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**COOKEVILLE WATER  
QUALITY CONTROL DEPARTMENT**

**FINANCIAL STATEMENTS**

**For the Year Ended  
June 30, 2019**

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**DUNCAN, WHEELER  
& WILKERSON, P.C.**  
*Certified Public Accountants*

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**COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**

**FINANCIAL STATEMENTS**

**June 30, 2019**

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## **Independent Auditor's Report**

To the City Council  
City of Cookeville, Tennessee

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Cookeville Water Quality Control Department of City of Cookeville, Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the Table of Contents.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Cookeville Water Quality Control Department of City of Cookeville, Tennessee, as of June 30, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

As discussed in Note 1, the financial statements present only the Cookeville Water Quality Control Department of City of Cookeville, Tennessee, and do not purport to, and do not, present fairly the financial position of the City of Cookeville, Tennessee, as of and for the year ended June 30, 2019, the changes in its financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require the schedules on pages 20 and 21 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.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2019, on our consideration of the Cookeville Water Quality Control Department of 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 solely 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 effectiveness of the Department's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cookeville Water Quality Control Department of City of Cookeville, Tennessee's internal control over financial reporting and compliance.

Duncan, Wheeler : Wilkerson, P.C.

December 31, 2019  
Cookeville, Tennessee

**COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**

**STATEMENT OF NET POSITION**

**June 30, 2019**

**Assets and Deferred Outflows of Resources**

Current assets:

Cash and cash equivalents	\$ 4,765,152
Temporary cash investments	3,125,457
Accounts receivable, net of allowance	2,427,234
Inventory of material and supplies	534,271
Deposits with TDOT	633,907
Other current assets	<u>10,548</u>
Total current assets	<u>11,496,569</u>

Noncurrent assets:

Water quality control plant in service	130,780,367
Less: Accumulated depreciation	<u>(66,741,724)</u>
	64,038,643
Water storage rights	<u>1,408,439</u>
Total noncurrent assets	<u>65,447,082</u>

Deferred outflows of resources:

Pension outflow	1,228,230
OPEB outflow	<u>490,039</u>
Total deferred outflows of resources	<u>1,718,269</u>

Total assets and deferred outflows of resources \$ 78,661,920

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

**COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**

**STATEMENT OF NET POSITION**

**June 30, 2019**

**Liabilities, Deferred Inflows of Resources and Net Position**

Current liabilities:	
Accounts payable	\$ 588,776
Due to other funds	63,279
Current portion of long-term debt	901,900
Current portion water storage rights payable	97,032
Accrued expenses	33,301
Other current liabilities	46,410
Total current liabilities	<u>1,730,698</u>
Noncurrent liabilities:	
Compensated absences	193,393
Net other post-retirement liability	3,039,671
Net pension liability	1,690,091
Water storage rights payable, less current portion	1,546,904
Long-term debt, less current portion	<u>1,236,368</u>
Total noncurrent liabilities	<u>7,706,427</u>
Deferred inflows of resources:	
OPEB deferred inflows - experience	925,703
Pension deferred inflows - experience	40,843
Pension deferred inflows - net investments	406,280
Total deferred inflows of resources	<u>1,372,826</u>
Total liabilities and deferred inflows of resources	<u>10,809,951</u>
Net position:	
Net investment in capital assets	61,900,375
Unrestricted	<u>5,951,594</u>
Total net position	<u>67,851,969</u>
Total liabilities, deferred inflows, and net position	<u>\$ 78,661,920</u>

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

**COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**

**FOR THE YEAR ENDED JUNE 30, 2019**

Operating revenues:	
Customer revenue	\$ 14,983,834
Other operating revenue	<u>676,390</u>
Total operating revenues	<u>15,660,224</u>
Operating expenses:	
Operating expenses	4,045,834
Maintenance expenses	625,976
Utilities	1,972,082
Depreciation and amortization	3,760,698
Administrative and general expenses	<u>3,716,191</u>
Total operating expenses	<u>14,120,781</u>
Operating income	<u>1,539,443</u>
Nonoperating revenues (expenses):	
Interest revenue	222,869
Interest expense	<u>(118,565)</u>
Total nonoperating revenues (expenses)	<u>104,304</u>
Capital asset transfer	1,218,253
Interfund transfer (out)	<u>(284,741)</u>
Total net interfund transfers	<u>933,512</u>
Change in net position	2,577,259
Total net position, July 1, 2018	<u>65,274,710</u>
Total net position, June 30, 2019	<u>\$ 67,851,969</u>

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

# COOKEVILLE WATER QUALITY CONTROL DEPARTMENT

## STATEMENT OF CASH FLOWS

### FOR THE YEAR ENDED JUNE 30, 2019

Cash flows from operating activities:		
Cash receipts from customers	\$ 14,439,168	
Cash receipts from fees and surcharges	607,368	
Cash payments to employees for services	(1,144,639)	
Cash payments for interfund services used	(676,317)	
Cash payments for maintenance expenses	(625,976)	
Other operating cash payments	(7,697,192)	
Net cash provided by operating activities	<u>4,902,412</u>	
Cash flows from noncapital financing activities:		
Interfund transfer (out)	<u>(284,741)</u>	
Net cash (used in) noncapital financing activities	<u>(284,741)</u>	
Cash flows from capital and related financing activities:		
Proceeds from sale of assets	69,022	
Reduction of long-term debt and water storage rights	(955,759)	
Cash payments for interest	(120,510)	
Acquisition and construction of capital assets	<u>(5,300,343)</u>	
Net cash (used in) capital and related financing activities	<u>(6,307,590)</u>	
Cash flows from investing activities:		
(Increase) in temporary cash investments	(68,461)	
Cash receipts from interest	<u>222,037</u>	
Net cash provided by investing activities	<u>153,576</u>	
Net decrease in cash and cash equivalents		(1,536,343)
Cash and cash equivalents, July 1, 2018		6,301,495
Cash and cash equivalents, June 30, 2019		<u>\$ 4,765,152</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 1,539,443	
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation and amortization	3,760,698	
Gain on sale of equipment	(69,022)	
(Increase) in accounts receivable	(499,371)	
(Increase) in inventory of material and supplies	(70,535)	
Decrease in deferred outflows related to pensions	160,543	
Increase in accounts payable	213,669	
Increase in due to other funds	16,455	
Increase in accrued expenses and other current liabilities	9,354	
(Decrease) in compensated absences	(7,708)	
(Decrease) in net pension liability	(111,695)	
(Decrease) in net other post-retirement liability	(264,610)	
(Increase) in deferred outflows related to other post-retirement liability	(480,280)	
Increase in deferred inflows related to other post-retirement liability	925,703	
(Decrease) in deferred inflows related to pensions	(220,232)	
Net cash provided by operating activities	<u>\$ 4,902,412</u>	

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

# **COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**

## **NOTES TO FINANCIAL STATEMENTS**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### **Introduction**

The Cookeville Water Quality Control Department (the "Water Department") is a proprietary fund of the City of Cookeville, Tennessee (the "City") established to provide water and sewer services for residents of the City of Cookeville and other outlying areas. The Water Department purchases water at a base rate from the U.S. Army Corps of Engineers located at Center Hill Lake. These financial statements represent only the Water Department and are not intended to present the financial position of the City of Cookeville, Tennessee.

#### **Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The Water Department's financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The accounting policies of the Water Department conform to applicable accounting principles generally accepted in the United States of America as defined by the *Governmental Accounting Standards Board (GASB)*.

Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the enterprise fund's principal ongoing operations. The principal operating revenues of the Water Department are charges to customers for sales and services. Operating expenses for the enterprise fund includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## **Pensions**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of City of Cookeville, Tennessee's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from City of Cookeville, Tennessee's fiduciary net position have been determined on the same basis as they are reported by the TCRS for the Public Employee Retirement Plan. For this purpose, benefits (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

### *Plan description*

Employees of City of Cookeville, Tennessee are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan administered by the TCRS. The TCRS was created by state statute under Tennessee Code Annotated Title 8, Chapters 34-37. The TCRS Board of Trustees is responsible for the proper operation and administration of the TCRS. The Tennessee Treasury Department, an agency in the legislative branch of state government, administers the plans of the TCRS. The TCRS issues a publicly available financial report that can be obtained at [www.treasury.tn.gov/tcrs](http://www.treasury.tn.gov/tcrs). Full disclosure regarding the pension plan can be found in the notes to the financial statements of City of Cookeville, Tennessee.

## **Impact of Recently Issued Accounting Pronouncements**

In June 2015, the GASB issued Statement No. 75 - *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for financial statements for periods beginning after June 15, 2017. The primary objective of this statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). This statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The scope of this statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local government employers. This statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and

expense/expenditures. For defined benefit OPEB, this statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB are also addressed. The Water Department implemented this standard in fiscal year 2018. Full disclosure regarding OPEB can be found in the notes to the financial statements of City of Cookeville, Tennessee.

### **Inventory**

Inventory is stated at lower of average cost or market.

### **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 \$22,000 for the year ended June 30, 2019.

### **Net Position**

Net position is classified in the following categories:

*Net Investment in Capital Assets* – This category groups all capital assets into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category.

*Restricted* – This category presents restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

*Unrestricted* – This category represents the net assets of the proprietary fund, which are not restricted for any project or other purpose.

The Water Department's policy is to use funds in order of the most restrictive to the least restrictive.

### **Water Quality Control Plant in Service**

The Water Quality Control plant in service is stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets. Estimated useful lives, in years, for depreciable assets are as follows:

Buildings	5-40
Water and Sewer Plant	5-40
Equipment	5-40
Office Furniture and Fixtures	5-10

Water storage rights are recorded at historical cost and will be amortized over 30 years using the straight-line method.

### **Unbilled Revenue**

It is the practice of the Water Department to record revenue on the basis of water 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 \$1,282,000 in 2019.

### **Cash and Cash Equivalents**

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

### **Temporary Cash Investments**

The City considers deposits with the State of Tennessee Local Government Investment Pool to be temporary cash investments.

### **Use of Estimates**

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

### **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.

### **Date of Management's Review**

Subsequent events were evaluated through December 31, 2019, 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 and cash equivalents on the statement of net position include cash on hand or on deposit with original maturities of less than 90 days 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 place 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.

**NOTE 3 - WATER QUALITY CONTROL PLANT IN SERVICE:**

At June 30, 2019, water quality control plant in service was comprised of:

	Capital Assets Not Depreciated		Capital Assets Depreciated				Totals
	Land & Land Rights	Construction In Progress	Buildings	Water & Sewer Plant	Equipment	Office Furniture & Fixtures	
Balance, July 1, 2018	\$ 1,701,716	\$ 268,357	\$ 2,001,724	\$ 110,122,463	\$ 10,214,444	\$ 213,806	\$ 124,522,510
Increase	-	4,373,561	-	1,799,851	345,184	-	6,518,596
Decrease, reclassification	-	(6,175)	-	6,175	(260,739)	-	(260,739)
Balance, June 30, 2019	<u>\$ 1,701,716</u>	<u>\$ 4,635,743</u>	<u>\$ 2,001,724</u>	<u>\$ 111,928,489</u>	<u>\$ 10,298,889</u>	<u>\$ 213,806</u>	<u>\$ 130,780,367</u>

Depreciation expense for the fiscal year ended June 30, 2019, was \$3,666,802.

The Water Quality Control Department has remaining contractual commitments of approximately \$2,264,034 at June 30, 2019 for construction projects that are uncompleted.

**NOTE 4 - LONG TERM DEBT:**

Long-term debt at June 30, 2019, was as follows:

	<b>Balance July 1, 2018</b>	<b><u>Issued</u></b>	<b><u>Retired</u></b>	<b>Balance June 30, 2019</b>	<b>Due Within One Year</b>
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$10,500,000 payable annually beginning in 2005 through 2020, with a variable rate of interest.	\$ 1,566,000	\$ -	\$ 764,000	\$ 802,000	\$ 802,000
Revolving loan payable to State of Tennessee, interest rate 2.50%, monthly interest until project completion. Principal and interest for a term of 20 years, thereafter.	<u>1,433,708</u>	<u>-</u>	<u>97,440</u>	<u>1,336,268</u>	<u>99,900</u>
	<u>\$ 2,999,708</u>	<u>\$ -</u>	<u>\$ 861,440</u>	<u>\$ 2,138,268</u>	<u>\$ 901,900</u>

Annual maturities of long-term debt, 2020 through 2031:

	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
2020	\$ 901,900	\$ 46,544	\$ 948,444
2021	102,432	29,736	132,168
2022	105,024	27,144	132,168
2023	107,676	24,492	132,168
2024	110,400	21,768	132,168
2025-2029	595,284	65,556	660,840
2030-2031	<u>215,552</u>	<u>4,645</u>	<u>220,197</u>
	<u>\$ 2,138,268</u>	<u>\$ 219,885</u>	<u>\$ 2,358,153</u>

Various assets and revenues of the Water Quality Control Department are pledged to secure the above indebtedness. The Bond Fund has a variable rate of interest, so the interest paid will differ from the projected amount. The current interest rate at June 30, 2019 is 1.78%.

**NOTE 5 - WATER STORAGE RIGHTS PAYABLE:**

The Water 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 of \$144,295 which includes interest based on an adjusted interest rate of 2.875 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, 2020 through 2033:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 97,032	\$ 47,263	\$ 144,295
2021	99,822	44,473	144,295
2022	102,691	41,604	144,295
2023	105,644	38,651	144,295
2024	108,681	35,614	144,295
2025-2029	592,110	129,365	721,475
2030-2033	<u>537,956</u>	<u>39,213</u>	<u>577,169</u>
	<u>\$ 1,643,936</u>	<u>\$ 376,183</u>	<u>\$ 2,020,119</u>

**NOTE 6 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB):**

The City adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, prospectively for the year ended June 30, 2018.

***General Information about the OPEB Plan***

*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.

*Benefits provided.* Employees are eligible for these retirement benefits at age 55 with a minimum of 5 years of service. 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. 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.

Effective July 1, 2017, new employees hired on or after July 1, 2017 will be covered under the plan up to age 65. Once the employee becomes Medicare eligible, he or she is no longer eligible for medical coverage through the City of Cookeville. In addition, effective January 1, 2017, a new High Premium High Deductible (HPHD) plan was added.

This plan is funded on a pay-as-you-go basis and there are no assets accumulating in a trust that meets the criteria of paragraph 4 of GASB Statement No. 75.

*Actuarial assumptions and other inputs.* The total OPEB liability in the July 1, 2018 actuarial valuation was determined using the entry age normal actuarial cost method and the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Discount rate	2.79% per annum
Salary increases	4.50% per annum
Healthcare cost trend rates	Medical: 7.5% to grade uniformly to 6.5% over a 3 year period

The actuarial demographic assumptions used in the June 30, 2019 valuation were developed from results of an actuarial experience study of plan data as of July 1, 2018 with concurrence by the actuary. The demographic assumptions were adjusted to more closely reflect actual and expected future experience. Mortality tables are used to measure the probabilities of participants dying before and after retirement. Actual disability and withdrawal rate experiences were used to develop the number to become disabled or those to withdraw from the plan before reaching full retirement age. Actual plan retirement rates and plan participation rates of employees and eligible dependents were also used in the valuation.

*Discount rate.* The discount rate used to measure the total OPEB liability was 2.79 percent. This rate reflects the interest rate derived from yields on the S&P Municipal Bond 20-Year-High Grade Index as of June 30, 2019

*Net OPEB liability.* The Water Quality Control Department's net OPEB liability of \$3,039,671 was measured as of July 1, 2018, and was determined by an actuarial valuation as of that date.

**Postemployment Benefits Other Than Pensions  
July 1, 2018 (Measurement Date)**

Schedule of changes in net OPEB liability

	Increase (Decrease)		
	Total OPEB Liability <u>(a)</u>	Plan Net Position <u>(b)</u>	Net OPEB Liability <u>(a) - (b)</u>
<b>Balances--at 06/30/2018</b>	<u>\$ 3,294,522</u>	<u>\$ -</u>	<u>\$ 3,294,522</u>
<b>Changes for the Year:</b>			
Service cost	205,590	-	205,590
Interest	97,396	-	97,396
Benefit changes	(50,731)	-	(50,731)
Experience (gains) losses	(1,057,946)	-	(1,057,946)
Changes of assumptions	560,044	-	560,044
Contributions--Employer	-	9,204	(9,204)
Contributions--members	-	-	-
Benefits paid	(9,204)	(9,204)	-
Administrative expenses	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net Changes</b>	<u>(254,851)</u>	<u>-</u>	<u>(254,851)</u>
<b>Balances--at 06/30/2019</b>	<u>\$ 3,039,671</u>	<u>\$ -</u>	<u>\$ 3,039,671</u>

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB*

*OPEB expense*

For the fiscal year ended June 30, 2019, the Water Quality Control Department recognized OPEB expense of \$190,017.

<b>OPEB Expense</b>	Fiscal Year Ending <u>June 30, 2019</u>
Service cost	\$ 205,590
Interest	97,396
Benefit changes	(50,731)
Contributions--members	-
Expected investment return	-
Recognition of Deferred Inflows/Outflows of Resources	
Recognition of economic/demographic gains or losses	-
Recognition of investment (gains) or losses	(132,243)
Recognition of assumption changes or inputs	70,005
Plan administrative expenses	-
OPEB Expense	<u>\$ 190,017</u>

*Deferred outflows/inflows of resources*

At June 30, 2019, the Water Quality Control Department reported deferred outflows of resources and deferred inflows of resources related to benefits from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Remaining Amort. Period</u>
Experience (losses) gains - June 30, 2019	\$ -	\$ 925,703	7
Asset losses (gains)	-	-	
Changes of assumptions	<u>490,039</u>	<u>-</u>	
<b>Total</b>	<u>\$ 490,039</u>	<u>\$ 925,703</u>	

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB as of June 30, 2019 will be recognized in OPEB expense as follows:

2020	\$ (62,237)
2021	(62,237)
2022	(62,237)
2023	(62,237)
2024	(62,237)
Thereafter	(124,474)

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
<b>Balances--at 06/30/2018</b>	\$ -	\$ -
Changes for the Year:		
Contribution (prior year expected)	-	-
Payments subsequent to the measurement date	-	-
Changes in assumptions	490,039	
Experience (losses) gains	-	925,703
Asset losses (gains)	-	-
Amortization of gains/losses	-	-
Net Changes	<u>490,039</u>	<u>925,703</u>
<b>Balances--at 06/30/2019 *</b>	<u>\$ 490,039</u>	<u>\$ 925,703</u>

\* Deferred OPEB Outflows includes deferred losses of \$0.

The amounts shown above for "payments subsequent to the measurement date" will be recognized as a reduction to the total OPEB liability in the following measurement period. There are no amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB paid by the plan that will be recognized in OPEB expense as of June 30, 2019 and beyond.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

**COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Changes in the Net Pension Liability and Related Ratios**

for fiscal year ending June 30,

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total Pension Liability</b>					
Service cost	\$ 224,326	\$ 213,095	\$ 197,964	\$ 205,720	\$ 200,809
Interest	1,233,532	1,157,708	1,040,244	1,047,342	981,116
Differences between expected and actual experience	118,718	30,999	(63,138)	(86,878)	(7,700)
Changes of assumptions	-	337,544	-	-	-
Benefit Payments, including refunds of employee contributions	<u>(813,246)</u>	<u>(715,735)</u>	<u>(639,502)</u>	<u>(557,316)</u>	<u>(529,518)</u>
<b>Net Change in Total Pension Liability (Asset)</b>	763,330	1,023,611	535,568	608,868	644,707
<b>Total Pension Liability (Asset) - beginning</b>	<u>15,958,245</u>	<u>14,934,634</u>	<u>14,399,066</u>	<u>13,790,198</u>	<u>13,145,491</u>
<b>Total Pension Liability (Asset) - ending (a)</b>	<u>\$ 16,721,575</u>	<u>\$ 15,958,245</u>	<u>\$ 14,934,634</u>	<u>\$ 14,399,066</u>	<u>\$ 13,790,198</u>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 477,712	\$ 417,641	\$ 375,677	\$ 377,242	\$ 343,052
Contributions - employee	3,776	1,562	6,508	7,829	2,607
Net investment income	1,211,964	1,466,773	328,460	399,203	1,815,371
Benefit Payments, including refunds of employee contributions	(813,246)	(715,735)	(639,502)	(557,316)	(529,518)
Administrative expenses	<u>(5,181)</u>	<u>(4,251)</u>	<u>(3,614)</u>	<u>(2,549)</u>	<u>(2,375)</u>
<b>Net Change in Plan Fiduciary Net Position</b>	875,025	1,165,990	67,529	224,409	1,629,137
<b>Plan Fiduciary Net Position - beginning</b>	<u>14,156,459</u>	<u>12,990,469</u>	<u>12,922,940</u>	<u>12,698,531</u>	<u>11,069,394</u>
<b>Plan Fiduciary Net Position - ending (b)</b>	<u>\$ 15,031,484</u>	<u>\$ 14,156,459</u>	<u>\$ 12,990,469</u>	<u>\$ 12,922,940</u>	<u>\$ 12,698,531</u>
<b>Net Pension Liability (Asset) - ending (a) - (b)</b>	<u>\$ 1,690,091</u>	<u>\$ 1,801,786</u>	<u>\$ 1,944,165</u>	<u>\$ 1,476,126</u>	<u>\$ 1,091,667</u>
<b>Plan Fiduciary Net Position as a % of the Total Pension Liability</b>	89.89%	88.71%	86.98%	89.75%	92.08%
<b>Covered-employee payroll</b>	\$ 2,427,427	\$ 2,302,023	\$ 2,181,867	\$ 2,351,881	\$ 2,137,396
<b>Net Pension Liability (Asset) as a % of covered-employee payroll</b>	69.62%	78.27%	89.11%	62.76%	51.07%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available.

**COOKEVILLE WATER QUALITY CONTROL DEPARTMENT**

**REQUIRED SUPPLEMENTARY INFORMATION**

**Schedule of Changes in Net OPEB Liability and Related Ratios  
for fiscal year ending June 30,**

	<b><u>2018</u></b>	<b><u>2017</u></b>
<b>Total OPEB Liability</b>		
Service cost	\$ 205,590	\$ 244,124
Interest	97,396	112,207
Benefit payment / refunds	(59,935)	(9,759)
Experience losses (gains)	(1,057,946)	-
Changes in assumptions	<u>560,044</u>	<u>-</u>
<b>Net change in total OPEB liability</b>	(254,851)	346,572
<b>Total OPEB liability - beginning</b>	<u>3,294,522</u>	<u>2,947,950</u>
<b>Total OPEB liability - ending</b>	<b><u>\$ 3,039,671</u></b>	<b><u>\$ 3,294,522</u></b>
 <b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ -	\$ -
Benefit payments / refunds	<u>-</u>	<u>-</u>
<b>Net change in plan fiduciary net position</b>	-	-
<b>Plan fiduciary net position - beginning</b>	<u>-</u>	<u>-</u>
<b>Plan fiduciary net position - ending</b>	<b><u>\$ -</u></b>	<b><u>\$ -</u></b>
 <b>Net OPEB Liability - ending</b>	<b>\$ 3,039,671</b>	<b>\$ 3,294,522</b>
 <b>Plan Fiduciary Net Position as a % of the Total OPEB Liability</b>	0.00%	0.00%
 <b>Covered-employee payroll</b>	\$ 1,246,769	\$ 1,252,941
 <b>Net OPEB Liability as a % of covered- employee payroll</b>	243.80%	262.94%

This is a 10-year schedule; however, the information in this schedule is not required to be presented retroactively. Years will be added to this schedule in future fiscal years until 10 years of information is available. There are no assets accumulating in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**INDEPENDENT AUDITOR'S 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, in accordance with the 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, the financial statements of the business-type activities of the Cookeville Water Quality Control Department of City of Cookeville, Tennessee, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Cookeville Water Quality Control Department of City of Cookeville, Tennessee's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 31, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Cookeville Water Quality Control Department of City of Cookeville, Tennessee's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Cookeville Water Quality Control Department of City of Cookeville, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Cookeville Water Quality Control Department of City of Cookeville, Tennessee's internal control.

*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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matter**

As part of obtaining reasonable assurance about whether the Cookeville Water Quality Control Department of City of Cookeville, Tennessee's financial statements are free from 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*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Duncan, Wheeler & Wilkerson, P.C.*

December 31, 2019  
Cookeville, Tennessee