

CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

Year Ended

June 30, 2010

CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

June 30, 2010

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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 aggregate discretely presented component units, each major fund, budgetary comparison information for the General Fund, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of and for the year ended June 30, 2010, 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 \$236,414,197 as of June 30, 2010. 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, 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, 2010, 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 15, 2010, 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 grant agreements and other matters. The purpose of that report is to

describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages III through XV and 67 through 73 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Cookeville, Tennessee's financial statements as a whole. The combining and individual nonmajor fund financial statements on pages 65 and 66 and the supplemental information on pages 74 through 87 are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards 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 financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplemental information on pages 74 through 87 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Duncan, Wheeler : Wilkerson, P.C.

December 15, 2010
Cookeville, Tennessee

Management's Discussion and Analysis
Annual Financial Statements
For the Fiscal Year Ended June 30, 2010

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, 2010. 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, 2010 by \$145,827,385 (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 (\$104,973,854) and unrestricted-undesignated resources available to continue City operations into the next fiscal year (\$40,853,531).
- Unrestricted cash and investment balances as of June 30 were \$46,552,077 and current liabilities payable from those funds were \$19,976,672. \$24,680,127 of the \$46,552,077 represents cash and investments of the business-type activities of the City with the remaining \$21,871,950 cash available to the governmental activities.
- The government's total net assets increased this year by \$9,204,703. Net assets of the governmental activities increased by \$3,134,342 and those of the City's business type activities (utilities) increased by \$6,070,361.
- As of June 30, 2010, the City of Cookeville's governmental funds reported combined ending fund balances of \$17,973,521, an increase of \$2,489,191 in comparison with the prior year. Approximately two-thirds of this total amount, \$11,690,175 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 \$8,925,027 or 46% of total general fund expenditures.
- The City of Cookeville's total long term liabilities decreased by \$4,014,191 (8 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. 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 \$2,424,148 for governmental activities and \$973,083 for business type activities. Additional information is available on pages 36-37.

Overview of the Financial Statements

This discussion and analysis are 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 65-66 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 beginning 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 \$145,827,385 at fiscal year end June 30, 2010.

By far the largest portion of the City of Cookeville's net assets (65 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

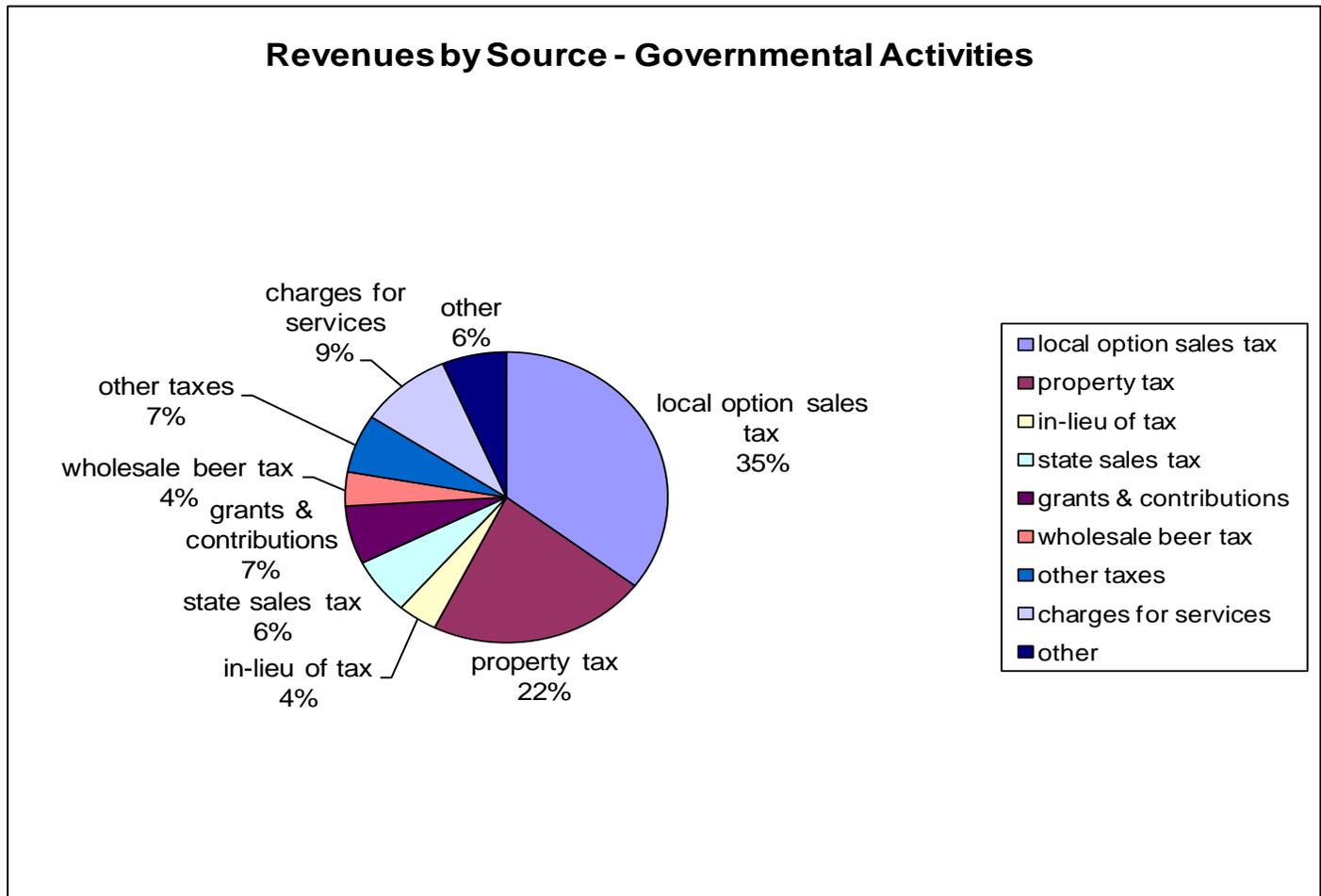
	<u>Governmental</u>		<u>Business-type</u>		<u>Totals</u>		<u>Amount</u>	<u>%</u>
	<u>Activities</u>		<u>Activities</u>				<u>Change</u>	<u>Change</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>		
Current Assets	29,119,304	26,869,829	37,976,498	32,103,651	67,095,802	58,973,480	8,122,322	13.8%
Capital Assets	36,687,803	37,485,239	101,635,896	103,053,870	138,323,699	140,539,109	(2,215,410)	-1.6%
Other Assets	3,738,853	2,490,375	2,748,098	2,705,311	6,486,951	5,195,686	1,291,265	24.9%
Total Assets	<u>69,545,960</u>	<u>66,845,443</u>	<u>142,360,492</u>	<u>137,862,832</u>	<u>211,906,452</u>	<u>204,708,275</u>	<u>7,198,177</u>	3.5%
Current Liabilities	9,851,062	9,839,807	10,125,610	9,616,661	19,976,672	19,456,468	520,204	2.7%
Long-term debt	13,297,562	15,013,652	25,552,263	28,245,199	38,849,825	43,258,851	(4,409,026)	-10.2%
Other Liabilities	3,249,919	1,978,909	4,002,651	3,391,365	7,252,570	5,370,274	1,882,296	35.1%
Total Liabilities	<u>26,398,543</u>	<u>26,832,368</u>	<u>39,680,524</u>	<u>41,253,225</u>	<u>66,079,067</u>	<u>68,085,593</u>	<u>(2,006,526)</u>	-2.9%
Net Assets:								
Invested in capital assets, net of related debt	21,214,622	20,407,695	72,979,189	71,815,723	94,193,811	92,223,418	1,970,393	2.1%
Restricted	10,780,043	8,545,467			10,780,043	8,545,467	2,234,576	26.1%
Unrestricted - undesignated	11,152,752	11,059,913	29,700,779	24,793,884	40,853,531	35,853,797	4,999,734	13.9%
Total Net Assets	<u>43,147,417</u>	<u>40,013,075</u>	<u>102,679,968</u>	<u>96,609,607</u>	<u>145,827,385</u>	<u>136,622,682</u>	<u>9,204,703</u>	6.7%

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 (\$40,853,531) 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, 2010 was \$4,326,785.

At June 30, 2010, 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 \$3,134,342 for governmental activities and \$6,070,361 for business-type activities. The City’s overall financial position improved during fiscal year 2010.

Governmental activities. Governmental activities increased the City of Cookeville’s net assets by \$3,134,342, thereby accounting for 34 percent of the total growth in the net assets of the City of Cookeville.

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 primary Government for the year ended June 30, 2010.

Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals		Amount Change	% Change
	2010	2009	2010	2009	2010	2009		
Revenues:								
Program revenues								
Charges for services	2,513,647	2,481,535	72,570,682	78,556,427	75,084,329	81,037,962	(5,953,633)	-7.3%
Operating Grants & Contributions	1,009,483	1,039,270			1,009,483	1,039,270	(29,787)	-2.9%
Capital Grants & Contrib	752,735	1,464,651	294,339		1,047,074	1,464,651	(417,577)	-28.5%
General revenues								
Local option sales tax	9,627,727	9,569,652			9,627,727	9,569,652	58,075	0.6%
Property tax	5,972,465	5,672,121			5,972,465	5,672,121	300,344	5.3%
In-lieu of tax	1,079,922	1,041,797			1,079,922	1,041,797	38,125	3.7%
State sales tax	1,697,204	1,757,214			1,697,204	1,757,214	(60,010)	-3.4%
Wholesale beer tax	1,029,520	1,077,072			1,029,520	1,077,072	(47,552)	-4.4%
other taxes	1,765,842	2,031,809			1,765,842	2,031,809	(265,967)	-13.1%
Other revenues	1,756,874	781,214	322,308	253,378	2,079,182	1,034,592	1,044,590	101.0%
Transfers	1,188,665	1,148,140	(1,188,665)	(1,148,140)	-	-	-	
Total Revenues	<u>28,394,084</u>	<u>28,064,475</u>	<u>71,998,664</u>	<u>77,661,665</u>	<u>100,392,748</u>	<u>105,726,140</u>	<u>(5,333,392)</u>	-5.0%
Expenses:								
General government	3,655,846	4,011,227			3,655,846	4,011,227	(355,381)	-8.9%
Planning & engineering	932,400	965,377			932,400	965,377	(32,977)	-3.4%
Public Safety	11,468,386	11,317,754			11,468,386	11,317,754	150,632	1.3%
Maintenance	1,124,880	1,136,459			1,124,880	1,136,459	(11,579)	-1.0%
Public Works	5,806,035	5,786,697			5,806,035	5,786,697	19,338	0.3%
Culture & recreation	2,055,329	2,069,229			2,055,329	2,069,229	(13,900)	-0.7%
Interest on Debt	216,866	372,080			216,866	372,080	(155,214)	-41.7%
Electric			44,740,764	47,823,141	44,740,764	47,823,141	(3,082,377)	-6.4%
Gas			11,034,483	13,674,713	11,034,483	13,674,713	(2,640,230)	-19.3%
Water Quality Control			10,153,056	10,688,902	10,153,056	10,688,902	(535,846)	-5.0%
Total Expenses	<u>25,259,742</u>	<u>25,658,823</u>	<u>65,928,303</u>	<u>72,186,756</u>	<u>91,188,045</u>	<u>97,845,579</u>	<u>(6,657,534)</u>	-6.8%
Change in Net Assets	3,134,342	2,405,652	6,070,361	5,474,909	9,204,703	7,880,561	1,324,142	16.8%
Beginning 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%
Ending Net Assets	<u>43,147,417</u>	<u>40,013,075</u>	<u>102,679,968</u>	<u>96,609,607</u>	<u>145,827,385</u>	<u>136,622,682</u>	<u>9,204,703</u>	6.7%

Business-type activities. Business-type activities increased the City of Cookeville's net assets by 6,070,361, accounting for 66 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 6.6 %, 4.7%, and 10.5% respectively this year.

The electric operations continue to show strong results. Net assets increased by \$2,186,883 with operating revenues of \$47,663,870 and operating expenses of \$44,679,972. Non operating expenses totaled \$867 and transfers to the general government were \$796,148. 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 calculated by TVA is passed on to Cookeville's electric customers. The Electric Department has started working with TVA to implement new seasonal retail rates in the coming fiscal year moving towards time of use retail rates in the future. The department brought four annexation areas on line in the 2010 fiscal year. The new areas included Bunkerhill/Lovelady, Gaw/Dodson Branch, Rebecca Place and Shag Rag.

Net assets increased \$2,152,490 for the water/sewer department. Operating revenues were \$12,164,200 and operating expenses were \$9,791,783. Non operating expenses totaled \$302,339 with this being primarily interest expense on long-term debt. Transfers to the general government totaled \$211,927 and capital contributions totaled \$294,339. 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. Effective July 1, 2010 the water/sewer department implemented rate increases on both water and sewer services as a result of a prior rate 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 55% of the water treated by the Cookeville water department and accounts for approximately 40% 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 30th the amount due for this water storage right was \$2,353,420.

The gas department's net assets increased by \$1,799,196. Operating revenues were \$12,742,612 and operating expenses were \$10,940,020. Non operating revenues totaled \$177,194 and transfers to the general government were \$180,590. The department installed over 7,700 feet of mains during fiscal year 2010 and plans to continue extension of mains throughout areas of its service territory. 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 2010 and 2009

	<u>FY 2010</u>	<u>FY 2009</u>	Amount <u>Change</u>	% <u>Change</u>
Electric Department	47,663,870	50,714,467	(3,050,597)	-6.0%
Gas Department	12,742,612	15,604,907	(2,862,295)	-18.3%
Water quality Control Department	12,164,200	12,237,053	(72,853)	-0.6%
Charges for Services-Business-type Activities	<u>72,570,682</u>	<u>78,556,427</u>	<u>(5,985,745)</u>	-7.6%

Summary Comparison of Expenses for Fiscal Years 2010 and 2009

	<u>FY 2010</u>	<u>FY 2009</u>	Amount <u>Change</u>	% <u>Change</u>
Electric Department	44,740,764	47,823,141	(3,082,377)	-6.4%
Gas Department	11,034,483	13,674,713	(2,640,230)	-19.3%
Water quality Control Department	10,153,056	10,688,902	(535,846)	-5.0%
Expenses-Business-type Activities	<u>65,928,303</u>	<u>72,186,756</u>	<u>(6,258,453)</u>	-8.7%

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, 2010, the City of Cookeville's governmental funds reported combined ending fund balances of \$17,973,521, an increase of \$2,489,191 in comparison to prior year. Approximately two-thirds of this total amount, \$11,690,175 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, 2010, unreserved, undesignated fund balance of the general fund was \$8,925,027. 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 46 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 local option sales tax and property tax revenue account for 71% of the general fund revenues. The recent economic downturn has significantly affected sales tax revenues. Sales tax

collections peaked in FY 2008 at slightly over \$10 million. Total sales tax collections for FY 2010 were 9,630,040. This was a .6% or \$58,075 increase from June 2009 to June 2010. The struggling economy will continue to have a significant impact on the local option sales tax collections going forward. The city continues to budget assuming sales tax collections will remain relatively flat. A \$.08 property tax increase effective July 2008 helped offset loss in sales tax collections from the 2008 peak. \$.05 cents of this property tax increase was allocated to the general fund and resulted in approximately \$330,000 in additional revenue for the general fund. This additional property tax revenue along with maintaining flat operating budgets has allowed the city to continue to provide uninterrupted services to the community. 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 City of Cookeville's general fund balance increased \$1,371,377 during the fiscal year.

The debt service fund has a total fund balance of \$6,283,346, 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 \$879,593. 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 fund balance of \$357,811 at the end of the fiscal year. During fiscal year 2010, the City completed approximately \$390,000 in improvements at the Cookeville Performing Arts Center. Work continues on the extension of West Cemetery Road with completion expected in 2011. This \$1.3 million dollar project is being accounted for in the capital projects fund and paid for with debt issues. 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 beginning on page 11. The statements for the other funds can be found in the supplementary information.

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, 2010 was \$36,687,803 and \$101,635,896 respectively. The net investment decreased 2.1% for governmental and decreased 1.4% for business-type activities.

Capital asset additions for the governmental funds were \$1,823,070. Major capital asset additions for governmental funds included the purchase of a police car using ARRA funds, a new sanitation frontload truck and brush truck were purchased for Public Works. Improvements to the Cookeville Performing Arts Center facility were completed and capitalized in 2010. These improvements totaled approximately \$390,000. The Fire Department installed sprinkler systems in all four stations at a cost of approximately \$122,000 using federal grant monies. Construction in process includes the West Cemetery Road extension, engineering cost on the Cane Creek Bridge replacement project and development costs on the Highlands Industrial Park.

Capital asset disposals in the governmental funds during the fiscal year included selling two pieces of real property that had previously been purchased to allow for construction and widening of Fairground Street. Once Fairground Street improvements were completed, these two properties were sold at public auction. The City also disposed of two fully depreciated fire trucks.

Capital asset additions for the business-type activities were \$3,482,300. Additions for the Electric Department were \$1,755,932 for the Water Department \$1,479,096 and for the Gas Department \$247,272. The Gas Department disposed of its propane air plant. The propane air plant was installed in the late 60s and used to supplement natural gas supply on peak days. This equipment had not been used in several years and with additional firm supply capacity the department decided to dispose of the equipment. The department recognized a gain of \$212,268 on the sale of the propane air plant equipment. The Water Department additions include construction in process of approximately \$1,367,000 related to the Huges Creek Sewer Project. This project will provide the additional sewer pumping capacity needed to serve the new industrial park's sewer system and pumping station. The Electric Department purchased a new digger derrick truck for its construction crews.

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>2010</u>	<u>2009</u>		
Non-depreciable assets:				
Land	9,214,575	9,136,715	77,860	0.9%
Construction in progress	1,279,165	480,050	799,115	166.5%
Depreciable assets:				
Buildings	5,503,683	5,800,547	(296,864)	-5.1%
Improvements	940,939	510,085	430,854	84.5%
Vehicles	2,028,543	2,421,221	(392,678)	-16.2%
Machinery & equipment	353,690	551,475	(197,785)	-35.9%
Software	28,087	59,287	(31,200)	-52.6%
Infrastructure	17,339,121	18,525,859	(1,186,738)	-6.4%
Total	<u>36,687,803</u>	<u>37,485,239</u>	<u>(797,436)</u>	-2.1%

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>Business-type Activities</u>		<u>Amount Change</u>	<u>% Change</u>
	<u>2010</u>	<u>2009</u>		
Non-depreciable assets:				
Land	2,624,839	2,607,036	17,803	0.7%
Construction in progress	1,839,105	524,192	1,314,913	250.8%
Depreciable assets:				
Building & Improvements	2,683,589	2,805,309	(121,720)	-4.3%
Plant & distribution systems	82,582,005	85,614,311	(3,032,306)	-3.5%
Machinery & equipment	2,964,827	3,177,629	(212,802)	-6.7%
Furniture & equipment	80,313	126,965	(46,652)	-36.7%
Plant acquisition adjustment	8,861,218	8,198,428	662,790	8.1%
Total	<u>101,635,896</u>	<u>103,053,870</u>	<u>(1,417,974)</u>	-1.4%

Long-term Liabilities. At the end of the fiscal year, the Primary Government had total long-term liabilities of \$48,106,598. Of this amount, \$16,362,627 relates to governmental activities while the remaining \$31,743,971 relates to business type activities. Of the \$16,362,627 of long-term liabilities of governmental activities, \$15,536,856 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>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>		
Bonds & notes payable	15,536,856	17,147,745	28,656,707	31,238,147	44,193,563	48,385,892	(4,192,329)	-8.7%
Compensated Absences	825,771	771,667	341,525	325,332	1,167,296	1,096,999	70,297	6.4%
Other debt			2,745,739	2,637,898	2,745,739	2,637,898	107,841	4.1%
	<u>16,362,627</u>	<u>17,919,412</u>	<u>31,743,971</u>	<u>34,201,377</u>	<u>48,106,598</u>	<u>52,120,789</u>	<u>(4,014,191)</u>	
Less:								
Amounts due within one year	(2,239,294)	(2,134,093)	(3,162,140)	(3,047,962)	(5,401,434)	(5,182,055)	(219,379)	4.2%
Total Long term liabilities	<u>14,123,333</u>	<u>15,785,319</u>	<u>28,581,831</u>	<u>31,153,415</u>	<u>42,705,164</u>	<u>46,938,734</u>	<u>(4,233,570)</u>	-9.0%

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 March 2011. 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, 2010

	Primary Government			Component Units		Total Reporting Entity
	Governmental Activities	Business- Type Activities	Total	CRMC*	PBA	
Assets						
Current assets:						
Cash	\$ 13,213,185	\$ 15,525,434	\$ 28,738,619	\$ 2,234,614	\$ 20,239	\$ 30,993,472
Sinking fund cash	-	682,137	682,137	-	-	682,137
Temporary cash investments	8,658,765	9,154,693	17,813,458	22,577,940	-	40,391,398
Accounts receivable, net of allowance	126,665	9,987,158	10,113,823	19,846,398	8,134	29,968,355
Taxes receivable, net of allowance	6,085,721	-	6,085,721	-	-	6,085,721
Other receivables	1,644,863	-	1,644,863	348,564	-	1,993,427
Due from other funds	(613,341)	613,341	-	-	-	-
Inventories	-	1,894,279	1,894,279	5,185,177	-	7,079,456
Prepaid expenses and other current assets	3,446	119,456	122,902	1,880,164	469	2,003,535
Total current assets	<u>29,119,304</u>	<u>37,976,498</u>	<u>67,095,802</u>	<u>52,072,857</u>	<u>28,842</u>	<u>119,197,501</u>
Noncurrent assets:						
Notes receivable, net of allowance	-	398,946	398,946	-	-	398,946
Water storage rights	-	2,253,502	2,253,502	-	-	2,253,502
Equity interest in joint venture	3,675,178	-	3,675,178	843,041	-	4,518,219
Long-term investments	-	-	-	6,977,635	-	6,977,635
Debt outflows - interest rate swap	-	-	-	3,453,582	-	3,453,582
Bond issuance cost, net of amortization	63,675	-	63,675	408,256	-	471,931
Other assets	-	95,650	95,650	10,592,467	-	10,688,117
Capital assets:						
Land and construction in progress	10,493,740	4,463,945	14,957,685	18,529,575	-	33,487,260
Other capital assets, net of accumulated depreciation	26,194,063	97,171,951	123,366,014	143,536,784	112,118	267,014,916
Total noncurrent assets	<u>40,426,656</u>	<u>104,383,994</u>	<u>144,810,650</u>	<u>184,341,340</u>	<u>112,118</u>	<u>329,264,108</u>
Total assets	<u>\$ 69,545,960</u>	<u>\$ 142,360,492</u>	<u>\$ 211,906,452</u>	<u>\$ 236,414,197</u>	<u>\$ 140,960</u>	<u>\$ 448,461,609</u>
Liabilities and Net Assets						
Current liabilities:						
Accounts payable	\$ 424,845	\$ 6,757,170	\$ 7,182,015	\$ 5,220,740	\$ 5,491	\$ 12,408,246
Health claims payable	118,571	-	118,571	-	-	118,571
Current portion of long-term debt	2,239,294	3,104,444	5,343,738	2,491,719	13,318	7,848,775
Current portion of water storage rights payable	-	57,696	57,696	-	-	57,696
Accrued expenses	619,442	100,937	720,379	9,881,826	6,588	10,608,793
Deferred revenue	6,232,681	45,333	6,278,014	-	10,000	6,288,014
Estimated amounts due to third-party payors	-	-	-	3,980,200	-	3,980,200
Other current liabilities	216,229	60,030	276,259	53,334	15,645	345,238
Total current liabilities	<u>9,851,062</u>	<u>10,125,610</u>	<u>19,976,672</u>	<u>21,627,819</u>	<u>51,042</u>	<u>41,655,533</u>
Noncurrent liabilities:						
Compensated absences	825,771	341,525	1,167,296	-	-	1,167,296
TVA heat pump notes payable	-	392,319	392,319	-	-	392,319
Water storage rights payable	-	2,295,724	2,295,724	-	-	2,295,724
Net other post-retirement liability	2,424,148	973,083	3,397,231	-	-	3,397,231
Other non-current liabilities	-	-	-	3,514,432	7,500	3,521,932
Long-term debt, less current portion	13,297,562	25,552,263	38,849,825	61,185,219	35,096	100,070,140
Total noncurrent liabilities	<u>16,547,481</u>	<u>29,554,914</u>	<u>46,102,395</u>	<u>64,699,651</u>	<u>42,596</u>	<u>110,844,642</u>
Total liabilities	<u>26,398,543</u>	<u>39,680,524</u>	<u>66,079,067</u>	<u>86,327,470</u>	<u>93,638</u>	<u>152,500,175</u>
Net assets:						
Invested in capital assets, net of related debt	21,214,622	72,979,189	94,193,811	97,402,579	63,704	191,660,094
Restricted for:						
Special revenue	793,351	-	793,351	-	-	793,351
Debt service	6,311,514	-	6,311,514	-	-	6,311,514
Equity interest in joint venture	3,675,178	-	3,675,178	-	-	3,675,178
Unrestricted - undesignated	11,152,752	29,700,779	40,853,531	52,684,148	(16,382)	93,521,297
Total net assets	<u>43,147,417</u>	<u>102,679,968</u>	<u>145,827,385</u>	<u>150,086,727</u>	<u>47,322</u>	<u>295,961,434</u>
Total liabilities and net assets	<u>\$ 69,545,960</u>	<u>\$ 142,360,492</u>	<u>\$ 211,906,452</u>	<u>\$ 236,414,197</u>	<u>\$ 140,960</u>	<u>\$ 448,461,609</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, 2010

	<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	\$ 3,655,846	\$ 126,967	\$ 4,096	\$ 297,448	\$ (3,227,335)
Planning and engineering	932,400	345,272	-	-	(587,128)
Public safety	11,468,386	356,085	237,164	185,084	(10,690,053)
Maintenance	1,124,880	-	-	-	(1,124,880)
Public works	5,806,035	1,454,203	765,723	31,500	(3,554,609)
Culture and recreation	2,055,329	231,120	2,500	238,703	(1,583,006)
Interest on long-term debt	216,866	-	-	-	(216,866)
Total governmental activities	<u>25,259,742</u>	<u>2,513,647</u>	<u>1,009,483</u>	<u>752,735</u>	<u>(20,983,877)</u>
Business-type activities:					
Electric	44,740,764	47,663,870	-	-	2,923,106
Gas	11,034,483	12,742,612	-	-	1,708,129
Water quality control	10,153,056	12,164,200	-	294,339	2,305,483
Total business-type activities	<u>65,928,303</u>	<u>72,570,682</u>	<u>-</u>	<u>294,339</u>	<u>6,936,718</u>
Total primary government	<u>\$ 91,188,045</u>	<u>\$ 75,084,329</u>	<u>\$ 1,009,483</u>	<u>\$ 1,047,074</u>	<u>\$ (14,047,159)</u>
Component units:					
CRMC*	\$ 199,246,647	\$ 210,221,136			\$ 10,974,489
PBA	133,371	136,131			2,760
Total component units	<u>\$ 199,380,018</u>	<u>\$ 210,357,267</u>			<u>\$ 10,977,249</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, 2010

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (20,983,877)	\$ 6,936,718	\$ (14,047,159)	\$ 10,977,249
General revenues:				
Taxes:				
Property tax	5,972,465	-	5,972,465	-
In lieu of tax	1,079,922	-	1,079,922	-
Business tax	944,424	-	944,424	-
State sales tax	1,697,204	-	1,697,204	-
Franchise tax	252,903	-	252,903	-
Local option sales tax	9,627,727	-	9,627,727	-
Wholesale beer tax	1,029,520	-	1,029,520	-
State income tax	353,268	-	353,268	-
Mixed drink tax	134,668	-	134,668	-
Other taxes	80,579	-	80,579	-
Interest revenue	76,533	107,415	183,948	18
Investment income	1,255,004	-	1,255,004	209,974
Gain (loss) on sale of assets	12,691	214,893	227,584	(1,206,100)
Other, net	412,646	-	412,646	1,829,382
Transfers	1,188,665	(1,188,665)	-	-
Total general revenues	<u>24,118,219</u>	<u>(866,357)</u>	<u>23,251,862</u>	<u>833,274</u>
Change in net assets	3,134,342	6,070,361	9,204,703	11,810,523
Net assets - beginning	<u>40,013,075</u>	<u>96,609,607</u>	<u>136,622,682</u>	<u>138,323,526</u>
Net assets - ending	<u>\$ 43,147,417</u>	<u>\$ 102,679,968</u>	<u>\$ 145,827,385</u>	<u>\$ 150,134,049</u>

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

CITY OF COOKEVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2010

<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	\$ 5,583,981	\$ 3,065,842	\$ 390,649	\$ 1,603,277	\$ 10,643,749
Temporary cash investments	2,761,419	3,062,957	4	998,412	6,822,792
Accounts receivable	-	-	-	126,665	126,665
Taxes receivable	4,844,884	1,311,409	-	345,108	6,501,401
Other receivables	1,272,551	143,877	97,216	90,046	1,603,690
Less: allowance for bad debts	(387,358)	(20,983)	-	(7,339)	(415,680)
Due from other funds	178,705	10,711	-	2,539	191,955
Prepaid expenses	3,234	-	-	-	3,234
Total assets	<u>\$ 14,257,416</u>	<u>\$ 7,573,813</u>	<u>\$ 487,869</u>	<u>\$ 3,158,708</u>	<u>\$ 25,477,806</u>
 <u>Liabilities and Fund Balances</u>					
Accounts payable	\$ 252,982	\$ 41	\$ 129,221	\$ 41,163	\$ 423,407
Accrued expenses	583,935	-	-	-	583,935
Due to other funds	13,250	-	837	33,946	48,033
Deferred revenue	4,423,265	1,290,426	-	518,990	6,232,681
Other liabilities	58,957	-	-	157,272	216,229
Total liabilities	<u>5,332,389</u>	<u>1,290,467</u>	<u>130,058</u>	<u>751,371</u>	<u>7,504,285</u>
 Fund balances:					
Reserved for:					
Debt service	-	6,283,346	-	-	6,283,346
Unreserved, undesignated reported in					
General fund	8,925,027	-	-	-	8,925,027
Special revenue funds	-	-	-	2,407,337	2,407,337
Capital projects funds	-	-	357,811	-	357,811
Total liabilities and fund balances	<u>\$ 14,257,416</u>	<u>\$ 7,573,813</u>	<u>\$ 487,869</u>	<u>\$ 3,158,708</u>	<u>\$ 25,477,806</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, 2010

Total fund balance - total governmental funds \$ 17,973,521

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	68,151,739	
Less: accumulated depreciation	<u>(31,463,936)</u>	36,687,803

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>(27,925)</u>	63,675

Equity interest in joint venture		3,675,178
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Interest payable is not payable from current financial resources and therefore is not reported in the governmental funds.		(35,507)
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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	(745,000)	
Governmental notes payable	(14,791,856)	
Net other post-retirement liability	(2,424,148)	
Compensated absences	<u>(825,771)</u>	(18,786,775)

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>3,569,522</u>
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Net assets of governmental activities		<u>\$ 43,147,417</u>
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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, 2010

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property tax	\$ 4,328,446	\$ 1,301,515	\$ -	\$ 342,504	\$ 5,972,465
In-lieu of tax	1,079,922	-	-	-	1,079,922
Other taxes and tax equivalents	1,197,327	1,697,204	-	708,769	3,603,300
Licenses and permits	416,556	-	-	-	416,556
Local option sales tax	9,630,040	-	-	-	9,630,040
Wholesale beer tax	1,029,520	-	-	-	1,029,520
Other intergovernmental	971,015	-	243,523	379,228	1,593,766
Charges for services	237,650	-	-	1,484,500	1,722,150
Fines, forfeitures and penalties	257,108	-	-	62,150	319,258
Rent	15,375	26,208	-	14,100	55,683
Interest	36,849	27,780	1,315	10,589	76,533
Other	438,299	-	-	24,863	463,162
Total revenues	<u>19,638,107</u>	<u>3,052,707</u>	<u>244,838</u>	<u>3,026,703</u>	<u>25,962,355</u>
Expenditures:					
Current					
General government	2,349,365	-	-	13,535	2,362,900
Public safety	10,529,575	-	-	232,582	10,762,157
Planning and engineering	904,845	-	-	-	904,845
Maintenance	1,096,715	-	-	-	1,096,715
Public works	2,350,313	-	-	1,693,527	4,043,840
Culture and recreation	1,852,210	-	-	29,020	1,881,230
Capital outlay	211,965	-	794,928	980,936	1,987,829
Debt service	-	2,173,114	-	201,999	2,375,113
Total expenditures	<u>19,294,988</u>	<u>2,173,114</u>	<u>794,928</u>	<u>3,151,599</u>	<u>25,414,629</u>
Excess (deficiency) of revenues over (under) expenditures	<u>343,119</u>	<u>879,593</u>	<u>(550,090)</u>	<u>(124,896)</u>	<u>547,726</u>
Other financing sources (uses):					
Interfund transfers in	1,188,665	-	220,000	54,220	1,462,885
Interfund transfers (out)	(224,220)	-	-	(50,000)	(274,220)
Proceeds of bonds and notes	-	-	523,204	-	523,204
Sale of assets	63,813	-	165,783	-	229,596
Net other financing sources	<u>1,028,258</u>	<u>-</u>	<u>908,987</u>	<u>4,220</u>	<u>1,941,465</u>
Net change in fund balances	1,371,377	879,593	358,897	(120,676)	2,489,191
Fund balances, July 1, 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>
Fund balances, June 30, 2010	<u>\$ 8,925,027</u>	<u>\$ 6,283,346</u>	<u>\$ 357,811</u>	<u>\$ 2,407,337</u>	<u>\$ 17,973,521</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, 2010

Net change in fund balances - total governmental funds \$ 2,489,191

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	1,823,070	
Less: current year depreciation	<u>(2,403,601)</u>	(580,531)

Contributed capital assets

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	(523,204)	
Principal payments	<u>2,134,093</u>	1,610,889

Bond issuance costs are expenditures to governmental funds, but are deferred assets in the statement of net assets.

Current year amortization		(6,526)
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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.

Equity in current year earnings of joint venture		1,255,004
Change in accrued interest on long-term debt		6,049
Change in net other post-retirement liability		(1,216,906)
Change in accrued compensated absences		(54,104)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets.

(216,905)

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.

(151,819)

Change in net assets of governmental activities

\$ 3,134,342

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2010

	Business-type Activities/Enterprise Funds				Governmental Activities Internal Service Fund
	Cookeville Electric Department	Cookeville Gas Department	Cookeville Water Quality Control Department	Totals	
<u>Assets</u>					
Current assets:					
Cash	\$ 4,808,180	\$ 6,288,726	\$ 4,428,528	\$ 15,525,434	\$ 2,569,436
Sinking fund cash	301,335	380,802	-	682,137	-
Temporary cash investments	2,136,022	4,301,053	2,717,618	9,154,693	1,835,973
Accounts receivable, net of allowance	7,488,429	759,003	1,739,726	9,987,158	-
Other receivables	-	-	-	-	41,173
Inventory of material and supplies	889,218	535,985	469,076	1,894,279	-
Due from other funds	2,072	-	-	2,072	-
Prepaid expenses and other current assets	117,573	1,370	513	119,456	212
Total current assets	15,742,829	12,266,939	9,355,461	37,365,229	4,446,794
Noncurrent assets:					
Capital assets, non-depreciable	1,050,961	195,048	3,217,936	4,463,945	
Capital assets, depreciable	55,274,420	19,193,792	89,015,078	163,483,290	
Less: accumulated depreciation	<u>(15,555,067)</u>	<u>(9,683,181)</u>	<u>(41,073,091)</u>	<u>(66,311,339)</u>	
	40,770,314	9,705,659	51,159,923	101,635,896	
Notes receivable	398,946	-	-	398,946	
Water storage rights	-	-	2,253,502	2,253,502	
Other assets	40,781	29,709	25,160	95,650	
Total noncurrent assets	41,210,041	9,735,368	53,438,585	104,383,994	
Total assets	\$56,952,870	\$22,002,307	\$ 62,794,046	\$ 141,749,223	\$ 4,446,794
<u>Liabilities and Net Assets</u>					
Current liabilities:					
Accounts payable	\$ 6,014,451	\$ 392,991	\$ 349,728	\$ 6,757,170	\$ 1,438
Health claims payable	-	-	-	-	118,571
Due to other funds	84,447	24,220	37,327	145,994	-
Current portion of long-term debt	1,500,000	355,000	1,249,444	3,104,444	-
Current portion of water storage rights payable	-	-	57,696	57,696	-
Accrued expenses	14,930	5,650	80,357	100,937	-
Deferred revenue	-	45,333	-	45,333	-
Other current liabilities	13,626	11,389	35,015	60,030	-
Total current liabilities	7,627,454	834,583	1,809,567	10,271,604	120,009
Noncurrent liabilities:					
Compensated absences	140,857	41,221	159,447	341,525	
TVA heat pump notes payable	392,319	-	-	392,319	
Water storage rights payable	-	-	2,295,724	2,295,724	
Net other post-retirement liability	364,147	131,503	477,433	973,083	
Long-term debt, less current portion	13,117,000	2,035,000	10,400,263	25,552,263	
Total noncurrent liabilities	14,014,323	2,207,724	13,332,867	29,554,914	
Total liabilities	21,641,777	3,042,307	15,142,434	39,826,518	120,009
Net assets:					
Invested in capital assets, net of related debt	26,153,314	7,315,659	39,510,216	72,979,189	-
Unrestricted	9,157,779	11,644,341	8,141,396	28,943,516	4,326,785
Total net assets	35,311,093	18,960,000	47,651,612	101,922,705	4,326,785
Total liabilities and net assets	\$56,952,870	\$22,002,307	\$ 62,794,046	\$ 141,749,223	\$ 4,446,794

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, 2010

	Business-type Activities/Enterprise Funds				Governmental Activities Internal Service Fund
	Cookeville Electric Department	Cookeville Gas Department	Cookeville Water Quality Control Department	Totals	
Operating revenues:					
Charges for services	\$ 46,542,114	\$ 12,377,947	\$ 11,784,253	\$ 70,704,314	\$ 3,262,949
Other operating revenue	1,121,756	364,665	379,947	1,866,368	44,756
Total operating revenues	47,663,870	12,742,612	12,164,200	72,570,682	3,307,705
Operating expenses:					
Purchased utilities	38,056,449	8,886,044	-	46,942,493	-
Operating expenses	3,118,193	923,723	2,406,140	6,448,056	-
Maintenance expenses	913,361	406,397	344,445	1,664,203	-
Depreciation and amortization	1,939,239	700,328	2,433,094	5,072,661	-
Utilities	-	-	1,788,479	1,788,479	-
Administrative and general expenses	257,870	23,528	2,819,625	3,101,023	510,264
Health claims	-	-	-	-	3,040,073
Facilities rental	394,860	-	-	394,860	-
Total operating expenses	44,679,972	10,940,020	9,791,783	65,411,775	3,550,337
Operating income	2,983,898	1,802,592	2,372,417	7,158,907	(242,632)
Nonoperating revenues (expenses):					
Interest revenue	29,231	49,839	28,345	107,415	22,605
Interest expense	(30,098)	(84,914)	(333,308)	(448,320)	-
Gain on asset disposal	-	212,269	2,624	214,893	-
Total nonoperating revenues (expenses)	(867)	177,194	(302,339)	(126,012)	22,605
Interfund transfers (out)	(796,148)	(180,590)	(211,927)	(1,188,665)	-
Income before contributions	2,186,883	1,799,196	1,858,151	5,844,230	(220,027)
Capital contributions	-	-	294,339	294,339	-
Change in net assets	2,186,883	1,799,196	2,152,490	6,138,569	(220,027)
Total net assets, July 1, 2009	33,124,210	17,160,804	45,499,122	95,784,136	4,546,812
Total net assets, June 30, 2010	\$ 35,311,093	\$ 18,960,000	\$ 47,651,612	\$ 101,922,705	\$ 4,326,785
Reconciliation of changes in net assets to statement of activities:					
Total changes in net assets of business-type activities				\$ 6,138,569	
Net income(loss) of internal service fund related to business-type activities				(68,208)	
Changes in business-type net assets included in the statement of activities				\$ 6,070,361	

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, 2010

	<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>	
Cash flows from operating activities:					
Cash receipts from customers	\$ 45,366,317	\$ 12,339,670	\$ 11,558,980	\$ 69,264,967	\$ 3,262,949
Cash receipts from customer service charges	609,457	130,430	473,406	1,213,293	-
Other operating cash receipts	530,989	234,240	-	765,229	44,756
Cash payments to suppliers of goods and services	(37,528,638)	(8,478,040)	-	(46,006,678)	-
Cash payments to employees for services	(2,140,798)	(528,420)	(796,300)	(3,465,518)	-
Cash payments for interfund services used	(372,886)	(264,380)	(541,499)	(1,178,765)	-
Cash payments for maintenance expenses	(913,361)	(98,790)	(344,445)	(1,356,596)	-
Cash payments for claims	-	-	-	-	(3,212,939)
Utilities and other operating cash payments	(917,567)	(357,912)	(5,282,125)	(6,557,604)	(520,265)
Net cash provided by (used in) operating activities	<u>4,633,513</u>	<u>2,976,798</u>	<u>5,068,017</u>	<u>12,678,328</u>	<u>(425,499)</u>
Cash flows from noncapital financing activities:					
Interfund transfers (out)	(796,148)	(180,590)	(211,927)	(1,188,665)	
Net cash (used in) noncapital financing activities	<u>(796,148)</u>	<u>(180,590)</u>	<u>(211,927)</u>	<u>(1,188,665)</u>	
Cash flows from capital and related financing activities:					
Proceeds from sale of assets	-	212,269	2,624	214,893	
Proceeds from borrowings	-	2,295,000	441,508	2,736,508	
Cash payments for interest	(29,402)	(89,237)	(335,749)	(454,388)	
Cash payments for bond issue costs	-	(34,500)	-	(34,500)	
Reduction of long-term debt	(1,476,000)	(2,640,000)	(1,256,962)	(5,372,962)	
Cash received from grants	-	-	294,339	294,339	
Acquisition and construction of capital assets	(1,778,740)	(247,272)	(1,479,096)	(3,505,108)	
Net cash (used in) capital and related financing activities	<u>(3,284,142)</u>	<u>(503,740)</u>	<u>(2,333,336)</u>	<u>(6,121,218)</u>	
Cash flows from investing activities:					
Decrease in temporary cash investments	137,792	1,484,018	827,747	2,449,557	1,992,879
Cash receipts from interest	29,231	72,382	55,251	156,864	69,518
Net cash provided by investing activities	<u>167,023</u>	<u>1,556,400</u>	<u>882,998</u>	<u>2,606,421</u>	<u>2,062,397</u>
Net increase in cash and cash equivalents	720,246	3,848,868	3,405,752	7,974,866	1,636,898
Cash and cash equivalents, July 1, 2009	4,389,269	2,820,660	1,022,776	8,232,705	932,538
Cash and cash equivalents, June 30, 2010	<u>\$ 5,109,515</u>	<u>\$ 6,669,528</u>	<u>\$ 4,428,528</u>	<u>\$ 16,207,571</u>	<u>\$ 2,569,436</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 2,983,898	\$ 1,802,592	\$ 2,372,417	\$ 7,158,907	\$ (242,632)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	1,939,239	700,328	2,433,094	5,072,661	-
(Increase) decrease in accounts receivable	(1,003,584)	3,794	(88,347)	(1,088,137)	-
(Increase) in due from other funds	(1,488)	-	-	(1,488)	-
Decrease in inventory of material and supplies	50,396	513,039	80,254	643,689	-
(Increase) in prepaid expenses and other current assets	(15,212)	-	-	(15,212)	-
Decrease in deferred charges and other	3,633	-	-	3,633	-
(Increase) in other receivables	(161,500)	-	-	(161,500)	(41,173)
Increase (decrease) in accounts payable	478,083	(105,411)	22,681	395,353	(10,001)
(Decrease) in health claims payable	-	-	-	-	(131,693)
Increase in TVA notes payable	162,855	-	-	162,855	-
Increase in accrued expenses and compensated absences	7,550	225	8,418	16,193	-
Increase in net other post-retirement liability	184,934	66,513	238,487	489,934	-
(Decrease) in due to other funds	(1)	(1,471)	(2,574)	(4,046)	-
Increase (decrease) in other current liabilities	4,710	(2,811)	3,587	5,486	-
Net cash provided by (used in) operating activities	<u>\$ 4,633,513</u>	<u>\$ 2,976,798</u>	<u>\$ 5,068,017</u>	<u>\$ 12,678,328</u>	<u>\$ (425,499)</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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:				
Taxes and tax equivalents:				
Property tax	\$ 4,210,800	\$ 4,210,800	\$ 4,328,446	\$ 117,646
In lieu of tax- CHA	37,000	37,000	40,218	3,218
In lieu of tax- CRMC	700,000	700,000	700,000	-
In lieu of tax- Laurel Creek	-	-	712	712
In lieu of tax- Russell Stover	45,755	45,755	45,762	7
In lieu of tax- TVA	255,000	255,000	293,230	38,230
Business tax	889,480	889,480	933,275	43,795
Cable TV Franchise tax	195,000	245,000	252,903	7,903
Clerks fee	<u>10,000</u>	<u>10,000</u>	<u>11,149</u>	<u>1,149</u>
Total taxes and tax equivalents	<u>6,343,035</u>	<u>6,393,035</u>	<u>6,605,695</u>	<u>212,660</u>
Licenses and permits:				
Beer permits	7,500	7,500	6,250	(1,250)
Beer license	11,500	11,500	12,001	501
Liquor license	28,000	28,000	33,225	5,225
Building permits	100,000	180,000	198,069	18,069
Miscellaneous permits	<u>89,700</u>	<u>169,700</u>	<u>167,011</u>	<u>(2,689)</u>
Total licenses and permits	<u>236,700</u>	<u>396,700</u>	<u>416,556</u>	<u>19,856</u>
Intergovernmental:				
Local option sales tax	9,631,647	9,631,647	9,627,727	(3,920)
Wholesale beer tax	1,080,000	1,080,000	1,029,520	(50,480)
State excise tax	55,000	55,000	64,773	9,773
State income tax	205,000	345,000	353,268	8,268
State beer tax	14,000	14,000	13,210	(790)
Mixed drink tax	135,000	135,000	134,668	(332)
Gasoline inspection fee	57,000	57,000	57,237	237
Telecommunications sales tax	-	-	2,313	2,313
Training supplement	69,000	69,000	66,600	(2,400)
Grant-other	<u>108,450</u>	<u>295,618</u>	<u>281,259</u>	<u>(14,359)</u>
Total intergovernmental	<u>11,355,097</u>	<u>11,682,265</u>	<u>11,630,575</u>	<u>(51,690)</u>
Charges for services:				
Miscellaneous	<u>156,050</u>	<u>186,050</u>	<u>237,650</u>	<u>51,600</u>
Total charges for services	<u>156,050</u>	<u>186,050</u>	<u>237,650</u>	<u>51,600</u>
Fines, forfeitures and penalties:				
Court fines and fees	205,000	205,000	221,883	16,883
Parking violations	2,000	2,000	2,460	460
Other	<u>31,500</u>	<u>31,500</u>	<u>32,765</u>	<u>1,265</u>
Total fines and costs	<u>238,500</u>	<u>238,500</u>	<u>257,108</u>	<u>18,608</u>
Miscellaneous:				
Interest	80,075	80,075	36,849	(43,226)
Rent	12,000	12,000	15,375	3,375
Other	<u>409,500</u>	<u>413,200</u>	<u>438,299</u>	<u>25,099</u>
Total miscellaneous	<u>501,575</u>	<u>505,275</u>	<u>490,523</u>	<u>(14,752)</u>
Total revenues	<u>\$ 18,830,957</u>	<u>\$ 19,401,825</u>	<u>\$ 19,638,107</u>	<u>\$ 236,282</u>

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

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL DETAIL (CONTINUED)
GENERAL FUND
FOR THE YEAR ENDED June 30, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenses:				
General government:				
Salaries and wages	\$ 932,578	\$ 902,578	\$ 887,833	\$ 14,745
Payroll taxes and fringes	327,332	327,332	284,857	42,475
Contractual services	98,250	98,250	84,134	14,116
Supplies and maintenance	1,052,396	1,052,396	941,115	111,281
Fixed charges	12,150	102,150	110,865	(8,715)
Miscellaneous	<u>44,000</u>	<u>44,000</u>	<u>40,561</u>	<u>3,439</u>
Total general government	<u>2,466,706</u>	<u>2,526,706</u>	<u>2,349,365</u>	<u>177,341</u>
Public safety:				
Police:				
Salaries and wages	4,530,100	4,522,100	4,319,198	202,902
Payroll taxes and fringes	1,797,877	1,797,877	1,629,753	168,124
Supplies and maintenance	739,850	812,324	752,303	60,021
Fixed charges	96,000	306,000	302,503	3,497
Miscellaneous	<u>10,000</u>	<u>38,676</u>	<u>32,616</u>	<u>6,060</u>
Total police	<u>7,173,827</u>	<u>7,476,977</u>	<u>7,036,373</u>	<u>440,604</u>
Fire:				
Salaries and wages	2,323,500	2,308,500	2,212,169	96,331
Payroll taxes and fringes	1,050,470	1,050,470	939,319	111,151
Supplies and maintenance	333,250	333,250	316,814	16,436
Fixed charges	28,500	28,500	20,055	8,445
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>4,845</u>	<u>155</u>
Total fire	<u>3,740,720</u>	<u>3,725,720</u>	<u>3,493,202</u>	<u>232,518</u>
Total public safety	<u>\$ 10,914,547</u>	<u>\$ 11,202,697</u>	<u>\$ 10,529,575</u>	<u>\$ 673,122</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, 2010

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable</u> <u>(Unfavorable)</u>
Planning and engineering:				
Salaries and wages	\$ 623,800	\$ 617,300	\$ 620,175	\$ (2,875)
Payroll taxes and fringes	225,261	225,261	223,023	2,238
Supplies and maintenance	73,800	73,800	56,077	17,723
Fixed charges	3,900	3,900	3,007	893
Miscellaneous	<u>3,000</u>	<u>3,000</u>	<u>2,563</u>	<u>437</u>
Total planning and engineering	<u>929,761</u>	<u>923,261</u>	<u>904,845</u>	<u>18,416</u>
Maintenance:				
Salaries and wages	651,400	645,400	630,986	14,414
Payroll taxes and fringes	299,997	299,997	283,555	16,442
Supplies and maintenance	144,700	144,700	134,074	10,626
Fixed charges	16,950	54,950	48,069	6,881
Miscellaneous	<u>850</u>	<u>850</u>	<u>31</u>	<u>819</u>
Total maintenance	<u>1,113,897</u>	<u>1,145,897</u>	<u>1,096,715</u>	<u>49,182</u>
Public works:				
Salaries and wages	1,422,000	1,412,200	1,397,571	14,629
Payroll taxes and fringes	609,294	609,294	584,835	24,459
Supplies and maintenance	345,450	345,450	308,647	36,803
Fixed charges	27,700	72,700	58,861	13,839
Miscellaneous	<u>3,550</u>	<u>3,550</u>	<u>399</u>	<u>3,151</u>
Total public works	<u>2,407,994</u>	<u>2,443,194</u>	<u>2,350,313</u>	<u>92,881</u>
Capital outlay:				
Capital outlay	<u>135,500</u>	<u>220,846</u>	<u>211,965</u>	<u>8,881</u>
Total capital outlay	<u>\$ 135,500</u>	<u>\$ 220,846</u>	<u>\$ 211,965</u>	<u>\$ 8,881</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, 2010

	<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	\$ 726,927	\$ 721,127	\$ 705,920	\$ 15,207
Payroll taxes and fringes	243,404	243,404	225,917	17,487
Supplies and maintenance	353,800	360,000	317,540	42,460
Fixed charges	20,050	20,050	9,306	10,744
Miscellaneous	5,300	5,300	6,913	(1,613)
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	48,589	48,589	48,589	-
U C Regional Airport	28,000	28,000	28,000	-
Chamber of Commerce	14,750	14,750	14,750	-
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	\$ 1,936,095	\$ 1,936,495	\$ 1,852,210	\$ 84,285

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, 2010

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Total expenditures	\$ 19,904,500	\$ 20,399,096	\$ 19,294,988	\$ 1,104,108
Excess (Deficiency) of revenues over (under) expenditures	<u>(1,073,543)</u>	<u>(997,271)</u>	<u>343,119</u>	<u>1,340,390</u>
Other financing sources (uses):				
Interfund transfers in	1,152,517	1,152,517	1,188,665	36,148
Interfund transfers (out)	(224,220)	(224,220)	(224,220)	-
Sale of assets	<u>-</u>	<u>-</u>	<u>63,813</u>	<u>63,813</u>
Net other financing sources	<u>928,297</u>	<u>928,297</u>	<u>1,028,258</u>	<u>99,961</u>
Net change in fund balance	<u>\$ (145,246)</u>	<u>\$ (68,974)</u>	1,371,377	<u>\$ 1,440,351</u>
Fund balance, July 1, 2009			<u>7,553,650</u>	
Fund balance, June 30, 2010			<u>\$ 8,925,027</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 \$2,812,000 for utilities services from Cookeville Regional Medical Center during the year ended June 30, 2010.

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 2010 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," "sinking fund cash," and "temporary cash 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 \$226,000 for the year ended June 30, 2010.

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 \$5,290,000 in 2010.

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 \$7,500 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, 2010, the liability for accrued vacation leave is approximately \$1,167,000.

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, 2009, the Upper Cumberland Regional Airport had net assets of \$14,700,711. The City of Cookeville reports their 25% equity interest of \$3,675,178 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.

R. Date of Management's Review

Subsequent events were evaluated through December 15, 2010, which is the date the financial statements were available to be issued.

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 \$414,000 for the year ended June 30, 2010.

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

A schedule of interfund receivables and payables follows:

Due to:					
<u>Governmental Activities</u>					
<u>Business-type Activities</u>					
Due from:	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Electric</u>	<u>Total Due From</u>
<u>Governmental Activities:</u>					
Major Governmental Funds					
General Fund	\$ -	\$ 10,711	\$ 2,539	\$ -	\$ 13,250
Capital Projects	837	-	-	-	837
Other Governmental Funds	31,874	-	-	2,072	33,946
<u>Business-type Activities:</u>					
Electric	84,447	-	-	-	84,447
Water Quality Control	37,327	-	-	-	37,327
Gas	24,220	-	-	-	24,220
Total Due To	<u>\$ 178,705</u>	<u>\$ 10,711</u>	<u>\$ 2,539</u>	<u>\$ 2,072</u>	<u>\$ 194,027</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, 2009	Additions	Retirements	Annexation	Amortization	Transfers & Reclasses	Balance June 30, 2010
<u>Government-type activities:</u>							
Capital assets not being depreciated							
Land	\$ 9,136,715	\$ 153,728	\$ (75,868)			\$ -	\$ 9,214,575
Construction in progress	480,050	1,187,867	-			(388,752)	1,279,165
Total capital assets not being depreciated	<u>9,616,765</u>	<u>1,341,595</u>	<u>(75,868)</u>			<u>(388,752)</u>	<u>10,493,740</u>
Capital assets, being depreciated							
Buildings	8,445,056	-	(146,967)			-	8,298,089
Improvements	1,128,471	122,053	-			388,752	1,639,276
Vehicles	8,172,302	351,827	(133,155)			-	8,390,974
Machinery and equipment	2,564,078	7,595	-			-	2,571,673
Software	333,516	-	-			-	333,516
Infrastructure	36,424,471	-	-			-	36,424,471
Total capital assets being depreciated	<u>57,067,894</u>	<u>481,475</u>	<u>(280,122)</u>			<u>388,752</u>	<u>57,657,999</u>
Less accumulated depreciation for:							
Buildings	(2,644,509)	(155,827)	5,930			-	(2,794,406)
Improvements	(618,386)	(79,951)	-			-	(698,337)
Vehicles	(5,751,081)	(744,505)	133,155			-	(6,362,431)
Machinery and equipment	(2,012,603)	(205,380)	-			-	(2,217,983)
Software	(274,229)	(31,200)	-			-	(305,429)
Infrastructure	(17,898,612)	(1,186,738)	-			-	(19,085,350)
Total accumulated depreciation	<u>(29,199,420)</u>	<u>(2,403,601)</u>	<u>139,085</u>			<u>-</u>	<u>(31,463,936)</u>
Total capital assets being depreciated, net	<u>27,868,474</u>	<u>(1,922,126)</u>	<u>(141,037)</u>			<u>388,752</u>	<u>26,194,063</u>
Total government-type activities capital assets, net	<u>\$ 37,485,239</u>	<u>\$ (580,531)</u>	<u>\$ (216,905)</u>			<u>\$ -</u>	<u>\$ 36,687,803</u>
<u>Business-type activities:</u>							
Capital assets not being depreciated							
Land and easements	\$ 2,607,036	\$ 17,803	\$ -	\$ -	\$ -	\$ -	\$ 2,624,839
Construction in progress	524,193	1,314,913	-	-	-	-	1,839,106
Total capital assets not being depreciated	<u>3,131,229</u>	<u>1,332,716</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,463,945</u>
Capital assets being depreciated							
Buildings and improvements	4,538,927	-	-	-	-	-	4,538,927
Plant and distribution system	140,014,712	1,816,656	(620,323)	(1,020,739)	-	-	140,190,306
Machinery and equipment	9,181,121	329,015	(243,530)	-	-	-	9,266,606
Furniture and equipment	648,998	3,913	(26,677)	-	-	-	626,234
Plant acquisition adjustment	8,198,428	-	-	1,145,170	(482,380)	-	8,861,218
Total capital assets being depreciated	<u>162,582,186</u>	<u>2,149,584</u>	<u>(890,530)</u>	<u>124,431</u>	<u>(482,380)</u>	<u>-</u>	<u>163,483,291</u>
Less accumulated depreciation for:							
Buildings and improvements	(1,733,619)	(121,719)	-	-	-	-	(1,855,338)
Plant and distribution system	(54,400,401)	(3,974,144)	701,991	(124,431)	-	188,684	(57,608,301)
Machinery and equipment	(6,003,492)	(353,133)	243,530	-	-	(188,684)	(6,301,779)
Furniture and equipment	(522,034)	(50,565)	26,677	-	-	-	(545,922)
Total accumulated depreciation	<u>(62,659,546)</u>	<u>(4,499,561)</u>	<u>972,198</u>	<u>(124,431)</u>	<u>-</u>	<u>-</u>	<u>(66,311,340)</u>
Total capital assets being depreciated, net	<u>99,922,640</u>	<u>(2,349,977)</u>	<u>81,668</u>	<u>-</u>	<u>(482,380)</u>	<u>-</u>	<u>97,171,951</u>
Total business-type activities capital assets, net	<u>\$ 103,053,869</u>	<u>\$ (1,017,261)</u>	<u>\$ 81,668</u>	<u>\$ -</u>	<u>\$ (482,380)</u>	<u>\$ -</u>	<u>\$ 101,635,896</u>

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

<u>Governmental activities:</u>	
General government	\$ 64,900
Planning and engineering	8,957
Public safety	554,971
Public works	1,608,713
Maintenance	9,936
Culture and recreation	156,124
Total depreciation expense - governmental activities	<u>\$ 2,403,601</u>

<u>Business-type activities:</u>	
Cookeville Water Quality Control Department	\$ 2,336,573
Cookeville Electric Department	1,515,719
Cookeville Gas Department	647,269
Total depreciation expense - business-type activities	<u>\$ 4,499,561</u>

The City has active construction projects as of June 30, 2010. Total accumulated commitments for ongoing capital projects are comprised of the following:

<u>Governmental activities:</u>	
Dogwood Park Expansion	\$ 125,918
Highlands Business Park	57,958
Lee Seminary Road Project	5,283
West Cemetery Road Project	805,326
Total commitments - governmental activities	<u>\$ 994,485</u>
 <u>Enterprise funds:</u>	
Water Quality Control	<u>\$ 1,882,000</u>

NOTE 6 - LONG TERM LIABILITIES:

The following summarizes long-term liabilities transactions of the City of Cookeville during the year ended June 30, 2010:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Bonds and notes payable:					
General Obligation Bonds	\$ 965,000	\$ -	\$ (220,000)	\$ 745,000	\$ 245,000
Notes payable	<u>16,182,745</u>	<u>523,204</u>	<u>(1,914,093)</u>	<u>14,791,856</u>	<u>1,994,294</u>
Total bonds and notes payable	<u>17,147,745</u>	<u>523,204</u>	<u>(2,134,093)</u>	<u>15,536,856</u>	<u>2,239,294</u>
Other liabilities:					
Compensated absences	<u>771,667</u>	<u>54,104</u>	<u>-</u>	<u>825,771</u>	<u>-</u>
Total other liabilities	<u>771,667</u>	<u>54,104</u>	<u>-</u>	<u>825,771</u>	<u>-</u>
Total governmental activities long-term liabilities:	<u>\$ 17,919,412</u>	<u>\$ 577,308</u>	<u>\$ (2,134,093)</u>	<u>\$ 16,362,627</u>	<u>\$ 2,239,294</u>
<u>Business-Type Activities:</u>					
Bonds and notes payable:					
Revenue bonds payable	\$ 2,735,000	\$ 2,295,000	\$ (2,640,000)	\$ 2,390,000	\$ 355,000
Notes payable	<u>28,503,147</u>	<u>441,508</u>	<u>(2,677,948)</u>	<u>26,266,707</u>	<u>2,749,444</u>
Total bonds and notes payable	<u>31,238,147</u>	<u>2,736,508</u>	<u>(5,317,948)</u>	<u>28,656,707</u>	<u>3,104,444</u>
Other liabilities:					
Compensated absences	325,332	16,193	-	341,525	-
TVA heat pump notes payable	229,464	223,246	(60,391)	392,319	-
Water storage rights payable	<u>2,408,434</u>	<u>-</u>	<u>(55,014)</u>	<u>2,353,420</u>	<u>57,696</u>
Total other liabilities	<u>2,963,230</u>	<u>239,439</u>	<u>(115,405)</u>	<u>3,087,264</u>	<u>57,696</u>
Total business-type activities long-term liabilities:	<u>\$ 34,201,377</u>	<u>\$ 2,975,947</u>	<u>\$ (5,433,353)</u>	<u>\$ 31,743,971</u>	<u>\$ 3,162,140</u>

Bonds and notes payable at 6/30/2010 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.	\$ 745,000
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$9,000,000, payable annually beginning in 2000 through 2014, with a variable rate of interest. Interest rate at June 30, 2010 is .52%.	3,225,000
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, 2010 is .44%.	753,000
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, 2010 is .44%.	1,362,000
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, 2010 is .44%.	379,000
Note payable to the Dunlap Family Trust, dated July 2, 2001 maturity date July 2, 2013 bearing interest of 3.5%. Principal and interest payments due annually. Original Debt \$1,897,000.	632,336
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, 2010 is .44%.	3,345,000
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, 2010 is .44%.	2,873,000
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, 2010 is .44%.	786,749
Note payable to Putnam County, Tennessee, payable annually beginning in 2007 through 2019, with an interest rate of 5%.	<u>1,435,771</u>
	<u>\$ 15,536,856</u>

Business-type Bonds and Notes Payable:

Gas Department revenue bonds, series 2004, interest rate 1.4% to 3.3%, due serially through 2011.	\$ 220,000
Gas Department revenue bonds, series 2009 interest rate 2.79% to %, due serially through 2015.	2,170,000
Revolving loan payable to State of Tennessee, interest rate 3.6%, due in monthly installments through 4/30/2013.	443,930
Revolving loan payable to State of Tennessee, interest rate 3.5%, due in monthly installments through 2012.	122,322
Revolving loan payable to State of Tennessee, interest rate 3.14%, due in monthly installments through 2017.	4,136,947
Revolving loan payable to State of Tennessee, maximum borrowing of \$1,750,000, interest rate 2.5%	441,508
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, 2010 is .52%.	6,505,000
Notes payable to UCEMC related to various annexations, payable annually through 2017 without interest.	8,000,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$2,500,000, payable annually beginning in 2000 through 2014, variable interest rate.	895,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$6,000,000, payable annually beginning in 2009 through 2024, variable interest rate.	<u>5,722,000</u>
	<u>\$ 28,656,707</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
2011	\$ 245,000	\$ 21,933
2012	240,000	13,690
2013	260,000	4,745
Total	<u>\$ 745,000</u>	<u>\$ 40,368</u>

Notes Payable

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2011	\$ 1,994,294	\$ 149,719	\$ 2,749,444	\$ 228,667
2012	2,074,805	129,570	2,898,592	220,679
2013	2,160,641	108,740	2,901,908	193,311
2014	2,115,819	87,190	2,837,754	165,647
2015	1,138,271	68,244	2,665,229	139,342
2016	1,187,185	56,018	2,735,242	113,545
2017	1,093,243	43,216	2,733,655	53,791
2018	777,219	30,449	2,244,883	26,732
2019	809,379	18,675	1,195,000	20,759
2020	643,000	6,340	1,255,000	14,933
2021	256,000	3,511	476,000	8,815
2022	266,000	2,385	499,000	6,768
2023	276,000	1,214	524,000	4,622
2024	-	-	551,000	2,369
Total	<u>\$ 14,791,856</u>	<u>\$ 705,271</u>	<u>\$ 26,266,707</u>	<u>\$ 1,199,980</u>

Revenue Bonds

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2011	\$ 355,000	\$ 62,290
2012	380,000	51,475
2013	400,000	40,594
2014	420,000	29,156
2015	410,000	17,577
2016	425,000	5,929
Total	<u>\$ 2,390,000</u>	<u>\$ 207,021</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, 2011 through 2033.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	69,796	102,629	172,425
2016-2020	403,460	458,665	862,125
2021-2025	511,871	350,254	862,125
2026-2030	649,412	212,713	862,125
2029-2033	<u>470,667</u>	<u>46,620</u>	<u>517,287</u>
	<u>\$2,353,420</u>	<u>\$1,612,367</u>	<u>\$3,965,787</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, 2010, 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, 2010, the City of Cookeville's annual pension cost of \$2,405,231 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, 2009, which established contribution rates effective July 1, 2010.

Trend Information

Fiscal Year <u>Ending</u>	Annual Pension <u>Cost (APC)</u>	Percentage of <u>APC Contributed</u>	Net Pension <u>Obligation</u>
6/30/10	\$2,405,231	100.00%	\$0.00
6/30/09	\$2,367,104	100.00%	\$0.00
6/30/08	\$2,247,996	100.00%	\$0.00

D. Schedule of Funding Progress for the City of Cookeville

As of July 1, 2009, the most recent actuarial valuation date, the plan was 89.55% percent funded. The actuarial accrued liability for benefits was \$92.98 million, and the actuarial value of assets was \$83.26 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.71 million. The covered payroll (annual payroll of active employees covered by the plan) was \$15.02 million, and the ratio of the UAAL to the covered payroll was 64.69% 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 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 Valuation Date	Actuarial Value of Plan 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)
July 1, 2009	\$83,263	\$92,977	\$9,714	89.55%	\$15,016	64.69%
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.

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. Other insurance needs are met through the purchase of commercial 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, 2010, totaled approximately \$152,000 for general liability and \$356,000 for worker's compensation. Liabilities for claims incurred but not reported as of June 30, 2010, are not calculated by an actuary. The plan administrator reported claims payable of approximately \$245,000 as of June 30, 2010 which 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, 2010, are not calculated by an actuary. The plan administrator reported health claims payable of approximately \$120,000 as of June 30, 2010. 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, 2010, the amount for health insurance claims and premiums totaled approximately \$3,550,000.

There has been no reduction in insurance coverage from the prior year and no settlements have exceeded insurance coverage for the past three fiscal years.

NOTE 10 - GAS SYSTEM REVENUE BOND REFUNDING:

Due to favorable interest rates during this fiscal year, \$2,295,000 of series 2009 Gas System Revenue Refunding Bonds were issued in a current refunding of \$2,300,000 of the City's previously issued and outstanding bonds. The reacquisition price (including issuance cost) exceeded the net carrying amount of the old debt by \$29,500. As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$139,653 and obtained an economic gain (difference between present value and the debt service payments on the old and new debt) of \$117,968.

NOTE 11 - SUBSEQUENT EVENT:

Effective December 15, 2010, the City issued General Obligation Bonds, Series 2010B in the amount of \$7,200,000. These bonds will be used to construct the infrastructure for the Highlands Business Park. The bonds were issued as Build America Bonds intended to reduce the City's borrowing costs.

NOTE 12 - 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 service. 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, 2009
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	\$ 1,686,559	\$ 506,994	\$ 2,193,553
Interest on Net OPEB	48,290	19,327	67,617
Adjustment	(38,248)	(15,307)	(53,555)
Contribution made	(479,696)	(21,080)	(500,776)
Change in Net OPEB, Obligation	1,216,905	489,934	1,706,839
Net OPEB Obligation, beginning	1,207,243	483,149	1,690,392
Net OPEB Obligation, ending	<u>\$ 2,424,148</u>	<u>\$ 973,083</u>	<u>\$ 3,397,231</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2010	\$ 2,193,553	23%	\$ 3,397,231
2009	2,141,281	21%	1,690,391
2008	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)
7/1/2009	\$ -	\$ 32,403,388	\$ 32,403,388	0.00%	\$ 14,596,125	222.0%
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, 2010 and 2009

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.

Blended Component Units: The accompanying combined financial statements include the accounts of two blended component units. The CRMC Children's Center (the Children's Center) and CRMC MSO, Inc. (the MSO) are component units blended with Cookeville Regional Medical Center as the governing bodies are essentially the same. Both entities began operations

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

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE A--REPORTING ENTITY - Continued

during the year ended June 30, 2005. The Children's Center was established to 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, certificates of deposit, 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 is 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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(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

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, 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 combined balance sheets at estimated fair value. The Medical Center's derivative holdings consist of interest rate swap agreements (Note I). Prior to the implementation of GASB Statement No. 53 in 2010, these derivatives were not designated as hedging instruments. As such, mark-to-market accounting applied, and the gain or loss resulting from changes in the fair value of the derivative was recognized in the combined statement of revenue, expenses and changes in net assets. After the implementation of GASB Statement No. 53 in 2010, the interest rate swap agreement is considered effective, and is classified as a hedging derivative instrument. The changes in the interest rate swap's fair value are recorded on the combined balance sheet as deferred outflows. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

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.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

Goodwill: Goodwill represents the excess of the purchase price of a healthcare operation over the fair value of the net assets acquired and was being amortized over ten years under the straight-line method. The remaining balance in goodwill was insignificant and was fully amortized during the year ended June 30, 2010.

Debt/Bond Issuance Costs: Costs incurred in issuing the bank qualified loan during 2010 are being amortized over the term of the related debt issue using the straight-line method. Costs incurred in issuing the revenue bonds prior to 2010 were 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 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 the 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 collectibility. 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.

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(COOKEVILLE REGIONAL MEDICAL CENTER AND AFFILIATES)**

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

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 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 revenue and expenses. Operating revenue results from exchange transactions associated with providing healthcare services - the Medical Center's principal activity. Nonexchange revenue, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. 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 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.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

Accounting Standards Codification: In June 2009, the FASB issued Statement of Financial Accounting Standards (SFAS), No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (GAAP) - a Replacement of FASB Statement No. 162*. This Statement modifies the GAAP hierarchy by establishing only two levels of GAAP, authoritative and nonauthoritative accounting literature. Effective September 2009, the FASB Accounting Standards Codification (ASC), also known collectively as the "Codification," is considered the single source of authoritative U.S. accounting and reporting standards, except for authoritative pronouncements, rules and interpretive releases issued by the GASB if the organization is a governmental entity. FASB ASC 105-10, *Generally Accepted Accounting Principles*, became applicable during fiscal year 2010. All accounting references have been updated, and therefore SFAS references have been replaced with ASC references.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (the GASB Codification)*. This Statement became effective upon issuance and addresses three issues not included in the authoritative literature that establishes accounting principles - related party transactions, going concern considerations, and subsequent events. This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This Statement establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The Medical Center evaluated all events or transactions that occurred after June 30, 2010, through the issuance date of the combined financial statements. During this period, management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2010 combined financial statements.

Recently Issued Accounting Pronouncements: In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* (GASB No. 53). 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

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

focus and the accrual basis of accounting. The requirements of this Statement were adopted by the Medical Center in fiscal year 2010 (See Note I).

In March 2009, the GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This Statement is effective upon issuance and incorporates the hierarchy of GAAP for state and local governments into the GASB's authoritative literature. The requirements in this Statement will improve financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. The adoption of this Statement did not have a material impact on the combined financial statements.

In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The Statement is effective for years beginning after June 15, 2010 and updates current standards regarding the financial reporting of financial instruments and external investment pools. The requirements of this Statement will improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. 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 August 2010, the FASB issued Accounting Standard Update 2010-23, *Measuring Charity Care for Disclosure*, as it relates to FASB ASC 954, *Health Care Entities*. This Update provides amendments that require cost to be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. The Medical Center anticipates that there will be various techniques used by healthcare entities to determine how the direct and indirect costs are identified. As a result, the amendments in this Update also require disclosure of the method used to identify or determine such costs. The amendments in this Update are effective for fiscal years beginning after December 15, 2010 and should be applied retrospectively to all periods presented. Management of the Medical Center is evaluating the impact of this Update on the combined financial statements but does not anticipate any material impact upon adoption.

In August 2010, the FASB issued Accounting Standard Update 2010-24, *Presentation of Insurance Claims and Related Insurance Recoveries*, as it relates to FASB ASC 954. This Update provides amendments that clarify that a healthcare entity should not net insurance recoveries against a related claim liability. Additionally, the amount of the claim liability should be determined without consideration of insurance recoveries. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. A cumulative-effect adjustment should be recognized in opening net assets in the period of adoption if a difference exists between any liabilities and insurance receivables

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE B--SIGNIFICANT ACCOUNTING POLICIES - Continued

recorded as a result of applying the amendments in this Update. Management of the Medical Center is evaluating the impact of this Update on the combined financial statements but does not anticipate any material impact upon adoption.

Subsequent Events: The Medical Center evaluated all events or transactions that occurred after June 30, 2010, through November 4, 2010, the issuance date of the combined financial statements. During this period management did not note any material recognizable subsequent events that required recognition or disclosure in the June 30, 2010 combined financial statements.

Reclassifications: Certain items in the 2009 financial statements have been reclassified in order to conform to the current year presentation.

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:

	<i>Year Ended June 30,</i>	
	<u>2010</u>	<u>2009</u>
Gross patient service charges	\$ 450,949,622	\$ 401,945,087
Less: Medicare contractual adjustments	(139,680,535)	(122,789,959)
TennCare contractual adjustments	(30,910,029)	(24,707,712)
Other contractual adjustments	(51,952,364)	(47,331,231)
Bad debt	(14,675,872)	(11,612,334)
Charity care	(6,831,344)	(5,613,072)
	<u>(244,050,144)</u>	<u>(212,054,308)</u>
Net patient service revenue	<u>\$ 206,899,478</u>	<u>\$ 189,890,779</u>

Net patient accounts receivable consist of the following:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

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

	<i>June 30,</i>	
	<u>2010</u>	<u>2009</u>
Medicare	\$ 9,067,994	\$ 8,763,738
TennCare	2,788,245	2,382,032
Blue Cross and commercial	4,705,214	5,815,290
Patients, including self-insured	7,181,784	6,227,934
	<u>23,743,237</u>	<u>23,188,994</u>
Less: estimated allowance for uncollectible accounts	(3,896,839)	(2,859,829)
	<u>\$ 19,846,398</u>	<u>\$ 20,329,165</u>

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 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. 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. Activity with respect to audits and reviews of governmental programs and reimbursement has increased and is expected to increase in the future. No additional specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the combined financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in 2011, although the amount of the change cannot be estimated. 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.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE D--THIRD-PARTY PAYOR AGREEMENTS - Continued

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 \$106,275,000 and \$20,461,000, respectively, in 2010 and approximately \$96,252,000 and \$23,047,000, respectively, in 2009. 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.

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 short-term 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>2010</i>	<i>2009</i>
Carrying amount:		
Cash and cash equivalents	\$ 2,234,614	\$ 15,379,183
Investments	39,616,425	20,527,497
Total deposits and investments	\$ 41,851,039	\$ 35,906,680

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

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

	<i>June 30,</i>	
	<i>2010</i>	<i>2009</i>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,234,614	\$ 15,379,183
Short-term investments	22,577,940	7,591,758
Long-term investments	6,977,635	1,712,007
Assets limited as to use required to meet current obligations	-	1,172,432
Assets internally designated for capital acquisition	10,000,000	10,000,000
Assets limited for deferred compensation	60,850	51,300
	\$ 41,851,039	\$ 35,906,680

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, 2010 is as follows:

	<i>Fair Value</i>	<i>Investment Maturities (in Years)</i>				<i>N/A</i>
		<i>Less Than 1</i>	<i>1 - 5</i>	<i>6 - 10</i>	<i>More Than 10</i>	
June 30, 2010						
Undesignated	\$ 29,555,575	\$ 22,577,939	\$ 4,621,192	\$ 1,984,314	\$ 372,130	\$ -
Assets internally designated for capital acquisition	10,000,000	10,000,000	-	-	-	-
Assets designated for deferred compensation	60,850	-	-	-	-	60,850
Cash and cash equivalents	2,234,614	2,234,614	-	-	-	-
Total	\$ 41,851,039	\$ 34,812,553	\$ 4,621,192	\$ 1,984,314	\$ 372,130	\$ 60,850

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, 2010, 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,

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

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

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, 2010, no more than \$1,500,000 is invested in any one investment security. As of June 30, 2010 and 2009, 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, and U.S. Treasury securities.

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

	<u>2010</u>	<u>2009</u>
Interest income	\$ 213,741	\$ 405,726
Unrealized gain (loss) on investments	(3,767)	25,118
	<u>\$ 209,974</u>	<u>\$ 430,844</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:

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2010</u>
Land	\$ 12,960,422	\$ 260,518	\$ -	\$ -	\$ 13,220,940
Land improvements	5,119,853	4,860	-	-	5,124,713
Building	156,945,339	1,344,428	(1,807,922)	218,257	156,700,102
Automobiles	180,122	-	-	-	180,122

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE F--PROPERTY AND EQUIPMENT - Continued

	<i>Balance at June 30, 2009</i>	<i>Additions</i>	<i>Retirements</i>	<i>Transfers</i>	<i>Balance at June 30, 2010</i>
Equipment	58,214,822	2,594,120	(8,246,282)	1,666,838	54,229,498
Equipment under capitalized leases	5,477,122	-	(35,538)	-	5,441,584
	238,897,680	4,203,926	(10,089,742)	1,885,095	234,896,959
Less: allowance for depreciation and amortization:					
Land improvements	1,400,900	237,558	-	-	1,638,458
Building	24,316,765	4,387,764	-	-	28,704,529
Automobiles	170,516	7,616	-	-	178,132
Equipment	43,825,065	7,114,727	(8,794,938)	-	42,144,854
Equipment under capitalized leases	5,351,709	157,091	(35,538)	-	5,473,262
	75,064,955	11,904,756	(8,830,476)	-	78,139,235
Construction in progress	2,122,924	5,133,420	(62,614)	(1,885,095)	5,308,635
	<u>\$ 165,955,649</u>	<u>\$ (2,567,410)</u>	<u>\$ (1,321,880)</u>	<u>\$ -</u>	<u>\$ 162,066,359</u>
	<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
	153,250,862	7,852,232	(2,866,142)	80,660,728	238,897,680
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
	65,789,402	11,695,957	(2,420,404)	-	75,064,955
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>

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE F--PROPERTY AND EQUIPMENT - Continued

Construction in progress at June 30, 2010 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 \$27,000,000 at June 30, 2010.

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. Condensed financial information for the Surgery Center as of and for the year ended June 30, 2010 is as follows:

Assets	\$ 2,534,129
Liabilities	\$ 861,336
Member's equity	1,672,793
	<u>\$ 2,534,129</u>

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:

	<i>Balance at June 30, 2009</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2010</i>	<i>Amounts Due Within One Year</i>
Series 2001 A-2 Bonds	\$ 18,910,000	\$ -	\$ (18,910,000)	\$ -	\$ -
Series 2001 A-3 Bonds	2,235,000	-	(2,235,000)	-	-
Series 2006 Bonds	43,550,000	-	(43,550,000)	-	-
Series 2009 Bonds	-	30,000,000	-	30,000,000	570,000
Series 2010-A Bonds	-	12,775,000	-	12,775,000	428,130
Series 2010-B Bonds	-	17,225,000	-	17,225,000	576,870

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE H--BONDS AND NOTES PAYABLE - Continued

	<i>Balance at</i>			<i>Amounts Due</i>	
	<i>June 30, 2009</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at</i>	<i>Within</i>
				<i>June 30, 2010</i>	<i>One Year</i>
Companion Instrument (Note I)	-	3,410,000	(133,682)	3,276,318	530,497
Deferred loss on debt refinancing	(291,375)	-	291,375	-	-
Note payable - 6%	818,053	-	(457,296)	360,757	360,757
Equipment loan	219,230	-	(219,230)	-	-
Equipment loan	-	63,986	(63,986)	-	-
Equipment loan	-	194,940	(194,940)	-	-
	\$ 65,440,908	\$ 63,668,926	\$ (65,472,759)	\$ 63,637,075	\$ 2,466,254

	<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
	\$ 66,692,653	\$ 1,037,283	\$ (2,289,028)	\$ 65,440,908	\$ 3,142,530

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.

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

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE H--BONDS AND NOTES PAYABLE - Continued

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.

During 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 and Series 2006 Bonds were fully redeemed and the Series 2001 A-3 Bonds were paid off during 2010, as further discussed below. The Series 2001 A-2, Series 2001 A-3, and Series 2006 Bonds were secured by a bank letter of credit. This letter of credit terminated after the bonds were redeemed or paid off.

The advance refunding of the Series 1996 and Series 1993 Bonds 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, was being charged to interest expense using the effective interest method over the term of the old debt. Interest expense through the date of redemption and in 2009 included amortization of \$58,072 and \$105,972, respectively, related to this deferred amount. The remaining balance of \$233,302 was amortized as a result of the redemption of the related Bonds, and is included in the loss on early extinguishment of debt in the accompanying combined statement of revenue and expenses.

Prior to redemption of the Series 2001 A-2 and Series 2006 Bonds and pay off of the Series 2001 A-3 Bonds, the Bonds bore interest at a variable rate, adjusted weekly and subject to a maximum, which was 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 rates on the Series 2001 A-2, Series 2001 A-3 and Series 2006 Bonds were converted to fixed rates utilizing interest rate swap agreements (Note I).

During the year ended June 30, 2010, the Medical Center issued \$30,000,000 Revenue Refunding Bonds (the Series 2009 Bonds) in order to partially redeem the outstanding balance of the Series 2006 Bonds. Also during 2010, the Medical Center issued \$12,775,000 Revenue Refunding Bonds (Series 2010-A) and \$17,225,000 Revenue Refunding Bonds (Series 2010-B) (collectively, the Series 2010 Bonds) in order to fully redeem or pay off the then-outstanding balance of the Series 2001 A-2, 2001 A-3, and Series 2006 Bonds. The Series 2009 Bonds and Series 2010 Bonds bear interest at a variable rate, equal to the sum of 65% of the sum of the 30-day London Inter-Bank Offering Rate (LIBOR) plus 2%, plus .25%. The rate was 2.76% at June 30, 2010. The interest rates on the Series 2009 Bonds and Series 2010 Bonds were effectively converted to fixed rates utilizing an interest rate swap agreement (Note I). The Medical Center recorded a loss on the early extinguishment of debt of \$763,948 during 2010, which represented issuance costs and deferred losses on the debt refinancing.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE H--BONDS AND NOTES PAYABLE - Continued

The Series 2009 Bonds and Series 2010 Bonds are subject to prepayment, in whole or in part, for a prepayment price equal to the principal amount to be repaid plus interest accrued, without penalty. Any partial prepayment of the Series 2009 Bonds or Series 2010 Bonds must be made on a prorata basis, and applied to future scheduled principal payments in reverse chronological order.

The Medical Center also issues notes payable to finance certain property and equipment additions. The remaining balance on the 6% note payable is payable in one annual installment due on March 1, 2011 and is unsecured.

The debt service requirements at June 30, 2010 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>
2011	\$	2,466,254	\$
2012		2,145,355	2,999,368
2013		2,234,526	2,893,078
2014		2,372,290	2,805,418
2015		2,483,574	2,711,018
2016-2020		51,935,076	2,609,582
	\$	63,637,075	\$
			3,713,654
			17,732,118

Interest amounts for the Series 2009 Bonds and Series 2010 Bonds included in the table above are based on current rates in effect at June 30, 2010 and the effect of the interest rate swap agreement (Note I).

Interest expense of approximately \$179,000 was capitalized as part of construction in progress during the year ended June 30, 2009. No interest was capitalized during the year ended June 30, 2010.

The Medical Center is subject to various annual fees associated with the bond issues. The fees totaled approximately \$207,000 and \$398,000 in 2010 and 2009, respectively, and are included in interest expense.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE H--BONDS AND NOTES PAYABLE - Continued

The bond indentures related to the various bond issues contain covenants with which the Medical Center must comply. These requirements include maintenance of certain liquidity ratios and insurance coverage, limitations on additional indebtedness and guarantees, use of facilities and disposals of property, among other things. Management has represented that the Medical Center is in compliance with all such covenants at June 30, 2010.

NOTE I--DERIVATIVE INSTRUMENTS

During 2004, the Medical Center entered into an interest rate swap agreement with a bank, which effectively converted 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 converted the interest rate on the Series 2006 Bonds to a fixed rate of 4.21%.

Prior to the implementation of GASB No. 53 in 2010 (Note B), the Medical Center recorded all derivatives as assets or liabilities on the combined balance sheet at estimated fair value. These derivatives were not designated as hedging instruments. As such, mark-to-market accounting applied, and the gain or loss resulting from changes in the fair value of the derivative was recognized in the combined statement of revenue, expenses and changes in net assets. As of June 30, 2009, the estimated fair value of the swaps resulted in a liability of \$3,449,576. During 2010, these swaps were terminated, resulting in a payment of \$3,410,000 to the counterparty.

During 2010, the Medical Center entered into a pay fixed/receive floating interest rate swap transaction with a \$60,000,000 notional amount. The interest rate swap was entered as a cash flow hedge to manage the interest rate risk associated with the Medical Center's Series 2009 Bonds and Series 2010 Bonds (Note H). As a part of this transaction, the Medical Center received an up-front payment of \$3,410,000 in the form of a borrowing from the counterparty, which was used to terminate the interest rate swaps previously held. As a result, the fixed rate on the interest rate swap was adjusted to account for this borrowing. This off-market interest rate swap is therefore considered a hybrid instrument, composed of the borrowing (the "Companion Instrument") and an interest rate swap. The Companion Instrument is recorded as debt for financial reporting purposes at its amortized historical cost (Note H). Amortization of the Companion Instrument is reported as interest expense in the combined financial statements.

Through a Novation Agreement, the rights and obligations for \$20,000,000 of the \$60,000,000 notional amount were transferred to a second counterparty.

A summary of the interest rate swap is as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE I--DERIVATIVE INSTRUMENTS - Continued

Variable rate payers:	Fifth Third Bank First Tennessee Bank, N.A.
Term:	March 1, 2010 - December 30, 2016
Fixed rate:	3.43%
Variable rate:	65% of USD-LIBOR-BBA

This interest rate swap agreement was determined to be effective by utilizing an approved method as outlined in GASB Statement No. 53. The third party valuation of the swap value was a liability of \$3,453,582, and was accounted for in the combined balance sheet with the proper offsetting deferred outflow in accordance with GASB Statement No. 53.

Credit Risk: As described above, the Medical Center's interest rate swap is held by Fifth Third Bank and First Tennessee Bank, N.A. The credit ratings for each of these counterparties was A2 (Moody's) and A3 (Moody's), respectively, at June 30, 2010.

Termination Risk: The Medical Center or its counterparties may terminate the interest rate swap agreement if the other party fails to perform under the terms of the contract. If at the time of termination a derivative instrument is in a liability position, the Medical Center would be liable to the counterparties for a payment equal to the liability.

Rollover Risk: The Medical Center is exposed to rollover risk on the interest rate swap. If the swap terminates prior to the maturity of the debt, the Medical Center will be re-exposed to the risks being hedged by the interest rate swap.

Net receipts and payments on the interest rate swap are presented in Note H with the Medical Center's aggregate debt service requirements.

NOTE J--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, 2010 are as follows:

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE J--LEASES - Continued

<i>Year Ending June 30,</i>	<i>Capital Leases</i>	<i>Operating Leases</i>
2011	\$ 29,309	\$ 488,491
2012	15,095	457,245
2013	-	354,166
2014	-	98,400
2015	-	26,400
	-	103,400
Total future minimum lease payments	44,404	<u>\$ 1,528,102</u>
Less amounts representing interest of 2.02%-12.62%	<u>(4,541)</u>	
Present value of net minimum lease payments	<u>\$ 39,863</u>	

Operating lease commitments shown above exclude approximately \$2,480,000 for the year ended June 30, 2010 related to software and information systems contract labor.

Total rental expense was \$245,530 and \$349,368 for the years ended June 30, 2010 and 2009, respectively.

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

<i>Balance at June 30, 2009</i>	<i>Additions</i>	<i>Reductions</i>	<i>Balance at June 30, 2010</i>	<i>Amounts Due Within One Year</i>
\$ 160,168	\$ -	\$ (120,305)	\$ 39,863	\$ 25,465

<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

NOTE K--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

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE K--PENSION PLANS - Continued

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 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, 2010 and 2009 was 11.17% 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 \$3,952,634 and \$4,080,041 for the years ended June 30, 2010 and 2009, respectively, which represented 100% of the annual pension cost for those years. There was no net pension obligation at June 30, 2010 and 2009.

For the noncontributory 401(k) plan, the Medical Center contributed \$312,038 and \$343,583 for the years ended June 30, 2010 and 2009.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE K--PENSION PLANS - Continued

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.

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 \$24,971,538 and \$21,988,901 at June 30, 2010 and 2009, 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, 2010 and 2009 were \$117,162 and \$1,008,059, 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 L--OTHER RECEIVABLES

Other current and long-term receivables at June 30, 2010 and 2009 include \$880,160 and \$977,970, 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.

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE M--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.

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, 2010 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 in November 2009 the Court reversed the ruling. The Medical Center accrued approximately \$2,100,000 at June 30, 2007 in regard to this

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE M--COMMITMENTS AND CONTINGENCIES - Continued

litigation. The liability was relieved during the year ended June 30, 2010 and the amount is included in nonoperating revenue on the combined statements of revenue, expenses and changes in net assets.

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 amount of the estimated claim liabilities was \$1,377,281 and \$1,399,905 at June 30, 2010 and 2009, respectively. Total expenses under this program amounted to approximately \$8,230,000 and \$8,880,000 for the years ended June 30, 2010 and 2009, 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, 2010 and 2009, approximately \$1,151,000 and \$1,143,000, respectively, was accrued and included in other accrued expenses on the combined balance sheets for estimated claims incurred but not reported.

NOTE N--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, 2010 and 2009. Operating expenses also include \$2,690,744 and \$3,317,844 in 2010 and 2009, respectively, for the purchase of utilities.

NOTE O--FAIR VALUE MEASUREMENTS

FASB ASC 820, which was adopted in 2009, 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. As a basis for considering market participant assumptions in fair value measurements, FASB ASC 820 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE O--FAIR VALUE MEASUREMENTS - Continued

reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumption about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

Valuation Hierarchy: FASB ASC 820 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:

- 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 asset or liability.
- 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.

In instances where the determination of the fair value hierarchy measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Medical Center's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

The following table presents assets and liabilities reported at fair value as of June 30, 2010 and 2009 and their respective classification under the FASB ASC 820 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 as of June 30, 2010:			
Undesignated investment securities	\$ 29,555,575	\$ 10,007,030	\$ 19,548,545
Assets internally designated for capital acquisition	10,000,000	-	10,000,000
Deferred outflows - interest rate swap	3,453,582	-	-
Total recurring assets at fair value	<u>\$ 43,009,157</u>	<u>\$ 10,007,030</u>	<u>\$ 29,548,545</u>
			<u>\$ 3,453,582</u>

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Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE O--FAIR VALUE MEASUREMENTS - Continued

<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>
Liabilities Measured at Fair Value			
on a Recurring Basis as of June 30, 2010:			
Interest rate swaps	\$ 3,453,582	\$ -	\$ 3,453,582
Total liabilities at fair value	<u>\$ 3,453,582</u>	<u>\$ -</u>	<u>\$ 3,453,582</u>
Assets Measured at Fair Value			
on a Recurring Basis as of June 30, 2009:			
Undesignated investment securities	\$ 9,303,765	\$ -	\$ -
Assets internally designated for capital acquisition	10,000,000	10,000,000	-
	<u>\$ 19,303,765</u>	<u>\$ -</u>	<u>\$ -</u>
Assets Measured at Fair Value			
on a Nonrecurring Basis as of June 30, 2009:			
Goodwill	\$ 28,320	\$ -	\$ 28,320
Total recurring and nonrecurring assets at fair value	<u>\$ 19,332,085</u>	<u>\$ -</u>	<u>\$ 28,320</u>
Liabilities Measured at Fair Value			
on a Recurring Basis as of June 30, 2009:			
Interest rate swaps	\$ 3,449,576	\$ -	\$ 3,449,576
Total liabilities at fair value	<u>\$ 3,449,576</u>	<u>\$ -</u>	<u>\$ 3,449,576</u>

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>
Beginning balance as of June 30, 2008	\$ 2,053,401
Total losses (realized/unrealized):	
Included in earnings (or changes in net assets)	1,396,175
Included in other comprehensive income	-
Purchases, issuances, and settlements	-
Transfers in and/or out of Level 3	-
Ending balance as of June 30, 2009	<u>3,449,576</u>

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

Notes to Combined Financial Statements - Continued

Years Ended June 30, 2010 and 2009

NOTE O--FAIR VALUE MEASUREMENTS – Continued

	<i>Fair Value Measurements Using Significant Unobservable Inputs (Level 3)</i>
	<u><i>Interest Rate Swaps</i></u>
Total losses (realized/unrealized):	
Included in earnings (or changes in net assets)	
Included in other comprehensive income	-
Purchases, issuances, and settlements	4,006
Transfers in and/or out of Level 3	-
Ending balance as of June 30, 2010	<u>\$ 3,453,582</u>

NOTE P--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, 2010 and 2009, the Medical Center held in trust and recorded a liability related to deferred compensation of \$60,850 and \$51,300, respectively.

SUPPLEMENTARY INFORMATION

CITY OF COOKEVILLE, TENNESSEE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2010

		<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>
<u>Assets</u>								
Cash	\$	69,242	\$ 344,853	\$ 614,351	\$ 9,263	\$ 101,080	\$ 464,488	\$ 1,603,277
Temporary cash investments		-	486,871	-	511,541	-	-	998,412
Accounts receivable		-	-	126,665	-	-	-	126,665
Taxes receivable		-	-	-	-	276,086	69,022	345,108
Less allowance for bad debts		-	-	(1,818)	-	(4,417)	(1,104)	(7,339)
Other receivables		32	67,950	219	4	11,376	10,465	90,046
Due from other funds		-	-	-	-	2,031	508	2,539
Total assets		<u>\$ 69,274</u>	<u>\$ 899,674</u>	<u>\$ 739,417</u>	<u>\$ 520,808</u>	<u>\$ 386,156</u>	<u>\$ 543,379</u>	<u>\$ 3,158,708</u>
<u>Liabilities and Fund Balances</u>								
Accounts payable	\$	7	\$ 11,840	\$ 14,432	\$ 5,241	\$ 7,996	\$ 1,647	\$ 41,163
Due to other funds		-	2,122	30,290	1,350	165	19	33,946
Deferred revenue		-	4,678	-	38,988	271,669	203,655	518,990
Other liabilities		-	156,950	322	-	-	-	157,272
Total liabilities		7	175,590	45,044	45,579	279,830	205,321	751,371
Fund balances unreserved		<u>69,267</u>	<u>724,084</u>	<u>694,373</u>	<u>475,229</u>	<u>106,326</u>	<u>338,058</u>	<u>2,407,337</u>
Total liabilities and fund balances		<u>\$ 69,274</u>	<u>\$ 899,674</u>	<u>\$ 739,417</u>	<u>\$ 520,808</u>	<u>\$ 386,156</u>	<u>\$ 543,379</u>	<u>\$ 3,158,708</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, 2010

	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	
Revenues:							
Real and personal property taxes	\$ -	\$ -	\$ -	\$ -	\$ 274,003	\$ 68,501	\$ 342,504
Gasoline taxes		708,486	-	-	-	-	708,486
Taxes - other	283	-	-	-	-	-	283
Intergovernmental	-	-	-	57,100	297,448	24,680	379,228
Charges for services	-	-	1,454,203	30,297	-	-	1,484,500
Fines and costs	62,150	-	-	-	-	-	62,150
Rent	-	-	-	-	14,100	-	14,100
Interest	240	2,411	2,257	2,516	1,007	2,158	10,589
Other	-	-	3,074	19,789	-	2,000	24,863
Total revenues	<u>62,673</u>	<u>710,897</u>	<u>1,459,534</u>	<u>109,702</u>	<u>586,558</u>	<u>97,339</u>	<u>3,026,703</u>
Expenditures:							
General government	-	-	-	-	13,535	-	13,535
Public safety	46,388	-	-	186,194	-	-	232,582
Public works	-	489,028	1,204,499	-	-	-	1,693,527
Culture and recreation	-	-	-	-	-	29,020	29,020
Debt service	-	-	-	-	201,999	-	201,999
Capital outlay	-	137,698	229,874	-	613,364	-	980,936
Total expenditures	<u>46,388</u>	<u>626,726</u>	<u>1,434,373</u>	<u>186,194</u>	<u>828,898</u>	<u>29,020</u>	<u>3,151,599</u>
Excess (deficiency) of revenues over (under) expenditures	<u>16,285</u>	<u>84,171</u>	<u>25,161</u>	<u>(76,492)</u>	<u>(242,340)</u>	<u>68,319</u>	<u>(124,896)</u>
Other financing sources (uses):							
Operating transfers in	-	-	-	54,220	-	-	54,220
Operating transfers out	-	-	-	-	-	(50,000)	(50,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>54,220</u>	<u>-</u>	<u>(50,000)</u>	<u>4,220</u>
Net change in fund balances	16,285	84,171	25,161	(22,272)	(242,340)	18,319	(120,676)
Fund balances, July 1, 2009	<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>
Fund balances, June 30, 2010	<u>\$ 69,267</u>	<u>\$ 724,084</u>	<u>\$ 694,373</u>	<u>\$ 475,229</u>	<u>\$ 106,326</u>	<u>\$ 338,058</u>	<u>\$ 2,407,337</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, 2010

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 1,250,200	\$ 1,250,200	\$ 1,301,515	\$ 51,315
State shared sales tax	1,780,911	1,780,911	1,697,204	(83,707)
Rent	26,160	26,160	26,208	48
Interest	<u>35,000</u>	<u>35,000</u>	<u>27,780</u>	<u>(7,220)</u>
Total revenues	<u>3,092,271</u>	<u>3,092,271</u>	<u>3,052,707</u>	<u>(39,564)</u>
Expenditures:				
Debt service - principal	2,186,083	2,186,083	2,010,083	176,000
Debt service - interest	875,738	875,738	144,926	730,812
Administrative expenditures	<u>20,500</u>	<u>20,500</u>	<u>18,105</u>	<u>2,395</u>
Total expenditures	<u>3,082,321</u>	<u>3,082,321</u>	<u>2,173,114</u>	<u>909,207</u>
Excess (deficiency) of revenues over (under) expenditures	<u>9,950</u>	<u>9,950</u>	<u>879,593</u>	<u>869,643</u>
Net change in fund balance	<u>\$ 9,950</u>	<u>\$ 9,950</u>	879,593	<u>\$ 869,643</u>
Fund balance, July 1, 2009			<u>5,403,753</u>	
Fund balance, June 30, 2010			<u>\$ 6,283,346</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, 2010

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
State gasoline tax	\$ 710,000	\$ 710,000	\$ 708,486	\$ (1,514)
Interest	6,000	6,000	2,411	(3,589)
Total revenues	<u>716,000</u>	<u>716,000</u>	<u>710,897</u>	<u>(5,103)</u>
Expenditures:				
Paving	500,000	475,000	387,771	87,229
Sidewalk improvements	30,000	30,000	29,693	307
Intersection improvements	95,000	95,000	52,424	42,576
Street maintenance supplies	10,000	10,000	19,043	(9,043)
Vehicles & Equipment	140,000	140,000	113,301	26,699
Mine Lick Creek Bridge Project	-	25,000	24,397	603
Other	125	125	97	28
Total expenditures	<u>775,125</u>	<u>775,125</u>	<u>626,726</u>	<u>148,399</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(59,125)</u>	<u>(59,125)</u>	<u>84,171</u>	<u>143,296</u>
Net change in fund balance	<u>\$ (59,125)</u>	<u>\$ (59,125)</u>	84,171	<u>\$ 143,296</u>
Fund balance, July 1, 2009			<u>639,913</u>	
Fund balance, June 30, 2010			<u>\$ 724,084</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, 2010

	<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	\$ 60,000	\$ 62,150	\$ 2,150
Unauthorized substances tax	2,000	2,000	283	(1,717)
Interest	200	200	240	40
Total revenues	<u>22,200</u>	<u>62,200</u>	<u>62,673</u>	<u>473</u>
Expenditures:				
Investigative	4,000	4,000	2,000	2,000
Seized property expense	5,000	5,000	5,310	(310)
Equipment & materials	9,500	39,500	35,528	3,972
Miscellaneous	1,200	1,200	3,550	(2,350)
Total expenditures	<u>19,700</u>	<u>49,700</u>	<u>46,388</u>	<u>3,312</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,500</u>	<u>12,500</u>	<u>16,285</u>	<u>3,785</u>
Net change in fund balance	<u>\$ 2,500</u>	<u>\$ 12,500</u>	16,285	<u>\$ 3,785</u>
Fund balance, July 1, 2009			<u>52,982</u>	
Fund balance, June 30, 2010			<u>\$ 69,267</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, 2010

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 1,520,500	\$ 1,520,500	\$ 1,454,203	\$ (66,297)
Other revenue	-	-	3,074	3,074
Interest	5,000	5,000	2,257	(2,743)
Total revenues	<u>1,525,500</u>	<u>1,525,500</u>	<u>1,459,534</u>	<u>(65,966)</u>
Expenditures:				
Personnel	519,000	519,000	509,032	9,968
Taxes & fringes	212,456	212,456	207,203	5,253
Materials & supplies	17,550	17,550	15,998	1,552
Vehicle expense	284,750	284,750	258,515	26,235
Trucks & other equipment	461,250	461,250	318,900	142,350
Fixed charges	10,700	10,700	13,600	(2,900)
Other operating expense	113,200	113,200	92,111	21,089
Landfill services	17,000	17,000	19,014	(2,014)
Total expenditures	<u>1,635,906</u>	<u>1,635,906</u>	<u>1,434,373</u>	<u>201,533</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(110,406)</u>	<u>(110,406)</u>	<u>25,161</u>	<u>135,567</u>
Net change in fund balance	<u>\$ (110,406)</u>	<u>\$ (110,406)</u>	25,161	<u>\$ 135,567</u>
Fund balance, July 1, 2009			<u>669,212</u>	
Fund balance, June 30, 2010			<u>\$ 694,373</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, 2010

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
Putnam County Allocation	\$ 45,100	\$ 45,100	\$ 45,100	\$ -
City of Algood Allocation	5,000	5,000	5,000	-
Town of Baxter Allocation	1,000	1,000	1,000	-
Town of Monterey Allocation	6,000	6,000	6,000	-
Charges for services	42,000	42,000	30,297	(11,703)
Other revenue	25,000	25,000	19,789	(5,211)
Interest	13,000	13,000	2,516	(10,484)
Total revenues	<u>137,100</u>	<u>137,100</u>	<u>109,702</u>	<u>(27,398)</u>
Expenditures:				
Personnel	103,500	103,500	93,756	9,744
Taxes & fringes	13,018	19,018	17,817	1,201
Utility expense	34,000	34,000	25,362	8,638
Supplies & maintenance	24,700	24,700	24,149	551
Other expense	3,875	43,875	25,110	18,765
Total expenditures	<u>179,093</u>	<u>225,093</u>	<u>186,194</u>	<u>38,899</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(41,993)</u>	<u>(87,993)</u>	<u>(76,492)</u>	<u>11,501</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>\$ 12,227</u>	<u>\$ (33,773)</u>	<u>(22,272)</u>	<u>\$ 11,501</u>
Fund balance, July 1, 2009			<u>497,501</u>	
Fund balance, June 30, 2010			<u>\$ 475,229</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, 2010

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 263,600	\$ 263,600	\$ 274,003	\$ 10,403
Intergovernmental:				
Putnam County Allocation	285,023	335,023	297,448	(37,575)
Rental income	-	14,100	14,100	-
Interest	<u>5,000</u>	<u>5,000</u>	<u>1,007</u>	<u>(3,993)</u>
Total revenues	<u>553,623</u>	<u>617,723</u>	<u>586,558</u>	<u>(31,165)</u>
Expenditures:				
Business park development:				
Engineering	570,046	710,671	591,928	118,743
Other development expense	-	-	34,971	(34,971)
Debt service	<u>201,999</u>	<u>201,999</u>	<u>201,999</u>	<u>-</u>
Total expenditures	<u>772,045</u>	<u>912,670</u>	<u>828,898</u>	<u>83,772</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(218,422)</u>	<u>(294,947)</u>	<u>(242,340)</u>	<u>52,607</u>
Net change in fund balance	<u>\$ (218,422)</u>	<u>\$ (294,947)</u>	<u>(242,340)</u>	<u>\$ 52,607</u>
Fund balance, July 1, 2009			<u>348,666</u>	
Fund balance, June 30, 2010			<u>\$ 106,326</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, 2010

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 65,810	\$ 65,810	\$ 68,501	\$ 2,691
Intergovernmental:				
State Grant	1,522,400	1,522,400	22,452	(1,499,948)
Putnam County Allocation	72,838	72,838	1,114	(71,724)
Monterey Allocation	36,419	36,419	557	(35,862)
Algood Allocation	36,419	36,419	557	(35,862)
Interest	5,000	5,000	2,158	(2,842)
Other	-	-	2,000	2,000
Total revenues	<u>1,738,886</u>	<u>1,738,886</u>	<u>97,339</u>	<u>(1,641,547)</u>
Expenditures:				
Tennessee Central Heritage				
Rails with Trails project	<u>1,750,150</u>	<u>1,750,150</u>	<u>29,020</u>	<u>1,721,130</u>
Total expenditures	<u>1,750,150</u>	<u>1,750,150</u>	<u>29,020</u>	<u>1,721,130</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(11,264)</u>	<u>(11,264)</u>	<u>68,319</u>	<u>79,583</u>
Other financing sources:				
Operating transfers(out)	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net other financing sources:	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ (61,264)</u>	<u>\$ (61,264)</u>	18,319	<u>\$ 79,583</u>
Fund balance, July 1, 2009			<u>319,739</u>	
Fund balance, June 30, 2010			<u>\$ 338,058</u>	

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

JUNE 30, 2010

<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>
2010			\$ 6,004,872			\$ 6,004,872	
2009		\$ 5,977,522	-	\$ (10,405)	\$ (5,701,000)	266,117	
2008	\$ 280,129	-	-	(661)	(201,698)	77,770	\$ 77,770
2007	56,562	-	-	-	(11,648)	44,914	44,914
2006	34,366	-	-	-	(4,220)	30,146	30,146
2005	10,985	-	-	-	(1,499)	9,486	9,486
2004	25,857	-	-	-	(539)	25,318	25,318
2003	18,700	-	-	-	(820)	17,880	17,880
2002	9,723	-	-	-	(324)	9,399	9,399
2001	8,558	-	-	-	(387)	8,171	8,171
2000	7,455	-	-	-	(127)	7,328	7,328
	<u>\$ 452,335</u>	<u>\$ 5,977,522</u>	<u>\$ 6,004,872</u>	<u>\$ (11,066)</u>	<u>\$ (5,922,262)</u>	<u>\$ 6,501,401</u>	<u>\$ 230,412</u>

* Outstanding Delinquent Taxes filed with clerk and master.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF TAX RATES AND ASSESSMENTS

JUNE 30, 2010

<u>Tax Year</u>	<u>Tax rate</u>	<u>Assessed Value</u>
2010	\$.87 per \$100	\$659,223,510
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

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF BOND DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2010

<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>
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>\$ 745,000</u>	<u>\$ 745,000</u>	<u>\$ 40,368</u>

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF NOTES PAYABLE DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2010

Fiscal Year Maturity	1999 Tennessee Municipal Bond Fund Variable Interest*	2001 Capital Outlay Note	2002 Tennessee Municipal Bond Fund Variable Interest*	2003 Tennessee Municipal Bond Fund Variable Interest*	2003 Tennessee Municipal Bond Fund Variable Interest*	2005 Tennessee Municipal Bond Fund Variable Interest*	2007 Tennessee Municipal Bond Fund Variable Interest*	2008 Tennessee Municipal Bond Fund Variable Interest*	2007 Putnam County Note	Total Notes Payable	Future Interest Requirements
2011	\$ 748,000	\$ 158,084	\$ 93,000	\$ 175,000	\$ 123,000	\$ 279,000	\$ 173,000	\$ 115,000	\$ 130,210	\$ 1,994,294	\$ 149,719
2012	786,000	158,084	97,000	181,000	126,000	290,000	180,000	120,000	136,721	2,074,805	129,570
2013	825,000	158,084	102,000	188,000	130,000	301,000	187,000	126,000	143,557	2,160,641	108,740
2014	866,000	158,084	107,000	194,000	-	313,000	195,000	132,000	150,735	2,115,819	87,190
2015	-	-	112,000	201,000	-	326,000	202,000	139,000	158,271	1,138,271	68,244
2016	-	-	118,000	208,000	-	339,000	210,000	146,000	166,185	1,187,185	56,018
2017	-	-	124,000	215,000	-	352,000	219,000	8,749	174,494	1,093,243	43,216
2018	-	-	-	-	-	367,000	227,000	-	183,219	777,219	30,449
2019	-	-	-	-	-	381,000	236,000	-	192,379	809,379	18,675
2020	-	-	-	-	-	397,000	246,000	-	-	643,000	6,340
2021	-	-	-	-	-	-	256,000	-	-	256,000	3,511
2022	-	-	-	-	-	-	266,000	-	-	266,000	2,385
2023	-	-	-	-	-	-	276,000	-	-	276,000	1,214
	<u>\$ 3,225,000</u>	<u>\$ 632,336</u>	<u>\$ 753,000</u>	<u>\$ 1,362,000</u>	<u>\$ 379,000</u>	<u>\$ 3,345,000</u>	<u>\$ 2,873,000</u>	<u>\$ 786,749</u>	<u>\$ 1,435,771</u>	<u>\$ 14,791,856</u>	<u>\$ 705,271</u>

*Principal and interest requirements based on current debt and interest rate. The current interest rate at June 30, 2010 ranges from .44% to .52% 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, 2010

<u>Fiscal Year</u> <u>Maturity</u>	<u>State of Tennessee</u> <u>3.14%</u> <u>Revolving</u>	<u>State of Tennessee</u> <u>3.50%</u> <u>Revolving</u>	<u>State of Tennessee</u> <u>3.60%</u> <u>Revolving</u>	<u>Tennessee Municipal Bond Fund*</u>	<u>Tennessee Municipal Bond Fund</u> <u>2.50%</u>	<u>Total Bonds and Notes Payable</u>	<u>Future Interest Requirements</u>
2011	\$ 523,128	\$ 57,672	\$ 151,644	\$ 517,000	\$ -	\$ 1,249,444	\$ 199,408
2012	539,796	59,724	157,188	543,000	74,884	1,374,592	193,758
2013	556,992	4,926	135,098	570,000	83,892	1,350,908	168,839
2014	574,740	-	-	599,000	86,014	1,259,754	143,750
2015	593,040	-	-	629,000	88,189	1,310,229	120,147
2016	611,940	-	-	660,000	90,302	1,362,242	95,876
2017	631,428	-	-	693,000	18,227	1,342,655	37,726
2018	105,883	-	-	728,000	-	833,883	12,349
2019	-	-	-	764,000	-	764,000	8,143
2020	-	-	-	802,000	-	802,000	4,170
	<u>\$ 4,136,947</u>	<u>\$ 122,322</u>	<u>\$ 443,930</u>	<u>\$ 6,505,000</u>	<u>\$ 441,508</u>	<u>\$ 11,649,707</u>	<u>\$ 984,166</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, 2010 is .52%.

CITY OF COOKEVILLE, TENNESSEE
DEBT SERVICE REQUIREMENTS - PROPRIETARY FUND
ELECTRIC DEPARTMENT
JUNE 30, 2010

Various Annexations - Non-Interest Bearing

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Requirements</u>
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>\$ 8,000,000</u>

Tennessee Municipal Bond Fund - Variable Interest				
Fiscal Year	1999	2008	Total	Interest
<u>Maturity</u>	<u>Principal</u>	<u>Principal</u>	<u>Notes</u>	<u>Requirements*</u>
	<u>Requirements*</u>	<u>Requirements*</u>	<u>Payable</u>	
2011	\$ 208,000	\$ 292,000	\$ 500,000	\$ 29,259
2012	218,000	306,000	524,000	26,921
2013	229,000	322,000	551,000	24,472
2014	240,000	338,000	578,000	21,897
2015	-	355,000	355,000	19,195
2016	-	373,000	373,000	17,669
2017	-	391,000	391,000	16,065
2018	-	411,000	411,000	14,383
2019	-	431,000	431,000	12,616
2020	-	453,000	453,000	10,763
2021	-	476,000	476,000	8,815
2022	-	499,000	499,000	6,768
2023	-	524,000	524,000	4,622
2024	-	551,000	551,000	2,370
	<u>\$ 895,000</u>	<u>\$ 5,722,000</u>	<u>\$ 6,617,000</u>	<u>\$ 215,815</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, 2010

Fiscal Year	Revenue Bond Series 2009 <u>2.79%</u>	Revenue Bond Series 2004 <u>1.5% to 3.3%</u>	Total Bonds <u>Payable*</u>	Future Interest <u>Requirements*</u>
<u>Maturity</u>				
2011	\$ 135,000	\$ 220,000	\$ 355,000	\$ 62,290
2012	380,000	-	380,000	51,475
2013	400,000	-	400,000	40,594
2014	420,000	-	420,000	29,156
2015	410,000	-	410,000	17,577
2016	425,000	-	425,000	5,929
	<u>\$ 2,170,000</u>	<u>\$ 220,000</u>	<u>\$ 2,390,000</u>	<u>\$ 207,021</u>

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

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF INVESTMENTS

JUNE 30, 2010

	State of Tennessee Local Government <u>Investment Pool</u>
Governmental Activities:	
Major Funds	
General	\$ 2,761,419
Debt Service	3,062,957
Capital Projects	4
Non-major funds	<u>998,412</u>
Total Governmental Activities	<u>6,822,792</u>
Business-type Activities:	
Major Funds	
Cookeville Electric Department	2,136,022
Cookeville Gas Department	4,301,053
Cookeville Water Quality Control Department	<u>2,717,618</u>
Total Business-type Activities	<u>9,154,693</u>
Internal Service Fund:	
Employee Health Insurance Fund	<u>1,835,973</u>
Total Internal Service Fund	<u>1,835,973</u>
 Total Temporary Cash Investments	 <u>\$ 17,813,458</u>

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF INTERFUND TRANSFERS

JUNE 30, 2010

Transfer from:

	<u>General</u>	<u>Quality of Life</u>	<u>Cookeville Electric Department</u>	<u>Cookeville Gas Department</u>	<u>Cookeville Water Quality Control Department</u>	<u>Total</u>
Transfer to:						
Animal Control	\$ 54,220					\$ 54,220
General	-		\$ 796,148	\$ 180,590	\$ 211,927	1,188,665
Capital Projects	<u>170,000</u>	<u>\$ 50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>220,000</u>
Total:	<u>\$ 224,220</u>	<u>\$ 50,000</u>	<u>\$ 796,148</u>	<u>\$ 180,590</u>	<u>\$ 211,927</u>	<u>\$ 1,462,885</u>

Interfund transfers are used to (1) move revenues from the funds with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) report in-lieu of taxes paid by proprietary funds, (3) move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF UTILITY CUSTOMERS

JUNE 30, 2010

At June 30, 2010, the utility departments serviced the following number of customers:

<u>Department</u>	<u>Number of Customers</u>
Electric	16,382
Gas	9,543
Water	13,623
Sewer	12,984
Sanitation	963

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES
JUNE 30, 2010

Electric Department

Residential Rate Schedule: RS CL 22

	<u>Base Rate</u>	<u>+ Adjustment</u>	<u>= Rate</u>
Customer charge	<u>\$9.32</u>	<u>(\$1.71)</u>	<u>\$7.61</u>
First 800 KWH	<u>\$0.08700</u>		<u>\$0.08700</u>
All KWH/MO	<u>\$0.08214</u>		<u>\$0.08214</u>

General Power Rate Schedule: GSA

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

Customer charge	<u>\$10.94</u>		<u>\$10.94</u>
All KWH	<u>\$0.09539</u>		<u>\$0.09539</u>

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

Customer charge	<u>\$10.94</u>		<u>\$10.94</u>
0 - 50 KW/MO	<u>No Charge</u>		<u>No Charge</u>
Additional KW/MO	<u>\$13.43</u>		<u>\$13.43</u>
First 15,000 KWH/MO	<u>\$0.09601</u>		<u>\$0.09601</u>
Additional KWH/MO	<u>\$0.05073</u>		<u>\$0.05073</u>

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

Customer charge	<u>\$10.94</u>		<u>\$10.94</u>
0 - 1,000 KW/MO	<u>\$12.92</u>		<u>\$12.92</u>
Additional KW/MO	<u>\$15.04</u>		<u>\$15.04</u>
All KWH/MO	<u>\$0.05166</u>		<u>\$0.05166</u>

Outside Lighting

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

Customer charge	<u>\$2.50</u>		<u>\$2.50</u>
All KWH	<u>\$0.06067</u>		<u>\$0.06067</u>

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	<u>\$2.55</u>	<u>\$3.95</u>	<u>\$6.50</u>
250 WHPS	105	<u>\$6.37</u>	<u>\$6.24</u>	<u>\$12.61</u>
400 WHPS	165	<u>\$10.01</u>	<u>\$6.57</u>	<u>\$16.58</u>
175 WMV	70	<u>\$4.25</u>	<u>\$3.44</u>	<u>\$7.69</u>
400 WMV	155	<u>\$9.40</u>	<u>\$5.58</u>	<u>\$14.98</u>
250 WMHD	105	<u>\$6.37</u>	<u>\$7.77</u>	<u>\$14.14</u>
350 WMHD-FLOOD	140	<u>\$8.49</u>	<u>\$12.16</u>	<u>\$20.65</u>
350 WMHD-SHOE	140	<u>\$8.49</u>	<u>\$15.13</u>	<u>\$23.62</u>
400 WMHD	165	<u>\$10.01</u>	<u>\$7.75</u>	<u>\$17.76</u>
1000 WMHD	398	<u>\$24.15</u>	<u>\$11.16</u>	<u>\$35.31</u>

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES (CONTINUED)
JUNE 30, 2010

Gas Department

Residential Rate - Classes 22,60,13,and 61 at July 1, 2010

Monthly rate (inside): First 5,000 cu. ft. for \$.874 per 100 cu. ft.
Next 5,000 cu. ft. for \$.864 per 100 cu. ft.
All additional for \$.854 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$1.054 per 100 cu. ft.
Next 5,000 cu. ft. for \$1.041 per 100 cu. ft.
All additional for \$1.029 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, 2010

Monthly rate (inside): First 5,000 cu. ft. for \$.924 per 100 cu. ft.
Next 10,000 cu. ft. for \$.894 per 100 cu. ft.
All additional for \$.864 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$1.116 per 100 cu. ft.
Next 10,000 cu. ft. for \$1.079 per 100 cu. ft.
All additional for \$1.041 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, 2010

Monthly rate (inside): First 10,000 cu. ft. for \$.894 per 100 cu. ft.
Next 20,000 cu. ft. for \$.874 per 100 cu. ft.
All additional for \$.854 per 100 cu. ft.

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

Monthly rate (outside): First 10,000 cu. ft. for \$1.079 per 100 cu. ft.
Next 20,000 cu. ft. for \$1.054 per 100 cu. ft.
All additional for \$1.029 per 100 cu. ft.

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

Interruptible Rate - Class 55

\$.4962 per 100 cu. ft. (inside)

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES (CONTINUED)
JUNE 30, 2010

Water Quality Control Department

Inside Water Rates

Zero Usage (Base Charge)	\$3.69 (minimum bill)
All gallons over zero usage	\$2.55 per 1,000 gallons

Outside Water Rates

Zero Usage (Base Charge)	\$5.54 (minimum bill)
All gallons over zero usage	\$3.80 per 1,000 gallons

Water Storage Rate

Each 1,000 gallons per month	\$0.19 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, 2010

(All amounts in gallons)

A.	Water Treated and Purchased:		
B.	Water Pumped (potable)	4,109,191,000	
C.	Water Purchased	0	
D.	Total Water Treated and Purchased (Sum Lines B and C)		<u>4,109,191,000</u>
E.	Accounted for Water:		
F.	Water Sold	2,834,449,300	
G.	Metered for Consumption (in house usage)	0	
H.	Fire Department Usage	6,710,811	
I.	Flushing	230,425	
J.	Tank Cleaning/Filling	5,600,000	
K.	Street Cleaning	0	
L.	Bulk Sales	516,240	
M.	Water Bill Adjustments	0	
N.	Total Accounted for Water (Sum Lines F thru M)		<u>2,847,506,776</u>
O.	Unaccounted for Water (Line D minus Line N)		<u>1,261,684,224</u>
P.	Percent Unaccounted for Water (Line O divided by Line D times 100)		<u>30.70%</u>
Q.	Other		0

All amounts included in this schedule are supported 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, 2010

Grant/Contract Number	CFDA Number	Program	Grantor Agency	Receivable 07/01/09	Receipts	Expenditures	Receivable 06/30/10
CWA 2009-235	66.458	Capitalization Grant for Clean Water State Revolving Funds Loan (ARRA) Principal Forgiveness (ARRA)	Tennessee Department of Environment & Conservation pass-through from U.S. Environmental Protection Agency	\$ -	\$ -	\$ -	\$ -
				-	73,585	73,585	-
				-	294,339	294,339	-
2009-SB-B9-2129	16.804	Byrne Memorial Justice Assistance (ARRA)	U.S. Department of Justice/Bureau of Justice Assistance	-	42,181	42,181	-
2009-DJ-BX-1024	16.738	Byrne Memorial Justice Assistance	U.S. Department of Justice/Bureau of Justice Assistance	-	-	9,940	(9,940)
EMW-2008-FO-12372	97.044	Department of Homeland Security Assistance to Firefighters	U.S. Department of Homeland Security	(35,962)	178,865	142,903	-
	16.607	Bulletproof Vest Partnership	U.S. Department of Justice	-	2,580	2,580	-
070090	20.205	Rails with Trails Project	State of Tennessee Department of Transportation Pass-through from Federal Highway Administration	(5,600)	17,760	22,452	(10,292)
060010	20.205	Rails with Trails Project	Rails to Trails Conservancy Washington D.C.	606	-	-	606
			TOTAL FEDERAL AWARDS	(40,956)	609,310	587,980	(19,626)
	N/A	Safety Partners Loss Control	Tennessee Municipal League	-	2,000	2,000	-
Z-09-214300-00	N/A	Governor's Highway Safety Grant	State of Tennessee Department of Transportation	(7,458)	7,458	-	-
PT-10-11	N/A	Governor's Highway Safety Grant	State of Tennessee Department of Transportation	-	13,242	25,479	(12,237)
GG-08-23787-00	N/A	Internet Crimes Against Children	Knoxville Police Department	-	18,310	28,676	(10,366)
GG-08-23787-00	N/A	Internet Crimes Against Children	Nashville Police Department	-	7,127	25,000	(17,873)
GG-09-26734-00	N/A	Local Park and Recreation Fund Dogwood Park Phase II	State of Tennessee Department of Environment & Conservation	-	212,024	212,024	-
GG-08-24746-00	14.228	Community Development Block Grant	State of Tennessee Department of Economic & Community Development	(96,509)	96,509	-	-
Z-08-201167-00	N/A	Tennessee Agricultural Enhancement Program	State of Tennessee Department of Agriculture-Forestry Division	-	2,500	2,500	-
			TOTAL STATE FINANCIAL ASSISTANCE	(103,967)	359,170	295,679	(40,476)
			TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	\$ (144,923)	\$ 968,480	\$ 883,659	\$ (60,102)

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, 2010

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 programs for City of Cookeville, Tennessee expresses an unqualified opinion on the major federal programs.
6. No audit findings relating to Section 510(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:

<u>Program Name</u>	<u>CFDA Number</u>
Clean Water State Revolving Funds-ARRA	66.458
Byrne Memorial Justice Assistance Grant-ARRA	16.804

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 the General Fund, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of and for the year ended June 30, 2010, which collectively comprise the City of Cookeville, Tennessee's basic financial statements and have issued our report thereon dated December 15, 2010. 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 \$236,414,197 as of June 30, 2010. Those statements were audited by another auditor 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 auditor.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered 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 City of Cookeville, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting 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, 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 15, 2010
Cookeville, Tennessee

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors of
City of Cookeville, Tennessee

Compliance

We have audited City of Cookeville, Tennessee's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City of Cookeville, Tennessee's major federal programs for the year ended June 30, 2010. 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 the 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 the City of Cookeville, Tennessee's compliance with those requirements.

In our opinion, City of Cookeville, Tennessee complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the years ended June 30, 2010 and 2009.

Internal Control Over Compliance

The management of City of Cookeville, Tennessee is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered 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 to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

This report is intended solely for the information of the 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 15, 2010
Cookeville, Tennessee