780
2011	217,526	64,246
2012	223,206	58,566
2013	229,032	52,740
2014	235,012	46,760
2015	241,148	40,624
2016	247,443	34,329
2017	253,904	27,868
2018	260,532	21,240
2019	267,334	14,438
2020	274,313	7,459
2021	139,870	1,055
	\$ 3,209,252	\$ 594,713

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF LONG-TERM BONDED OBLIGATIONS
ALL FUND TYPES
JUNE 30, 2007

BONDS OUTSTANDING FOR YEAR ENDING JUNE 30,	3.87% TENNESSEE MUNICIPAL BOND	
	PRINCIPAL	INTEREST *
2008	\$ 160,000	\$ 205,265
2009	168,000	199,073
2010	177,000	192,571
2011	186,000	185,721
2012	195,000	178,523
2013	205,000	170,977
2014	215,000	163,043
2015	226,000	154,723
2016	237,000	145,976
2017	249,000	136,804
2018	261,000	127,168
2019	274,000	117,067
2020	288,000	106,465
2021	302,000	95,318
2022	318,000	83,631
2023	334,000	71,324
2024	350,000	58,398
2025	368,000	44,853
2026	386,000	30,612
2027	405,000	15,673
	\$ 5,304,000	\$ 2,483,185

* Interest rate of bonds is variable. Scheduled interest payments at current rate as of June 30, 2007. Actual future rates will vary.

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF CHANGES - GENERAL LONG-TERM OBLIGATIONS
JUNE 30, 2007

<u>DESCRIPTION</u>	<u>ORIGINAL AMOUNT OF ISSUE</u>	<u>INTEREST RATE</u>	<u>DATE OF ISSUE</u>	<u>DUE DATES</u>	<u>OUTSTANDING JULY 1, 2006</u>	<u>ADDITIONS YEAR ENDED JUNE 30, 2007</u>	<u>RETIREMENTS YEAR ENDED JUNE 30, 2007</u>	<u>INTEREST PAID YEAR ENDED JUNE 30, 2007</u>	<u>OUTSTANDING JUNE 30, 2007</u>
GENERAL FUND									
GMAC Financial Services 6-2006 Chevy Impalas	\$ 172,854	7.05%	8/1/2006	Aug 30 (A)	\$ -	\$ 172,854	\$ 61,585	\$ -	\$ 111,269
E-One, Inc. Fire Truck	804,301	5.25%	2/8/2007	Annual	-	804,301	-	-	804,301
Citicorp Vendor Finance, Inc. 2006 Case 580 Super M Backhoe	65,480	5.52%	9/29/2005	Sept 29 (A)	44,135	-	13,929	2,436	30,206
BSFS Equipment Leasing 911 BellSouth Equipment	93,911	6.27%	4/12/2007	60 mos beg 5/07	-	93,911	2,718	935	91,193
BSFS Equipment Leasing 911 BellSouth Equipment	284,243	4.53%	7/6/2006	84 mos beg 2/04	196,095	-	37,647	9,813	158,448
Williamson Co. Rec Center Land	375,000	0.00%	4/1/2006	Annual	250,000	-	125,000	-	125,000
Williamson Co. Rec Center Bldg.	3,990,000	Variable	7/28/2006	Annual	-	3,990,000	-	88,794	3,990,000
Williamson Co. Rec Center Bldg.	1,395,000	Variable	2/22/2007	Semi-Annual	-	1,395,000	-	-	1,395,000
TOTAL FOR GENERAL FUND					<u>\$ 490,230</u>	<u>\$ 6,456,066</u>	<u>\$ 240,879</u>	<u>\$ 101,978</u>	<u>\$ 6,705,417</u>

(A) = Annual

STATISTICAL INFORMATION

CITY OF SPRING HILL, TENNESSEE
PROPERTY TAX RATES AND ASSESSMENTS
TEN YEAR SUMMARY

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>County</u>	<u>Tax Rate*</u>	<u>Total Assessment</u>
2007	2006	Maury Williamson		
2006	2005	Maury Williamson		
2005	2004	Maury	0.19	58,821,218
		Williamson	0.19	188,910,324
2004	2003	Maury	0.23	53,909,035
		Williamson	0.23	144,710,307
2003	2002	Maury	0.26	51,051,361
		Williamson	0.26	115,035,249
2002	2001	Maury	0.31	40,342,611
		Williamson	0.28	91,837,611
2001	2000	Maury	0.35	67,397,023
		Williamson	0.39	38,632,546
2000	1999	Maury	0.37	37,409,983
		Williamson	0.41	53,177,882
1999	1998	Maury	0.37	34,419,129
		Williamson	0.41	41,525,948
1998	1997	Maury	0.45	27,624,659
		Williamson	0.41	32,647,394
1997	1996	Maury	0.45	24,947,731
		Williamson	0.41	23,615,152

The City of Spring Hill is located in two counties, Maury and Williamson. Reassessments of property in the two counties occurred on different dates. In order to equalize the effective tax rates, the City set a separate rate for each county.

* Per \$100 of assessed valuation

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF UTILITY RATES
JUNE 30, 2007

WATER RATES

	<u>Gallons Per Month</u>		<u>Rate Per 1,000 Gallons</u>
Inside City	First 2,000	Minimum	\$ 6.75
	Next 3,000		2.53
	Next 5,000		2.17
	Next 10,000		1.97
	Over 20,000		1.76
Maury County Water System	Per 1,000		1.68

Number of customers at June 30, 2007 - 9,550

SEWER RATES

Based on actual number of gallons used during
the month

First 2,000	Minimum	\$ 6.75
Next 3,000		2.53
Next 5,000		2.17
Next 10,000		1.97
Over 20,000		1.76

Number of customers at June 30, 2007 - 8,175

COMPLIANCE AND INTERNAL CONTROL

YORK, DILLINGHAM & COMPANY, P.L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

LARRY W. YORK
J. MICHAEL DILLINGHAM

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MEMBERS:

AMERICAN INSTITUTE OF C.P.A.'S
TENNESSEE SOCIETY OF C.P.A.'S

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

The Honorable Board of Mayor and Aldermen
City of Spring Hill
Spring Hill, Tennessee

We have audited the financial statements of the City of Spring Hill, Tennessee, as of and for the year ended June 30, 2007, and have issued a report thereon dated June 2, 2008. 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Spring Hill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgement, could adversely affect the City of Spring Hill's ability to record, process, summarize and report financial data consistent with the assertions of management in the general purpose financial statements. Reportable conditions are described in the accompanying schedule of reportable conditions as items 1 through 10.

The Honorable Board of Mayor and Aldermen
City of Spring Hill

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, 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.

A handwritten signature in black ink that reads "York, Dillingham & Company P.L.L.C." in a cursive script.

York, Dillingham & Company, P.L.L.C.
Certified Public Accountants
Columbia, Tennessee
June 2, 2008

CITY OF SPRING HILL, TENNESSEE
SCHEDULE OF REPORTABLE CONDITIONS
JUNE 30, 2007

Item 1: Separation of Duties

The office staff of the city consists of an administrator, city recorder and a few other employees. Duties for these employees are not set up to provide a proper system of checks and balances. Internal accounting control could be strengthened by additional separation of duties.

Recommendation

To decrease the risk of undetected errors and irregularities, management should review employee's responsibilities to ensure that there are proper checks and balances.

Management Response

We concur. Management will review employee responsibilities and evaluate the need for a new employee to be dedicated to accepting payments only. Other employees will be designated to preparing deposits and recording collections. The City of Spring Hill has hired an assistant to the Mayor and City Administrator and an assistant to the Finance Director.

Item 2: Accounting for Property and Equipment

Records of property, plant, and equipment are not kept in a method that readily allows the determination of cost, date acquired, vendor, location, and other data regarding each significant item of property. Additionally, periodic physical inventories are not taken of moveable equipment. There are no effective controls over moveable equipment or accountability thereof.

Management Response

We concur. The City of Spring Hill has purchased Fixed Assets software from Local Government Corporation. The City Recorder is scheduled to attend an asset account class in October 2008 and will be responsible for fixed asset accounting. The new finance assistant will be responsible for fixed asset entry into the city's new software system.

Item 3: Deficit Balance in Sanitation Funds

The sanitation fund had a deficit fund balance of \$717 at June 30, 2007. Negative fund balances are not appropriate.

Recommendation

City officials should identify the reason(s) for the negative fund balances and monitor revenues and expenditures to ensure these deficit balances are eliminated.

Management Response

We concur. This issue has been corrected.

Item 4: Actual Expenditures Exceed the Budget

During the audit of the financial statements of City of Spring Hill, Tennessee as of and for the year ending June 30, 2007, it was noted that the City of Spring Hill's actual expenditures exceeded the amount appropriated in the budget of the funds noted below.

	<u>Budgeted Expenditures</u>	<u>Actual Expenditures</u>	<u>Actual Over Budget</u>	<u>Ending Fund Balance</u>
Library Fund	\$ -0-	\$ 18,424	\$ (18,424)	\$ 15,939
Adequate Facilities Tax Fund	2,418,286	2,588,486	(170,200)	(1,220,049)

Tennessee Code Annotated (TCA), Section 6-56-203 states that "no municipality may expend any moneys regardless of their source (including moneys derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments), except in accordance with a budget ordinance adopted under this section or through a proprietary type fund or a fiduciary type fund properly excluded from the budget ordinance."

State statutes, charters, and local ordinances assign the responsibility of the budgeting process and establish budgetary authority for municipal expenditures. To avoid possible legal conflict, municipal officials should authorize all expenditures either in the original budget, in an amendment, or in a supplemental appropriation.

Management Response

We concur. The City of Spring Hill, Board of Mayor and Aldermen has created the position of, and hired, a Finance Director, and appointed a Budget and Finance Advisory Committee to monitor and oversee the budget and finances of the City of Spring Hill. The City Administrator and Finance Director will recommend any necessary budget amendments be passed during the fiscal year.

Item 5: Deficit Balances in the Adequate Facilities Tax Fund

The adequate facilities tax fund had a deficit fund balance of \$1,220,049 at June 30, 2007. Negative fund balances are not appropriate.

Recommendation

City officials should identify the reason(s) for the negative fund balances and monitor revenues and expenditures to ensure these deficit balances are eliminated.

Management Response

We concur. The State of Tennessee, Department of Finance is in the process of approving a plan for the City of Spring Hill to re-pay the Water-Sewer Fund and the Adequate Facilities Tax Fund money that was transferred to the General Fund during prior years.

Item 6: Deficit Balance in the General Fund

The general fund had a deficit fund balance of \$1,132,517 at June 30, 2007. Negative fund balances are not appropriate.

Recommendation

City officials should identify the reason(s) for the negative fund balances and monitor revenues and expenditures to ensure these deficit balances are eliminated.

Management Response

We concur. The City of Spring Hill has approved and reinstated a property tax rate that will increase revenue and correct this issue.

Item 7: Final Approval and Amendment of the Budget

The 2007 budget was not amended and approved by the City Council until months after the fiscal year end. Expenditures should not be incurred which exceed authorized budget amounts. Budget amendments should be made to allow for any additional expenditures which would exceed the original budget. The budgetary process is designed to control expenses. The process of amending the budget to authorize excess expenditures which have already been made is improper.

Recommendation

The budget should be approved and amended by the City Council each year before the end of the fiscal year. Additionally, in order for the Council members to know the status of the budget a financial statement that shows both budget amounts and actual amounts should be given to each of the Council members at all of the monthly Council meetings.

Management Response

We concur. The final approval and amendment of the budget for 2008-2009, has been approved on June 30, 2008. The amended budget for 2007-2008 was passed on September 15, 2008.

Item 8: Interfund Loans were not authorized or repaid in accordance with State Statute

The City made transfers from the Water and Sewer fund to other Governmental Funds to provide temporary operating funds. These transactions were, in effect, interfund loans and were not approved by the Board of Aldermen and the Division of Local Finance, as required by Section 7-34-115, Tennessee Code Annotated. It also appears that the City may not be able to repay the interfund loans according to the Code.

Recommendation

All interfund loans should be approved by the Board of Aldermen and the Division of Local Finance and repaid according to Code Section 7-34-115.

Management Response

We concur. The, Finance Director and City Administrator of the City of Spring Hill have budgeted a payment plan (awaiting State approval) to repay previous inter-fund loans.

Item 9: Lack of Supervision

The City has a lack of supervision in regards to financial matters. There were obvious errors in the general ledger during the year and it appeared that no supervisor reviewed the general ledger. These errors should have been found and corrected prior to the audit with proper supervision and review.

Recommendation

We recommend that a supervisor review the general ledger for errors periodically to insure there are not material misstatements to the financial statements.

Management Response

We concur. The City of Spring Hill now has a Budget and Finance Advisory Committee, and a Finance Director to oversee the City's general ledger, bank accounts, and accounting practices. The City is also in the process of creating and adopting an accounting procedure manual.

Item 10: Failure to reconcile accounts receivable

The City did not perform monthly reconciliations of utility accounts receivable to the general ledger. The Internal Control and Compliance Manual for Tennessee Municipalities, Title 3, Section 10, states, "Municipal officials should ensure that the total amount of the unpaid individual accounts on the utility billing sheet is reconciled to the applicable general ledger control account total at the end of each month."

Recommendation

It is recommended that the City perform monthly reconciliation between the utility billing accounts and the applicable general ledger control accounts.

Management Response

We concur. This issue has been identified and is being corrected.

Item 11: Inadequate Support for Disbursements

The city's files did not include adequate supporting documentation for all disbursements. In some instances the city employees were unable to locate supporting documents in the city files and had to request copies from vendors.

Recommendation

To document that each disbursement was for a valid municipal purpose, officials should ensure that adequate supporting documents are maintained in the Municipality's files in accordance with the internal control and compliance manual for Tennessee municipalities. Before signing a check, authorized individuals should review adequate supporting documentation to determine that the disbursement is for a valid municipal purpose and that the charge has not previously been paid.

Management Response

We concur. The City Recorder will ensure that supporting documents for all purchases will be a part of each check to be signed by appropriate official, beginning immediately.