

CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

Year Ended

June 30, 2009

CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

June 30, 2009

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Independent Auditor's Report

To the City Council
City of Cookeville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, budgetary comparison information for major funds, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Cookeville, Tennessee's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Cookeville Regional Medical Center Authority, a component unit, which statements reflect total assets of \$231,373,131 as of June 30, 2009. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cookeville Regional Medical Center Authority, is based solely on the report of the other auditors.

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 and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund 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 December 1, 2009, on our consideration of the City of Cookeville, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of 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 read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages III through XV 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 to the management's discussion and analysis, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cookeville, Tennessee's basic financial statements. The combining financial statements and the budgetary comparison information on pages 61 through 69 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards on page 85 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the City of Cookeville, Tennessee. The combining financial statements, the budgetary comparison information, and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The supplemental information on pages 70 through 84 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Duncan, Wheeler & Wilkerson, P.C.

December 1, 2009
Cookeville, Tennessee

Management's Discussion and Analysis
Annual Financial Statements
For the Fiscal Year Ended June 30, 2009

As management of the City of Cookeville, we offer readers of the City of Cookeville's financial statements this narrative overview and analysis of the financial activities of the City of Cookeville for the fiscal year ended June 30, 2009. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosure following this section. The discussion focuses on the City's primary government and, unless otherwise noted, component units reported separately from the primary government are not included.

Financial Highlights

- The assets of the City of Cookeville exceeded its liabilities at June 30, 2009 by \$136,622,682 (net assets) for the primary government. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement (\$100,768,885) and unrestricted-undesignated resources available to continue City operations into the next fiscal year (\$35,853,797).
- Unrestricted cash and investment balances as of June 30, 2009 were \$39,176,412 and current liabilities payable from those funds were \$19,456,468. \$19,340,935 of the \$39,176,412 represents cash and investments of the business-type activities of the City with the remaining \$19,835,477 cash available to the governmental activities.
- The government's total net assets increased this year by \$7,880,561. Net assets of the governmental activities increased by \$2,405,652 and those of the City's business type activities (utilities) increased by \$5,474,909.
- As of June 30, 2009, the City of Cookeville's governmental funds reported combined ending fund balances of \$15,484,330, an increase of \$1,622,265 in comparison with the prior year. Approximately two-thirds of this total amount, \$10,080,577 is available for spending at the government's discretion (unreserved, undesignated fund balance).
- At the end of the current fiscal year, unreserved, undesignated fund balance for the general fund was \$7,553,650 or 38% of total general fund expenditures.
- The City of Cookeville's total debt decreased by \$3,245,047 (6 percent) during the current fiscal year.
- As required by the Governmental Accounting Standards Board the city has adopted GASB Statement No. 45 related to Other Post Employment Benefits (OPEB). The city provides healthcare benefits to retired employees and spouses. These benefit provisions are established by city policy. OPEB benefits are currently funded on a pay as you go basis. An actuarial study was performed to calculate the city's annual required contribution (ARC). The ARC represents a level of funding that if paid on an ongoing basis is projected to cover the normal cost each year and to amortize any unfunded actuarial accrued liability for post employment healthcare. The city's ARC is \$1,207,242 for governmental activities and \$483,149 for business type activities. Additional information is available on pages 36-37.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business. The first two statements, the Government-wide Statement of Net Assets and Government-wide Statement of Activities present an overview of the City's governmental and business-type services.

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

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

Both of 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 reader should remember that the financial resources of the business-type activities are not available to finance governmental activities.

Governmental activities include services such as police, fire, recreation and culture, public works, street maintenance, sanitation services, prevention of drug and alcohol abuse, animal shelter operations, planning and zoning, historical preservation, administrative and oversight functions necessary to provide all of the above.

Business-type activities, include electric, water quality, and gas services.

The government-wide financial statements include not only the City itself (known as the primary government), but also the Cookeville Regional Medical Center and the Public Building Authority for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The business-type activities that are listed above function for all practical purposes as a department of the City, and has been included as an integral part of the primary government.

The government wide financial statements can be found on pages 1-3 of this report.

Fund Financial Statements

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

Governmental funds. Governmental funds are used to account for essentially the same functions as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund and the capital projects fund all of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements found on pages 61-62 in this report.

The City of Cookeville adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget and can be found on page 11.

The basic governmental fund financial statements can be found on pages 4-10 of this report.

Proprietary funds. The City of Cookeville maintains two different types of proprietary funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The city uses enterprise funds to account for its electric, water quality, and gas operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Cookeville's various functions. The City uses an internal service fund to account for the employee insurance program. The internal service fund has been allocated to both the governmental and business-type activities in the government-wide financial statements. The net assets of this fund are considered designated by management for the purposes of paying health claims.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water quality, and gas operations, all of which are considered to be major funds of the city. The basic fund financial statements can be found on pages 8-10 of this report.

Notes to the Financial Statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin immediately following the basic financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information. Combining and individual fund statements for non-major funds as well as information required by the State of Tennessee can be found in the other supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. For the City of Cookeville, assets exceeded liabilities by \$136,622,682 at fiscal year end June 30, 2009.

By far the largest portion of the City of Cookeville's net assets (68 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cookeville's investment in its capital assets is reported net of related debt it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table provides a summary of the City's net assets at June 30:

Summary of Net Assets

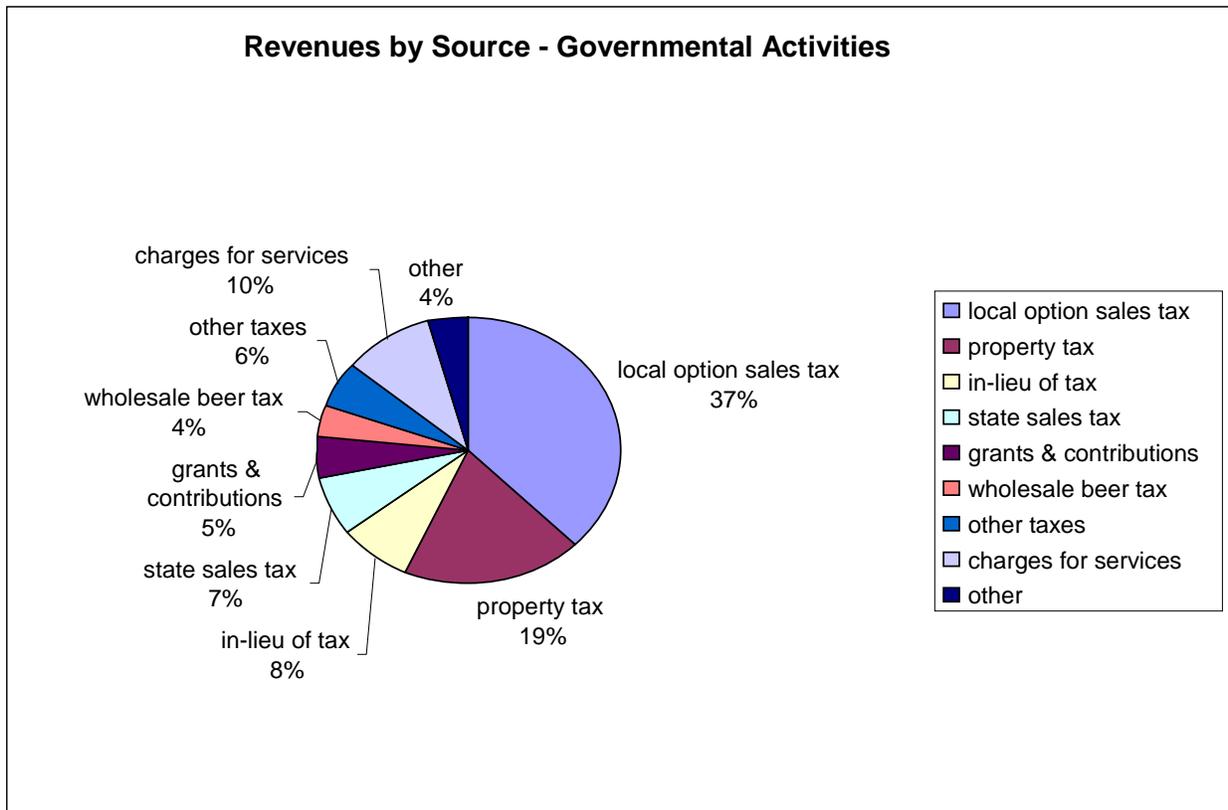
	Governmental		Business-type		Totals		Amount Change	% Change
	Activities		Activities					
	2009	2008	2009	2008	2009	2008		
Current Assets	26,869,829	24,851,232	32,103,651	32,416,932	58,973,480	57,268,164	1,705,316	3.0%
Capital Assets	37,485,239	36,023,726	103,053,870	100,304,106	140,539,109	136,327,832	4,211,277	3.1%
Other Assets	2,490,375	2,479,918	2,705,311	2,719,925	5,195,686	5,199,843	(4,157)	-0.1%
Total Assets	<u>66,845,443</u>	<u>63,354,876</u>	<u>137,862,832</u>	<u>135,440,963</u>	<u>204,708,275</u>	<u>198,795,839</u>	<u>5,912,436</u>	3.0%
Current Liabilities	9,839,807	9,361,379	9,616,661	16,175,722	19,456,468	25,537,101	(6,080,633)	-23.8%
Long-term debt	15,013,652	15,612,439	28,245,199	25,238,147	43,258,851	40,850,586	2,408,265	5.9%
Other Liabilities	1,978,909	773,635	3,391,365	2,892,396	5,370,274	3,666,031	1,704,243	46.5%
Total Liabilities	<u>26,832,368</u>	<u>25,747,453</u>	<u>41,253,225</u>	<u>44,306,265</u>	<u>68,085,593</u>	<u>70,053,718</u>	<u>(1,968,125)</u>	-2.8%
Net Assets:								
Invested in capital assets, net of related debt	20,407,695	18,329,844	71,815,723	66,408,604	92,223,418	84,738,448	7,484,970	8.8%
Restricted	8,545,467	7,706,861	-	-	8,545,467	7,706,861	838,606	10.9%
Unrestricted - undesignated	11,059,913	11,570,718	24,793,884	24,726,094	35,853,797	36,296,812	(443,015)	-1.2%
Total Net Assets	<u>40,013,075</u>	<u>37,607,423</u>	<u>96,609,607</u>	<u>91,134,698</u>	<u>136,622,682</u>	<u>128,742,121</u>	<u>7,880,561</u>	6.1%

An additional portion of the City’s net assets represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets (\$35,853,797) may be used to meet the government’s ongoing obligations to citizens and creditors, however, the net assets of the internal service fund are considered designated by management for the purposes of paying health claims. This designated amount at June 30, 2009 was \$4,546,812.

At June 30, 2009, the City of Cookeville is able to report positive balances in all three categories of net assets for the government as a whole as well as its separate governmental and business type activities. Net assets increased \$2,405,652 for governmental activities and \$5,474,909 for business-type activities. The City’s overall financial position improved during fiscal year 2009.

Governmental activities. Governmental activities increased the City of Cookeville’s net assets by \$2,405,652, thereby accounting for 31 percent of the total growth in the net assets of the City of Cookeville. Unexpected revenue from the state income tax, license and permits associated with new construction, donated assets and an increase in the property tax rate all contributed to the increase in net assets.

The following table provides a summary of revenues by source for the governmental activities.



The table on the following page presents a summary of the City’s changes in net assets for the governmental funds for the year ended June 30, 2009.

Summary of Changes in Net Assets

	Governmental <u>Activities</u>		Business-type <u>Activities</u>		<u>Totals</u>		<u>Amount</u>	<u>%</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>Change</u>
Revenues:								
Program revenues								
Charges for services	2,481,535	2,305,596	78,556,427	71,222,775	81,037,962	73,528,371	7,509,591	10.2%
Operating Grants & Contributions	1,039,270	965,058	-	-	1,039,270	965,058	74,212	7.7%
Capital Grants & Contributions	1,464,651	651,295	-	-	1,464,651	651,295	813,356	124.9%
General revenues								
Local option sales tax	9,569,652	10,005,181	-	-	9,569,652	10,005,181	(435,529)	-4.4%
Property tax	5,672,121	5,094,566	-	-	5,672,121	5,094,566	577,555	11.3%
In-lieu of tax	1,041,797	1,028,798	-	-	1,041,797	1,028,798	12,999	1.3%
State sales tax	1,757,214	1,898,041	-	-	1,757,214	1,898,041	(140,827)	-7.4%
Wholesale beer tax	1,077,072	1,046,312	-	-	1,077,072	1,046,312	30,760	2.9%
other taxes	2,031,809	1,925,641	-	-	2,031,809	1,925,641	106,168	5.5%
Other revenues	781,214	956,015	253,378	662,994	1,034,592	1,619,009	(584,417)	-36.1%
Transfers	1,148,140	1,117,514	(1,148,140)	(1,117,514)	-	-	-	
Total Revenues	<u>28,064,475</u>	<u>26,994,017</u>	<u>77,661,665</u>	<u>70,768,255</u>	<u>105,726,140</u>	<u>97,762,272</u>	<u>7,963,868</u>	8.1%
Expenses:								
General government	4,011,227	2,656,200	-	-	4,011,227	2,656,200	1,355,027	51.0%
Planning & engineering	965,377	869,848	-	-	965,377	869,848	95,529	11.0%
Public Safety	11,317,754	11,431,894	-	-	11,317,754	11,431,894	(114,140)	-1.0%
Maintenance	1,136,459	1,062,268	-	-	1,136,459	1,062,268	74,191	7.0%
Public Works	5,786,697	5,778,121	-	-	5,786,697	5,778,121	8,576	0.1%
Culture & recreation	2,069,229	2,183,265	-	-	2,069,229	2,183,265	(114,036)	-5.2%
Interest on Debt	372,080	607,484	-	-	372,080	607,484	(235,404)	-38.8%
Electric	-	-	47,823,141	41,564,100	47,823,141	41,564,100	6,259,041	15.1%
Gas	-	-	13,674,713	13,455,183	13,674,713	13,455,183	219,530	1.6%
Water Quality Control	-	-	10,688,902	9,451,805	10,688,902	9,451,805	1,237,097	13.1%
Total Expenses	<u>25,658,823</u>	<u>24,589,080</u>	<u>72,186,756</u>	<u>64,471,088</u>	<u>97,845,579</u>	<u>89,060,168</u>	<u>8,785,411</u>	9.9%
Change in Net Assets	2,405,652	2,404,937	5,474,909	6,297,167	7,880,561	8,702,104	(821,543)	-9.4%
Beginning Net Assets	<u>37,607,423</u>	<u>35,202,486</u>	<u>91,134,698</u>	<u>84,837,531</u>	<u>128,742,121</u>	<u>120,040,017</u>	<u>8,702,104</u>	7.2%
Ending Net Assets	<u>40,013,075</u>	<u>37,607,423</u>	<u>96,609,607</u>	<u>91,134,698</u>	<u>136,622,682</u>	<u>128,742,121</u>	<u>7,880,561</u>	6.1%

Business-type activities. Business-type activities increased the City of Cookeville's net assets by 5,474,909, accounting for 69 percent of the total growth in the government's net assets.

The three Proprietary Fund Statements demonstrate that the electric, water/sewer, and gas departments continue to grow and to be financially stable. Net assets for these three operations grew by 7.2 %, 3.3%, and 12.1% respectively this year.

The electric operations continue to show strong results. Net assets increased by \$2,214,402 with operating revenues of \$50,714,467 and operating expenses of \$47,739,731. Non operating revenues totaled \$246 and transfers to the general government were \$760,580. The electric department purchases the power that it sells to customers from the TVA. TVA has implemented a fuel cost adjustment (FCA) where monthly electric rates are increased or decreased depending on the fuel cost adjustment. The FCA is calculated by TVA passed on to Cookeville's electric customers.

The Electric Department settled a legal dispute with the Upper Cumberland Electric Membership Corporation (UCEMC) for servicing utility customers in areas that the City of Cookeville has annexed. The settlement required an initial \$6,000,000 payment for reintegration of fifteen (15) annexed areas. The \$6,000,000 payment was financed as long-term debt over a fifteen (15) year time period. The electric department will also make annual payments of \$1,000,000 for the next ten (10) years to UCEMC for facilities purchased in these same areas. The fifteen (15) areas annexed will result in the addition of approximately two thousand new electric customers.

Net assets increased \$1,459,094 for the water/sewer department. Operating revenues were \$12,237,053 and operating expenses were \$10,237,654. Non operating expenses totaled \$328,868 with this being primarily interest expense on long-term debt. Transfers to the general government totaled \$211,437. The water/sewer department aggressively maintained the water distribution and sewer collection systems as well as added new lines and treatment facilities for these systems. Raftelis Financial Consultants, Inc. was engaged by the water/sewer department to review operations and long-term capital spending plans to develop a rate model. The rate model utilizes future estimated expenses for operations and system improvements as well as estimated customer growth and sales to project revenue needed to cover future operational and expansion costs. Effective August 2009 the water/sewer department implemented rate increases on both water and sewer services as a result of this study. The water/sewer department's goal is to maintain rates that will provide sufficient cash reserves to cover the majority of system expansion costs and minimize the amount of debt that would otherwise have to be issued for system expansion. The water department sells water to seven area utility districts which in turn provide water services to their own customers. The utility districts consume approximately 51% of the water treated by the Cookeville water department and accounts for approximately 36% of the water department's water sales revenue. The water/sewer operations have been impacted by a federal law requiring the water/sewer department to pay for water storage rights in Center Hill Lake to the Army Corps of Engineers. At June 30, 2009 the amount due for this water storage right was \$2,408,434.

The gas department's net assets increased by \$1,845,947. Operating revenues were \$15,604,907 and operating expenses were \$13,543,844. Non operating expenses totaled \$38,993 and transfers to the general government were \$176,123. The department installed eight miles of main during the fiscal year in an effort to expand its service area and increase customers. The gas system appears to be financially stable with a solid customer base. The department has a separate rate structure for supply services which classify

customers as residential, commercial, or industrial. The current base rates for the department have been in effect since July 2003. The gas department has a policy which provides that increases or decreases in the cost of gas purchased by the department are passed along to customers through a purchased gas adjustment. (pga). The City of Cookeville in partnership with Putnam County is developing a mixed use business park. Hopefully, this park will attract new commercial and industrial customers to the Cookeville area. The gas department will provide service to this business park and extend mains into the park.

The tables on the following page present a summary of the charges for services and expenses of the electric, water sewer and gas department for the City of Cookeville.

Summary Comparison of Charges for Services for Fiscal Years 2009 and 2008

	<u>FY 2009</u>	<u>FY 2008</u>	Amount <u>Change</u>	% <u>Change</u>
Electric Department	50,714,467	44,505,504	6,208,963	14.0%
Gas Department	15,604,907	15,094,243	510,664	3.4%
Water Quality Control Department	<u>12,237,053</u>	<u>11,623,028</u>	<u>614,025</u>	5.3%
Charges for Services-Business-type Activities	<u>78,556,427</u>	<u>71,222,775</u>	<u>7,333,652</u>	10.3%

Summary Comparison of Expenses for Fiscal Years 2009 and 2008

	<u>FY 2009</u>	<u>FY 2008</u>	Amount <u>Change</u>	% <u>Change</u>
Electric Department	47,823,141	41,564,100	6,259,041	15.1%
Gas Department	13,674,713	13,455,183	219,530	1.6%
Water Quality Control Department	<u>10,688,902</u>	<u>9,451,805</u>	<u>1,237,097</u>	13.1%
Expenses-Business-type Activities	<u>72,186,756</u>	<u>64,471,088</u>	<u>7,715,668</u>	12.0%

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City of Cookeville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of June 30, 2009, the City of Cookeville's governmental funds reported combined ending fund balances of \$15,484,330, an increase of \$1,622,265 in comparison to prior year. Approximately two-thirds of this total amount, \$10,080,577 constitutes unreserved, undesignated fund balance which is available for spending at the government's discretion. The remaining fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to pay debt service.

The general fund is the chief operating fund of the City of Cookeville. At June 30, 2009, unreserved, undesignated fund balance of the general fund was \$7,553,650. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved, undesignated fund balance represents 38 percent of total general fund expenditures, as does total fund balance.

The City of Cookeville's general fund revenue is primarily generated from the local option sales tax and property tax. The recent economic downturn has significantly affected sales tax revenues. Local option sales tax revenue declined 4.3% or \$436,529 from June 2008 to June 2009. The struggling economy will continue to have a significant impact on the local option sales tax collections going forward and the negative trend is expected to continue. A \$.08 property tax increase effective July 2008 was implemented by the city. \$.05 cents of this increase was allocated to the general fund and resulted in approximately \$330,000 in additional revenue for the general fund. The city's property rate is \$.87 and remains one of the lowest tax rates in Tennessee for cities with a minimum population of 20,000. The local option sales tax and property tax revenue account for 70% of the general fund revenues. Unexpected revenue from the state income tax and building permits helped offset the decrease in sales tax revenue. The City of Cookeville's general fund balance increased \$1,139,465 during the fiscal year.

The debt service fund has a total fund balance of \$5,403,753, all of which is reserved for the payment of principal and interest on outstanding debt. \$.19 cents of the property tax along with the city's share of state sales tax is allocated to the debt service fund. Currently, revenue allocated to the debt service fund exceeded debt service obligations and the net increase in the fund balance during the current year in the debt service fund was \$866,384. The city allocated \$.03 of the property tax increase effective July 2008 to the debt service fund which contributed to the increase in fund balance as well as interest rates on the city's variable debt being lower than budgeted. For the year the interest rates on the city's variable rate debt was less than 1%. The city council has made provisions to finance the construction of a mixed use business park. This business park is being constructed in cooperation with Putnam County to enhance opportunities for commercial and industrial development in the Cookeville area. Funding for this park will be through bonds issued at a later date by the city. The design of the park is underway and design fees are being financed through reserves of the economic development fund.

The capital projects fund is used to account for expenditures related to infrastructure projects such as road construction, facility improvements, property acquisition and specialized equipment purchases. Funding for these type expenditures is typically handled through bond issues or variable rate loan agreements with the Tennessee Municipal Bond Fund (TMBF). This fund had a negative fund balance at June 30, 2009 of \$(1,086) because proceeds from a TMBF loan had not been drawn down as of the end of the fiscal year. During fiscal year 2009, the City completed construction of the Fairground Road Improvements Project. This \$1.5 million dollar project was accounted for in the capital projects fund and paid for with debt issues. Work continues on Cookeville Performing Arts Center improvements with completion expected in 2010. Capital project funds were also used for the purchase of a new fire truck. Other capital projects included engineering on future road and intersection projects as well as additional improvements to and expansion of Dogwood Park.

Proprietary funds. The City of Cookeville's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Other factors concerning the finances of these three funds have already been addressed in the discussion of the city's business type activities.

Budgetary Highlights

The statements, subtitled Budget and Actual, report on the City's compliance with the budget adoption and execution requirements. These statements for the general fund can be found on pages 11-15.

Capital Asset and Debt Administration

Capital Assets. The City's investment in capital assets, net of accumulated depreciation, for governmental and business-type activities as of June 30, 2009 was \$37,485,239 and \$103,053,870 respectively. The net investment increased 4% for governmental and increased 3% for business-type activities.

Major capital asset additions for governmental funds included the purchase of a 2 new fire trucks (a ladder truck and a pumper truck), a hydraulic rescue tool for the Fire Department and 9 police cars for the Police Department. A new street sweeper truck and water truck were purchased for Public Works. The Fairground Road improvements were completed and capitalized in 2009. Under an agreement with Putnam County, the City shares ownership of a new facility to house the Vocational Rehabilitation Program. The facility was completed in December 2008 and the City's 50% interest in it is included in capital asset additions. Construction in process includes major improvements to the Cookeville Performing Arts Center and development costs on the Highlands Industrial Park.

There were no major capital asset disposals in the governmental funds during the fiscal year.

Capital asset additions for the business-type activities were \$7,279,503. Additions for the Electric Department were \$1,772,638, for the Water Department \$4,858,413 and for the Gas Department \$648,452. The Gas Department installed eight miles of gas main during the fiscal year. The Water Department completed a \$5.4 million raw water intake project which was started in Fiscal Year 2007. The existing raw water intake structure was rebuilt, which included increasing the pumping capacity from 15 million gallons per day up to 22.5 million gallons per day. Existing piping was replaced and/or modified to allow future pump flows of 30 million gallons per day. The existing electrical system was overhauled and replaced, which included the addition of an additional structure to house the electrical components. Improvements were also made to the chemical feed building, storage facilities, and pumping equipment. A sewer rehabilitation project at Tennessee Tech was completed during the year, partially funded by a CDBG grant.

A table summarizing the City's capital assets is presented on the following page.

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>Governmental Activities</u>		<u>Amount Change</u>	<u>% Change</u>
	<u>2009</u>	<u>2008</u>		
Non-depreciable assets:				
Land	9,136,715	9,076,305	60,410	0.7%
Construction in progress	480,050	589,744	(109,694)	-18.6%
Depreciable assets:				
Buildings	5,800,547	4,951,968	848,579	17.1%
Improvements	510,085	558,394	(48,309)	-8.7%
Vehicles	2,421,221	1,725,471	695,750	40.3%
Machinery & equipment	551,475	713,318	(161,843)	-22.7%
Software	59,287	73,597	(14,310)	-19.4%
Infrastructure	18,525,859	18,334,929	190,930	1.0%
Total	<u>37,485,239</u>	<u>36,023,726</u>	<u>1,461,513</u>	4.1%

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>Business-type Activities</u>		<u>Amount Change</u>	<u>% Change</u>
	<u>2009</u>	<u>2008</u>		
Non-depreciable assets:				
Land	2,607,036	2,531,558	75,478	3.0%
Construction in progress	524,192	2,540,264	(2,016,072)	-79.4%
Depreciable assets:				
Building & Improvements	2,805,309	2,927,029	(121,720)	-4.2%
Plant & distribution systems	85,614,311	88,894,504	(3,280,193)	-3.7%
Machinery & equipment	3,177,629	3,216,923	(39,294)	-1.2%
Furniture & equipment	126,965	176,157	(49,192)	-27.9%
Plant acquisition adjustment	8,198,428	17,671	8,180,757	46294.8%
Total	<u>103,053,870</u>	<u>100,304,106</u>	<u>2,749,764</u>	2.7%

Long-term Liabilities. At the end of the fiscal year, the Primary Government had total long-term liabilities of \$46,988,735. Of this amount, \$15,785,319 relates to governmental activities while the remaining \$31,153,416 relates to business type activities. Of the \$15,785,319 of long-term liabilities of governmental activities, \$15,013,652 was debt related to a bond or note issuance and is backed by the full faith and credit of the City of Cookeville.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>		<u>Amount Change</u>	<u>% Change</u>
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>		
Bonds & notes payable	17,147,745	17,753,626	31,238,147	33,895,502	48,385,892	51,649,128	(3,263,236)	-6.3%
Compensated Absences	771,667	773,635	325,332	305,502	1,096,999	1,079,137	17,862	1.7%
Net other post-retirement liability	1,207,242	-	483,149	-	1,690,391	-	1,690,391	100.0%
Other debt	-	-	2,637,898	2,637,572	2,637,898	2,637,572	326	0.0%
Less:								
Amounts due within one year	(2,134,093)	(2,141,187)	(3,047,962)	(8,708,034)	(5,182,055)	(10,849,221)	5,667,166	-52.2%
Total Long-term liabilities	<u>16,992,561</u>	<u>16,386,074</u>	<u>31,636,564</u>	<u>28,130,542</u>	<u>48,629,125</u>	<u>44,516,616</u>	<u>4,112,509</u>	9.2%

Economic Factors and Considerations

Cookeville, the county seat of Putnam County, is one of the fastest growing communities in the state, and was recently listed by "The New Rating Guide to Life in America's Small Cities" as the number one micropolitan city in Tennessee. Located at the intersection of Interstate 40 and Highway 111 at the foothills of the Cumberland Mountains, Cookeville is 80 miles east of Nashville, 100 miles west of Knoxville, and 90 miles north of Chattanooga. Cookeville is home to Tennessee Technological University. The university is a four-year, state supported, co-educational university with an enrollment of 10,000 students. Also, Cookeville is home to the Cookeville Regional Medical Center. CRMC finished its \$60 million expansion and opened its north patient tower with 227 private rooms in January 2009.

The city's current population is 26,000, but is the regional center for shopping, eating, education, health care and recreational/cultural activities for the approximately 200,000 people that live in the surrounding counties.

The city has partnered with Putnam County and purchased approximately 350 acres along Interstate 40 to develop a mixed use business park. Design of the park is underway with construction to begin by 2010. The city is working with the State of Tennessee to develop a new interchange off of I-40 for additional access to the new business park. The city and chamber of commerce are actively recruiting new industry and commercial growth for the Upper Cumberland Area.

Contacting the City's Financial Management

- This financial summary is designed to provide a general overview of the City of Cookeville's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Cookeville, 45 East Broad Street, Cookeville, TN, 38503.

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF NET ASSETS
June 30, 2009

	Primary Government			Component Units		Total Reporting Entity
	Governmental Activities	Business-Type Activities	Total	CRMC*	PBA	
Assets						
Current assets:						
Cash	\$ 4,116,945	\$ 7,736,684	\$ 11,853,629	\$ 15,379,183	\$ 23,788	\$ 27,256,600
Sinking fund cash	-	496,021	496,021	-	-	496,021
Temporary cash investments	15,718,532	11,604,251	27,322,783	7,591,758	-	34,914,541
Accounts receivable, net of allowance	126,780	8,899,021	9,025,801	20,329,165	5,576	29,360,542
Taxes receivable, net of allowance	6,036,910	-	6,036,910	-	-	6,036,910
Other receivables	1,499,552	-	1,499,552	363,615	-	1,863,167
Due from other funds	(676,015)	676,015	-	-	-	-
Inventories	-	2,537,966	2,537,966	4,899,481	-	7,437,447
Prepaid expenses and other current assets	47,125	153,693	200,818	2,005,447	119	2,206,384
Assets limited as to use required to meet current obligations	-	-	-	1,172,432	-	1,172,432
Total current assets	<u>26,869,829</u>	<u>32,103,651</u>	<u>58,973,480</u>	<u>51,741,081</u>	<u>29,483</u>	<u>110,744,044</u>
Noncurrent assets:						
Notes receivable, net of allowance	-	237,446	237,446	-	-	237,446
Water storage rights	-	2,347,398	2,347,398	-	-	2,347,398
Equity interest in joint venture	2,420,174	-	2,420,174	817,345	-	3,237,519
Long-term investments	-	-	-	1,712,007	-	1,712,007
Goodwill, net of amortization	-	-	-	28,320	-	28,320
Bond issuance cost, net of amortization	70,201	-	70,201	411,077	-	481,278
Other assets	-	120,467	120,467	10,707,652	-	10,828,119
Capital assets:						
Land and construction in progress	9,616,765	3,131,229	12,747,994	15,083,346	-	27,831,340
Other capital assets, net of accumulated depreciation	27,868,474	99,922,641	127,791,115	150,872,303	109,939	278,773,357
Total noncurrent assets	<u>39,975,614</u>	<u>105,759,181</u>	<u>145,734,795</u>	<u>179,632,050</u>	<u>109,939</u>	<u>325,476,784</u>
Total assets	<u>\$ 66,845,443</u>	<u>\$ 137,862,832</u>	<u>\$ 204,708,275</u>	<u>\$ 231,373,131</u>	<u>\$139,422</u>	<u>\$ 436,220,828</u>
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 408,742	\$ 6,338,521	\$ 6,747,263	\$ 9,255,959	\$ 1,656	\$ 16,004,878
Health claims payable	250,264	-	250,264	-	-	250,264
Current portion of long-term debt	2,134,093	2,992,948	5,127,041	3,142,530	12,925	8,282,496
Current portion of water storage rights payable	-	55,014	55,014	-	-	55,014
Accrued expenses	616,036	130,301	746,337	11,124,491	5,252	11,876,080
Deferred revenue	6,233,274	45,333	6,278,607	-	10,000	6,288,607
Estimated amounts due to third-party payors	-	-	-	3,710,900	-	3,710,900
Other current liabilities	197,398	54,544	251,942	-	19,148	271,090
Total current liabilities	<u>9,839,807</u>	<u>9,616,661</u>	<u>19,456,468</u>	<u>27,233,880</u>	<u>48,981</u>	<u>46,739,329</u>
Noncurrent liabilities:						
Compensated absences	771,667	325,332	1,096,999	-	-	1,096,999
TVA heat pump notes payable	-	229,464	229,464	-	-	229,464
Water storage rights payable	-	2,353,420	2,353,420	-	-	2,353,420
Net other post-retirement liability	1,207,242	483,149	1,690,391	-	-	1,690,391
Other non-current liabilities	-	-	-	3,500,876	17,500	3,518,376
Long-term debt, less current portion	15,013,652	28,245,199	43,258,851	62,339,376	48,414	105,646,641
Total noncurrent liabilities	<u>16,992,561</u>	<u>31,636,564</u>	<u>48,629,125</u>	<u>65,840,252</u>	<u>65,914</u>	<u>114,535,291</u>
Total liabilities	<u>26,832,368</u>	<u>41,253,225</u>	<u>68,085,593</u>	<u>93,074,132</u>	<u>114,895</u>	<u>161,274,620</u>
Net assets:						
Invested in capital assets, net of related debt	20,407,695	71,815,723	92,223,418	95,842,499	48,600	188,114,517
Restricted for:						
Special revenue	692,895	-	692,895	-	-	692,895
Debt service	5,432,398	-	5,432,398	-	-	5,432,398
Equity interest in joint venture	2,420,174	-	2,420,174	1,172,432	-	3,592,606
Unrestricted - undesignated	11,059,913	24,793,884	35,853,797	41,284,068	(24,073)	77,113,792
Total net assets	<u>40,013,075</u>	<u>96,609,607</u>	<u>136,622,682</u>	<u>138,298,999</u>	<u>24,527</u>	<u>274,946,208</u>
Total liabilities and net assets	<u>\$ 66,845,443</u>	<u>\$ 137,862,832</u>	<u>\$ 204,708,275</u>	<u>\$ 231,373,131</u>	<u>\$139,422</u>	<u>\$ 436,220,828</u>

*Audited by other auditors
The accompanying notes are an integral part of these financial statements.

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		<u>Capital Grants and Contributions</u>
Function/program activities					
Primary government:					
Governmental activities:					
General government	\$ 4,011,227	\$ 140,026	\$ 98,894	\$ 1,071,157	\$ (2,701,150)
Planning and engineering	965,377	421,277	-	-	(544,100)
Public safety	11,317,754	332,358	180,813	290,477	(10,514,106)
Maintenance	1,136,459	-	-	-	(1,136,459)
Public works	5,786,697	1,393,847	758,016	20,000	(3,614,834)
Culture and recreation	2,069,229	194,027	1,547	83,017	(1,790,638)
Interest on long-term debt	372,080	-	-	-	(372,080)
Total governmental activities	<u>25,658,823</u>	<u>2,481,535</u>	<u>1,039,270</u>	<u>1,464,651</u>	<u>(20,673,367)</u>
Business-type activities:					
Electric	47,823,141	50,714,467	-	-	2,891,326
Gas	13,674,713	15,604,907	-	-	1,930,194
Water quality control	10,688,902	12,237,053	-	-	1,548,151
Total business-type activities	<u>72,186,756</u>	<u>78,556,427</u>	<u>-</u>	<u>-</u>	<u>6,369,671</u>
Total primary government	<u>\$ 97,845,579</u>	<u>\$ 81,037,962</u>	<u>\$ 1,039,270</u>	<u>\$ 1,464,651</u>	<u>\$ (14,303,696)</u>
Component units:					
CRMC*	\$ 187,420,927	\$ 192,654,232			\$ 5,233,305
PBA	129,726	121,131			(8,595)
Total component units	<u>\$ 187,550,653</u>	<u>\$ 192,775,363</u>			<u>\$ 5,224,710</u>

*Audited by other auditors

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF ACTIVITIES (CONTINUED)
FOR THE YEAR ENDED June 30, 2009

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (20,673,367)	\$ 6,369,671	\$ (14,303,696)	\$ 5,224,710
General revenues:				
Taxes:				
Property tax	5,672,121	-	5,672,121	-
In lieu of tax	1,041,797	-	1,041,797	-
Business tax	927,025	-	927,025	-
State sales tax	1,757,214	-	1,757,214	-
Franchise tax	329,964	-	329,964	-
Local option sales tax	9,569,652	-	9,569,652	-
Wholesale beer tax	1,077,072	-	1,077,072	-
State income tax	521,835	-	521,835	-
Mixed drink tax	138,581	-	138,581	-
Other taxes	114,404	-	114,404	-
Interest revenue	227,225	253,378	480,603	17
Investment income	-	-	-	430,844
Gain (loss) on sale of assets	82,766	-	82,766	-
Other, net	471,223	-	471,223	113,163
Transfers	1,148,140	(1,148,140)	-	-
Total general revenues	23,079,019	(894,762)	22,184,257	544,024
Change in net assets	2,405,652	5,474,909	7,880,561	5,768,734
Net assets - beginning	37,607,423	91,134,698	128,742,121	132,554,792
Net assets - ending	\$ 40,013,075	\$ 96,609,607	\$ 136,622,682	\$ 138,323,526

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

CITY OF COOKEVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2009

<u>Assets</u>	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$ 1,193,729	\$ 850,837	\$ 22,929	\$ 1,116,912	\$ 3,184,407
Temporary cash investments	6,000,806	4,353,070	4	1,535,800	11,889,680
Accounts receivable	-	-	-	126,780	126,780
Taxes receivable	4,754,594	1,297,451	-	341,435	6,393,480
Other receivables	1,125,672	190,190	20,027	163,663	1,499,552
Less: allowance for bad debts	(327,444)	(20,889)	-	(8,237)	(356,570)
Due from other funds	180,563	9,698	-	2,290	192,551
Total assets	<u>\$ 12,927,920</u>	<u>\$ 6,680,357</u>	<u>\$ 42,960</u>	<u>\$ 3,278,643</u>	<u>\$ 22,929,880</u>
 <u>Liabilities and Fund Balances</u>					
Accounts payable	\$ 320,950	\$ 42	\$ 24,657	\$ 51,654	\$ 397,303
Accrued expenses	574,480	-	-	-	574,480
Due to other funds	12,566	-	2,364	28,165	43,095
Deferred revenue	4,405,826	1,276,562	17,025	533,861	6,233,274
Other liabilities	60,448	-	-	136,950	197,398
Total liabilities	<u>5,374,270</u>	<u>1,276,604</u>	<u>44,046</u>	<u>750,630</u>	<u>7,445,550</u>
 Fund balances:					
Reserved for:					
Debt service	-	5,403,753	-	-	5,403,753
Unreserved, undesignated reported in					
General fund	7,553,650	-	-	-	7,553,650
Special revenue funds	-	-	-	2,528,013	2,528,013
Capital projects funds	-	-	(1,086)	-	(1,086)
Total liabilities and fund balances	<u>\$ 12,927,920</u>	<u>\$ 6,680,357</u>	<u>\$ 42,960</u>	<u>\$ 3,278,643</u>	<u>\$ 22,929,880</u>

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

CITY OF COOKEVILLE, TENNESSEE
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED June 30, 2009

Total fund balance - total governmental funds		\$ 15,484,330
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Governmental capital assets	66,684,659	
Less: accumulated depreciation	<u>(29,199,420)</u>	37,485,239
Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.		
Bond costs	91,600	
Less: accumulated amortization	<u>(21,399)</u>	70,201
Equity interest in joint venture		2,420,174
Interest payable is not payable from current financial resources and therefore is not reported in the governmental funds.		
		(41,556)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.		
Governmental bonds payable	(965,000)	
Governmental notes payable	(16,182,745)	
Net other post-retirement liability	(1,207,242)	
Compensated absences	<u>(771,667)</u>	(19,126,654)
Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are reported with the governmental activities.		
		<u>3,721,341</u>
Net assets of governmental activities		<u>\$ 40,013,075</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED June 30, 2009

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property tax	\$ 4,096,216	\$ 1,246,300	\$ -	\$ 329,605	\$ 5,672,121
In-lieu of tax	1,041,797	-	-	-	1,041,797
Other taxes and tax equivalents	1,256,989	1,757,213	-	705,398	3,719,600
Licenses and permits	518,668	-	-	-	518,668
Local option sales tax	9,569,652	-	-	-	9,569,652
Wholesale beer tax	1,077,072	-	-	-	1,077,072
Other intergovernmental	1,288,174	-	20,000	283,287	1,591,461
Charges for services	194,959	-	-	1,439,403	1,634,362
Fines, forfeitures and penalties	240,184	-	-	45,686	285,870
Rent	16,475	26,160	-	-	42,635
Interest	106,667	80,905	1,857	37,796	227,225
Other	500,388	-	14,500	36,150	551,038
Total revenues	<u>19,907,241</u>	<u>3,110,578</u>	<u>36,357</u>	<u>2,877,325</u>	<u>25,931,501</u>
Expenditures:					
Current					
General government	2,565,724	-	-	172,789	2,738,513
Public safety	10,438,474	-	-	210,215	10,648,689
Planning and engineering	892,398	-	-	-	892,398
Maintenance	1,119,211	-	-	-	1,119,211
Public works	2,341,842	-	-	1,681,802	4,023,644
Culture and recreation	1,840,099	-	-	75,983	1,916,082
Capital outlay	780,325	-	1,872,757	530,045	3,183,127
Debt service	-	2,340,194	16,450	201,999	2,558,643
Total expenditures	<u>19,978,073</u>	<u>2,340,194</u>	<u>1,889,207</u>	<u>2,872,833</u>	<u>27,080,307</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(70,832)</u>	<u>770,384</u>	<u>(1,852,850)</u>	<u>4,492</u>	<u>(1,148,806)</u>
Other financing sources (uses):					
Interfund transfers in	1,199,617	96,000	-	152,756	1,448,373
Interfund transfers (out)	(54,220)	-	(150,013)	(96,000)	(300,233)
Proceeds of bonds and notes	-	-	1,535,306	-	1,535,306
Sale of assets	64,900	-	-	22,725	87,625
Net other financing sources	<u>1,210,297</u>	<u>96,000</u>	<u>1,385,293</u>	<u>79,481</u>	<u>2,771,071</u>
Net change in fund balances	1,139,465	866,384	(467,557)	83,973	1,622,265
Fund balances, July 1, 2008	<u>6,414,185</u>	<u>4,537,369</u>	<u>466,471</u>	<u>2,444,040</u>	<u>13,862,065</u>
Fund balances, June 30, 2009	<u>\$ 7,553,650</u>	<u>\$ 5,403,753</u>	<u>\$ (1,086)</u>	<u>\$ 2,528,013</u>	<u>\$ 15,484,330</u>

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

CITY OF COOKEVILLE, TENNESSEE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED June 30, 2009

Net change in fund balances - total governmental funds \$ 1,622,265

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is depreciated over their estimated useful lives.

Expenditures for capital assets	2,835,401	
Less: current year depreciation	<u>(2,266,016)</u>	569,385

Contributed capital assets		896,987
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Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments.

Bond and note proceeds	(1,535,306)	
Principal payments	<u>2,141,187</u>	605,881

Bond issuance costs are expenditures to governmental funds, but are deferred assets in the statement of net assets.		16,450
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Current year amortization		(5,993)
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Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Change in accrued interest on long-term debt		9,935
Change in net other post-retirement liability		(1,207,242)
Change in accrued compensated absences		1,968

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets.		(4,859)
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Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The net loss of the Internal Service Funds is allocated to the governmental activities and business-type activities.		<u>(99,125)</u>
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Change in net assets of governmental activities		<u>\$ 2,405,652</u>
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The accompanying notes are an integral part of these financial statements.

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2009

	<u>Business-type Activities/Enterprise Funds</u>				<u>Governmental Activities Internal Service Fund</u>
	<u>Cookeville Electric Department</u>	<u>Cookeville Gas Department</u>	<u>Cookeville Water Quality Control Department</u>	<u>Totals</u>	
<u>Assets</u>					
Current assets:					
Cash	\$ 4,097,037	\$ 2,616,871	\$ 1,022,776	\$ 7,736,684	\$ 932,538
Sinking fund cash	292,232	203,789	-	496,021	-
Temporary cash investments	2,273,815	5,785,071	3,545,365	11,604,251	3,828,852
Accounts receivable, net of allowance	6,484,845	762,797	1,651,379	8,899,021	-
Inventory of material and supplies	939,614	1,049,023	549,329	2,537,966	-
Due from other funds	584	-	-	584	-
Prepaid expenses and other current assets	102,361	23,913	27,419	153,693	47,125
Total current assets	<u>14,190,488</u>	<u>10,441,464</u>	<u>6,796,268</u>	<u>31,428,220</u>	<u>4,808,515</u>
Noncurrent assets:					
Capital assets, non-depreciable	1,102,950	177,245	1,851,034	3,131,229	
Capital assets, depreciable	54,332,379	19,324,206	88,925,600	162,582,185	
Less: accumulated depreciation	<u>(14,504,516)</u>	<u>(9,395,794)</u>	<u>(38,759,234)</u>	<u>(62,659,544)</u>	
	40,930,813	10,105,657	52,017,400	103,053,870	
Notes receivable	237,446	-	-	237,446	
Water storage rights	-	-	2,347,398	2,347,398	
Other assets	44,414	48,268	27,785	120,467	
Total noncurrent assets	<u>41,212,673</u>	<u>10,153,925</u>	<u>54,392,583</u>	<u>105,759,181</u>	
Total assets	<u>\$55,403,161</u>	<u>\$20,595,389</u>	<u>\$ 61,188,851</u>	<u>\$137,187,401</u>	<u>\$ 4,808,515</u>
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable	\$ 5,536,368	\$ 475,106	\$ 327,047	\$ 6,338,521	\$ 11,439
Health claims payable	-	-	-	-	250,264
Due to other funds	84,448	25,691	39,901	150,040	-
Current portion of long-term debt	1,476,000	315,000	1,201,948	2,992,948	-
Current portion of water storage rights payable	-	-	55,014	55,014	-
Accrued expenses	14,235	33,269	82,797	130,301	-
Deferred revenue	-	45,333	-	45,333	-
Other current liabilities	8,916	14,200	31,428	54,544	-
Total current liabilities	<u>7,119,967</u>	<u>908,599</u>	<u>1,738,135</u>	<u>9,766,701</u>	<u>261,703</u>
Noncurrent liabilities:					
Compensated absences	133,307	40,996	151,029	325,332	
TVA heat pump notes payable	229,464	-	-	229,464	
Water storage rights payable	-	-	2,353,420	2,353,420	
Net other post-retirement liability	179,213	64,990	238,946	483,149	
Long-term debt, less current portion	<u>14,617,000</u>	<u>2,420,000</u>	<u>11,208,199</u>	<u>28,245,199</u>	
Total noncurrent liabilities	<u>15,158,984</u>	<u>2,525,986</u>	<u>13,951,594</u>	<u>31,636,564</u>	
Total liabilities	<u>22,278,951</u>	<u>3,434,585</u>	<u>15,689,729</u>	<u>41,403,265</u>	<u>261,703</u>
Net assets:					
Invested in capital assets, net of related debt	24,837,813	7,370,657	39,607,253	71,815,723	-
Unrestricted	8,286,397	9,790,147	5,891,869	23,968,413	4,546,812
Total net assets	<u>33,124,210</u>	<u>17,160,804</u>	<u>45,499,122</u>	<u>95,784,136</u>	<u>4,546,812</u>
Total liabilities and net assets	<u>\$55,403,161</u>	<u>\$20,595,389</u>	<u>\$ 61,188,851</u>	<u>\$137,187,401</u>	<u>\$ 4,808,515</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED June 30, 2009

	<u>Business-type Activities/Enterprise Funds</u>			<u>Totals</u>	<u>Governmental Activities Internal Service Fund</u>
	<u>Cookeville Electric Department</u>	<u>Cookeville Gas Department</u>	<u>Cookeville Water Quality Control Department</u>		
Operating revenues:					
Charges for services	\$49,693,087	\$ 15,169,613	\$11,410,141	\$ 76,272,841	\$ 3,399,977
Other operating revenue	<u>1,021,380</u>	<u>435,294</u>	<u>826,912</u>	<u>2,283,586</u>	<u>-</u>
Total operating revenues	<u>50,714,467</u>	<u>15,604,907</u>	<u>12,237,053</u>	<u>78,556,427</u>	<u>3,399,977</u>
Operating expenses:					
Purchased utilities	41,186,926	11,485,619	-	52,672,545	-
Operating expenses	3,310,554	978,174	2,700,287	6,989,015	-
Maintenance expenses	881,452	422,489	324,678	1,628,619	-
Depreciation and amortization	1,719,175	637,763	2,336,852	4,693,790	-
Utilities	-	-	2,038,066	2,038,066	-
Administrative and general expenses	234,705	19,799	2,837,771	3,092,275	485,896
Health claims	-	-	-	-	3,135,790
Facilities rental	<u>406,919</u>	<u>-</u>	<u>-</u>	<u>406,919</u>	<u>-</u>
Total operating expenses	<u>47,739,731</u>	<u>13,543,844</u>	<u>10,237,654</u>	<u>71,521,229</u>	<u>3,621,686</u>
Operating income	<u>2,974,736</u>	<u>2,061,063</u>	<u>1,999,399</u>	<u>7,035,198</u>	<u>(221,709)</u>
Nonoperating revenues (expenses):					
Interest revenue	63,616	85,641	104,121	253,378	78,050
Interest expense	<u>(63,370)</u>	<u>(124,634)</u>	<u>(432,989)</u>	<u>(620,993)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>246</u>	<u>(38,993)</u>	<u>(328,868)</u>	<u>(367,615)</u>	<u>78,050</u>
Interfund transfers (out)	<u>(760,580)</u>	<u>(176,123)</u>	<u>(211,437)</u>	<u>(1,148,140)</u>	<u>-</u>
Change in net assets	2,214,402	1,845,947	1,459,094	5,519,443	(143,659)
Total net assets, July 1, 2008	<u>30,909,808</u>	<u>15,314,857</u>	<u>44,040,028</u>	<u>90,264,693</u>	<u>4,690,471</u>
Total net assets, June 30, 2009	<u>\$33,124,210</u>	<u>\$ 17,160,804</u>	<u>\$45,499,122</u>	<u>\$ 95,784,136</u>	<u>\$ 4,546,812</u>
Reconciliation of changes in net assets to statement of activities:					
Total changes in net assets of business-type activities				\$ 5,519,443	
Net income of internal service fund related to business-type activities				<u>(44,534)</u>	
Changes in business-type net assets included in the statement of activities				<u>\$ 5,474,909</u>	

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED June 30, 2009

	<u>Business-type Activities/Enterprise Funds</u>				Governmental Activities Internal Service Fund
	Cookeville Electric Department	Cookeville Gas Department	Cookeville Water Quality Control Department	Totals	
Cash flows from operating activities:					
Cash receipts from customers	\$ 48,826,410	\$ 15,291,504	\$ 11,298,337	\$ 75,416,251	\$ 3,382,096
Cash receipts from customer service charges	533,010	140,106	708,271	1,381,387	-
Other operating cash receipts	473,093	295,188	-	768,281	-
Cash payments to suppliers of goods and services	(41,087,399)	(11,969,647)	-	(53,057,046)	-
Cash payments to employees for services	(2,147,550)	(540,184)	(772,645)	(3,460,379)	-
Cash payments for interfund services used	(389,417)	(300,110)	(596,582)	(1,286,109)	-
Cash payments for maintenance expenses	(881,451)	(99,149)	(324,677)	(1,305,277)	-
Cash payments for claims	-	-	-	-	(3,013,829)
Utilities and other operating cash payments	(983,787)	(99,347)	(6,571,915)	(7,655,049)	(476,013)
Net cash provided by (used in) operating activities	<u>4,342,909</u>	<u>2,718,361</u>	<u>3,740,789</u>	<u>10,802,059</u>	<u>(107,746)</u>
Cash flows from noncapital financing activities:					
Interfund transfers (out)	(760,580)	(176,123)	(211,437)	(1,148,140)	
Net cash (used in) noncapital financing activities	<u>(760,580)</u>	<u>(176,123)</u>	<u>(211,437)</u>	<u>(1,148,140)</u>	
Cash flows from capital and related financing activities:					
Proceeds from sale of assets	-	-	25,182	25,182	
Proceeds from borrowings	6,000,000	-	-	6,000,000	
Cash payments for interest	(63,554)	(125,475)	(439,426)	(628,455)	
Reduction of long-term debt	(7,197,135)	(305,000)	(1,207,677)	(8,709,812)	
Acquisition and construction of capital assets	(1,830,732)	(648,452)	(4,858,414)	(7,337,598)	
Net cash (used in) capital and related financing activities	<u>(3,091,421)</u>	<u>(1,078,927)</u>	<u>(6,480,335)</u>	<u>(10,650,683)</u>	
Cash flows from investing activities:					
(Increase) decrease in temporary cash investments	(153,144)	(3,741,148)	1,674,696	(2,219,596)	(3,810,352)
Cash receipts from interest	63,616	67,810	79,427	210,853	36,212
Net cash provided by (used in) investing activities	<u>(89,528)</u>	<u>(3,673,338)</u>	<u>1,754,123</u>	<u>(2,008,743)</u>	<u>(3,774,140)</u>
Net increase (decrease) in cash and cash equivalents	401,380	(2,210,027)	(1,196,860)	(3,005,507)	(3,881,886)
Cash and cash equivalents, July 1, 2008	3,987,889	5,030,687	2,219,636	11,238,212	4,814,424
Cash and cash equivalents, June 30, 2009	<u>\$ 4,389,269</u>	<u>\$ 2,820,660</u>	<u>\$ 1,022,776</u>	<u>\$ 8,232,705</u>	<u>\$ 932,538</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 2,974,736	\$ 2,061,063	\$ 1,999,399	\$ 7,035,198	\$ (221,709)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,719,175	637,763	2,336,852	4,693,790	-
(Gain) on asset disposal	-	-	(25,182)	(25,182)	-
(Increase) decrease in accounts receivable	(523,539)	206,329	(135,029)	(452,239)	-
Decrease in due from other funds	22,960	-	-	22,960	5,444
(Increase) decrease in inventory of material and supplies	(89,081)	346,453	(95,168)	162,204	-
Decrease in prepaid expenses and other current assets	7,593	-	-	7,593	-
(Increase) in deferred charges and other	(39,066)	-	-	(39,066)	-
(Increase) in other receivables	(52,276)	-	-	(52,276)	-
Increase (decrease) in accounts payable	72,485	(503,211)	(454,916)	(885,642)	9,883
Increase in health claims payable	-	-	-	-	121,961
Increase in TVA notes payable	52,783	-	-	52,783	-
Increase (decrease) in accrued expenses and compensated absences	14,302	(828)	6,356	19,830	-
Increase in net other post-retirement liability	179,213	64,990	238,946	483,149	-
Increase (decrease) in due to other funds	3,206	(87,967)	(130,399)	(215,160)	(23,325)
Increase (decrease) in other current liabilities	418	(6,231)	(70)	(5,883)	-
Net cash provided by (used in) operating activities	<u>\$ 4,342,909</u>	<u>\$ 2,718,361</u>	<u>\$ 3,740,789</u>	<u>\$ 10,802,059</u>	<u>\$ (107,746)</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE, BUDGET AND ACTUAL DETAIL - GENERAL FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable</u> <u>(Unfavorable)</u>
Revenues:				
Taxes and tax equivalents:				
Property tax	\$ 4,192,900	\$ 4,192,900	\$ 4,096,216	\$ (96,684)
In lieu of tax	1,027,500	1,027,500	1,041,797	14,297
Business tax	988,000	988,000	916,760	(71,240)
Franchise tax	115,000	176,000	329,964	153,964
Clerks fee	<u>9,500</u>	<u>9,500</u>	<u>10,265</u>	<u>765</u>
Total taxes and tax equivalents	<u>6,332,900</u>	<u>6,393,900</u>	<u>6,395,002</u>	<u>1,102</u>
Licenses and permits:				
Beer permits	7,500	7,500	6,000	(1,500)
Beer license	10,500	10,500	12,008	1,508
Liquor license	28,000	28,000	57,425	29,425
Building permits	140,000	140,000	251,721	111,721
Miscellaneous permits	<u>115,200</u>	<u>115,200</u>	<u>191,514</u>	<u>76,314</u>
Total licenses and permits	<u>301,200</u>	<u>301,200</u>	<u>518,668</u>	<u>217,468</u>
Intergovernmental:				
Local option sales tax	10,078,202	10,078,202	9,569,652	(508,550)
Wholesale beer tax	1,040,000	1,040,000	1,077,072	37,072
State excise tax	67,000	67,000	95,847	28,847
State income tax	200,000	500,000	521,835	21,835
State beer tax	14,000	14,000	13,904	(96)
Mixed drink tax	130,000	130,000	138,581	8,581
Gasoline inspection fee	57,000	57,000	57,272	272
Grant-other	<u>269,600</u>	<u>482,734</u>	<u>460,735</u>	<u>(21,999)</u>
Total intergovernmental	<u>11,855,802</u>	<u>12,368,936</u>	<u>11,934,898</u>	<u>(434,038)</u>
Charges for services:				
Miscellaneous	<u>182,450</u>	<u>182,450</u>	<u>194,959</u>	<u>12,509</u>
Total charges for services	<u>182,450</u>	<u>182,450</u>	<u>194,959</u>	<u>12,509</u>
Fines, forfeitures and penalties:				
Court fines and fees	205,000	205,000	203,167	(1,833)
Parking violations	2,000	2,000	2,995	995
Other	<u>36,800</u>	<u>36,800</u>	<u>34,022</u>	<u>(2,778)</u>
Total fines and costs	<u>243,800</u>	<u>243,800</u>	<u>240,184</u>	<u>(3,616)</u>
Miscellaneous:				
Interest	88,600	88,600	106,667	18,067
Rent	1,200	1,200	16,475	15,275
Other	<u>418,500</u>	<u>418,500</u>	<u>500,388</u>	<u>81,888</u>
Total miscellaneous	<u>508,300</u>	<u>508,300</u>	<u>623,530</u>	<u>115,230</u>
Total revenues	<u>\$ 19,424,452</u>	<u>\$ 19,998,586</u>	<u>\$ 19,907,241</u>	<u>\$ (91,345)</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL DETAIL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenses:				
General government:				
Salaries and wages	\$ 935,500	\$ 935,500	\$ 945,115	\$ (9,615)
Payroll taxes and fringes	327,855	327,855	308,614	19,241
Contractual services	118,250	189,450	137,571	51,879
Supplies and maintenance	947,200	947,200	1,014,218	(67,018)
Fixed charges	35,100	46,843	35,911	10,932
Miscellaneous	<u>44,000</u>	<u>131,431</u>	<u>124,295</u>	<u>7,136</u>
Total general government	<u>2,407,905</u>	<u>2,578,279</u>	<u>2,565,724</u>	<u>12,555</u>
Public safety:				
Police:				
Salaries and wages	4,382,500	4,382,500	4,185,182	197,318
Payroll taxes and fringes	1,762,242	1,762,242	1,627,122	135,120
Supplies and maintenance	836,850	836,850	689,809	147,041
Fixed charges	99,000	99,000	295,471	(196,471)
Miscellaneous	<u>10,000</u>	<u>10,000</u>	<u>9,982</u>	<u>18</u>
Total police	<u>7,090,592</u>	<u>7,090,592</u>	<u>6,807,566</u>	<u>283,026</u>
Fire:				
Salaries and wages	2,275,000	2,275,000	2,301,547	(26,547)
Payroll taxes and fringes	1,066,740	1,066,740	963,275	103,465
Supplies and maintenance	347,250	347,250	316,129	31,121
Fixed charges	29,500	29,500	45,724	(16,224)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>4,233</u>	<u>767</u>
Total fire	<u>3,723,490</u>	<u>3,723,490</u>	<u>3,630,908</u>	<u>92,582</u>
Total public safety	<u>\$ 10,814,082</u>	<u>\$ 10,814,082</u>	<u>\$ 10,438,474</u>	<u>\$ 375,608</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL DETAIL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance-</u> <u>Favorable</u> <u>(Unfavorable)</u>
Planning and engineering:				
Salaries and wages	\$ 637,000	\$ 637,000	\$ 606,314	\$ 30,686
Payroll taxes and fringes	234,321	234,321	220,118	14,203
Supplies and maintenance	77,300	77,300	60,761	16,539
Fixed charges	4,858	4,858	2,948	1,910
Miscellaneous	<u>3,000</u>	<u>3,000</u>	<u>2,257</u>	<u>743</u>
Total planning and engineering	<u>956,479</u>	<u>956,479</u>	<u>892,398</u>	<u>64,081</u>
Maintenance:				
Salaries and wages	656,150	656,150	609,011	47,139
Payroll taxes and fringes	302,415	302,415	288,276	14,139
Supplies and maintenance	159,550	159,550	124,900	34,650
Fixed charges	19,000	19,000	96,994	(77,994)
Miscellaneous	<u>850</u>	<u>850</u>	<u>30</u>	<u>820</u>
Total maintenance	<u>1,137,965</u>	<u>1,137,965</u>	<u>1,119,211</u>	<u>18,754</u>
Public works:				
Salaries and wages	1,433,900	1,433,900	1,367,256	66,644
Payroll taxes and fringes	617,200	617,200	588,398	28,802
Supplies and maintenance	357,100	357,100	282,867	74,233
Fixed charges	26,850	26,850	102,670	(75,820)
Miscellaneous	<u>5,050</u>	<u>5,050</u>	<u>651</u>	<u>4,399</u>
Total public works	<u>2,440,100</u>	<u>2,440,100</u>	<u>2,341,842</u>	<u>98,258</u>
Capital outlay:				
Capital outlay	<u>534,000</u>	<u>813,183</u>	<u>780,325</u>	<u>32,858</u>
Total capital outlay	<u>\$ 534,000</u>	<u>\$ 813,183</u>	<u>\$ 780,325</u>	<u>\$ 32,858</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL DETAIL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance-</u> <u>Favorable</u> <u>(Unfavorable)</u>
Culture and recreation:				
Salaries and wages	\$ 711,150	\$ 711,150	\$ 666,195	\$ 44,955
Payroll taxes and fringes	249,344	249,344	232,869	16,475
Supplies and maintenance	375,150	375,150	285,874	89,276
Fixed charges	17,970	17,970	18,749	(779)
Miscellaneous	20,200	20,200	12,081	8,119
Nonprofit contributions:				
Putnam County Library	296,557	296,557	296,557	-
Cookeville Arts Council	18,608	18,608	18,608	-
Cumberland Arts Society	1,901	1,901	1,901	-
Tennessee Vocational School	47,453	47,453	36,306	11,147
U C Regional Airport	28,000	28,000	28,000	-
Chamber of Commerce	14,750	64,750	64,750	-
Human Resources Agency	1,901	1,901	1,901	-
Civil Defense Emergency Management	25,400	25,400	25,400	-
WCTE Public Television	5,000	5,000	5,000	-
CityScape	32,417	32,417	32,417	-
Alliance Against Domestic Violence	11,407	11,407	11,407	-
Stephens Center for Child Abuse	2,377	2,377	2,377	-
Kids Putnam	7,000	7,000	7,000	-
Cookeville - PC Clean Commission	11,270	11,270	11,270	-
Plateau Mental Health Center	2,500	2,500	2,500	-
Putnam County Clearing House	11,407	11,407	11,407	-
Cookeville Senior Citizens	47,530	47,530	47,530	-
Upper Cumberland Community Svcs	15,000	15,000	15,000	-
Pacesetters, Inc.	5,000	5,000	5,000	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total culture and recreation	\$ 1,959,292	\$ 2,009,292	\$ 1,840,099	\$ 169,193

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL DETAIL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Total expenditures	\$ 20,249,823	\$ 20,749,380	\$ 19,978,073	\$ 771,307
(Deficiency) of revenues (under) expenditures	<u>(825,371)</u>	<u>(750,794)</u>	<u>(70,832)</u>	<u>679,962</u>
Other financing sources (uses):				
Interfund transfers in	1,136,223	1,187,700	1,199,617	11,917
Interfund transfers (out)	(54,220)	(54,220)	(54,220)	-
Sale of assets	<u>-</u>	<u>-</u>	<u>64,900</u>	<u>64,900</u>
Net other financing sources	<u>1,082,003</u>	<u>1,133,480</u>	<u>1,210,297</u>	<u>76,817</u>
Net change in fund balance	<u>\$ 256,632</u>	<u>\$ 382,686</u>	1,139,465	<u>\$ 756,779</u>
Fund balance, July 1, 2008			<u>6,414,185</u>	
Fund balance, June 30, 2009			<u>\$ 7,553,650</u>	

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

CITY OF COOKEVILLE, TENNESSEE

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Cookeville, Tennessee was incorporated under Chapter 542 of House Bill No. 1082 of 1903, as amended. The City operates under a City Council form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, water, sewer, gas, electric, health, culture and recreation, public improvements, planning and zoning, and general administrative services.

A. Reporting Entity

In evaluating the City as a reporting entity, management has addressed all potential component units for which the City may or may not be financially accountable and, as such, be includable within the City's financial statements. The City (the primary government) is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide a specific financial burden to the City. Additionally, the primary government is required to consider other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. Based upon the application of these criteria, the following is a brief review of each potential component unit included in the government's reporting entity.

Cookeville Regional Medical Center Authority (the Authority) was established by a Private Act of the State of Tennessee legislature during 1999 for the purpose of operating Cookeville Regional Medical Center (Medical Center) and Affiliates and all other hospital, clinical and related health care facilities of the City of Cookeville, Tennessee. The Private Act effectively reconstituted the Board of Trustees of the Medical Center as that of the Authority and granted such powers to the Authority as permitted under the State of Tennessee Private Act Hospital Authority Act of 1996. The initial members of the Board of Trustees of the Authority, a quasi-municipal corporation independent of the City of Cookeville (the City), were the same as those of the Medical Center and were elected by the Cookeville City Council as provided in the Private Act. The Authority is considered a major component unit of the City for the City's financial reporting purposes. The Medical Center was originally a department of the City and previously operated as an Enterprise Fund of the City.

The City of Cookeville and the Authority entered into an agreement effective December 10, 1999, which specified the arrangements relative to the Private Act. The Private Act, which created the Authority, was also amended by a subsequent Private Act in May 2000. This amended Private Act clarified the empowerment of the Authority. The Authority has sole and complete authority to operate and control the facilities of the Medical Center. The ownership of the real estate, improvements, tangible personal property, licenses, permits and provider numbers of the Medical Center remain with the City. The Authority also has rights to working capital, including cash, accounts receivable and future revenues, subject to that necessary to

retire indebtedness at the date of the creation of the Authority, and the Authority has the obligation to repay debt of the City with respect to which such assets and revenues have been pledged. There was no change to the basis of assets and liabilities as a result of the creation of the Authority. In addition, approval of the Cookeville City Council is required for all borrowings and purchases of any real property by the Authority. The Cookeville City Council also retains approval authority over the budget of the Medical Center's operations. All rights of the Authority cease upon sale, lease or transfer of the Medical Center by the City.

Operations of the Medical Center consist primarily of a 247-bed acute care hospital providing healthcare services in Putnam County, Tennessee. The Medical Center also owns and operates Highland Rim Home Health Agency.

Due to the significant relationship between the City of Cookeville and Cookeville Regional Medical Center Authority, we have included as part of the notes of these financial statements the notes of Cookeville Regional Medical Center Authority (beginning on page 38) as audited by other auditors.

The City has recorded \$700,000 in payments in lieu of taxes and \$3,372,000 for utilities services from Cookeville Regional Medical Center during the year ended June 30, 2009.

The financial statements for Cookeville Regional Medical Center can be obtained by contacting the organization.

The Public Building Authority (PBA) of the City of Cookeville, Tennessee was established as a public non-profit corporation and public instrumentality of the City of Cookeville, Tennessee in accordance with Tennessee Code Annotated Section 12-10-109 for the purpose of operating, maintaining, and managing Town Centre. The appointment of the PBA's directors is subject to confirmation by the city council of the City of Cookeville. All of the facilities of the PBA are owned by the City, without which the PBA would have no means of revenue. The PBA is considered a non-major, discretely presented component unit of the City for the City's financial reporting purposes. The financial statements of the PBA can be obtained by contacting the organization.

B. Government-wide and Fund Financial Statements

Government-wide financial statements

The government-wide financial statements include the statement of net assets and the statement of activities. These statements report financial information for the City of Cookeville as a whole. The primary government and component units are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or in part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities including restricted investment income; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets and include fees to developers. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund financial statements

Fund financial statements are provided for governmental and proprietary funds. Major individual governmental and enterprise funds are reported in separate columns with composite columns for non-major funds.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles of the United States of America (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements or APB opinions issued after November 30, 1989. During 2004, the City adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*.

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting generally including the reclassification or elimination of internal activity (between or within funds). However, internal eliminations do not include utility services provided to City departments. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements and financial statements of City component

units also report using this same focus and basis of accounting although internal activity is not eliminated in these statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported as expenditures in the year due.

Major revenue sources susceptible to accrual include: sales and use taxes, hotel/motel taxes, property taxes, franchise taxes (fees), intergovernmental revenues, and investment income. In general, other revenues are recognized when cash is received.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

Payments in lieu of taxes were reported as transfers out of the proprietary funds and transfers in by the general fund. These payments are not equivalent in value to services provided.

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

D. Fund Types and Major Funds

The financial transactions of the City are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements.

GASB Statement No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The City electively added funds, as major funds, which either had debt outstanding or specific community focus.

The non-major funds are combined in a column in the fund financial statements and detailed in the combining section.

The City of Cookeville reports the following major funds:

Governmental Funds

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

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for the payment of principal, interest, and related costs on the City's general obligation debt.

Capital Project Funds - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds and Trust Funds). Budgetary restriction is achieved through the bond issues and grant restrictions.

Proprietary Funds

Cookeville Electric Department - The Cookeville Electric Department accounts for the operating activities of the City's electric utilities services.

Cookeville Gas Department - The Cookeville Gas Department accounts for the operating activities of the City's gas utilities services.

Cookeville Water Quality Control Department - The Cookeville Water Quality Control Department accounts for the operating activities of the City's water and sewer utilities services.

Other Funds

Internal Service Fund - Account for the financing of goods or services provided by one department to other departments within the city on a cost-reimbursement basis. This internal services fund is used to collect health insurance premiums and make health claim payments.

E. Budgets and Budgetary Accounting

As set forth in the City Charter, the City Council adopts an annual budget for the General Fund, Special Revenue Fund, Debt Service Fund and Utility Funds. The annual budget for the governmental type funds is prepared in accordance with the basis consistent with GAAP, except that depreciation, certain capital expenses, nonoperating income and expense items are not considered. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter the total expenditures/expenses must be approved by the City Council at year-end. The City Council has amended the 2009 fiscal budget which approved such additional expenditures/expenses. The City does not adopt budgets for Capital Projects. Because the City maintains its budgetary accounting on the GAAP basis, no reconciliation is necessary to reconcile the budgetary basis to the GAAP basis.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded in order to reserve that portion of the applicable appropriation, is not utilized by the City.

G. Statement of Cash Flows

For purposes of the Statement of Cash Flows, cash and cash equivalents are considered to be cash on hand and on deposit with original maturities of less than 90 days.

H. Cash and Investments

Deposits (cash and certificates of deposit) are carried at cost which approximates market value. The carrying amount of deposits is separately displayed on the balance sheet as "cash," "temporary cash investments" and "restricted cash and investments." See Note 2 for information describing cash and temporary cash investments.

I. Inventories and Prepaids

Inventories in governmental funds consist of expendable supplies held for consumption stated on a first-in, first-out basis. They are reported at cost which is recorded as expenditure at the time individual inventory items are used. Proprietary fund and similar component unit inventories are recorded at the lower of cost or market on a first-in, first-out basis.

Prepaids record payments to vendors that benefit future reporting periods and are also reported on the consumption basis. Both inventories and prepaids are similarly reported in government-wide and fund financial statements.

J. Accounts Receivable

An allowance for doubtful accounts has been established based on the amount of accounts receivable that are 90 days or more past due. Accounts are written off when they are deemed uncollectible by management. Accounts are considered to be past due if they have not been collected according to contractual terms. The allowance was approximately \$334,000 for the year ended June 30, 2009.

K. Unbilled Revenue

It is the practice of the utility funds to record revenue on the basis of meter readings. Unbilled revenue, representing utility usage from the date of the last meter reading to June 30, was recognized in the amount of approximately \$4,593,000 in 2009.

L. Capital Assets, Depreciation, and Amortization

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost and comprehensively reported in the government-wide financial statements. The City maintains infrastructure asset records consistent with all other capital assets. Proprietary and component unit capital assets are also reported in their respective fund and combining component units financial statements. Donated assets are stated at fair value on the date donated. The City generally capitalizes assets, not including infrastructure assets, with cost of \$5,000 or more as purchase and construction outlays occur. Infrastructure assets with a cost of \$250,000 or more are capitalized. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets, including those of component units, are depreciated using the straight-line method. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

The City elected to utilize the infrastructure transition option in the implementation of GASB Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - For State and Local Governments." In fiscal year 2006 they capitalized their bridges and dams and in 2007 their right of way easements. In the absence of actual cost information, the City utilized a weighted average age calculation for estimating historical cost of this infrastructure network.

Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	5-50
Plant and distribution system	5-50
Improvements	2-50
Vehicles	3-30
Furniture, machinery, and equipment	3-40
Software	3-5
Infrastructure	30

Water storage rights are recorded at historical cost and amortized over 30 years using the straight-line method. For information describing capital assets, see Note 5.

M. Compensated Absences

The City allows employees to accumulate unused sick leave. Upon retirement an employee will receive pay for only one-half of accumulated sick leave. Sick leave has not been accrued because the amount cannot be reasonably estimated. Earned vacation time can be accrued up to certain maximums based upon years of service. As of June 30, 2009, the liability for accrued vacation leave is approximately \$1,097,000.

Compensated absences for accrued vacation are reported as accrued in the government-wide, governmental activities, proprietary, fiduciary, and component unit financial statements. The General Fund has historically been required to liquidate compensated absences for governmental activities. The amount expected to be paid from current resources is not considered significant.

N. Long-term Debt, Deferred Debt Expense, and Bond Discounts/Premiums

In the government-wide, proprietary, and component unit financial statements, outstanding debt is reported as liabilities. Bond issuance costs, bond discounts or premiums, and the difference between the reacquisition price and the net carrying value of refunded debt are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The governmental fund financial statements recognize the proceeds of debt and premiums as other financing sources of the current period. Issuance costs are reported as expenditures.

O. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Drug and State Street funds are shown as restricted on the statement of net assets under the Special revenue caption.

P. Joint Ventures

The Upper Cumberland Regional Airport (UCRA) was established in 1993 as a joint venture to provide airport facilities for joint ownership and management among the City of Cookeville, City of Sparta, Putnam County, and White County. At June 30, 2008, the Upper Cumberland Regional Airport had net assets of \$9,680,695. The City of Cookeville reports their 25% equity interest of \$2,420,174 in this joint venture on the statement of net assets. Financial statements can be obtained from the organization.

The UCRA uses the modified accrual basis of accounting for financial reporting purposes. Revenues are recognized when they become measurable and available as net current assets. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

Q. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles of the United States requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates in the near term.

NOTE 2 - CASH AND TEMPORARY CASH INVESTMENTS:

The City has implemented GASB Statement No. 40, "Deposit and Investment Risk Disclosures" for financial reporting of deposit and investment risks.

Cash on the balance sheet includes cash on hand or in demand deposit accounts with financial institutions located in the City of Cookeville. Temporary cash investments are deposits with the State of Tennessee Local Government Investment Pool. All deposits are stated at fair value and accessible on demand.

The City has no formal investment policy. The City Municipal Code identifies official depositories for City funds as financial institutions located within the corporate limits of the City of Cookeville whose deposits are insured through the Tennessee Bank Collateral Pool or who placed governmental securities (at market value) in escrow in amounts sufficient to secure at least 105% or more of the deposits. Funds may also be deposited in the State of Tennessee Local Government Investment Pool (LGIP). An annual report of the LGIP may be obtained from the Treasury Department of the State of Tennessee.

NOTE 3 - PROPERTY TAXES:

Property taxes attach as an enforceable lien on property as of January 1, and taxes receivable and deferred revenue are recorded at that time. Taxes are levied on October 1 and are payable by February 28 with this five-month period being the major collection period. The City bills and collects its own property taxes. An allowance for uncollectible taxes is provided based on the experience of amounts not collected in the year of levy. The allowance was approximately \$354,000 for the year ended June 30, 2009.

NOTE 4 - BALANCES AND TRANSFERS/PAYMENTS WITHIN THE REPORTING ENTITY:

A schedule of interfund receivables and payables follows:

<u>Due from:</u>	<u>Due to:</u>				<u>Total Due From</u>
	<u>Governmental Activities</u>			<u>Business-type Activities</u>	
	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Electric</u>	
<u>Governmental Activities:</u>					
Major Governmental Funds					
General Fund		\$ 9,698	\$ 2,290	\$ 578	\$ 12,566
Capital Projects	\$ 2,364	-	-	-	2,364
Other Governmental Funds	28,165	-	-	-	28,165
<u>Business-type Activities:</u>					
Electric	84,448	-	-	-	84,448
Water Quality Control	39,901	-	-	-	39,901
Gas	25,685	-	-	6	25,691
Total Due To	<u>\$ 180,563</u>	<u>\$ 9,698</u>	<u>\$ 2,290</u>	<u>\$ 584</u>	<u>\$ 193,135</u>

Generally, outstanding balances between funds reported as “due to/from other funds” include outstanding charges by one fund to another for services or goods and other miscellaneous receivables/payables between funds. These transactions are not indicative of long-term lending/borrowing arrangements.

Transfers and payments within the reporting entity are substantially for the purposes of subsidizing operating functions, funding capital projects and asset acquisitions, or maintaining debt service on a routine basis.

NOTE 5 - CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets follows:

	Balance July 1, 2008	Additions	Retirements	Annexation	Amortization	Transfers & Reclasses	Balance June 30, 2009
<u>Government-type activities:</u>							
Capital assets not being depreciated							
Land	\$ 9,076,305	\$ 41,939				\$ 18,471	\$ 9,136,715
Construction in progress	589,744	480,050				(589,744)	480,050
Total capital assets not being depreciated	<u>9,666,049</u>	<u>521,989</u>				<u>(571,273)</u>	<u>9,616,765</u>
Capital assets, being depreciated							
Buildings	7,437,710	1,007,346				-	8,445,056
Improvements	1,128,471	(48,309)				-	1,128,471
Vehicles	7,015,398	1,322,006	\$ (180,350)			15,248	8,172,302
Machinery and equipment	2,626,577	74,651	(137,150)			-	2,564,078
Software	333,516	-	-			-	333,516
Infrastructure	35,119,526	806,396	(72,724)			571,273	36,424,471
Total capital assets being depreciated	<u>53,661,198</u>	<u>3,210,399</u>	<u>(390,224)</u>			<u>586,521</u>	<u>57,067,894</u>
Less accumulated depreciation for:							
Buildings	(2,485,742)	(158,767)	-			-	(2,644,509)
Improvements	(570,077)	(48,309)	-			-	(618,386)
Vehicles	(5,289,927)	(626,256)	180,350			(15,248)	(5,751,081)
Machinery and equipment	(1,913,259)	(231,636)	132,292			-	(2,012,603)
Software	(259,919)	(14,310)	-			-	(274,229)
Infrastructure	(16,784,597)	(1,186,738)	72,723			-	(17,898,612)
Total accumulated depreciation	<u>(27,303,521)</u>	<u>(2,266,016)</u>	<u>385,365</u>			<u>(15,248)</u>	<u>(29,199,420)</u>
Total capital assets being depreciated, net	<u>26,357,677</u>	<u>944,383</u>	<u>(4,859)</u>			<u>571,273</u>	<u>27,868,474</u>
Total government-type activities capital assets, net	<u>\$ 36,023,726</u>	<u>\$ 1,466,372</u>	<u>\$ (4,859)</u>			<u>\$ -</u>	<u>\$ 37,485,239</u>
<u>Business-type activities:</u>							
Capital assets not being depreciated							
Land and easements	\$ 2,531,558	\$ 75,479					\$ 2,607,037
Construction in progress	2,540,264	91,999				\$ (2,108,071)	524,192
Total capital assets not being depreciated	<u>5,071,822</u>	<u>167,478</u>				<u>(2,108,071)</u>	<u>3,131,229</u>
Capital assets being depreciated							
Buildings and improvements	4,538,927	-				-	4,538,927
Plant and distribution system	139,695,737	6,817,920	\$ (383,748)	\$ (8,223,269)		2,108,071	140,014,711
Machinery and equipment	9,675,118	285,719	(764,468)	-		(15,248)	9,181,121
Furniture and equipment	642,448	8,386	(1,836)	-		-	648,998
Plant acquisition adjustment	17,671	-	-	8,504,776	\$ (324,019)	-	8,198,428
Total capital assets being depreciated	<u>154,569,901</u>	<u>7,112,025</u>	<u>(1,150,052)</u>	<u>281,507</u>	<u>(324,019)</u>	<u>2,092,823</u>	<u>162,582,185</u>
Less accumulated depreciation for:							
Buildings and improvements	(1,611,898)	(121,720)	-	-	-	-	(1,733,618)
Plant and distribution system	(50,801,233)	(3,818,363)	500,702	(281,507)	-	-	(54,400,401)
Machinery and equipment	(6,458,195)	(325,013)	764,468	-	-	15,248	(6,003,492)
Furniture and equipment	(466,291)	(57,578)	1,836	-	-	-	(522,033)
Total accumulated depreciation	<u>(59,337,617)</u>	<u>(4,322,674)</u>	<u>1,267,006</u>	<u>(281,507)</u>	<u>-</u>	<u>15,248</u>	<u>(62,659,544)</u>
Total capital assets being depreciated, net	<u>95,232,284</u>	<u>2,789,351</u>	<u>116,954</u>	<u>-</u>	<u>(324,019)</u>	<u>2,108,071</u>	<u>99,922,641</u>
Total business-type activities capital assets, net	<u>\$ 100,304,106</u>	<u>\$ 2,956,829</u>	<u>\$ 116,954</u>	<u>\$ -</u>	<u>\$ (324,019)</u>	<u>\$ -</u>	<u>\$ 103,053,870</u>

The City has active construction projects as of June 30, 2009. Total accumulated commitments for ongoing capital projects are comprised of the following:

<u>Governmental activities:</u>	
Drama Center Improvements	\$ 52,857
Dogwood Park Expansion	12,191
Highlands Business Park	572,736
Lee Seminary Road Project	82,432
West Cemetery Road Project	<u>21,484</u>
Total commitments - governmental activities	<u>\$ 741,700</u>

Depreciation expense was charged as direct expense to programs of the primary government as follows:

<u>Governmental activities:</u>	
General government	\$ 61,832
Planning and engineering	12,815
Public safety	453,272
Public works	1,594,121
Maintenance	8,627
Culture and recreation	<u>135,349</u>
Total depreciation expense - governmental activities	<u>\$ 2,266,016</u>

<u>Business-type activities:</u>	
Cookeville Water Quality Control Department	\$ 2,240,331
Cookeville Electric Department	1,454,016
Cookeville Gas Department	<u>628,327</u>
Total depreciation expense - business-type activities	<u>\$ 4,322,674</u>

NOTE 6 - LONG TERM LIABILITIES:

The following summarizes long-term liabilities transactions of the City of Cookeville during the year ended June 30, 2009:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Bonds and notes payable:					
General Obligation Bonds	\$ 1,370,000		\$ (405,000)	\$ 965,000	\$ 220,000
Notes payable	<u>16,383,626</u>	<u>\$ 1,535,306</u>	<u>(1,736,187)</u>	<u>16,182,745</u>	<u>1,914,093</u>
Total bonds and notes payable	<u>17,753,626</u>	<u>1,535,306</u>	<u>(2,141,187)</u>	<u>17,147,745</u>	<u>2,134,093</u>
Other liabilities:					
Compensated absences	<u>773,635</u>	<u>-</u>	<u>(1,968)</u>	<u>771,667</u>	<u>-</u>
Total other liabilities	<u>773,635</u>	<u>-</u>	<u>(1,968)</u>	<u>771,667</u>	<u>-</u>
Total governmental activities long-term liabilities:	<u>\$ 18,527,261</u>	<u>\$ 1,535,306</u>	<u>\$ (2,143,155)</u>	<u>\$ 17,919,412</u>	<u>\$ 2,134,093</u>
<u>Business-Type Activities:</u>					
Bonds and notes payable:					
Revenue bonds payable	\$ 3,040,000		\$ (305,000)	\$ 2,735,000	\$ 315,000
Notes payable	<u>30,855,502</u>	<u>\$ 6,000,000</u>	<u>(8,352,355)</u>	<u>28,503,147</u>	<u>2,677,948</u>
Total bonds and notes payable	<u>33,895,502</u>	<u>6,000,000</u>	<u>(8,657,355)</u>	<u>31,238,147</u>	<u>2,992,948</u>
Other liabilities:					
Compensated absences	305,502	19,830	-	325,332	-
TVA heat pump notes payable	176,681	111,424	(58,641)	229,464	-
Water storage rights payable	<u>2,460,891</u>	<u>-</u>	<u>(52,457)</u>	<u>2,408,434</u>	<u>55,014</u>
Total other liabilities	<u>2,943,074</u>	<u>131,254</u>	<u>(111,098)</u>	<u>2,963,230</u>	<u>55,014</u>
Total business-type activities long-term liabilities:	<u>\$ 36,838,576</u>	<u>\$ 6,131,254</u>	<u>\$ (8,768,453)</u>	<u>\$ 34,201,377</u>	<u>\$ 3,047,962</u>

Bonds and notes payable at June 30, 2009, are comprised of the following:

Governmental Bonds and Notes Payable:

1.6% through 3.65% General Improvement Refunding Bonds, issued August 16, 2004, payable annually in varying amounts plus semi-annual interest payments through 2013.	\$ 965,000
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$9,000,000, payable annually beginning in 2002 through 2014, with a variable rate of interest. Interest rate at June 30, 2009 is .48%.	3,937,000
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$1,350,000, payable annually beginning in 2004 through 2017, with a variable rate of interest. Interest rate at June 30, 2009 is .39%.	841,000
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$2,500,000, payable annually beginning in 2004 through 2017, with a variable rate of interest. Interest rate at June 30, 2009 is .39%.	1,531,000
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$1,100,000, payable annually beginning in 2005 through 2013, with a variable rate of interest. Interest rate at June 30, 2009 is .39%.	498,000
Note payable to the Dunlap Family Trust, dated July 2, 2001 maturity date July 2, 2013 bearing interest of 5.26%. Principal and interest payments due annually.	790,419
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$4,500,000, payable annually beginning in 2005 through 2020, with a variable rate of interest. Interest rate at June 30, 2009 is .39%.	3,613,000
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$3,200,000, payable annually beginning in 2007 through 2023, with a variable rate of interest. Interest rate at June 30, 2009 is .39%.	2,966,254
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$2,350,000, payable annually beginning in 2009 through 2024, with a variable rate of interest. Interest rate at June 30, 2009 is .39%.	446,291
Note payable to Putnam County, Tennessee, payable annually beginning in 2007 through 2019, with an interest rate of 5%.	<u>1,559,781</u>
	<u>\$ 17,147,745</u>

Business-type Bonds and Notes Payable:

Gas Department revenue bonds, series 2004, interest rate 1.4% to 3.3%, due serially through 2011.	\$ 435,000
Gas Department revenue bonds, series 2001 interest rate 3.2% to 4.85%, due serially through 2016.	2,300,000
Revolving loan payable to State of Tennessee, interest rate 3.6%, due in monthly installments through 2013.	590,210
Revolving loan payable to State of Tennessee, interest rate 3.5%, due in monthly installments through 2012.	178,014
Revolving loan payable to State of Tennessee, interest rate 3.14%, due in monthly installments through 2017.	4,643,923
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$10,500,000, payable annually beginning in 2000 through 2020, with a variable interest rate. Interest rate at June 30, 2009 is .48%.	6,998,000
Notes payable to UCEMC related to various annexations, payable annually through 2017 without interest.	9,000,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$2,500,000, payable annually beginning in 2000 through 2014, variable interest rate.	1,093,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$6,000,000, payable annually beginning in 2009 through 2024, variable interest rate.	<u>6,000,000</u>
	<u>\$ 31,238,147</u>

The annual requirements to amortize all general obligation debt, notes payable and revenue bonds are as follows:

General Obligation Bonds

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2010	\$ 220,000	\$ 29,440
2011	245,000	21,933
2012	240,000	13,690
2013	260,000	4,745
Total	<u>\$ 965,000</u>	<u>\$ 69,808</u>

Notes Payable

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2010	\$ 1,914,093	\$ 160,377	\$ 2,677,948	\$ 225,052
2011	1,994,294	141,639	2,749,444	197,168
2012	2,074,805	122,268	2,823,708	168,285
2013	2,136,932	102,250	2,818,016	139,222
2014	1,983,819	81,639	2,751,740	114,128
2015	999,271	64,025	2,577,040	90,471
2016	1,041,185	52,831	2,644,940	67,179
2017	1,084,494	41,109	2,715,428	43,068
2018	777,219	28,835	2,244,883	24,476
2019	809,379	17,359	1,195,000	18,960
2020	643,000	5,332	1,255,000	13,612
2021	256,000	2,825	476,000	7,995
2022	266,000	1,826	499,000	6,139
2023	202,254	789	524,000	4,192
2024	-	-	551,000	2,149
Total	<u>\$ 16,182,745</u>	<u>\$ 823,104</u>	<u>\$ 28,503,147</u>	<u>\$ 1,122,096</u>

Revenue Bonds

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2010	\$ 315,000	\$ 114,215
2011	345,000	102,468
2012	375,000	87,978
2013	400,000	70,775
2014	425,000	51,894
2015	425,000	31,919
2016	450,000	10,912
Total	<u>\$ 2,735,000</u>	<u>\$ 470,161</u>

There are a number of limitations and restrictions contained in the various bond indentures. The City is in compliance with all significant limitations and restrictions.

Water Storage Rights Payable:

The Water Quality Control Department has entered into an agreement with the U.S. Army Corps of Engineers to purchase water storage rights at the Center Hill Reservoir. The purchase price is \$2,816,877 and will be paid over a period of 30 years. The contract will be payable in annual installments including interest of \$172,425 based on an adjusted interest rate of 4.875 percent. The interest rate will be adjusted at five year intervals throughout the repayment period. The rate is the yield rate as determined by the Secretary of the Treasury plus 1/8 percent.

Annual maturities of water storage rights payable, 2010 through 2033.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 55,014	\$ 117,411	\$ 172,425
2011	57,696	114,729	172,425
2012	60,508	111,917	172,425
2013	63,458	108,967	172,425
2014	66,552	105,873	172,425
2015-2019	384,706	477,419	862,125
2020-2024	488,077	374,048	862,125
2025-2029	619,225	242,900	862,125
2030-2033	<u>613,198</u>	<u>76,512</u>	<u>689,710</u>
	<u>\$2,408,434</u>	<u>\$1,729,776</u>	<u>\$4,138,210</u>

NOTE 7 - PENSION PLANS:

A. Plan Description

Employees of the City of Cookeville 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 thirty 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 become 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 4 years of service. Benefit provisions are established in state statute found in Title 8, Chapters 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the City of Cookeville 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.

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 the: Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or can be accessed <http://www.tn.gov/treasury/tcrs/PS/>.

B. Funding Policy

The City of Cookeville has adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0% of annual covered payroll. The City of Cookeville is required to contribute at an actuarially determined rate. The rate for the fiscal year ending June 30, 2009, was 15.58% of annual covered payroll. The contribution requirements of plan members are set by state statute. The contribution requirement for the City of Cookeville is established and may be amended by the TCRS Board of Trustees.

C. Annual Pension Cost

For the year ended June 30, 2009, the City of Cookeville's annual pension cost of \$2,367,104 to TCRS was equal to the required and actual contributions.

The required contribution was determined as part of the July 1, 2007, 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% per year compounded annually, (b) projected salary increases of a 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. The City of Cookeville's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2007, was 8 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
6/30/09	\$2,367,104	100.00%	\$0.00
6/30/08	\$2,247,996	100.00%	\$0.00
6/30/07	\$2,192,905	100.00%	\$0.00

D. Schedule of Funding Progress for the City of Cookeville

As of July 1, 2007, the most recent actuarial valuation date, the plan was 92.03% percent funded. The actuarial accrued liability for benefits was \$86.72 million, and the actuarial value of assets was \$79.81 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$6.91 million. The covered payroll (annual payroll of active employees covered by the plan) was \$15 million, and the ratio of the UAAL to the covered payroll was 47.03% percent.

The schedules of funding progress, required to be presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial cost method was a change made during the year and therefore only the most current year is presented below. In future years, multiple years will be presented as RSI.

The annual required contribution (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

(Dollar amounts in thousands)

	Actuarial	Actuarial	Unfunded	Funded	Covered	UAAL as a
	Value of	Liability	AAL	Ratio	Payroll	Percentage
Actuarial	Plan	(AAL)	(UAAL)			of Covered
	Assets	-Entry Age				Payroll
Valuation Date	(a)	(b)	(b) - (a)	(a/b)	(c)	((b-a)/c)
July 1, 2007	\$79,813	\$86,729	\$6,916	92.03%	\$14,706	47.03%

NOTE 8 - CONTINGENCIES:

The City is the defendant in various legal actions. It is the opinion of management and the City's legal counsel that the City has adequate legal defense, and the City intends to vigorously defend all of the matters in which a settlement cannot be reached.

At the beginning of the previous fiscal year the Electric Department was in legal negotiations with the Upper Cumberland Electric Membership Corporation (UCEMC) for servicing utility customers in areas that the City of Cookeville had annexed. The case was settled and a federal district judge ruled that the Electric Department should pay UCEMC \$16,000,000 for the annexed areas, which includes additional reintegration costs as a result of

UCEMC's final appeal. The Electric Department has recorded \$9,000,000 as a long-term liability which is payable over a ten year period. These financial statements reflect all the amounts due to UCEMC.

NOTE 9 - SELF-INSURANCE:

The City of Cookeville is partially self-insured with regard to their general liability, worker's compensation and employee health insurance. The City is self-insured with excess coverage in these areas:

- 1) Worker's compensation liability with a \$50,000 deductible per incident and statutory limit on coverage.
- 2) General liability with a \$445,000 deductible in aggregate.

Claims expensed during the year ended June 30, 2009, totaled approximately \$209,000 for general liability and \$272,000 for worker's compensation. Liabilities for claims incurred but not reported as of June 30, 2009, are not calculated by an actuary. The plan administrator reported claims payable of approximately \$245,000 as of June 30, 2009 that have been included in these financial statements.

The employee health care coverage program is partially self-insured by the City up to \$125,000 per occurrence. Insurance costs are funded from payroll deductions and from City contributions for employee coverage. Liabilities for health claims incurred but not reported as of June 30, 2009, are not calculated by an actuary. The plan administrator reported health claims payable of approximately \$250,000 as of June 30, 2009. These are claims received by the plan administrator for a two month period following the end of the fiscal year and incurred by the end of the plan year. For the year ended June 30, 2009, the amount for health insurance claims and premiums totaled approximately \$3,622,000.

NOTE 10 - SUBSEQUENT EVENTS:

On July 29, 2009 the Gas Department issued gas system revenue bonds totaling \$2,295,000 to fully advance refund the 2001 gas system revenue bonds. The proceeds of the new bond issue were placed with an escrow agent to provide for all the future debt service payments on the refunded 2001 bonds. The average life of the refunded bonds was 4.078 years compared to the average life of the refunding bonds of 3.988 years. The refunding bonds have a coupon rate of 2.790%. The refunding resulted in a net present value benefit of \$117,968.

NOTE 11 - OTHER POST EMPLOYMENT BENEFITS:

The City has adopted GASB Statement No. 45, "Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions," prospectively for the year ended June 30, 2009.

Plan description

In addition to the pension plan sponsored by the City, the City provides single-employer health care benefits (medical, dental, vision, life insurance) for all retired employees and their spouses. These benefit provisions and all other requirements are established by City policy. The participants are required to pay a portion of the cost of the Plan, which generally ranges from approximately 20% to 100% of the annual premiums. Employees are eligible for these retirement benefits at age 55 with a minimum of 5 years of services. Surviving spouses of employees who were eligible for these benefits at the time of death will be eligible for the same benefits with the exception of life insurance.

Retirees and spouses pay a percentage of the self-insured health premiums based on the retirees' years of services at retirement. Retirees and spouses contribute 100% of the pooled premium rate for active employees and retirees under the self-insured dental plan. The retirees and spouses have limited life insurance and vision benefits and they must contribute toward the cost of the coverage.

Funding policy and assumptions

The City contribution is based on projected pay-as-you go financing requirements through the General Fund and the proprietary funds.

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

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Examples include assumptions about future employment, mortality and healthcare cost trends. Amounts determined regarding the funded status of the plan and the ARC are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress presents the multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial liability for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of the valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities consistent with the long-term perspective of the calculation. The projections of benefits for financial reporting purposes do not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Information as of the latest actuarial valuation follows:

Valuation date	July 1, 2008
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.0%
Salary increases	4.5% per annum
Inflation	Medical cost 9% in the first year, future increases grade uniformly to 5% over 8 year period. Dental cost increase 4% per annum.
Amortization period	30 years, open period

Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB costs and net OPEB obligations to the plan for the year ended June 30, 2009 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 1,648,122	\$ 493,159	\$ 2,141,281
Contribution made	(440,880)	(10,010)	(450,890)
Change in Net OPEB, Obligation	1,207,242	483,149	1,690,391
Net OPEB Obligation, beginning	-	-	-
Net OPEB Obligation, ending	<u>\$ 1,207,242</u>	<u>\$ 483,149</u>	<u>\$ 1,690,391</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2009	\$ 12,911,247	21%	\$ 1,690,391
2008	N/A	N/A	N/A
2007	N/A	N/A	N/A

N/A - Not Applicable; 2009 is implementation year for GASB Statement No. 45.

Funded Status and Schedule of Funding Process

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (b-a/c)
7/1/2008	\$ -	\$ 30,454,428	\$ 30,454,428	0.00%	\$ 14,262,708	213.5%

Note: Valuations as of July 1, 2008 represent the initial valuations for the plans as required under GASB Statement No. 45.

NOTES TO FINANCIAL STATEMENTS
(COOKEVILLE REGIONAL MEDICAL CENTER)

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements

Years Ended June 30, 2009 and 2008

NOTE A--REPORTING ENTITY

Cookeville Regional Medical Center Authority (the Authority) was established by a Private Act of the State of Tennessee legislature during 1999 for the purpose of operating Cookeville Regional Medical Center (the Medical Center) and all other hospital, clinical and related healthcare facilities of the City of Cookeville, Tennessee. The Private Act effectively reconstituted the Board of Trustees of the Medical Center as that of the Authority and granted such powers to the Authority as permitted under the State of Tennessee Private Act Hospital Authority Act of 1996. The initial members of the Board of Trustees of the Authority, a quasi-municipal corporation independent of the City of Cookeville (the City), were the same as those of the Medical Center and were elected by the Cookeville City Council as provided in the Private Act. The Authority is considered a component unit of the City for the City's financial reporting purposes. The Authority consists of the Medical Center and its component units as disclosed below.

The City of Cookeville and the Authority entered into an agreement effective December 10, 1999 which specified the arrangements relative to the Private Act. The Private Act which created the Authority was also amended by a subsequent Private Act in May 2000. This amended Private Act clarified the empowerment of the Authority. The Authority has sole and complete authority to operate and control the facilities of the Medical Center. The ownership of the real estate, improvements, tangible personal property, licenses, permits and provider numbers of the Medical Center remain with the City. The Authority also has rights to working capital, including cash, accounts receivable and future revenues, subject to that necessary to retire indebtedness at the date of the creation of the Authority, and the Authority has the obligation to repay debt of the City with respect to which such assets and revenues have been pledged. In addition, approval of the Cookeville City Council is required for all borrowings and purchase of any real property by the Authority. The Cookeville City Council also retains approval authority over the budget of the Medical Center's operations. All rights of the Authority cease upon sale, lease or transfer of the Medical Center by the City.

Operations of the Medical Center consist primarily of a 247-bed acute care hospital providing healthcare services in Putnam County, Tennessee. The Medical Center also owns and operates Highland Rim Home Health Agency.

The primary mission of the Medical Center is to provide inpatient and outpatient healthcare services to the citizens of Cookeville, Tennessee, Putnam County and surrounding areas.

Combining of Related Entities: The accompanying combined financial statements include the accounts of the CRMC Children's Center (the Children's Center) and CRMC MSO, Inc. (the MSO), two component units of Cookeville Regional Medical Center. Both entities began operations during the year ended June 30, 2005. The Children's Center was established to

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE A--REPORTING ENTITY - Continued

provide a quality early childhood program to employees of Cookeville Regional Medical Center. The MSO was established to provide physician services to the City of Cookeville and the surrounding areas. All intercompany accounts have been eliminated in the combination. The Cookeville Regional Medical Center, Children's Center, and MSO are collectively referred to as the "Medical Center" in the notes to the combined financial statements.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Medical Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis of accounting. Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) and predecessor standard setting organizations, including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Cash and Cash Equivalents: The Medical Center considers all highly liquid investments with a maturity of three months or less when originally purchased, excluding amounts limited as to use and other amounts in short-term investment portfolios, to be cash equivalents. Cash and cash equivalents consist of amounts maintained in bank deposits and money market accounts which are insured by the Federal Deposit Insurance Corporation, state depository insurance funds or multiple financial institution collateral pools, or otherwise collateralized by securities held by the Medical Center or by its agents in the Medical Center's name. The fair value approximates cost due to the nature of the assets.

Inventories: Inventories consist principally of medical and surgical supplies, general store supplies, pharmacy items and dietary foods and are stated at the lower of cost (first-in, first-out method) or fair market value.

Investments: Investments consist of short-term repurchase agreements, mortgage-backed securities, and United States government obligations. These investments are reported at fair market value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The Medical Center generally holds its investments until maturity. The portion of investments related to financial instruments with maturities of less than one year are classified as current assets. Investment income is reported as nonoperating revenue. Any changes in fair market value in the current year are recognized in the combined statements of revenue, expenses, and changes in net assets as a component of investment income.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets Limited as to Use: Assets limited as to use include cash and investments designated by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes; assets held by trustees under bond indenture agreements; and assets held by an insurance company for deferred compensation of employees.

Derivative Instruments: The Medical Center records all derivatives as assets or liabilities on the balance sheet at estimated fair value. The Medical Center's derivative holdings consist of interest rate swap agreements. Since these derivatives are not designated as hedging instruments, mark-to-market accounting applies, and the gain or loss resulting from changes in the fair value of the derivatives is recognized in the accompanying combined statements of revenue, expenses and changes in net assets. The Medical Center's objective in using derivatives is to manage the mix of fixed versus variable rate debt.

Property and Equipment: Property and equipment is stated on the basis of cost. Depreciation is computed by the straight-line method over the estimated useful life of the asset, generally 20 to 40 years for buildings, 5 to 20 years for land improvements and 3 to 20 years for furniture and equipment. Assets under capital leases are included in property and equipment and the related amortization and accumulated amortization is included in depreciation and amortization expense and accumulated depreciation and amortization, respectively. The Medical Center has established a capitalization threshold for property and equipment of \$5,000, except for computer software and hardware, which has a threshold of \$10,000. The Medical Center reviews the carrying values of long-lived assets if facts and circumstances indicate that recoverability may have been impaired. Costs of maintenance and repairs are expensed as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Investment in Joint Venture: Investment in a joint venture is accounted for under the equity method of accounting and the Medical Center recognizes its share in the results of the underlying activities in the venture.

Goodwill: Goodwill represents the excess of the purchase price of a healthcare operation over the fair value of the net assets acquired and is being amortized over ten years under the straight-line method.

Bond Issuance Costs: Costs incurred in issuing the revenue bonds are being amortized over the term of the related bond issues using the straight-line method.

Accrual for Compensated Absences: The Medical Center recognizes an expense and accrues a liability for compensated future employee vacation and other absences in the period in which

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

employees' rights to such compensated absences are earned. Compensated absences consist of paid days off including holidays, vacation, and bereavement days to regular full-time employees. Paid days off are earned based on years of service. Additionally, the Medical Center maintains a separate sick pay benefit for all full-time employees who have met a six-month service requirement, which is included in the accrual for compensated absences. In the past, if an employee reached age 55 and completed 5 years of service, one-half of the accumulated hours were paid out as a benefit upon retirement. The Medical Center modified this policy in 2001 for existing employees and employees hired on or after July 9, 2001 are not entitled to this retirement benefit.

Contributed Resources: From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted for specific operating purposes are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported as other increases in net assets.

Net Patient Service Revenue/Receivables: Net patient service revenue is reported on an accrual basis in the period in which services are provided at the estimated net realizable amounts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. Current operations are charged with an estimated provision for bad debts based upon management's evaluation of collectability. Such evaluation includes historical experience, aging of the receivables and other factors which affect the collectability of the receivables. The estimated provision for bad debts is reported as a reduction in net patient service revenue.

The Medical Center's policy does not require collateral or other security for patient accounts receivable. The Medical Center routinely accepts assignment of, or is otherwise entitled to receive, patient benefits payable under health insurance programs, plans or policies such as those related to Medicare, TennCare, Blue Cross, health maintenance organizations and commercial insurance carriers.

Net Assets: Net assets of the Medical Center are classified in three components. *Net assets invested in capital assets, net of related debt* consist of capital assets net of accumulated depreciation and reduced by the remaining balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net assets* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

required by revenue bond indentures. *Unrestricted net assets* are remaining net assets that do not meet the definition of invested in *capital assets, net of related debt or restricted*. The Medical Center first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenue and Expenses: The Medical Center's combined statements of revenue, expenses, and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing healthcare services - the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs.

Charity Care: The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Medical Center. In assessing a patient's inability to pay, the Medical Center utilizes generally recognized poverty income levels. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, charges related to charity care are not included in net patient service revenue. In addition to these charity care services, the Medical Center provides a number of other services to benefit the underprivileged patients for which little or no payment is received, including providing services to TennCare and state indigent patients and providing various public health education, health evaluation and screening programs.

Income Taxes: The Medical Center is classified as an organization exempt from federal income taxes as a quasi-municipal corporation and formerly as an enterprise fund of the City of Cookeville. Accordingly, no provision for income taxes has been included in the accompanying combined financial statements.

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

Newly Adopted Accounting Pronouncements: In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements* (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value under U.S. generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair value

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

measurements that are already required or permitted by other accounting standards and is expected to increase the consistency of those measurements. The definition of fair value focuses on the exit price (i.e., the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date), not the entry price (i.e., the price that would be paid to acquire the asset, or received to assume the liability, at the measurement date). The Statement emphasizes that fair value is a market-based measurement; not an entity-specific measurement. Therefore, the fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. The effective date for SFAS No. 157 was for fiscal years beginning November 15, 2007, and interim periods within those fiscal years. The Medical Center adopted SFAS No. 157 effective July 1, 2008 (See Note N).

Recently Issued Accounting Pronouncements: In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement is effective for years beginning after June 15, 2009 and provides guidance on how governmental entities report information about derivative instruments and other new accounting requirements. The Statement specifically requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Management of the Medical Center is evaluating the impact of this Statement on the combined financial statements but does not anticipate any material impact upon adoption.

In April 2009, the FASB issued Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. The Statement amends FASB Statement No. 142, *Goodwill and Other Intangible Assets*, to make it fully applicable to not-for-profit entities. The Statement is effective prospectively for financial statements issued for fiscal years beginning on or after December 15, 2009. As of that date, not-for-profit organizations will no longer amortize goodwill. The Medical Center will adopt the Statement effective July 1, 2010, with minimal impact expected.

NOTE C--NET PATIENT SERVICE REVENUE AND PATIENT ACCOUNTS RECEIVABLE

A significant portion of the amount of services provided by the Medical Center is to patients whose bills are paid by third-party payors such as Medicare, TennCare, and private insurance carriers.

A reconciliation of the amount of services provided to patients at established rates to net patient service revenue as presented in the combined statements of revenue, expenses and changes in net assets is as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

**NOTE C--NET PATIENT SERVICE REVENUE AND PATIENT ACCOUNTS RECEIVABLE
- Continued**

	<i>Year Ended June 30,</i>	
	<i>2009</i>	<i>2008</i>
Gross patient service charges	\$ 401,945,087	\$ 336,850,494
Less: Medicare contractual adjustments	(117,379,645)	(101,659,691)
TennCare contractual adjustments	(24,299,771)	(17,070,081)
Other contractual adjustments	(53,149,486)	(27,114,359)
Bad debt	(11,612,334)	(14,668,436)
Charity care	(5,613,072)	(3,858,402)
	<u>(212,054,308)</u>	<u>(164,370,969)</u>
Net patient service revenue	<u>\$ 189,890,779</u>	<u>\$ 172,479,525</u>

Net patient accounts receivable consist of the following:

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
Medicare	\$ 8,763,738	\$ 8,003,523
TennCare	2,382,032	2,305,890
Blue Cross and commercial	5,815,290	8,736,970
Patients, including self-insured	<u>6,227,934</u>	<u>4,762,204</u>
	23,188,994	23,808,587
Less: estimated allowance for uncollectible accounts	<u>(2,859,829)</u>	<u>(3,612,080)</u>
	<u>\$ 20,329,165</u>	<u>\$ 20,196,507</u>

Prior to the fiscal year ended June 30, 2008, the Medical Center estimated additional reserves to cover potential deficiencies in reimbursement under the State's TennCare program. During the fiscal year ended June 30, 2008, management came to the conclusion that the uncertainty related to the TennCare program no longer exists; therefore, the additional reserves related primarily to TennCare were reduced by approximately \$4,500,000 during the prior year. This amount was included in net patient service revenue for the year ended June 30, 2008.

NOTE D--THIRD-PARTY PAYOR AGREEMENTS

The Medical Center renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Effective January 1, 1994, the Medicaid program in

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE D--THIRD-PARTY PAYOR AGREEMENTS - Continued

Tennessee was replaced with TennCare, a managed care program designed to cover previous Medicaid eligible enrollees as well as other previously uninsured and uninsurable participants.

Amounts earned under these contractual arrangements are subject to review and final determination by fiscal intermediaries and other appropriate governmental authorities or their agents. Activity with respect to audits and reviews of governmental programs and reimbursement has increased and is expected to increase in the future. No additional reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. In the opinion of management, adequate provision has been made for any adjustments which may result from such reviews. In addition, participation in these programs subjects the Medical Center to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

The Medicare program pays for inpatient services on a prospective basis. Payments are based upon diagnostic related group assignments, which are determined by the patient's clinical diagnosis and medical procedures utilized.

The Medicare program reimburses for outpatient services under a prospective method utilizing an ambulatory payment classification system which classifies outpatient services based upon medical procedures and diagnosis codes.

The Medical Center contracts with various managed care organizations under the TennCare program. TennCare reimbursement for both inpatient and outpatient services is based upon prospectively determined rates and per diem amounts.

Net patient service revenue related to Medicare and TennCare was approximately \$96,235,000 and \$23,455,000, respectively, in 2009 and approximately \$75,825,000 and \$28,659,000, respectively, in 2008. Laws and regulations governing the Medicare and TennCare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The filed cost reports are subject to audits, reviews, and investigations.

The Medical Center has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, per diem rates, case rates and discounts from established charges.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE E--INVESTMENTS AND ASSETS LIMITED AS TO USE

The Medical Center's investments (including assets limited as to use) are reported at estimated fair value based on quoted market prices. The Medical Center invests in U.S. government agency securities, mortgage-backed securities, certificates of deposit, and repurchase agreements that are in accordance with the Medical Center's investment policy.

The carrying amounts of deposits and investments included in the Medical Center's combined balance sheets are as follows:

	<i>June 30,</i>	
	<i>2009</i>	<i>2008</i>
Carrying amount:		
Cash and cash equivalents	\$ 15,379,183	\$ 2,620,663
Investments	20,527,497	43,832,656
Total deposits and investments	<u>\$ 35,906,680</u>	<u>\$ 46,453,319</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 15,379,183	\$ 2,620,663
Short-term investments	7,591,758	28,418,773
Long-term investments	1,712,007	4,207,797
Assets limited as to use required to meet current obligations	1,172,432	1,129,932
Assets internally designated for capital acquisition	10,000,000	10,000,000
Assets limited for deferred compensation	51,300	76,154
	<u>\$ 35,906,680</u>	<u>\$ 46,453,319</u>

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. The Medical Center's investment policy limits the "average life" or repricing period of the portfolio as a whole to 5.5 years in order to minimize market value fluctuations.

The distribution of the Medical Center's investments and assets limited as to use by maturity as of June 30, 2009 is as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE E--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	Fair Value	Investment Maturities (in Years)				N/A
		Less Than 1	1 - 5	6 - 10	More Than 10	
June 30, 2009						
Undesignated	\$ 9,303,765	\$ 7,591,758	\$ 889,279	\$ 390,522	\$ 432,206	\$ -
Assets internally designated for capital acquisition	10,000,000	10,000,000	-	-	-	-
Assets designated for deferred compensation	51,300	-	-	-	-	51,300
Assets limited as to use required to meet current obligations	1,172,432	1,172,432	-	-	-	-
Cash and cash equivalents	15,379,183	15,379,183	-	-	-	-
Total	\$ 35,906,680	\$ 34,143,373	\$ 889,279	\$ 390,522	\$ 432,206	\$ 51,300

Credit Risk: The Medical Center's investment policy requires that investments be made only in U.S. Government Securities, U.S. Treasury and Agency Securities, mortgage-backed securities, collateralized mortgage obligations, certificates of deposits, and repurchase agreements. The Medical Center has no investment policy that would further limit its investment choices. As of June 30, 2009, the Medical Center had investments with quality ratings by nationally recognized rating agencies (i.e., Moody's Investor Service and Standard and Poor's Rating Agency).

Custodial Credit Risk: The Medical Center's investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the Medical Center, and are held by either the counterparty or the counterparty's trust department or agent but not in the Medical Center's name. The investment risk is that, in the event of the failure of the counterparty to a transaction, the Medical Center will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk: The Medical Center places limits on the portfolio composition of the following investment types: U.S. Treasury and Agency Securities, mortgage-backed securities, collateralized mortgage obligations, certificates of deposits, and repurchase agreements. No more than \$1,500,000 may be invested in any one security. At June 30, 2009, no more than \$1,500,000 is invested in any one investment security. As of June 30, 2009 and 2008, the Medical Center's investments consist of mortgage-backed securities, all of which are issued by Federal National Mortgage Association, Government National Mortgage Association, or Federal Home Loan Mortgage Corporation.

Investment income for assets limited as to use and other investments is comprised of the following for the years ended June 30:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE E--INVESTMENTS AND ASSETS LIMITED AS TO USE - Continued

	<i>2009</i>	<i>2008</i>
Interest income	\$ 405,726	\$ 1,943,693
Realized gain on investments	-	129,225
Unrealized gain on investments	25,118	853
	<u>\$ 430,844</u>	<u>\$ 2,073,771</u>

NOTE F--PROPERTY AND EQUIPMENT

The Authority's rights to use of the capital assets of the Medical Center, which belong to the City of Cookeville, are defined in the Private Act and in the agreement between the City and the Authority as discussed in Note A. A summary of property and equipment and schedule of activity is as follows:

	<i>Balance at June 30, 2008</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2009</i>
Land	\$ 11,720,511	\$ 1,239,911	\$ -	\$ -	\$ 12,960,422
Land improvements	5,109,853	10,000	-	-	5,119,853
Building	83,878,511	3,377,102	-	69,689,726	156,945,339
Automobiles	180,122	-	-	-	180,122
Equipment	47,163,985	2,945,977	(2,866,142)	10,971,002	58,214,822
Equipment under capitalized leases	5,197,880	279,242	-	-	5,477,122
	<u>153,250,862</u>	<u>7,852,232</u>	<u>(2,866,142)</u>	<u>80,660,728</u>	<u>238,897,680</u>
Less: allowance for depreciation and amortization:					
Land improvements	1,158,544	242,356	-	-	1,400,900
Building	20,856,318	3,460,447	-	-	24,316,765
Automobiles	157,800	12,716	-	-	170,516
Equipment	38,497,555	7,747,914	(2,420,404)	-	43,825,065
Equipment under capitalized leases	5,119,185	232,524	-	-	5,351,709
	<u>65,789,402</u>	<u>11,695,957</u>	<u>(2,420,404)</u>	<u>-</u>	<u>75,064,955</u>
Construction in progress	63,741,965	19,048,922	(7,235)	(80,660,728)	2,122,924
	<u>\$ 151,203,425</u>	<u>\$ 15,205,197</u>	<u>\$ (452,973)</u>	<u>\$ -</u>	<u>\$ 165,955,649</u>

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE F--PROPERTY AND EQUIPMENT - Continued

	<i>Balance at June 30, 2007</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2008</i>
Land	\$ 11,553,842	\$ 166,669	\$ -	\$ -	\$ 11,720,511
Land improvements	5,109,085	768	-	-	5,109,853
Building	79,950,066	85,734	-	3,842,711	83,878,511
Automobiles	180,122	-	-	-	180,122
Equipment	42,331,925	4,566,768	(1,142,885)	1,408,177	47,163,985
Equipment under capitalized leases	7,168,907	92,245	(2,063,272)	-	5,197,880
	<u>146,293,947</u>	<u>4,912,184</u>	<u>(3,206,157)</u>	<u>5,250,888</u>	<u>153,250,862</u>
Less: allowance for depreciation and amortization:					
Land improvements	916,409	242,135	-	-	1,158,544
Building	18,360,142	2,496,176	-	-	20,856,318
Automobiles	140,278	17,522	-	-	157,800
Equipment	32,288,762	7,061,597	(852,804)	-	38,497,555
Equipment under capitalized leases	7,169,387	13,070	(2,063,272)	-	5,119,185
	<u>58,874,978</u>	<u>9,830,500</u>	<u>(2,916,076)</u>	<u>-</u>	<u>65,789,402</u>
Construction in progress	29,162,372	39,830,481	-	(5,250,888)	63,741,965
	<u>\$ 116,581,341</u>	<u>\$ 34,912,165</u>	<u>\$ (290,081)</u>	<u>\$ -</u>	<u>\$ 151,203,425</u>

Construction in progress at June 30, 2009 consists of construction on the expansion of the Medical Center's obstetrics unit, assets not yet placed in service, and capitalized interest. Estimated costs to complete the obstetrics unit expansion project amount to approximately \$5,000,000 at June 30, 2009.

NOTE G--INVESTMENT IN JOINT VENTURE

During 2004, the Medical Center entered into a joint venture with an unrelated management company and several physicians to own and operate Upper Cumberland Physicians' Surgery Center (the Surgery Center) which began operations during the year ended June 30, 2004. The Medical Center has a 50% interest in the venture. The Medical Center recognizes its equity in the income/loss of the Surgery Center as part of other nonoperating revenue.

NOTE H--BONDS AND NOTES PAYABLE

The obligations of the Authority with respect to repayment of the City's debt related to the Medical Center facilities are defined in the Private Act and in the agreement between the City and the Authority as discussed in Note A. A schedule of changes in the Medical Center's bonds and notes payable is as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE H--BONDS AND NOTES PAYABLE - Continued

	<i>Balance at</i>			<i>Amounts Due</i>	
	<i>June 30, 2008</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i>	<i>Within</i>
				<i>June 30, 2009</i>	<i>One Year</i>
Series 2001 A-2 Bonds	\$ 19,540,000	\$ -	\$ (630,000)	\$ 18,910,000	\$ 655,000
Series 2001 A-3 Bonds	3,260,000	-	(1,025,000)	2,235,000	1,085,000
Series 2006 Bonds	44,290,000	-	(740,000)	43,550,000	775,000
Deferred loss on debt refinancing	(397,347)	-	105,972	(291,375)	-
Note payable - 6%	-	818,053	-	818,053	408,300
Equipment loan	-	219,230	-	219,230	219,230
	<u>\$ 66,692,653</u>	<u>\$ 1,037,283</u>	<u>\$ (2,289,028)</u>	<u>\$ 65,440,908</u>	<u>\$ 3,142,530</u>

	<i>Balance at</i>			<i>Amounts Due</i>	
	<i>June 30, 2007</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i>	<i>Within</i>
				<i>June 30, 2008</i>	<i>One Year</i>
Series 2001 A-2 Bonds	\$ 20,140,000	\$ -	\$ (600,000)	\$ 19,540,000	\$ 630,000
Series 2001 A-3 Bonds	4,230,000	-	(970,000)	3,260,000	1,025,000
Series 2006 Bonds	45,000,000	-	(710,000)	44,290,000	740,000
Deferred loss on debt refinancing	(525,075)	-	127,728	(397,347)	-
	<u>\$ 68,844,925</u>	<u>\$ -</u>	<u>\$ (2,152,272)</u>	<u>\$ 66,692,653</u>	<u>\$ 2,395,000</u>

On October 9, 2001, The Health Educational and Housing Facility Board of the County of Knox, Tennessee, pursuant to a Trust Indenture, issued \$22,570,000 of Variable Rate Demand Revenue Refunding Bonds, Series 2001 A-2 (the Series 2001 A-2 Bonds) and \$8,305,000 of Taxable Convertible Variable Rate Demand Revenue Refunding Bonds, Series 2001 A-3 (the Series 2001 A-3 Bonds).

The purpose of the Series 2001 A-2 Bonds and the Series 2001 A-3 Bonds was to advance refund the Industrial Development Board (IDB) of the City of Cookeville, Tennessee Hospital Improvement Revenue Bonds, Series 1996 (the Series 1996 Bonds) outstanding in the principal amount of \$8,395,000; to advance refund the IDB of the City of Cookeville, Tennessee Hospital Revenue Refunding Bonds, Series 1993 (the Series 1993 Bonds) outstanding in the principal amount of \$8,780,000; and to provide funds for expanding and improving the Medical Center's facilities and to pay certain costs in connection with issuance of the Bonds.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE H--BONDS AND NOTES PAYABLE - Continued

Certain proceeds of the Series 2001 A-2 and Series 2001 A-3 Bonds, together with transfers from the debt service reserve funds related to the Series 1996 and Series 1993 Bonds, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments on the Series 1996 and the Series 1993 Bonds. As a result, these bonds were considered to be defeased and the liability for these bonds has been removed from the combined financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,791,850. This difference, reported in the accompanying combined financial statements as a deduction from bonds payable, is being charged to interest expense using the effective interest method over the term of the old debt. Interest expense in 2009 and 2008 includes amortization of \$105,972 and \$127,728, respectively, related to this deferred amount. As a result of this transaction, the Medical Center in effect reduced its aggregate debt service payments. The ultimate economic effect of this transaction will depend upon the actual effective interest rates on the variable rate Bonds and the effect of any fixed rate conversions or agreements.

On March 10, 2006, the Medical Center issued \$45,000,000 in Variable Rate Demand Bonds (the Series 2006 Bonds) to provide funds for the construction of the North Patient Tower.

The Series 2001 A-2, Series 2001 A-3, and Series 2006 Bonds bear interest at a variable rate, adjusted weekly and subject to a maximum, which is determined by a remarketing agent at a rate which, under prevailing market conditions, would allow sale of the Bonds at par. The rate was 3.75% for the Series 2001 A-2 and Series 2001 A-3 Bonds and 3.10% for the Series 2006 Bonds at June 30, 2009. The interest rate on all bonds of a series may be converted to a fixed term rate until maturity at any time upon election of the Medical Center. During October 2004, the Medical Center entered into an interest rate swap agreement with a bank which effectively converts the interest rates on the Series 2001 A-2 and A-3 Bonds to a fixed rate of 3.79%. During March 2006, the Medical Center entered into an interest rate swap agreement which effectively converts the interest rate on the Series 2006 Bonds to a fixed rate of 4.21%. As of June 30, 2009 and 2008, the estimated fair value of the swaps resulted in a liability of \$3,449,576 and \$2,053,401, respectively. The swap on the Series 2001 A-2 and A-3 Bonds extends through October 2014, and the swap on the Series 2006 Bonds extends through March 2021. In addition, the Medical Center is subject to various annual fees associated with the bond issues. The fees totaled approximately \$398,000 and \$336,000 in 2009 and 2008, respectively, and are included in interest expense.

The Series 2001 A-3 Bonds are subject to an automatic tax-exempt conversion upon notice by the issuer and the Medical Center and upon the fulfillment of other requirements as outlined in the Trust Indenture. During 2004, such Bonds were converted to tax-exempt bonds.

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE H--BONDS AND NOTES PAYABLE - Continued

The Series 2001 A-2 Bonds mature on October 1, 2026, the Series 2001 A-3 Bonds mature on October 1, 2010, and the Series 2006 Bonds mature on March 1, 2036. The owners of any bond may require such bond to be purchased by the tender agent unless an event has occurred that requires the sooner mandatory purchase, mandatory redemption or acceleration of the bonds. The Bonds are also subject to optional redemption prior to any term rate conversion at the option of the Medical Center at 100% of the principal amount plus accrued interest. The Bonds are subject to mandatory purchase on the term rate conversion date at the principal amount, upon expiration of the letter of credit securing the bonds, or upon occurrence of certain events of default. The Series 2001 A-3 Bonds are subject to mandatory purchase upon conversion to tax-exempt bonds.

The Medical Center has entered into a remarketing agreement which requires the remarketing agent to use its best effort to remarket any bonds that have been tendered under optional, and in some cases, mandatory provisions. In addition, the Medical Center obtained three irrevocable, direct-draw letters of credit from a bank which secured payment of the principal and interest on the bonds and the purchase price of the bonds delivered for optional or mandatory purchase. Upon issuance of the Series 2006 bonds, the three letters of credit were combined into a single letter of credit, which expires on March 10, 2011. The Medical Center has entered into a reimbursement and security agreement with the bank issuing the letter of credit. This agreement provides for certain financial and other covenants and restrictions with which the Medical Center must comply. Management believes that the Medical Center is in compliance with such covenants as of June 30, 2009.

The Medical Center also issues notes payable to finance certain property and equipment additions. The 6% note payable is payable in two annual installments due on March 1, 2010 and March 1, 2011 and is unsecured. The equipment loan is non-interest bearing with monthly payments of \$19,930 through May 2010 and is secured by equipment.

The debt service requirements at June 30, 2009 related to bonds and notes payable are as follows:

<i>Year Ending June 30,</i>	<i>Principal Maturities or Sinking Fund Requirements</i>		<i>Interest</i>
2010	\$	3,142,530	\$ 2,596,769
2011		3,064,753	2,473,544
2012		1,570,000	2,367,201
2013		1,650,000	2,303,381
2014		1,720,000	2,236,628

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE H--BONDS AND NOTES PAYABLE - Continued

<i>Year Ending June 30,</i>	<i>Principal Maturities or Sinking Fund Requirements</i>	<i>Interest</i>
2015-2019	9,960,000	10,064,851
2020-2024	12,870,000	7,821,403
2025-2029	13,185,000	5,041,689
2030-2034	10,785,000	2,740,710
2035-2037	7,785,000	447,313
	<u>\$ 65,732,283</u>	<u>\$ 38,093,489</u>

Interest amounts for the Series 2001 A-2, A-3, and 2006 Bonds included in the table above are based on current rates in effect at June 30, 2009 and the effect of the interest rate swap agreements.

Interest expense of approximately \$179,000 was capitalized as part of construction in progress during the year ended June 30, 2009. Interest expense of \$1,165,135 and interest income of \$404,411 were capitalized as part of construction in progress during the year ended June 30, 2008.

NOTE I--LEASES

The Medical Center leases equipment and office space under capital and operating lease agreements. Future minimum lease payments under capital leases and noncancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2009 are as follows:

<i>Year Ending June 30,</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
2010	\$ 126,782	\$ 392,058
2011	31,838	240,183
2012	13,773	186,850
2013	-	186,850
2014	-	26,400
Thereafter	-	127,600
Total future minimum lease payments	172,393	<u>\$ 1,159,941</u>
Less amounts representing interest of 2.02%-12.62%	<u>(12,225)</u>	
Present value of net minimum lease payments	<u>\$ 160,168</u>	

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE I--LEASES - Continued

Operating lease commitments shown above exclude approximately \$2,464,000 for the year ended June 30, 2009 related to software and information systems contract labor.

Total rental expense was \$349,368 and \$245,355 for the years ended June 30, 2009 and 2008, respectively.

A schedule of changes in the Medical Center's capital leases is as follows:

<i>Balance at June 30, 2008</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2009</i>	<i>Amounts Due Within One Year</i>
\$ 89,026	\$ 279,242	\$ (208,100)	\$ 160,168	\$ 119,170

<i>Balance at June 30, 2007</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2008</i>	<i>Amounts Due Within One Year</i>
\$ -	\$ 92,245	\$ (3,219)	\$ 89,026	\$ 22,555

NOTE J--PENSION PLANS

Employees of the Medical Center 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 highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 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 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system become vested after 5 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 the Medical Center 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.

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

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE J--PENSION PLANS - Continued

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.

Prior to July 1, 2006, the Medical Center offered one retirement option, the PSPP. Effective July 1, 2006, the Medical Center offered two retirement options to those employees who were hired on or before June 30, 2006, the PSPP and a 401(k) noncontributory plan. The Medical Center ceased to offer the PSPP for employees hired by the Medical Center on or after July 1, 2006. Those employees that were hired by the Medical Center on or before June 30, 2006, were given a choice to continue participation in the PSPP or begin participating in the new noncontributory retirement plan in which the Medical Center contributes up to 7.0% of annual covered payroll. For the PSPP the Medical Center is required to contribute at an actuarially determined rate; the rate for the fiscal years ending June 30, 2009 and 2008 was 11.17% and 13.08%, respectively, of annual covered payroll. The contribution requirements of plan members are set by state statute.

The contribution requirement for the Medical Center is established and may be amended by the TCRS Board of Trustees.

For the PSPP, the Medical Center made its required contribution of \$4,080,041 and \$4,914,639 for the years ended June 30, 2009 and 2008, respectively, which represented 100% of the annual pension cost for those years. There was no net pension obligation at June 30, 2009 and 2008.

For the noncontributory 401(k) plan, the Medical Center contributed \$343,583 and \$395,070 for the years ended June 30, 2009 and 2008.

The required contribution related to the PSPP was determined as part of the initial participation actuarial valuation using the frozen initial liability actuarial cost method. Contribution rates determined by the initial participation actuarial valuation are guaranteed for two years.

Significant actuarial assumptions used in the valuation are based on a July 1, 2005 experience study and include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of investments over a five-year period. The Medical Center's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis.

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(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE J--PENSION PLANS - Continued

Additionally, the Medical Center offers its employees participation in a 401(k) Profit Sharing Plan (the Plan). The Plan administrator maintains the records of the trust which holds all investments of the Plan. The trust had net assets available for plan benefits of \$21,988,901 and \$25,930,270 at June 30, 2009 and 2008, respectively. The Plan is a defined contribution plan covering all employees who have completed six months of service. Contributions by participants are made by entering into a salary reduction agreement to reduce the participant's compensation by a specified percentage not to exceed 15% of total compensation. The Medical Center then matches the participant's contribution up to 3% of the participant's salary. Effective April 20, 2009, the Medical Center's match was suspended for all participants, except physicians. The Medical Center did not suspend the 3% match for physicians due to the existing contractual obligations with those individuals. The Medical Center's contributions to the Plan for the years ended June 30, 2009 and 2008 were \$1,008,059 and \$1,167,517, respectively. One year of service is defined as 1,000 hours of work in a plan year.

Vesting of the Medical Center's contributions on behalf of the participants in the Plan is as follows: service of one year - 20%, two years - 40%, three years - 60%, four years - 80%, and five or more years - 100%.

NOTE K--OTHER RECEIVABLES

Other current and long-term receivables at June 30, 2009 and 2008 include \$977,970 and \$718,085, respectively, in receivables from certain physicians which were made as part of the Medical Center's recruitment program to attract physicians to the Medical Center's service area. Under terms of the related agreements, such receivables will be forgiven over a period of time, generally over three years, as long as the physician continues to practice in the area. The Medical Center is amortizing these loans over the physicians' service commitments.

NOTE L--COMMITMENTS AND CONTINGENCIES

Medical malpractice liability is limited under provisions of the Tennessee Governmental Tort Liability Act (T.C.A. 29-20-403, et seq.), which removed tort liability from governmental entities which, in the opinion of counsel for the Medical Center, includes the Medical Center. In addition to requiring claims to be made in conformance with this Act, special provisions include, but are not limited to, special notice of requirements imposed upon the claimant, a one year statute of limitations, and a provision requiring that the governmental entity purchase insurance or be self-insured within certain limits. This Act also prohibits a judgment or award exceeding the minimum amounts of insurance coverage set out in the Act (\$300,000 for bodily injury or death of any one person and \$700,000 in the aggregate for all persons in any one accident, occurrence or act) or the amount of insurance purchased by the governmental entity.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE L--COMMITMENTS AND CONTINGENCIES - Continued

During 2003, the Medical Center became self-insured due to the fact that their professional liability carrier became insolvent. There are known incidents occurring through June 30, 2009 that have resulted in the assertion of claims, although other claims may be asserted, arising from services provided to patients in the past. Management of the Medical Center is of the opinion that such liability, if any, related to these asserted claims will not have a material effect on the Medical Center's financial position. No amounts have been accrued for potential losses related to unreported incidents, or reported incidents which have not yet resulted in asserted claims as the Medical Center is not able to estimate such amounts.

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services, Medicare fraud and abuse and most recently under the provisions of the Health Insurance Portability and Accountability Act of 1996, matters related to patient records, privacy and security. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

As of June 30, 2009, the Medical Center was involved in litigation with another entity regarding a professional services agreement. In October 2007, the opposing entity was awarded their alleged damages in this litigation; however, management appealed the ruling. The case was heard by the Court of Appeals in July 2008 and the Medical Center is awaiting the decision of the Court. The Medical Center accrued approximately \$2,100,000 at June 30, 2007 in regard to this litigation. This amount was still outstanding at June 30, 2009 and is included in other accrued expenses on the combined balance sheets.

The Medical Center is self-insured for medical and other healthcare benefits provided to its employees and their families. The Medical Center maintains reinsurance through a commercial excess coverage policy which covers health claims in excess of \$150,000 per employee, up to an aggregate of \$1,000,000 in any one policy period. Contributions by the Medical Center and participating employees are based on actual claims experience. Claims liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an estimated amount for claims that have been incurred but not reported based on historical experience. Claims liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other factors. The

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE L--COMMITMENTS AND CONTINGENCIES - Continued

amount of the estimated claim liabilities was \$1,399,905 and \$1,072,102 at June 30, 2009 and 2008, respectively. Total expenses under this program amounted to approximately \$8,880,000 and \$7,250,000 for the years ended June 30, 2009 and 2008, respectively.

The Medical Center is also self-insured for workers' compensation with umbrella coverage in excess of \$400,000 per case up to an aggregate of approximately \$1,000,000. Claim liabilities are recorded when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. At June 30, 2009 and 2008, approximately \$1,143,000 and \$1,306,000, respectively, was accrued and included in other accrued expenses on the combined balance sheets for estimated claims incurred but not reported.

NOTE M--RELATED PARTY TRANSACTIONS

Other related party transactions with the City of Cookeville include payments in lieu of taxes of \$700,000 during each of the years ended June 30, 2009 and 2008, respectively. Operating expenses also include \$3,317,844 and \$2,151,388 in 2009 and 2008, respectively, for the purchase of utilities.

NOTE N--FAIR VALUE MEASUREMENTS

The Medical Center adopted SFAS No. 157 during 2009 (as discussed in Note B). SFAS No. 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability.

The Medical Center has an established process for determining fair values. Fair value is based upon quoted market prices, where available. If listed prices or quotes are not available, fair value is based upon internally developed models or processes that use primarily market-based or independently-sourced market data, including interest rate yield curves, option volatilities and third party information. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value. Furthermore, while the Medical Center believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies, or assumptions, to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

Valuation Hierarchy: SFAS No. 157 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE N--FAIR VALUE MEASUREMENTS - Continued

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 includes values determined using pricing models, discounted cash flow methodologies, or similar techniques reflecting the Medical Center’s own assumptions.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The following table presents assets and liabilities reported at fair value as of June 30, 2009 and their respective classification under the SFAS No. 157 valuation hierarchy.

<i>Carrying Value</i>	<i>Quoted Prices in Active Markets (Level 1)</i>	<i>Significant Other Observable Inputs (Level 2)</i>	<i>Significant Unobservable Inputs (Level 3)</i>
Assets Measured at Fair Value			
on a Recurring Basis			
Undesignated investment securities	\$ 9,303,765	\$ 9,303,765	\$ -
Assets internally designated for capital acquisition	10,000,000	10,000,000	-
\$ 19,303,765	\$ 19,303,765	\$ -	\$ -
Assets Measured at Fair Value			
on a Nonrecurring Basis			
Goodwill	\$ 28,320	\$ -	\$ 28,320
Total recurring and nonrecurring assets at fair value	\$ 19,332,085	\$ 19,303,765	\$ -
Liabilities Measured at Fair Value			
on a Recurring Basis			
Interest rate swaps	\$ 3,449,576	\$ -	\$ 3,449,576
Total liabilities at fair value	\$ 3,449,576	\$ -	\$ 3,449,576

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2009 and 2008

NOTE N--FAIR VALUE MEASUREMENTS - Continued

The following is a reconciliation of Level 3 liabilities for which significant unobservable inputs were used to determine fair value:

	<i>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</i>	
	<i>Interest Rate Swaps</i>	<i>Total</i>
Beginning balance	\$ 2,053,401	\$ 2,053,401
Total losses (realized/unrealized)		
Included in earnings (or changes in net assets)	1,396,175	1,396,175
Included in other comprehensive income	-	-
Purchases, issuances, and settlements	-	-
Transfers in and/or out of Level 3	-	-
Ending balance	\$ 3,449,576	\$ 3,449,576

NOTE O--DEFERRED COMPENSATION

The Medical Center previously offered its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan was available to all Medical Center employees and permitted them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, the property and rights purchased with those amounts and the income attributable to those amounts, until paid or made available to the employee or other beneficiary, are solely the property and rights of the Medical Center, subject only to the claims of the Medical Center's general creditors. Participants' rights under the plan are equal to those of general creditors of the Medical Center in an amount equal to the fair market value of the deferred compensation account for each participant. At June 30, 2009 and 2008, the Medical Center held in trust and recorded a liability related to deferred compensation of \$51,300 and \$76,154, respectively.

SUPPLEMENTARY INFORMATION

CITY OF COOKEVILLE, TENNESSEE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2009

		Special Revenue Funds					Total Other Governmental Funds	
		Drug Fund	State Street Aid Fund	Sanitation Fund	Animal Control Board Fund	Economic Development Fund		Quality of Life Fund
<u>Assets</u>								
	Cash	\$ 52,975	\$ 233,206	\$ 423,150	\$ 37,524	\$ 122,616	\$ 247,441	\$ 1,116,912
	Temporary cash investments	-	485,144	150,000	500,656	200,000	200,000	1,535,800
	Accounts receivable	-	-	126,780	-	-	-	126,780
	Taxes receivable	-	-	-	-	273,148	68,287	341,435
	Less allowance for bad debts	-	-	(2,740)	-	(4,398)	(1,099)	(8,237)
	Other receivables	13	64,852	3,616	9,396	75,432	10,354	163,663
	Due from other funds	-	-	-	-	1,832	458	2,290
	Total assets	<u>\$ 52,988</u>	<u>\$ 783,202</u>	<u>\$ 700,806</u>	<u>\$ 547,576</u>	<u>\$ 668,630</u>	<u>\$ 525,441</u>	<u>\$ 3,278,643</u>
<u>Liabilities and Fund Balances</u>								
	Accounts payable	\$ 6	\$ 1,661	\$ 10,686	\$ 2,963	\$ 36,331	\$ 7	\$ 51,654
	Due to other funds	-	-	20,908	1,933	4,983	341	28,165
	Deferred revenue	-	4,678	-	45,179	278,650	205,354	533,861
	Other liabilities	-	136,950	-	-	-	-	136,950
	Total liabilities	6	143,289	31,594	50,075	319,964	205,702	750,630
	Fund balances unreserved	<u>52,982</u>	<u>639,913</u>	<u>669,212</u>	<u>497,501</u>	<u>348,666</u>	<u>319,739</u>	<u>2,528,013</u>
	Total liabilities and fund balances	<u>\$ 52,988</u>	<u>\$ 783,202</u>	<u>\$ 700,806</u>	<u>\$ 547,576</u>	<u>\$ 668,630</u>	<u>\$ 525,441</u>	<u>\$ 3,278,643</u>

CITY OF COOKEVILLE, TENNESSEE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED June 30, 2009

	<u>Special Revenue Funds</u>						<u>Total Other Governmental Funds</u>
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	<u>Sanitation Fund</u>	<u>Animal Control Board Fund</u>	<u>Economic Development Fund</u>	<u>Quality of Life Fund</u>	
Revenues:							
Real and personal property taxes					\$ 263,684	\$ 65,921	\$ 329,605
Gasoline taxes		\$ 700,745			-	-	700,745
Taxes - other	\$ 4,653	-			-	-	4,653
Intergovernmental	-	-		\$ 57,100	157,670	68,517	283,287
Charges for services	-	-	\$ 1,393,847	45,556	-	-	1,439,403
Fines and costs	45,686	-	-	-	-	-	45,686
Interest	173	6,481	6,033	12,264	6,619	6,226	37,796
Other	3,909	-	350	15,391	16,500	-	36,150
Total revenues	<u>54,421</u>	<u>707,226</u>	<u>1,400,230</u>	<u>130,311</u>	<u>444,473</u>	<u>140,664</u>	<u>2,877,325</u>
Expenditures:							
General government	-	-	-	-	172,789	-	172,789
Public safety	31,502	-	-	178,713	-	-	210,215
Public works	-	494,983	1,186,819	-	-	-	1,681,802
Culture and recreation	-	-	-	-	-	75,983	75,983
Debt service	-	-	-	-	201,999	-	201,999
Capital outlay	12,992	390,378	-	-	126,675	-	530,045
Total expenditures	<u>44,494</u>	<u>885,361</u>	<u>1,186,819</u>	<u>178,713</u>	<u>501,463</u>	<u>75,983</u>	<u>2,872,833</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,927</u>	<u>(178,135)</u>	<u>213,411</u>	<u>(48,402)</u>	<u>(56,990)</u>	<u>64,681</u>	<u>4,492</u>
Other financing sources (uses):							
Operating transfers in	-	98,536	-	54,220	-	-	152,756
Operating transfers out	-	-	(96,000)	-	-	-	(96,000)
Sale of assets	-	22,725	-	-	-	-	22,725
Total other financing sources (uses)	<u>-</u>	<u>121,261</u>	<u>(96,000)</u>	<u>54,220</u>	<u>-</u>	<u>-</u>	<u>79,481</u>
Net change in fund balances	9,927	(56,874)	117,411	5,818	(56,990)	64,681	83,973
Fund balances, July 1, 2008	<u>43,055</u>	<u>696,788</u>	<u>551,801</u>	<u>491,683</u>	<u>405,655</u>	<u>255,058</u>	<u>2,444,040</u>
Fund balances, June 30, 2009	<u>\$ 52,982</u>	<u>\$ 639,914</u>	<u>\$ 669,212</u>	<u>\$ 497,501</u>	<u>\$ 348,665</u>	<u>\$ 319,739</u>	<u>\$ 2,528,013</u>

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes and tax equivalents	\$ 3,063,300	\$ 3,063,300	\$ 3,003,513	\$ (59,787)
Rent	26,160	26,160	26,160	-
Interest	<u>105,000</u>	<u>105,000</u>	<u>80,905</u>	<u>(24,095)</u>
Total revenues	<u>3,194,460</u>	<u>3,194,460</u>	<u>3,110,578</u>	<u>(83,882)</u>
Expenditures:				
Debt service	<u>3,051,177</u>	<u>3,051,177</u>	<u>2,340,194</u>	<u>710,983</u>
Total expenditures	<u>3,051,177</u>	<u>3,051,177</u>	<u>2,340,194</u>	<u>710,983</u>
Excess of revenues over expenditures	<u>143,283</u>	<u>143,283</u>	<u>770,384</u>	<u>627,101</u>
Other financing sources:				
Operating transfers in	<u>96,000</u>	<u>96,000</u>	<u>96,000</u>	<u>-</u>
Net other financing sources:	<u>96,000</u>	<u>96,000</u>	<u>96,000</u>	<u>-</u>
Net change in fund balance	<u>\$ 239,283</u>	<u>\$ 239,283</u>	866,384	<u>\$ 627,101</u>
Fund balance, July 1, 2008			<u>4,537,369</u>	
Fund balance, June 30, 2009			<u>\$ 5,403,753</u>	

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
STATE STREET AID
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State gasoline tax	\$ 745,000	\$ 701,000	\$ 700,745	\$ (255)
Interest	14,000	7,000	6,481	(519)
Total revenues	<u>759,000</u>	<u>708,000</u>	<u>707,226</u>	<u>(774)</u>
Expenditures:				
Paving	500,000	400,000	439,011	(39,011)
Sidewalk improvements	30,000	30,000	7,447	22,553
Intersection improvements	95,000	45,000	38,036	6,964
Street maintenance supplies	10,000	10,000	10,225	(225)
Capital Outlay	290,000	413,000	390,378	22,622
Other	100	100	264	(164)
Total expenditures	<u>925,100</u>	<u>898,100</u>	<u>885,361</u>	<u>12,739</u>
(Deficiency) of revenues (under) expenditures	<u>(166,100)</u>	<u>(190,100)</u>	<u>(178,135)</u>	<u>11,965</u>
Other financing sources:				
Operating transfers in	-	98,536	98,536	-
Sale of assets	-	22,000	22,725	725
Net other financing sources:	<u>-</u>	<u>120,536</u>	<u>121,261</u>	<u>725</u>
Net change in fund balance	<u>\$ (166,100)</u>	<u>\$ (69,564)</u>	(56,874)	<u>\$ 12,690</u>
Fund balance, July 1, 2008			<u>696,788</u>	
Fund balance, June 30, 2009			<u>\$ 639,914</u>	

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DRUG FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines, forfeitures & penalties	\$ 20,000	\$ 45,000	\$ 45,686	\$ 686
Taxes and equivalents	2,000	4,200	4,653	453
Other revenue	-	3,900	3,909	9
Interest	800	800	173	(627)
Total revenues	<u>22,800</u>	<u>53,900</u>	<u>54,421</u>	<u>521</u>
Expenditures:				
Investigative	6,000	6,000	2,000	4,000
Seized property expense	6,200	6,200	5,286	914
Equipment & materials	12,000	19,000	23,792	(4,792)
Miscellaneous	1,100	1,100	424	676
Capital outlay	-	13,000	12,992	8
Total expenditures	<u>25,300</u>	<u>45,300</u>	<u>44,494</u>	<u>806</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,500)</u>	<u>8,600</u>	<u>9,927</u>	<u>1,327</u>
Net change in fund balance	<u>\$ (2,500)</u>	<u>\$ 8,600</u>	9,927	<u>\$ 1,327</u>
Fund balance, July 1, 2008			<u>43,055</u>	
Fund balance, June 30, 2009			<u>\$ 52,982</u>	

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
SANITATION FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 1,608,500	\$ 1,608,500	\$ 1,393,847	\$ (214,653)
Other revenue	500	500	350	(150)
Interest	<u>10,000</u>	<u>10,000</u>	<u>6,033</u>	<u>(3,967)</u>
Total revenues	<u>1,619,000</u>	<u>1,619,000</u>	<u>1,400,230</u>	<u>(218,770)</u>
Expenditures:				
Personnel	518,500	518,500	517,033	1,467
Taxes & fringes	215,350	215,350	208,092	7,258
Materials & supplies	16,450	16,450	12,554	3,896
Vehicle expense	260,750	260,750	260,585	165
Equipment	250,500	250,500	72,974	177,526
Fixed charges	17,100	17,100	6,951	10,149
Other expense	106,548	106,548	90,664	15,884
Landfill services	<u>17,000</u>	<u>17,000</u>	<u>17,966</u>	<u>(966)</u>
Total expenditures	<u>1,402,198</u>	<u>1,402,198</u>	<u>1,186,819</u>	<u>215,379</u>
Excess of revenues over expenditures	<u>216,802</u>	<u>216,802</u>	<u>213,411</u>	<u>(3,391)</u>
Other financing (uses):				
Operating transfers out	<u>(96,000)</u>	<u>(96,000)</u>	<u>(96,000)</u>	<u>-</u>
Net other financing sources:	<u>(96,000)</u>	<u>(96,000)</u>	<u>(96,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ 120,802</u>	<u>\$ 120,802</u>	117,411	<u>\$ (3,391)</u>
Fund balance, July 1, 2008			<u>551,801</u>	
Fund balance, June 30, 2009			<u>\$ 669,212</u>	

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ANIMAL CONTROL FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 54,600	\$ 54,600	\$ 57,100	\$ 2,500
Charges for services	44,000	44,000	45,556	1,556
Other revenue	25,000	25,000	15,391	(9,609)
Interest	10,000	10,000	12,264	2,264
Total revenues	<u>133,600</u>	<u>133,600</u>	<u>130,311</u>	<u>(3,289)</u>
Expenditures:				
Personnel	116,700	116,700	104,139	12,561
Taxes & fringes	14,248	14,248	19,047	(4,799)
Supplies & maintenance	58,300	58,300	51,688	6,612
Other expense	3,725	3,725	3,839	(114)
Capital outlay	400,000	400,000	-	400,000
Total expenditures	<u>592,973</u>	<u>592,973</u>	<u>178,713</u>	<u>414,260</u>
(Deficiency) of revenues (under) expenditures	<u>(459,373)</u>	<u>(459,373)</u>	<u>(48,402)</u>	<u>410,971</u>
Other financing sources:				
Operating transfers in	<u>54,220</u>	<u>54,220</u>	<u>54,220</u>	<u>-</u>
Net other financing sources:	<u>54,220</u>	<u>54,220</u>	<u>54,220</u>	<u>-</u>
Net change in fund balance	<u>\$ (405,153)</u>	<u>\$ (405,153)</u>	5,818	<u>\$ 410,971</u>
Fund balance, July 1, 2008			<u>491,683</u>	
Fund balance, June 30, 2009			<u>\$ 497,501</u>	

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 262,850	\$ 262,850	\$ 263,684	\$ 834
Intergovernmental	-	160,000	157,670	(2,330)
Other revenue	-	16,500	16,500	-
Interest	10,000	10,000	6,619	(3,381)
Total revenues	<u>272,850</u>	<u>449,350</u>	<u>444,473</u>	<u>(4,877)</u>
Expenditures:				
General government	100	100	113	(13)
Highland Business Park	25,000	285,000	299,351	(14,351)
Debt service	225,500	225,500	201,999	23,501
Total expenditures	<u>250,600</u>	<u>510,600</u>	<u>501,463</u>	<u>9,137</u>
Excess (deficiency) of revenues over (under) expenditures	<u>22,250</u>	<u>(61,250)</u>	<u>(56,990)</u>	<u>4,260</u>
Net change in fund balance	<u>\$ 22,250</u>	<u>\$ (61,250)</u>	<u>(56,990)</u>	<u>\$ 4,260</u>
Fund balance, July 1, 2008			<u>405,655</u>	
Fund balance, June 30, 2009			<u>\$ 348,665</u>	

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
QUALITY OF LIFE FUND
FOR THE YEAR ENDED June 30, 2009

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 65,710	\$ 65,710	\$ 65,921	\$ 211
Intergovernmental	1,726,400	1,726,400	68,517	(1,657,883)
Interest	5,000	5,000	6,226	1,226
Other	14,000	14,000	-	(14,000)
Total revenues	<u>1,811,110</u>	<u>1,811,110</u>	<u>140,664</u>	<u>(1,670,446)</u>
Expenditures:				
General government	100	100	116	(16)
Rails with Trails project	1,832,200	1,832,200	75,867	1,756,333
Total expenditures	<u>1,832,300</u>	<u>1,832,300</u>	<u>75,983</u>	<u>1,756,317</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,190)</u>	<u>(21,190)</u>	<u>64,681</u>	<u>85,871</u>
Net change in fund balance	<u>\$ (21,190)</u>	<u>\$ (21,190)</u>	64,681	<u>\$ 85,871</u>
Fund balance, July 1, 2008			<u>255,058</u>	
Fund balance, June 30, 2009			<u>\$ 319,739</u>	

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

JUNE 30, 2009

<u>Tax Year</u>	<u>Balance July 1,</u>	<u>Property Tax Levied</u>	<u>Anticipated Levy</u>	<u>Abatements & Adjustments</u>	<u>Collections</u>	<u>Balance June 30,</u>	<u>Delinquent Taxes Filed*</u>
2009			\$ 5,940,960			\$ 5,940,960	
2008		\$ 5,812,621	-	\$ (16,756)	\$ (5,515,736)	280,129	
2007	\$ 212,973	-	-	(644)	(155,767)	56,562	\$ 56,562
2006	49,306	-	-	(784)	(14,156)	34,366	34,366
2005	12,922	-	-	(47)	(1,890)	10,985	10,985
2004	27,217	-	-	(88)	(1,272)	25,857	25,857
2003	19,653	-	-	(18)	(935)	18,700	18,700
2002	10,289	-	-	(23)	(543)	9,723	9,723
2001	9,603	-	-	(40)	(1,005)	8,558	8,558
2000	11,165	-	-	-	(3,710)	7,455	7,455
1999	185	-	-	-	-	185	185
	<u>\$ 353,313</u>	<u>\$ 5,812,621</u>	<u>\$ 5,940,960</u>	<u>\$ (18,400)</u>	<u>\$ (5,695,014)</u>	<u>\$ 6,393,480</u>	<u>\$ 172,391</u>

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* Outstanding Delinquent Taxes filed with clerk and master.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF TAX RATES AND ASSESSMENTS

JUNE 30, 2009

<u>Tax Year</u>	<u>Tax rate</u>	<u>Assessed Value</u>
2009	\$.87 per \$100	\$656,978,714
2008	.87 per 100	640,260,446
2007	.79 per 100	619,049,296
2006	.79 per 100	605,586,006
2005	.88 per 100	520,822,737
2004	.88 per 100	510,293,044
2003	.83 per 100	507,125,668
2002	.71 per 100	506,425,352
2001	.71 per 100	494,319,138
2000	.82 per 100	371,189,258
1999	.82 per 100	355,087,093

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF BOND DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2009

<u>Fiscal</u> <u>Year</u> <u>Maturity</u>	<u>2004</u> <u>Refunding</u> <u>Bonds</u>	<u>Total</u> <u>Bonds</u>	<u>Future</u> <u>Interest</u> <u>Requirements</u>
2010	\$ 220,000	\$ 220,000	\$ 29,440
2011	245,000	245,000	21,933
2012	240,000	240,000	13,690
2013	<u>260,000</u>	<u>260,000</u>	<u>4,745</u>
	<u>\$ 965,000</u>	<u>\$ 965,000</u>	<u>\$ 69,808</u>

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF NOTES PAYABLE DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2009

<u>Fiscal Year Maturity</u>	<u>1999 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2001 Capital Outlay Note</u>	<u>2002 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2003 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2003 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2005 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2007 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2008 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2007 Putnam County Note</u>	<u>Total Notes Payable</u>	<u>Future Interest Requirements</u>
2010	\$ 712,000	\$ 158,083	\$ 88,000	\$ 169,000	\$ 119,000	\$ 268,000	\$ 167,000	\$ 109,000	\$ 124,010	\$ 1,914,093	\$ 160,377
2011	748,000	158,084	93,000	175,000	123,000	279,000	173,000	115,000	130,210	1,994,294	141,639
2012	786,000	158,084	97,000	181,000	126,000	290,000	180,000	120,000	136,721	2,074,805	122,268
2013	825,000	158,084	102,000	188,000	130,000	301,000	187,000	102,291	143,557	2,136,932	102,250
2014	866,000	158,084	107,000	194,000	-	313,000	195,000	-	150,735	1,983,819	81,639
2015	-	-	112,000	201,000	-	326,000	202,000	-	158,271	999,271	64,025
2016	-	-	118,000	208,000	-	339,000	210,000	-	166,185	1,041,185	52,831
2017	-	-	124,000	215,000	-	352,000	219,000	-	174,494	1,084,494	41,109
2018	-	-	-	-	-	367,000	227,000	-	183,219	777,219	28,835
2019	-	-	-	-	-	381,000	236,000	-	192,379	809,379	17,359
2020	-	-	-	-	-	397,000	246,000	-	-	643,000	5,332
2021	-	-	-	-	-	-	256,000	-	-	256,000	2,825
2022	-	-	-	-	-	-	266,000	-	-	266,000	1,826
2023	-	-	-	-	-	-	202,254	-	-	202,254	789
	<u>\$ 3,937,000</u>	<u>\$ 790,419</u>	<u>\$ 841,000</u>	<u>\$ 1,531,000</u>	<u>\$ 498,000</u>	<u>\$ 3,613,000</u>	<u>\$ 2,966,254</u>	<u>\$ 446,291</u>	<u>\$ 1,559,781</u>	<u>\$ 16,182,745</u>	<u>\$ 823,104</u>

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*Principal and interest requirements based on current debt and interest rate. The current interest rate at June 30, 2009 ranges from .39% to .48% on the variable rate Tennessee Municipal Bond Fund debt.

CITY OF COOKEVILLE, TENNESSEE
WATER QUALITY CONTROL DEPARTMENT - PROPRIETARY FUND
BONDS AND NOTES PAYABLE DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2009

<u>Fiscal Year</u>	<u>State of Tennessee 3.14% Revolving</u>	<u>State of Tennessee 3.50% Revolving</u>	<u>State of Tennessee 3.60% Revolving</u>	<u>Tennessee Municipal Bond Fund*</u>	<u>Total Bonds and Notes Payable</u>	<u>Future Interest Requirements</u>
2010	\$ 506,976	\$ 55,692	\$ 146,280	\$ 493,000	\$ 1,201,948	\$ 196,406
2011	523,128	57,672	151,644	517,000	1,249,444	170,556
2012	539,796	59,724	157,188	543,000	1,299,708	143,810
2013	556,992	4,926	135,098	570,000	1,267,016	116,987
2014	574,740	-	-	599,000	1,173,740	94,248
2015	593,040	-	-	629,000	1,222,040	73,061
2016	611,940	-	-	660,000	1,271,940	51,154
2017	631,428	-	-	693,000	1,324,428	28,498
2018	105,883	-	-	728,000	833,883	11,431
2019	-	-	-	764,000	764,000	7,517
2020	-	-	-	802,000	802,000	3,850
	<u>\$ 4,643,923</u>	<u>\$ 178,014</u>	<u>\$ 590,210</u>	<u>\$ 6,998,000</u>	<u>\$ 12,410,147</u>	<u>\$ 897,518</u>

*The note has a variable rate of interest, so the interest paid will differ from the projected amount. The current interest rate at June 30, 2009 is .48%.

CITY OF COOKEVILLE, TENNESSEE
DEBT SERVICE REQUIREMENTS - PROPRIETARY FUND
ELECTRIC DEPARTMENT
JUNE 30, 2009

Various Annexations - Non Interest Bearing

Year Ending <u>June 30,</u>	<u>Principal Requirements</u>
2010	\$ 1,000,000
2011	1,000,000
2012	1,000,000
2013	1,000,000
2014	1,000,000
2015	1,000,000
2016	1,000,000
2017	1,000,000
2018	1,000,000
	<u>\$ 9,000,000</u>

Tennessee Municipal Bond Fund - Variable Interest				
Fiscal Year	1999	2008	Total	Interest
<u>Maturity</u>	<u>Principal Requirements*</u>	<u>Principal Requirements*</u>	<u>Notes Payable</u>	<u>Requirements*</u>
2010	\$ 198,000	\$ 278,000	\$ 476,000	\$ 28,646
2011	208,000	292,000	500,000	26,612
2012	218,000	306,000	524,000	24,475
2013	229,000	322,000	551,000	22,235
2014	240,000	338,000	578,000	19,880
2015	-	355,000	355,000	17,410
2016	-	373,000	373,000	16,025
2017	-	391,000	391,000	14,570
2018	-	411,000	411,000	13,045
2019	-	431,000	431,000	11,443
2020	-	453,000	453,000	9,762
2021	-	476,000	476,000	7,995
2022	-	499,000	499,000	6,139
2023	-	524,000	524,000	4,192
2024	-	551,000	551,000	2,149
	<u>\$ 1,093,000</u>	<u>\$ 6,000,000</u>	<u>\$ 7,093,000</u>	<u>\$ 224,578</u>

*Principal and interest requirements based on current debt and interest rate.

CITY OF COOKEVILLE, TENNESSEE
DEBT SERVICE REQUIREMENTS - PROPRIETARY FUND
GAS DEPARTMENT
JUNE 30, 2009

Fiscal Year	Revenue Bond	Revenue	Total	Future
<u>Maturity</u>	<u>Series 2001</u>	<u>Bond</u>	<u>Bonds</u>	<u>Interest</u>
	<u>3.2% to 4.85%</u>	<u>Series 2004</u>	<u>Payable*</u>	<u>Requirements*</u>
		<u>1.5% to 3.3%</u>		
2010	\$ 100,000	\$ 215,000	\$ 315,000	\$ 114,215
2011	125,000	220,000	345,000	102,468
2012	375,000	-	375,000	87,978
2013	400,000	-	400,000	70,775
2014	425,000	-	425,000	51,894
2015	425,000	-	425,000	31,919
2016	450,000	-	450,000	10,912
	<u>\$ 2,300,000</u>	<u>\$ 435,000</u>	<u>\$ 2,735,000</u>	<u>\$ 470,161</u>

*Principal and interest requirements based on current debt and interest rate.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF INSURANCE COVERAGE

<u>Type of Coverage/ Insurance Carrier</u>	<u>Policy Period</u>	<u>Details of Coverage</u>	<u>Claim Limits</u>	<u>Deductible</u>
Commercial Property Coverage/ Tennessee Municipal League	7/01/08-6/30/09	Blanket Buildings & Contents	\$ 72,262,472	\$ 25,000
Equipment Floater/ Tennessee Municipal League	7/01/08-6/30/09	Scheduled Equipment	\$ 837,527	\$ 5,000
Electronic Data Processing Equip/ Tennessee Municipal League	7/01/08-6/30/09	Scheduled Equipment	\$ 142,243	\$ 25,000
Boiler and Machinery/ Cincinnati Insurance	7/01/08-6/30/09	Boilers	\$ 1,000,000	\$5,000 - \$25,000
Commercial Crime/ Cincinnati Insurance	7/01/08-6/30/09	Employee Blanket	\$ 1,000,000	\$ 5,000
Commercial General Liability/ Tennessee Municipal League	7/01/08-6/30/09	General Liability	\$ 700,000	
		Auto Liability	\$ 700,000	
		Auto Physical Damage	\$ 4,922,349	\$ 5,000
		Error & Omissions	\$ 2,000,000	
Workers' Compensation/ Tennessee Municipal League	7/01/08-6/30/09	Workers' Compensation	\$ 1,000,000	\$ 50,000
Employment Practices Liability/ Lexington Insurance Company	7/01/08-6/30/09	Employment Practices	\$ 1,000,000	
General Liability Gas Department/ Ranger Insurance Company	7/01/08-6/30/09	General Liability - Gas	\$ 2,000,000	

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF INVESTMENTS

JUNE 30, 2009

	State of Tennessee Local Government <u>Investment Pool</u>	Bank Certificate of <u>Deposits</u>	Total Cash <u>Investments</u>
Governmental Activities:			
Major Funds			
General	\$ 3,250,806	\$ 2,750,000	\$ 6,000,806
Debt Service	2,353,070	2,000,000	4,353,070
Capital Projects	4	-	4
Non-major funds	<u>585,800</u>	<u>950,000</u>	<u>1,535,800</u>
Total Governmental Activities	<u>6,189,680</u>	<u>5,700,000</u>	<u>11,889,680</u>
Business-type Activities:			
Major Funds			
Cookeville Electric Department	2,173,815	100,000	2,273,815
Cookeville Gas Department	4,785,071	1,000,000	5,785,071
Cookeville Water Quality Control Department	<u>2,385,365</u>	<u>1,160,000</u>	<u>3,545,365</u>
Total Business-type Activities	<u>9,344,251</u>	<u>2,260,000</u>	<u>11,604,251</u>
Internal Service Fund:			
Employee Health Insurance Fund	<u>1,828,852</u>	<u>2,000,000</u>	<u>3,828,852</u>
Total Internal Service Fund	<u>1,828,852</u>	<u>2,000,000</u>	<u>3,828,852</u>
 Total Temporary Cash Investments	 <u>\$ 17,362,783</u>	 <u>\$ 9,960,000</u>	 <u>\$ 27,322,783</u>

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF INTERFUND TRANSFERS

JUNE 30, 2009

Transfer from:

<u>Transfer to:</u>	<u>General</u>	<u>Sanitation</u>	<u>Capital Projects</u>	<u>Cookeville Electric Department</u>	<u>Cookeville Gas Department</u>	<u>Cookeville Water Quality Control Department</u>	<u>Total</u>
Animal Control	\$ 54,220						\$ 54,220
Debt Service	-	\$ 96,000					96,000
General	-	-	\$ 51,477	\$ 760,580	\$ 176,123	\$ 211,437	1,199,617
State Street Aid	-	-	98,536	-	-	-	98,536
Total:	<u>\$ 54,220</u>	<u>\$ 96,000</u>	<u>\$ 150,013</u>	<u>\$ 760,580</u>	<u>\$ 176,123</u>	<u>\$ 211,437</u>	<u>\$ 1,448,373</u>

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF UTILITY CUSTOMERS

JUNE 30, 2009

At June 30, 2009, the utility departments serviced the following number of customers:

<u>Department</u>	<u>Number of Customers</u>
Electric	15,787
Gas	9,501
Water	13,587
Sewer	12,926
Sanitation	943

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES
JUNE 30, 2009

Electric Department

Residential Rate Schedule: RS CL 22

	<u>Base Rate</u>	<u>+ Adjustment</u>	<u>= Rate</u>
Customer charge	\$9.32	(\$1.71)	\$7.61
First 800 KWH	\$0.08749		\$0.08749
All KWH/MO	\$0.08263		\$0.08263

General Power Rate Schedule: GSA

Part 1 (0-50 KW & 0-15,000 KWH) CL 40

Customer charge	\$10.94		\$10.94
All KWH	\$0.09501		\$0.09501

Part 2 (51 - 1,000 KWD or < 50 W/KWD & > 15,000 KWH) CL 50

Customer charge	\$10.94		\$10.94
0 - 50 KW/MO	No Charge		No Charge
Additional KW/MO	\$12.51		\$12.51000
First 15,000 KWH/MO	\$0.09563		\$0.09563
Additional KWH/MO	\$0.05320		\$0.05320

Part 3 (1,001 - 5,000 KWD) CL 54 & 55

Customer charge	\$10.94		\$10.94
0 - 1,000 KW/MO	\$11.95		\$11.95
Additional KW/MO	\$13.89		\$13.89
All KWH/MO	\$0.05413		\$0.05413

Outside Lighting

LP Part A (Street, Traffic, Park & Athletic)

Customer charge	\$2.50		\$2.50
All KWH	\$0.05906		\$0.05906

LP Part B (Security Lights)

(RATE OF .05244 ALL KWH)	<u>KWH</u>	<u>ENERGY</u>	<u>FAC RENTAL</u>	<u>TOTAL</u>
100 WHPS	42	\$2.65	\$3.95	\$6.60
250 WHPS	105	\$6.63	\$6.24	\$12.87
400 WHPS	165	\$10.43	\$6.57	\$17.00
175 WMV	70	\$4.42	\$3.44	\$7.86
400 WMV	155	\$9.79	\$5.58	\$15.37
250 WMHD	105	\$6.63	\$7.77	\$14.40
400 WMHD	165	\$10.43	\$7.75	\$18.18
1000 WMHD	398	\$25.15	\$11.16	\$36.31

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES (CONTINUED)
JUNE 30, 2009

Gas Department

Residential Rate - Classes 22,60,13,and 61 at July 1, 2009

Monthly rate (inside): First 5,000 cu. ft. for \$1.011 per 100 cu. ft.
Next 5,000 cu. ft. for \$1.001 per 100 cu. ft.
All additional for \$.991 per 100 cu. ft.

Minimum bill for residential consumers - \$5.00 per month.

Monthly rate (outside): First 5,000 cu. ft. for \$1.191 per 100 cu. ft.
Next 5,000 cu. ft. for \$1.178 per 100 cu. ft.
All additional for \$1.166 per 100 cu. ft.

Minimum bill for residential consumers - \$5.00 per month.

Commercial Rate - Classes 30,35,14,16,15,17,36,62,and 63 at July 1, 2009

Monthly rate (inside): First 5,000 cu. ft. for \$1.061 per 100 cu. ft.
Next 10,000 cu. ft. for \$1.031 per 100 cu. ft.
All additional for \$1.001 per 100 cu. ft.

Minimum bill for commercial consumers - \$6.00 per month.

Monthly rate (outside): First 5,000 cu. ft. for \$1.253 per 100 cu. ft.
Next 10,000 cu. ft. for \$1.216 per 100 cu. ft.
All additional for \$1.178 per 100 cu. ft.

Minimum bill for commercial consumers - \$6.00 per month.

Industrial Rate - Classes 40,45,50,41,46,51,64 and 65 at July 1, 2009

Monthly rate (inside): First 10,000 cu. ft. for \$1.031 per 100 cu. ft.
Next 20,000 cu. ft. for \$1.011 per 100 cu. ft.
All additional for \$.991 per 100 cu. ft.

Minimum bill for industrial consumers - \$20.00 per month.

Monthly rate (outside): First 10,000 cu. ft. for \$1.216 per 100 cu. ft.
Next 20,000 cu. ft. for \$1.191 per 100 cu. ft.
All additional for \$1.166 per 100 cu. ft.

Minimum bill for industrial consumers - \$20.00 per month.

Interruptible Rate - Class 55

\$.6417 per 100 cu. ft. (inside)

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES (CONTINUED)
JUNE 30, 2009

Water Quality Control Department

Inside Water Rates

Zero Usage (Base Charge)	\$6.50 (minimum bill)
All gallons over zero usage	\$2.55 per 1,000 gallons

Outside Water Rates

Zero Usage (Base Charge)	\$9.75 (minimum bill)
All gallons over zero usage	\$3.80 per 1,000 gallons

Water Storage Rate

Each 1,000 gallons per month	\$0.17 per 1,000 gallons
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Sewer Rates

Inside - Residential	\$3.43 per 1,000 gallons \$5.50 (minimum bill)
Inside - Industrial	\$3.43 per 1,000 gallons \$5.50 (minimum bill)

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF UNACCOUNTED FOR WATER

FOR THE YEAR ENDED JUNE 30, 2009

(All amounts in gallons)

A.	Water Treated and Purchased:		
B.	Water Pumped (potable)	4,285,452,000	
C.	Water Purchased	0	
D.	Total Water Treated and Purchased		4,285,452,000
E.	Accounted for Water:		
F.	Water Sold	3,005,809,800	
G.	Metered for Consumption (in house usage)	0	
H.	Fire Department Usage	1,620,136	
I.	Flushing	257,335	
J.	Tank Cleaning/Filling	19,500,000	
K.	Street Cleaning	0	
L.	Bulk Sales	162,100	
M.	Water Bill Adjustments	0	
N.	Total Accounted for Water		3,027,349,371
O.	Unaccounted for Water		1,258,102,629
P.	Percent Unaccounted for Water		29.35%
Q.	Cost per 1,000 gallons of water	\$	1.06
R.	Cost of Unaccounted for Water	\$	1,333,589

All amounts included in this schedule are support by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.

Water quantities from repaired leaks have not been included.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2009

<u>Grant Number</u>	<u>CFDA Number</u>	<u>Program</u>	<u>Grantor Agency</u>	<u>(Receivable) Deferred at July 1, 2008</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>(Receivable) Deferred at June 30, 2009</u>
BF-964153040	66.818	Brownfield Grant	U.S. Environmental Protection Agency	\$ (2,840)	\$ 90,254	\$ 87,414	\$ -
EMW-2008-FV-07067	97.044	Department of Homeland Security Assistance to Firefighters	U.S. Department of Homeland Security	-	254,515	254,515	-
EMW-2008-FO-12372	97.044	Department of Homeland Security Assistance to Firefighters	U.S. Department of Homeland Security	-	-	35,962	(35,962)
N/A	16.607	Bulletproof Vest Partnership	U.S. Department of Justice	-	5,170	5,170	-
Z-09-214300-00	20.600	Governor's Highway Safety Grant	State of Tennessee Department of Transportation	-	22,607	30,065	(7,458)
N/A	20.205	Rails with Trails Project	State of Tennessee Department of Transportation Pass thru from Federal Highway Administration	(102,600)	155,800	58,800	(5,600)
05 N/A	20.205	Rails with Trails Project	Rails to Trails Conservancy Washington D.C.	2,973	-	2,367	606
GG-08-24746-00	14.228	Community Development Block Grant	State of Tennessee Department of Economic & Community Development	(1,000)	160,491	256,000	(96,509)
			TOTAL FEDERAL AWARDS	<u>(103,467)</u>	<u>688,837</u>	<u>730,293</u>	<u>(144,923)</u>
N/A	N/A	Rails with Trails Project	State of Tennessee TN Parks & Greenways	2,000	-	-	2,000
STP-EN-9204(6)	N/A	Depot	State of Tennessee Department of Transportation	(1,123)	1,123	-	-
N/A	N/A	Safety Partners Loss Control	Tennessee Municipal League	-	2,000	2,000	-
Z-08-201167-00	N/A	Tennessee Agricultural Enhancement Program	State of Tennessee Department of Agriculture-Forestry Division	-	1,875	1,875	-
N/A	N/A	Meacham Foundation Memorial Grant	American Humane Association	4,000	-	-	4,000
			TOTAL STATE FINANCIAL ASSISTANCE	<u>4,877</u>	<u>4,998</u>	<u>3,875</u>	<u>6,000</u>
			TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	<u>\$ (98,590)</u>	<u>\$ 693,835</u>	<u>\$ 734,168</u>	<u>\$ (138,923)</u>

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

All expenditures reported are under the modified accrual basis of accounting whereby revenues are recorded when measurable and available and expenditures are recorded when the liability is incurred.

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

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Cookeville, Tennessee.
2. No significant deficiencies were disclosed during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of City of Cookeville, Tennessee were disclosed during the audit.
4. No significant deficiencies were disclosed in internal control over major federal award programs during the audit.
5. The auditor's report on compliance for the major federal award program for City of Cookeville, Tennessee expresses an unqualified opinion on the major federal program.
6. No audit findings relating to Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The program tested as a major program included:

<u>Program Name</u>	<u>CFDA Number</u>
U.S. Department of Homeland Security Assistance to Firefighters	97.044
Community Development Block Grant	14.228

8. The threshold of distinguishing Types A and B programs was \$300,000.
9. City of Cookeville, Tennessee was determined to be a high-risk auditee.

B. FINDINGS-FINANCIAL STATEMENTS AUDIT

None

C. FINDINGS AND QUESTIONED COSTS-MAJOR FEDERAL AWARD PROGRAM AUDIT

None

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

To the City Council
City of Cookeville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, budgetary comparison information for major funds, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the City of Cookeville, Tennessee's basic financial statements and have issued our report thereon dated December 1, 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. We did not audit the financial statements of Cookeville Regional Medical Center Authority, a component unit, which statements reflect total assets of \$231,373,131 as of June 30, 2009. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cookeville Regional Medical Center Authority, is based solely on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Cookeville, 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 entity's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Cookeville, Tennessee'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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. A material weakness is a significant deficiency, or a 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 entity'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 disclose all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended solely for the information of the City Council and management and is not intended to be and should not be used by anyone other than these specified parties.

Duncan, Wheeler & Wilkerson, P.C.

December 1, 2009
Cookeville, Tennessee



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

To the City Council of
City of Cookeville, Tennessee

Compliance

We have audited the compliance of City of Cookeville, Tennessee, with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Cookeville, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City of Cookeville, Tennessee's management. Our responsibility is to express an opinion on the City of Cookeville, Tennessee's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Cookeville, Tennessee's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Cookeville, Tennessee's compliance with those requirements.

In our opinion, City of Cookeville, Tennessee complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

The management of City of Cookeville, Tennessee is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we

considered City of Cookeville, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Cookeville, Tennessee's internal control over compliance.

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

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

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

This report is intended solely for the information and use of the City Council, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Duncan, Wheeler : Wilkerson, P.C.

December 1, 2009
Cookeville, Tennessee