

**CITY OF COOKEVILLE, TENNESSEE**

**FINANCIAL STATEMENTS**

**Year Ended**

**June 30, 2012**

**CITY OF COOKEVILLE, TENNESSEE**

**FINANCIAL STATEMENTS**

**June 30, 2012**

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## Independent Auditor's Report

To the City Council  
City of Cookeville, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, budgetary comparison information for the General Fund, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of and for the year ended June 30, 2012, 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 \$280,206,408 as of June 30, 2012. 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 the other auditor provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Cookeville, Tennessee, as of June 30, 2012, 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 21, 2012, 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.

**Carthage:** 302 North Main Street □ P.O. Box 337 □ Carthage, TN 37030 □ 615-735-1139 □ Fax 615-735-2420

**Cookeville:** 228 East Broad Street □ Suite 200 □ Cookeville, TN 38501 □ 931-528-1545 □ Fax 931-526-3597

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 21, 2012  
Cookeville, Tennessee

Management's Discussion and Analysis  
Annual Financial Statements  
For the Fiscal Year Ended June 30, 2012

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, 2012. 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, 2012 by \$166,380,132 (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 (\$121,517,828) and unrestricted-undesignated resources available to continue City operations into the next fiscal year (\$44,862,304).
- The government's total net assets increased this year by \$12,124,862. Net assets of the governmental activities increased by \$5,898,005 and those of the City's business type activities (utilities) increased by \$6,226,857.
- As of June 30, 2012, the City of Cookeville's governmental funds reported combined ending fund balances of \$21,632,001 a decrease of \$3,402,257 in comparison with the prior year. Approximately 43% of this total amount, \$9,223,601 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 \$9,223,601 or 40% of total general fund expenditures.
- The City of Cookeville's total debt decreased by \$934,949 (1 percent) during the current fiscal year.
  - Issued \$4 million in Electric Department System Revenue and Tax Bonds for construction of a new substation.
  - Loan drawdown of \$726,223 (note obligations) from TN Municipal Bond Fund.
  - Loan drawdown of \$108,307 (note obligation) from TN State Revolving Loan Fund by Water Quality Department.
  - Retired (principal payments) \$6,076,976 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 \$5,229,652 for governmental activities and \$2,067,028 for business type activities. Additional information is available on pages 36-37.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Cookeville's basic financial statements. The City of Cookeville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support 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 codes, historical preservation, administrative and oversight functions necessary to provide all of the above.

Business-type activities, include electric, water & sewer services, 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 reported 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 assessing 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 62-63 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 for the purposes of paying health and wellness 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 necessary to acquire 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 \$166,380,132 at fiscal year end June 30, 2012.

By far the largest portion of the City of Cookeville's net assets (66 percent) reflects its investment in capital assets (e.g. land, buildings, machinery, equipment and infrastructure); 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:

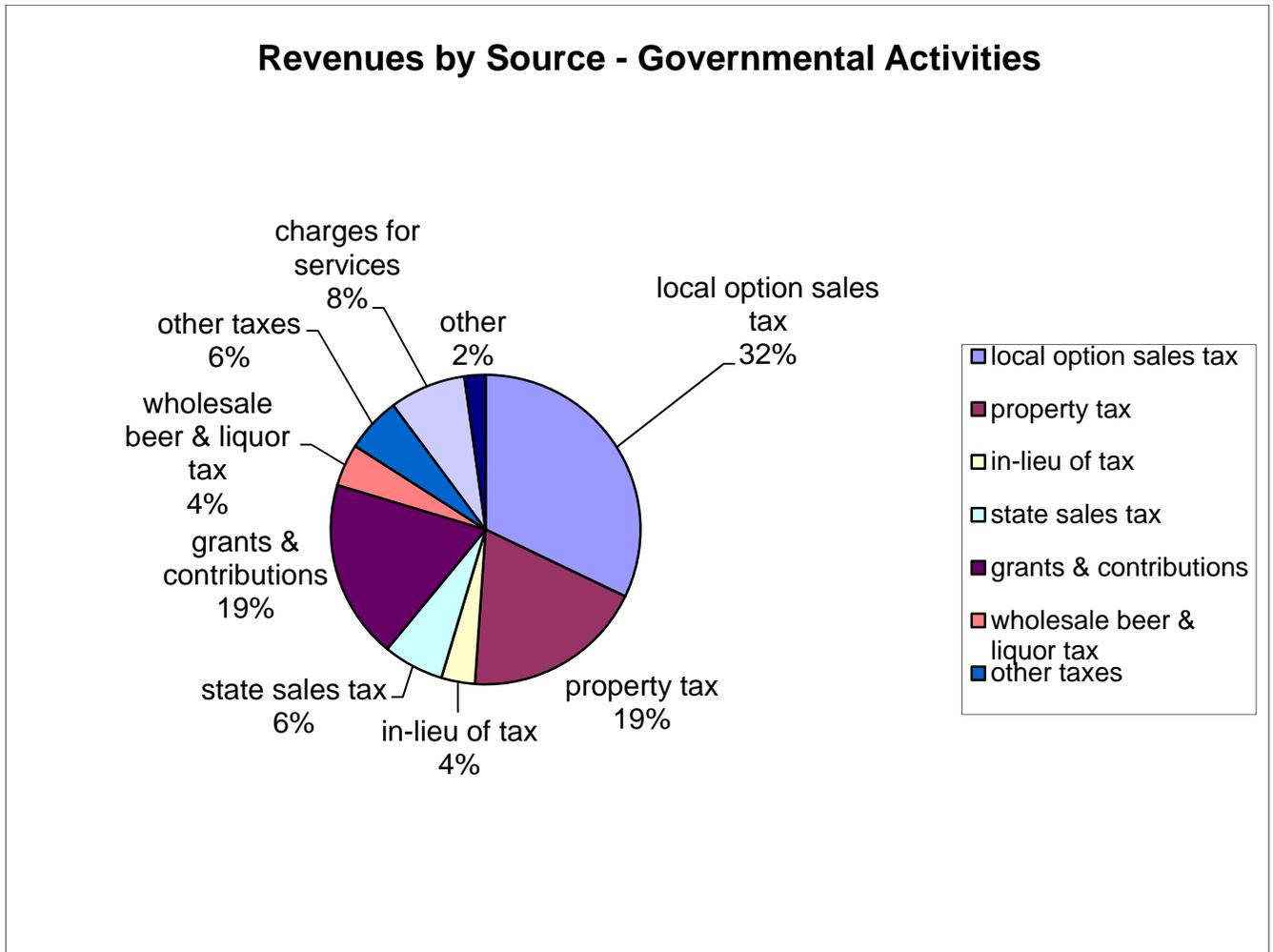
Summary of Net Assets						
	Governmental		Business-type		Totals	
	Activities		Activites			
	2012	2011	2012	2011	2012	2011
Current Assets	34,620,769	37,522,953	45,460,482	45,035,845	80,081,251	82,558,798
Capital Assets	46,428,118	37,476,921	106,762,242	102,413,218	153,190,360	139,890,139
Other Assets	4,073,795	4,087,696	2,820,480	2,839,377	6,894,275	6,927,073
<b>Total Assets:</b>	<b>85,122,682</b>	<b>79,087,570</b>	<b>155,043,204</b>	<b>150,288,440</b>	<b>240,165,886</b>	<b>229,376,010</b>
Current Liabilities	12,437,594	11,646,490	9,616,829	12,449,578	22,054,423	24,096,068
Long-term Debt	15,626,668	17,764,196	24,345,043	23,770,848	39,971,711	41,535,044
Other Liabilities	6,185,161	4,701,630	5,574,459	4,787,998	11,759,620	9,489,628
<b>Total Liabilities:</b>	<b>34,249,423</b>	<b>34,112,316</b>	<b>39,536,331</b>	<b>41,008,424</b>	<b>73,785,754</b>	<b>75,120,740</b>
<b>Net Assets</b>						
Invested in capital assets						
Net of related debt	30,642,958	17,286,803	78,885,303	75,361,257	109,528,261	92,648,060
Restricted	11,989,567	11,497,518			11,989,567	11,497,518
Unrestricted	8,240,734	16,190,933	36,621,570	33,918,759	44,862,304	50,109,692
<b>Total Net Assets:</b>	<b>50,873,259</b>	<b>44,975,254</b>	<b>115,506,873</b>	<b>109,280,016</b>	<b>166,380,132</b>	<b>154,255,270</b>

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 (\$44,862,304) may be used to meet the government's ongoing obligations to citizens and creditors, however, the net assets of the internal service fund are for the purposes of paying health related claims. At June 30<sup>th</sup>, 2012, the amount available for health related claims was \$4,143,832.

At June 30, 2012, 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 \$5,898,005 for governmental activities and \$6,226,857 for business-type activities. The City's overall financial position improved during fiscal year 2012.

**Governmental activities.** Governmental activities increased the City of Cookeville's net assets by \$5,898,005 thereby accounting for 49 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, 2012.

Summary of Changes in Net Assets							
	Governmental		Business-type		Totals		
	Activities		Activities				
	2012	2011	2012	2011	2012	2011	
<b>Revenues:</b>							
<b>Program revenues</b>							
Charges for services	2,581,613	2,698,128	76,297,420	77,725,722	78,879,033	80,423,850	
Operating Grants & Contributions	1,176,921	1,027,661			1,176,921	1,027,661	
Capital Grants & Contrib	4,883,361	1,271,151	72,204	1,064,034	4,955,565	2,335,185	
<b>General revenues</b>							
Local option sales tax	10,411,198	9,936,223			10,411,198	9,936,223	
Property tax	6,156,587	6,019,026			6,156,587	6,019,026	
In-lieu of tax	1,138,323	1,087,042			1,138,323	1,087,042	
State sales tax	2,053,620	1,774,822			2,053,620	1,774,822	
Wholesale beer tax	1,083,704	1,048,640			1,083,704	1,048,640	
Wholesale liquor tax	348,537	93,571			348,537	93,571	
other taxes	1,867,983	1,733,941			1,867,983	1,733,941	
Other revenues	714,798	707,923	114,021	237,198	828,819	945,121	
Transfers	1,314,770	1,258,865	(1,314,770)	(1,258,865)	-	-	
<b>Total Revenues</b>	<b>33,731,415</b>	<b>28,656,993</b>	<b>75,168,875</b>	<b>77,768,089</b>	<b>108,900,290</b>	<b>106,425,082</b>	
<b>Expenses:</b>							
General government	4,264,592	3,942,239			4,264,592	3,942,239	
Planning & codes	1,139,557	985,733			1,139,557	985,733	
Public Safety	11,724,015	11,358,701			11,724,015	11,358,701	
Maintenance	1,282,838	1,121,563			1,282,838	1,121,563	
Public Works	6,758,823	6,844,325			6,758,823	6,844,325	
Parks & maintenance	2,306,631	2,311,783			2,306,631	2,311,783	
Interest on Debt	356,954	264,812			356,954	264,812	
Electric			49,653,559	51,136,058	49,653,559	51,136,058	
Gas			8,248,668	9,500,057	8,248,668	9,500,057	
Water Quality Control			11,039,791	10,531,926	11,039,791	10,531,926	
<b>Total Expenses</b>	<b>27,833,410</b>	<b>26,829,156</b>	<b>68,942,018</b>	<b>71,168,041</b>	<b>96,775,428</b>	<b>97,997,197</b>	
<b>Change in Net Assets</b>	<b>5,898,005</b>	<b>1,827,837</b>	<b>6,226,857</b>	<b>6,600,048</b>	<b>12,124,862</b>	<b>8,427,885</b>	
<b>Beginning Net Assets</b>	<b>44,975,254</b>	<b>43,147,417</b>	<b>109,280,016</b>	<b>102,679,968</b>	<b>154,255,270</b>	<b>145,827,385</b>	
<b>Ending Net Assets</b>	<b>50,873,259</b>	<b>44,975,254</b>	<b>115,506,873</b>	<b>109,280,016</b>	<b>166,380,132</b>	<b>154,255,270</b>	

**Business-type activities.** Business-type activities increased the City of Cookeville's net assets by \$6,226,857 accounting for 51 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 9.1 %, 4.9%, and 1.6% respectively this year.

The electric operations continue to show strong results. Net assets increased by \$3,402,590 with operating revenues of \$53,907,808 and operating expenses of \$49,604,579. Non-operating expenses totaled \$8,113 and transfers to the general government were \$892,526. 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 completed an \$80,000 lighting project in Dogwood Park as well as a bulb replacement project for lights throughout the city. Also, the Electric Department installed new conductors on East Spring Street from Avery Trace to Maple Avenue. Construction was also completed on two additional circuits from the South Substation to Interstate Drive and Willow Avenue. A new circuit down Mine Lick Creek Road from Holiday Road to Reecer Lane was completed. Construction was also started on a new Southwest Substation which will be completed in the following year.

Net assets increased \$2,496,636 for the Water/Sewer Department. Operating revenues were \$13,649,078 and operating expenses were \$10,716,306. The Water/Sewer Department had non-operating expenses totaling \$281,172 with this being primarily interest expense on long-term debt. Transfers to the general government totaled \$227,168 and capital contributions totaled \$72,204. The Water/Sewer Department aggressively maintained the water distribution and sewer collection systems. The department routinely performs leak surveys to locate water leaks in their distribution system and repair them as soon as they are found. The department continued its planned expansion of the water treatment plant located near Center Hill Lake. Once the expansion is complete the plant will ultimately have a capacity to treat and distribute up to 30 million gallons per day. The current capacity is 15 million gallons per day. The department has refurbished three of its water tanks. Only one additional tank which is located on 15<sup>th</sup> Street needs to be refurbished and painted. This tank may be refurbished within the next two years. After conducting a rate study in 2009, the department implemented preplanned rate increases for water and sewer services. The rate increases were implemented over the past three fiscal years with the third and final preplanned increase effective July 2011. The Water/Sewer Department's goal is to maintain rates that will provide sufficient cash reserves to fund the majority of system expansion costs and minimize the amount of debt that would otherwise be issued for system expansion. The department continues to sell water to seven area utility districts which in turn provide water services to their own customers. The utility districts consume approximately 54% of the water sold by the department and accounts for approximately 37% 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 the Army Corps of Engineers for water storage rights in Center Hill Lake. At June 30<sup>th</sup> the amount due for this water storage right was \$2,235,216. The department continues to rehab and upgrade sewer lines and sewer pump stations to minimize storm water infiltration into the sewer system and help prevent potential discharge of untreated sewage. The department is investigating the feasibility of a pressurized sewer system to serve the southeast annexation areas. It's believed the pressurized system could be constructed and maintained at a fraction of the cost of a gravity system.

The Gas Department's net assets increased by \$335,788. Operating revenues were \$8,740,534 and operating expenses were \$8,196,935. Non-operating expenses totaled \$12,735 and transfers to the general government were \$195,076. 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 2018. The system has a total of 14 employees. These employees serve over 9,500 customers and maintain over 315 miles of distribution mains. As was previously noted, the Gas Department's net assets increased by \$335,788 despite record warm weather in the 2012 winter months. The department annually budgets and plans for the extension of mains throughout its service territory. A new 6 inch distribution main was installed in the newly developed Highlands Industrial/Business Park. This park is being constructed by the City of Cookeville and Putnam County to attract new commercial and industrial business to the Cookeville area. 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. Gas rates are changed monthly utilizing a purchased

gas adjustment (PGA) as prescribed in City ordinance. The monthly increases or decreases in gas commodity prices are factored into the monthly gas rates using the PGA. The PGA allows the department to recover the cost of gas from its customers without changing base rates. Natural gas commodity prices remain relatively low and have been fairly stable the past two years which has helped renew consumer confidence in natural gas as an energy source.

The tables below present a summary of the charges for services and expenses of the Electric, Water/Sewer and Gas Department for the City of Cookeville.

<b>Summary Comparison of Charges for Services for Fiscal Years 2012 and 2011</b>					
				Amount	%
		<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>	<u>Change</u>
Electric Department		53,907,808	53,664,845	242,963	0.5%
Gas Department		8,740,534	10,971,761	(2,231,227)	-20.3%
Water quality Control Department		13,649,078	13,089,116	559,962	4.3%
Charges for Services-Business-type Activities		<u>76,297,420</u>	<u>77,725,722</u>	<u>(1,428,302)</u>	-1.8%
<b>Summary Comparison of Expenses for Fiscal Years 2012 and 2011</b>					
				Amount	%
		<u>FY 2012</u>	<u>FY 2011</u>	<u>Change</u>	<u>Change</u>
Electric Department		49,653,559	51,136,058	(1,482,499)	-2.9%
Gas Department		8,248,668	9,500,057	(1,251,389)	-13.2%
Water quality Control Department		11,039,791	10,531,926	507,865	4.8%
Expenses-Business-type Activities		<u>68,942,018</u>	<u>71,168,041</u>	<u>(2,226,023)</u>	-3.1%

### **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 discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Cookeville itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Cookeville's Council.

As of June 30, 2012, the City of Cookeville's governmental funds reported combined ending fund balances of \$21,632,001, a decrease of \$3,402,257 in comparison to prior year. This decrease is related to funds used for development and construction of the new Highlands Industrial/Business Park. The construction expenditures for the development of this park are accounted for in the Economic Development Fund. There is \$3,473,316 in restricted fund balances which must be used for specific purposes with \$2,705,259 restricted for the completion of the Highlands Industrial/Business Park, \$718,982 restricted for street maintenance, and \$49,075 restricted for police drug enforcement programs. There is \$7,176,074 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, 2012, the unassigned fund balance of the general fund was \$9,223,601 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 40 percent of total general fund expenditures during FY 2012.

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 72% of the general fund revenues. The sales tax collections for FY 2012 were 10,411,198 which is the highest amount ever collected by the City. This was a 5% or \$474,975 increase from June 2011 to June 2012. The City continues to budget conservatively assuming sales tax collections will grow but at modest amounts. The City's total property tax rate for FY 2012 (2011 property tax) was \$.85. This rate was set after properties were reappraised which occurs every five years for city property owners. A \$.05 property tax rate increase was approved by City Council for the FY 2013 budget bringing the City's property tax rate up to \$.90. This tax rate remains relatively low compared to other cities across the state. The property tax rate allocated to the general fund accounted for \$5,341,758 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. For FY 2012 the wholesale liquor tax generated \$348,537. It is anticipated that this tax will generate a minimum of \$300,000 annually for the City. 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 \$207,947 to \$9,223,601. This increase was despite using \$1,345,591 of the general fund's unassigned fund balance to purchase the Heritage Ford property which will become the City's public works facility.

The debt service fund has a total fund balance of \$7,176,074, all of which is committed for the payment of principal and interest on outstanding debt. \$.06 cents of the city property tax rate along with the City's share of state sales tax is allocated to the debt service fund. Property tax and state sales tax totaled \$2,495,887 in 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 2012. 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 \$368,544. 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%. In 2010, 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 City issued \$500,000 capital outlay note during FY 2012 to fund the acquisition of various capital items.

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 \$238,329 at the end of the fiscal year. During the fiscal year, the City completed approximately \$171,591 in improvements in the expanded Dogwood Park located in the heart of the “downtown” area of Cookeville. The City also built a new parking lot on property it owned on Fleming Avenue.

**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, 2012 was \$46,428,118 and \$106,762,242 respectively. The net investment increased 23.9% for governmental and increased 4.2% for business-type activities.

Capital asset additions for the governmental funds were \$11,239,146 which included donated capital assets of \$29,350. As mentioned earlier, the City purchased the former Heritage Ford property for \$1,345,591 which will be renovated and used as the City’s public works facility. The City issued a \$500,000 capital outlay note to purchase numerous capital items such as service trucks and other equipment. Other major capital asset additions for governmental funds included the replacement of the HVAC units at the Cookeville Performing Arts Center (\$76,740) and the purchase/installation of two large generators \$81,252 paid for in part with a Homeland Security grant. Phase 2 of the Dogwood Park expansion in the downtown area of Cookeville was completed with walkways, parking lot and irrigation system capitalized. Construction in process includes the development costs on the Highlands Industrial Park.

Capital asset additions for the business-type activities were \$9,982,679. Additions for the Electric Department were \$5,713,940 for the Water Department \$3,681,173 and for the Gas Department \$587,566.

The Electric Department additions include the new south west sub-station built for the Highlands Business Park and new circuits installed to Interstate Drive and Willow Avenue.

The Water Department additions include the completion of the Shoney’s water tank rehab and replacement of the Belle Acres pump station. The McCulley Road and the Burton Sub-division sewer project was completed in the fiscal year. Construction in progress includes work being done at the water treatment plant to increase capacity at this plant.

A table summarizing the City's capital assets is presented below:

<b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>				
	<b>Governmental Activities</b>		<b>Amount</b>	<b>%</b>
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
<b>Non-depreciable assets:</b>				
Land	9,739,330	9,277,892	461,438	5.0%
Construction in progress	10,185,102	1,749,880	8,435,222	482.0%
<b>Depreciable assets:</b>				
Buildings	6,363,941	5,606,012	757,929	13.5%
Improvements	1,375,229	1,154,475	220,754	19.1%
Vehicles	2,117,951	1,868,078	249,873	13.4%
Machinery & equipment	346,093	290,019	56,074	19.3%
Infrastructure	16,300,472	17,530,565	(1,230,093)	-7.0%
<b>Total</b>	<b>46,428,118</b>	<b>37,476,921</b>	<b>8,951,197</b>	<b>23.9%</b>
<b>CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION</b>				
	<b>Business-type Activities</b>		<b>Amount</b>	<b>%</b>
	<u>2012</u>	<u>2011</u>	<u>Change</u>	<u>Change</u>
<b>Non-depreciable assets:</b>				
Land	2,624,839	2,624,839	-	0.0%
Construction in progress	7,098,068	1,767,666	5,330,402	301.6%
<b>Depreciable assets:</b>				
Building & Improvements	2,468,208	2,561,869	(93,661)	-3.7%
Plant & distribution systems	77,114,698	77,749,259	(634,561)	-0.8%
Machinery & equipment	4,744,466	4,139,563	604,903	14.6%
Furniture & equipment	41,245	70,618	(29,373)	-41.6%
Plant acquisition adjustment	12,670,718	13,499,404	(828,686)	-6.1%
<b>Total</b>	<b>106,762,242</b>	<b>102,413,218</b>	<b>4,349,024</b>	<b>4.2%</b>

**Long-term Liabilities.** At the end of the fiscal year, the Primary Government had total long-term liabilities of \$50,586,879. Of this amount, \$19,445,928 relates to governmental activities while the remaining \$31,140,951 relates to business type activities. Of the \$19,445,928 of long-term liabilities of governmental activities, \$18,490,419 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			
	2012	2011	2012	2011	2012	2011
Bonds & notes payable	18,490,419	20,357,280	27,876,939	27,051,961	46,367,358	47,409,241
Compensated Absences	955,509	874,071	361,161	351,522	1,316,670	1,225,593
Other debt			2,902,851	2,886,994	2,902,851	2,886,994
	19,445,928	21,231,351	31,140,951	30,290,477	50,586,879	51,521,828
Less:						
Amounts due within one year	(2,863,751)	(2,593,084)	(3,595,354)	(3,341,621)	(6,459,105)	(5,934,705)
Total Long term liabilities	16,582,177	18,638,267	27,545,597	26,948,856	44,127,774	45,587,123

## Economic Factors and Considerations

Cookeville, the county seat of Putnam County is located at the intersection of Interstate 40 and Highway 111 at the foothills of the Cumberland Mountains. It 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 in spring 2013. 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. As part of the interchange project, the City will construct a new 2.75 mile road that will connect I40 to Highway 70. The construction of this road will be funded by a City bond issue and a \$4 million local interstate connector grant from the State of Tennessee. 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, 2012**

<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>	
<b>Current assets:</b>						
Cash	\$ 16,612,119	\$ 22,539,861	\$ 39,151,980	\$ 16,935,962	\$ 20,162	\$ 56,108,104
Sinking fund cash	-	1,031,752	1,031,752	-	-	1,031,752
Temporary cash investments	8,687,355	9,927,938	18,615,293	5,473,333	-	24,088,626
Accounts receivable, net of allowance	107,394	8,864,652	8,972,046	27,032,924	2,918	36,007,888
Taxes receivable, net of allowance	6,684,183	-	6,684,183	-	-	6,684,183
Other receivables	2,940,657	-	2,940,657	599,941	-	3,540,598
Due from other funds	(415,216)	415,216	-	-	-	-
Inventories	-	2,361,982	2,361,982	6,194,494	-	8,556,476
Prepaid expenses and other current assets	4,277	319,081	323,358	2,767,754	298	3,091,410
Total current assets	<u>34,620,769</u>	<u>45,460,482</u>	<u>80,081,251</u>	<u>59,004,408</u>	<u>23,378</u>	<u>139,109,037</u>
<b>Noncurrent assets:</b>						
Notes receivable, net of allowance	-	562,214	562,214	-	-	562,214
Water storage rights	-	2,065,710	2,065,710	-	-	2,065,710
Equity interest in joint venture	3,920,534	-	3,920,534	863,078	-	4,783,612
Long-term investments	-	-	-	12,566,193	-	12,566,193
Deferred outflows - interest rate swap	-	-	-	4,934,572	-	4,934,572
Bond issuance cost, net of amortization	153,261	-	153,261	443,934	-	597,195
Other assets	-	192,556	192,556	20,631,153	-	20,823,709
<b>Capital assets:</b>						
Land and construction in progress	19,924,432	9,722,907	29,647,339	35,983,559	-	65,630,898
Other capital assets, net of accumulated depreciation	26,503,686	97,039,335	123,543,021	145,779,511	98,323	269,420,855
Total noncurrent assets	<u>50,501,913</u>	<u>109,582,722</u>	<u>160,084,635</u>	<u>221,202,000</u>	<u>98,323</u>	<u>381,384,958</u>
Total assets	<u>\$ 85,122,682</u>	<u>\$ 155,043,204</u>	<u>\$ 240,165,886</u>	<u>\$ 280,206,408</u>	<u>\$ 121,701</u>	<u>\$ 520,493,995</u>
<b><u>Liabilities and Net Assets</u></b>						
<b>Current liabilities:</b>						
Accounts payable	\$ 1,699,999	\$ 5,787,993	\$ 7,487,992	\$ 9,086,157	\$ 12,414	\$ 16,586,563
Health claims payable	151,659	-	151,659	-	-	151,659
Current portion of long-term debt	2,863,751	3,531,896	6,395,647	2,964,527	14,141	9,374,315
Current portion of water storage rights payable	-	63,458	63,458	-	-	63,458
Accrued expenses	730,871	98,031	828,902	10,130,337	7,300	10,966,539
Deferred revenue	6,771,333	45,333	6,816,666	-	-	6,816,666
Estimated amounts due to third-party payors	-	-	-	4,456,985	-	4,456,985
Other current liabilities	219,981	90,118	310,099	-	21,953	332,052
Total current liabilities	<u>12,437,594</u>	<u>9,616,829</u>	<u>22,054,423</u>	<u>26,638,006</u>	<u>55,808</u>	<u>48,748,237</u>
<b>Noncurrent liabilities:</b>						
Compensated absences	955,509	361,161	1,316,670	-	-	1,316,670
TVA heat pump notes payable	-	667,635	667,635	-	-	667,635
Water storage rights payable	-	2,171,758	2,171,758	-	-	2,171,758
Net other post-retirement liability	5,229,652	2,067,028	7,296,680	-	-	7,296,680
Other non-current liabilities	-	306,877	306,877	4,934,572	-	5,241,449
Long-term debt, less current portion	15,626,668	24,345,043	39,971,711	85,380,939	7,232	125,359,882
Total noncurrent liabilities	<u>21,811,829</u>	<u>29,919,502</u>	<u>51,731,331</u>	<u>90,315,511</u>	<u>7,232</u>	<u>142,054,074</u>
Total liabilities	<u>34,249,423</u>	<u>39,536,331</u>	<u>73,785,754</u>	<u>116,953,517</u>	<u>63,040</u>	<u>190,802,311</u>
<b>Net assets:</b>						
Invested in capital assets, net of related debt	30,642,958	78,885,303	109,528,261	103,652,678	76,950	213,257,889
<b>Restricted for:</b>						
Drug Fund	49,075	-	49,075	-	-	49,075
Highway and streets	718,982	-	718,982	-	-	718,982
Debt service	7,300,976	-	7,300,976	-	-	7,300,976
Equity interest in joint venture	3,920,534	-	3,920,534	-	-	3,920,534
Unrestricted - undesignated	8,240,734	36,621,570	44,862,304	59,600,213	(18,289)	104,444,228
Total net assets	<u>50,873,259</u>	<u>115,506,873</u>	<u>166,380,132</u>	<u>163,252,891</u>	<u>58,661</u>	<u>329,691,684</u>
Total liabilities and net assets	<u>\$ 85,122,682</u>	<u>\$ 155,043,204</u>	<u>\$ 240,165,886</u>	<u>\$ 280,206,408</u>	<u>\$ 121,701</u>	<u>\$ 520,493,995</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, 2012**

	<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>
<b>Function/program activities</b>					
<b>Primary government:</b>					
Governmental activities:					
General government	\$ 4,264,592	\$ 127,868	\$ 692	\$ 4,206,780	\$ 70,748
Planning and codes	1,139,557	283,227	-	-	(856,330)
Public safety	11,724,015	482,760	328,413	29,350	(10,883,492)
Parks & maintenance	1,282,838	-	-	-	(1,282,838)
Public works	6,758,823	1,449,981	847,816	516,332	(3,944,694)
Culture and recreation	2,306,631	237,777	-	130,899	(1,937,955)
Interest on long-term debt	356,954	-	-	-	(356,954)
Total governmental activities	<u>27,833,410</u>	<u>2,581,613</u>	<u>1,176,921</u>	<u>4,883,361</u>	<u>(19,191,515)</u>
Business-type activities:					
Electric	49,653,559	53,907,808	-	-	4,254,249
Gas	8,248,668	8,740,534	-	-	491,866
Water quality control	11,039,791	13,649,078	-	72,204	2,681,491
Total business-type activities	<u>68,942,018</u>	<u>76,297,420</u>	<u>-</u>	<u>72,204</u>	<u>7,427,606</u>
Total primary government	<u>\$ 96,775,428</u>	<u>\$ 78,879,033</u>	<u>\$ 1,176,921</u>	<u>\$ 4,955,565</u>	<u>\$ (11,763,909)</u>
<b>Component units:</b>					
CRMC*	\$ 234,574,305	\$ 239,838,184			\$ 5,263,879
PBA	154,116	156,175			2,059
Total component units	<u>\$ 234,728,421</u>	<u>\$ 239,994,359</u>			<u>\$ 5,265,938</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, 2012**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Change in net assets:				
Net (expense) revenue	\$ (19,191,515)	\$ 7,427,606	\$ (11,763,909)	\$ 5,265,938
General revenues:				
Taxes:				
Property tax	6,156,587	-	6,156,587	-
In lieu of tax	1,138,323	-	1,138,323	-
Business tax	1,062,000	-	1,062,000	-
State sales tax	2,053,620	-	2,053,620	-
Franchise tax	276,689	-	276,689	-
Local option sales tax	10,411,198	-	10,411,198	-
Wholesale beer tax	1,083,704	-	1,083,704	-
Wholesale liquor tax	348,537	-	348,537	-
State income tax	343,590	-	343,590	-
Mixed drink tax	127,274	-	127,274	-
Other taxes	58,430	-	58,430	-
Interest revenue	66,594	114,021	180,615	10
Investment income	-	-	-	360,647
Gain (loss) on sale of assets	74,770	-	74,770	56,195
Federal subsidy	86,451	-	86,451	-
Other, net	486,983	-	486,983	(327,987)
Transfers	1,314,770	(1,314,770)	-	-
Total general revenues	<u>25,089,520</u>	<u>(1,200,749)</u>	<u>23,888,771</u>	<u>88,865</u>
Change in net assets	5,898,005	6,226,857	12,124,862	5,354,803
Net assets - beginning	44,975,254	109,280,016	154,255,270	157,956,749
Net assets - ending	<u>\$ 50,873,259</u>	<u>\$ 115,506,873</u>	<u>\$ 166,380,132</u>	<u>\$ 163,311,552</u>

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

**CITY OF COOKEVILLE, TENNESSEE**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2012**

<b><u>Assets</u></b>	<b><u>General</u></b>	<b><u>Debt Service</u></b>	<b><u>Capital Projects</u></b>	<b><u>Other Governmental Funds</u></b>	<b><u>Total Governmental Funds</u></b>
Cash	\$ 5,686,542	\$ 3,918,784	\$ 270,276	\$ 4,282,331	\$ 14,157,933
Temporary cash investments	2,770,537	3,073,070	4	1,001,709	6,845,320
Accounts receivable	-	-	-	108,278	108,278
Taxes receivable	6,352,510	437,026	-	364,188	7,153,724
Other receivables	1,719,556	177,779	87	1,043,235	2,940,657
Less: allowance for bad debts	(456,802)	(6,949)	-	(6,674)	(470,425)
Due from other funds	184,238	6,516	-	132,636	323,390
Prepaid expenses	4,109	-	-	-	4,109
Total assets	<u>\$ 16,260,690</u>	<u>\$ 7,606,226</u>	<u>\$ 270,367</u>	<u>\$ 6,925,703</u>	<u>\$ 31,062,986</u>
 <b><u>Liabilities and Fund Balances</u></b>					
Accounts payable	\$ 420,933	\$ 75	\$ 32,038	\$ 1,246,675	\$ 1,699,721
Accrued expenses	702,512	-	-	-	702,512
Due to other funds	9,912	-	-	27,526	37,438
Deferred revenue	5,838,383	430,077	-	502,873	6,771,333
Other liabilities	61,240	-	-	158,741	219,981
Total liabilities	<u>7,032,980</u>	<u>430,152</u>	<u>32,038</u>	<u>1,935,815</u>	<u>9,430,985</u>
 Fund balances:					
Nonspendable					
Prepaid expenses	4,109	-	-	-	4,109
Restricted					
Drug fund	-	-	-	49,075	49,075
State street aid	-	-	-	718,982	718,982
Economic development	-	-	-	2,705,259	2,705,259
Committed					
Debt service	-	7,176,074	-	-	7,176,074
Capital projects	-	-	238,329	-	238,329
Sanitation	-	-	-	555,601	555,601
Animal control	-	-	-	538,137	538,137
Economic development	-	-	-	119,510	119,510
Quality of life	-	-	-	303,324	303,324
Assigned					
Unassigned	9,223,601	-	-	-	9,223,601
Total fund balances	<u>9,227,710</u>	<u>7,176,074</u>	<u>238,329</u>	<u>4,989,888</u>	<u>21,632,001</u>
Total liabilities and fund balances	<u>\$ 16,260,690</u>	<u>\$ 7,606,226</u>	<u>\$ 270,367</u>	<u>\$ 6,925,703</u>	<u>\$ 31,062,986</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, 2012**

Total fund balance - total governmental funds		\$ 21,632,001
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Governmental capital assets	81,786,988	
Less: accumulated depreciation	<u>(35,358,870)</u>	46,428,118
<p>Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.</p>		
Bond costs	205,300	
Less: accumulated amortization	<u>(52,039)</u>	153,261
Equity interest in joint venture		3,920,534
<p>Interest payable is not payable from current financial resources and therefore is not reported in the governmental funds.</p>		
		(28,359)
<p>Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.</p>		
Governmental bonds payable	(7,045,000)	
Governmental notes payable	(11,445,419)	
Net other post-retirement liability	(5,229,652)	
Compensated absences	<u>(955,509)</u>	(24,675,580)
<p>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.</p>		
		<u>3,443,284</u>
Net assets of governmental activities		<u>\$ 50,873,259</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, 2012**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:					
Property tax	\$ 5,341,758	\$ 442,267		\$ 372,562	\$ 6,156,587
In-lieu of tax	438,323	700,000		-	1,138,323
Other taxes and tax equivalents	1,338,689	2,053,620		785,340	4,177,649
Licenses and permits	363,048	-		-	363,048
Local option sales tax	10,411,198	-		-	10,411,198
Wholesale beer tax	1,083,704	-		-	1,083,704
Wholesale liquor tax	348,537	-		-	348,537
Other intergovernmental	821,459	86,451	\$ 55,800	4,319,611	5,283,321
Charges for services	238,302	-	-	1,517,762	1,756,064
Fines, forfeitures and penalties	387,666	-	-	26,788	414,454
Rent	19,175	26,172	-	2,700	48,047
Interest	31,330	23,633	1,278	10,353	66,594
Other	973,361	-	43,509	37,668	1,054,538
Total revenues	<u>21,796,550</u>	<u>3,332,143</u>	<u>100,587</u>	<u>7,072,784</u>	<u>32,302,064</u>
Expenditures:					
Current					
General government	2,499,181	-	-	252,436	2,751,617
Public safety	11,033,528	-	-	231,980	11,265,508
Planning and codes	1,085,128	-	-	-	1,085,128
Parks and maintenance	1,125,147	-	-	-	1,125,147
Public works	2,648,232	-	-	2,135,672	4,783,904
Culture and recreation	2,038,337	-	-	75,808	2,114,145
Capital outlay	2,829,204	-	470,343	8,489,104	11,788,651
Debt service	-	2,963,599	-	-	2,963,599
Total expenditures	<u>23,258,757</u>	<u>2,963,599</u>	<u>470,343</u>	<u>11,185,000</u>	<u>37,877,699</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,462,207)</u>	<u>368,544</u>	<u>(369,756)</u>	<u>(4,112,216)</u>	<u>(5,575,635)</u>
Other financing sources (uses):					
Interfund transfers in	1,372,014	-	159,000	314,220	1,845,234
Interfund transfers (out)	(314,220)	-	-	(216,244)	(530,464)
Proceeds of bonds and notes	500,000	-	226,223	-	726,223
Insurance recoveries	40,131	-	-	-	40,131
Sale of assets	72,229	-	-	20,025	92,254
Net other financing sources	<u>1,670,154</u>	<u>-</u>	<u>385,223</u>	<u>118,001</u>	<u>2,173,378</u>
Net change in fund balances	207,947	368,544	15,467	(3,994,215)	(3,402,257)
Fund balances, July 1, 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>
Fund balances, June 30, 2012	<u>\$ 9,227,710</u>	<u>\$ 7,176,074</u>	<u>\$ 238,329</u>	<u>\$ 4,989,888</u>	<u>\$ 21,632,001</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, 2012**

Net change in fund balances - total governmental funds \$ (3,402,257)

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	11,209,796	
Less: current year depreciation	<u>(2,270,465)</u>	8,939,331

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	(726,223)	
Principal payments	<u>2,593,084</u>	1,866,861

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

Current year amortization		(13,901)
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Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in governmental funds.

Change in accrued interest on long-term debt		(2,208)
Change in net other post-retirement liability		(1,402,093)
Change in accrued compensated absences		(81,438)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales and donations) is to increase net assets.		11,866
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Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The net loss of the Internal Service Funds is allocated to the governmental activities and business-type activities.		<u>(18,156)</u>
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Change in net assets of governmental activities		<u>\$ 5,898,005</u>
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The accompanying notes are an integral part of these financial statements.

**CITY OF COOKEVILLE, TENNESSEE**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**June 30, 2012**

	<b>Business-type Activities/Enterprise Funds</b>				<b>Governmental Activities Internal Service Fund</b>
	<b>Cookeville Electric Department</b>	<b>Cookeville Gas Department</b>	<b>Cookeville Water Quality Control Department</b>	<b>Totals</b>	
<b>Assets</b>					
<b>Current assets:</b>					
Cash	\$ 7,402,854	\$ 7,596,866	\$ 7,540,141	\$ 22,539,861	\$ 2,454,186
Sinking fund cash	647,663	384,089	-	1,031,752	-
Temporary cash investments	2,324,936	4,315,255	3,287,747	9,927,938	1,842,035
Accounts receivable, net of allowance	6,454,334	552,825	1,857,493	8,864,652	-
Other receivables	-	-	-	-	-
Inventory of material and supplies	1,018,758	932,152	411,072	2,361,982	-
Due from other funds	313	-	275	588	-
Prepaid expenses and other current assets	315,945	1,407	1,729	319,081	168
<b>Total current assets</b>	<b>18,164,803</b>	<b>13,782,594</b>	<b>13,098,457</b>	<b>45,045,854</b>	<b>4,296,389</b>
<b>Noncurrent assets:</b>					
Capital assets, non-depreciable	5,350,196	525,476	3,847,235	9,722,907	
Capital assets, depreciable	56,194,438	19,851,963	95,692,951	171,739,352	
Less: accumulated depreciation	<u>(17,650,950)</u>	<u>(11,005,152)</u>	<u>(46,043,915)</u>	<u>(74,700,017)</u>	
	43,893,684	9,372,287	53,496,271	106,762,242	
Notes receivable	562,214	-	-	562,214	
Water storage rights	-	-	2,065,710	2,065,710	
Other assets	<u>154,917</u>	<u>17,729</u>	<u>19,910</u>	<u>192,556</u>	
<b>Total noncurrent assets</b>	<b>44,610,815</b>	<b>9,390,016</b>	<b>55,581,891</b>	<b>109,582,722</b>	
<b>Total assets</b>	<b>\$ 62,775,618</b>	<b>\$ 23,172,610</b>	<b>\$ 68,680,348</b>	<b>\$ 154,628,576</b>	<b>\$ 4,296,389</b>
<b>Liabilities and Net Assets</b>					
<b>Current liabilities:</b>					
Accounts payable	\$ 4,623,444	\$ 327,591	\$ 836,958	\$ 5,787,993	\$ 278
Health claims payable	-	-	-	-	151,659
Due to other funds	93,062	157,065	35,793	285,920	620
Current portion of long-term debt	1,781,000	400,000	1,350,896	3,531,896	-
Current portion of water storage rights payable	-	-	63,458	63,458	-
Accrued expenses	16,315	3,848	77,868	98,031	-
Deferred revenue	-	45,333	-	45,333	-
Other current liabilities	<u>30,636</u>	<u>8,759</u>	<u>50,723</u>	<u>90,118</u>	<u>-</u>
<b>Total current liabilities</b>	<b>6,544,457</b>	<b>942,596</b>	<b>2,415,696</b>	<b>9,902,749</b>	<b>152,557</b>
<b>Noncurrent liabilities:</b>					
Compensated absences	149,757	47,970	163,434	361,161	
TVA heat pump notes payable	667,635	-	-	667,635	
Water storage rights payable	-	-	2,171,758	2,171,758	
Net other post-retirement liability	793,648	285,844	987,536	2,067,028	
Long-term debt, less current portion	13,812,000	1,255,000	9,278,043	24,345,043	
Other non-current liabilities	<u>298,077</u>	<u>8,800</u>	<u>-</u>	<u>306,877</u>	
<b>Total noncurrent liabilities</b>	<b>15,721,117</b>	<b>1,597,614</b>	<b>12,600,771</b>	<b>29,919,502</b>	
<b>Total liabilities</b>	<b>22,265,574</b>	<b>2,540,210</b>	<b>15,016,467</b>	<b>39,822,251</b>	<b>152,557</b>
<b>Net assets:</b>					
Invested in capital assets, net of related debt	28,300,684	7,717,287	42,867,332	78,885,303	-
Unrestricted	<u>12,209,360</u>	<u>12,915,113</u>	<u>10,796,549</u>	<u>35,921,022</u>	<u>4,143,832</u>
<b>Total net assets</b>	<b>40,510,044</b>	<b>20,632,400</b>	<b>53,663,881</b>	<b>114,806,325</b>	<b>4,143,832</b>
<b>Total liabilities and net assets</b>	<b>\$ 62,775,618</b>	<b>\$ 23,172,610</b>	<b>\$ 68,680,348</b>	<b>\$ 154,628,576</b>	<b>\$ 4,296,389</b>

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, 2012**

	<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	\$ 52,727,130	\$ 8,374,097	\$ 13,261,733	\$ 74,362,960	\$ 3,344,435
Other operating revenue	<u>1,180,678</u>	<u>366,437</u>	<u>387,345</u>	<u>1,934,460</u>	<u>41,799</u>
Total operating revenues	<u>53,907,808</u>	<u>8,740,534</u>	<u>13,649,078</u>	<u>76,297,420</u>	<u>3,386,234</u>
Operating expenses:					
Purchased utilities	42,190,457	6,023,457	-	48,213,914	-
Operating expenses	3,365,657	970,308	2,812,947	7,148,912	-
Maintenance expenses	939,368	474,875	445,061	1,859,304	-
Depreciation and amortization	2,402,153	692,623	2,655,519	5,750,295	-
Utilities	-	-	1,913,328	1,913,328	-
Administrative and general expenses	271,141	35,672	2,889,451	3,196,264	523,117
Health claims	-	-	-	-	2,901,736
Facilities rental	<u>435,803</u>	<u>-</u>	<u>-</u>	<u>435,803</u>	<u>-</u>
Total operating expenses	<u>49,604,579</u>	<u>8,196,935</u>	<u>10,716,306</u>	<u>68,517,820</u>	<u>3,424,853</u>
Operating income	<u>4,303,229</u>	<u>543,599</u>	<u>2,932,772</u>	<u>7,779,600</u>	<u>(38,619)</u>
Nonoperating revenues (expenses):					
Interest revenue	37,359	37,857	38,805	114,021	12,306
Interest expense	<u>(45,472)</u>	<u>(50,592)</u>	<u>(319,977)</u>	<u>(416,041)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(8,113)</u>	<u>(12,735)</u>	<u>(281,172)</u>	<u>(302,020)</u>	<u>12,306</u>
Interfund transfers (out)	<u>(892,526)</u>	<u>(195,076)</u>	<u>(227,168)</u>	<u>(1,314,770)</u>	<u>-</u>
Income before contributions	3,402,590	335,788	2,424,432	6,162,810	
Capital contributions	<u>-</u>	<u>-</u>	<u>72,204</u>	<u>72,204</u>	
Change in net assets	3,402,590	335,788	2,496,636	6,235,014	(26,313)
Total net assets, July 1, 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>
Total net assets, June 30, 2012	<u>\$ 40,510,044</u>	<u>\$ 20,632,400</u>	<u>\$ 53,663,881</u>	<u>\$ 114,806,325</u>	<u>\$ 4,143,832</u>
Reconciliation of changes in net assets to statement of activities:					
Total changes in net assets of business-type activities				\$ 6,235,014	
Net income(loss) of internal service fund related to business-type activities				<u>(8,157)</u>	
Changes in business-type net assets included in the statement of activities				<u>\$ 6,226,857</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, 2012**

	<u>Business-type Activities/Enterprise Funds</u>				<b>Governmental Activities Internal Service Fund</b>
	<b>Cookeville Electric Department</b>	<b>Cookeville Gas Department</b>	<b>Cookeville Water Quality Control Department</b>	<b>Totals</b>	
Cash flows from operating activities:					
Cash receipts from customers	\$ 52,178,757	\$ 8,547,151	\$ 13,132,112	\$ 73,858,020	\$ 3,367,375
Cash receipts from customer service charges	562,861	54,004	387,344	1,004,209	-
Other operating cash receipts	586,505	312,433	-	898,938	41,799
Cash payments to suppliers of goods and services	(45,452,644)	(6,356,466)	-	(51,809,110)	-
Cash payments to employees for services	(2,314,671)	(249,638)	(868,752)	(3,433,061)	-
Cash payments for interfund services used	(404,867)	(211,954)	(597,301)	(1,214,122)	-
Cash payments for maintenance expenses	(939,368)	(452,138)	(445,061)	(1,836,567)	-
Cash payments for claims	-	-	-	-	(2,854,168)
Utilities and other operating cash payments	(703,484)	(344,187)	(5,606,549)	(6,654,220)	(523,104)
Net cash provided by operating activities	<u>3,513,089</u>	<u>1,299,205</u>	<u>6,001,793</u>	<u>10,814,087</u>	<u>31,902</u>
Cash flows from noncapital financing activities:					
Interfund transfers (out)	(892,526)	(195,076)	(227,168)	(1,314,770)	
Net cash (used in) noncapital financing activities	<u>(892,526)</u>	<u>(195,076)</u>	<u>(227,168)</u>	<u>(1,314,770)</u>	
Cash flows from capital and related financing activities:					
Proceeds from borrowings	4,000,000	-	108,307	4,108,307	
Cash received from grants	-	-	72,204	72,204	
Cash payments for interest	(45,128)	(51,476)	(322,563)	(419,167)	
Reduction of long-term debt	(1,524,000)	(380,000)	(1,439,837)	(3,343,837)	
Acquisition and construction of capital assets	(5,713,940)	(587,361)	(3,681,173)	(9,982,474)	
Other capital asset adjustments	(14,334)	-	-	(14,334)	
Net cash (used in) capital and related financing activities	<u>(3,297,402)</u>	<u>(1,018,837)</u>	<u>(5,263,062)</u>	<u>(9,579,301)</u>	
Cash flows from investing activities:					
(Increase) in temporary cash investments	(145,890)	(5,334)	(258,325)	(409,549)	(2,277)
Cash receipts from interest	37,360	37,848	38,550	113,758	12,265
Net cash provided by (used in) investing activities	<u>(108,530)</u>	<u>32,514</u>	<u>(219,775)</u>	<u>(295,791)</u>	<u>9,988</u>
Net increase (decrease) in cash and cash equivalents	(785,369)	117,806	291,788	(375,775)	41,890
Cash and cash equivalents, July 1, 2011	8,835,886	7,863,149	7,248,353	23,947,388	2,412,296
Cash and cash equivalents, June 30, 2012	<u>\$ 8,050,517</u>	<u>\$ 7,980,955</u>	<u>\$ 7,540,141</u>	<u>\$ 23,571,613</u>	<u>\$ 2,454,186</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 4,303,229	\$ 543,599	\$ 2,932,772	\$ 7,779,600	\$ (38,619)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation and amortization	2,402,153	692,623	2,655,519	5,750,295	-
(Increase) decrease in accounts receivable	(322,788)	207,057	(65,756)	(181,487)	-
(Increase) decrease in due from other funds	(313)	-	(275)	(588)	22,365
(Increase) in inventory of material and supplies	(145,279)	(128,466)	(2,550)	(276,295)	-
(Increase) in prepaid expenses and other current assets	(29,445)	-	-	(29,445)	-
(Increase) in deferred charges and other	(39,169)	-	-	(39,169)	-
(Increase) decrease in other receivables	(44,445)	-	-	(44,445)	1,735
Increase (decrease) in accounts payable	(3,117,911)	(220,642)	237,326	(3,101,227)	(410)
Increase in health claims payable	-	-	-	-	46,256
Increase in TVA notes payable	76,365	-	-	76,365	-
Increase in accrued expenses and compensated absences	7,669	325	1,645	9,639	-
Increase in net other post-retirement liability	216,798	75,624	253,016	545,438	-
Increase (decrease) in due to other funds	(13,433)	131,385	(28,894)	89,058	575
Increase (decrease) in other current liabilities	2,781	(3,900)	18,990	17,871	-
Increase in other non-current liabilities	216,877	1,600	-	218,477	-
Net cash provided by (used in) operating activities	<u>\$ 3,513,089</u>	<u>\$ 1,299,205</u>	<u>\$ 6,001,793</u>	<u>\$ 10,814,087</u>	<u>\$ 31,902</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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Revenues:				
Taxes and tax equivalents:				
Property tax	\$ 5,211,100	\$ 5,261,100	\$ 5,341,758	\$ 80,658
In lieu of tax- CHA	40,000	40,000	39,933	(67)
In lieu of tax- Laurel Creek	700	700	752	52
In lieu of tax- Russell Stover	45,800	45,800	46,005	205
In lieu of tax- TVA	300,000	300,000	351,633	51,633
Business tax	892,268	892,268	1,050,184	157,916
Cable TV Franchise tax	260,000	260,000	276,689	16,689
Clerks fee	9,500	9,500	11,816	2,316
Total taxes and tax equivalents	<u>6,759,368</u>	<u>6,809,368</u>	<u>7,118,770</u>	<u>309,402</u>
Licenses and permits:				
Beer permits	7,000	7,000	7,450	450
Beer license	12,000	12,000	12,763	763
Liquor license	30,000	30,000	40,645	10,645
Building permits	95,000	105,000	159,445	54,445
Miscellaneous permits	103,200	123,200	142,745	19,545
Total licenses and permits	<u>247,200</u>	<u>277,200</u>	<u>363,048</u>	<u>85,848</u>
Intergovernmental:				
Local option sales tax	9,914,084	10,314,084	10,411,198	97,114
Wholesale beer tax	1,020,000	1,020,000	1,083,704	63,704
Wholesale liquor tax	300,000	300,000	348,537	48,537
State excise tax	36,000	36,000	41,615	5,615
State income tax	299,000	344,000	343,590	(410)
State beer tax	14,000	14,000	14,940	940
Mixed drink tax	130,000	130,000	127,274	(2,726)
Gasoline inspection fee	57,000	57,000	62,476	5,476
Telecommunications sales tax	-	-	1,875	1,875
Training supplement	66,000	66,000	68,400	2,400
Grants-other	-	164,753	161,289	(3,464)
Total intergovernmental	<u>11,836,084</u>	<u>12,445,837</u>	<u>12,664,898</u>	<u>219,061</u>
Charges for services:				
Miscellaneous	170,950	170,950	238,302	67,352
Total charges for services	<u>170,950</u>	<u>170,950</u>	<u>238,302</u>	<u>67,352</u>
Fines, forfeitures and penalties:				
Court fines and fees	280,000	330,000	352,917	22,917
Parking violations	2,000	2,000	3,135	1,135
Other	32,000	32,000	31,614	(386)
Total fines and costs	<u>314,000</u>	<u>364,000</u>	<u>387,666</u>	<u>23,666</u>
Miscellaneous:				
Interest	22,950	22,950	31,330	8,380
Rent	15,000	15,000	19,175	4,175
Contributions	650,000	650,000	501,691	(148,309)
Other	446,150	446,150	471,670	25,520
Total miscellaneous	<u>1,134,100</u>	<u>1,134,100</u>	<u>1,023,866</u>	<u>(110,234)</u>
Total revenues	<u>\$ 20,461,702</u>	<u>\$ 21,201,455</u>	<u>\$ 21,796,550</u>	<u>\$ 595,095</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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Expenses:				
General government:				
Salaries and wages	\$ 973,450	\$ 973,450	\$ 983,142	\$ (9,692)
Payroll taxes and fringes	351,517	366,517	337,797	28,720
Contractual services	97,500	113,500	87,482	26,018
Supplies and maintenance	1,072,400	1,072,400	1,051,374	21,026
Fixed charges	10,100	13,300	10,188	3,112
Miscellaneous	<u>27,000</u>	<u>27,000</u>	<u>29,198</u>	<u>(2,198)</u>
Total general government	<u>2,531,967</u>	<u>2,566,167</u>	<u>2,499,181</u>	<u>66,986</u>
Public safety:				
Police:				
Salaries and wages	4,554,200	4,624,188	4,467,717	156,471
Payroll taxes and fringes	1,808,183	1,808,183	1,685,416	122,767
Supplies and maintenance	844,500	878,500	839,338	39,162
Fixed charges	102,500	156,500	166,167	(9,667)
Miscellaneous	<u>9,000</u>	<u>29,000</u>	<u>31,946</u>	<u>(2,946)</u>
Total police	<u>7,318,383</u>	<u>7,496,371</u>	<u>7,190,584</u>	<u>305,787</u>
Fire:				
Salaries and wages	2,496,800	2,546,800	2,491,167	55,633
Payroll taxes and fringes	1,085,450	1,079,450	1,028,000	51,450
Supplies and maintenance	375,900	375,900	280,442	95,458
Fixed charges	13,000	38,000	39,822	(1,822)
Miscellaneous	<u>5,500</u>	<u>5,500</u>	<u>3,513</u>	<u>1,987</u>
Total fire	<u>3,976,650</u>	<u>4,045,650</u>	<u>3,842,944</u>	<u>202,706</u>
Total public safety	<u>\$ 11,295,033</u>	<u>\$ 11,542,021</u>	<u>\$ 11,033,528</u>	<u>\$ 508,493</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, 2012**

	<u>Original</u> <u>Budget</u>	<u>Final</u> <u>Budget</u>	<u>Actual</u>	<u>Variance- Favorable</u> <u>(Unfavorable)</u>
Planning and codes:				
Salaries and wages	\$ 718,500	\$ 718,500	\$ 722,419	\$ (3,919)
Payroll taxes and fringes	289,794	289,794	280,252	9,542
Supplies and maintenance	104,700	104,700	76,026	28,674
Fixed charges	2,140	2,140	3,524	(1,384)
Miscellaneous	<u>3,000</u>	<u>3,000</u>	<u>2,907</u>	<u>93</u>
Total planning and codes	<u>1,118,134</u>	<u>1,118,134</u>	<u>1,085,128</u>	<u>33,006</u>
Parks and maintenance:				
Salaries and wages	685,500	685,500	664,361	21,139
Payroll taxes and fringes	305,518	305,518	267,544	37,974
Supplies and maintenance	162,300	162,300	177,469	(15,169)
Fixed charges	13,800	20,800	15,513	5,287
Miscellaneous	<u>400</u>	<u>400</u>	<u>260</u>	<u>140</u>
Total parks and maintenance	<u>1,167,518</u>	<u>1,174,518</u>	<u>1,125,147</u>	<u>49,371</u>
Public works:				
Salaries and wages	1,542,900	1,542,900	1,517,366	25,534
Payroll taxes and fringes	653,580	653,580	631,761	21,819
Supplies and maintenance	411,100	411,100	441,377	(30,277)
Fixed charges	27,700	51,200	55,632	(4,432)
Miscellaneous	<u>3,250</u>	<u>3,250</u>	<u>2,096</u>	<u>1,154</u>
Total public works	<u>2,638,530</u>	<u>2,662,030</u>	<u>2,648,232</u>	<u>13,798</u>
Capital outlay:				
Capital outlay	<u>1,493,200</u>	<u>3,202,982</u>	<u>2,829,204</u>	<u>373,778</u>
Total capital outlay	<u>\$ 1,493,200</u>	<u>\$ 3,202,982</u>	<u>\$ 2,829,204</u>	<u>\$ 373,778</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, 2012**

	<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	\$ 753,388	\$ 753,388	\$ 750,119	\$ 3,269
Payroll taxes and fringes	268,145	268,145	244,928	23,217
Supplies and maintenance	358,825	358,825	336,203	22,622
Fixed charges	18,925	18,925	17,251	1,674
Miscellaneous	9,800	9,800	8,805	995
Contributions to Nonprofit Organizations and other Governmental Entities:				
Putnam County Library	325,000	325,000	325,000	-
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	33,000	33,000	33,000	-
Chamber of Commerce	14,750	14,750	14,750	-
Chamber of Commerce-Highlands	50,000	50,000	50,000	-
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	-
Genesis House	11,407	11,407	11,407	-
Stephens Center for Child Abuse	2,377	2,377	2,377	-
Kids Putnam	6,000	6,000	6,000	-
Cookeville - PC Clean Commission	9,000	9,000	9,000	-
Helping Hands of Putnam County	11,407	11,407	11,407	-
Cookeville Senior Citizens	47,530	47,530	47,530	-
Kiwanis Cookeville Childrens Museum	1,500	1,500	1,500	-
UC Child Advocacy Center	4,000	4,000	4,000	-
TN Central Heritage Rail Trail	7,244	7,244	7,244	-
UCHRA - CASA	1,500	1,500	1,500	-
UCHRA - Adult Drug Court	7,500	7,500	7,500	-
UCHRA - Meals on Wheels	1,901	1,901	1,901	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total culture and recreation	\$ 2,090,114	\$ 2,090,114	\$ 2,038,337	\$ 51,777

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, 2012**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
Total expenditures	\$ 22,334,496	\$ 24,355,966	\$ 23,258,757	\$ 1,097,209
(Deficiency) of revenues (under) expenditures	<u>(1,872,794)</u>	<u>(3,154,511)</u>	<u>(1,462,207)</u>	<u>1,692,304</u>
Other financing sources (uses):				
Interfund transfers in	1,330,488	1,330,488	1,372,014	41,526
Interfund transfers (out)	(314,220)	(314,220)	(314,220)	-
Proceeds of notes	480,000	480,000	500,000	20,000
Insurance recoveries	-	15,633	40,131	24,498
Sale of assets	<u>-</u>	<u>72,228</u>	<u>72,229</u>	<u>1</u>
Net other financing sources	<u>1,496,268</u>	<u>1,584,129</u>	<u>1,670,154</u>	<u>86,025</u>
Net change in fund balance	<u>\$ (376,526)</u>	<u>\$ (1,570,382)</u>	207,947	<u>\$ 1,778,329</u>
Fund balance, July 1, 2011			<u>9,019,763</u>	
Fund balance, June 30, 2012			<u>\$ 9,227,710</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 40) as audited by other auditors.

The City has recorded \$700,000 in payments in lieu of taxes and \$3,140,000 for utilities services from Cookeville Regional Medical Center during the year ended June 30, 2012. In addition, Cookeville Regional Medical Center contributed approximately \$502,000 to assist in the renovations of 7<sup>th</sup> Street.

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 2012 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 \$366,000 for the year ended June 30, 2012.

**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 \$3,700,000 in 2012.

**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, 2012, the liability for accrued vacation leave is approximately \$1,317,000.

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.

The City's policy is to use funds in the order of the most restrictive to the least restrictive. Amounts are considered to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available. Unrestricted amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**P. Joint Ventures**

The Upper Cumberland Regional Airport (UCRA) was established as a joint venture between Putnam County, White County, the City of Cookeville, and the City of Sparta. The airport operates the regional airport for the two-county area. The five-member board of the airport includes one member appointed by each of the four participating governments with the fifth member of the board being the chief executive officer of one of the participating governments. This fifth board position serves a one-year term and rotates among the four participating governments in a prescribed order. Each participant retains a 25 percent ownership in the airport. The City of Cookeville contributed \$33,000 to the Upper Cumberland Regional Airport for the year ended June 30, 2012.

The Cookeville – Putnam County Emergency Management Agency was established in 1951 as a joint venture between the City of Cookeville and Putnam County. The purpose of the Cookeville – Putnam County Emergency Management Agency is to plan and prepare for emergency operations and to assist other emergency services during emergencies or disasters.

The City of Cookeville contributed \$25,400 to the Cookeville – Putnam County Emergency Management Agency for the year ended June 30, 2012.

The Tennessee Central Heritage Rail Trail Authority is operated through an interlocal agreement between Putnam County and the cities of Algood, Cookeville and Monterey. The agreement created a ten-member board to construct and manage a rail trail on the right-of-way owned by the Nashville Eastern Railroad Authority. The county and cities will each appoint two members, the ninth member will be appointed by the Putnam County Chamber of Commerce, and the tenth member will be appointed by the Upper Cumberland Heritage Association. The county and cities will each approve the budget of the authority. The City of Cookeville contributed \$7,244 to the Rail Trail Authority for the year ended June 30, 2012.

The Putnam County Library has been in existence for a number of years but was formally recognized as a joint venture between the City of Cookeville and Putnam County under an agreement dated June 30, 2011. The seven-member board includes four members appointed by the County and three members appointed by the City. The City of Cookeville contributed \$325,000 to the Putnam County Library for the year ended June 30, 2012.

The City of Cookeville does not have an equity interest in any of the above-noted joint ventures except for The Upper Cumberland Regional Airport (UCRA). Complete financial statements for all of these entities may be obtained from their administrative offices.

**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 21, 2012, 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 \$469,000 for the year ended June 30, 2012.

**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>Business-type Activities</u>		
	<u>General Fund</u>	<u>Debt Service</u>	<u>Other Governmental Funds</u>	<u>Electric</u>	<u>Water Quality Control</u>	
<u>Governmental Activities:</u>						
Major Governmental Funds						
General Fund		\$ 6,516	\$ 3,156	\$ 240	\$ -	\$ 9,912
Capital Projects		-	-	-	-	-
Other Governmental Funds	\$ 27,526	-	-	-	-	27,526
<u>Business-type Activities:</u>						
Electric	93,062	-	-	-	-	93,062
Water Quality Control	35,793	-	-	-	-	35,793
Gas	27,512	-	129,480	73	-	157,065
<u>Internal Service Activities:</u>						
Health Insurance Fund	345	-	-	-	275	620
Total Due To	<u>\$ 184,238</u>	<u>\$ 6,516</u>	<u>\$ 132,636</u>	<u>\$ 313</u>	<u>\$ 275</u>	<u>\$ 323,978</u>

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

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

A schedule of interfund transfers follows:

		<u>Transfer from:</u>						
		<u>State</u>	<u>Economic</u>	<u>Quality of</u>	<u>Cookeville</u>	<u>Cookeville</u>	<u>Cookeville</u>	
		<u>Street Aid</u>	<u>Development</u>	<u>Life</u>	<u>Electric</u>	<u>Gas</u>	<u>Water Quality</u>	
<u>Transfer to:</u>	<u>General</u>				<u>Department</u>	<u>Department</u>	<u>Control</u>	<u>Total</u>
							<u>Department</u>	
Animal Control	\$ 64,220							\$ 64,220
State Street Aid	250,000							250,000
Capital Projects	-	\$ 159,000						159,000
General	-	-	\$ 50,000	\$ 7,244	\$ 892,526	\$ 195,076	\$ 227,168	1,372,014
	<u>-</u>	<u>-</u>	<u>\$ 50,000</u>	<u>\$ 7,244</u>	<u>\$ 892,526</u>	<u>\$ 195,076</u>	<u>\$ 227,168</u>	<u>1,372,014</u>
Total:	<u>\$ 314,220</u>	<u>\$ 159,000</u>	<u>\$ 50,000</u>	<u>\$ 7,244</u>	<u>\$ 892,526</u>	<u>\$ 195,076</u>	<u>\$ 227,168</u>	<u>\$ 1,845,234</u>

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

**NOTE 5 - CHANGES IN CAPITAL ASSETS:**

A summary of changes in capital assets follows:

	Balance July 1, 2011	Additions	Retirements	Amortization	Transfers & Reclasses	Balance June 30, 2012
<b>Government-type activities:</b>						
Capital assets not being depreciated						
Land	\$ 9,277,892	\$ 461,438				\$ 9,739,330
Construction in progress	1,749,880	8,544,291	\$ (4,950)		\$ (104,119)	10,185,102
Total capital assets not being depreciated	11,027,772	9,005,729	(4,950)		(104,119)	19,924,432
Capital assets, being depreciated						
Buildings	8,554,018	948,163	-		-	9,502,181
Improvements	1,939,236	230,929	-		104,119	2,274,284
Vehicles	8,837,766	834,561	(554,458)		-	9,117,869
Machinery and equipment	2,676,800	219,764	(107,866)		-	2,788,698
Software	333,516	-	-		-	333,516
Infrastructure	37,846,008	-	-		-	37,846,008
Total capital assets being depreciated	60,187,344	2,233,417	(662,324)		104,119	61,862,556
Less accumulated depreciation for:						
Buildings	(2,948,006)	(190,234)	-		-	(3,138,240)
Improvements	(784,761)	(114,294)	-		-	(899,055)
Vehicles	(6,969,688)	(584,688)	554,458		-	(6,999,918)
Machinery and equipment	(2,386,781)	(151,156)	95,332		-	(2,442,605)
Software	(333,516)	-	-		-	(333,516)
Infrastructure	(20,315,443)	(1,230,093)	-		-	(21,545,536)
Total accumulated depreciation	(33,738,195)	(2,270,465)	649,790		-	(35,358,870)
Total capital assets being depreciated, net	26,449,149	(37,048)	(12,534)		104,119	26,503,686
Total government-type activities capital assets, net	\$ 37,476,921	\$ 8,968,681	\$ (17,484)		\$ -	\$ 46,428,118

**Business-type activities:**

Capital assets not being depreciated						
Land and easements	\$ 2,624,839					\$ 2,624,839
Construction in progress	1,767,666	\$ 6,233,394			\$ (902,992)	7,098,068
Total capital assets not being depreciated	4,392,505	6,233,394			(902,992)	9,722,907
Capital assets being depreciated						
Buildings and improvements	4,538,927	28,143			-	4,567,070
Plant and distribution system	139,416,178	2,709,938	\$ (604,421)		808,705	142,330,400
Machinery and equipment	10,670,869	1,009,206	(235,989)		94,287	11,538,373
Furniture and equipment	647,278	1,998	(16,485)		-	632,791
Plant acquisition adjustment	13,499,404	-	-	\$ (828,686)	-	12,670,718
Total capital assets being depreciated	168,772,656	3,749,285	(856,895)	(828,686)	902,992	171,739,352
Less accumulated depreciation for:						
Buildings and improvements	(1,977,058)	(121,804)	-	-	-	(2,098,862)
Plant and distribution system	(61,666,919)	(4,246,264)	697,481	-	-	(65,215,702)
Machinery and equipment	(6,531,306)	(479,018)	216,417	-	-	(6,793,907)
Furniture and equipment	(576,660)	(30,872)	15,986	-	-	(591,546)
Total accumulated depreciation	(70,751,943)	(4,877,958)	929,884	-	-	(74,700,017)
Total capital assets being depreciated, net	98,020,713	(1,128,673)	72,989	(828,686)	902,992	97,039,335
Total business-type activities capital assets, net	\$ 102,413,218	\$ 5,104,721	\$ 72,989	\$ (828,686)	\$ -	\$ 106,762,242

The City has active construction projects as of June 30, 2012. Total accumulated commitments for ongoing capital projects are comprised of the following:

Governmental activities:

Seventh street improvements	\$ 68,000
Lee Seminary Road	772,000
Highlands Business Park	<u>4,482,000</u>
Total commitments - governmental activities	<u>\$ 5,322,000</u>

Proprietary Fund activities:

Water Quality	\$ 6,175,000
Electric Department	<u>-</u>
Total commitments - Proprietary Fund activities	<u>\$ 6,175,000</u>

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

Governmental activities:

General government	\$ 74,262
Planning and codes	6,276
Public safety	345,121
Public works	1,655,745
Parks & maintenance	25,864
Culture and recreation	<u>163,197</u>
Total depreciation expense - governmental activities	<u>\$ 2,270,465</u>

Business-type activities:

Cookeville Water Quality Control Department	\$ 2,558,998
Cookeville Electric Department	1,632,327
Cookeville Gas Department	<u>686,633</u>
Total depreciation expense - business-type activities	<u>\$ 4,877,958</u>

**NOTE 6 - LONG TERM LIABILITIES:**

The following summarizes long-term liabilities transactions of the City of Cookeville during the year ended June 30, 2012:

	<u>Balance</u> <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2012</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b><u>Governmental Activities:</u></b>					
Bonds and notes payable:					
General Obligation Bonds	\$ 7,700,000		\$ (655,000)	\$ 7,045,000	\$ 680,000
Notes payable	<u>12,657,280</u>	<u>\$ 726,223</u>	<u>(1,938,084)</u>	<u>11,445,419</u>	<u>2,183,751</u>
Total bonds and notes payable	<u>20,357,280</u>	<u>726,223</u>	<u>(2,593,084)</u>	<u>18,490,419</u>	<u>2,863,751</u>
Other liabilities:					
Compensated absences	<u>874,071</u>	<u>81,438</u>	<u>-</u>	<u>955,509</u>	<u>-</u>
Total other liabilities	<u>874,071</u>	<u>81,438</u>	<u>-</u>	<u>955,509</u>	<u>-</u>
Total governmental activities long-term liabilities:	<u>\$ 21,231,351</u>	<u>\$ 807,661</u>	<u>\$ (2,593,084)</u>	<u>\$ 19,445,928</u>	<u>\$ 2,863,751</u>
<b><u>Business-Type Activities:</u></b>					
Bonds and notes payable:					
Revenue bonds payable	\$ 2,035,000	\$ 4,000,000	\$ (380,000)	\$ 5,655,000	\$ 630,000
Notes payable	<u>25,016,961</u>	<u>108,307</u>	<u>(2,903,329)</u>	<u>22,221,939</u>	<u>2,901,896</u>
Total bonds and notes payable	<u>27,051,961</u>	<u>4,108,307</u>	<u>(3,283,329)</u>	<u>27,876,939</u>	<u>3,531,896</u>
Other liabilities:					
Compensated absences	351,522	9,639	-	361,161	-
TVA heat pump notes payable	591,270	216,420	(140,055)	667,635	-
Water storage rights payable	<u>2,295,724</u>	<u>-</u>	<u>(60,508)</u>	<u>2,235,216</u>	<u>63,458</u>
Total other liabilities	<u>3,238,516</u>	<u>226,059</u>	<u>(200,563)</u>	<u>3,264,012</u>	<u>63,458</u>
Total business-type activities long-term liabilities:	<u>\$ 30,290,477</u>	<u>\$ 4,334,366</u>	<u>\$ (3,483,892)</u>	<u>\$ 31,140,951</u>	<u>\$ 3,595,354</u>

**Bonds and notes payable at 6/30/2012, 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.	\$ 260,000
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.	6,785,000
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, 2012 is .42%.	1,691,000
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, 2012 is .49%.	563,000
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, 2012 is .49%.	1,006,000
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, 2012 is .49%.	130,000
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.	316,169
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, 2012 is .49%.	2,776,000
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, 2012 is .49%.	2,520,000
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, 2012 is .49%.	1,943,250
Capital outlay note payable to First National Bank of Tennessee dated August 26, 2011 with maturity date of August 26, 2014 principal and interest payments due annually. Interest rate 1.73%.	<u>500,000</u>
	<u>\$ 18,490,419</u>

Business-type Bonds and Notes Payable:

Gas Department revenue bonds, series 2009 interest rate 2.79% due serially through 2015.	\$ 1,655,000
Revolving loan payable to State of Tennessee, interest rate 3.6%, due in monthly installments through 4/30/2013.	135,098
Revolving loan payable to State of Tennessee, interest rate 3.5%, due in monthly installments through 2012.	4,926
Revolving loan payable to State of Tennessee, interest rate 3.14%, due in monthly installments through 2017.	3,074,023
Revolving loan payable to State of Tennessee, interest rate 2.5% due in monthly installments through 2031.	1,969,892
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, 2012 is .47%.	5,445,000
Electric Department System Revenue and Tax Bonds, issued February 15, 2012, payable annually in varying amounts plus semi-annual interest payments through 2027. Interest 1.0% to 3.0%.	4,000,000
Notes payable to UCEMC related to various annexations, payable annually through 2017 without interest.	6,000,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$2,500,000, payable annually beginning in 2000 through 2014, variable interest rate.	469,000
Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$6,000,000, payable annually beginning in 2009 through 2024, variable interest rate.	<u>5,124,000</u>
	<u>\$ 27,876,939</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
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>\$ 7,045,000</u>	<u>\$ 2,239,143</u>

**Notes Payable**

Year Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2013	\$ 2,183,751	\$ 67,849	\$ 2,901,896	\$ 192,043
2014	2,131,752	50,901	2,837,744	164,583
2015	1,146,666	37,003	2,665,216	138,498
2016	1,021,000	29,318	2,735,348	112,683
2017	1,063,000	24,315	2,808,116	85,985
2018	755,000	19,106	2,339,911	64,732
2019	786,000	15,407	1,292,440	56,465
2020	820,000	11,555	1,354,900	48,302
2021	442,000	7,537	578,432	39,781
2022	462,000	5,372	604,024	34,857
2023	481,000	3,108	631,676	29,759
2024	153,250	751	661,400	24,466
2025	-	-	113,184	18,984
2026	-	-	116,052	16,116
2027	-	-	118,980	13,188
2028	-	-	121,992	10,176
2029	-	-	125,076	7,092
2030	-	-	128,244	3,924
2031	-	-	87,308	723
Total	<u>\$ 11,445,419</u>	<u>\$ 272,222</u>	<u>\$ 22,221,939</u>	<u>\$ 1,062,357</u>

**Revenue Bonds**

Year Ending June 30,	Business-type Activities	
	Principal	Interest
2013	\$ 630,000	\$ 126,381
2014	655,000	111,442
2015	645,000	95,165
2016	665,000	78,767
2017	245,000	67,988
2018	250,000	63,038
2019	255,000	57,987
2020	260,000	51,538
2021	270,000	43,587
2022	275,000	35,413
2023	285,000	28,437
2024	290,000	22,688
2025	300,000	16,787
2026	310,000	10,494
2027	320,000	3,600
Total	<u>\$ 5,655,000</u>	<u>\$ 813,312</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, 2013 through 2033.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	76,767	95,658	172,425
2018-2022	443,756	418,369	862,125
2023-2027	562,995	299,130	862,125
2028-2032	714,273	147,852	862,125
2033	<u>164,420</u>	<u>8,016</u>	<u>172,436</u>
	<u>\$2,235,216</u>	<u>\$1,385,720</u>	<u>\$3,620,936</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, 10<sup>th</sup> 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, 2012, 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, 2012, the City of Cookeville's annual pension cost of \$2,669,290 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 3.0% annual rate of inflation, (c) 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), (d) projected 3.5% annual increase in the Social Security wage base, and (e) 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, 2011, which established contribution rates effective July 1, 2012.

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>
6/30/12	\$2,669,290	100.00%	\$0.00
6/30/11	\$2,576,638	100.00%	\$0.00
6/30/10	\$2,405,231	100.00%	\$0.00

**D. Schedule of Funding Progress for the City of Cookeville**

As of July 1, 2011, the most recent actuarial valuation date, the plan was 93.56% funded. The actuarial accrued liability for benefits was \$102.76 million, and the actuarial value of assets was \$96.14 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$6.62 million. The covered payroll (annual payroll of active employees covered by the plan) was \$15.64 million, and the ratio of the UAAL to the covered payroll was 42.30%.

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 (AAL) (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, 2011	\$96,144	\$102,760	\$6,616	93.56%	\$15,641	42.30%
July 1, 2009	\$83,263	\$83,263	\$0	100.00%	\$15,016	0.00%
July 1, 2007	\$79,813	\$79,813	\$0	100.00%	\$14,706	0.00%

**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, 2012, totaled approximately \$70,000 for general liability and \$211,000 for worker's compensation. Liabilities for claims incurred but not reported as of June 30, 2012, are not calculated by an actuary. The plan administrator reported claims payable of approximately \$245,000 as of June 30, 2012 which have been included in these financial statements.

The employee health care coverage program is partially self-insured by the City up to \$150,000 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, 2012, are not calculated by an actuary. The plan administrator reported health claims payable of approximately \$152,000 as of June 30, 2012. 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, 2012, the amount for health insurance claims and premiums totaled approximately \$3,425,000.

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, 2012
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, 2012 were as follows:

	Governmental Activities	Business-Type Activities	Total
Annual required contribution	\$ 1,989,633	\$ 571,204	\$ 2,560,837
Interest on Net OPEB	153,102	60,864	213,966
Adjustment	(137,789)	(51,906)	(189,695)
Contribution made	<u>(602,853)</u>	<u>(34,724)</u>	<u>(637,577)</u>
Change in Net OPEB, Obligation	1,402,093	545,438	1,947,531
Net OPEB Obligation, beginning	<u>3,827,559</u>	<u>1,521,590</u>	<u>5,349,149</u>
Net OPEB Obligation, ending	<u>\$ 5,229,652</u>	<u>\$ 2,067,028</u>	<u>\$ 7,296,680</u>

### Three-Year Trend Information

Year	Annual OPEB Cost (AOC)	Percentage of AOC Contributed	Net OPEB Obligation (Asset)
2012	\$ 2,585,108	25%	\$ 5,349,149
2011	2,523,461	23%	3,397,231
2010	2,207,613	23%	1,690,392

### 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)
7/1/2011	\$ -	\$ 35,621,757	\$ 35,621,757	0.00%	\$ 15,518,129	229.6%
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%

**NOTES TO FINANCIAL STATEMENTS**  
**(COOKEVILLE REGIONAL MEDICAL CENTER)**

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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

**(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.

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*Blended Component Units:* The accompanying financial statements include the accounts of three blended component units at June 30, 2012 and two blended component units at June 30, 2011. The Cookeville Regional Medical Center ("CRMC") Children's Center (the "Children's Center") and Cookeville Regional Medical Group, Inc. (the "CRMG") 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 CRMG was established to provide physician services to the City and the surrounding areas. In January 2012, CRMC MSO Sub 1 ("MSO Sub 1") was established to provide cardiology services. The Cookeville Regional Medical Center, Children's Center, CRMG and MSO Sub 1 are collectively referred to as the "Medical Center" in the notes to the financial statements. In March 2012, the former CRMC MSO, Inc. (the "MSO") was formally renamed Cookeville Regional Medical Group ("CRMG").

**(2) Summary of significant accounting policies**

**(a) Basis of accounting**

The Medical Center utilizes the proprietary fund method of accounting whereby revenues 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 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.

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**Notes to the Financial Statements**

**June 30, 2012 and 2011**

**(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 statements of revenue, expenses and changes in net assets as a component of investment income.

**(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.

**(f) Derivative instruments**

The Medical Center records all derivatives as assets or liabilities on the balance sheets at estimated fair value. The Medical Center's derivative holdings consist of interest rate swap agreements (Note 9). In accordance with GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, 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 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.

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**(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.

**(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 55 and completed 5 years of service, one-half of the accumulated hours were paid out as a benefit upon retirement. During 2012, the Medical Center eliminated certain sick pay benefits. As a result, approximately \$708,000 was recognized in 2012 as income in the accompanying statements of revenues, expenses and changes in net assets.

**(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.

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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.

**(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 2012 and 2011, the net assets invested in capital assets, net of related debt excludes the \$10,235,074 and \$27,190,755, respectively, 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, 2012 and 2011, there were no permanently or temporarily restricted net assets.

**(n) Operating revenues and expenses**

The Medical Center's 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. These costs are based on the ratio of total costs to gross charges. 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.

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**(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 financial statements.

**(q) Use of estimates**

The preparation of 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 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) New accounting pronouncements**

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.

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 2013.

In March 2012, accounting standards relating to accounting for operating lease payments that vary from a straight-line basis were amended to clarify how to apply GASB Statement 13. These amendments are effective for financial statements for fiscal years beginning after December 15, 2012. Therefore the Medical Center expects to adopt these standards at the beginning of fiscal year 2014.

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

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**Notes to the Financial Statements**

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**(t) Reclassifications**

Certain reclassifications have been made to the 2011 financial statements in order for them to conform to the 2012 presentation. These reclassifications have no effect on the net assets or the excess of revenues over expenses as previously reported.

**(u) Events occurring after reporting date**

The Medical Center has evaluated events and transactions that occurred between June 30, 2012 and October 26, 2012, which is the date the financial statements were available to be issued, for possible recognition or disclosure in the 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 statements of revenues, expenses and changes in net assets is as follows:

	<u>2012</u>	<u>2011</u>
Gross patient service charges	\$ 544,380,517	\$ 506,579,508
Less: Medicare contractual adjustments	(184,024,759)	(160,063,132)
TennCare contractual adjustments	(41,552,673)	(32,953,894)
Other contractual adjustments	(60,097,024)	(63,268,794)
Bad debts	(20,442,719)	(18,105,464)
Charity Care	<u>(3,035,087)</u>	<u>(2,857,140)</u>
Net patient service revenue	<u>\$ 235,228,255</u>	<u>\$ 229,331,084</u>

Net patient accounts receivable consists of the following:

	<u>2012</u>	<u>2011</u>
Medicare	\$ 14,173,397	\$ 11,525,504
TennCare	4,418,434	4,038,709
Blue Cross and commercial	10,657,825	10,459,412
Patients, including self-insured	<u>9,848,847</u>	<u>10,680,532</u>
	39,098,503	36,704,157
Less: allowance for uncollectible accounts	<u>(12,065,579)</u>	<u>(13,729,048)</u>
	<u>\$ 27,032,924</u>	<u>\$ 22,975,109</u>

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**(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 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 \$130,000,000 and \$20,000,000, respectively, in 2012 and approximately \$125,000,000 and \$22,000,000, respectively, in 2011.

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 \$(1,018,000) and \$4,625,000 for the years ended June 30, 2012 and 2011, respectively.

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The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for hospitals that implemented "meaningfully use" certified electronic health record (EHR) technology. In order to receive incentive payments, a hospital which is able to meet the meaningful use criteria must attest that during the EHR reporting period, the hospital used certified EHR technology and specify the technology used, satisfied the required meaningful use objectives and associated measures for the applicable stage, and must specify the EHR reporting period and provide the result of each applicable measure for all patients admitted to the inpatient or emergency department of the hospital during the EHR reporting period for which a selected measure is applicable. A hospital may receive an incentive payment for up to four years, provided it successfully demonstrates meaningful use of certified EHR technology for the EHR reporting period. Hospitals that adopt a certified EHR system and are meaningful users can begin receiving incentive payments in any federal fiscal year from 2011 (October 1, 2010 - September 30, 2011) to 2015; however, the incentive payments will decrease for hospitals that first start receiving payments in federal fiscal year 2014 or 2015.

As a result, the Medical Center recognized income for cash received of approximately \$770,000 from Medicaid in 2012. The Medical Center expects to meet the Medicare meaningful use criteria in 2013. The income is reported as other revenue on the accompanying statements of revenue, expenses and changes in net assets.

**(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 balance sheets are as follows:

	<u>2012</u>	<u>2011</u>
<b>Carrying amount:</b>		
Cash and cash equivalents	\$ 18,352,952	\$ 2,676,372
Investments	<u>36,857,610</u>	<u>64,351,858</u>
Total deposits and investments	<u>\$ 55,210,562</u>	<u>\$ 67,028,230</u>
	<u>2012</u>	<u>2011</u>
<b>Included in the following balance sheet captions:</b>		
Cash and cash equivalents	\$ 16,935,962	\$ 2,676,372
Short-term investments	5,473,333	21,489,805
Long-term investments	12,566,193	5,671,298
Assets internally designated for capital acquisition	10,000,000	10,000,000
Assets designated by bond indenture agreement	<u>10,235,074</u>	<u>27,190,755</u>
	<u>\$ 55,210,562</u>	<u>\$ 67,028,230</u>

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

The distribution of the Medical Center's investments and assets limited as to use by maturity as of June 30, 2012 is as follows:

	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1 - 5	6 - 10	More Than 10
June 30, 2012					
Undesignated	\$ 18,039,526	\$ 5,473,333	\$ 3,192,608	\$ 2,297,364	\$ 7,076,221
Assets internally designated for capital acquisition	10,000,000	10,000,000	-	-	-
Assets designated by bond indenture agreement	10,235,074	10,235,074	-	-	-
Cash and cash equivalents	<u>16,935,962</u>	<u>16,935,962</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 55,210,562</u>	<u>\$ 42,644,369</u>	<u>\$ 3,192,608</u>	<u>\$ 2,297,364</u>	<u>\$ 7,076,221</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, 2012, 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, 2012 and 2011, 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.

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

	<u>2012</u>	<u>2011</u>
Interest income and realized gain on investments	\$ 320,332	\$ 366,736
Unrealized gain (loss) on investments	<u>40,315</u>	<u>(21,966)</u>
	<u>\$ 360,647</u>	<u>\$ 344,770</u>

**(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, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	<u>Balance at June 30, 2012</u>
Land	\$ 15,502,882	\$ 405,674	\$ -	\$ -	\$ 15,908,556
Land improvements	5,124,713	-	-	-	5,124,713
Building	162,710,679	109,593	-	1,721,854	164,542,126
Automobiles	180,122	-	-	-	180,122
Equipment	59,061,251	4,429,184	(1,018,810)	6,507,451	68,979,076
Equipment under capitalized leases	<u>5,441,584</u>	<u>-</u>	<u>(9,695)</u>	<u>-</u>	<u>5,431,889</u>
	248,021,231	4,944,451	(1,028,505)	8,229,305	260,166,482
Less: allowance for depreciation and amortization:					
Land improvements	1,870,927	231,606	-	-	2,102,533
Building	32,964,980	4,628,501	-	-	37,593,481
Automobiles	180,122	-	-	-	180,122
Equipment	47,002,918	7,142,831	(975,359)	-	53,170,390
Equipment under capitalized leases	<u>5,431,265</u>	<u>10,319</u>	<u>(9,695)</u>	<u>-</u>	<u>5,431,889</u>
	<u>87,450,212</u>	<u>12,013,257</u>	<u>(985,054)</u>	<u>-</u>	<u>98,478,415</u>
Construction in progress	<u>8,353,217</u>	<u>19,951,091</u>	<u>-</u>	<u>(8,229,305)</u>	<u>20,075,003</u>
	<u>\$ 168,924,236</u>	<u>\$ 12,882,285</u>	<u>\$ (43,451)</u>	<u>\$ -</u>	<u>\$ 181,763,070</u>

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	<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>

On July 1, 2011, the Medical Center acquired certain property and equipment from Sleep Solutions of Tennessee, LLC for \$250,000 and on January 1, 2012, the Medical Center acquired certain assets of Tennessee Heart, PLLC for approximately \$471,000.

Construction in progress at June 30, 2012 consists of construction on the expansion of the Medical Center's operating room, the emergency room, the outpatient imaging center, assets not yet placed in service, and various other construction projects. Estimated costs to complete the projects amount to approximately \$6,500,000 at June 30, 2012.

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**(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, 2012 and 2011 is as follows (unaudited):

	<u>2012</u>	<u>2011</u>
Assets	\$ <u>2,702,000</u>	\$ <u>2,576,000</u>
Liabilities	\$ 1,223,000	\$ 973,000
Member's equity	<u>1,479,000</u>	<u>1,603,000</u>
	<u>\$ 2,702,000</u>	<u>\$ 2,576,000</u>
Medical Center's interest:		
Investment in joint ventures	\$ <u>863,000</u>	\$ <u>943,000</u>
Equity in earnings of joint ventures	\$ <u>218,000</u>	\$ <u>279,000</u>

**(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, 2011</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2012</u>	<u>Amounts Due Within One Year</u>
Series 2009 Bonds	\$ 29,430,000	\$ -	\$ (600,000)	\$ 28,830,000	\$ 630,000
Series 2010-A Bonds	12,346,870	-	(436,650)	11,910,220	466,470
Series 2010-B Bonds	16,648,130	-	(588,350)	16,059,780	628,530
Build America Bonds Series 2010	30,000,000	-	(680,000)	29,320,000	730,000
Companion Instrument (Note 9)	<u>2,745,821</u>	<u>-</u>	<u>(520,355)</u>	<u>2,225,466</u>	<u>509,527</u>
	<u>\$ 91,170,821</u>	<u>\$ -</u>	<u>\$ (2,825,355)</u>	<u>\$ 88,345,466</u>	<u>\$ 2,964,527</u>

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	<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>

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 1.71% and 1.67% at June 30, 2012 and 2011, 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 Series 2009 Bonds and Series 2010 Bonds are subject to prepayment, in whole or in part, for a prepayment price equal to the principal amount to be repaid plus interest accrued, without penalty. Any partial prepayment of the Series 2009 Bonds or Series 2010 Bonds must be made on a prorata basis, and applied to future scheduled principal payments in reverse chronological order.

The Medical Center also 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 2.09% and 2.04% at June 30, 2012 and 2011, respectively. 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 financial statements.

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The debt service requirements at June 30, 2012 related to bonds and notes payable are as follows:

<u>Year</u>	<u>Principal Maturities or Sinking Fund Requirements</u>	<u>Interest</u>
2013	\$ 2,964,527	\$ 3,419,000
2014	3,152,286	3,309,000
2015	3,313,574	3,190,000
2016	3,436,251	3,066,000
2017	50,308,828	1,768,000
2018 - 2022	5,400,000	2,395,000
2023 - 2027	6,710,000	1,754,000
2028 - 2032	8,250,000	962,000
2033 - 2035	<u>4,810,000</u>	<u>135,000</u>
	<u>\$ 88,345,466</u>	<u>\$ 19,998,000</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, 2012 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 concluded that the Medical Center is in compliance with all such covenants at June 30, 2012.

**(9) Derivative instruments**

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 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 financial statements.

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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 \$4,934,572 and \$3,453,886 as of June 30, 2012 and 2011, respectively, and was accounted for in the 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, 2012.

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

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

Net receipts and payments on the interest rate swap are presented in Note 8 with the Medical Center's aggregate debt service requirements.

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**(10) Leases**

The Medical Center leases equipment and office space under capital and operating lease agreements. Future minimum lease payments under noncancellable operating leases with initial or remaining lease terms in excess of one year as of June 30, 2012 are as follows:

<u>Year</u>	<u>Operating Leases</u>
2013	\$ 698,396
2014	513,454
2015	328,418
2016	301,212
2017	169,677
2018 and later years	<u>88,021</u>
<b>Total future minimum lease payments</b>	<b>\$ <u>2,099,178</u></b>

Total rental expense was \$1,560,863 and \$1,375,096 for the years ended June 30, 2012 and 2011, respectively.

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

	<u>2012</u>	<u>2011</u>
Balance at beginning of year	\$ 14,130	\$ 39,863
Reductions	<u>(14,130)</u>	<u>(25,733)</u>
Balance at end of year	\$ <u>-</u>	\$ <u>14,130</u>
Current portion of capital lease obligations	\$ <u>-</u>	\$ <u>14,130</u>

**(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.

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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](http://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, 2012 and 2011, the Medical Center's annual pension costs were approximately \$3,910,000 and \$4,100,000, 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, 2012 and 2011 were \$1,929,758 and \$1,729,104, respectively.

**(12) Other receivables**

Other current and long-term receivables at June 30, 2012 and 2011 include \$803,382 and \$1,429,633, respectively, in receivables from certain physicians which were made as part of the Medical Center's recruitment program to attract physicians to the Medical Center's service area. Under terms of the related agreements, such receivables will be forgiven over a period of time, generally over three years, as long as the physician continues to practice in the area. The Medical Center is amortizing these loans over the physicians' service commitments.

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**(13) Commitments and contingencies**

**Insurance**

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, 2012 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.

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

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 \$160,000 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 \$1,630,155 and \$1,380,144 at June 30, 2012 and 2011, respectively. Total expenses under this program amounted to approximately \$9,800,000 and \$8,850,000 for the years ended June 30, 2012 and 2011, 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, 2012 and 2011, approximately \$1,225,000 and \$1,151,000, respectively, was accrued and included in other accrued expense on the balance sheets for estimated claims incurred but not reported.

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**Physician Employment Commitments**

During 2012 certain physicians were offered employment agreements with the Medical Center. Under such agreements, the Medical Center is required to pay annual compensation to these physicians. These agreements are typically for 5 years. Future minimum compensation commitments under employment agreements at June 30, 2012, are as follows:

<u>Year</u>	
2013	\$ 2,920,000
2014	2,950,000
2015	2,950,000
2016	2,630,000
2017	<u>1,300,000</u>
	<u>\$ 12,750,000</u>

**Healthcare Industry**

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.

The Centers for Medicare and Medicaid Services ("CMS") have implemented a Recovery Audit Contractors ("RAC") program. The purpose of the program is to reduce improper Medicare payments through the detection and recovery of overpayments. CMS has engaged subcontractors to perform these audits and they are being compensated on a contingency basis based on the amount of overpayments that are recovered. While management believes that all Medicare billings are proper and adequate support is maintained, certain aspects of Medicare billing, coding and support are subject to interpretation and may be viewed differently by the RAC auditors. As the amount of any recovery is unknown, management has not recorded any reserves related to the RAC audit at this time.

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**Healthcare Reform**

In March 2010, Congress adopted comprehensive health care insurance legislation, the Patient Care Protection and Affordable Care Act and the Health Care and Education Reconciliation Act ("collectively, the "Health Care Reform Legislation"). The Health Care Reform Legislation, among other matters, is designed to expand access to health care coverage to substantially all citizens through a combination of public program expansion and private industry health insurance. Provisions of the Health Care Reform Legislation become effective at various dates over the next several years and a number of additional steps are required to implement these requirements. Due to the complexity of the Health Care Reform Legislation, reconciliation and implementation of the legislation continues to be under consideration by lawmakers, and it is not certain as to what changes may be made in the future regarding health care policies. Changes to existing Medicaid coverage and payments are also expected to occur as a result of this legislation. While the full impact of Health Care Reform Legislation is not yet fully known, changes to policies regarding reimbursement, universal health insurance and managed competition may materially impact the Medical Center's operations.

**(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, 2012 and 2011 and contributions of \$560,391 during the year ended June 30, 2012. Operating expenses also include \$3,558,735 and \$3,489,280 in 2012 and 2011, 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).

**(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 \$13,850,000 and \$14,500,000 of the Medical Center's investments and assets whose use is limited are cash equivalents as of June 30, 2012 and 2011, respectively, the Medical Center has approximately \$14,200,000 and \$22,700,000 in certificates of deposit and mortgage backed securities as of June 30, 2012 and 2011, respectively, that would be classified as Level 2 under the hierarchy in the preceding paragraph.

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

**Notes to the Financial Statements**

**June 30, 2012 and 2011**

**(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, 2012 and 2011, there were no triggering events that prompted an asset impairment test of the Medical Center's non-financial 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, 2012 and 2011 was \$4,934,572 and \$3,453,886, respectively. The interest rate swap liability increased by \$1,480,686 and \$304 during June 30, 2012 and 2011, respectively, and is reflected in the accompanying financial statements. See Note 9.

**(16) Functional expenses**

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

	<u>2012</u>	<u>2011</u>
Healthcare services	\$ 167,805,656	\$ 162,408,751
General and administrative	<u>63,939,461</u>	<u>60,369,554</u>
	<u>\$ 231,745,117</u>	<u>\$ 222,778,305</u>

**(17) Subsequent event**

In August 2012, the Medical Center purchased certain assets and liabilities of Cumberland River Hospital, Inc. for total consideration of \$6,275,995 in cash. The Medical Center also paid approximately \$26,000 in direct costs associated with the transaction. This transaction has been accounted for as an acquisition and, accordingly, the purchase price was allocated to the assets and liabilities acquired, based upon the fair value of the assets and liabilities at the date of acquisition, as follows:

Cash	\$ 241,997	
Patient receivables	1,472,108	
Other receivables	9,901	
Prepaid expenses	73,874	
Inventories	153,517	
Meaningful use funds receivable, net	2,774,783	
Property and equipment	3,929,217	
Accounts payable and accrued expenses	(2,128,587)	
Capital lease obligation	<u>(250,815)</u>	
	<u>\$ 6,275,995</u>	

The asset purchase agreement includes a ninety day working capital settlement. Management is currently in negotiations with the sellers regarding the working capital settlement and does not expect the settlement to result in a material adjustment to the purchase price allocation.

**SUPPLEMENTAL SECTION**

**CITY OF COOKEVILLE, TENNESSEE**  
**NON-MAJOR GOVERNMENTAL FUNDS**  
**COMBINING BALANCE SHEET**  
**June 30, 2012**

	<b>Special Revenue Funds</b>						
	<b>Drug Fund</b>	<b>State Street Aid Fund</b>	<b>Sanitation Fund</b>	<b>Animal Control Board Fund</b>	<b>Economic Development Fund</b>	<b>Quality of Life Fund</b>	<b>Total Other Governmental Funds</b>
<b><u>Assets</u></b>							
Cash	\$ 112,546	\$ 262,855	\$ 486,566	\$ 68,320	\$ 2,955,159	\$ 396,885	\$ 4,282,331
Temporary cash investments	-	488,479	-	513,230	-	-	1,001,709
Accounts receivable	-	-	108,278	-	-	-	108,278
Taxes receivable	-	-	-	-	291,350	72,838	364,188
Less allowance for bad debts	-	-	(884)	-	(4,632)	(1,158)	(6,674)
Other receivables	42	70,750	164	486	963,494	8,299	1,043,235
Due from other funds	-	275	-	-	131,785	576	132,636
Total assets	<u>\$ 112,588</u>	<u>\$ 822,359</u>	<u>\$ 594,124</u>	<u>\$ 582,036</u>	<u>\$ 4,337,156</u>	<u>\$ 477,440</u>	<u>\$ 6,925,703</u>
<b><u>Liabilities and Fund Balances</u></b>							
Accounts payable	\$ 14	\$ 3,299	\$ 15,142	\$ 1,446	\$ 1,225,133	\$ 1,641	\$ 1,246,675
Due to other funds	215	-	23,324	3,451	536	-	27,526
Deferred revenue	-	4,678	-	39,002	286,718	172,475	502,873
Other liabilities	63,284	95,400	57	-	-	-	158,741
Total liabilities	<u>63,513</u>	<u>103,377</u>	<u>38,523</u>	<u>43,899</u>	<u>1,512,387</u>	<u>174,116</u>	<u>1,935,815</u>
Restricted fund balances							
Drug fund	49,075	-	-	-	-	-	49,075
State street aid	-	718,982	-	-	-	-	718,982
Economic development	-	-	-	-	2,705,259	-	2,705,259
Committed fund balances							
Sanitation	-	-	555,601	-	-	-	555,601
Animal control	-	-	-	538,137	-	-	538,137
Economic development	-	-	-	-	119,510	-	119,510
Quality of life	-	-	-	-	-	303,324	303,324
Total fund balances	<u>49,075</u>	<u>718,982</u>	<u>555,601</u>	<u>538,137</u>	<u>2,824,769</u>	<u>303,324</u>	<u>4,989,888</u>
Total liabilities and fund balances	<u>\$ 112,588</u>	<u>\$ 822,359</u>	<u>\$ 594,124</u>	<u>\$ 582,036</u>	<u>\$ 4,337,156</u>	<u>\$ 477,440</u>	<u>\$ 6,925,703</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, 2012**

	<u>Special Revenue Funds</u>						<u>Total Other Governmental Funds</u>
	<u>Drug Fund</u>	<u>State Street Aid Fund</u>	<u>Sanitation Fund</u>	<u>Animal Control Board Fund</u>	<u>Economic Development Fund</u>	<u>Quality of Life Fund</u>	
Revenues:							
Real and personal property taxes		\$ 11,236			\$ 289,061	\$ 72,265	\$ 372,562
Gasoline taxes		785,340			-	-	785,340
Intergovernmental		14,641		\$ 66,600	4,206,780	31,590	4,319,611
Charges for services		-	\$ 1,449,981	67,781	-	-	1,517,762
Fines, forfeitures and penalties	\$ 26,788	-	-	-	-	-	26,788
Rent	-	-	-	-	2,700	-	2,700
Interest	342	1,839	2,471	980	3,002	1,719	10,353
Other	910	80	2,514	34,164	-	-	37,668
Total revenues	<u>28,040</u>	<u>813,136</u>	<u>1,454,966</u>	<u>169,525</u>	<u>4,501,543</u>	<u>105,574</u>	<u>7,072,784</u>
Expenditures:							
General government	-	-	-	-	252,436	-	252,436
Public safety	31,822	-	-	200,158	-	-	231,980
Public works	-	760,740	1,374,932	-	-	-	2,135,672
Culture and recreation	-	-	-	-	-	75,808	75,808
Debt service	-	-	-	-	-	-	-
Capital outlay	-	-	278,645	9,914	8,167,347	33,198	8,489,104
Total expenditures	<u>31,822</u>	<u>760,740</u>	<u>1,653,577</u>	<u>210,072</u>	<u>8,419,783</u>	<u>109,006</u>	<u>11,185,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(3,782)</u>	<u>52,396</u>	<u>(198,611)</u>	<u>(40,547)</u>	<u>(3,918,240)</u>	<u>(3,432)</u>	<u>(4,112,216)</u>
Other financing sources (uses):							
Operating transfers in	-	250,000	-	64,220	-	-	314,220
Operating transfers out	-	(159,000)	-	-	(50,000)	(7,244)	(216,244)
Sale of assets	-	-	20,025	-	-	-	20,025
Total other financing sources (uses)	<u>-</u>	<u>91,000</u>	<u>20,025</u>	<u>64,220</u>	<u>(50,000)</u>	<u>(7,244)</u>	<u>118,001</u>
Net change in fund balances	(3,782)	143,396	(178,586)	23,673	(3,968,240)	(10,676)	(3,994,215)
Fund balances, July 1, 2011	<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>
Fund balances, June 30, 2012	<u>\$ 49,075</u>	<u>\$ 718,982</u>	<u>\$ 555,601</u>	<u>\$ 538,137</u>	<u>\$ 2,824,769</u>	<u>\$ 303,324</u>	<u>\$ 4,989,888</u>

**CITY OF COOKEVILLE, TENNESSEE**  
**SCHEDULE OF REVENUES, EXPENDITURES**  
**AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL**  
**DEBT SERVICE FUND**  
**FOR THE YEAR ENDED June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 450,700	\$ 450,700	\$ 442,267	\$ (8,433)
In-lieu of taxes	700,000	700,000	700,000	-
State shared sales tax	1,700,000	1,700,000	2,053,620	353,620
Other intergovernmental	86,450	86,450	86,451	1
Rent	26,160	26,160	26,172	12
Interest	<u>22,000</u>	<u>22,000</u>	<u>23,633</u>	<u>1,633</u>
Total revenues	<u>2,985,310</u>	<u>2,985,310</u>	<u>3,332,143</u>	<u>346,833</u>
Expenditures:				
Debt service - principal	2,900,584	2,900,584	2,593,084	307,500
Debt service - interest	1,070,624	1,070,624	354,746	715,878
Administrative expenditures	<u>20,700</u>	<u>20,700</u>	<u>15,769</u>	<u>4,931</u>
Total expenditures	<u>3,991,908</u>	<u>3,991,908</u>	<u>2,963,599</u>	<u>1,028,309</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,006,598)</u>	<u>(1,006,598)</u>	<u>368,544</u>	<u>1,375,142</u>
Net change in fund balance	<u>\$ (1,006,598)</u>	<u>\$ (1,006,598)</u>	368,544	<u>\$ 1,375,142</u>
Fund balance, July 1, 2011			<u>6,807,530</u>	
Fund balance, June 30, 2012			<u>\$ 7,176,074</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, 2012**

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes		\$ 10,000	\$ 11,236	\$ 1,236
State gasoline tax	\$ 710,000	710,000	785,340	75,340
TDOT Grant	-	15,100	14,641	(459)
Interest	2,200	2,200	1,839	(361)
Other revenue	-	-	80	80
Total revenues	<u>712,200</u>	<u>737,300</u>	<u>813,136</u>	<u>75,836</u>
Expenditures:				
Paving	750,000	750,000	661,221	88,779
Sidewalk improvements	30,000	30,000	14,095	15,905
Intersection improvements	85,000	85,000	32,760	52,240
Street maintenance supplies	70,000	70,000	37,920	32,080
TDOT grant expense	-	15,100	14,642	458
Capital Expenditures	159,000	-	-	-
Other	<u>250</u>	<u>250</u>	<u>102</u>	<u>148</u>
Total expenditures	<u>1,094,250</u>	<u>950,350</u>	<u>760,740</u>	<u>189,610</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(382,050)</u>	<u>(213,050)</u>	<u>52,396</u>	<u>265,446</u>
Other financing sources:				
Operating transfers in	250,000	250,000	250,000	-
Operating transfers out	<u>-</u>	<u>(159,000)</u>	<u>(159,000)</u>	<u>-</u>
Net other financing sources:	<u>250,000</u>	<u>91,000</u>	<u>91,000</u>	<u>-</u>
Net change in fund balance	<u>\$ (132,050)</u>	<u>\$ (122,050)</u>	143,396	<u>\$ 265,446</u>
Fund balance, July 1, 2011			<u>575,586</u>	
Fund balance, June 30, 2012			<u>\$ 718,982</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, 2012**

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Fines, forfeitures & penalties	\$ 40,000	\$ 40,000	\$ 26,788	\$ (13,212)
Other revenue	-	-	910	910
Interest	<u>250</u>	<u>250</u>	<u>342</u>	<u>92</u>
Total revenues	<u>40,250</u>	<u>40,250</u>	<u>28,040</u>	<u>(12,210)</u>
Expenditures:				
Investigative	2,000	2,000	2,000	-
Seized property expense	5,000	5,000	489	4,511
Equipment & materials	27,500	27,500	8,273	19,227
Education & training	-	-	10,020	(10,020)
Police dogs	-	-	10,800	(10,800)
Other expenses	<u>2,500</u>	<u>2,500</u>	<u>240</u>	<u>2,260</u>
Total expenditures	<u>37,000</u>	<u>37,000</u>	<u>31,822</u>	<u>5,178</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,250</u>	<u>3,250</u>	<u>(3,782)</u>	<u>(7,032)</u>
Net change in fund balance	<u>\$ 3,250</u>	<u>\$ 3,250</u>	(3,782)	<u>\$ (7,032)</u>
Fund balance, July 1, 2011			<u>52,857</u>	
Fund balance, June 30, 2012			<u>\$ 49,075</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, 2012**

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Charges for services	\$ 1,452,000	\$ 1,452,000	\$ 1,449,981	\$ (2,019)
Other revenue	-	-	2,514	2,514
Interest	1,500	1,500	2,471	971
Total revenues	<u>1,453,500</u>	<u>1,453,500</u>	<u>1,454,966</u>	<u>1,466</u>
Expenditures:				
Personnel	541,000	541,000	548,658	(7,658)
Taxes & fringes	225,440	225,440	218,087	7,353
Materials & supplies	17,900	17,900	15,895	2,005
Vehicle expense	328,000	368,000	360,007	7,993
Trucks & other equipment	373,000	373,000	370,369	2,631
Fixed charges	11,550	21,550	23,054	(1,504)
Other operating expense	100,250	100,250	93,363	6,887
Landfill services	20,000	20,000	24,144	(4,144)
Total expenditures	<u>1,617,140</u>	<u>1,667,140</u>	<u>1,653,577</u>	<u>13,563</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(163,640)</u>	<u>(213,640)</u>	<u>(198,611)</u>	<u>15,029</u>
Other financing (uses):				
Sale of assets	-	20,000	20,025	25
Operating transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net other financing sources:	<u>-</u>	<u>20,000</u>	<u>20,025</u>	<u>25</u>
Net change in fund balance	<u>\$ (163,640)</u>	<u>\$ (193,640)</u>	<u>(178,586)</u>	<u>\$ 15,054</u>
Fund balance, July 1, 2011			<u>734,187</u>	
Fund balance, June 30, 2012			<u>\$ 555,601</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, 2012**

	<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	5,500	(500)
Charges for services	32,000	48,000	67,781	19,781
Other revenue	20,000	30,000	34,164	4,164
Interest	1,000	1,000	980	(20)
Total revenues	<u>120,100</u>	<u>146,100</u>	<u>169,525</u>	<u>23,425</u>
Expenditures:				
Personnel	108,110	108,110	104,262	3,848
Taxes & fringes	26,420	26,420	11,903	14,517
Utility expense	27,000	27,000	22,152	4,848
Supplies & maintenance	26,800	42,016	54,873	(12,857)
Other expense	5,400	5,400	6,968	(1,568)
Capital outlay	-	9,914	9,914	-
Total expenditures	<u>193,730</u>	<u>218,860</u>	<u>210,072</u>	<u>8,788</u>
(Deficiency) of revenues (under) expenditures	<u>(73,630)</u>	<u>(72,760)</u>	<u>(40,547)</u>	<u>32,213</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>\$ (9,410)</u>	<u>\$ (8,540)</u>	23,673	<u>\$ 32,213</u>
Fund balance, July 1, 2011			<u>514,464</u>	
Fund balance, June 30, 2012			<u>\$ 538,137</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, 2012**

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 289,900	\$ 289,900	\$ 289,061	\$ (839)
Intergovernmental:				
Putnam County Allocation	6,936,100	6,936,100	4,206,780	(2,729,320)
Rental income	-	-	2,700	2,700
Interest	300	300	3,002	2,702
Total revenues	<u>7,226,300</u>	<u>7,226,300</u>	<u>4,501,543</u>	<u>(2,724,757)</u>
Expenditures:				
Business park development:				
Engineering	25,000	25,000	142,736	(117,736)
Construction	12,650,000	12,650,000	7,316,655	5,333,345
Land, ROW and easements	160,000	160,000	-	160,000
Other development expense	10,000	10,000	69,329	(59,329)
Lee Seminary Road Project:				
Engineering	-	-	7,795	(7,795)
Construction	1,100,000	1,100,000	789,223	310,777
Land, ROW and easements	60,000	60,000	87,844	(27,844)
Other development expense	-	-	512	(512)
Miscellaneous	150	150	5,689	(5,539)
Total expenditures	<u>14,005,150</u>	<u>14,005,150</u>	<u>8,419,783</u>	<u>5,585,367</u>
Excess of revenues over expenditure	<u>(6,778,850)</u>	<u>(6,778,850)</u>	<u>(3,918,240)</u>	<u>2,860,610</u>
Other financing sources (uses):				
Operating transfers out	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net other financing sources:	<u>(50,000)</u>	<u>(50,000)</u>	<u>(50,000)</u>	<u>-</u>
Net change in fund balance	<u>\$ (6,828,850)</u>	<u>\$ (6,828,850)</u>	<u>(3,968,240)</u>	<u>\$ 2,860,610</u>
Fund balance, July 1, 2011			<u>6,793,009</u>	
Fund balance, June 30, 2012			<u>\$ 2,824,769</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, 2012**

	<u>Budgeted Amounts</u>		<u>Total Actual</u>	<u>Variance- Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property taxes	\$ 72,560	\$ 72,560	\$ 72,265	\$ (295)
Intergovernmental:				
State Grant	2,122,148	2,122,148	28,080	(2,094,068)
Putnam County Allocation	29,386	29,386	1,755	(27,631)
Monterey Allocation	32,706	32,706	878	(31,828)
Algood Allocation	-	-	877	877
Interest	1,500	1,500	1,719	219
Other	1,000	1,000	-	(1,000)
Total revenues	<u>2,259,300</u>	<u>2,259,300</u>	<u>105,574</u>	<u>(2,153,726)</u>
Expenditures:				
Tennessee Central Heritage				
Rails with Trails project	2,382,148	2,382,148	35,100	2,347,048
Contributions	-	25,000	25,000	-
Capital outlay	35,000	35,000	33,198	1,802
Other expense	15,100	15,100	15,708	(608)
Total expenditures	<u>2,432,248</u>	<u>2,457,248</u>	<u>109,006</u>	<u>2,348,242</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(172,948)</u>	<u>(197,948)</u>	<u>(3,432)</u>	<u>194,516</u>
Other financing sources:				
Operating transfers(out)	<u>(7,244)</u>	<u>(7,244)</u>	<u>(7,244)</u>	<u>-</u>
Net other financing sources:	<u>(7,244)</u>	<u>(7,244)</u>	<u>(7,244)</u>	<u>-</u>
Net change in fund balance	<u>\$ (180,192)</u>	<u>\$ (205,192)</u>	(10,676)	<u>\$ 194,516</u>
Fund balance, July 1, 2011			<u>314,000</u>	
Fund balance, June 30, 2012			<u>\$ 303,324</u>	

**CITY OF COOKEVILLE, TENNESSEE**

**SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE**

**June 30, 2012**

<b><u>Tax Year</u></b>	<b><u>Balance July 1,</u></b>	<b><u>Property Tax Levied</u></b>	<b><u>Anticipated Levy</u></b>	<b><u>Abatements &amp; Adjustments</u></b>	<b><u>Collections</u></b>	<b><u>Balance June 30,</u></b>	<b><u>Delinquent Taxes Filed*</u></b>
2012			\$ 6,555,383			\$ 6,555,383	
2011		\$ 6,142,784	-	\$ (5,884)	\$ (5,810,447)	326,453	
2010	\$ 306,636	-	-	(1,409)	(216,110)	89,117	\$ 89,117
2009	86,060	-	-	(21)	(35,514)	50,525	50,525
2008	44,040	-	-	(247)	(15,104)	28,689	28,689
2007	26,919	-	-	(95)	(6,732)	20,092	20,092
2006	24,003	-	-	-	(2,818)	21,185	21,185
2005	9,228	-	-	-	(1,966)	7,262	7,262
2004	24,966	-	-	-	(2,896)	22,070	22,070
2003	15,928	-	-	-	(1,624)	14,304	14,304
2002	8,743	-	-	(51)	(13)	8,679	8,679
2001	5,259	-	-	(871)	(24)	4,364	4,364
2000	5,601	-	-	-	-	5,601	5,601
	<u>\$ 557,383</u>	<u>\$ 6,142,784</u>	<u>\$ 6,555,383</u>	<u>\$ (8,578)</u>	<u>\$ (6,093,248)</u>	<u>\$ 7,153,724</u>	<u>\$ 271,888</u>

\* Outstanding Delinquent Taxes filed with clerk and master.

**CITY OF COOKEVILLE, TENNESSEE**

**SCHEDULE OF TAX RATES AND ASSESSMENTS**

**JUNE 30, 2012**

<b><u>Tax Year</u></b>	<b><u>Tax rate</u></b>	<b><u>Assessed Value</u></b>
2012	\$ .90 per \$100	\$ 699,534,122
2011	.85 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

**CITY OF COOKEVILLE, TENNESSEE**  
**GENERAL LONG-TERM DEBT**  
**SUMMARY OF BOND DEBT SERVICE REQUIREMENTS**  
**CLASSIFIED BY MATURITY DATE**  
**JUNE 30, 2012**

<b><u>Fiscal Year Maturity</u></b>	<b><u>2004 Refunding Bonds</u></b>	<b><u>2010 General Obligation Bonds</u></b>	<b><u>Total Bonds</u></b>	<b><u>Future Interest Requirements</u></b>
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
	<b><u>\$ 260,000</u></b>	<b><u>\$ 6,785,000</u></b>	<b><u>\$ 7,045,000</u></b>	<b><u>\$ 2,239,143</u></b>

**CITY OF COOKEVILLE, TENNESSEE**  
**GENERAL LONG-TERM DEBT**  
**SUMMARY OF NOTES PAYABLE DEBT SERVICE REQUIREMENTS**  
**CLASSIFIED BY MATURITY DATE**  
**JUNE 30, 2012**

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<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>2011 Capital Outlay Note</u>	<u>Total Notes Payable</u>	<u>Future Interest Requirements</u>
2013	\$ 825,000	\$ 158,084	\$ 102,000	\$ 188,000	\$ 130,000	\$ 301,000	\$ 187,000	\$ 126,000	\$ 166,667	\$ 2,183,751	\$ 67,849
2014	866,000	158,085	107,000	194,000	-	313,000	195,000	132,000	166,667	2,131,752	50,901
2015	-	-	112,000	201,000	-	326,000	202,000	139,000	166,666	1,146,666	37,003
2016	-	-	118,000	208,000	-	339,000	210,000	146,000	-	1,021,000	29,318
2017	-	-	124,000	215,000	-	352,000	219,000	153,000	-	1,063,000	24,315
2018	-	-	-	-	-	367,000	227,000	161,000	-	755,000	19,106
2019	-	-	-	-	-	381,000	236,000	169,000	-	786,000	15,407
2020	-	-	-	-	-	397,000	246,000	177,000	-	820,000	11,555
2021	-	-	-	-	-	-	256,000	186,000	-	442,000	7,537
2022	-	-	-	-	-	-	266,000	196,000	-	462,000	5,372
2023	-	-	-	-	-	-	276,000	205,000	-	481,000	3,108
2024	-	-	-	-	-	-	-	153,250	-	153,250	751
	<u>\$ 1,691,000</u>	<u>\$ 316,169</u>	<u>\$ 563,000</u>	<u>\$ 1,006,000</u>	<u>\$ 130,000</u>	<u>\$ 2,776,000</u>	<u>\$ 2,520,000</u>	<u>\$ 1,943,250</u>	<u>\$ 500,000</u>	<u>\$ 11,445,419</u>	<u>\$ 272,222</u>

\*Principal and interest requirements based on current debt and interest rate. The current interest rate at June 30, 2012 ranges from .42% to .49% on the variable rate Tennessee Municipal Bond Fund debt.

**CITY OF COOKEVILLE, TENNESSEE**  
**WATER QUALITY CONTROL DEPARTMENT - PROPRIETARY FUND**  
**BONDS AND NOTES PAYABLE DEBT SERVICE REQUIREMENTS**  
**CLASSIFIED BY MATURITY DATE**  
**JUNE 30, 2012**

<b>Fiscal Year Maturity</b>	<b>State of Tennessee 3.14% Revolving</b>	<b>State of Tennessee 3.50% Revolving</b>	<b>State of Tennessee 3.60% Revolving</b>	<b>Tennessee Municipal Bond Fund*</b>	<b>State of Tennessee 2.50% Revolving</b>	<b>Total Bonds and Notes Payable</b>	<b>Future Interest Requirements</b>
2013	\$ 556,992	\$ 4,926	\$ 135,098	\$ 570,000	\$ 83,880	\$ 1,350,896	\$ 164,731
2014	574,740	-	-	599,000	86,004	1,259,744	139,925
2015	593,040	-	-	629,000	88,176	1,310,216	116,625
2016	611,940	-	-	660,000	90,408	1,362,348	92,549
2017	631,428	-	-	693,000	92,688	1,417,116	67,679
2018	105,883	-	-	728,000	95,028	928,911	48,342
2019	-	-	-	764,000	97,440	861,440	42,088
2020	-	-	-	802,000	99,900	901,900	36,037
2021	-	-	-	-	102,432	102,432	29,736
2022	-	-	-	-	105,024	105,024	27,144
2023	-	-	-	-	107,676	107,676	24,492
2024	-	-	-	-	110,400	110,400	21,766
2025	-	-	-	-	113,184	113,184	18,984
2026	-	-	-	-	116,052	116,052	16,116
2027	-	-	-	-	118,980	118,980	13,188
2028	-	-	-	-	121,992	121,992	10,176
2029	-	-	-	-	125,076	125,076	7,092
2030	-	-	-	-	128,244	128,244	3,924
2031	-	-	-	-	87,308	87,308	723
	<b>\$ 3,074,023</b>	<b>\$ 4,926</b>	<b>\$ 135,098</b>	<b>\$ 5,445,000</b>	<b>\$ 1,969,892</b>	<b>\$ 10,628,939</b>	<b>\$ 881,317</b>

\*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, 2012 is .47%.

**CITY OF COOKEVILLE, TENNESSEE**  
**DEBT SERVICE REQUIREMENTS - PROPRIETARY FUND**  
**ELECTRIC DEPARTMENT**  
**JUNE 30, 2012**

Various Annexations - Non Interest Bearing

Year Ending <u>June 30,</u>	<u>Principal Requirements</u>
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>\$ 6,000,000</u>

Tennessee Municipal Bond Fund - Notes and Bonds Payable

Fiscal Year <u>Maturity</u>	1999 <u>Principal Requirements*</u>	2008 <u>Principal Requirements*</u>	<b><u>Total Notes Payable</u></b>	Revenue and Tax Bonds Series 2012 <u>Principal</u>	<b><u>Total Notes and Bonds Payable</u></b>	Interest <u>Requirements*</u>
2013	\$ 229,000	\$ 322,000	\$ 551,000	\$ 230,000	\$ 781,000	\$ 113,099
2014	240,000	338,000	578,000	235,000	813,000	106,945
2015	-	355,000	355,000	235,000	590,000	99,461
2016	-	373,000	373,000	240,000	613,000	92,972
2017	-	391,000	391,000	245,000	636,000	86,294
2018	-	411,000	411,000	250,000	661,000	79,428
2019	-	431,000	431,000	255,000	686,000	72,364
2020	-	453,000	453,000	260,000	713,000	63,803
2021	-	476,000	476,000	270,000	746,000	53,632
2022	-	499,000	499,000	275,000	774,000	43,126
2023	-	524,000	524,000	285,000	809,000	33,704
2024	-	551,000	551,000	290,000	841,000	25,388
2025	-	-	-	300,000	300,000	16,787
2026	-	-	-	310,000	310,000	10,494
2027	-	-	-	320,000	320,000	3,600
	<u>\$ 469,000</u>	<u>\$ 5,124,000</u>	<u>\$ 5,593,000</u>	<u>\$ 4,000,000</u>	<u>\$ 9,593,000</u>	<u>\$ 901,097</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, 2012**

<b>Fiscal Year</b>	<b>Revenue Bond</b>	<b>Total</b>	<b>Future</b>
<b><u>Maturity</u></b>	<b>Series 2009</b>	<b>Bonds</b>	<b>Interest</b>
	<b><u>2.79%</u></b>	<b><u>Payable*</u></b>	<b><u>Requirements*</u></b>
2013	\$ 400,000	\$ 400,000	\$ 40,594
2014	420,000	420,000	29,155
2015	410,000	410,000	17,577
2016	425,000	425,000	5,929
	<u>\$ 1,655,000</u>	<u>\$ 1,655,000</u>	<u>\$ 93,255</u>

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

**CITY OF COOKEVILLE, TENNESSEE**

**SCHEDULE OF INVESTMENTS**

**JUNE 30, 2012**

	<b>State of Tennessee Local Government <u>Investment Pool</u></b>
Governmental Activities:	
Major Funds	
General	\$ 2,770,537
Debt Service	3,073,070
Capital Projects	4
Non-major funds	<u>1,001,709</u>
Total Governmental Activities	<u>6,845,320</u>
Business-type Activities:	
Major Funds	
Cookeville Electric Department	2,324,936
Cookeville Gas Department	4,315,255
Cookeville Water Quality Control Department	<u>3,287,747</u>
Total Business-type Activities	<u>9,927,938</u>
Internal Service Fund:	
Employee Health Insurance Fund	<u>1,842,035</u>
Total Internal Service Fund	<u>1,842,035</u>
 Total Temporary Cash Investments	 <u>\$ 18,615,293</u>

**STATISTICAL SECTION (UNAUDITED)**

**CITY OF COOKEVILLE, TENNESSEE**

**SCHEDULE OF UTILITY CUSTOMERS**

**JUNE 30, 2012**

At June 30, 2012, the utility departments serviced the following number of customers:

<b><u>Department</u></b>	<b><u>Number of Customers</u></b>
Electric	17,134
Gas	9,534
Water	13,914
Sewer	13,826
Sanitation	981

**CITY OF COOKEVILLE, TENNESSEE**  
**SCHEDULE OF UTILITY RATES**  
**JUNE 30, 2012**

Electric Department		Retail Rate 1-Jun-12 w/wholesale FCA \$0.02363
<b>Residential</b>	Customer Charge	\$10.00
<b>Alternate Usage Blocks</b>	Block1 kWh (1st 800 kwh)	\$0.09224
	Block2 kWh (additional kwh)	\$0.08738
<b>GSA1</b>	Customer Charge	\$20.00
	All kWh	\$0.10072
<b>GSA2</b>	Customer Charge	\$50.00
	1st 15,000 kWh	\$0.10134
	Additional kWh	\$0.05991
	kW, 0-50	\$0.00
	kW, 51-1,000	\$12.14
<b>GSA3</b>	Customer Charge	\$100.00
	All kWh	\$0.06354
	kW, 0-1,000	\$11.02
	kW, 1,001 - 5,000	\$11.00
<b>SDE-General Power</b>	Customer Charge	\$1,500.00
<b>SGSB</b>	Demand Charge	
	Summer Period (Jun-Sep)	\$21.63
	Winter Period (Dec-Mar)	\$15.31
	Transition Period (Oct,Nov,Apr,May)	\$10.55
	Energy Charge	
	Summer Period (Jun-Sep)	\$0.04983
	Winter Period (Dec-Mar)	\$0.04151
	Transition Period (Oct,Nov,Apr,May)	\$0.04428
<b>SDE-Manufacturing</b>	Customer Charge	\$1,500.00
<b>SMSB</b>	Demand Charge	
	Summer Period (Jun-Sep)	\$18.74
	Winter Period (Dec-Mar)	\$12.41
	Transition Period (Oct,Nov,Apr,May)	\$7.65
	Energy Charge	
	Summer Period (Jun-Sep)	\$0.04217
	Winter Period (Dec-Mar)	\$0.03331
	Transition Period (Oct,Nov,Apr,May)	\$0.03590
<b>Outdoor Lighting</b>	Customer Charge	\$2.50
	All kWh	\$0.06498

**Charges for Outdoor Lighting for Individual Customers**

	KWH	FAC Rental	1-Jun-12 Energy	Total
			\$0.06498	
100 WHPS	42	5.13	2.73	7.86
250 LED	20	12.03	1.30	13.33
250 WHPS	105	7.10	6.82	13.92
250 WHPS-FLOOD	105	11.09	6.82	17.91
400 WHPS	165	7.10	10.72	17.82
450 WHPS-FLOOD	165	11.09	10.72	21.81
175 WMV	70	4.21	4.55	8.76
400 WMV	155	5.49	10.07	15.56
250 WMHD	105	7.74	6.82	14.56
350 WMHD-FLOOD	140	8.14	9.10	17.24
350 WMHD-SHOE	140	9.84	9.10	18.94
400 WMHD	165	7.78	10.72	18.50
1000 WMHD	398	9.42	25.86	35.28

**CITY OF COOKEVILLE, TENNESSEE**  
**SCHEDULE OF UTILITY RATES (CONTINUED)**  
**JUNE 30, 2012**

**Gas Department**

**Residential Rate - Classes 22,60,13,and 61 at July 1, 2012**

Monthly rate (inside): First 5,000 cu. ft. for \$.744 per 100 cu. ft.  
Next 5,000 cu. ft. for \$.743 per 100 cu. ft.  
All additional for \$.724 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$.924 per 100 cu. ft.  
Next 5,000 cu. ft. for \$.911 per 100 cu. ft.  
All additional for \$.899 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, 2012**

Monthly rate (inside): First 5,000 cu. ft. for \$.794 per 100 cu. ft.  
Next 10,000 cu. ft. for \$.764 per 100 cu. ft.  
All additional for \$.734 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$.986 per 100 cu. ft.  
Next 10,000 cu. ft. for \$.949 per 100 cu. ft.  
All additional for \$.911 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, 2012**

Monthly rate (inside): First 10,000 cu. ft. for \$.764 per 100 cu. ft.  
Next 20,000 cu. ft. for \$.744 per 100 cu. ft.  
All additional for \$.724 per 100 cu. ft.

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

Monthly rate (outside): First 10,000 cu. ft. for \$.949 per 100 cu. ft.  
Next 20,000 cu. ft. for \$.924 per 100 cu. ft.  
All additional for \$.899 per 100 cu. ft.

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

**Interruptible Rate - Class 55**

\$.3729 per 100 cu. ft. (inside)

**CITY OF COOKEVILLE, TENNESSEE**  
**SCHEDULE OF UTILITY RATES (CONTINUED)**  
**JUNE 30, 2012**

**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
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**Sewer Rates**

Inside - Residential/Commercial/Industrial	\$4.26 per 1,000 gallons \$5.50 (minimum bill)
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**CITY OF COOKEVILLE, TENNESSEE**

**SCHEDULE OF UNACCOUNTED FOR WATER**

**FOR THE YEAR ENDED JUNE 30, 2012**

(All amounts in gallons)

A.	<b>Water Treated and Purchased:</b>		
B.	Water Pumped (potable)	3,619,238,000	
C.	Water Purchased	0	
D.	<b>Total Water Treated and Purchased (Sum Lines B and C)</b>		3,619,238,000
E.	<b>Accounted for Water:</b>		
F.	Water Sold	2,767,787,300	
G.	Metered for Consumption (in house usage)	0	
H.	Fire Department Usage	1,660,520	
I.	Flushing	797,491	
J.	Tank Cleaning/Filling	1,520,000	
K.	Street Cleaning	0	
L.	Bulk Sales	614,950	
M.	Water Bill Adjustments	0	
N.	<b>Total Accounted for Water (Sum Lines F thru M)</b>		2,772,380,261
O.	<b>Unaccounted for Water (Line D minus Line N)</b>		846,857,739
P.	<b>Percent Unaccounted for Water (Line O divided by Line D times 100)</b>		23.40%
Q.	<b>Other</b>		0

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

Water quantities from repaired leaks have not been included.

**CITY OF COOKEVILLE, TENNESSEE**  
**SCHEDULE OF PRINCIPAL CITY OFFICIALS**  
**JUNE 30, 2012**

<b><u>Official Title</u></b>	<b><u>Name</u></b>	<b><u>Bond*</u></b>
City Council:		
Mayor	Matt Swallows	\$ 150,000
Vice-Mayor	Larry Epps	150,000
Councilman	Alma Anderson	150,000
Councilman	Connie Albrecht	150,000
Councilman	Jim Woodford	150,000
City Manager:	Jim Shipley	150,000
Finance Director:	Mike Davidson	150,000
City Clerk :	Cathy McClain	150,000

\* Bond coverage originates from the City's Public Employee coverage provided by Tennessee Municipal League Risk

**COMPLIANCE AND INTERNAL CONTROL SECTION**

**CITY OF COOKEVILLE, TENNESSEE**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE**

**FOR THE YEAR ENDED JUNE 30, 2012**

Grant/Contract Number	CFDA Number	Program	Grantor Agency	(Receivable)	Receipts	Expenditures	(Receivable)
				Deferred at 07/01/11			Deferred at 06/30/12
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	\$ -	\$ 18,051	\$ 18,051	\$ -
				-	72,204	72,204	-
CG1133104	81.128	Energy Efficiency Conservation Block Grant-ARRA	State of Tennessee Department of Economic & Community Development pass-through from United States Department of Energy	(3,563)	37,849	34,286	-
EMW-2010-FO-07351	97.044	Assistance to Firefighters Grant	U.S. Department of Homeland Security	-	98,126	98,126	-
154AL-12-29	20.607	Governor's Highway Safety Grant	State of Tennessee, Department of Transportation	-	19,601	22,971	(3,370)
154AL-12-57/PT-12-17	20.607	Governor's Highway Safety Grant	State of Tennessee, Department of Transportation	-	-	10,310	(10,310)
10052537	16.607	Bulletproof Vest Partnership	U.S. Department of Justice	-	1,424	2,883	(1,459)
070090	20.205	Rails with Trails Project	State of Tennessee, Department of Transportation Pass-through from Federal Highway Administration	-	19,920	28,080	(8,160)
SRTS-9204(7)	20.205	Safe Routes to School	State of Tennessee, Department of Transportation Pass-through from United States Department of Transportation	-	14,641	14,641	-
Z-2012-002	15.605	Riparian Tree Grant	State of Tennessee, Tennessee Wildlife Resources Agency Pass-through from U.S. Department of Agriculture	-	375	375	-
060010	20.205	Rail Trail Project	Rails to Trails Conservancy, Washington D.C.	606	-	-	606
<b>TOTAL FEDERAL AWARDS</b>				<b>(2,957)</b>	<b>282,191</b>	<b>301,927</b>	<b>(22,693)</b>
PT-11-12	N/A	Governor's Highway Safety Grant	State of Tennessee, Department of Transportation	(4,871)	4,871		-
GG-08-23787-00	N/A	Internet Crimes Against Children	Knoxville Police Department	(11,588)	11,588		-
GG-08-23787-00	N/A	Internet Crimes Against Children	Nashville Police Department	-	21,666	25,000	(3,334)
GG-09-26734-00	N/A	Local Park and Recreation Fund Dogwood Park Phase II	State of Tennessee Department of Environment & Conservation	-	55,800	55,800	-
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	(102,590)	102,590		-
Z-2012-002	N/A	Riparian Tree Grant	State of Tennessee, Tennessee Wildlife Resources Agency	-	125	125	-
<b>TOTAL STATE FINANCIAL ASSISTANCE</b>				<b>(130,749)</b>	<b>196,640</b>	<b>80,925</b>	<b>(15,034)</b>
<b>TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE</b>				<b>\$ (133,706)</b>	<b>\$ 478,831</b>	<b>\$ 382,852</b>	<b>\$ (37,727)</b>

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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.

**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, 2012, which collectively comprise the City of Cookeville, Tennessee's basic financial statements and have issued our report thereon dated December 12, 2012. 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 \$280,206,408 as of June 30, 2012. 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

Management of City of Cookeville, Tennessee is responsible for establishing and maintaining effective 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 and use of the management, City Council, others within the entity, 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 21, 2012  
Cookeville, Tennessee