The Public Building Authority of Coffee County, Tennessee

(A Component Unit of Coffee County, Tennessee)

Audit Report

June 30, 2008

The Public Building Authority
of Coffee County, Tennessee
Audit Report
June 30, 2008

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Board Members

Roger Dotson, Chairman
Manchester, TN

Jim Major, Vice Chairman
Tullahoma, TN

Wendell Hanson, Secretary
Tullahoma, TN

Richard Dix, Treasurer
Manchester, TN

Patricia Pineger
Manchester, TN

Donna Toney
Manchester, TN

Theresa Lawson
Tullahoma, TN

Management Officials

Michael Osborne, General Manager
Manchester, TN

BEAN, RHOTON & KELLEY, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

300 SOUTH JEFFERSON STREET, WINCHESTER, TN 37398

Office: 931-967-0611
Fax: 931-967-4784

www.brkcpa.com

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Independent Auditors' Report

Board of Directors
Coffee County Public Building Authority
Manchester, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, a component unit of Coffee County, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed on Note 1, the financial statements present only the basic financial statements and major governmental fund financial statements of The Public Building Authority of Coffee County, Tennessee, and do not purport to, and do not, present fairly the financial position of Coffee County, Tennessee, as of June 30, 2008, and the respective changes in its financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 and each major fund of The Public Building Authority of Coffee County, Tennessee, as of June 30, 2008, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2009, on our consideration of The Public Building Authority of Coffee County, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of the laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in assessing the results of our audit.

The budgetary comparison information on pages 24 through 26, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

We preformed our audit to form an opinion on the basic financial statements of The Public Building Authority of Coffee County, Tennessee taken as a whole. The Public building Authority of Coffee County, Tennessee has not presented Management's Discussion and Analysis, which is not a required part of the basic financial statements, but is supplementary information required by accounting principals generally accepted in the United States of America.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise The Public Building Authority of Coffee County, Tennessee's basic financial statements. The accompanying financial information listed as supporting schedules in the table of contents are presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bean, Rhoton & Kelley

Bean, Rhoton & Kelley, PLLC
February 12, 2009

The Public Building Authority
of Coffee County, Tennessee
Statement of Net Assets
June 30, 2008

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS			
Cash and cash equivalents	$ 5,928.95	$ 150,182.29	$ 156,111.24
Receivables-net of allowances	6,835,483.74	32,914.90	6,868,398.64
Accrued interest receivable	146,632.31	0.00	146,632.31
Inventory	0.00	18,045.25	18,045.25
Capital assets:			
Buildings and improvements	0.00	2,371,318.69	2,371,318.69
Furniture, machinery, and equipment	25,674.00	301,631.33	327,305.33
Accumulated depreciation - Buildings & improvements	0.00	(354,394.94)	(354,394.94)
Accumulated depreciation - Furniture, machinery, and equipment	(599.82)	(256,574.82)	(257,174.64)
Bond Premiums	309,516.26	0.00	309,516.26
TOTAL ASSETS	$ 7,322,635.44	$ 2,263,122.70	$ 9,585,758.14
LIABILITIES			
Accounts payable	$ 6,600.00	$ 33,931.60	$ 40,531.60
Accrued liabilities	0.00	22,303.14	22,303.14
Accrued interest payable	146,632.31	0.00	146,632.31
Noncurrent liabilities:			
Due within one year	405,000.00	0.00	405,000.00
Due in more than one year	6,740,000.00	0.00	6,740,000.00
TOTAL LIABILITIES	$ 7,298,232.31	$ 56,234.74	$ 7,354,467.05
NET ASSETS			
Invested in capital assets	$ 25,074.18	$ 2,061,980.26	$ 2,087,054.44
Unrestricted	(671.05)	144,907.70	144,236.65
TOTAL NET ASSETS	$ 24,403.13	$ 2,206,887.96	$ 2,231,291.09

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Statement of Activities
For the Year Ended June 30, 2008

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets		
			Primary Government		
	Expenses	Fees, Fines and Charges for Services	Governmental Activities	Business-type Activities	Total
FUNCTIONS/PROGRAMS					
Primary government					
Governmental activities:					
General and administrative	$ 10,621.44	$ 0.00	$ (10,621.44)	$ 0.00	$ (10,621.44)
Interest and other debt related costs	489,288.78	0.00	(489,288.78)	0.00	(489,288.78)
Total governmental activities	499,910.22	0.00	(499,910.22)	0.00	(499,910.22)
Business-type activities:					
Enterprise funds	834,930.53	620,148.19	0.00	(214,782.34)	(214,782.34)
Total primary government	$ 834,930.53	$ 620,148.19	(499,910.22)	(214,782.34)	(714,692.56)
General revenues					
Appropriations from governments			0.00	149,037.79	149,037.79
Other revenues - See Note 8			32,775.72	0.00	32,775.72
Unrestricted investment earnings			489,288.78	0.00	489,288.78
Total general revenues			522,064.50	149,037.79	671,102.29
Change in net assets			22,154.28	(65,744.55)	(43,590.27)
Net assets-beginning			2,248.85	2,272,632.51	2,274,881.36
Net assets-ending			$ 24,403.13	$ 2,206,887.96	$ 2,231,291.09

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Balance Sheet
Governmental Funds
June 30, 2008

	Governmental Fund Types		Total
	General	Bond Fund	(Memorandum Only)
ASSETS AND OTHER DEBITS			
Cash and cash equivalents	$ 5,928.95	$ 0.00	$ 5,928.95
TOTAL ASSETS AND OTHER DEBTS	$ 5,928.95	$ 0.00	$ 5,928.95
LIABILITIES AND FUND BALANCE			
Liabilities:			
Accounts Payable	$ 6,600.00	$ 0.00	$ 6,600.00
TOTAL LIABILITIES	6,600.00	0.00	6,600.00
FUND EQUITY AND OTHER CREDITS			
Fund Balance:			
Unreserved	(671.05)	0.00	(671.05)
TOTAL FUND BALANCE	(671.05)	0.00	(671.05)
TOTAL LIABILITIES AND FUND BALANCE	$ 5,928.95	$ 0.00	$ 5,928.95

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Reconciliation of the Balance Sheet to the Statement of Net Assets
June 30, 2008

Fund balances - total governmental funds	$	(671.05)
Amounts reported for governmental activities in the Statement of Net Assets are different from amounts reported for governmental funds in the Balance Sheet because:		
Capital assets used in governmental activities are not financial resources and therefore not reported in governmental funds.		
Capital assets		25,674.00
Less accumulated depreciation		(599.82)
Loans receivable are not due and receivable in the current period and therefore are not reported in the governmental funds.		
Notes receivable		7,145,000.00
Interest receivable		146,632.31
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental funds.		
Bonds, notes, and capital lease obligations		(7,145,000.00)
Accrued interest payable		(146,632.31)
Net assets - total governmental activities	$	24,403.13

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Statement of Revenues, Expenditures and changes in Fund Balance
For the Year Ended June 30, 2008

	Governmental Fund Types		Totals
	General Fund	Bond Fund	(Memorandum Only)
REVENUES:			
Interest income	$ 46.90	$ 489,288.78	$ 489,335.68
Other income	7,728.82	0.00	7,728.82
Total Revenues	7,775.72	489,288.78	497,064.50
EXPENDITURES			
General and administrative	10,499.50	0.00	10,499.50
Debt service:			
Principal	0.00	380,000.00	380,000.00
Interest and Other Charges	0.00	489,288.78	489,288.78
Total Expenditures	10,499.50	869,288.78	879,788.28
Excess (deficiency) of revenues over expenditures	(2,723.78)	(380,000.00)	(382,723.78)
OTHER FINANCING SOURCES (USES):			
Principal payments from Coffee County, Tennessee	0.00	325,000.00	325,000.00
Principal payments from the City of Manchester, Tennessee	0.00	55,000.00	55,000.00
Total Other Financing Sources	0.00	380,000.00	380,000.00
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(2,723.78)	0.00	(2,723.78)
Fund Balance, Beginning of Year	2,052.73	0.00	2,052.73
Fund Balance, End of Year	$ (671.05)	$ 0.00	$ (671.05)

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - governmental funds	$	(2,723.78)
Amounts reported for governmental activities in the Statement of Activities are different from amounts reported for governmental funds in the Statement of Revenues, Expenditures and Changes in Fund Balances, because:		
Governmental funds report capital outlays which include principal and interest payments on capital leases as expenditures. However, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses for governmental activities.		
Awarded land - See note 8		25,000.00
Depreciation expense		(121.94)
Repayment of principal on bonds and notes payable is an expenditure in the governmental funds, but reduces long-term liabilities for governmental activities. Also governmental funds include interest paid in debt service expenditures, whereas interest is accrued and expensed as it becomes payable for governmental activities.		
Principal repayments		380,000.00
Interest payments		489,288.78
Receipt of principal on notes receivable is a revenue in the governmental funds, but decreases loans receivable for governmental activities. Also governmental funds include interest received in revenue, whereas interest receivable is accrued as it becomes receivable for governmental activities.		
Principal received		(380,000.00)
Interest received		(489,288.78)
Change in net assets - governmental activities	$	22,154.28

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Statement of Net Assets
Proprietary Fund
June 30, 2008

		Enterprise Fund Manchester Coffee County Conference Center
CURRENT ASSETS		
Cash and cash equivalents	$	150,182.29
Accounts receivable		32,914.90
Inventory		18,045.25
Total current assets		201,142.44
PROPERTY, PLANT, AND EQUIPMENT		2,672,950.02
Less accumulated depreciation		(610,969.76)
Property, plant, and equipment, net		2,061,980.26
TOTAL ASSETS	$	2,263,122.70
CURRENT LIABILITIES		
Accounts payable	$	33,931.60
Accrued liabilities		22,303.14
Total current liabilities		56,234.74
TOTAL LIABILITIES		56,234.74
NET ASSETS		
Invested in capital assets		2,061,980.26
Unrestricted		144,907.70
TOTAL NET ASSETS	$	2,206,887.96

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2008

		Enterprise Fund Manchester Coffee County Conference Center
OPERATING REVENUES:		
Rental income	$	43,250.68
Food, beverage and service sales		573,883.80
Total Operating Revenues		617,134.48
Operating expenses:		
Cost of food and beverage sold		147,805.91
Maintenance and operations		48,508.95
Payroll expenses		390,314.58
Contract labor		1,869.70
Advertising		8,460.34
Utilities		55,795.01
Professional services		25,269.32
Depreciation		101,205.66
Insurance		1,496.50
Bank charges		2,862.62
Manager's discretionary account		10,129.52
Other		41,212.42
Total Operating Expenses		834,930.53
Operating (loss)		(217,796.05)
Nonoperating revenues (expenses):		
Interest Income		3,013.71
Appropriations from governments		149,037.79
Total Nonoperating Revenues (Expenses)		152,051.50
Net (loss)		(65,744.55)
Change in net assets		(65,744.55)
Net assets, beginning of year		2,272,632.51
Net assets, end of year	$	2,206,887.96

Notes to financial statements are an integral part of the financial statements.

The Public Building Authority
of Coffee County, Tennessee
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2008

	Enterprise Fund Manchester Coffee County Conference Center
Cash flows from operating activities:	
Cash received from customers	$ 617,754.41
Cash paid to employees	(310,391.80)
Cash paid to suppliers and employees	(413,461.82)
Net cash (used) by operating activities	(106,099.21)
Cash flows from capital financing activities:	
Acquisition of fixed assets	(13,222.20)
Loss on disposition of fixed assets	217.50
Net cash (used) by capital financing activities	(13,004.70)
Cash flows from noncapital financing activities:	
Appropriations from governments	149,037.79
Net cash provided by noncapital financing activities	149,037.79
Cash flows from investing activities:	
Interest income	3,013.71
Net cash provided by investing activities	3,013.71
Net increase in cash and cash equivalents	32,947.59
Cash and cash equivalents at beginning of year	117,234.70
Cash and cash equivalents at end of year	$ 150,182.29

(continued)

The Public Building Authority
of Coffee County, Tennessee
Statement of Cash Flows (Continued)
Proprietary Fund
For the Year Ended June 30, 2008

Reconciliation of operating income to net cash used by operations

Operating loss	$	(217,796.05)
Adjustments to reconcile net loss to net cash used by operating activities:		
Depreciation and amortization		101,205.66
Decrease in accounts receivable		619.93
Increase in inventories		(4,468.75)
Increase in accounts payable		3,797.44
Increase in accrued expenses		10,542.56
Total Adjustments		111,696.84
Net cash used by operating activities	$	(106,099.21)

Notes to financial statements are an integral part of the financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Public Building Authority of Coffee County, Tennessee (the Authority) was incorporated September 5, 2000. The purpose of the Authority is to provide the capital resources (through the sale of bonds, notes, and other obligations) necessary to acquire, construct, reconstruct, rehabilitate, or improve facilities necessary or convenient to the operation of the related entities. In accordance with Section 12-10-108, Tennessee Code Annotated, the Authority has seven Board of Directors that are elected by the governing body, the County Commission of Coffee County, Tennessee, and they hold office for staggered six year terms. As defined in GASB 14, the Authority is a legal entity that meets the definition of a component unit of Coffee County in that a financial benefit/burden relationship exists between the County and the Authority.

Reporting entity

The accounts of The Public Building Authority of Coffee County, Tennessee (the Authority) are maintained, and the financial statements have been prepared, in conformity with recommendations of the Governmental Accounting Standards Board (GASB).

In evaluating how to define the government, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board Statements Number 14. There are no discretely presented component units for the Authority.

Government-Wide and Fund Financial Statements

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

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

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

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

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

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items no properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements; nonmajor funds are combined in a single column.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

All other revenue items are considered to be measurable and available only when cash is received by the Authority. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to non-vested sick pay, compensated absences and other long-term commitments and contingencies are recorded only when payment is due.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

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

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

Amounts reported as program revenues include 1) charges to customers for goods, services or privileges provided, and fines and forfeitures, 2) operating grants and contributions, and 3) capital grants and contributions. Amounts reported as general revenues include 1) all taxes, 2) unrestricted revenues for the use of money or property.

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

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

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

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purpose for which they are spent and the means by which spending activities are controlled. The various funds are grouped into one fund type category as follows:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Governmental Fund Types

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Fund Type

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

Equipment

Plant and equipment is stated at cost, and depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Major expenditures for plant and equipment are capitalized while maintenance and repairs are expensed when incurred.

Interfund Receivables and Payables and Transactions Between Funds

Short-term amounts owed between funds are classified as "Due to/from other funds." Legally authorized transfers are treated as operating transfers and are included in the results of operations of both Governmental and Proprietary Funds.

Cash and Cash Equivalents

For purposes of reporting cash flows. Cash equivalents include all short-term highly liquid investments with maturities of three months or less.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES- continued

Conference Center

During the year ended June 30, 2002, the Authority completed construction of the Manchester-Coffee County Conference Center, located adjacent to the Holiday Inn in Manchester. The PBA is responsible for operating the conference center. Operations of the Conference Center are reported as an enterprise fund of the PBA. In an agreement with the Authority, the City of Manchester and Coffee County are jointly responsible for underwriting the debt and operations of the Center. Furthermore, any net profits and losses attributable to the operation of the conference center are born equally by the City of Manchester and Coffee County.

Bond Fund

The bond fund, a special revenue fund, is used to account for the loans made by the Authority to the City and County for capital projects such as the joint industrial park, vocational rehab center, and water lines for the county. The collection of principal and interest on these loans is recorded in the bond fund.

Note 2 - Cash and Cash Equivalents

The Authority is authorized to invest funds in financial institutions and direct obligations of the Federal Government. During 2008, The Authority invested funds that are not immediately needed in certificates of deposit, savings accounts and money market accounts. The Authority's deposits at year-end were entirely covered by federal depository insurance or by collateral held by The Authority's bank in The Authority's name. The carrying amount of total cash deposits (including petty cash) at June 30, 2008, is $156,111.24.

NOTE 3 - RECEIVABLES

	Governmental Funds
Due from City of Manchester	$1,630,000
Due from Coffee County	5,515,000
	$7,145,000

NOTE 4 - FIXED ASSETS

Governmental Funds

A summary of changes in property, plant and equipment for the year ended June 30, 2008 follows:

Coffee County Public Authority:

	Balance 7-01-07	Additions	Transfers/ Retirements	Balance 6-30-08
Land	$ 0.00	$25,000.00	$ 0.00	$25,000.00
Equipment	674.00	0.00	0.00	674.00
Less accumulated depreciation - equipment	(477.88)	(121.94)	0.00	(599.82)
Net	$ 196.12	$24,878.06	$ 0.00	$25,074.18

Depreciation expense amounted to $121.94 for the year ended June 30, 2008.

Proprietary Funds

A summary of changes in property, plant and equipment for the year ended June 30, 2008 follows:

The Public Building Authority
of Coffee County, Tennessee
Notes to Financial Statements
June 30, 2008
(Continued)

NOTE 4 - FIXED ASSETS – continued

Coffee County/Manchester Conference Center (Enterprise Fund):

	Balance 7-01-07	Additions	Transfers/ Retirements	Balance 6-30-08
Land and buildings	$2,371,318.69	$ 0.00	$ 0.00	$2,371,318.69
Equipment	289,594.13	13,222.20	1,185.00	301,631.33
	$2,660,912.82	$ 13,222.20	$ 1,185.00	$2,672,950.02
Less accumulated depreciation – buildings	$ 295,111.96	$ 59,282.98	$ 0.00	$ 354,394.94
Less accumulated depreciation – equipment	215,619.64	41,922.68	967.50	256,574.82
	(510,731.60)	(101,205.66)	967.50	(610,969.76)
Net	$2,150,181.22	$ (87,983.46)	$ 217.50	$2,061,980.26

Depreciation expense amounted to $101,327.60 for the year ended June 30, 2008.

NOTE 5 - BONDS PAYABLE

The following is a summary of the Authority's bonded debt transactions for the year ended June 30, 2008:

Coffee County Public Authority:

	Outstanding 7-01-07	Additions	Refunding/ Retirements	Outstanding 6-30-08
Bonds, Series 2001A 3.25% - 5.00%	$1,240,000.00	$ 0.00	$ 180,000.00	$1,060,000.00
Bonds, Taxable Series 2001B 5.8% - 6.70%	360,000.00	0.00	175,000.00	185,000.00
Bonds, Series Z-4A 4.5% - 5.00%	5,925,000.00	0.00	25,000.00	5,900,000.00
	$7,525,000.00	$ 0.00	$ 380,000.00	$7,145,000.00

NOTE 5 - BONDS PAYABLE – continued

Annual debt service requirements for bonds, Series 2001A outstanding to maturity, including interest of $103,280.00 are as follows:

June 30	
2009	240,835.00
2010	452,645.00
2011	469,800.00
	$ 1,163,280.00

Annual debt service requirements for bonds, Taxable Series 2001B outstanding to maturity, including interest of $12,395.00 are as follows:

June 30	
2009	197,395.00
	$ 197,395.00

Annual debt service requirements for bonds, Series Z-4A outstanding to maturity, including interest of $2,211,022.62 are as follows:

June 30	
2009	271,412.52
2010	271,412.52
2011	271,412.52
2012	661,412.52
2013	673,862.52
2014 – 2017	2,856,535.02
2018 – 2021	3,104,975.00
	$ 8,111,022.62

The City of Manchester and Coffee County are jointly responsible for the bonds payable.

NOTE 6 - CONDUIT DEBT

The Authority is an unauthorized conduit debt issuer under the Tennessee Local Government Alternative Loan Program (TN-LOANS Program). The Authority has issued bonds as conduit debt on behalf of the City of Manchester, TN, the City of Fayetteville, TN and the City of Lawrenceburg, TN. The borrowers have guaranteed, insured, and pledged certain revenues for repayments of these bond issues. The bonds do not constitute a debt or pledge of faith and credit of the Authority and, accordingly, have not been reported in the accompanying financial statements. The total conduit debt outstanding as of June 30, 2008, for all conduit bond issues is $37,235,000.

NOTE 7 - INVENTORY

Inventory is stated at cost and includes food and supplies used by the Conference Center.

NOTE 8 – OTHER REVENUES

Total Other Revenues for the year were $32,775.72. This amount consists a piece of land valued at $25,000 that the Authority was awarded during the year from the result of a legal issue and $7,775.72 in various other revenues and fees.

NOTE 9 – BUDGETARY DATA

Formal budgetary accounting is employed as a management control for all funds of the Authority. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required, and the same basis of accounting is used to reflect actual revenues and expenditures/expenses recognized on a generally accepted accounting principles basis. Budgetary control is exercised at the departmental level.

NOTE 10 – RISK FINANCING ACTIVITIES

It is the policy of the Authority to purchase commercial insurance for the risks of losses to which it is exposed. These risks include general liability, property and casualty, worker's compensation, and environmental. Settled claims have not exceeded commercial coverage in the past three fiscal years, and there are currently no pending lawsuits.

The Public Building Authority
of Coffee County, Tennessee
Schedule of Cash and Cash Equivalents
June 30, 2008

		Carrying Value
General Fund:		
American City Bank-Checking Account	$	5,678.95
Petty Cash		250.00
Total General Fund		5,928.95
Enterprise Fund:		
American City Bank-Checking Account	$	13,850.79
American City Bank-Checking Account		111,669.73
American City Bank-CD		14,815.44
Petty Cash		1,000.00
Undeposited Funds		8,846.33
Total Enterprise Fund		150,182.29
Total Cash and Cash Equivalents - All Funds		
Consists of:		
Cash and Cash Equivalents	$	156,111.24
	$	156,111.24

REQUIRED SUPPLEMENTARY INFORMATION

Required Supplementary Information
The Public Building Authority of Coffee County, Tennessee
Budgetary Comparison Schedule - General Fund
For the Year Ended June 30, 2008

	Budgetary Amounts		Actual Amounts (See Note A)	Variance with Final Budget Positive (Negative)
	Original	Final		
Budgetary fund balance beginning of year	$ 2,052.73	$ 2,052.73	$ 2,052.73	$ 0.00
Resources (inflows):				
Bond revenues	7,000.00	7,000.00	0.00	(7,000.00)
Other income	2,400.00	2,400.00	7,728.82	5,328.82
Interest income	36.00	36.00	46.90	10.90
Amounts available for appropriation	9,436.00	9,436.00	7,775.72	(1,660.28)
Charges to appropriations (outflows):				
Annual audit	2,000.00	2,000.00	3,720.00	(1,720.00)
Legal services	3,500.00	3,500.00	3,517.00	(17.00)
Other Expenses	8,890.00	8,890.00	3,262.50	5,627.50
Total charges to appropriations	14,390.00	14,390.00	10,499.50	3,890.50
Budgetary fund balance, end of year	$ (2,901.27)	$ (2,901.27)	$ (671.05)	$ (2,230.22)

(continued)

Required Supplementary Information
The Public Building Authority of Coffee County, Tennessee
Budgetary Comparison Schedule
Note to Required Supplementary Information

	General Fund
Note A: Explanation of Differences Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures	
Sources/Inflow of Resources:	
Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$ 7,775.72
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	0.00
Total revenues as reported on the statement of revenues, expenditure, and changes in fund balances - governmental funds	7,775.72
Uses/Outflows of Resources	
Actual amounts (budgetary basis) "total charges to appropriations": from the budgetary comparison schedule	10,499.50
Differences - Budget to GAAP	
There are no differences from Budget to GAAP	0.00
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 10,499.50

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

Board of Directors
Coffee County Public Building Authority
Manchester, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities and each major fund of The Public Building Authority of Coffee County, Tennessee, a component unit of Coffee, County, Tennessee, as of and for the year ended June 30, 2008, which collectively comprise The Public Building Authority of Coffee County, Tennessee's basic financial statements and have issued our report thereon dated February 12, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Prior Year Significant Deficiencies:

1. Significant Deficiency:

   During our testing for the June 30, 2006 audit, a bonus check totaling $3,000 was found written directly to the Conference Center Director. This check was posted to the "Management's Discretionary Expense Account", rather than processed as a normal payroll expense through the Coffee County Finance Department. Also, it was processed from the Conference Center's operating account without the appropriate taxes being withheld or being correctly submitted to the Internal Revenue Service. In addition, no indication of approval for the bonus was found in the Board minutes. In the June 30, 2007 audit period, bonuses were paid to the Director and selected staff members for a gross amount of $2,250. These checks were processed through the Conference Center payroll and appropriate taxes were deducted. However, the Director's normal payroll is processed by the County Finance Department. Additionally, no indication of approval for the bonus was found in the board minutes. – This problem no longer exists.

2. Significant Deficiency:

Three petty cash reimbursement forms were selected during the 2006 audit for testing as part of our disbursements sample. As part of those reimbursements tested, we found nine instances of cash payments for labor, ranging in amounts from $23.00 to $75.00 each. We also found one instance where vacation accrued of $174.62 was paid in cash. Of all instances documented, none of the appropriate taxes were withheld from any of these checks, nor were these payments properly submitted to the Internal Revenue Service. Additionally, half of these checks were written without any documentation to support the expense. Again, in the 2007 audit testing, three petty cash reimbursements were randomly selected. Within those items tested, we found four instances of cash payments for labor, ranging from $20 to $130 each. No taxes were withheld, no supporting documentation found, and no reporting was made to the Internal Revenue Service. – This problem no longer exists.

3. Significant Deficiency:

During our 2006 testing, we randomly selected three checks made payable to "Manchester Coffee County Conference Center" in amounts of $750, $2,000 and $2,500 for review. These checks were then cashed and monies disbursed without documentation, As a result, it impossible to determine which party ultimately received the monies, or for what services the monies were paid. During our interview with the General Manager, he stated that the checks were used to pay for subcontract labor and staff bonuses. No 1099's were issued, nor were payroll taxes withheld. During our 2007 testing, we randomly selected seven checks for testing, with amounts ranging from $400 to $2,500 ($5,675 total). The problems found with these seven checks mirror the problems found in the 2006 testing. – This problem no longer exists.

4. Significant Deficiency:
While performing tests on expenditures in the 2006 audit period, we found a lack of documentation for mileage, travel and other reimbursed expenses. Of the four expense report disbursements selected for testing, one did not have a supporting mileage log, and three were lacking copies of receipts for expenditures related to uniform maintenance and other miscellaneous expenses. Undocumented amounts averaged $60 per report. As part of our 2007 testing, we randomly selected three expense reports. None had supporting mileage logs, and one was lacking copies related to uniform maintenance and other miscellaneous expenses. Undocumented amounts ranged from $62 to $545. In 2008, we randomly selected two expense reports. Mileage logs were kept. However, no documentation was attached for other expenses. Undocumented expenses ranged from $51 to $95. We also randomly selected two petty cash reports. Approximately twelve of the twenty-seven items on these reports did not have supporting documentation. Amounts range from $1 to $88.

Recommendation:

The board adopted policy regarding travel and other related expenses should be enforced. Invoices, signed receiving reports, and other documents which support the disbursement should be obtained for all purchases and reimbursements. Supporting documentation should be attached together and filed with the reimbursement request.

Managements' Response:

A comprehensive policy regarding travel and other related expenses has been implemented and is being enforced by the Board. This policy requires that appropriate supporting documentation accompany any request for travel reimbursement. This policy specifies a method for the approval of such reimbursements and identifies those with the authority to review and approve such requests. The current policy does not allow an individual to approve their own reimbursement request.

5. Significant Deficiency:

During our 2006 review of payroll expenditures we found timecards for hourly employees were not signed by the employee or the manager. Additionally, there were vast differences in the vacation policy followed by the Conference Center when compared to the County Policy, such as the method to accrue leave. For example, the County policy establishes an accrual per pay period, while the Center's policy is to accrue a full year of leave on January 1. The Center's policy also allows for the General Manager to give additional paid leave as incentive solely at his discretion. Because some of the Center's staff receives certain other employee benefits through the County, it is unclear whether the Center should be following the County's leave policy or their own.
In our 2007 testing, we found a disbursement of $2,325 of accrued vacation benefits and $1,000 of insurance reimbursements made directly to an employee. No taxes were withheld, no supporting documentation found, and no reporting was made to the Internal Revenue Service.
During the 2008 testing, while our samples showed that the manager was approving timesheets before payment, there were timecards not signed by the employee.

Recommendation:

All timecards should be reviewed and signed for approval by both the employee and their manager. Procedures should continue to be reviewed and enforced to insure that records are accurately maintained.

Managements' Response:

A comprehensive policy for time cards has been implemented by the Board. In light of this recommendation, this policy was amended on January 9, 2009, to require that time cards be reviewed and signed for approval by both the employee and their manager prior to payment. Procedures have been implemented and are in place to insure that records are accurately maintained.

6. Significant Deficiency:

Throughout the audit process, we found an overall lack of management oversight and control in the daily functions of the Conference Center. Within any entity, particularly a governmental entity, it is imperative that there is a clear and strong presence of management in the general operations. It is the responsibility of the Board and other governments directly associated with the entity to specifically design, implement and monitor controls to ensure that the entity is compliant with applicable federal, state and local laws – While much improvement has been made, continued efforts are necessary. This problem still exists.

Recommendation:

Good internal control dictates a proper segregation of duties, an application of policy and procedures relevant to the entity, and a consistent monitoring of the effectiveness of these controls. Because of the small number of staff working for the Conference Center, the Board should realize the additional responsibilities that this situation imposes. The Board should also immediately review and update policies concerning purchasing and other expenditures, payroll and related benefits, travel and segregation of duties. Possible solutions include the use of dual signatures. Requiring dual signatures for check writing can be an effective internal control. Dual signatures ensure a review of disbursements and additional examination of invoices about to be paid.

Managements' Response:

A comprehensive Operations Policies and Procedures Manual for the Manchester-Coffee County Conference Center has been adopted by the Board. These policies and procedures implement appropriate internal controls and establish appropriate management oversight and control in the daily functions of the Conference Center. This finding should now be resolved.

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

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

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether The Public Building Authority of Coffee County, Tennessee's financial statements are free of material misstatement, we performed tests of it's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance and other matters that are required to be reported under *Governmental Auditing Standards* and are described below.

Prior Year Findings:

1. Finding:

During our 2006 testing of disbursements, we discovered two instances totaling $1,467.47 where individuals had purchased steaks and lobsters through vendors under the Conference Centers' account. These individuals were inappropriately taking advantage of the Conference Centers' tax exempt status. During our 2007 testing, we identified numerous sales invoices, with amounts ranging from $20 to $940 each, which indicated direct sales of food and supply items to individuals. Items sold included steaks, lobsters, fresh oysters as well as other food and supply items. No sales tax was collected on these transactions. Subsequent payments were recorded for these transactions. However, in some cases the payment would not be received until as many as sixty days later. – This problem no longer exists.

The Public Building Authority's response to the findings identified in our audit is described above. We did not audit The Public Building Authority's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, City Council, County Commissioners and the State of Tennessee and is not intended to be and should not be used by anyone other than these specified parties.

Bean, Rhoton & Kelley

Bean, Rhoton & Kelley, PLLC
February 12, 2009