

---

---

**COOKEVILLE ELECTRIC  
DEPARTMENT**

**Year Ended  
June 30, 2019**

---

---

**DW&W**

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

---

**COOKEVILLE ELECTRIC DEPARTMENT**

**FINANCIAL STATEMENTS**

**June 30, 2019**

**Table of Contents**

	<u>Page</u>
Independent Auditor's Report.....	1
Statement of Net Position.....	4
Statement of Revenues, Expenses, and Changes in Fund Net Position.....	6
Statement of Cash Flows.....	7
Notes to Financial Statements.....	8
<i>Required Supplementary Information</i>	
Schedule of Changes in Net Pension Liability and Related Ratios Based on Participation in the Public Employee Pension Plan of TCRS.....	19
Schedule of Changes in Net Other Post-Employment Benefits Other than Pensions Liability and Related Ratios.....	20
<i>Other Information</i>	
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 <i>Government Auditing Standards</i> .....	21



## **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 Electric 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 Electric 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 Electric 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 19 and 20 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 Electric 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 Electric 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 ELECTRIC DEPARTMENT**

**STATEMENT OF NET POSITION**

**June 30, 2019**

**Assets and Deferred Outflows of Resources**

Current assets:	
Cash and cash equivalents	\$ 8,305,032
Sinking fund cash	801,991
Temporary cash investments	2,647,992
Accounts receivable, net of allowance	6,951,268
Inventory of material and supplies	960,026
Prepaid expenses and other current assets	223,140
Total current assets	<u>19,889,449</u>
Noncurrent assets:	
Electric plant in service	71,608,124
Less: Accumulated depreciation	<u>(25,650,784)</u>
	45,957,340
TVA heat pump notes receivable	401,022
Other assets	22,353
Total noncurrent assets	<u>46,380,715</u>
Deferred outflows of resources:	
Pension outflow	1,148,701
OPEB outflow	<u>577,459</u>
Total deferred outflows of resources	<u>1,726,160</u>
Total assets and deferred outflows of resources	<u>\$ 67,996,324</u>

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

**COOKEVILLE ELECTRIC DEPARTMENT**

**STATEMENT OF NET POSITION**

**June 30, 2019**

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

Current liabilities:	
Accounts payable	\$ 4,208,452
Due to other funds	133,260
Current portion of long-term debt	713,000
Accrued expenses	14,816
Other current liabilities	<u>11,302</u>
Total current liabilities	<u>5,080,830</u>
Noncurrent liabilities:	
Compensated absences	192,967
Net other post-retirement liability	3,172,988
TVA heat pump notes payable	403,871
Other non-current liabilities	392,949
Net pension liability	1,911,468
Long-term debt, less current portion	<u>4,100,000</u>
Total noncurrent liabilities	<u>10,174,243</u>
Deferred inflows of resources:	
OPEB deferred inflows - experience	687,932
Pension deferred inflows - experience	47,760
Pension deferred inflows - net investments	<u>475,350</u>
Total deferred inflows of resources	<u>1,211,042</u>
Total liabilities and deferred inflows of resources	<u>16,466,115</u>
Net position:	
Net investment in capital assets	41,144,340
Unrestricted	<u>10,385,869</u>
Total net position	<u>51,530,209</u>
Total liabilities, deferred inflows, and net position	<u>\$ 67,996,324</u>

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

**COOKEVILLE ELECTRIC DEPARTMENT**

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

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

Operating revenues:	
Sale of electricity	\$ 54,030,958
Other operating revenue	1,087,568
Total operating revenues	<u>55,118,526</u>
Operating expenses:	
Purchased power	43,890,969
Operating expenses	3,086,649
Maintenance expenses	1,268,013
Depreciation and amortization	3,049,289
Administrative and general expenses	1,426,042
Facilities rental	
Total operating expenses	<u>52,720,962</u>
Operating income	<u>2,397,564</u>
Nonoperating revenues (expenses):	
Interest revenue	289,504
Interest expense	<u>(97,577)</u>
Total nonoperating revenues (expenses)	<u>191,927</u>
Interfund transfers (out)	<u>(1,139,232)</u>
Change in net position	<u>1,450,259</u>
Total net position, July 1, 2018, as previously reported	49,892,251
Prior Period Adjustment	187,699
Total net position, July 1, 2018, as restated	<u>50,079,950</u>
Total net position, June 30, 2019	<u>\$ 51,530,209</u>

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

## COOKEVILLE ELECTRIC DEPARTMENT

### STATEMENT OF CASH FLOWS

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

Cash flows from operating activities:	
Cash receipts from customers	\$ 53,748,051
Cash receipts from customer service charges	565,791
Other operating cash receipts	587,861
Cash payments to suppliers of goods and services	(44,337,737)
Cash payments to employees for services	(2,655,955)
Cash payments for interfund services used	(452,001)
Cash payments for maintenance expenses	(1,268,013)
Other operating cash payments	(1,057,502)
Net cash provided by operating activities	<u>5,130,495</u>
Cash flows from noncapital financing activities:	
Interfund transfers (out)	(1,139,232)
Net cash (used in) noncapital financing activities	<u>(1,139,232)</u>
Cash flows from capital and related financing activities:	
Reduction of long-term debt	(686,000)
Cash payment for interest	(98,015)
Acquisition and construction of capital assets	(4,018,828)
Other capital asset adjustments	(80,303)
Net cash (used in) capital and related financing activities	<u>(4,883,146)</u>
Cash flows from investing activities:	
Decrease in temporary cash investments	(79,381)
Cash receipts from interest	289,504
Net cash provided by investing activities	<u>210,123</u>
Net decrease in cash and cash equivalents	(681,760)
Cash and cash equivalents, July 1, 2018	9,788,783
Cash and cash equivalents, June 30, 2019	<u>\$ 9,107,023</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 2,397,564
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	3,049,289
(Increase) in accounts receivable	(173,191)
Decrease in other receivables	89,884
Decrease in due from other funds	3,161
Decrease in inventory of materials and supplies	91,232
Decrease in prepaid expenses and other current assets	51,348
Decrease in other assets	4,179
Decrease in deferred outflows related to pensions	295,503
(Increase) in deferred outflows related to other post-retirement liability	(577,459)
(Decrease) in accounts payable	(535,864)
Increase in due to other funds	12,085
(Decrease) in TVA notes payable	(85,392)
Increase in other non-current liabilities	14,246
Increase in compensated absences	16,486
(Decrease) in deferred inflows related to pensions	(218,292)
Increase in deferred inflows related to other post-retirement liability	687,932
Increase in net other post-retirement liability	118,691
(Decrease) in net pension liability	(110,907)
Net cash provided by operating activities	<u>\$ 5,130,495</u>

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

## **COOKEVILLE ELECTRIC DEPARTMENT**

### **NOTES TO FINANCIAL STATEMENTS**

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

##### **Introduction**

The Cookeville Electric Department (the "Electric Department") is a proprietary fund of the City of Cookeville, Tennessee (the "City") established to provide electric service for residents of the City of Cookeville and other outlying areas. These financial statements represent only the Electric 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 Electric 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 Electric 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 Electric 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 Electric 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 the 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 \$92,000 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 Electric Department's policy is to use funds in order of the most restrictive to the least restrictive.

### **Electric Plant in Service**

Electric plant in service is stated at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of the assets. Electric plant acquisition adjustments, which represent the excess of the cost of annexations over the book value of equipment received, are amortized over a ten-year period from the date the Electric Department begins to service the annexed customer. Estimated useful lives, in annual percentages, for depreciable assets are as follows:

Distribution Plant	3%-6%
Machinery and Equipment	3%-8%
Structures and Improvements	2%
Office Furniture and Equipment	4%-10%

### **Unbilled Revenue**

It is the practice of the Electric Department to record revenue on the basis of meter readings. Unbilled revenue, representing electricity usage from the date of the last meter reading to June 30 was recognized in the amount of approximately \$2,700,000 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 - CONCENTRATION OF SUPPLIER:**

The Electric Department obtains all power from one supplier. The Tennessee Valley Authority charges a fee to the Electric Department for use of the power lines that transfer power from the TVA to the Electric Department. A contract between the TVA and the Electric Department has been in effect since 1984.

**NOTE 4 - ELECTRIC PLANT IN SERVICE:**

At June 30, 2019, electric plant in service was comprised of:

	Capital Assets Not Depreciated		Capital Assets Depreciated				Electric Plant Acquisition Adjustment	Totals
	Land & Land Rights	Construction In Progress	Distribution Plant	Machinery & Equipment	Structures & Improvements	Office Furniture & Equipment		
Balance, July 1, 2018	\$ 755,994	\$ 970,538	\$ 53,884,584	\$ 3,422,077	\$ 1,772,925	\$ 455,307	\$ 7,698,603	\$ 68,960,028
Increases	-	271,700	3,610,370	286,349	4,792	16,415	152,178	4,341,804
Decreases	-	-	(723,746)	(208,776)	-	(4,407)	-	(936,929)
Annexation	-	-	-	-	-	-	-	-
Amortization	-	-	-	-	-	-	(756,779)	(756,779)
Balance, June 30, 2019	<u>\$ 755,994</u>	<u>\$ 1,242,238</u>	<u>\$ 56,771,208</u>	<u>\$ 3,499,650</u>	<u>\$ 1,777,717</u>	<u>\$ 467,315</u>	<u>\$ 7,094,002</u>	<u>\$ 71,608,124</u>

Electric plant acquisition adjustment is shown net of amortization in the amount of \$11,223,816.

Depreciation expense for the fiscal year ended June 30, 2019 was \$2,292,510.

**NOTE 5 - LONG-TERM DEBT:**

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

	Balance July 1, 2018	Issued	Retired	Balance June 30, 2019	Due Within One Year
Note payable to Tennessee Municipal Bond Fund, maximum borrowing of \$6,000,000, payable annually through 2024 with a variable rate of interest	\$ 2,934,000	\$ -	\$ 431,000	\$ 2,503,000	\$ 453,000
1.0% to 3.0% System Revenue and Tax Bond, issued February 15, 2012, payable annually in varying amounts plus semi-annual interest payments through 2027	<u>2,565,000</u>	<u>-</u>	<u>255,000</u>	<u>2,310,000</u>	<u>260,000</u>
Total	<u>\$ 5,499,000</u>	<u>\$ -</u>	<u>\$ 686,000</u>	<u>\$ 4,813,000</u>	<u>\$ 713,000</u>

Annual maturities of long-term debt, 2020 through 2027:

	Principal	Interest	Total
2020	\$ 713,000	\$ 99,845	\$ 812,845
2021	746,000	83,153	829,153
2022	774,000	65,790	839,790
2023	809,000	49,186	858,186
2024	841,000	33,321	874,321
2024-2027	<u>930,000</u>	<u>80,068</u>	<u>1,010,068</u>
	<u>\$ 4,813,000</u>	<u>\$ 411,363</u>	<u>\$ 5,224,363</u>

Various assets and revenues of the Electric 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 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 Electric Department's net OPEB liability of \$3,172,988 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>\$ 3,051,648</u>	<u>\$ -</u>	<u>\$ 3,051,648</u>
<b>Changes for the Year:</b>			
Service cost	159,943	-	159,943
Interest	89,598	-	89,598
Benefit changes	(1,758)	-	(1,758)
Difference between expected and actual experience	(786,208)	-	(786,208)
Changes of assumptions	659,953	-	659,953
Contributions--Employer	-	(188)	(188)
Contributions--members	-	-	-
Benefits paid	(188)	188	-
Administrative expenses	-	-	-
<b>Net Changes</b>	<u>121,340</u>	<u>-</u>	<u>121,340</u>
<b>Balances--at 06/30/2019</b>	<u>\$ 3,172,988</u>	<u>\$ -</u>	<u>\$ 3,172,988</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 Electric Department recognized OPEB expense of \$232,001.

**OPEB Expense**

	Fiscal Year Ending <u>June 30, 2019</u>
Service cost	\$ 159,943
Interest	89,598
Benefit changes	(1,758)
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	(98,276)
Recognition of assumption changes or inputs	82,494
Plan administrative expenses	-
OPEB Expense	<u>\$ 232,001</u>

*Deferred outflows/inflows of resources*

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

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>	<b><u>Remaining Amort. Period</u></b>
Experience (losses) gains			
- June 30, 2019	\$ -	\$ 687,932	7
subtotal	-	-	
Asset losses (gains)	-	-	
Changes of assumptions	<u>577,459</u>	-	
<b>Total</b>	<u>\$ 577,459</u>	<u>\$ 687,932</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:

Year ended June 30:	
2020	\$ (15,782)
2021	(15,782)
2022	(15,782)
2023	(15,782)
2024	(15,782)
Thereafter	(31,564)

**Schedule of changes in deferred outflows/inflows**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
<b>Balances--at 06/30/2018</b>	\$ -	\$ -
Changes for the Year:		
Contribution (prior year expected)	-	-
Payments subsequent to the measurement date	-	-
Changes in assumptions	577,459	-
Experience (losses) gains	-	687,932
Asset losses (gains)	-	-
Amortization of gains/losses	-	-
Net Changes	<u>577,459</u>	<u>687,932</u>
<b>Balances--at 06/30/2019 *</b>	<u>\$ 577,459</u>	<u>\$ 687,932</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.

**NOTE 7 – PRIOR PERIOD ADJUSTMENT:**

In a prior period, the Electric Department acquired some existing equipment from a supplier in service in our distribution system. Management provided an adjustment to reflect that acquisition retrospectively as of June 30, 2019.

REQUIRED  
SUPPLEMENTARY  
INFORMATION

**COOKEVILLE ELECTRIC 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	\$ 222,350	\$ 228,644	\$ 210,560	\$ 228,813	\$ 227,391
Interest	1,222,668	1,242,184	1,106,433	1,164,912	1,110,990
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	117,672	33,260	(67,155)	(96,631)	(8,719)
Changes of assumptions	-	362,174	-	-	-
Benefit Payments, including refunds of employee contributions	<u>(806,084)</u>	<u>(767,961)</u>	<u>(680,192)</u>	<u>(619,877)</u>	<u>(599,613)</u>
<b>Net Change in Total Pension Liability (Asset)</b>	756,606	1,098,301	569,646	677,217	730,049
<b>Total Pension Liability (Asset) - beginning</b>	<u>17,960,833</u>	<u>16,862,532</u>	<u>16,292,886</u>	<u>15,615,669</u>	<u>14,885,620</u>
<b>Total Pension Liability (Asset) - ending (a)</b>	<u>\$ 18,717,439</u>	<u>\$ 17,960,833</u>	<u>\$ 16,862,532</u>	<u>\$ 16,292,886</u>	<u>\$ 15,615,669</u>
<b>Plan Fiduciary Net Position</b>					
Contributions - employer	\$ 473,505	\$ 448,122	\$ 399,581	\$ 419,589	\$ 388,463
Contributions - employee	3,742	1,677	6,922	8,707	2,952
Net investment income	1,201,291	1,573,801	340,162	439,813	2,055,680
Benefit Payments, including refunds of employee contributions	(806,084)	(767,961)	(680,192)	(619,877)	(599,613)
Administrative expenses	(4,941)	(4,700)	(3,844)	(2,835)	(2,689)
Other	-	-	-	-	-
<b>Net Change in Plan Fiduciary Net Position</b>	867,513	1,250,939	62,629	245,397	1,844,793
<b>Plan Fiduciary Net Position - beginning</b>	<u>15,938,458</u>	<u>14,687,519</u>	<u>14,624,890</u>	<u>14,379,493</u>	<u>12,534,700</u>
<b>Plan Fiduciary Net Position - ending (b)</b>	<u>\$ 16,805,971</u>	<u>\$ 15,938,458</u>	<u>\$ 14,687,519</u>	<u>\$ 14,624,890</u>	<u>\$ 14,379,493</u>
<b>Net Pension Liability (Asset) - ending (a) - (b)</b>	<u>\$ 1,911,468</u>	<u>\$ 2,022,375</u>	<u>\$ 2,175,013</u>	<u>\$ 1,667,996</u>	<u>\$ 1,236,176</u>
<b>Plan Fiduciary Net Position as a % of the Total Pension Liability</b>	89.79%	88.74%	87.10%	89.76%	92.08%
<b>Covered-employee payroll</b>	\$ 2,406,049	\$ 2,469,280	\$ 2,320,696	\$ 2,615,892	\$ 2,420,333
<b>Net Pension Liability (Asset) as a % of covered-employee payroll</b>	79.44%	81.90%	93.72%	63.76%	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 ELECTRIC DEPARTMENT**  
**REQUIRED SUPPLEMENTARY INFORMATION**

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

	<u>2018</u>	<u>2017</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 159,943	\$ 161,331
Interest	89,598	101,653
Benefit payment / refunds	(1,946)	(2,648)
Experience losses (gains)	(786,208)	-
Changes in assumptions	659,953	-
	<hr/>	<hr/>
<b>Net change in total OPEB liability</b>	121,340	260,336
<b>Total OPEB liability - beginning</b>	3,051,648	2,791,312
	<hr/>	<hr/>
<b>Total OPEB liability - ending</b>	<u>\$ 3,172,988</u>	<u>\$ 3,051,648</u>
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	\$ -	\$ -
Benefit payments / refunds	-	-
	<hr/>	<hr/>
<b>Net change in plan fiduciary net position</b>	-	-
<b>Plan fiduciary net position - beginning</b>	-	-
	<hr/>	<hr/>
<b>Plan fiduciary net position - ending</b>	<u>\$ -</u>	<u>\$ -</u>
<b>Net OPEB Liability - ending</b>	\$ 3,172,988	\$ 3,051,648
<b>Plan Fiduciary Net Position as a % of the Total OPEB Liability</b>	0.00%	0.00%
<b>Covered-employee payroll</b>	\$ 1,301,450	\$ 1,160,573

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 Electric 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 Electric 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 Electric 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 Electric Department of City of Cookeville, Tennessee's internal control. Accordingly, we do not express an opinion on the effectiveness of the Electric 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 Electric 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