

CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

Year Ended

June 30, 2011

CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

June 30, 2011

CONTENTS

Page

FINANCIAL SECTION:

Independent Auditor's Report I

Management's Discussion and Analysis (unaudited) III

Basic Financial Statements:

Government-wide Financial Statements:

Statement of Net Assets 1

Statement of Activities 2

Fund Financial Statements:

Balance Sheet - Governmental Funds 4

Reconciliation of the Balance Sheet of Governmental Funds to the
Statement of Net Assets 5

Statement of Revenues, Expenditures, and Changes in Fund Balances -
Governmental Funds 6

Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of
Governmental Funds to the Statement of Activities 7

Statement of Net Assets - Proprietary Funds 8

Statement of Revenues, Expenses, and Changes in Fund Net Assets -
Proprietary Funds 9

Statement of Cash Flows - Proprietary Funds 10

Statement of Revenues, Expenditures and Changes in Fund Balance,
Budget and Actual - General Fund 11

Notes to Basic Financial Statements 16

Notes to Financial Statements (Cookeville Regional Medical Center) 38

SUPPLEMENTAL SECTION:

Combining Financial Statements - Non-Major Governmental Funds:

Combining Balance Sheet 59

Combining Statement of Revenues, Expenditures & Changes in Fund Balances.....	60
Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual -	
Debt Service Fund.....	61
State Street Aid	62
Drug Fund	63
Sanitation Fund	64
Animal Control Fund.....	65
Economic Development Fund	66
Quality of Life Fund	67
Schedule of Changes in Property Taxes Receivable.....	68
Schedule of Tax Rates and Assessments	69
General Long-term Debt:	
Summary of Bond Debt Service Requirements Classified by Maturity Date.....	70
Summary of Notes Payable Debt Service Requirements Classified by Maturity Date.....	71
Debt Service Requirements - Proprietary Funds:	
Water Quality Control Department	72
Electric Department.....	73
Gas Department	74
Schedule of Investments.....	75
STATISTICAL SECTION (UNAUDITED):	
Schedule of Utility Customers	76
Schedule of Utility Rates:	
Electric Department.....	77
Gas Department	78
Water Quality Control Department	79
Schedule of Unaccounted for Water:	
Water Quality Control Department	80
SINGLE AUDIT SECTION:	
Schedule of Expenditures of Federal Awards	81
Schedule of Findings and Questioned Costs	82

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*..... 83

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 85



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, 2011, 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 \$273,038,813 as of June 30, 2011. Those financial 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.

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 auditor provide 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, 2011, 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 19, 2011, 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 on pages III through XIV 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 accompanying financial information listed in the supplemental section and the statistical section of the table of contents is presented for purposes of additional analysis and is not a required part of the basic 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 accompanying financial information as listed in the supplemental section of the table of contents 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 statistical section-unaudited as listed in the table of contents 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 19, 2011
Cookeville, Tennessee

Management's Discussion and Analysis
Annual Financial Statements
For the Fiscal Year Ended June 30, 2011

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, 2011. 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, 2011 by \$154,255,270 (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 (\$104,145,578) and unrestricted-undesignated resources available to continue City operations into the next fiscal year (\$50,109,692).
- The government's total net assets increased this year by \$8,427,885. Net assets of the governmental activities increased by \$1,827,837 and those of the City's business type activities (utilities) increased by \$6,600,048.
- As of June 30, 2011, the City of Cookeville's governmental funds reported combined ending fund balances of \$25,034,258, an increase of \$7,060,737 in comparison with the prior year. Approximately 36% of this total amount, \$9,013,905 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$9,013,905 or 45% of total general fund expenditures.
- The City of Cookeville's total debt increased by \$3,417,830 (7 percent) during the current fiscal year.
 - Issued \$7.2 million in G.O. Bonds for construction of the Highlands Industrial/Business Park
 - Loan drawdown of \$1,165,278 (note obligations) from TN Municipal Bond Fund
 - Loan drawdown of \$1,525,073 (note obligation) from TN State Revolving Loan Fund by Water Quality Department
 - Retired (principal payments) \$6,824,841 of previously outstanding debt
- 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 \$3,827,559 for governmental activities and \$1,521,590 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 59-60 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 internal service fund are considered committed 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 \$154,255,270 at fiscal year end June 30, 2011.

By far the largest portion of the City of Cookeville's net assets (60 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Cookeville's investment in its capital assets is reported net of related debt it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following table provides a summary of the City's net assets at June 30:

Summary of Net Assets

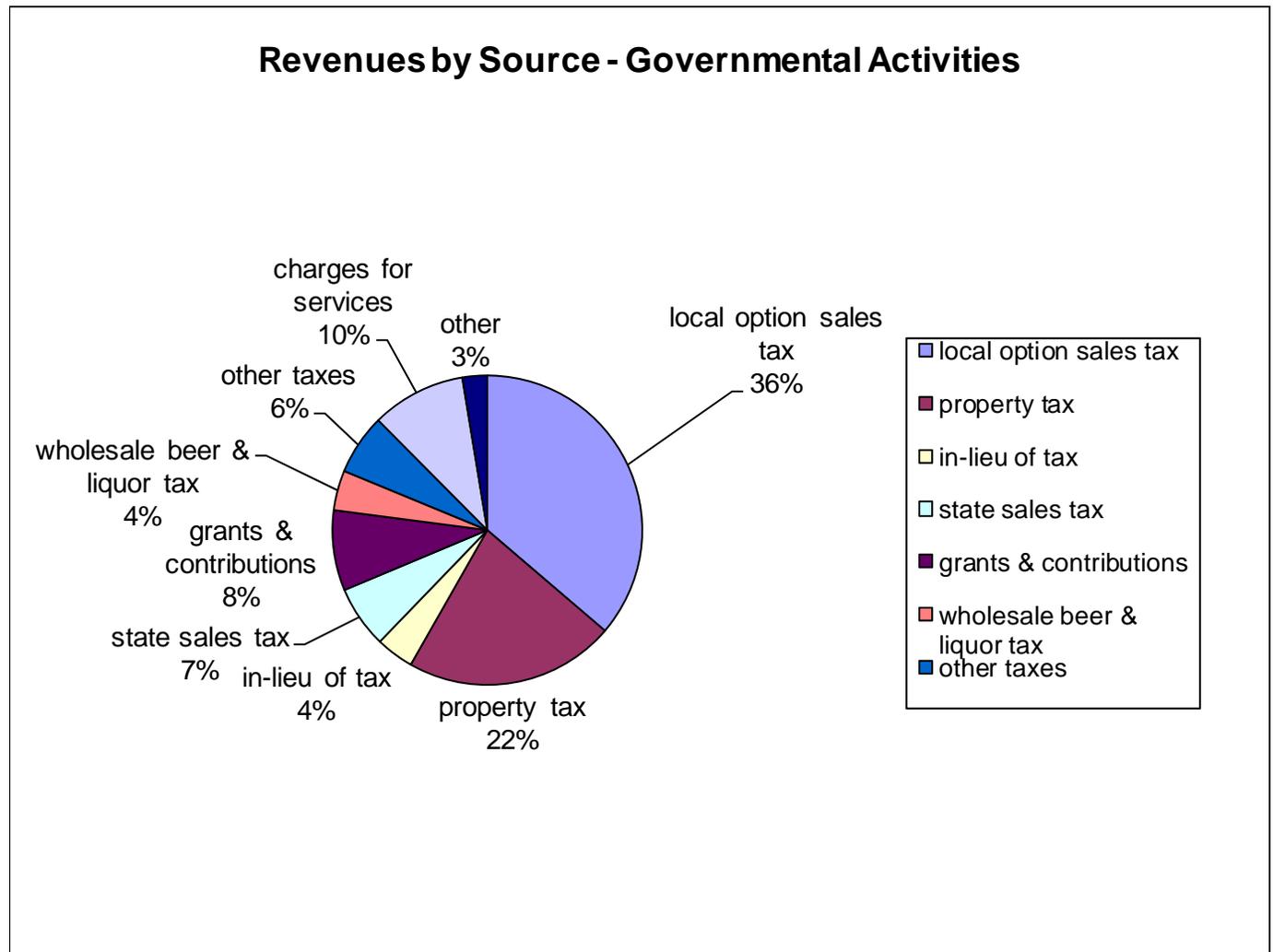
	Governmental		Business-type		Totals	
	Activities		Activites			
	2011	2010	2011	2010	2011	2010
Current Assets	\$ 37,522,953	\$ 29,119,304	\$ 45,035,845	\$ 37,976,498	\$ 82,558,798	\$ 67,095,802
Capital Assets	37,476,921	36,687,803	102,413,218	101,635,896	139,890,139	138,323,699
Other Assets	4,087,696	3,738,853	2,839,377	2,748,098	6,927,073	6,486,951
Total Assets:	<u>79,087,570</u>	<u>69,545,960</u>	<u>150,288,440</u>	<u>142,360,492</u>	<u>229,376,010</u>	<u>211,906,452</u>
Current Liabilities	11,646,490	9,851,062	12,449,578	10,125,610	24,096,068	19,976,672
Long-term Debt	17,764,196	13,297,562	23,770,848	25,552,263	41,535,044	38,849,825
Other Liabilities	4,701,630	3,249,919	4,787,998	4,002,651	9,489,628	7,252,570
Total Liabilities:	<u>34,112,316</u>	<u>26,398,543</u>	<u>41,008,424</u>	<u>39,680,524</u>	<u>75,120,740</u>	<u>66,079,067</u>
Net Assets						
Invested in capital assets						
Net of related debt	17,286,803	21,214,622	75,361,257	72,979,189	92,648,060	94,193,811
Restricted	11,497,518	10,780,043			11,497,518	10,780,043
Unrestricted	16,190,933	11,152,752	33,918,759	29,700,779	50,109,692	40,853,531
Total Net Assets:	<u>\$ 44,975,254</u>	<u>\$ 43,147,417</u>	<u>\$ 109,280,016</u>	<u>\$ 102,679,968</u>	<u>\$ 154,255,270</u>	<u>\$ 145,827,385</u>

An additional portion of the City’s net assets represents resources that are subject to external restrictions on how they may be used and are restricted for various purposes. The remaining balance of unrestricted net assets (\$50,109,692) 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 committed by management for the purposes of paying health claims. This committed amount at June 30, 2011 was \$4,170,145.

At June 30, 2011, 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 \$1,827,837 for governmental activities and \$6,600,048 for business-type activities. The City’s overall financial position improved during fiscal year 2011.

Governmental activities. Governmental activities increased the City of Cookeville’s net assets by \$1,827,837 thereby accounting for 22 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 following table presents a summary of the City's changes in net assets for the primary Government for the year ended June 30, 2011.

Summary of Changes in Net Assets

	Governmental Activities		Business-type Activities		Totals	
	2011	2010	2011	2010	2011	2010
Revenues:						
Program revenues						
Charges for services	\$ 2,698,128	\$ 2,513,647	\$ 77,725,722	\$ 72,570,682	\$ 80,423,850	\$ 75,084,329
Operating grants & contrib	1,027,661	1,009,483			1,027,661	1,009,483
Capital grants & contrib	1,271,151	752,735	1,064,034	294,339	2,335,185	1,047,074
General revenues						
Local option sales tax	9,936,223	9,627,727			9,936,223	9,627,727
Property tax	6,019,026	5,972,465			6,019,026	5,972,465
In-lieu of tax	1,087,042	1,079,922			1,087,042	1,079,922
State sales tax	1,774,822	1,697,204			1,774,822	1,697,204
Wholesale beer tax	1,048,640	1,029,520			1,048,640	1,029,520
Wholesale liquor tax	93,571	-			93,571	-
other taxes	1,733,941	1,765,842			1,733,941	1,765,842
Other revenues	707,923	1,756,874	237,198	322,308	945,121	2,079,182
Transfers	1,258,865	1,188,665	(1,258,865)	(1,188,665)	-	-
Total Revenues	<u>28,656,993</u>	<u>28,394,084</u>	<u>77,768,089</u>	<u>71,998,664</u>	<u>106,425,082</u>	<u>100,392,748</u>
Expenses:						
General government	3,942,239	3,655,846			3,942,239	3,655,846
Planning & engineering	985,733	932,400			985,733	932,400
Public Safety	11,358,701	11,468,386			11,358,701	11,468,386
Maintenance	1,121,563	1,124,880			1,121,563	1,124,880
Public Works	6,844,325	5,806,035			6,844,325	5,806,035
Culture & recreation	2,311,783	2,055,329			2,311,783	2,055,329
Interest on Debt	264,812	216,866			264,812	216,866
Electric			51,136,058	44,740,764	51,136,058	44,740,764
Gas			9,500,057	11,034,483	9,500,057	11,034,483
Water Quality Control			10,531,926	10,153,056	10,531,926	10,153,056
Total Expenses	<u>26,829,156</u>	<u>25,259,742</u>	<u>71,168,041</u>	<u>65,928,303</u>	<u>97,997,197</u>	<u>91,188,045</u>
Change in Net Assets	1,827,837	3,134,342	6,600,048	6,070,361	8,427,885	9,204,703
Beginning 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>
Ending Net Assets	<u>\$ 44,975,254</u>	<u>\$ 43,147,417</u>	<u>\$ 109,280,016</u>	<u>\$ 102,679,968</u>	<u>\$ 154,255,270</u>	<u>\$ 145,827,385</u>

Business-type activities. Business-type activities increased the City of Cookeville's net assets by \$6,600,048 accounting for 78 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 5.1 %, 7.4%, and 7.0% respectively this year.

The electric operations continue to show strong results. Net assets increased by \$1,796,361 with operating revenues of \$53,664,845 and operating expenses of \$51,085,931. Non-operating revenues totaled \$5,330. Transfers to the general government were \$835,202 and capital contributions totaled \$47,319. The electric department purchases the power that it sells to customers from the TVA. The electric department in

conjunction with TVA has implemented new seasonal retail rates. These rates will move the electric department closer to time of use rates in the future. The new rate structure better reflects the expense related to TVA's purchased power at any given time. The department brought three annexation areas on line in the 2011 fiscal year. The new areas included Buck Mountain/Dry Valley, North Washington, and Old Bridge Road. The department also applied for and received grant money to install energy and cost saving LED lighting in several City-owned parking areas. The Electric department also started the process of building a new Southwest substation which should be completed in the following year. This substation will be financed by a projected \$4 million bond issue.

Net assets increased \$3,515,633 for the water/sewer department. Operating revenues were \$13,089,116 and operating expenses were \$10,188,698. The water/sewer department had non-operating expenses totaling 170,594 with this being primarily interest expense on long-term debt. Transfers to the general government totaled \$230,906 and capital contributions totaled \$1,016,715. 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. Major upgrades and improvements were made to the intake facility at the water treatment plant. These upgrades are part of the long range capital improvement plan to upgrade the water treatment plant. 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. This is the second of three scheduled rate increases that take effect at the beginning of each fiscal year. The third and final preplanned rate increase will be effective July 2011. 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 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 \$2,295,724.

The gas department's net assets increased by \$1,336,612. Operating revenues were \$10,971,761 and operating expenses were \$9,431,888. Non operating expenses totaled \$10,504 and transfers to the general government were \$192,757. The department has two supply connections on the East TN Pipeline. The department has sufficient supply contract in place to meet projected system growth through 2017. The department installed a new high pressure eight inch main that completed a loop between the two connection points on the East TN Pipeline. Other service mains were installed during the year to areas recently annexed by the City of Cookeville and annually budgets and plans for the extension of mains throughout other 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). On a national level, natural gas commodity prices remain relatively low and have been fairly stable the past year which has helped renew consumer confidence in natural gas as an energy source. The City of Cookeville, in partnership with Putnam County, is developing a mixed use industrial/business park. Hopefully, this park will attract new commercial and industrial customers to the Cookeville area. The gas department will provide service to this park and extend mains into the park in 2012.

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 2011 and 2010

	<u>FY 2011</u>	<u>FY 2010</u>	Amount <u>Change</u>	% <u>Change</u>
Electric Department	\$ 53,664,845	\$ 47,663,870	\$ 6,000,975	12.6%
Gas Department	10,971,761	12,742,612	(1,770,851)	-13.9%
Water quality Control Department	13,089,116	12,164,200	924,916	7.6%
Charges for Services-Business-type Activities	<u>\$ 77,725,722</u>	<u>\$ 72,570,682</u>	<u>\$ 5,155,040</u>	7.1%

Summary Comparison of Expenses for Fiscal Years 2011 and 2010

	<u>FY 2011</u>	<u>FY 2010</u>	Amount <u>Change</u>	% <u>Change</u>
Electric Department	\$ 51,136,058	\$ 44,740,764	\$ 6,395,294	14.3%
Gas Department	9,500,057	11,034,483	(1,534,426)	-13.9%
Water quality Control Department	10,531,926	10,153,056	378,870	3.7%
Expenses-Business-type Activities	<u>\$ 71,168,041</u>	<u>\$ 65,928,303</u>	<u>\$ 5,239,738</u>	7.9%

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, unassigned 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, 2011, the City of Cookeville's governmental funds reported combined ending fund balances of \$25,034,258, an increase of \$7,060,737 in comparison to prior year. There is \$6,899,291 in restricted fund balances which must be used for specific purposes with \$6,270,848 restricted for the development and construction of the Highlands Industrial/Business Park, \$575,586 restricted for street maintenance, and \$52,857 restricted for police drug enforcement programs. There is \$6,807,530 in committed fund balances for the payment of principal and interest on the city's general obligation debt. The general fund is the chief operating fund of the City of Cookeville. At June 30, 2011, the unassigned fund balance of the general fund was \$9,013,905 and is available to be expended for any valid governmental purpose by the city. As a measure of the general fund's liquidity, it may be useful to compare the unassigned fund balance to total general fund expenditures. Unassigned fund balance represents 42 percent of total general fund expenditures and transfers during FY 2011.

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 75% 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 then with the struggling economy fell to \$9.5 million in FY 2009. However, sales tax collections for FY 2011 were 9,938,025. This was a 3% or

\$307,985 increase from June 2010 to June 2011. The city continues to budget conservatively assuming sales tax collections will remain relatively flat. The city's total property tax rate for 2010 was \$.87 and remains relatively low compared to other cities across the state. The city allocated \$.74 of the property tax rate to the general fund which accounted for \$5,087,048 in general fund property tax revenue. After a community referendum approved the retail sale of liquor within the city limits, the city began collecting wholesale liquor tax (inspection fees) in May 2011. It is anticipated that this tax will generate a minimum of \$300,000 annually for the city. The total collected from the wholesale liquor tax for May and June 2011 was \$93,571. Departmental budgets have seen minimal increases the past two years and the departments have been successful in staying within their approved budgets. The combination of unanticipated revenue and departmental spending less than budgeted, the city increased the general fund's unassigned fund balance by \$94,736 to \$9,013,905. This increase was despite using \$1,261,504 of the general fund's unassigned fund balance to reimburse Putnam County for the city's half of the land purchased to construct the Highlands Industrial/Business Park.

The debt service fund has a total fund balance of \$6,807,530, all of which is restricted for the payment of principal and interest on outstanding debt. \$.04 cents of the city property tax rate along with the city's share of state sales tax is allocated to the debt service fund. Also, the city began allocating a portion of in lieu tax payments to the debt service fund which were previously allocated to the general fund. In lieu payments are received from entities that are exempt from property tax but have agreed to make payments because they receive the same city services that other tax payers receive. The city allocated \$700,000 of in lieu tax payments to the debt service fund for FY 2011. Revenue allocated to the debt service fund exceeded debt service obligations resulting in an increase in the debt service fund balance. The increase in the fund balance was \$524,184. Interest rates were much lower than budgeted on the city's variable rate debt. Interest rates were budgeted at 4.5% and the actual rates were less than 1%. The city issued \$7.2 million in G.O. Taxable Build America Bonds to finance the city's half of the Highlands Industrial/Business Park. These bonds receive a subsidy from the U.S. Treasury equal to 35% of the interest payments due on the bonds. The average interest rate on these fixed rate bonds is 2.79% when considering the subsidy payments.

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 \$222,862 at the end of the fiscal year. During the fiscal year, the City completed approximately \$319,000 in improvements in the expanded Dogwood Park located in heart of the "downtown" area of Cookeville. Work was finalized on widening South Jefferson Road during the year which was a total \$500,000 road improvement project. An extension of West Cemetery Road was completed during the year. This new road was built to serve a new school that opened in 2010. Over \$825,000 was spent on the expansion of this road during the fiscal year. The total cost for this road project was \$1.37 million dollars and began in 2008 with planning and design.

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, 2011 was \$37,476,921 and \$102,413,218 respectively. The net investment increased 2.2% for governmental and increased .8% for business-type activities.

Capital asset additions for the governmental funds were \$3,182,377. Major capital asset additions for governmental funds included the purchase of police vehicles, a sanitation truck, skid steer loader, and pickup trucks. Work continues on the Dogwood Park expansion in the downtown area of Cookeville. The main attraction in the park, the water fountain, was completed and capitalized as was the new concession/restroom facility. Infrastructure improvements included the completion of the West Cemetery Road extension (\$828,370) for the new Prescott South Schools. A bridge over Cane Creek on Mine Lick Creek Road was replaced (\$281,449) using a TDOT Bridge Grant. Construction in process includes the development costs on the Highlands Industrial Park.

Capital asset additions for the business-type activities were \$6,006,584. Additions for the Electric Department were \$1,943,255, for the Water Department, \$3,638,223, and for the Gas Department, \$425,106.

The Water Department additions include the completion of the Hudgens Creek Sewer Project. This project will provide the additional sewer pumping capacity needed to serve the new Highlands Industrial/Business Park's sewer system and pumping station. Construction in process for the Water/Sewer Department includes a sewer project on McCulley Road and the Burton Subdivision. Additional projects for the Water/Sewer Department included improvements at the water treatment plant.

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>2011</u>	<u>2010</u>		
Non-depreciable assets:				
Land	\$ 9,277,892	\$ 9,214,575	\$ 63,317	0.7%
Construction in progress	1,749,880	1,279,165	470,715	36.8%
Depreciable assets:				
Buildings	5,606,012	5,503,683	102,329	1.9%
Improvements	1,154,475	940,939	213,536	22.7%
Vehicles	1,868,078	2,028,543	(160,465)	-7.9%
Machinery & equipment	290,019	353,690	(63,671)	-18.0%
Software	-	28,087	(28,087)	-100.0%
Infrastructure	17,530,565	17,339,121	191,444	1.1%
Total	<u>\$ 37,476,921</u>	<u>\$ 36,687,803</u>	<u>\$ 789,118</u>	2.2%

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

	<u>Business-type Activities</u>		<u>Amount Change</u>	<u>% Change</u>
	<u>2011</u>	<u>2010</u>		
Non-depreciable assets:				
Land	\$ 2,624,839	\$ 2,624,839	\$ -	0.0%
Construction in progress	1,767,666	1,839,105	(71,439)	-3.9%
Depreciable assets:				
Building & Improvements	2,561,869	2,683,589	(121,720)	-4.5%
Plant & distribution systems	77,749,259	82,582,005	(4,832,746)	-5.9%
Machinery & equipment	4,139,563	2,964,827	1,174,736	39.6%
Furniture & equipment	70,618	80,313	(9,695)	-12.1%
Plant acquisition adjustment	13,499,404	8,861,218	4,638,186	52.3%
Total	<u>\$ 102,413,218</u>	<u>\$ 101,635,896</u>	<u>\$ 777,322</u>	0.8%

Long-term liabilities. At the end of the fiscal year, the Primary Government had total long-term liabilities of \$51,521,828. Of this amount, \$21,231,351 relates to governmental activities while the remaining \$30,290,477 relates to business type activities. Of the \$21,231,351 of long-term liabilities of governmental activities, \$20,357,280 was debt related to a bond or note issuance and is backed by the full faith and credit of the City of Cookeville.

	Governmental		Business-type		Totals	
	Activities		Activities			
	2011	2010	2011	2010	2011	2010
Bonds & notes payable	\$ 20,357,280	\$ 15,536,856	\$ 27,051,961	\$ 28,656,707	\$ 47,409,241	\$ 44,193,563
Compensated Absences	874,071	825,771	351,522	341,525	1,225,593	1,167,296
Other debt			2,886,994	2,743,139	2,886,994	2,743,139
	21,231,351	16,362,627	30,290,477	31,741,371	51,521,828	48,103,998
Less:						
Amounts due within one year	(2,593,084)	(2,239,294)	(3,341,621)	(3,162,140)	(5,934,705)	(5,401,434)
Total Long term liabilities	\$ 18,638,267	\$ 14,123,333	\$ 26,948,856	\$ 28,579,231	\$ 45,587,123	\$ 42,702,564

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 slightly over 30,345, but is the regional center for shopping, dining, 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 the Highlands Industrial/Business Park. Construction is underway on this park with completion expected late 2012. The city is working with the State of Tennessee to develop a new interchange off of Interstate 40 for additional access to the new 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, 2011

<u>Assets</u>	<u>Primary Government</u>			<u>Component Units</u>		<u>Total Reporting Entity</u>
	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>	<u>CRMC*</u>	<u>PBA</u>	
Current assets:						
Cash	\$ 13,719,531	\$ 23,259,651	\$ 36,979,182	\$ 2,676,372	\$ 19,290	\$ 39,674,844
Sinking fund cash	-	687,737	687,737	-	-	687,737
Temporary cash investments	15,762,916	9,518,389	25,281,305	21,489,805	-	46,771,110
Accounts receivable, net of allowance	142,045	8,683,164	8,825,209	22,975,109	6,872	31,807,190
Taxes receivable, net of allowance	6,259,741	-	6,259,741	-	-	6,259,741
Other receivables	2,144,578	-	2,144,578	518,017	-	2,662,595
Due from other funds	(511,843)	511,843	-	-	-	-
Inventories	-	2,085,687	2,085,687	5,720,552	-	7,806,239
Prepaid expenses and other current assets	5,985	289,374	295,359	2,050,071	233	2,345,663
Total current assets	<u>37,522,953</u>	<u>45,035,845</u>	<u>82,558,798</u>	<u>55,429,926</u>	<u>26,395</u>	<u>138,015,119</u>
Noncurrent assets:						
Notes receivable, net of allowance	-	517,769	517,769	-	-	517,769
Water storage rights	-	2,159,606	2,159,606	-	-	2,159,606
Equity interest in joint venture	3,920,534	-	3,920,534	943,158	-	4,863,692
Long-term investments	-	-	-	5,671,298	-	5,671,298
Deferred outflows - interest rate swap	-	-	-	3,453,886	-	3,453,886
Bond issuance cost, net of amortization	167,162	-	167,162	513,938	-	681,100
Other assets	-	162,002	162,002	38,102,371	-	38,264,373
Capital assets:						
Land and construction in progress	11,027,772	4,392,505	15,420,277	23,856,099	-	39,276,376
Other capital assets, net of accumulated depreciation	26,449,149	98,020,713	124,469,862	145,068,137	106,407	269,644,406
Total noncurrent assets	<u>41,564,617</u>	<u>105,252,595</u>	<u>146,817,212</u>	<u>217,608,887</u>	<u>106,407</u>	<u>364,532,506</u>
Total assets	<u>\$ 79,087,570</u>	<u>\$ 150,288,440</u>	<u>\$ 229,376,010</u>	<u>\$ 273,038,813</u>	<u>\$ 132,802</u>	<u>\$ 502,547,625</u>
<u>Liabilities and Net Assets</u>						
Current liabilities:						
Accounts payable	\$ 1,731,884	\$ 8,889,220	\$ 10,621,104	\$ 6,931,589	\$ 6,055	\$ 17,558,748
Health claims payable	105,403	-	105,403	-	-	105,403
Current portion of long-term debt	2,593,084	3,281,113	5,874,197	2,839,486	13,723	8,727,406
Current portion of water storage rights payable	-	60,508	60,508	-	-	60,508
Accrued expenses	655,990	101,157	757,147	11,270,731	6,458	12,034,336
Deferred revenue	6,380,046	45,333	6,425,379	-	7,500	6,432,879
Estimated amounts due to third-party payors	-	-	-	2,297,499	-	2,297,499
Other current liabilities	180,083	72,247	252,330	-	21,101	273,431
Total current liabilities	<u>11,646,490</u>	<u>12,449,578</u>	<u>24,096,068</u>	<u>23,339,305</u>	<u>54,837</u>	<u>47,490,210</u>
Noncurrent liabilities:						
Compensated absences	874,071	351,522	1,225,593	-	-	1,225,593
TVA heat pump notes payable	-	591,270	591,270	-	-	591,270
Water storage rights payable	-	2,235,216	2,235,216	-	-	2,235,216
Net other post-retirement liability	3,827,559	1,521,590	5,349,149	-	-	5,349,149
Other non-current liabilities	-	88,400	88,400	3,453,886	-	3,542,286
Long-term debt, less current portion	17,764,196	23,770,848	41,535,044	88,345,465	21,373	129,901,882
Total noncurrent liabilities	<u>22,465,826</u>	<u>28,558,846</u>	<u>51,024,672</u>	<u>91,799,351</u>	<u>21,373</u>	<u>142,845,396</u>
Total liabilities	<u>34,112,316</u>	<u>41,008,424</u>	<u>75,120,740</u>	<u>115,138,656</u>	<u>76,210</u>	<u>190,335,606</u>
Net assets:						
Invested in capital assets, net of related debt	17,286,803	75,361,257	92,648,060	104,930,040	71,311	197,649,411
Restricted for:						
Special revenue	628,443	-	628,443	-	-	628,443
Debt service	6,948,541	-	6,948,541	-	-	6,948,541
Equity interest in joint venture	3,920,534	-	3,920,534	-	-	3,920,534
Unrestricted - undesignated	16,190,933	33,918,759	50,109,692	52,970,117	(14,719)	103,065,090
Total net assets	<u>44,975,254</u>	<u>109,280,016</u>	<u>154,255,270</u>	<u>157,900,157</u>	<u>56,592</u>	<u>312,212,019</u>
Total liabilities and net assets	<u>\$ 79,087,570</u>	<u>\$ 150,288,440</u>	<u>\$ 229,376,010</u>	<u>\$ 273,038,813</u>	<u>\$ 132,802</u>	<u>\$ 502,547,625</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, 2011

	<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	\$ 3,942,239	\$ 117,326	\$ 3,487	\$ 472,217	\$ (3,349,209)
Planning and engineering	985,733	315,208	-	-	(670,525)
Public safety	11,358,701	545,681	240,466	-	(10,572,554)
Maintenance	1,121,563	-	-	-	(1,121,563)
Public works	6,844,325	1,494,083	783,708	426,025	(4,140,509)
Culture and recreation	2,311,783	225,830	-	372,909	(1,713,044)
Interest on long-term debt	264,812	-	-	-	(264,812)
Total governmental activities	<u>26,829,156</u>	<u>2,698,128</u>	<u>1,027,661</u>	<u>1,271,151</u>	<u>(21,832,216)</u>
Business-type activities:					
Electric	51,136,058	53,664,845	-	47,319	2,576,106
Gas	9,500,057	10,971,761	-	-	1,471,704
Water quality control	<u>10,531,926</u>	<u>13,089,116</u>	<u>-</u>	<u>1,016,715</u>	<u>3,573,905</u>
Total business-type activities	<u>71,168,041</u>	<u>77,725,722</u>	<u>-</u>	<u>1,064,034</u>	<u>7,621,715</u>
Total primary government	<u>\$ 97,997,197</u>	<u>\$ 80,423,850</u>	<u>\$ 1,027,661</u>	<u>\$ 2,335,185</u>	<u>\$ (14,210,501)</u>
Component units:					
CRMC*	\$ 225,677,451	\$ 232,912,720			\$ 7,235,269
PBA	<u>146,729</u>	<u>155,981</u>			<u>9,252</u>
Total component units	<u>\$ 225,824,180</u>	<u>\$ 233,068,701</u>			<u>\$ 7,244,521</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, 2011

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (21,832,216)	\$ 7,621,715	\$ (14,210,501)	\$ 7,244,521
General revenues:				
Taxes:				
Property tax	6,019,026	-	6,019,026	-
In lieu of tax	1,087,042	-	1,087,042	-
Business tax	990,580	-	990,580	-
State sales tax	1,774,822	-	1,774,822	-
Franchise tax	305,607	-	305,607	-
Local option sales tax	9,936,223	-	9,936,223	-
Wholesale beer tax	1,048,640	-	1,048,640	-
Wholesale liquor tax	93,571	-	93,571	-
State income tax	256,762	-	256,762	-
Mixed drink tax	129,086	-	129,086	-
Other taxes	51,906	-	51,906	-
Interest revenue	70,558	228,664	299,222	18
Investment income	245,356	-	245,356	299,485
Gain (loss) on sale of assets	(79,290)	8,534	(70,756)	(70,619)
Federal subsidy	39,863	-	39,863	-
Other, net	431,436	-	431,436	349,295
Transfers	1,258,865	(1,258,865)	-	-
Total general revenues	<u>23,660,053</u>	<u>(1,021,667)</u>	<u>22,638,386</u>	<u>578,179</u>
Change in net assets	1,827,837	6,600,048	8,427,885	7,822,700
Net assets - beginning	43,147,417	102,679,968	145,827,385	150,134,049
Net assets - ending	<u>\$ 44,975,254</u>	<u>\$ 109,280,016</u>	<u>\$ 154,255,270</u>	<u>\$ 157,956,749</u>

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

CITY OF COOKEVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

<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	\$ 5,940,251	\$ 3,578,835	\$ 246,443	\$ 1,541,706	\$ 11,307,235
Temporary cash investments	2,767,112	3,069,271	4	8,086,771	13,923,158
Accounts receivable	-	-	-	142,045	142,045
Taxes receivable	5,901,648	433,319	-	361,099	6,696,066
Other receivables	1,241,766	155,649	85	745,343	2,142,843
Less: allowance for bad debts	(422,700)	(6,889)	-	(6,736)	(436,325)
Due from other funds	200,703	3,816	-	13,415	217,934
Prepaid expenses	5,858	-	-	-	5,858
Total assets	<u>\$ 15,634,638</u>	<u>\$ 7,234,001</u>	<u>\$ 246,532</u>	<u>\$ 10,883,643</u>	<u>\$ 33,998,814</u>
 <u>Liabilities and Fund Balances</u>					
Accounts payable	\$ 491,026	\$ 42	\$ 23,576	\$ 1,216,552	\$ 1,731,196
Accrued expenses	629,839	-	-	-	629,839
Due to other funds	7,920	-	94	35,378	43,392
Deferred revenue	5,425,684	426,429	-	527,933	6,380,046
Other liabilities	60,406	-	-	119,677	180,083
Total liabilities	<u>6,614,875</u>	<u>426,471</u>	<u>23,670</u>	<u>1,899,540</u>	<u>8,964,556</u>
 Fund balances:					
Nonspendable					
Prepaid expenses	5,858	-	-	-	5,858
Restricted					
Drug fund	-	-	-	52,857	52,857
State street aid	-	-	-	575,586	575,586
Economic development	-	-	-	6,270,848	6,270,848
Committed					
Debt service	-	6,807,530	-	-	6,807,530
Capital projects	-	-	222,862	-	222,862
Sanitation	-	-	-	734,187	734,187
Animal control	-	-	-	514,464	514,464
Economic development	-	-	-	522,161	522,161
Quality of life	-	-	-	314,000	314,000
Assigned	-	-	-	-	-
Unassigned	9,013,905	-	-	-	9,013,905
Total fund balances	<u>9,019,763</u>	<u>6,807,530</u>	<u>222,862</u>	<u>8,984,103</u>	<u>25,034,258</u>
Total liabilities and fund balances	<u>\$ 15,634,638</u>	<u>\$ 7,234,001</u>	<u>\$ 246,532</u>	<u>\$ 10,883,643</u>	<u>\$ 33,998,814</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, 2011

Total fund balance - total governmental funds \$ 25,034,258

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	71,215,116	
Less: accumulated depreciation	<u>(33,738,195)</u>	37,476,921

Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.

Bond costs	205,300	
Less: accumulated amortization	<u>(38,138)</u>	167,162

Equity interest in joint venture		3,920,534
----------------------------------	--	-----------

Interest payable is not payable from current financial resources and therefore is not reported in the governmental funds.		(26,151)
---	--	----------

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	(7,700,000)	
Governmental notes payable	(12,657,280)	
Net other post-retirement liability	(3,827,559)	
Compensated absences	<u>(874,071)</u>	(25,058,910)

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>3,461,440</u>
---	--	------------------

Net assets of governmental activities		<u>\$ 44,975,254</u>
---------------------------------------	--	----------------------

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED June 30, 2011

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property tax	\$ 5,087,048	\$ 326,170		\$ 605,808	\$ 6,019,026
In-lieu of tax	387,042	700,000		-	1,087,042
Other taxes and tax equivalents	1,296,187	1,774,822		726,496	3,797,505
Licenses and permits	386,457	-		-	386,457
Local option sales tax	9,936,223	-		-	9,936,223
Wholesale beer tax	1,048,640	-		-	1,048,640
Wholesale liquor tax	93,571	-		-	93,571
Other intergovernmental	634,011	39,863	\$ 332,249	1,006,500	2,012,623
Charges for services	226,849	-	-	1,549,871	1,776,720
Fines, forfeitures and penalties	378,476	-	-	110,398	488,874
Rent	17,205	26,172	-	2,700	46,077
Interest	30,774	29,477	1,387	8,920	70,558
Other	458,074	-	8,081	29,805	495,960
Total revenues	<u>19,980,557</u>	<u>2,896,504</u>	<u>341,717</u>	<u>4,040,498</u>	<u>27,259,276</u>
Expenditures:					
Current					
General government	2,396,054	-	-	25,492	2,421,546
Public safety	10,563,332	-	-	269,715	10,833,047
Planning and engineering	976,311	-	-	-	976,311
Maintenance	1,104,670	-	-	-	1,104,670
Public works	2,447,978	-	-	2,220,060	4,668,038
Culture and recreation	1,924,010	-	-	126,892	2,050,902
Capital outlay	418,432	-	1,641,944	1,769,894	3,830,270
Debt service	-	2,372,320	-	1,577,403	3,949,723
Total expenditures	<u>19,830,787</u>	<u>2,372,320</u>	<u>1,641,944</u>	<u>5,989,456</u>	<u>29,834,507</u>
Excess (deficiency) of revenues over (under) expenditures	<u>149,770</u>	<u>524,184</u>	<u>(1,300,227)</u>	<u>(1,948,958)</u>	<u>(2,575,231)</u>
Other financing sources (uses):					
Interfund transfers in	1,258,865	-	-	1,325,724	2,584,589
Interfund transfers (out)	(1,325,724)	-	-	-	(1,325,724)
Proceeds of bonds and notes	-	-	1,165,278	7,200,000	8,365,278
Sale of assets	11,825	-	-	-	11,825
Net other financing sources	<u>(55,034)</u>	<u>-</u>	<u>1,165,278</u>	<u>8,525,724</u>	<u>9,635,968</u>
Net change in fund balances	94,736	524,184	(134,949)	6,576,766	7,060,737
Fund balances, July 1, 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>
Fund balances, June 30, 2011	<u>\$ 9,019,763</u>	<u>\$ 6,807,530</u>	<u>\$ 222,862</u>	<u>\$ 8,984,103</u>	<u>\$ 25,034,258</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, 2011

Net change in fund balances - total governmental funds \$ 7,060,737

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	3,182,377	
Less: current year depreciation	<u>(2,302,144)</u>	880,233

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	(8,365,278)	
Principal payments	<u>3,544,854</u>	(4,820,424)

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

Bond issuance costs	113,700	
Current year amortization	<u>(10,213)</u>	103,487

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		245,356
Change in accrued interest on long-term debt		9,356
Change in net other post-retirement liability		(1,403,411)
Change in accrued compensated absences		(48,300)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets.		(91,115)
--	--	----------

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.

(108,082)

Change in net assets of governmental activities		<u>\$ 1,827,837</u>
---	--	---------------------

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2011

	Business-type Activities/Enterprise Funds				Governmental Activities Internal Service Fund
	Cookeville Electric Department	Cookeville Gas Department	Cookeville Water Quality Control Department	Totals	
Assets					
Current assets:					
Cash	\$ 8,530,589	\$ 7,480,709	\$ 7,248,353	\$ 23,259,651	\$ 2,412,296
Sinking fund cash	305,297	382,440	-	687,737	-
Temporary cash investments	2,179,046	4,309,921	3,029,422	9,518,389	1,839,758
Accounts receivable, net of allowance	6,131,546	759,881	1,791,737	8,683,164	-
Other receivables	-	-	-	-	1,735
Inventory of material and supplies	873,479	803,687	408,521	2,085,687	-
Due from other funds	-	-	-	-	22,365
Prepaid expenses and other current assets	286,500	1,399	1,475	289,374	127
Total current assets	<u>18,306,457</u>	<u>13,738,037</u>	<u>12,479,508</u>	<u>44,524,002</u>	<u>4,276,281</u>
Noncurrent assets:					
Capital assets, non-depreciable	1,340,059	195,048	2,857,398	4,392,505	-
Capital assets, depreciable	56,152,143	19,618,898	93,001,615	168,772,656	-
Less: accumulated depreciation	<u>(16,924,638)</u>	<u>(10,342,388)</u>	<u>(43,484,917)</u>	<u>(70,751,943)</u>	-
	40,567,564	9,471,558	52,374,096	102,413,218	-
Notes receivable	517,769	-	-	517,769	-
Water storage rights	-	-	2,159,606	2,159,606	-
Other assets	<u>115,748</u>	<u>23,719</u>	<u>22,535</u>	<u>162,002</u>	-
Total noncurrent assets	<u>41,201,081</u>	<u>9,495,277</u>	<u>54,556,237</u>	<u>105,252,595</u>	-
Total assets	<u>\$ 59,507,538</u>	<u>\$ 23,233,314</u>	<u>\$ 67,035,745</u>	<u>\$ 149,776,597</u>	<u>\$ 4,276,281</u>
Liabilities and Net Assets					
Current liabilities:					
Accounts payable	\$ 7,741,355	\$ 548,234	\$ 599,631	\$ 8,889,220	\$ 688
Health claims payable	-	-	-	-	105,403
Due to other funds	106,495	25,680	64,687	196,862	45
Current portion of long-term debt	1,524,000	380,000	1,377,113	3,281,113	-
Current portion of water storage rights payable	-	-	60,508	60,508	-
Accrued expenses	15,971	4,731	80,455	101,157	-
Deferred revenue	-	45,333	-	45,333	-
Other current liabilities	<u>27,855</u>	<u>12,659</u>	<u>31,733</u>	<u>72,247</u>	-
Total current liabilities	<u>9,415,676</u>	<u>1,016,637</u>	<u>2,214,127</u>	<u>12,646,440</u>	<u>106,136</u>
Noncurrent liabilities:					
Compensated absences	142,088	47,645	161,789	351,522	-
TVA heat pump notes payable	591,270	-	-	591,270	-
Water storage rights payable	-	-	2,235,216	2,235,216	-
Net other post-retirement liability	576,850	210,220	734,520	1,521,590	-
Long-term debt, less current portion	11,593,000	1,655,000	10,522,848	23,770,848	-
Other long-term liabilities	<u>81,200</u>	<u>7,200</u>	<u>-</u>	<u>88,400</u>	-
Total noncurrent liabilities	<u>12,984,408</u>	<u>1,920,065</u>	<u>13,654,373</u>	<u>28,558,846</u>	-
Total liabilities	<u>22,400,084</u>	<u>2,936,702</u>	<u>15,868,500</u>	<u>41,205,286</u>	<u>106,136</u>
Net assets:					
Invested in capital assets, net of related debt	27,450,564	7,436,558	40,474,135	75,361,257	-
Unrestricted	<u>9,656,890</u>	<u>12,860,054</u>	<u>10,693,110</u>	<u>33,210,054</u>	<u>4,170,145</u>
Total net assets	<u>37,107,454</u>	<u>20,296,612</u>	<u>51,167,245</u>	<u>108,571,311</u>	<u>4,170,145</u>
Total liabilities and net assets	<u>\$ 59,507,538</u>	<u>\$ 23,233,314</u>	<u>\$ 67,035,745</u>	<u>\$ 149,776,597</u>	<u>\$ 4,276,281</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED June 30, 2011

	<u>Business-type Activities/Enterprise Funds</u>			<u>Totals</u>	<u>Governmental Activities Internal Service Fund</u>
	<u>Cookeville Electric Department</u>	<u>Cookeville Gas Department</u>	<u>Cookeville Water Quality Control Department</u>		
Operating revenues:					
Charges for services	\$ 52,493,670	\$ 10,664,013	\$ 12,597,527	\$ 75,755,210	\$ 3,301,411
Other operating revenue	1,171,175	307,748	491,589	1,970,512	45,672
Total operating revenues	<u>53,664,845</u>	<u>10,971,761</u>	<u>13,089,116</u>	<u>77,725,722</u>	<u>3,347,083</u>
Operating expenses:					
Purchased utilities	43,928,051	7,306,122	-	51,234,173	-
Operating expenses	3,269,391	988,835	2,462,119	6,720,345	-
Maintenance expenses	1,037,692	454,941	400,876	1,893,509	-
Depreciation and amortization	2,141,061	665,198	2,520,571	5,326,830	-
Utilities	-	-	1,969,226	1,969,226	-
Administrative and general expenses	267,781	16,792	2,835,906	3,120,479	525,750
Health claims	-	-	-	-	2,998,883
Facilities rental	441,955	-	-	441,955	-
Total operating expenses	<u>51,085,931</u>	<u>9,431,888</u>	<u>10,188,698</u>	<u>70,706,517</u>	<u>3,524,633</u>
Operating income (loss)	<u>2,578,914</u>	<u>1,539,873</u>	<u>2,900,418</u>	<u>7,019,205</u>	<u>(177,550)</u>
Nonoperating revenues (expenses):					
Interest revenue	34,577	50,867	143,220	228,664	20,910
Interest expense	(29,247)	(61,371)	(322,348)	(412,966)	-
Gain on sale of assets	-	-	8,534	8,534	-
Total nonoperating revenues (expenses)	<u>5,330</u>	<u>(10,504)</u>	<u>(170,594)</u>	<u>(175,768)</u>	<u>20,910</u>
Interfund transfers (out)	<u>(835,202)</u>	<u>(192,757)</u>	<u>(230,906)</u>	<u>(1,258,865)</u>	<u>-</u>
Income before contributions	1,749,042	1,336,612	2,498,918	5,584,572	
Capital contributions	<u>47,319</u>	<u>-</u>	<u>1,016,715</u>	<u>1,064,034</u>	
Change in net assets	1,796,361	1,336,612	3,515,633	6,648,606	(156,640)
Total net assets, July 1, 2010	<u>35,311,093</u>	<u>18,960,000</u>	<u>47,651,612</u>	<u>101,922,705</u>	<u>4,326,785</u>
Total net assets, June 30, 2011	<u>\$ 37,107,454</u>	<u>\$ 20,296,612</u>	<u>\$ 51,167,245</u>	<u>\$ 108,571,311</u>	<u>\$ 4,170,145</u>

Reconciliation of changes in net assets to statement of activities:

Total changes in net assets of business-type activities	\$ 6,648,606
Net income(loss) of internal service fund related to business-type activities	<u>(48,558)</u>
Changes in business-type net assets included in the statement of activities	<u>\$ 6,600,048</u>

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED June 30, 2011

	<u>Business-type Activities/Enterprise Funds</u>				Governmental Activities Internal Service Fund
	<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	\$ 53,631,111	\$ 10,632,535	\$ 12,473,255	\$ 76,736,901	\$ 3,279,046
Cash receipts from customer service charges	591,260	118,741	491,589	1,201,590	-
Other operating cash receipts	408,236	189,007	-	597,243	45,672
Cash payments to suppliers of goods and services	(42,191,067)	(7,436,617)	-	(49,627,684)	-
Cash payments to employees for services	(2,308,233)	(238,262)	(812,908)	(3,359,403)	-
Cash payments for interfund services used	(361,100)	(170,458)	(495,302)	(1,026,860)	-
Cash payments for maintenance expenses	(1,037,691)	(437,282)	(400,876)	(1,875,849)	-
Cash payments for claims	-	-	-	-	(2,971,940)
Utilities and other operating cash payments	(739,735)	(470,861)	(5,292,815)	(6,503,411)	(527,128)
Net cash provided by (used in) operating activities	<u>7,992,781</u>	<u>2,186,803</u>	<u>5,962,943</u>	<u>16,142,527</u>	<u>(174,350)</u>
Cash flows from noncapital financing activities:					
Interfund transfers (out)	(835,202)	(192,757)	(230,906)	(1,258,865)	
Net cash (used in) noncapital financing activities	<u>(835,202)</u>	<u>(192,757)</u>	<u>(230,906)</u>	<u>(1,258,865)</u>	
Cash flows from capital and related financing activities:					
Proceeds from sale of assets	-	-	8,534	8,534	
Proceeds from borrowings	-	-	1,525,072	1,525,072	
Cash received from grants	43,756	-	1,016,716	1,060,472	
Cash payments for interest	(28,207)	(62,290)	(322,250)	(412,747)	
Reduction of long-term debt	(1,500,000)	(355,000)	(1,332,514)	(3,187,514)	
Acquisition and construction of capital assets	(1,943,255)	(425,106)	(3,638,223)	(6,006,584)	
Other capital asset adjustments	4,944	-	-	4,944	
Net cash (used in) capital and related financing activities	<u>(3,422,762)</u>	<u>(842,396)</u>	<u>(2,742,665)</u>	<u>(7,007,823)</u>	
Cash flows from investing activities:					
(Increase) in temporary cash investments	(43,023)	(8,868)	(311,804)	(363,695)	(3,785)
Cash receipts from interest	34,577	50,839	142,258	227,674	20,995
Net cash provided by (used in) investing activities	<u>(8,446)</u>	<u>41,971</u>	<u>(169,546)</u>	<u>(136,021)</u>	<u>17,210</u>
Net increase (decrease) in cash and cash equivalents	3,726,371	1,193,621	2,819,826	7,739,818	(157,140)
Cash and cash equivalents, July 1, 2010	5,109,515	6,669,528	4,428,527	16,207,570	2,569,436
Cash and cash equivalents, June 30, 2011	<u>\$ 8,835,886</u>	<u>\$ 7,863,149</u>	<u>\$ 7,248,353</u>	<u>\$ 23,947,388</u>	<u>\$ 2,412,296</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 2,578,914	\$ 1,539,873	\$ 2,900,418	\$ 7,019,205	\$ (177,550)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	2,141,061	665,198	2,520,571	5,326,830	-
(Increase) decrease in accounts receivable	1,360,446	(878)	(52,011)	1,307,557	-
(Increase) decrease in due from other funds	2,072	-	-	2,072	(22,365)
(Increase) decrease in inventory of material and supplies	15,739	(267,702)	60,554	(191,409)	-
(Increase) in prepaid expenses and other current assets	(168,927)	-	-	(168,927)	-
(Increase) in deferred charges and other	(74,967)	-	-	(74,967)	-
(Increase) decrease in other receivables	(118,823)	-	-	(118,823)	39,438
Increase (decrease) in accounts payable	1,726,904	155,242	249,904	2,132,050	(750)
(Decrease) in health claims payable	-	-	-	-	(13,168)
Increase in TVA notes payable	201,551	-	-	201,551	-
Increase in accrued expenses and compensated absences	1,231	6,424	2,341	9,996	-
Increase in net other post-retirement liability	212,703	78,717	257,087	548,507	-
Increase in due to other funds	22,048	1,460	27,361	50,869	45
Increase (decrease) in other current liabilities	14,229	1,269	(3,282)	12,216	-
Increase in other non-current liabilities	78,600	7,200	-	85,800	-
Net cash provided by (used in) operating activities	<u>\$ 7,992,781</u>	<u>\$ 2,186,803</u>	<u>\$ 5,962,943</u>	<u>\$ 16,142,527</u>	<u>\$ (174,350)</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:				
Taxes and tax equivalents:				
Property tax	\$ 4,987,300	\$ 4,987,300	\$ 5,087,048	\$ 99,748
In lieu of tax- CHA	40,000	40,000	40,605	605
In lieu of tax- Laurel Creek	700	700	618	(82)
In lieu of tax- Russell Stover	45,755	45,755	45,837	82
In lieu of tax- TVA	270,000	270,000	299,982	29,982
Business tax	872,452	872,452	978,208	105,756
Cable TV Franchise tax	250,000	250,000	305,607	55,607
Clerks fee	10,000	10,000	12,372	2,372
Total taxes and tax equivalents	<u>6,476,207</u>	<u>6,476,207</u>	<u>6,770,277</u>	<u>294,070</u>
Licenses and permits:				
Beer permits	7,000	7,000	5,500	(1,500)
Beer license	12,000	12,000	11,896	(104)
Liquor license	30,000	30,000	38,332	8,332
Building permits	55,000	165,000	191,951	26,951
Miscellaneous permits	61,500	121,500	138,778	17,278
Total licenses and permits	<u>165,500</u>	<u>335,500</u>	<u>386,457</u>	<u>50,957</u>
Intergovernmental:				
Local option sales tax	9,549,466	9,829,466	9,936,223	106,757
Wholesale beer tax	1,050,000	1,050,000	1,048,640	(1,360)
Wholesale liquor tax	-	15,000	93,571	78,571
State excise tax	60,000	60,000	36,198	(23,802)
State income tax	270,000	270,000	256,762	(13,238)
State beer tax	14,000	14,000	13,906	(94)
Mixed drink tax	140,000	140,000	129,086	(10,914)
Gasoline inspection fee	57,000	57,000	57,212	212
Telecommunications sales tax	-	-	1,802	1,802
Training supplement	65,000	65,000	69,000	4,000
Grants-other	-	80,438	70,045	(10,393)
Total intergovernmental	<u>11,205,466</u>	<u>11,580,904</u>	<u>11,712,445</u>	<u>131,541</u>
Charges for services:				
Miscellaneous	158,650	158,650	226,849	68,199
Total charges for services	<u>158,650</u>	<u>158,650</u>	<u>226,849</u>	<u>68,199</u>
Fines, forfeitures and penalties:				
Court fines and fees	210,000	310,000	337,657	27,657
Parking violations	2,000	2,000	5,035	3,035
Other	24,500	24,500	35,784	11,284
Total fines and costs	<u>236,500</u>	<u>336,500</u>	<u>378,476</u>	<u>41,976</u>
Miscellaneous:				
Interest	27,550	27,550	30,774	3,224
Rent	16,000	16,000	17,205	1,205
Other	411,800	412,800	458,074	45,274
Total miscellaneous	<u>455,350</u>	<u>456,350</u>	<u>506,053</u>	<u>49,703</u>
Total revenues	<u>\$ 18,697,673</u>	<u>\$ 19,344,111</u>	<u>\$ 19,980,557</u>	<u>\$ 636,446</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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenses:				
General government:				
Salaries and wages	\$ 927,250	\$ 927,250	\$ 927,271	\$ (21)
Payroll taxes and fringes	326,543	326,543	308,131	18,412
Contractual services	97,000	97,000	86,191	10,809
Supplies and maintenance	1,001,100	1,051,100	1,036,741	14,359
Fixed charges	9,100	16,100	12,912	3,188
Miscellaneous	<u>27,000</u>	<u>27,000</u>	<u>24,808</u>	<u>2,192</u>
Total general government	<u>2,387,993</u>	<u>2,444,993</u>	<u>2,396,054</u>	<u>48,939</u>
Public safety:				
Police:				
Salaries and wages	4,492,500	4,507,421	4,305,996	201,425
Payroll taxes and fringes	1,818,741	1,818,741	1,651,958	166,783
Supplies and maintenance	744,000	803,668	796,296	7,372
Fixed charges	80,000	170,000	159,137	10,863
Miscellaneous	<u>8,500</u>	<u>33,849</u>	<u>36,541</u>	<u>(2,692)</u>
Total police	<u>7,143,741</u>	<u>7,333,679</u>	<u>6,949,928</u>	<u>383,751</u>
Fire:				
Salaries and wages	2,358,000	2,358,000	2,300,020	57,980
Payroll taxes and fringes	1,069,740	1,069,740	986,735	83,005
Supplies and maintenance	341,100	359,100	306,016	53,084
Fixed charges	15,500	20,500	15,294	5,206
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>5,339</u>	<u>(339)</u>
Total fire	<u>3,789,340</u>	<u>3,812,340</u>	<u>3,613,404</u>	<u>198,936</u>
Total public safety	<u>\$ 10,933,081</u>	<u>\$ 11,146,019</u>	<u>\$ 10,563,332</u>	<u>\$ 582,687</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, 2011

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance-</u> <u>Favorable</u> <u>(Unfavorable)</u>
Planning and engineering:				
Salaries and wages	\$ 635,624	\$ 661,624	\$ 664,471	\$ (2,847)
Payroll taxes and fringes	236,645	236,645	244,796	(8,151)
Supplies and maintenance	74,650	74,650	62,262	12,388
Fixed charges	3,200	3,200	2,140	1,060
Miscellaneous	<u>3,000</u>	<u>3,000</u>	<u>2,642</u>	<u>358</u>
Total planning and engineering	<u>953,119</u>	<u>979,119</u>	<u>976,311</u>	<u>2,808</u>
Maintenance:				
Salaries and wages	648,950	658,950	654,992	3,958
Payroll taxes and fringes	304,296	304,296	290,800	13,496
Supplies and maintenance	142,200	149,200	145,365	3,835
Fixed charges	10,100	15,100	13,446	1,654
Miscellaneous	<u>400</u>	<u>400</u>	<u>67</u>	<u>333</u>
Total maintenance	<u>1,105,946</u>	<u>1,127,946</u>	<u>1,104,670</u>	<u>23,276</u>
Public works:				
Salaries and wages	1,440,600	1,440,600	1,451,657	(11,057)
Payroll taxes and fringes	619,394	619,394	594,992	24,402
Supplies and maintenance	355,050	385,050	366,224	18,826
Fixed charges	28,700	43,700	32,278	11,422
Miscellaneous	<u>3,250</u>	<u>3,250</u>	<u>2,827</u>	<u>423</u>
Total public works	<u>2,446,994</u>	<u>2,491,994</u>	<u>2,447,978</u>	<u>44,016</u>
Capital outlay:				
Capital outlay	<u>231,576</u>	<u>455,076</u>	<u>418,432</u>	<u>36,644</u>
Total capital outlay	<u>\$ 231,576</u>	<u>\$ 455,076</u>	<u>\$ 418,432</u>	<u>\$ 36,644</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, 2011

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable</u> <u>(Unfavorable)</u>
Culture and recreation:				
Salaries and wages	\$ 733,823	\$ 733,823	\$ 721,159	\$ 12,664
Payroll taxes and fringes	256,464	256,464	239,968	16,496
Supplies and maintenance	351,650	356,763	329,516	27,247
Fixed charges	11,050	11,050	9,415	1,635
Miscellaneous	7,300	7,300	7,338	(38)
Nonprofit contributions:				
Putnam County Library	296,557	296,557	296,557	-
Putnam County Imagination Library	10,000	10,000	10,000	-
Cookeville Arts Council	18,608	18,608	18,608	-
Cumberland Arts Society	1,901	1,901	1,901	-
Tennessee Rehabilitation Center	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	-
Chamber of Commerce-Highlands	30,000	30,000	30,000	-
Emergency Management Agency	25,400	25,400	25,400	-
WCTE Public Television	10,000	10,000	10,000	-
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	-
Helping Hands of Putnam County	11,407	11,407	11,407	-
Cookeville Senior Citizens	47,530	47,530	47,530	-
UCHRA - Drug Court	7,500	7,500	7,500	-
UCHRA - Meals on Wheels	1,901	1,901	1,901	-
	<u>1,976,901</u>	<u>1,982,014</u>	<u>1,924,010</u>	<u>58,004</u>
Total culture and recreation	\$ 1,976,901	\$ 1,982,014	\$ 1,924,010	\$ 58,004

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, 2011

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Total expenditures	\$ 20,035,610	\$ 20,627,161	\$ 19,830,787	\$ 796,374
Excess (deficiency) of revenues over (under) expenditures	<u>(1,337,937)</u>	<u>(1,283,050)</u>	<u>149,770</u>	<u>1,432,820</u>
Other financing sources (uses):				
Interfund transfers in	1,227,772	1,227,772	1,258,865	31,093
Interfund transfers (out)	(64,220)	(1,325,724)	(1,325,724)	-
Sale of assets	<u>-</u>	<u>-</u>	<u>11,825</u>	<u>11,825</u>
Net other financing sources	<u>1,163,552</u>	<u>(97,952)</u>	<u>(55,034)</u>	<u>42,918</u>
Net change in fund balance	<u>\$ (174,385)</u>	<u>\$ (1,381,002)</u>	94,736	<u>\$ 1,475,738</u>
Fund balance, July 1, 2010			<u>8,925,027</u>	
Fund balance, June 30, 2011			<u>\$ 9,019,763</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 \$2,903,000 for utilities services from Cookeville Regional Medical Center during the year ended June 30, 2011.

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 2011 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 an 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 \$385,000 for the year ended June 30, 2011.

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 \$3,600,000 in 2011.

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, 2011, the liability for accrued vacation leave is approximately \$1,226,000.

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 and Fund Balances

Net assets represent the difference between assets and liabilities in the government-wide and business-type fund financial statements. 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, State Street Aid, and Economic Development funds are shown as restricted on the statement of net assets under the Special revenue caption.

Governmental funds utilize a fund balance presentation for equity. At June 30, 2011, the City implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." Fund balances are categorized as nonspendable, restricted, committed, assigned or unassigned.

Nonspendable – Amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted – Amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

Committed – Amounts can only be used for specific purposes imposed by a formal action of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts, either by resolution or by ordinance.

Assigned – Amounts the City intends to use for specific purposes as expressed by the City Council or an official delegated the authority to assign amounts. This is the residual classification for all governmental funds other than the general fund.

Unassigned – Amounts that remain for any purpose or deficit balances in other funds.

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, 2010, the Upper Cumberland Regional Airport had net assets of \$15,682,135. The City of Cookeville reports their 25% equity interest of \$3,920,534 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 19, 2011, 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 \$435,000 for the year ended June 30, 2011.

NOTE 4 - INTERFUND TRANSACTIONS:

A schedule of interfund receivables and payables follows:

<u>Due from:</u>	<u>Due to:</u>				<u>Total Due From</u>
	<u>Governmental Activities</u>			<u>Internal Service Fund</u>	
	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Health Insurance Fund</u>	
<u>Governmental Activities:</u>					
Major Governmental Funds					
General Fund		\$ 3,816	\$ 4,104		\$ 7,920
Capital Projects	\$ 94	-	-		94
Other Governmental Funds	35,378	-	-		35,378
<u>Business-type Activities:</u>					
Electric	84,130	-	-	\$ 22,365	106,495
Water Quality Control	55,376	-	9,311	-	64,687
Gas	25,680	-	-	-	25,680
<u>Internal Service Activities:</u>					
Health Insurance Fund	45	-	-	-	45
Total Due To	\$ 200,703	\$ 3,816	\$ 13,415	\$ 22,365	\$ 240,299

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 and are expected to be repaid within one year.

A schedule of interfund transfers follows:

<u>Transfer to:</u>	<u>Transfer from:</u>				<u>Total</u>
	<u>General</u>	<u>Cookeville Electric Department</u>	<u>Cookeville Gas Department</u>	<u>Cookeville Water Quality Control Department</u>	
Animal Control	\$ 64,220				\$ 64,220
Economic Development	1,261,504				1,261,504
General	-	\$ 835,202	\$ 192,757	\$ 230,906	1,258,865
Total:	\$ 1,325,724	\$ 835,202	\$ 192,757	\$ 230,906	\$ 2,584,589

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. The transfer to Economic Development fund was for the specific purpose of paying another governmental entity and will not occur on a routine basis.

NOTE 5 - CHANGES IN CAPITAL ASSETS:

A summary of changes in capital assets follows:

	Balance July 1, 2010	Additions	Retirements	Annexation	Amortization	Transfers & Reclasses	Balance June 30, 2011
Government-type activities:							
Capital assets not being depreciated							
Land	\$ 9,214,575	\$ 114,317	\$ (51,000)				\$ 9,277,892
Construction in progress	1,279,165	1,026,327	-			\$ (555,612)	1,749,880
Total capital assets not being depreciated	10,493,740	1,140,644	(51,000)			(555,612)	11,027,772
Capital assets, being depreciated							
Buildings	8,298,089	312,929	(57,000)			-	8,554,018
Improvements	1,639,276	67,066	(11,000)			243,894	1,939,236
Vehicles	8,390,974	446,792	-			-	8,837,766
Machinery and equipment	2,571,673	105,127	-			-	2,676,800
Software	333,516	-	-			-	333,516
Infrastructure	36,424,471	1,109,819	-			311,718	37,846,008
Total capital assets being depreciated	57,657,999	2,041,733	(68,000)			555,612	60,187,344
Less accumulated depreciation for:							
Buildings	(2,794,406)	(172,410)	18,810			-	(2,948,006)
Improvements	(698,337)	(95,499)	9,075			-	(784,761)
Vehicles	(6,362,431)	(607,257)	-			-	(6,969,688)
Machinery and equipment	(2,217,983)	(168,798)	-			-	(2,386,781)
Software	(305,429)	(28,087)	-			-	(333,516)
Infrastructure	(19,085,350)	(1,230,093)	-			-	(20,315,443)
Total accumulated depreciation	(31,463,936)	(2,302,144)	27,885			-	(33,738,195)
Total capital assets being depreciated, net	26,194,063	(260,411)	(40,115)			555,612	26,449,149
Total government-type activities capital assets, net	\$ 36,687,803	\$ 880,233	\$ (91,115)			\$ -	\$ 37,476,921
Business-type activities:							
Capital assets not being depreciated							
Land and easements	\$ 2,624,839						\$ 2,624,839
Construction in progress	1,839,106	\$ 1,444,780				\$ (1,516,220)	1,767,666
Total capital assets not being depreciated	4,463,945	1,444,780				(1,516,220)	4,392,505
Capital assets being depreciated							
Buildings and improvements	4,538,927	-				-	4,538,927
Plant and distribution system	139,187,346	3,970,685	\$ (405,382)	\$ (4,852,691)		1,516,220	139,416,178
Machinery and equipment	10,269,564	569,751	(168,446)	-		-	10,670,869
Furniture and equipment	626,235	21,368	(325)	-		-	647,278
Plant acquisition adjustment	8,861,218	-	-	5,269,312	\$ (631,126)	-	13,499,404
Total capital assets being depreciated	163,483,290	4,561,804	(574,153)	416,621	(631,126)	1,516,220	168,772,656
Less accumulated depreciation for:							
Buildings and improvements	(1,855,338)	(121,720)	-	-	-	-	(1,977,058)
Plant and distribution system	(57,608,301)	(4,120,139)	478,142	(416,621)	-	-	(61,666,919)
Machinery and equipment	(6,301,779)	(379,129)	149,602	-	-	-	(6,531,306)
Furniture and equipment	(545,921)	(31,064)	325	-	-	-	(576,660)
Total accumulated depreciation	(66,311,339)	(4,652,052)	628,069	(416,621)	-	-	(70,751,943)
Total capital assets being depreciated, net	97,171,951	(90,248)	53,916	-	(631,126)	1,516,220	98,020,713
Total business-type activities capital assets, net	\$ 101,635,896	\$ 1,354,532	\$ 53,916	\$ -	\$ (631,126)	\$ -	\$ 102,413,218

The City has active construction projects as of June 30, 2011. Total accumulated commitments for ongoing capital projects are comprised of the following:

Governmental activities:

Dogwood Park Expansion	\$ 28,278
Highlands Business Park	<u>6,064,393</u>
Total commitments - governmental activities	<u>\$ 6,092,671</u>

Proprietary Fund activities:

Water Quality	\$ 556,000
Electric Department	<u>1,700,000</u>
Total commitments - Proprietary Fund activities	<u>\$ 2,256,000</u>

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

Governmental activities:

General government	\$ 73,951
Planning and engineering	3,900
Public safety	409,280
Public works	1,638,970
Maintenance	6,007
Culture and recreation	<u>170,036</u>
Total depreciation expense - governmental activities	<u>\$ 2,302,144</u>

Business-type activities:

Cookeville Water Quality Control Department	\$ 2,424,050
Cookeville Electric Department	1,568,795
Cookeville Gas Department	<u>659,207</u>
Total depreciation expense - business-type activities	<u>\$ 4,652,052</u>

NOTE 6 - LONG TERM LIABILITIES:

The following summarizes long-term liabilities transactions of the City of Cookeville during the year ended June 30, 2011:

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<u>Governmental Activities:</u>					
Bonds and notes payable:					
General Obligation Bonds	\$ 745,000	\$ 7,200,000	\$ (245,000)	\$ 7,700,000	\$ 655,000
Notes payable	<u>14,791,856</u>	<u>1,165,278</u>	<u>(3,299,854)</u>	<u>12,657,280</u>	<u>1,938,084</u>
Total bonds and notes payable	<u>15,536,856</u>	<u>8,365,278</u>	<u>(3,544,854)</u>	<u>20,357,280</u>	<u>2,593,084</u>
Other liabilities:					
Compensated absences	<u>825,771</u>	<u>48,300</u>	<u>-</u>	<u>874,071</u>	<u>-</u>
Total other liabilities	<u>825,771</u>	<u>48,300</u>	<u>-</u>	<u>874,071</u>	<u>-</u>
Total governmental activities long-term liabilities:	<u>\$ 16,362,627</u>	<u>\$ 8,413,578</u>	<u>\$ (3,544,854)</u>	<u>\$ 21,231,351</u>	<u>\$ 2,593,084</u>
<u>Business-Type Activities:</u>					
Bonds and notes payable:					
Revenue bonds payable	\$ 2,390,000		\$ (355,000)	\$ 2,035,000	\$ 380,000
Notes payable	<u>26,266,707</u>	<u>\$ 1,525,073</u>	<u>(2,774,819)</u>	<u>25,016,961</u>	<u>2,901,113</u>
Total bonds and notes payable	<u>28,656,707</u>	<u>1,525,073</u>	<u>(3,129,819)</u>	<u>27,051,961</u>	<u>3,281,113</u>
Other liabilities:					
Compensated absences	341,525	9,997	-	351,522	-
TVA heat pump notes payable	389,719	294,023	(92,472)	591,270	-
Water storage rights payable	<u>2,353,420</u>	<u>-</u>	<u>(57,696)</u>	<u>2,295,724</u>	<u>60,508</u>
Total other liabilities	<u>3,084,664</u>	<u>304,020</u>	<u>(150,168)</u>	<u>3,238,516</u>	<u>60,508</u>
Total business-type activities long-term liabilities:	<u>\$ 31,741,371</u>	<u>\$ 1,829,093</u>	<u>\$ (3,279,987)</u>	<u>\$ 30,290,477</u>	<u>\$ 3,341,621</u>

Bonds and notes payable at 6/30/2011, 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.	\$ 500,000
1.0% through 5.05% General Obligation Industrial & Business Park Bonds, Series 2010, Taxable Build America bonds, issued December 15, 2010, payable annually in varying amounts plus semi-annual interest payments through 2026.	7,200,000
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, 2011 is .37%.	2,477,000
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, 2011 is .27%.	660,000
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, 2011 is .27%.	1,187,000
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, 2011 is .27%.	256,000
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	474,253
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, 2011 is .27%.	3,066,000
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, 2011 is .27%.	2,700,000
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, 2011 is .27%.	<u>1,837,027</u>
	<u><u>\$ 20,357,280</u></u>

Business-type Bonds and Notes Payable:

Gas Department revenue bonds, series 2009 interest rate 2.79% due serially through 2015.	\$ 2,035,000
Revolving loan payable to State of Tennessee, interest rate 3.6%, due in monthly installments through 4/30/2013.	292,286
Revolving loan payable to State of Tennessee, interest rate 3.5%, due in monthly installments through 2012.	64,650
Revolving loan payable to State of Tennessee, interest rate 3.14%, due in monthly installments through 2017.	3,613,819
Revolving loan payable to State of Tennessee, maximum borrowing of \$1,750,000, interest rate 2.5%	1,941,206
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, 2011 is .37%.	5,988,000
Notes payable to UCEMC related to various annexations, payable annually through 2017 without interest.	7,000,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$2,500,000, payable annually beginning in 2000 through 2014, variable interest rate.	687,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$6,000,000, payable annually beginning in 2009 through 2024, variable interest rate.	<u>5,430,000</u>
	<u>\$ 27,051,961</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
2012	\$ 655,000	\$ 260,693
2013	680,000	247,598
2014	425,000	237,813
2015	430,000	231,225
2016	440,000	221,550
2017	450,000	210,330
2018	455,000	196,830
2019	470,000	182,043
2020	480,000	165,358
2021	495,000	146,878
2022	510,000	126,830
2023	525,000	105,155
2024	545,000	81,793
2025	560,000	56,450
2026	580,000	29,290
Total	<u>\$ 7,700,000</u>	<u>\$ 2,499,836</u>

Notes Payable

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2012	\$ 1,938,084	\$ 49,203	\$ 2,901,113	\$ 202,074
2013	2,017,084	38,079	2,897,378	172,258
2014	1,965,085	26,701	2,833,110	146,421
2015	980,000	18,190	2,660,466	122,036
2016	1,021,000	15,544	2,730,477	97,751
2017	1,063,000	12,787	2,803,128	72,651
2018	755,000	9,917	2,334,800	53,074
2019	786,000	7,879	1,287,191	46,577
2020	820,000	5,756	1,349,523	40,254
2021	442,000	3,542	572,913	33,674
2022	462,000	2,349	598,364	29,938
2023	408,027	1,102	625,876	26,079
2024	-	-	655,453	22,087
2025	-	-	107,094	17,958
2026	-	-	109,802	15,250
2027	-	-	112,579	12,473
2028	-	-	115,426	9,626
2029	-	-	118,345	6,707
2030	-	-	121,338	3,714
2031	-	-	82,585	1,326
Total	<u>\$ 12,657,280</u>	<u>\$ 191,049</u>	<u>\$ 25,016,961</u>	<u>\$ 1,131,928</u>

Revenue Bonds

Year Ending June 30,	Business-type Activities	
	Principal	Interest
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>\$ 2,035,000</u>	<u>\$ 144,731</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, 2012 through 2033.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	73,199	99,226	172,425
2017-2021	423,129	438,996	862,125
2022-2026	536,825	325,300	862,125
2027-2031	681,071	181,054	862,125
2032-2033	<u>321,186</u>	<u>23,674</u>	<u>344,860</u>
	<u>\$2,295,724</u>	<u>\$1,497,636</u>	<u>\$3,793,360</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, 2011, was 16.27% 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, 2011, the City of Cookeville's annual pension cost of \$2,576,638 to TCRS was equal to the required and actual contributions.

The required contribution was determined as part of the July 1, 2009 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 2.5% 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 ten-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, 2009, was 6 years. An actuarial valuation was performed as of July 1, 2009, which established contribution rates effective July 1, 2010.

Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual Pension</u> <u>Cost (APC)</u>	<u>Percentage of</u> <u>APC Contributed</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/11	\$2,576,638	100.00%	\$0.00
6/30/10	\$2,405,231	100.00%	\$0.00
6/30/09	\$2,367,104	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 \$93.0 million, and the actuarial value of assets was \$83.3 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$9.7 million. The covered payroll (annual payroll of active employees covered by the plan) was \$15.0 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 -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, 2011, totaled approximately \$88,000 for general liability and \$148,000 for worker's compensation. Liabilities for claims incurred but not reported as of June 30, 2011, are not calculated by an actuary. The plan administrator reported claims payable of approximately \$245,000 as of June 30, 2011 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, 2011, are not calculated by an actuary. The plan administrator reported health claims payable of approximately \$105,000 as of June 30, 2011. 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, 2011, the amount for health insurance claims and premiums totaled approximately \$3,525,000.

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 - 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, 2011
Actuarial cost method	Entry age normal, level dollar
Actuarial assumptions	
Interest rate	4.0%
Salary increases	4.5% per annum
Inflation	Medical cost 8% in the first year, future increases grade uniformly to 5% over 6 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, 2011 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 1,941,435	\$ 557,755	\$ 2,499,190
Interest on Net OPEB	96,966	38,923	135,889
Adjustment	(79,647)	(31,971)	(111,618)
Contribution made	<u>(555,342)</u>	<u>(16,199)</u>	<u>(571,541)</u>
Change in Net OPEB, Obligation	1,403,412	548,508	1,951,920
Net OPEB Obligation, beginning	<u>2,424,147</u>	<u>973,082</u>	<u>3,397,229</u>
Net OPEB Obligation, ending	<u>\$ 3,827,559</u>	<u>\$ 1,521,590</u>	<u>\$ 5,349,149</u>

Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2011	\$ 2,523,461	23%	\$ 5,349,149
2010	2,207,613	23%	3,397,231
2009	2,141,281	21%	1,690,391

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)
7/1/2010	\$ -	\$ 33,492,912	\$ 33,492,912	0.00%	\$ 15,217,765	220.1%
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 the Combined Financial Statements

June 30, 2011 and 2010

(1) Nature of operations

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 "Private Act"). 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 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 Cookeville Regional Medical Center ("CRMC") Children's Center (the "Children's Center") and CRMC MSO, Inc. (the "MSO") are component units blended with the Medical Center as the governing bodies are essentially the same. Both entities began operations during the year ended June 30, 2005. The Children's Center was established to provide a quality early childhood program to employees of the Medical Center. The MSO was established to provide physician services to the City 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.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(2) Summary of significant accounting policies

(a) 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.

(b) 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.

(c) 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 net realizable value.

(d) 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.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(e) 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.

(f) 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 9). 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, *Accounting and Financial Reporting for Derivative Instruments*, 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.

(g) Property and equipment

Property and equipment acquisitions are recorded at 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 repairs and maintenance 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.

(h) 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 of the joint venture.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(i) Bond issuance costs

Costs incurred in issuing bonds and bank loans are being amortized over the term of the related debt using the straight-line method.

(j) 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.

(k) 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.

(l) 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 collectibility of the receivables. The estimated provision for bad debts is reported as a reduction in net patient service revenue.

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

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(m) 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. For 2011, the net assets invested in capital assets, net of related debt excludes the \$27,190,755 in debt currently held as assets limited as to use. *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. As of June 30, 2011 and 2010, there were no permanently or temporarily restricted net assets.

(n) Operating revenues 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.

(o) 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.

(p) 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.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(q) 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.

(r) Performance indicator

Excess of revenues over expenses reflected in the accompanying statements of revenues, expenses and changes in net assets is a performance indicator.

(s) Recently adopted accounting pronouncements

In June 2010, accounting standards relating to the financial reporting of financial instruments and external investment pools were amended to improve financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. These amendments are effective for financial statements for fiscal years beginning after June 15, 2010. Therefore the Medical Center adopted these standards at the beginning of fiscal year 2011, and the adoption did not have an effect on the Medical Center's combined financial statements.

(t) Recently issued accounting pronouncements

In August 2010, accounting standards relating to the presentation of insurance claims and related insurance recoveries for health care entities were amended to require the entity to recognize an insurance receivable at the same time that it recognizes the liability, measured on the same basis of the liability. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.

In August 2010, accounting standards relating to the disclosure of charity care for health care entities were amended to require the entity to measure charity care based on the direct and indirect costs of providing the charity care. These amendments are effective for financial statements for fiscal years beginning after December 15, 2010. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.

In November 2010, accounting standards relating to the inclusion of component units in the financial reporting entity were amended to require inclusion if a financial benefit or burden is present or if the financial statements would be misleading if excluded. This also amended the criteria for reporting component units as if they are part of the primary government. These amendments are effective for financial statements for fiscal years beginning after June 15, 2012. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2013.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

In December 2010, accounting standards relating to the application of FASB Statements that do not contradict GASB pronouncements were amended to incorporate into the GASB authoritative literature certain accounting and financial reporting guidance and to bring all authoritative literature together in one place. These amendments are effective for financial statements for fiscal years beginning after December 15, 2011. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.

In June 2011, accounting standards relating to the application of the termination of hedge accounting were amended to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty. These amendments are effective for financial statements for fiscal years beginning after June 15, 2011. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2012.

The Medical Center is currently assessing the impact of adopting these accounting standards.

(u) Reclassifications

Certain reclassifications have been made to the 2010 combined financial statements in order for them to conform to the 2011 presentation. These reclassifications have no effect on the net assets or the excess of revenues over expenses as previously reported.

(v) Events occurring after reporting date

The Medical Center has evaluated events and transactions that occurred between June 30, 2011 and October 12, 2011, which is the date the combined financial statements were available to be issued, for possible recognition or disclosure in the combined financial statements.

(3) 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 revenues, expenses and changes in net assets is as follows:

	<u>2011</u>	<u>2010</u>
Gross patient service charges	\$ 510,031,336	\$ 450,949,622
Less: Medicare contractual adjustments	(160,063,132)	(139,680,535)
TennCare contractual adjustments	(32,953,894)	(30,910,029)
Other contractual adjustments	(63,268,794)	(51,952,364)
Bad debt	(18,105,464)	(14,675,872)
Charity Care	<u>(6,308,968)</u>	<u>(6,831,344)</u>
Net patient service revenue	<u>\$ 229,331,084</u>	<u>\$ 206,899,478</u>

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

Net patient accounts receivable consists of the following:

	<u>2011</u>	<u>2010</u>
Medicare	\$ 11,525,504	\$ 9,067,994
TennCare	4,038,709	2,788,245
Blue Cross and commercial	10,459,412	11,131,746
Patients, including self-insured	<u>10,680,532</u>	<u>7,181,784</u>
	36,704,157	30,169,769
Less: allowance for uncollectible accounts	<u>(13,729,048)</u>	<u>(10,323,371)</u>
	<u>\$ 22,975,109</u>	<u>\$ 19,846,398</u>

(4) Third-party payor reimbursement programs

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. Activity with respect to audits and reviews of governmental programs and reimbursement has increased and is expected to increase in the future. No additional reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. In the opinion of management, any adjustments which may result from such audits and reviews will not have a material impact on the combined financial statements; however, due to the uncertainties involved, it is at least reasonably possible that management's estimates will change in the future. In addition, participation in these programs subjects the Medical Center to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

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

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

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

Net patient service revenue related to Medicare and TennCare was approximately \$125,000,000 and \$22,000,000, respectively, in 2011 and approximately \$106,275,000 and \$20,461,000, respectively, in 2010.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

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.

Contractual adjustments under third-party reimbursement programs also include any differences between estimated settlements for prior years and subsequent tentative or final settlements. The adjustments resulting from tentative or final settlements to estimated reimbursement amounts resulted in an increase/(decrease) to revenue of approximately \$4,625,000 and \$1,900,000 for the years ended June 30, 2011 and 2010, respectively.

(5) 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:

	<u>2011</u>	<u>2010</u>
Carrying amount:		
Cash and cash equivalents	\$ 2,676,372	\$ 2,234,614
Investments	<u>64,351,858</u>	<u>39,616,425</u>
Total deposits and investments	<u>\$ 67,028,230</u>	<u>\$ 41,851,039</u>
	<u>2011</u>	<u>2010</u>
Included in the following balance sheet captions:		
Cash and cash equivalents	\$ 2,676,372	\$ 2,234,614
Short-term investments	21,489,805	22,577,940
Long-term investments	5,671,298	6,977,635
Assets internally designated for capital acquisition	10,000,000	10,000,000
Assets designated by bond indenture agreement	27,190,755	-
Assets limited for deferred compensation	<u>-</u>	<u>60,850</u>
	<u>\$ 67,028,230</u>	<u>\$ 41,851,039</u>

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

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

The distribution of the Medical Center's investments and assets limited as to use by maturity as of June 30, 2011 is as follows:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
June 30, 2011					
Undesignated	\$ 27,161,103	\$ 21,489,805	\$ 3,436,813	\$ 1,901,237	\$ 333,248
Assets internally designated for capital acquisition	10,000,000	10,000,000	-	-	-
Assets designated by bond indenture agreement	27,190,755	27,190,755	-	-	-
Cash and cash equivalents	<u>2,676,372</u>	<u>2,676,372</u>	-	-	-
Total	<u>\$ 67,028,230</u>	<u>\$ 61,356,932</u>	<u>\$ 3,436,813</u>	<u>\$ 1,901,237</u>	<u>\$ 333,248</u>

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, 2011, the Medical Center had investments with quality ratings by nationally recognized rating agencies (i.e., Moody's Investor Service and Standard and Poor's Rating Agency).

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

Concentration of credit risk: The Medical Center places limits on the portfolio composition of the following investment types: U.S. Treasury and agency securities, mortgage-backed securities, collateralized mortgage obligations, certificates of deposits, and repurchase agreements. No more than \$1,500,000 may be invested in any one security. As of June 30, 2011 and 2010, 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, U.S. Treasury securities and certificates of deposit.

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

	<u>2011</u>	<u>2010</u>
Interest income	\$ 321,451	\$ 213,741
Unrealized loss on investments	<u>(21,966)</u>	<u>(3,767)</u>
	<u>\$ 299,485</u>	<u>\$ 209,974</u>

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(6) 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 1. A summary of property and equipment and schedule of activity is as follows:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2011</u>
Land	\$ 13,220,940	\$ 2,281,942	\$ -	\$ -	\$ 15,502,882
Land improvements	5,124,713	-	-	-	5,124,713
Building	156,700,102	1,894,475	(266,239)	4,382,341	162,710,679
Automobiles	180,122	-	-	-	180,122
Equipment	54,229,498	4,887,577	(2,320,104)	2,264,280	59,061,251
Equipment under capitalized leases	<u>5,441,584</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,441,584</u>
	234,896,959	9,063,994	(2,586,343)	6,646,621	248,021,231
Less: allowance for depreciation and amortization:					
Land improvements	1,638,458	232,469	-	-	1,870,927
Building	28,704,529	4,526,690	(266,239)	-	32,964,980
Automobiles	178,132	1,990	-	-	180,122
Equipment	42,249,245	7,003,158	(2,249,485)	-	47,002,918
Equipment under capitalized leases	<u>5,368,871</u>	<u>62,394</u>	<u>-</u>	<u>-</u>	<u>5,431,265</u>
	<u>78,139,235</u>	<u>11,826,701</u>	<u>(2,515,724)</u>	<u>-</u>	<u>87,450,212</u>
Construction in progress	<u>5,308,635</u>	<u>9,691,203</u>	<u>-</u>	<u>(6,646,621)</u>	<u>8,353,217</u>
	<u>\$ 162,066,359</u>	<u>\$ 6,928,496</u>	<u>\$ (70,619)</u>	<u>\$ -</u>	<u>\$ 168,924,236</u>
	<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
Equipment	58,214,822	2,594,120	(8,246,282)	1,666,838	54,229,498
Equipment under capitalized leases	<u>5,477,122</u>	<u>-</u>	<u>(35,538)</u>	<u>-</u>	<u>5,441,584</u>
	238,897,680	4,203,926	(10,089,742)	1,885,095	234,896,959

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

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	43,929,456	7,114,727	(8,794,938)	-	42,249,245
Equipment under capitalized leases	<u>5,247,318</u>	<u>157,091</u>	<u>(35,538)</u>	<u>-</u>	<u>5,368,871</u>
	<u>75,064,955</u>	<u>11,904,756</u>	<u>(8,830,476)</u>	<u>-</u>	<u>78,139,235</u>
Construction in progress	<u>2,122,924</u>	<u>5,133,420</u>	<u>(62,614)</u>	<u>(1,885,095)</u>	<u>5,308,635</u>
	<u>\$ 165,955,649</u>	<u>\$ (2,567,410)</u>	<u>\$ (1,321,880)</u>	<u>\$ -</u>	<u>\$ 162,066,359</u>

Construction in progress at June 30, 2011 consists of construction on the expansion of the Medical Center's operating room, the electrophysiology lab, assets not yet placed in service, and various other construction projects. Estimated costs to complete the projects amount to approximately \$22,000,000 at June 30, 2011.

(7) 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 years ended June 30, 2011 and 2010 is as follows (unaudited):

	<u>2011</u>	<u>2010</u>
Assets	<u>\$ 2,576,000</u>	<u>\$ 2,534,000</u>
Liabilities	\$ 973,000	\$ 861,000
Member's equity	<u>1,603,000</u>	<u>1,673,000</u>
	<u>\$ 2,576,000</u>	<u>\$ 2,534,000</u>
Medical Center's interest:		
Investment in joint ventures	<u>\$ 943,000</u>	<u>\$ 843,000</u>
Equity in earnings of joint ventures	<u>\$ 279,000</u>	<u>\$ 399,000</u>

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(8) Long-term debt

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 1. A schedule of changes in the Medical Center's bonds and notes payable is as follows:

	<u>Balance at June 30, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2011</u>	<u>Amounts Due Within One Year</u>
Series 2009 Bonds	\$ 30,000,000	\$ -	\$ (570,000)	\$ 29,430,000	\$ 600,000
Series 2010-A Bonds	12,775,000	-	(428,130)	12,346,870	436,650
Series 2010-B Bonds	17,225,000	-	(576,870)	16,648,130	588,350
Build America Bonds Series 2010	-	30,000,000	-	30,000,000	680,000
Companion Instrument (Note 9)	3,276,318	-	(530,497)	2,745,821	520,356
Note payable - 6%	<u>360,757</u>	<u>-</u>	<u>(360,757)</u>	<u>-</u>	<u>-</u>
	<u>\$ 63,637,075</u>	<u>\$ 30,000,000</u>	<u>\$ (2,466,254)</u>	<u>\$ 91,170,821</u>	<u>\$ 2,825,356</u>

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

	<u>Balance at June 30, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2010</u>	<u>Amounts Due Within One Year</u>
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
Companion Instrument (Note 9)	-	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)	-	-
	<u>\$ 65,440,908</u>	<u>\$ 63,668,926</u>	<u>\$(65,472,759)</u>	<u>\$ 63,637,075</u>	<u>\$ 2,466,254</u>

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, Series 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 1.67% and 2.76% at June 30, 2011 and 2010, respectively. 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 9). 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 debt refinancing.

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.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

The Medical Center also issued notes payable to finance certain property and equipment additions. The outstanding balance on the 6% note payable was paid in 2011.

During the year ended June 30, 2011, the Medical Center issued \$30,000,000 Build America Bonds Series 2010. The Build America Bonds bear interest at a variable rate, equal to the sum of the 30-day LIBOR plus 1.85%. The rate was 2.04% at June 30, 2011. These Bonds also provide for a refundable tax credit paid to the Medical Center by the Treasury Department and the Internal Revenue Service ("IRS") in an amount equal to 35% of the total coupon interest payable on these taxable bonds. The Medical Center recognizes this refund as a reduction to interest expense in the combined financial statements.

The debt service requirements at June 30, 2011 related to bonds and notes payable are as follows:

<u>Year</u>	<u>Principal Maturities or Sinking Fund Requirements</u>	<u>Interest</u>
2012	\$ 2,825,356	\$ 3,399,142
2013	2,964,527	3,318,764
2014	3,152,285	3,230,728
2015	3,313,574	3,134,363
2016	3,436,251	3,031,179
2017 - 2021	54,528,828	1,706,360
2022 - 2026	6,430,000	367,913
2027 - 2031	7,930,000	218,963
2032 - 2035	<u>6,590,000</u>	<u>68,355</u>
	<u>\$ 91,170,821</u>	<u>\$ 18,475,767</u>

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, 2011 and the effect of the interest rate swap agreement (Note 9).

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, 2011.

(9) 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%.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

Prior to the implementation of GASB No. 53 in 2010 (Note 2), 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. During 2010, the outstanding swaps relating to the Series 2001 A-2 and A-3 Bonds 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 8). 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 8). Amortization of the Companion Instrument is reported as a reduction of 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:

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 \$3,453,886 and \$3,453,582 as of June 30, 2011 and 2010, respectively, 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 rating for each of these counterparties was Baa1 (Moody's) at June 30, 2011.

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.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

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 8 with the Medical Center's aggregate debt service requirements.

(10) 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, 2011 are as follows:

<u>Year</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
2012	\$ 14,130	\$ 503,511
2013	-	357,259
2014	-	190,681
2015	-	106,399
2016	-	79,732
2017	-	77,000
	<u> -</u>	<u> -</u>
Total future minimum lease payments	\$ <u>14,130</u>	\$ <u>1,314,582</u>

Total rental expense was \$1,375,096 and \$1,207,514 for the years ended June 30, 2011 and 2010, respectively.

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

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	\$ 39,863	\$ 160,168
Reductions	<u>(25,733)</u>	<u>(120,305)</u>
Balance at end of year	\$ <u>14,130</u>	\$ <u>39,863</u>
Current portion of capital lease obligations	\$ <u>14,130</u>	\$ <u>25,465</u>

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(11) Pension plans

Employees of the Medical Center are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's highest five-year average salary and years of service. Members become eligible to retire at the age of 60 with 5 years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with 5 years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system become vested after 5 years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as the Medical Center participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

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

The Medical Center is a political subdivision of the City. The Medical Center's funding policy and schedule of pension plan funding progress have not been included within the financial statements as these amounts are aggregated with the City. The City of Cookeville Annual Financial Report should be read to obtain the aggregated information related to funding policy and schedule of pension plan funding progress. For the years ended June 30, 2011 and 2010, the Medical Center's annual pension costs were approximately \$4,100,000 and \$3,950,000, respectively.

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.

Additionally, the Medical Center offers its employees participation in a 401(k) Profit Sharing Plan. The Plan administrator maintains the records of the trust which holds all investments of the Plan. The Plan is a defined contribution plan covering all employees who have completed six months of service.

The Medical Center's contributions to the 401(k) noncontributory and profit sharing plans for the years ended June 30, 2011 and 2010 were \$1,729,104 and \$429,200, respectively.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(12) Other receivables

Other current and long-term receivables at June 30, 2011 and 2010 include \$1,429,633 and \$880,160, 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.

(13) 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, 2011 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.

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

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 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 annual health claims in excess of \$150,000 per employee with an unlimited lifetime reimbursement. 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 \$1,380,144 and \$1,377,281 at June 30, 2011 and 2010, respectively. Total expenses under this program amounted to approximately \$8,850,000 and \$8,230,000 for the years ended June 30, 2011 and 2010, respectively.

The Medical Center is also self-insured for workers' compensation with umbrella coverage in excess of \$500,000 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, 2011 and 2010, approximately \$1,151,000 was accrued and included in other accrued expense on the combined balance sheets for estimated claims incurred but not reported.

(14) 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, 2011 and 2010. Operating expenses also include \$3,023,188 and \$2,690,744 in 2011 and 2010, respectively, for the purchase of utilities.

(15) Fair value measurements

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, fair value accounting standards establish a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity including quoted market prices in active markets for identical assets (Level 1), or significant other observable inputs (Level 2) and the reporting entity's own assumptions about market participant assumptions (Level 3).

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

Notes to the Combined Financial Statements

June 30, 2011 and 2010

(a) Financial assets

The carrying amount of financial assets, consisting of cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and current portions of long-term debt and capital lease obligations approximate their fair value due to their relatively short maturities. Long-term debt and capital lease obligations are carried at amortized cost, which approximates fair value. While approximately \$14,500,000 and \$13,600,000 of the Medical Center's investments and assets whose use is limited are cash equivalents as of June 30, 2011 and 2010, respectively, the Medical Center has approximately \$22,700,000 and \$26,000,000 in certificates of deposit and mortgage backed securities as of June 30, 2011 and 2010, respectively, that would be classified as Level 2 under the hierarchy in the preceding paragraph.

(b) Non-financial assets

The Medical Center's non-financial assets, which include property and equipment, are not required to be measured at fair value on a recurring basis. However, if certain triggering events occur, or if an annual impairment test is required and the Medical Center is required to evaluate the non-financial instrument for impairment, a resulting asset impairment would require that the non-financial asset be recorded at the fair value. During the years ended June 30, 2011 and 2010, there were no triggering events that prompted an asset impairment test of the Medical Center's non-financial assets. In 2010, the Medical Center recognized \$173,258 in earnings resulting from changes in the fair value of the derivative which was recognized in the combined statement of revenue, expenses and changes in net assets. Interest rate swaps are considered Level 3 fair value measurements. The estimated fair value of the interest rate swap liability as of June 30, 2011 and 2010 was \$3,453,886 and \$3,453,582, respectively. The interest rate swap liability increased by \$304 and \$4,006 during June 30, 2011 and 2010, respectively, and is reflected in the accompanying combined financial statements. See Note 9.

(16) Functional expenses

The following is a summary of management's functional classification of operating expenses:

	<u>2011</u>	<u>2010</u>
Healthcare services	\$ 162,408,751	\$ 137,112,402
General and administrative	<u>60,369,554</u>	<u>58,894,090</u>
	<u>\$ 222,778,305</u>	<u>\$ 196,006,492</u>

(17) Subsequent events

The Medical Center has entered into agreements to purchase Sleep Solutions of Tennessee, LLC for a purchase price of \$250,000. The Medical Center has also entered into agreements to purchase certain assets of Tennessee Heart, PLLC for a purchase price of approximately \$500,000.

SUPPLEMENTAL SECTION

CITY OF COOKEVILLE, TENNESSEE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2011

Special Revenue Funds

	Drug Fund	State Street Aid Fund	Sanitation Fund	Animal Control Board Fund	Economic Development Fund	Quality of Life Fund	Total Special Revenue Funds
<u>Assets</u>							
Cash	\$ 55,997	\$ 402,562	\$ 632,055	\$ 54,934	\$ 104,949	\$ 291,209	\$ 1,541,706
Temporary cash investments	-	487,875	-	512,596	7,086,300	-	8,086,771
Accounts receivable	-	-	142,045	-	-	-	142,045
Taxes receivable	-	-	-	-	288,879	72,220	361,099
Less allowance for bad debts	-	-	(995)	-	(4,593)	(1,148)	(6,736)
Other receivables	28	168,433	216	305	426,905	149,456	745,343
Due from other funds	-	11,017	-	-	1,918	480	13,415
Total assets	<u>\$ 56,025</u>	<u>\$1,069,887</u>	<u>\$ 773,321</u>	<u>\$ 567,835</u>	<u>\$ 7,904,358</u>	<u>\$ 512,217</u>	<u>\$ 10,883,643</u>
<u>Liabilities and Fund Balances</u>							
Accounts payable	\$ 3,168	\$ 370,223	\$ 19,065	\$ 3,094	\$ 815,466	\$ 5,536	\$ 1,216,552
Due to other funds	-	-	19,792	3,989	11,597	-	35,378
Deferred revenue	-	4,678	-	46,288	284,286	192,681	527,933
Other liabilities	-	119,400	277	-	-	-	119,677
Total liabilities	3,168	494,301	39,134	53,371	1,111,349	198,217	1,899,540
Fund balances unreserved	<u>52,857</u>	<u>575,586</u>	<u>734,187</u>	<u>514,464</u>	<u>6,793,009</u>	<u>314,000</u>	<u>8,984,103</u>
Total liabilities and fund balances	<u>\$ 56,025</u>	<u>\$1,069,887</u>	<u>\$ 773,321</u>	<u>\$ 567,835</u>	<u>\$ 7,904,358</u>	<u>\$ 512,217</u>	<u>\$ 10,883,643</u>

CITY OF COOKEVILLE, TENNESSEE
NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED June 30, 2011

	Special Revenue Funds						Total Special Revenue 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		\$ 262,043			\$ 275,012	\$ 68,753	\$ 605,808
Gasoline taxes		726,496			-	-	726,496
Intergovernmental	\$ 8,578	197,953		\$ 67,100	472,217	260,652	1,006,500
Charges for services	-	-	\$ 1,494,083	55,788	-	-	1,549,871
Fines and costs	110,398	-	-	-	-	-	110,398
Rent	-	-	-	-	2,700	-	2,700
Interest	555	2,801	2,412	1,368	353	1,431	8,920
Other	-	-	3,462	26,343	-	-	29,805
Total revenues	119,531	1,189,293	1,499,957	150,599	750,282	330,836	4,040,498
Expenditures:							
General government	-	-	-	-	25,492	-	25,492
Public safety	94,131	-	-	175,584	-	-	269,715
Public works	-	966,281	1,253,779	-	-	-	2,220,060
Culture and recreation	-	-	-	-	-	126,892	126,892
Debt service	-	-	-	-	1,577,403	-	1,577,403
Capital outlay	41,810	371,510	206,364	-	922,208	228,002	1,769,894
Total expenditures	135,941	1,337,791	1,460,143	175,584	2,525,103	354,894	5,989,456
Excess (deficiency) of revenues over (under) expenditures	(16,410)	(148,498)	39,814	(24,985)	(1,774,821)	(24,058)	(1,948,958)
Other financing sources (uses):							
Operating transfers in	-	-	-	64,220	1,261,504	-	1,325,724
Proceeds of bonds and notes	-	-	-	-	7,200,000	-	7,200,000
Total other financing sources (uses)	-	-	-	64,220	8,461,504	-	8,525,724
Net change in fund balances	(16,410)	(148,498)	39,814	39,235	6,686,683	(24,058)	6,576,766
Fund balances, July 1, 2010	69,267	724,084	694,373	475,229	106,326	338,058	2,407,337
Fund balances, June 30, 2011	\$ 52,857	\$ 575,586	\$ 734,187	\$ 514,464	\$ 6,793,009	\$ 314,000	\$ 8,984,103

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, 2011

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 290,200	\$ 290,200	\$ 326,170	\$ 35,970
In-lieu of taxes	700,000	700,000	700,000	-
State shared sales tax	1,660,000	1,660,000	1,774,822	114,822
Other intergovernmental	-	-	39,863	39,863
Rent	26,160	26,160	26,172	12
Interest	<u>15,000</u>	<u>15,000</u>	<u>29,477</u>	<u>14,477</u>
Total revenues	<u>2,691,360</u>	<u>2,691,360</u>	<u>2,896,504</u>	<u>205,144</u>
Expenditures:				
Debt service - principal	2,109,084	2,109,084	2,109,083	1
Debt service - interest	1,016,989	1,016,989	246,436	770,553
Administrative expenditures	<u>20,700</u>	<u>20,700</u>	<u>16,801</u>	<u>3,899</u>
Total expenditures	<u>3,146,773</u>	<u>3,146,773</u>	<u>2,372,320</u>	<u>774,453</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(455,413)</u>	<u>(455,413)</u>	<u>524,184</u>	<u>979,597</u>
Net change in fund balance	<u>\$ (455,413)</u>	<u>\$ (455,413)</u>	524,184	<u>\$ 979,597</u>
Fund balance, July 1, 2010			<u>6,283,346</u>	
Fund balance, July 1, 2011			<u>\$ 6,807,530</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, 2011

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 262,200	\$ 262,200	\$ 262,043	\$ (157)
State gasoline tax	700,000	700,000	726,496	(26,496)
TDOT Bridge grant	140,000	140,000	197,953	(57,953)
Interest	3,000	3,000	2,801	(199)
Total revenues	<u>1,105,200</u>	<u>1,105,200</u>	<u>1,189,293</u>	<u>(84,805)</u>
Expenditures:				
Paving	762,200	727,700	711,558	16,142
Sidewalk improvements	30,000	30,000	5,766	24,234
Intersection improvements	85,000	244,000	64,359	179,641
Street maintenance supplies	70,000	70,000	67,212	2,788
Vehicles & Equipment	292,000	227,000	207,420	19,580
Mine Lick Creek Bridge Project	185,000	284,500	281,353	3,147
Other	110	110	123	(13)
Total expenditures	<u>1,424,310</u>	<u>1,583,310</u>	<u>1,337,791</u>	<u>245,519</u>
(Deficiency) of revenues (under) expenditures	<u>(319,110)</u>	<u>(478,110)</u>	<u>(148,498)</u>	<u>329,612</u>
Net change in fund balance	<u>\$ (319,110)</u>	<u>\$ (478,110)</u>	(148,498)	<u>\$ 329,612</u>
Fund balance, July 1, 2010			<u>724,084</u>	
Fund balance, June 30, 2011			<u>\$ 575,586</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, 2011

	<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	\$ 95,000	\$ 110,398	\$ 15,398
Grants	-	8,578	8,578	-
Interest	200	200	555	355
Total revenues	<u>20,200</u>	<u>103,778</u>	<u>119,531</u>	<u>15,753</u>
Expenditures:				
Investigative	4,000	4,000	-	4,000
Seized property expense	5,000	5,000	174	4,826
Equipment & materials	27,500	74,500	71,897	2,603
Police dogs	10,000	10,000	9,900	100
Vehicles	-	43,000	42,960	40
Contribution - DTF	-	-	7,500	(7,500)
Other expenses	1,200	1,200	3,510	(2,310)
Total expenditures	<u>47,700</u>	<u>137,700</u>	<u>135,941</u>	<u>1,759</u>
(Deficiency) of revenues (under) expenditures	<u>(27,500)</u>	<u>(33,922)</u>	<u>(16,410)</u>	<u>17,512</u>
Net change in fund balance	<u>\$ (27,500)</u>	<u>\$ (33,922)</u>	(16,410)	<u>\$ 17,512</u>
Fund balance, July 1, 2010			<u>69,267</u>	
Fund balance, June 30, 2011			<u>\$ 52,857</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, 2011

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 1,457,000	\$ 1,457,000	\$ 1,494,083	\$ 37,083
Other revenue	-	-	3,462	3,462
Interest	1,000	1,000	2,412	1,412
Total revenues	<u>1,458,000</u>	<u>1,458,000</u>	<u>1,499,957</u>	<u>41,957</u>
Expenditures:				
Personnel	524,500	524,500	520,868	3,632
Taxes & fringes	217,460	217,460	213,070	4,390
Materials & supplies	17,550	17,550	13,235	4,315
Vehicle expense	269,000	269,000	289,515	(20,515)
Trucks & other equipment	354,000	354,000	294,927	59,073
Fixed charges	11,500	11,500	16,412	(4,912)
Other operating expense	114,200	114,200	90,467	23,733
Landfill services	18,000	18,000	21,649	(3,649)
Total expenditures	<u>1,526,210</u>	<u>1,526,210</u>	<u>1,460,143</u>	<u>66,067</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(68,210)</u>	<u>(68,210)</u>	<u>39,814</u>	<u>108,024</u>
Net change in fund balance	<u>\$ (68,210)</u>	<u>\$ (68,210)</u>	<u>39,814</u>	<u>\$ 108,024</u>
Fund balance, July 1, 2010			<u>694,373</u>	
Fund balance, June 30, 2011			<u>\$ 734,187</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, 2011

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental:				
Putnam County Allocation	\$ 55,100	\$ 55,100	\$ 55,100	\$ -
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	30,500	40,500	55,788	15,288
Other revenue	17,000	22,000	26,343	4,343
Interest	1,700	1,700	1,368	(332)
Total revenues	<u>116,300</u>	<u>131,300</u>	<u>150,599</u>	<u>19,299</u>
Expenditures:				
Personnel	106,500	106,500	79,413	27,087
Taxes & fringes	13,247	26,347	16,305	10,042
Utility expense	27,000	27,000	24,840	2,160
Supplies & maintenance	23,500	23,500	48,481	(24,981)
Other expense	4,900	4,900	6,545	(1,645)
Total expenditures	<u>175,147</u>	<u>188,247</u>	<u>175,584</u>	<u>12,663</u>
(Deficiency) of revenues (under) expenditures	<u>(58,847)</u>	<u>(56,947)</u>	<u>(24,985)</u>	<u>31,962</u>
Other financing sources:				
Operating transfers in	<u>64,220</u>	<u>64,220</u>	<u>64,220</u>	<u>-</u>
Net other financing sources:	<u>64,220</u>	<u>64,220</u>	<u>64,220</u>	<u>-</u>
Net change in fund balance	<u>\$ 5,373</u>	<u>\$ 7,273</u>	39,235	<u>\$ 31,962</u>
Fund balance, July 1, 2010			<u>475,229</u>	
Fund balance, June 30, 2011			<u>\$ 514,464</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, 2011

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 268,800	\$ 268,800	\$ 275,012	\$ 6,212
Intergovernmental:				
Putnam County Allocation	7,070,000	7,070,000	472,217	(6,597,783)
Rental income	-	-	2,700	2,700
Interest	300	300	353	53
Total revenues	<u>7,339,100</u>	<u>7,339,100</u>	<u>750,282</u>	<u>(6,588,818)</u>
Expenditures:				
Business park development:				
Engineering	-	-	106,755	(106,755)
Construction	14,140,000	14,140,000	818,416	13,321,584
Other development expense	6,000	6,000	22,433	(16,433)
Debt service	331,999	1,593,503	1,577,403	16,100
Miscellaneous	200	200	96	104
Total expenditures	<u>14,478,199</u>	<u>15,739,703</u>	<u>2,525,103</u>	<u>13,214,600</u>
(Deficiency) of revenues (under) expenditures	<u>(7,139,099)</u>	<u>(8,400,603)</u>	<u>(1,774,821)</u>	<u>6,625,782</u>
Other financing sources:				
Operating transfers in	-	1,261,504	1,261,504	-
Proceeds of bonds and notes	7,200,000	7,200,000	7,200,000	-
Net other financing sources:	<u>7,200,000</u>	<u>8,461,504</u>	<u>8,461,504</u>	<u>-</u>
Net change in fund balance	<u>\$ 60,901</u>	<u>\$ 60,901</u>	6,686,683	<u>\$ 6,625,782</u>
Fund balance, July 1, 2010			<u>106,326</u>	
Fund balance, June 30, 2011			<u>\$ 6,793,009</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, 2011

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 67,120	\$ 67,120	\$ 68,753	\$ 1,633
Intergovernmental:				
State Grant	1,200,000	1,200,000	42,000	(1,158,000)
Putnam County Allocation	67,414	67,414	194,677	127,263
Monterey Allocation	33,707	33,707	1,319	(32,388)
Algood Allocation	33,707	33,707	22,656	(11,051)
Interest	500	500	1,431	931
Other	<u>37,276</u>	<u>37,276</u>	-	<u>(37,276)</u>
Total revenues	<u>1,439,724</u>	<u>1,439,724</u>	<u>330,836</u>	<u>(1,108,888)</u>
Expenditures:				
Tennessee Central Heritage				
Rails with Trails project	1,500,000	1,500,000	354,806	(1,145,194)
Other miscellaneous expense	<u>150</u>	<u>150</u>	<u>88</u>	<u>62</u>
Total expenditures	<u>1,500,150</u>	<u>1,500,150</u>	<u>354,894</u>	<u>(1,145,132)</u>
(Deficiency) of revenues (under) expenditures	<u>(60,426)</u>	<u>(60,426)</u>	<u>(24,058)</u>	<u>36,368</u>
Net change in fund balance	<u>\$ (60,426)</u>	<u>\$ (60,426)</u>	(24,058)	<u>\$ 36,368</u>
Fund balance, July 1, 2010			<u>338,058</u>	
Fund balance, June 30, 2011			<u>\$ 314,000</u>	

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

June 30, 2011

<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>
2011			\$ 6,138,683			\$ 6,138,683	
2010		\$ 6,004,075	-	\$ (100)	\$ (5,697,339)	306,636	
2009	\$ 266,117	-	-	1,645	(181,702)	86,060	\$ 86,060
2008	77,770	-	-	-	(33,730)	44,040	44,040
2007	44,914	-	-	-	(17,995)	26,919	26,919
2006	30,146	-	-	-	(6,143)	24,003	24,003
2005	9,486	-	-	-	(258)	9,228	9,228
2004	25,318	-	-	-	(352)	24,966	24,966
2003	17,880	-	-	-	(1,952)	15,928	15,928
2002	9,399	-	-	-	(656)	8,743	8,743
2001	8,171	-	-	-	(2,912)	5,259	5,259
2000	7,328	-	-	-	(1,727)	5,601	5,601
	<u>\$ 496,529</u>	<u>\$ 6,004,075</u>	<u>\$ 6,138,683</u>	<u>\$ 1,545</u>	<u>\$ (5,944,766)</u>	<u>\$ 6,696,066</u>	<u>\$ 250,747</u>

* Outstanding Delinquent Taxes filed with clerk and master.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF TAX RATES AND ASSESSMENTS

June 30, 2011

<u>Tax Year</u>	<u>Tax rate</u>	<u>Assessed Value</u>
2011	\$.87 per \$100	\$691,237,550
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, 2011

<u>Fiscal Year Maturity</u>	<u>2004 Refunding Bonds</u>	<u>2010 General Obligation Bonds</u>	<u>Total Bonds</u>	<u>Future Interest Requirements</u>
2012	\$ 240,000	\$ 415,000	\$ 655,000	\$ 260,693
2013	260,000	420,000	680,000	247,598
2014	-	425,000	425,000	237,813
2015	-	430,000	430,000	231,225
2016	-	440,000	440,000	221,550
2017	-	450,000	450,000	210,330
2018	-	455,000	455,000	196,830
2019	-	470,000	470,000	182,043
2020	-	480,000	480,000	165,358
2021	-	495,000	495,000	146,878
2022	-	510,000	510,000	126,830
2023	-	525,000	525,000	105,155
2024	-	545,000	545,000	81,793
2025	-	560,000	560,000	56,450
2026	-	580,000	580,000	29,290
	<u>\$ 500,000</u>	<u>\$ 7,200,000</u>	<u>\$ 7,700,000</u>	<u>\$ 2,499,836</u>

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF NOTES PAYABLE DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
June 30, 2011

<u>Fiscal Year Maturity</u>	<u>1999 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2001 Capital Outlay Note</u>	<u>2002 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2003 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2003 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2005 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2007 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>2008 Tennessee Municipal Bond Fund Variable Interest*</u>	<u>Total Notes Payable</u>	<u>Future Interest Requirements</u>
2012	\$ 786,000	\$ 158,084	\$ 97,000	\$ 181,000	\$ 126,000	\$ 290,000	\$ 180,000	\$ 120,000	\$ 1,938,084	\$ 49,203
2013	825,000	158,084	102,000	188,000	130,000	301,000	187,000	126,000	2,017,084	38,079
2014	866,000	158,085	107,000	194,000	-	313,000	195,000	132,000	1,965,085	26,701
2015	-	-	112,000	201,000	-	326,000	202,000	139,000	980,000	18,190
2016	-	-	118,000	208,000	-	339,000	210,000	146,000	1,021,000	15,544
2017	-	-	124,000	215,000	-	352,000	219,000	153,000	1,063,000	12,787
2018	-	-	-	-	-	367,000	227,000	161,000	755,000	9,917
2019	-	-	-	-	-	381,000	236,000	169,000	786,000	7,879
2020	-	-	-	-	-	397,000	246,000	177,000	820,000	5,756
2021	-	-	-	-	-	-	256,000	186,000	442,000	3,542
2022	-	-	-	-	-	-	266,000	196,000	462,000	2,349
2023	-	-	-	-	-	-	276,000	132,027	408,027	1,102
	<u>\$ 2,477,000</u>	<u>\$ 474,253</u>	<u>\$ 660,000</u>	<u>\$ 1,187,000</u>	<u>\$ 256,000</u>	<u>\$ 3,066,000</u>	<u>\$ 2,700,000</u>	<u>\$ 1,837,027</u>	<u>\$ 12,657,280</u>	<u>\$ 191,049</u>

*Principal and interest requirements based on current debt and interest rate. The current interest rate at June 30, 2011 ranges from .27% to .37% 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, 2011

<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>Total Bonds and Notes Payable</u>	<u>Future Interest Requirements</u>
2012	\$ 539,796	\$ 59,724	\$ 157,188	\$ 543,000	\$ 77,405	\$ 1,377,113	\$ 184,871
2013	556,992	4,926	135,098	570,000	79,362	1,346,378	156,688
2014	574,740	-	-	599,000	81,370	1,255,110	132,568
2015	593,040	-	-	629,000	83,426	1,305,466	109,983
2016	611,940	-	-	660,000	85,537	1,357,477	86,657
2017	631,428	-	-	693,000	87,700	1,412,128	62,564
2018	105,883	-	-	728,000	89,917	923,800	44,043
2019	-	-	-	764,000	92,191	856,191	38,655
2020	-	-	-	802,000	94,523	896,523	33,496
2021	-	-	-	-	96,913	96,913	28,139
2022	-	-	-	-	99,364	99,364	25,688
2023	-	-	-	-	101,876	101,876	23,176
2024	-	-	-	-	104,453	104,453	20,599
2025	-	-	-	-	107,094	107,094	17,958
2026	-	-	-	-	109,802	109,802	15,250
2027	-	-	-	-	112,579	112,579	12,473
2028	-	-	-	-	115,426	115,426	9,626
2029	-	-	-	-	118,345	118,345	6,707
2030	-	-	-	-	121,338	121,338	3,714
2031	-	-	-	-	82,585	82,585	1,326
	<u>\$ 3,613,819</u>	<u>\$ 64,650</u>	<u>\$ 292,286</u>	<u>\$ 5,988,000</u>	<u>\$ 1,941,206</u>	<u>\$ 11,899,961</u>	<u>\$ 1,014,181</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, 2011 is .37%.

CITY OF COOKEVILLE, TENNESSEE
DEBT SERVICE REQUIREMENTS - PROPRIETARY FUND
ELECTRIC DEPARTMENT
June 30, 2011

Various Annexations - Non Interest Bearing

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u> <u>Requirements</u>
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>\$ 7,000,000</u>

Tennessee Municipal Bond Fund - Variable Interest				
Fiscal Year	1999	2008	Total	Interest
<u>Maturity</u>	<u>Principal</u> <u>Requirements*</u>	<u>Principal</u> <u>Requirements*</u>	<u>Notes</u> <u>Payable</u>	<u>Requirements*</u>
2012	\$ 218,000	\$ 306,000	\$ 524,000	\$ 17,203
2013	229,000	322,000	551,000	15,570
2014	240,000	338,000	578,000	13,853
2015	-	355,000	355,000	12,053
2016	-	373,000	373,000	11,094
2017	-	391,000	391,000	10,087
2018	-	411,000	411,000	9,031
2019	-	431,000	431,000	7,922
2020	-	453,000	453,000	6,758
2021	-	476,000	476,000	5,535
2022	-	499,000	499,000	4,250
2023	-	524,000	524,000	2,903
2024	-	551,000	551,000	1,488
	<u>\$ 687,000</u>	<u>\$ 5,430,000</u>	<u>\$ 6,117,000</u>	<u>\$ 117,747</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, 2011

Fiscal Year	Revenue Bond	Total	Future
<u>Maturity</u>	Series 2009	Bonds	Interest
	<u>2.79%</u>	<u>Payable*</u>	<u>Requirements*</u>
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>\$ 2,035,000</u>	<u>\$ 2,035,000</u>	<u>\$ 144,731</u>

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

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF INVESTMENTS

June 30, 2011

	State of Tennessee Local Government <u>Investment Pool</u>	US Treasury <u>Bills</u>	Total Cash <u>Investments</u>
Governmental Activities:			
Major Funds			
General	\$ 2,767,112		\$ 2,767,112
Debt Service	3,069,271		3,069,271
Capital Projects	4		4
Non-major funds	<u>1,000,471</u>	<u>\$ 7,086,300</u>	<u>8,086,771</u>
Total Governmental Activities	<u>6,836,858</u>	<u>7,086,300</u>	<u>13,923,158</u>
Business-type Activities:			
Major Funds			
Cookeville Electric Department	2,179,046	-	2,179,046
Cookeville Gas Department	4,309,921	-	4,309,921
Cookeville Water Quality Control Department	<u>3,029,422</u>	<u>-</u>	<u>3,029,422</u>
Total Business-type Activities	<u>9,518,389</u>	<u>-</u>	<u>9,518,389</u>
Internal Service Fund:			
Employee Health Insurance Fund	<u>1,839,758</u>	<u>-</u>	<u>1,839,758</u>
Total Internal Service Fund	<u>1,839,758</u>	<u>-</u>	<u>1,839,758</u>
 Total Temporary Cash Investments	 <u>\$ 18,195,005</u>	 <u>\$ 7,086,300</u>	 <u>\$ 25,281,305</u>

STATISTICAL SECTION (UNAUDITED)

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF UTILITY CUSTOMERS

JUNE 30, 2011

At June 30, 2011, the utility departments serviced the following number of customers:

<u>Department</u>	<u>Number of Customers</u>
Electric	16,729
Gas	9,614
Water	13,721
Sewer	13,218
Sanitation	974

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES
June 30, 2011

Electric Department

Retail Rate
1-Jun-11
w/wholesale FCA
\$0.02366

Residential	Customer Charge	\$10.00
	Alternate Usage Blocks	
	Block1 kWh (1st 800 kwh)	\$0.09057
	Block2 kWh (additional kwh)	\$0.08571
GSA1	Customer Charge	\$20.00
	All kWh	\$0.09892
GSA2	Customer Charge	\$50.00
	1st 15,000 kWh	\$0.09954
	Additional kWh	\$0.05904
	kWh, 0-50	\$0.00
	kWh, 51-1,000	\$11.85
GSA3	Customer Charge	\$100.00
	All kWh	\$0.06259
	kWh, 0-1,000	\$10.73
	kWh, 1,001 - 5,000	\$10.71
SDE-General Power	Customer Charge	\$1,500.00
SGSB	Demand Charge	
	Summer Period (Jun-Sep)	\$21.03
	Winter Period (Dec-Mar)	\$14.90
	Transition Period (Oct,Nov,Apr,May)	\$10.28
	Energy Charge	
	Summer Period (Jun-Sep)	\$0.04913
	Winter Period (Dec-Mar)	\$0.04616
	Transition Period (Oct,Nov,Apr,May)	\$0.04407
SDE-Manufacturing	Customer Charge	\$1,500.00
SMSB	Demand Charge	
	Summer Period (Jun-Sep)	\$18.22
	Winter Period (Dec-Mar)	\$12.08
	Transition Period (Oct,Nov,Apr,May)	\$7.47
	Energy Charge	
	Summer Period (Jun-Sep)	\$0.04170
	Winter Period (Dec-Mar)	\$0.03820
	Transition Period (Oct,Nov,Apr,May)	\$0.03594
Outdoor Lighting	Customer Charge	\$2.50
	All kWh	\$0.06424

Charges for Outdoor Lighting for Individual Customers

	KWH	FAC Rental	1-Jun-11	Total
			Energy	
			\$0.06424	
100 WHPS	42	5.13	2.70	7.83
250 WHPS	105	7.10	6.75	13.85
400 WHPS	165	7.10	10.60	17.70
175 WMV	70	4.21	4.50	8.71
400 WMV	155	5.49	9.96	15.45
250 WMHD	105	7.74	6.75	14.49
350 WMHD-FLOOD	140	8.14	8.99	17.13
350 WMHD-SHOE	140	9.84	8.99	18.83
400 WMHD	165	7.78	10.60	18.38
1000 WMHD	398	9.42	25.57	34.99

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES (CONTINUED)
JUNE 30, 2011

Gas Department

Residential Rate - Classes 22,60,13,and 61 at July 1, 2011

Monthly rate (inside): First 5,000 cu. ft. for \$.911 per 100 cu. ft.
Next 5,000 cu. ft. for \$.901 per 100 cu. ft.
All additional for \$.891 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$1.091 per 100 cu. ft.
Next 5,000 cu. ft. for \$1.078 per 100 cu. ft.
All additional for \$1.066 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, 2011

Monthly rate (inside): First 5,000 cu. ft. for \$.961 per 100 cu. ft.
Next 10,000 cu. ft. for \$.931 per 100 cu. ft.
All additional for \$.901 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$1.153 per 100 cu. ft.
Next 10,000 cu. ft. for \$1.116 per 100 cu. ft.
All additional for \$1.078 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, 2011

Monthly rate (inside): First 10,000 cu. ft. for \$.931 per 100 cu. ft.
Next 20,000 cu. ft. for \$.911 per 100 cu. ft.
All additional for \$.891 per 100 cu. ft.

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

Monthly rate (outside): First 10,000 cu. ft. for \$1.116 per 100 cu. ft.
Next 20,000 cu. ft. for \$1.091 per 100 cu. ft.
All additional for \$1.066 per 100 cu. ft.

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

Interruptible Rate - Class 55

\$.5359 per 100 cu. ft. (inside)

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES (CONTINUED)
June 30, 2011

Water Quality Control Department

Inside Water Rates

Zero Usage (Base Charge)	\$3.89 (minimum bill)
All gallons over zero usage	\$3.00 per 1,000 gallons

Outside Water Rates

Zero Usage (Base Charge)	\$5.84 (minimum bill)
All gallons over zero usage	\$4.47 per 1,000 gallons

Water Storage Rate

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

Sewer Rates

Inside - Residential/Commercial/Industrial	\$4.26 per 1,000 gallons \$5.50 (minimum bill)
--	---

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF UNACCOUNTED FOR WATER

FOR THE YEAR ENDED June 30, 2011

(All amounts in gallons)

A.	Water Treated and Purchased:		
B.	Water Pumped (potable)	3,905,813,000	
C.	Water Purchased	0	
D.	Total Water Treated and Purchased (Sum Lines B and C)		3,905,813,000
E.	Accounted for Water:		
F.	Water Sold	2,863,511,900	
G.	Metered for Consumption (in house usage)	0	
H.	Fire Department Usage	8,382,702	
I.	Flushing	276,100	
J.	Tank Cleaning/Filling	529,200	
K.	Street Cleaning	0	
L.	Bulk Sales	407,230	
M.	Water Bill Adjustments	0	
N.	Total Accounted for Water (Sum Lines F thru M)		2,873,107,132
O.	Unaccounted for Water (Line D minus Line N)		1,032,705,868
P.	Percent Unaccounted for Water (Line O divided by Line D times 100)		26.44%
Q.	Other		0

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

Water quantities from repaired leaks have not been included.

SINGLE AUDIT SECTION

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED June 30, 2011

Grant/Contract Number	CFDA Number	Program	Grantor Agency	(Receivable) Deferred at 07/01/10	Receipts	Expenditures	(Receivable) Deferred at 06/30/11
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	\$ -	\$ 254,179	\$ 254,179	\$ -
				-	1,016,715	1,016,715	-
FEMA-1937-DR-TN	97.306	Presidential Disaster Declaration	State of Tennessee Tennessee Emergency Management Agency pass-through from Federal Emergency Management Agency	-	70,203	70,203	-
CG1133104	81.128	Energy Efficiency Conservation Block Grant-ARRA	State of Tennessee Department of Economic & Community Development pass-through from U.S Department of Energy	-	43,756	47,319	(3,563)
2009-SB-B9-2129	16.804	Byrne Memorial Justice Assistance Grant-ARRA	U.S. Department of Justice/Bureau of Justice Assistance	-	4,884	4,884	-
2009-DJ-BX-1024	16.738	Byrne Memorial Justice Assistance Grant	U.S. Department of Justice/Bureau of Justice Assistance	(9,940)	11,450	1,510	-
2010-DJ-BX-0240	16.738	Byrne Memorial Justice Assistance Grant	U.S. Department of Justice/Bureau of Justice Assistance	-	13,197	13,197	-
	16.607	Bulletproof Vest Partnership	U.S. Department of Justice	-	4,950	4,950	-
Z-2011-004	15.605	Riparian Tree Grant	State of Tennessee, Tennessee Wildlife Resources Agency Pass-through from U.S. Department of Agriculture	-	375	375	-
070090	20.205	Rails with Trails Project	State of Tennessee, Department of Transportation Pass-through from Federal Highway Administration	(10,292)	52,292	42,000	-
060010	20.205	Rail Trail Project	Rails to Trails Conservancy, Washington D.C.	606	-	-	606
			TOTAL FEDERAL AWARDS	(19,626)	1,472,001	1,455,332	(2,957)
PT-10-11	N/A	Governor's Highway Safety Grant	State of Tennessee, Department of Transportation	(12,237)	19,898	7,661	-
PT-11-45	N/A	Governor's Highway Safety Grant	State of Tennessee, Department of Transportation	-	19,676	24,547	(4,871)
GG-08-23787-00	N/A	Internet Crimes Against Children	Knoxville Police Department	(10,366)	24,127	25,349	(11,588)
GG-08-23787-00	N/A	Internet Crimes Against Children	Nashville Police Department	(17,873)	17,873	-	-
GG-09-26734-00	N/A	Local Park and Recreation Fund Dogwood Park Phase II	State of Tennessee Department of Environment & Conservation	(78,023)	182,200	104,177	-
FEMA-1937-DR-TN	97.306	Presidential Disaster Declaration	State of Tennessee Tennessee Emergency Management Agency	-	-	11,700	(11,700)
71455-3415-04	N/A	Mine Lick Creek Road Bridge Replacement	State of Tennessee, Department of Transportation	-	95,364	197,954	(102,590)
Z-2011-004	N/A	Riparian Tree Grant	State of Tennessee, Tennessee Wildlife Resources Agency	-	125	125	-
			TOTAL STATE FINANCIAL ASSISTANCE	(118,499)	359,263	371,513	(130,749)
			TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE	\$ (138,125)	\$ 1,831,264	\$ 1,826,845	\$ (133,706)

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, 2011

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
Energy Efficiency Conservation Block Grant-ARRA	81.128

8. The threshold of distinguishing Types A and B programs was \$300,000.
9. City of Cookeville, Tennessee was determined to be a low-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, 2011, which collectively comprise the City of Cookeville, Tennessee's basic financial statements and have issued our report thereon dated December 19, 2011. 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 \$273,038,813 as of June 30, 2011. 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 audit, 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 opinions 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 19, 2011
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 City Council 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, 2011. 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, 2011.

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 19, 2011
Cookeville, Tennessee