
CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

Year Ended

June 30, 2016

DW&W

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

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CITY OF COOKEVILLE, TENNESSEE

FINANCIAL STATEMENTS

June 30, 2016

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INTRODUCTORY SECTION

CITY OF COOKEVILLE, TENNESSEE

OFFICIALS OF THE CITY OF COOKEVILLE, TENNESSEE

June 30, 2016

| <u>Name</u> | <u>Title</u> |
|---------------------------|------------------|
| Elected Officials: | |
| Ricky Shelton | Mayor |
| Larry Epps | Vice - Mayor |
| Dwight Henry | City Council |
| Charles Womack | City Council |
| Jim Woodford | City Council |
| Management: | |
| Mike Davidson | City Manager |
| Brenda Imel | Finance Director |

FINANCIAL SECTION



Independent Auditor's Report

To the City Council of
The City of Cookeville, Tennessee

Report on the Financial Statements

We have audited the accompanying financial statements 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 (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's 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 opinions on these financial statements based on our audit. We did not audit the financial statements of Cookeville Regional Medical Center Authority whose statements reflect total assets and deferred outflows of resources of \$289,933,525 and total revenues of \$284,561,336. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Cookeville Regional Medical Center Authority, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, 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, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents on pages V through XIX and pages 70 through 72 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 and other auditors 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining nonmajor and individual fund financial statements and

the remaining information listed in the supplementary section in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards and state financial assistance is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is also not a required part of the basic financial statements.

The combining nonmajor and individual fund financial statements, including the schedule of expenditures of federal awards and state financial assistance, and remaining information listed in the supplementary section of the table of contents are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor and individual fund financial statements and remaining information listed in the supplementary section of the table of contents, including the schedule of expenditures of federal awards and state financial assistance, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and miscellaneous information have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2016 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 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 the City of Cookeville, Tennessee's internal control over financial reporting and compliance.

Duncan, Wheeler : Wilkerson, P.C.

December 29, 2016
Cookeville, Tennessee

Management's Discussion and Analysis
Annual Financial Statements
For the Fiscal Year Ended June 30, 2016

As management of the City of Cookeville (City), 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, 2016. The City's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures 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 and deferred outflows of the City of Cookeville exceeded its liabilities and deferred inflows at June 30, 2016 by \$180,426,877 (net position) for the primary government. This excess includes the value of capital assets plus resources restricted to specific projects by law, regulation, or contractual agreement (\$147,068,557) and unrestricted resources available to continue City operations into the next fiscal year (\$33,358,320).
- The government's total net position increased this year by \$6,886,286. Net position of the governmental activities increased by \$1,190,147 and those of the City's business type activities (utilities) increased by \$5,696,139.
- As of June 30, 2016, the City of Cookeville's governmental funds reported combined ending fund balances of \$35,702,544, an increase of \$10,631,809 in comparison with the prior year. Approximately 48% of this total amount, \$17,135,484 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 \$14,871,395 or 60.8% of total general fund expenditures.
- The City of Cookeville's total debt increased by \$4,306,985 (12.9 percent) during the current fiscal year. The City retired (principal payments) \$5,508,015 of previously outstanding debt. New debt was issued during the year of \$9,815,000.
- As required by the Governmental Accounting Standards Board, the City has adopted GASB Statement No. 45 related to Other Post-Employment Benefits. The City provides healthcare benefits to retired employees and spouses. These benefit provisions are established by city policy. OPEB benefits are currently funded on a pay as you go basis. An actuarial study was performed to calculate the City's annual required contribution (ARC). The ARC represents a level of funding that if paid on an ongoing basis is projected to cover the normal cost each year

and to amortize any unfunded actuarial accrued liability for post-employment healthcare. The City's ARC is \$2,254,827 for governmental activities and \$522,014 for business type activities. The actuarially determined net other post-employment benefits liability at June 30, 2016 is \$14,815,486. Additional information is available on pages 41-42.

- As required by the Governmental Accounting Standards Board, the City has adopted GASB Statement No. 68 related to Pension Plans. Employees of the City are members of the Political Subdivision Pension Plan, an agent multiple-employer defined benefit pension plan administered by Tennessee Consolidated Retirement System (TCRS). The City makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. The employees make no contribution. The contribution rate for the year ended June 30, 2016 was 16.04%. The actuarially determined net pension liability at June 30, 2016 is \$12,316,930.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Cookeville's basic financial statements. The City of Cookeville's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also 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 Position and Government-wide Statement of Activities, present an overview of the City's governmental and business-type services.

The government-wide statement of net position presents information on all of the City of Cookeville's assets plus deferred outflows of resources and liabilities plus deferred inflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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 73-74 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 position may serve over time as a useful indicator of a government's financial position. For the City of Cookeville, assets plus deferred outflows exceeded liabilities plus deferred inflows by \$180,426,877 at fiscal year end June 30, 2016.

By far, the largest portion of the City of Cookeville's net position (73 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 position at June 30:

Summary of Net Position

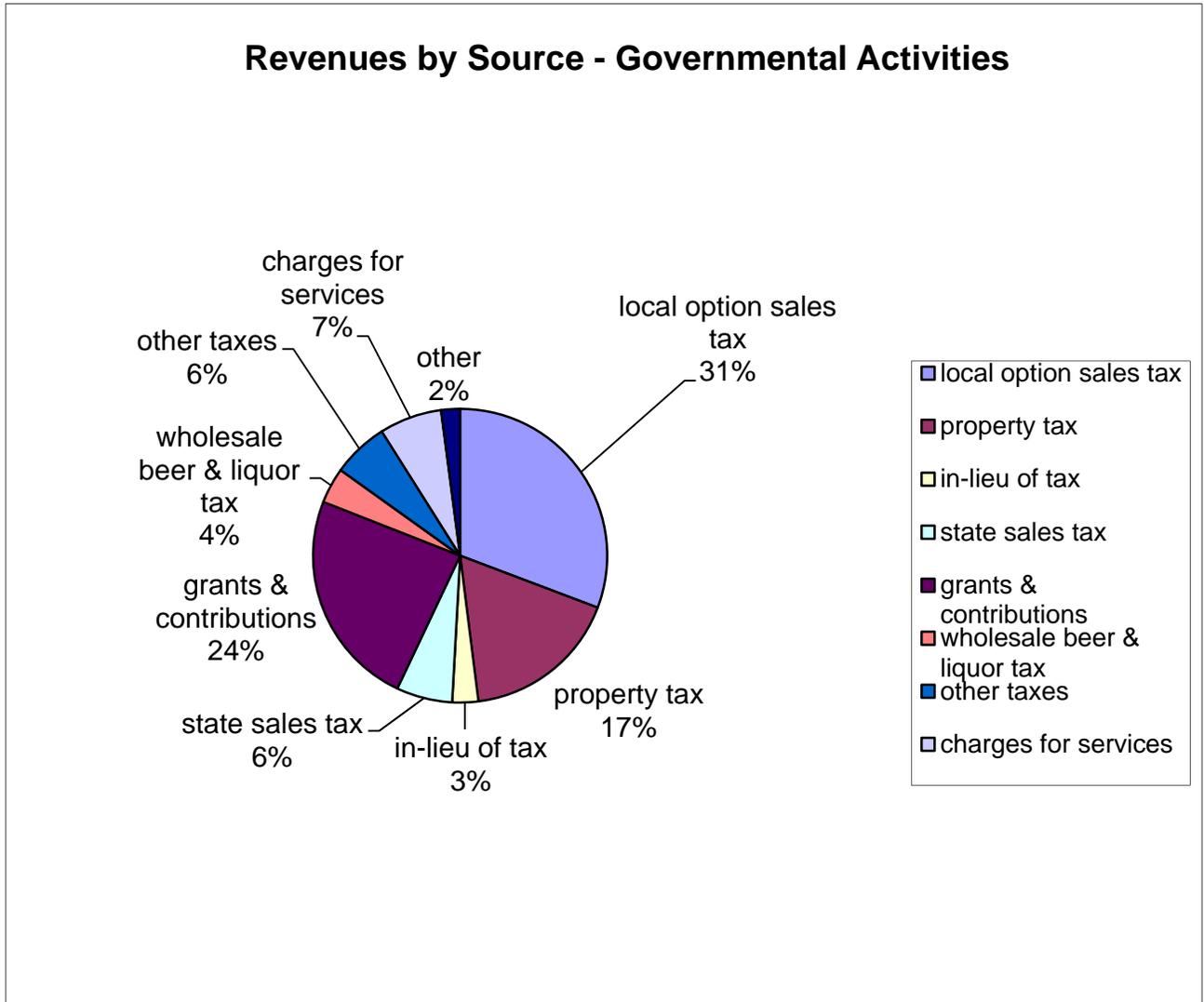
| | Governmental Activities | | Business-type Activites | | Totals | |
|------------------------------------|----------------------------|----------------------|----------------------------|-----------------------|-----------------------|-----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Current Assets | \$ 48,287,479 | \$ 38,084,705 | \$ 46,403,865 | \$ 48,500,419 | \$ 94,691,344 | \$ 86,585,124 |
| Capital Assets | 49,279,523 | 50,553,305 | 114,606,311 | 110,349,217 | 163,885,834 | 160,902,522 |
| Other Assets | <u>3,918,179</u> | <u>3,795,114</u> | <u>2,355,962</u> | <u>2,533,097</u> | <u>6,274,141</u> | <u>6,328,211</u> |
| Total Assets: | <u>101,485,181</u> | <u>92,433,124</u> | <u>163,366,138</u> | <u>161,382,733</u> | <u>264,851,319</u> | <u>253,815,857</u> |
| Deferred Outflows of Resources: | <u>4,738,599</u> | <u>2,080,776</u> | <u>2,014,457</u> | <u>923,318</u> | <u>6,753,056</u> | <u>3,004,094</u> |
| Current Liabilities | 4,985,882 | 4,949,724 | 9,225,954 | 9,767,081 | 14,211,836 | 14,716,805 |
| Long-term Debt | 21,138,666 | 13,988,334 | 11,088,619 | 14,141,735 | 32,227,285 | 28,130,069 |
| Other Liabilities | <u>21,175,089</u> | <u>17,183,297</u> | <u>10,886,635</u> | <u>9,599,590</u> | <u>32,061,724</u> | <u>26,782,887</u> |
| Total Liabilities: | <u>47,299,637</u> | <u>36,121,355</u> | <u>31,201,208</u> | <u>33,508,406</u> | <u>78,500,845</u> | <u>69,629,761</u> |
| Deferred Inflows of Resources: | <u>11,053,175</u> | <u>11,711,724</u> | <u>1,623,478</u> | <u>1,937,875</u> | <u>12,676,653</u> | <u>13,649,599</u> |
| Net Position | | | | | | |
| Invested in capital assets | | | | | | |
| Net of related debt | 31,115,917 | 35,094,967 | 100,464,576 | 92,807,134 | 131,580,493 | 127,902,101 |
| Restricted | 15,488,064 | 14,043,009 | - | - | 15,488,064 | 14,043,009 |
| Unrestricted | <u>1,266,987</u> | <u>(2,457,155)</u> | <u>32,091,333</u> | <u>34,052,636</u> | <u>33,358,320</u> | <u>31,595,481</u> |
| Total Net Position: | <u>\$ 47,870,968</u> | <u>\$ 46,680,821</u> | <u>\$ 132,555,909</u> | <u>\$ 126,859,770</u> | <u>\$ 180,426,877</u> | <u>\$ 173,540,591</u> |

An additional portion of the City's net position 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 position (\$33,358,320) 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, 2016, the amount available for health related claims was \$2,803,104.

At June 30, 2016, the City of Cookeville is able to report positive balances in all three categories of net position for the government as a whole, as well as its separate governmental and business type activities. Net position increased \$1,190,147 for governmental activities and increased \$5,696,139 for business-type activities. The City's overall financial position improved during the fiscal year 2016.

Governmental activities. Governmental activities increased the City of Cookeville's net position by \$1,190,147 thereby accounting for 17 percent of the total growth in the net position 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 position for the primary government for the year ended June 30, 2016.

Summary of Changes in Net Position

| | Governmental Activities | | Business-type Activities | | Totals | |
|----------------------------------|----------------------------|---------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | | | |
| Program revenues | | | | | | |
| Charges for services | \$ 2,791,590 | \$ 3,062,757 | \$ 74,427,479 | \$ 79,765,716 | \$ 77,219,069 | \$ 82,828,473 |
| Operating Grants & Contributions | 1,289,191 | 1,501,506 | | | 1,289,191 | 1,501,506 |
| Capital Grants & Contrib | 8,459,661 | 9,959,164 | | | 8,459,661 | 9,959,164 |
| General revenues | | | | | | |
| Local option sales tax | 12,518,652 | 11,729,943 | | | 12,518,652 | 11,729,943 |
| Property tax | 7,030,829 | 7,025,965 | | | 7,030,829 | 7,025,965 |
| In-lieu of tax | 1,164,238 | 1,151,933 | | | 1,164,238 | 1,151,933 |
| State sales tax | 2,506,658 | 2,345,700 | | | 2,506,658 | 2,345,700 |
| Wholesale beer tax | 1,136,016 | 1,154,088 | | | 1,136,016 | 1,154,088 |
| Wholesale liquor tax | 462,500 | 414,235 | | | 462,500 | 414,235 |
| Other taxes | 2,509,776 | 2,133,427 | | | 2,509,776 | 2,133,427 |
| Other revenues | 847,252 | 916,955 | 114,790 | 119,059 | 962,042 | 1,036,014 |
| Transfers | (2,521,812) | 1,603,721 | 2,521,812 | (1,603,721) | - | - |
| Total Revenues | <u>38,194,551</u> | <u>42,999,394</u> | <u>77,064,081</u> | <u>78,281,054</u> | <u>115,258,632</u> | <u>121,280,448</u> |
| Expenses: | | | | | | |
| General government | 3,498,492 | 3,466,264 | | | 3,498,492 | 3,466,264 |
| Economic development | 4,877,778 | 11,132,632 | | | 4,877,778 | 11,132,632 |
| Planning & codes | 1,303,105 | 1,223,659 | | | 1,303,105 | 1,223,659 |
| Public safety | 13,533,798 | 13,277,002 | | | 13,533,798 | 13,277,002 |
| Parks & maintenance | 1,446,818 | 1,446,631 | | | 1,446,818 | 1,446,631 |
| Public works | 7,642,716 | 8,057,478 | | | 7,642,716 | 8,057,478 |
| Culture & recreation | 3,441,337 | 1,897,915 | | | 3,441,337 | 1,897,915 |
| Community support | 741,710 | 739,855 | | | 741,710 | 739,855 |
| Interest on debt | 518,650 | 396,909 | | | 518,650 | 396,909 |
| Electric | - | - | 49,172,549 | 51,058,146 | 49,172,549 | 51,058,146 |
| Gas | - | - | 8,587,658 | 10,715,841 | 8,587,658 | 10,715,841 |
| Water Quality Control | - | - | 13,607,735 | 11,724,339 | 13,607,735 | 11,724,339 |
| Total Expenses | <u>37,004,404</u> | <u>41,638,345</u> | <u>71,367,942</u> | <u>73,498,326</u> | <u>108,372,346</u> | <u>115,136,671</u> |
| Change in Net Position | 1,190,147 | 1,361,049 | 5,696,139 | 4,782,728 | 6,886,286 | 6,143,777 |
| Beginning Net Position | <u>46,680,821</u> | <u>45,319,772</u> | <u>126,859,770</u> | <u>122,077,042</u> | <u>173,540,591</u> | <u>167,396,814</u> |
| Ending Net Position | <u>\$47,870,968</u> | <u>\$46,680,821</u> | <u>\$132,555,909</u> | <u>\$126,859,770</u> | <u>\$180,426,877</u> | <u>\$173,540,591</u> |

Revenues and expenses decreased approximately 11% for the governmental activities. Economic Development expenses decreased \$6,254,854 from the prior year. The City announced two major economic development initiatives in the prior year. Academy Sports and Outdoors has completed construction on a new 1.6 million square foot distribution center on a site in Cookeville. They are currently operating with approximately 400 new jobs with the final phase of operations/employment projected for early 2017. The company expects to hire 700 full-time equivalent employees by December 31, 2020. The City was awarded and received a FastTrack Economic Development Grant from the State of Tennessee and the City used the grant funds to reimburse the company for its initial land cost. The FastTrack grant revenue and expenditures

were recognized in Fiscal Year 2016. FICOSA North America has just completed construction on a new facility at the Highlands Business Park. Grand opening is scheduled for October 2016. The automotive supplier is in operations start-up phase and will employ approximately 900 when complete. Pursuant to the Incentive Agreement with FICOSA, a financial incentive by the City of \$1.25 million was required and expensed in fiscal year 2015.

Business-type activities. Business-type activities increased the City of Cookeville's net position by \$5,696,139 accounting for 83 percent of the total growth in the government's net position.

The three Proprietary Fund Statements demonstrate that the electric, water/sewer, and gas departments continue to grow and to be financially stable.

The electric operations continue to be positive. Net assets increased by \$1,674,952 with operating revenues of \$51,911,840 and operating expenses of \$49,068,597. Non-operating expenses totaled \$33,815 and transfers to the general government were \$1,134,476. The electric department receives power from TVA at five substation sites located throughout the city. These substation sites then distribute power to the electric department's customers. During the year the electric department continued work on a project at the South Substation with a fiscal year budget of \$2,600,000. The electric department also completed a \$112,000 Hunter Avenue distribution project. The department purchased a new SCADA system totaling \$96,800. The department also started the process of changing out their radio system to a digital system with the intention of completing the changeover in fiscal year 2017.

Net assets increased \$4,400,123 for the water/sewer department. Operating revenues were \$14,118,166 and operating expenses were \$13,414,021. The water/sewer department had non-operating expenses totaling \$128,169 with this being primarily interest expense on long-term debt. Net transfers from the general government totaled \$3,824,147. The City completed the water and sewer infrastructure in the Highlands Business Park, with the exception of a sewer line under Interstate 40 which will be completed by the end of 2016. The general government, as the developer, transferred \$4,105,009 in infrastructure assets to the Water Quality Control department in the fiscal year. The department routinely performs leak surveys to locate water leaks in their distribution system and repairs them as soon as they are found. The department completed the installation of the water and sewer requirements to serve the Academy Sports project. The department completed construction on the Water Treatment Plant Lagoon Clean-Out Project. The department completed work on installing sanitary sewer lines in the southeast part of Cookeville. After conducting a rate study in 2009, the department implemented planned rate increases for water and sewer services. The final preplanned rate increase was implemented in October 2013. These preplanned rate increases will provide sufficient cash reserves to fund several of the planned capital expansion costs while issuing as little debt as feasible. The department maintained the rate structure during the year and did not increase rates. 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 52.8% of the water sold by the department and accounts for approximately 38.3% of the water department's water sales revenue. The utility districts continue to repair water leaks within their systems. The utility districts increased the amount of water purchased from the department during the year. The department's water supply is from Center Hill Lake. The department is required to pay the Army Corps of Engineers for water storage rights in Center Hill Lake and for dam repairs currently ongoing. During fiscal year 2016,

the department paid \$1,499,719 to the Corps for a portion of the dam repair project. At June 30th, the amount due the Corps for water storage right was \$1,919,060. 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 gas department's net assets decreased by \$307,750. Operating revenues were \$8,397,473 and operating expenses were \$8,572,351. Non-operating income totaled \$34,987 and transfers to the general government were \$167,859. The department has two supply connections on the East TN Pipeline. The department added additional supply capacity from the East TN pipeline during March 2014. The system has a total of 18 employees. These employees serve over 9,700 customers and maintain over 325 miles of distribution mains. The department annually budgets and plans for the extension of mains throughout its service territory. 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 fluctuations in 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 four years which has helped renew consumer confidence in natural gas as an energy source. Revenue decreased 25.8% in fiscal year 2016 as compared to fiscal year 2015. Typically 75% of the annual gas usage comes from the winter months of November through March. The average temperature for the winter months in fiscal year 2016 was 49.4 degrees which was 7.2 degrees warmer than the previous year. Heating Degree Day (HDD) is a measurement designed to measure the demand for energy needed to heat a building. The HDD for the period November, 2015 through March, 2016 was 2,521 compared to 3,435 for the previous winter. Expenses decreased 19.9% in fiscal year 2016 which was related to the reduction in gas purchased for fiscal year 2016 and the purchase price of gas averaged a reduction of 6.5% during the winter consumption months. During the fiscal year, the department made the final payment on its outstanding debt and at June 30, 2016 had no debt.

The tables on the following page present a summary of the charges for services and expenses of the electric, water sewer and gas department for the City of Cookeville.

Summary Comparison of Charges for Services for Fiscal Years 2016 and 2015

| | <u>FY 2016</u> | <u>FY 2015</u> | Amount <u>Change</u> | % <u>Change</u> |
|---|----------------------|----------------------|-------------------------|--------------------|
| Electric Department | \$ 51,911,840 | \$ 54,132,753 | \$(2,220,913) | -4.1% |
| Gas Department | 8,397,473 | 11,316,093 | (2,918,620) | -25.8% |
| Water Quality Control Department | <u>14,118,166</u> | <u>14,316,870</u> | <u>(198,704)</u> | -1.4% |
| Charges for Services-Business-type Activities | <u>\$ 74,427,479</u> | <u>\$ 79,765,716</u> | <u>\$(5,338,237)</u> | -6.7% |

Summary Comparison of Expenses for Fiscal Years 2016 and 2015

| | <u>FY 2016</u> | <u>FY 2015</u> | Amount <u>Change</u> | % <u>Change</u> |
|-----------------------------------|----------------------|----------------------|-------------------------|--------------------|
| Electric Department | \$ 49,172,549 | \$ 51,058,146 | \$(1,885,597) | -3.7% |
| Gas Department | 8,587,658 | 10,715,841 | (2,128,183) | -19.9% |
| Water Quality Control Department | <u>13,607,735</u> | <u>11,724,339</u> | <u>1,883,396</u> | 16.1% |
| Expenses-Business-type Activities | <u>\$ 71,367,942</u> | <u>\$ 73,498,326</u> | <u>\$(2,130,384)</u> | -2.9% |

Financial Analysis of the Government's Funds

As noted earlier, the City of Cookeville uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City of Cookeville's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for 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, 2016, the City of Cookeville's governmental funds reported combined ending fund balances of \$35,702,544, an increase of \$10,631,809 in comparison to prior year. There is \$7,014,679 in restricted fund balances which must be used for specific purposes: \$966,807 restricted for street maintenance, \$133,989 restricted for police drug enforcement programs, \$524,156 restricted for sanitation operations and \$5,389,727 restricted for capital projects. There is \$10,255,731 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, 2016, the unassigned fund balance of the general fund was \$14,871,395 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 61 percent of total general fund expenditures during fiscal year 2016.

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 78% of the general fund revenues. The sales tax collections for fiscal year 2016 were \$12,518,652 which is the highest amount ever collected by the city. This was a 7% or \$788,709 increase from June 2015 to June 2016. The City continues to budget conservatively assuming sales tax collections will grow, but at modest amounts. The city's total property tax rate for fiscal year 2016 (2015 property tax) remained the same as prior year at \$.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 \$6,169,539 in general fund property tax revenue. Departmental budgets have seen minimal increases the past two years and the departments have been successful in staying within their approved budgets.

The debt service fund has a total fund balance of \$10,255,731, 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 \$2,977,797 in the debt service 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 fiscal year 2016. 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 \$1,187,471. Interest rates were much lower than budgeted on the City's variable rate debt. Interest rates were budgeted at 5% and the actual rates were closer to 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 are scheduled to receive a subsidy from the U.S. Treasury equal to 35% of the interest payments due on the bonds. However, as a result of Congressional sequestration of federal funds, the historical 35% interest rate subsidy was reduced by 6.9% for the interest payments made in fiscal year 2016. Future subsidies are expected to be reduced by 6.9%. This interest rate subsidy reduction will not have a significant impact on the debt service fund balance or the City's ability to meet its debt payment obligations. In fiscal year 2016, general obligation bonds were issued in the amount of \$9,815,000. Proceeds are being used to finance new road construction.

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 of expenditures is typically handled through bond issues or variable rate loan agreements with the Tennessee Municipal Bond Fund (TMBF). The City issued General Obligation Bonds in November, 2015 in the amount of \$9,815,000. The proceeds are for the costs incurred in the extension of Bennett Road north from I-40 to Highway 70. The City issued General Obligation Bonds in December 2013. The proceeds were for various projects. Some final improvements to Dogwood Park remain to be completed. As of June 30, 2016, unspent bond proceeds totaled \$5,389,727.

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, 2016 was \$49,279,523 and \$114,606,311 respectively. The net investment decreased 2.5% for governmental and increased about 4% for business-type activities.

This year's major capital asset additions included:

- Bennett Road extension project as construction in progress, being paid for with bond proceeds and grants through the Tennessee Department of Transportation. \$3,989,000
- The Heart of the City Playground was donated to the City in December 2015. \$493,000
- Water & Sewer infrastructure at the Highlands Industrial/Business Park was completed, financed by general obligation bond issues with City as the developer. These assets were transferred from the governmental funds to the proprietary funds. \$4,106,000
- Completion of the project to install sanitary sewer lines in the southeast part of Cookeville. \$1,297,000
- Completion of the cured in place project in the TTU watershed area. \$1,023,000
- Electric south substation on-going project. \$2,306,000

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

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| | Governmental Activities | | Amount Change | % Change |
|--------------------------|----------------------------|----------------------|-----------------------|-------------|
| | 2016 | 2015 | | |
| Non-depreciable assets: | | | | |
| Land | \$ 10,494,338 | \$ 10,372,587 | \$ 121,751 | 1.2% |
| Construction in progress | 3,941,376 | 3,783,562 | 157,814 | 4.2% |
| Depreciable assets: | | | | |
| Buildings | 9,236,224 | 9,268,657 | (32,433) | -0.3% |
| Improvements | 1,484,096 | 1,083,748 | 400,348 | 36.9% |
| Vehicles | 1,082,151 | 1,430,240 | (348,089) | -24.3% |
| Machinery & equipment | 678,890 | 686,710 | (7,820) | -1.1% |
| Software | - | 4,166 | (4,166) | -100.0% |
| Easement | 26,313 | - | 26,313 | |
| Infrastructure | 22,336,135 | 23,923,635 | (1,587,500) | -6.6% |
| Total | <u>\$ 49,279,523</u> | <u>\$ 50,553,305</u> | <u>\$ (1,273,782)</u> | -2.5% |

CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION

| | Business-type Activities | | Amount Change | % Change |
|------------------------------|-----------------------------|-----------------------|---------------------|-------------|
| | 2016 | 2015 | | |
| Non-depreciable assets: | | | | |
| Land | \$ 3,857,353 | \$ 3,857,353 | \$ - | 0.0% |
| Construction in progress | 3,633,660 | 2,291,609 | 1,342,051 | 58.6% |
| Depreciable assets: | | | | |
| Building & Improvements | 2,145,505 | 2,255,840 | (110,335) | -4.9% |
| Plant & distribution systems | 90,636,414 | 87,202,905 | 3,433,509 | 3.9% |
| Machinery & equipment | 4,863,606 | 4,518,284 | 345,322 | 7.6% |
| Furniture & equipment | 113,798 | 38,566 | 75,232 | 195.1% |
| Plant acquisition adjustment | 9,355,975 | 10,184,660 | (828,685) | -8.1% |
| Total | <u>\$ 114,606,311</u> | <u>\$ 110,349,217</u> | <u>\$ 4,257,094</u> | 3.9% |

Long-term Liabilities. At the end of the fiscal year, the Primary Government had total long-term liabilities of \$41,549,410. Of this amount, \$24,453,103 relates to governmental activities while the remaining \$17,096,307 relates to business type activities. Of the \$24,453,103 of long-term liabilities of governmental activities, \$23,553,333 was debt related to a bond or note issuance and is backed by the full faith and credit of the City of Cookeville. In November 2015, the City issued \$9,815,000 in general obligation bonds. The proceeds are being used to construct a new road

mentioned earlier that will connect Highway 70 to a new I40 interchange being constructed by TDOT. The bonds had interest rates ranging from 2.0% to 2.75% over the life of the issue and mature June 1, 2031. The bonds were rated by Moody's Investors Service as Aa3 and were sold at a premium in the amount of \$184,550.

| | Governmental Activities | | Business-type Activities | | Totals | |
|-----------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Bonds & notes payable | \$ 23,553,333 | \$ 15,846,000 | \$ 14,141,735 | \$ 17,542,083 | \$ 37,695,068 | \$ 33,388,083 |
| Compensated Absences | 899,770 | 1,012,160 | 403,425 | 402,520 | 1,303,195 | 1,414,680 |
| Other debt | - | - | 2,551,147 | 2,723,619 | 2,551,147 | 2,723,619 |
| | <u>24,453,103</u> | <u>16,858,160</u> | <u>17,096,307</u> | <u>20,668,222</u> | <u>41,549,410</u> | <u>37,526,382</u> |
| Less: | | | | | | |
| Amounts due within one year | <u>(2,414,667)</u> | <u>(1,857,666)</u> | <u>(3,142,238)</u> | <u>(3,486,979)</u> | <u>(5,556,905)</u> | <u>(5,344,645)</u> |
| Total Long term liabilities | <u>\$ 22,038,436</u> | <u>\$ 15,000,494</u> | <u>\$ 13,954,069</u> | <u>\$ 17,181,243</u> | <u>\$ 35,992,505</u> | <u>\$ 32,181,737</u> |

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 Authority, a 247-bed acute care hospital providing quality care to the 14 county Upper Cumberland region.

The city's current population is 31,154 but it is the regional center for employment, shopping, dining, education, health care and recreational/cultural activities for the approximately 200,000 people that live in the surrounding counties. The city, county and chamber of commerce are actively recruiting new industry and commercial growth for the Upper Cumberland Area. The unemployment rate for Putnam County improved from 6.8% in June 2015 to 5.4% in June 2016.

The City has partnered with Putnam County and purchased approximately 350 acres along Interstate 40 to develop the Highlands Industrial/Business Park. Construction has been completed on the infrastructure to include roads, sidewalks, and utilities. The first occupant of the Business Park, FICOSA, an automotive supplier, has invested \$58 million in a newly completed facility and will be employing 900 people when operations are fully implemented in the coming year. The City and County are efforting to bring additional occupants to the Highlands Industrial/Business Park in the next fiscal year.

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. It is anticipated that this interchange will be completed in late 2017. As mentioned previously, Academy Sports and Outdoors has located a new distribution facility in Cookeville. The new interchange was a critical component in Academy's decision to locate in Cookeville. The new interchange will also serve the Highlands Industrial/Business Park. Also, as part of the interchange project, the City is constructing a new 2.75 mile road that will

connect Interstate 40 to Highway 70. The construction of this road (Bennett Road) is being funded by a City bond issue and a \$4 million local interstate connector grant from the State of Tennessee.

All of these factors were considered in adopting the general fund budget for fiscal year 2017. The City has budgeted a 2.2% increase in revenues and a 1% increase in operating expenditures for fiscal year 2017 over the 2016 budget.

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 POSITION
June 30, 2016

| | Primary Government | | | Component Units | | Total Reporting Entity |
|---|-------------------------|--------------------------|-----------------------|-----------------------|-------------------|------------------------|
| | Governmental Activities | Business-Type Activities | Total | CRMC* | PBA | |
| Assets | | | | | | |
| Current assets: | | | | | | |
| Cash | \$ 28,046,698 | \$ 24,189,012 | \$ 52,235,710 | \$ 38,264,178 | \$ 106,736 | \$ 90,606,624 |
| Sinking fund cash | - | 762,697 | 762,697 | - | - | 762,697 |
| Temporary cash investments | 7,845,481 | 9,709,896 | 17,555,377 | 282 | - | 17,555,659 |
| Accounts receivable, net of allowance | 139,263 | 8,646,157 | 8,785,420 | 27,681,579 | 6,395 | 36,473,394 |
| Taxes receivable, net of allowance | 7,129,748 | - | 7,129,748 | - | - | 7,129,748 |
| Other receivables | 4,921,516 | - | 4,921,516 | 1,005,697 | - | 5,927,213 |
| Due from other funds | 20,699 | (20,699) | - | - | - | - |
| Inventories | - | 1,936,443 | 1,936,443 | 8,283,907 | - | 10,220,350 |
| Prepaid expenses and other current assets | 184,074 | 1,180,359 | 1,364,433 | 4,490,899 | 792 | 5,856,124 |
| Total current assets | <u>48,287,479</u> | <u>46,403,865</u> | <u>94,691,344</u> | <u>79,726,542</u> | <u>113,923</u> | <u>174,531,809</u> |
| Noncurrent assets: | | | | | | |
| Notes receivable, net of allowance | - | 630,947 | 630,947 | - | - | 630,947 |
| Water storage rights | - | 1,690,126 | 1,690,126 | - | - | 1,690,126 |
| Equity interest in joint venture | 3,918,179 | - | 3,918,179 | 932,552 | - | 4,850,731 |
| Long-term investments | - | - | - | 14,463,323 | - | 14,463,323 |
| Net pension asset | - | - | - | 10,278,101 | - | 10,278,101 |
| Other assets | - | 34,889 | 34,889 | 10,839,408 | - | 10,874,297 |
| Capital assets: | | | | | | |
| Land and construction in progress | 14,435,714 | 7,491,013 | 21,926,727 | 17,049,644 | - | 38,976,371 |
| Other capital assets, net of accumulated depreciation | <u>34,843,809</u> | <u>107,115,298</u> | <u>141,959,107</u> | <u>149,965,201</u> | <u>105,285</u> | <u>292,029,593</u> |
| Total noncurrent assets | <u>53,197,702</u> | <u>116,962,273</u> | <u>170,159,975</u> | <u>203,528,229</u> | <u>105,285</u> | <u>373,793,489</u> |
| Total assets | <u>101,485,181</u> | <u>163,366,138</u> | <u>264,851,319</u> | <u>283,254,771</u> | <u>219,208</u> | <u>548,325,298</u> |
| Deferred Outflows of Resources | | | | | | |
| Interest rate swap | - | - | - | 541,008 | - | 541,008 |
| Pension outflows | <u>4,738,599</u> | <u>2,014,457</u> | <u>6,753,056</u> | <u>6,137,746</u> | <u>-</u> | <u>12,890,802</u> |
| Total deferred outflows of resources | <u>4,738,599</u> | <u>2,014,457</u> | <u>6,753,056</u> | <u>6,678,754</u> | <u>-</u> | <u>13,431,810</u> |
| Liabilities | | | | | | |
| Current liabilities: | | | | | | |
| Accounts payable | 1,726,625 | 5,927,791 | 7,654,416 | 6,802,580 | 28,513 | 14,485,509 |
| Health claims payable | 271,787 | - | 271,787 | - | - | 271,787 |
| Current portion of long-term debt | 2,414,667 | 3,053,116 | 5,467,783 | 3,383,825 | - | 8,851,608 |
| Current portion of water storage rights payable | - | 89,122 | 89,122 | - | - | 89,122 |
| Accrued expenses | 497,183 | 55,415 | 552,598 | 12,962,195 | 6,600 | 13,521,393 |
| Deferred revenue | 75,620 | 45,333 | 120,953 | - | - | 120,953 |
| Estimated amounts due to third-party payors | - | - | - | 5,196,434 | - | 5,196,434 |
| Other current liabilities | - | 55,177 | 55,177 | - | 45,539 | 100,716 |
| Total current liabilities | <u>4,985,882</u> | <u>9,225,954</u> | <u>14,211,836</u> | <u>28,345,034</u> | <u>80,652</u> | <u>42,637,522</u> |
| Noncurrent liabilities: | | | | | | |
| Compensated absences | 899,770 | 403,425 | 1,303,195 | - | - | 1,303,195 |
| TVA heat pump notes payable | - | 632,087 | 632,087 | - | - | 632,087 |
| Water storage rights payable | - | 1,829,938 | 1,829,938 | - | - | 1,829,938 |
| Net other post-employment liability | 10,814,721 | 4,000,765 | 14,815,486 | - | - | 14,815,486 |
| Net pension liability | 8,735,969 | 3,580,961 | 12,316,930 | - | - | 12,316,930 |
| Other non-current liabilities | 724,629 | 439,459 | 1,164,088 | - | - | 1,164,088 |
| Long-term debt, less current portion | 21,138,666 | 11,088,619 | 32,227,285 | 72,095,000 | - | 104,322,285 |
| Interest rate swap, at fair value | - | - | - | 541,008 | - | 541,008 |
| Total noncurrent liabilities | <u>42,313,755</u> | <u>21,975,254</u> | <u>64,289,009</u> | <u>72,636,008</u> | <u>-</u> | <u>136,925,017</u> |
| Total liabilities | <u>47,299,637</u> | <u>31,201,208</u> | <u>78,500,845</u> | <u>100,981,042</u> | <u>80,652</u> | <u>179,562,539</u> |
| Deferred Inflows of Resources | | | | | | |
| Pension inflows | 3,963,524 | 1,623,478 | 5,587,002 | 9,101,734 | - | 14,688,736 |
| Unavailable property taxes | <u>7,089,651</u> | <u>-</u> | <u>7,089,651</u> | <u>-</u> | <u>-</u> | <u>7,089,651</u> |
| Total deferred inflows of resources | <u>11,053,175</u> | <u>1,623,478</u> | <u>12,676,653</u> | <u>9,101,734</u> | <u>-</u> | <u>21,778,387</u> |
| Net position | | | | | | |
| Net investment in capital assets | 31,115,917 | 100,464,576 | 131,580,493 | 91,536,020 | 105,285 | 223,221,798 |
| Restricted for: | | | | | | |
| Drug Fund | 133,989 | - | 133,989 | - | - | 133,989 |
| Highways and streets | 966,807 | - | 966,807 | - | - | 966,807 |
| Debt service | 9,944,933 | - | 9,944,933 | - | - | 9,944,933 |
| Sanitation | 524,156 | - | 524,156 | - | - | 524,156 |
| Equity interest in joint venture | 3,918,179 | - | 3,918,179 | 10,278,101 | - | 14,196,280 |
| Unrestricted | <u>1,266,987</u> | <u>32,091,333</u> | <u>33,358,320</u> | <u>78,036,628</u> | <u>33,271</u> | <u>111,428,219</u> |
| Total net position | <u>\$ 47,870,968</u> | <u>\$ 132,555,909</u> | <u>\$ 180,426,877</u> | <u>\$ 179,850,749</u> | <u>\$ 138,556</u> | <u>\$ 360,416,182</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, 2016

| | <u>Expenses</u> | <u>Program Revenues</u> | | <u>Net (Expense) Revenue</u> |
|------------------------------------|-----------------------|---------------------------------|---|----------------------------------|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | |
| Function/program activities | | | | |
| Primary government: | | | | |
| Governmental activities: | | | | |
| General government | \$ 3,498,492 | \$ 132,824 | \$ 7,963 | \$ (3,357,705) |
| Economic development | 4,877,778 | - | 17,154 | (33,124) |
| Planning and codes | 1,303,105 | 388,998 | - | (914,107) |
| Public safety | 13,533,798 | 436,129 | 300,690 | (12,796,979) |
| Parks & maintenance | 1,446,818 | - | - | (1,446,818) |
| Public works | 7,642,716 | 1,558,918 | 954,041 | (3,344,044) |
| Culture and recreation | 3,441,337 | 274,721 | 9,343 | (1,310,825) |
| Community support | 741,710 | - | - | (741,710) |
| Interest on long-term debt | 518,650 | - | - | (518,650) |
| Total governmental activities | <u>37,004,404</u> | <u>2,791,590</u> | <u>1,289,191</u> | <u>(24,463,962)</u> |
| Business-type activities: | | | | |
| Electric | 49,172,549 | 51,911,840 | - | 2,739,291 |
| Gas | 8,587,658 | 8,397,473 | - | (190,185) |
| Water quality control | 13,607,735 | 14,118,166 | - | 510,431 |
| Total business-type activities | <u>71,367,942</u> | <u>74,427,479</u> | <u>-</u> | <u>3,059,537</u> |
| Total primary government | <u>\$ 108,372,346</u> | <u>\$ 77,219,069</u> | <u>\$ 1,289,191</u> | <u>\$ (21,404,425)</u> |
| Component units: | | | | |
| CRMC* | \$ 281,407,605 | \$ 284,561,336 | | \$ 3,153,731 |
| PBA | 181,646 | 221,392 | | 39,746 |
| Total component units | <u>\$ 281,589,251</u> | <u>\$ 284,782,728</u> | | <u>\$ 3,193,477</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, 2016

| | Primary Government | | | Component Units | |
|-------------------------------|---------------------------|-----------------------|-----------------------|------------------------|-------------------|
| | Governmental | Business-type | Total | CRMC* | PBA |
| | Activities | Activities | | | |
| Change in net position: | | | | | |
| Net (expense) revenue | \$ (24,463,962) | \$ 3,059,537 | \$ (21,404,425) | \$ 3,153,731 | \$ 39,746 |
| General revenues: | | | | | |
| Taxes: | | | | | |
| Property tax | 7,030,829 | - | 7,030,829 | - | - |
| In lieu of tax | 1,164,238 | - | 1,164,238 | - | - |
| Business tax | 1,419,973 | - | 1,419,973 | - | - |
| State sales tax | 2,506,658 | - | 2,506,658 | - | - |
| Franchise tax | 301,192 | - | 301,192 | - | - |
| Local option sales tax | 12,518,652 | - | 12,518,652 | - | - |
| Wholesale beer tax | 1,136,016 | - | 1,136,016 | - | - |
| Wholesale liquor tax | 462,500 | - | 462,500 | - | - |
| State income tax | 525,414 | - | 525,414 | - | - |
| Mixed drink tax | 166,209 | - | 166,209 | - | - |
| Other taxes | 96,988 | - | 96,988 | - | - |
| Interest revenue | 81,659 | 114,790 | 196,449 | - | 5 |
| Investment income | 123,065 | - | 123,065 | 327,997 | - |
| Gain (loss) on sale of assets | 112,127 | - | 112,127 | (94,179) | 456 |
| Federal subsidy | 72,269 | - | 72,269 | - | - |
| Other, net | 458,132 | - | 458,132 | 235,562 | - |
| Transfers | (2,521,812) | 2,521,812 | - | - | - |
| Total general revenues | <u>25,654,109</u> | <u>2,636,602</u> | <u>28,290,711</u> | <u>469,380</u> | <u>461</u> |
| | | | | | |
| Change in net position | 1,190,147 | 5,696,139 | 6,886,286 | 3,623,111 | 40,207 |
| Net position - beginning | <u>46,680,821</u> | <u>126,859,770</u> | <u>173,540,591</u> | <u>176,227,638</u> | <u>98,349</u> |
| Net position - ending | <u>\$ 47,870,968</u> | <u>\$ 132,555,909</u> | <u>\$ 180,426,877</u> | <u>\$ 179,850,749</u> | <u>\$ 138,556</u> |

*Audited by other auditors

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

CITY OF COOKEVILLE, TENNESSEE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

| <u>Assets</u> | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|---|----------------------|-------------------------|-----------------------------|---|---|
| Cash | \$ 11,360,672 | \$ 6,949,910 | \$ 6,385,608 | \$ 2,306,511 | \$ 27,002,701 |
| Temporary cash investments | 2,384,136 | 3,089,810 | 4 | 519,461 | 5,993,411 |
| Accounts receivable | - | - | - | 140,049 | 140,049 |
| Taxes receivable | 6,513,143 | 340,889 | - | 767,000 | 7,621,032 |
| Other receivables | 2,012,999 | 211,963 | 1,699,503 | 806,637 | 4,731,102 |
| Less: allowance for bad debts | (473,448) | (5,488) | - | (13,134) | (492,070) |
| Due from other funds | 862,557 | 4,088 | - | 2,490 | 869,135 |
| Prepaid expenses | 7,185 | - | - | 176,592 | 183,777 |
| Total assets | <u>\$ 22,667,244</u> | <u>\$ 10,591,172</u> | <u>\$ 8,085,115</u> | <u>\$ 4,705,606</u> | <u>\$ 46,049,137</u> |
| <u>Liabilities</u> | | | | | |
| Accounts payable | \$ 1,075,083 | \$ 40 | \$ 421,299 | \$ 228,316 | \$ 1,724,738 |
| Accrued expenses | 456,042 | - | - | - | 456,042 |
| Due to other funds | 7,449 | - | - | 548,121 | 555,570 |
| Unearned revenue | - | - | 10,000 | 55,620 | 65,620 |
| Other liabilities | 250,492 | - | - | 204,480 | 454,972 |
| Total liabilities | <u>1,789,066</u> | <u>40</u> | <u>431,299</u> | <u>1,036,537</u> | <u>3,256,942</u> |
| <u>Deferred Inflows of Resources</u> | | | | | |
| Unavailable property taxes | 5,999,598 | 335,401 | - | 754,652 | 7,089,651 |
| Total deferred inflows of resources | <u>5,999,598</u> | <u>335,401</u> | <u>-</u> | <u>754,652</u> | <u>7,089,651</u> |
| <u>Fund Balances</u> | | | | | |
| Nonspendable | 7,185 | - | - | 176,592 | 183,777 |
| Restricted | - | - | 5,389,727 | 1,624,952 | 7,014,679 |
| Committed | - | 10,255,731 | - | 1,112,873 | 11,368,604 |
| Unassigned | 14,871,395 | - | 2,264,089 | - | 17,135,484 |
| Total fund balances | <u>14,878,580</u> | <u>10,255,731</u> | <u>7,653,816</u> | <u>2,914,417</u> | <u>35,702,544</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 22,667,244</u> | <u>\$ 10,591,172</u> | <u>\$ 8,085,115</u> | <u>\$ 4,705,606</u> | <u>\$ 46,049,137</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 POSITION
FOR THE YEAR ENDED June 30, 2016

| | | |
|---|---------------------|----------------------|
| Total fund balance - total governmental funds | | \$ 35,702,544 |
| Amounts reported for governmental activities in the statement of net position are different because: | | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | | |
| Governmental capital assets | 93,397,946 | |
| Less: accumulated depreciation | <u>(44,118,423)</u> | 49,279,523 |
| Other assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. | | |
| Equity interest in joint venture | | 3,918,179 |
| Interest payable is not payable from current financial resources and therefore is not reported in the governmental funds. | | |
| | | (41,141) |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds. | | |
| Governmental bonds payable | (18,195,000) | |
| Governmental notes payable | (5,358,333) | |
| Unamortized bond premium | (269,657) | |
| Net pension liability | (8,735,969) | |
| Net other post-employment liability | (10,814,721) | |
| Compensated absences | <u>(899,770)</u> | (44,273,450) |
| Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be amortized and recognized as components of pension expense in future years. | | |
| Add: deferred outflows of resources related to pensions | 4,738,599 | |
| Less: deferred inflows of resources related to pensions | <u>(3,963,524)</u> | 775,075 |
| Internal Service Fund is used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Fund are reported with the governmental activities. | | |
| | | <u>2,510,238</u> |
| Net position of governmental activities | | <u>\$ 47,870,968</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, 2016

| | <u>General</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|----------------------|-------------------------|-----------------------------|---|---|
| Revenues: | | | | | |
| Taxes | \$ 22,472,110 | \$ 1,171,139 | | \$ 390,151 | \$ 24,033,400 |
| Licenses and permits | 457,066 | - | | - | 457,066 |
| Intergovernmental | 1,061,806 | 2,578,927 | \$ 1,785,713 | 7,138,536 | 12,564,982 |
| Charges for services | 294,030 | - | - | 1,606,958 | 1,900,988 |
| Fines, forfeitures and penalties | 294,926 | - | - | 92,463 | 387,389 |
| Rent | 19,975 | 26,172 | - | - | 46,147 |
| Interest | 39,565 | 31,657 | 1,292 | 9,145 | 81,659 |
| Other | 566,785 | - | - | 63,465 | 630,250 |
| Total revenues | <u>25,206,263</u> | <u>3,807,895</u> | <u>1,787,005</u> | <u>9,300,718</u> | <u>40,101,881</u> |
| Expenditures: | | | | | |
| Current | | | | | |
| General government | 3,017,083 | - | 129 | - | 3,017,212 |
| Economic development | - | - | - | 4,877,778 | 4,877,778 |
| Public safety | 12,747,015 | - | - | 269,411 | 13,016,426 |
| Planning and codes | 1,266,616 | - | - | - | 1,266,616 |
| Parks and maintenance | 1,380,188 | - | - | - | 1,380,188 |
| Public works | 2,996,999 | - | 506,566 | 2,138,311 | 5,641,876 |
| Culture and recreation | 1,654,996 | - | - | 1,510,090 | 3,165,086 |
| Community support | 736,710 | - | - | 5,000 | 741,710 |
| Capital outlay | 645,087 | - | 4,047,771 | 627,610 | 5,320,468 |
| Debt service | - | 2,620,424 | 127,854 | - | 2,748,278 |
| Total expenditures | <u>24,444,694</u> | <u>2,620,424</u> | <u>4,682,320</u> | <u>9,428,200</u> | <u>41,175,638</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>761,569</u> | <u>1,187,471</u> | <u>(2,895,315)</u> | <u>(127,482)</u> | <u>(1,073,757)</u> |
| Other financing sources (uses): | | | | | |
| Interfund transfers in | 1,690,621 | - | - | 80,000 | 1,770,621 |
| Interfund transfers (out) | (80,000) | - | - | (107,424) | (187,424) |
| Proceeds of bonds and notes | - | - | 9,815,000 | - | 9,815,000 |
| Premium on issuance of debt | - | - | 184,550 | - | 184,550 |
| Insurance recoveries | 10,692 | - | - | - | 10,692 |
| Sale of assets | 110,110 | - | - | 2,017 | 112,127 |
| Net other financing sources | <u>1,731,423</u> | <u>-</u> | <u>9,999,550</u> | <u>(25,407)</u> | <u>11,705,566</u> |
| Net change in fund balances | 2,492,992 | 1,187,471 | 7,104,235 | (152,889) | 10,631,809 |
| Fund balances, July 1, 2015 | <u>12,385,588</u> | <u>9,068,260</u> | <u>549,581</u> | <u>3,067,306</u> | <u>25,070,735</u> |
| Fund balances, June 30, 2016 | <u>\$ 14,878,580</u> | <u>\$ 10,255,731</u> | <u>\$ 7,653,816</u> | <u>\$ 2,914,417</u> | <u>\$ 35,702,544</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, 2016

Net change in fund balances - total governmental funds \$ 10,631,809

Amounts reported for governmental activities in the statement of activities 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 | 5,138,789 | |
| Less: current year depreciation | <u>(2,800,298)</u> | 2,338,491 |

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, contributions and transfers) is to decrease net assets. (3,612,273)

Bond and note proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. 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 position. This is the amount by which proceeds exceeded repayments.

| | | |
|------------------------|------------------|-------------|
| Bond and note proceeds | (9,815,000) | |
| Principal payments | <u>2,107,667</u> | (7,707,333) |

Governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement activities for:

| | | |
|---------------------------------|---------------|-----------|
| Bond premium additions | (184,550) | |
| Less: current year amortization | <u>13,038</u> | (171,512) |

Some items reported in the statement of activities do not provide/require current financial resources and therefore are not reported as revenues/expenses in governmental funds.

| | | |
|--|--|-------------|
| Equity in current year earnings of joint venture | | 123,065 |
| Change in accrued interest on long-term debt | | (15,215) |
| Change in net other post-employment liability | | (1,534,867) |
| Change in accrued compensated absences | | 112,390 |
| Change in net pension liability | | 1,191,693 |

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. (166,101)

Change in net position of governmental activities \$ 1,190,147

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

| | <u>Business-type Activities/Enterprise Funds</u> | | | | <u>Governmental Activities Internal Service Fund</u> |
|--|--|--|--|-----------------------|--|
| | <u>Cookeville Electric Department</u> | <u>Cookeville Gas Department</u> | <u>Cookeville Water Quality Control Department</u> | <u>Totals</u> | |
| Assets and Deferred Outflows of Resources | | | | | |
| Current assets: | | | | | |
| Cash | \$ 7,855,897 | \$ 9,255,354 | \$ 7,077,761 | \$ 24,189,012 | \$ 1,043,997 |
| Sinking fund cash | 762,697 | - | - | 762,697 | - |
| Temporary cash investments | 2,683,865 | 4,338,571 | 2,687,460 | 9,709,896 | 1,852,070 |
| Accounts receivable, net of allowance | 6,317,694 | 515,621 | 1,812,842 | 8,646,157 | - |
| Deposits with TDOT | - | 143,550 | 633,907 | 777,457 | - |
| Inventory of material and supplies | 830,370 | 571,782 | 534,291 | 1,936,443 | - |
| Due from other funds | 87,781 | - | - | 87,781 | - |
| Prepaid expenses and other current assets | 397,340 | 3,061 | 2,501 | 402,902 | 190,711 |
| Total current assets | <u>18,935,644</u> | <u>14,827,939</u> | <u>12,748,762</u> | <u>46,512,345</u> | <u>3,086,778</u> |
| Noncurrent assets: | | | | | |
| Capital assets, non-depreciable | 3,911,454 | 1,437,133 | 2,142,426 | 7,491,013 | |
| Capital assets, depreciable | 63,550,070 | 21,127,316 | 114,632,761 | 199,310,147 | |
| Less: accumulated depreciation | <u>(21,576,749)</u> | <u>(13,584,600)</u> | <u>(57,033,500)</u> | <u>(92,194,849)</u> | |
| | 45,884,775 | 8,979,849 | 59,741,687 | 114,606,311 | |
| Notes receivable | 630,947 | - | - | 630,947 | |
| Water storage rights | - | - | 1,690,126 | 1,690,126 | |
| Other assets | <u>34,889</u> | <u>-</u> | <u>-</u> | <u>34,889</u> | |
| Total noncurrent assets | <u>46,550,611</u> | <u>8,979,849</u> | <u>61,431,813</u> | <u>116,962,273</u> | |
| Deferred outflows of resources: | | | | | |
| Pension outflow | <u>904,416</u> | <u>280,470</u> | <u>829,571</u> | <u>2,014,457</u> | |
| Total deferred outflows of resources | <u>904,416</u> | <u>280,470</u> | <u>829,571</u> | <u>2,014,457</u> | |
| Total assets and deferred outflows of resources | <u>\$ 66,390,671</u> | <u>\$ 24,088,258</u> | <u>\$ 75,010,146</u> | <u>\$ 165,489,075</u> | <u>\$ 3,086,778</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | | | | |
| Current liabilities: | | | | | |
| Accounts payable | \$ 5,208,255 | \$ 427,139 | \$ 292,397 | \$ 5,927,791 | \$ 1,887 |
| Health claims payable | - | - | - | - | 271,787 |
| Due to other funds | 226,271 | 116,666 | 58,409 | 401,346 | - |
| Current portion of long-term debt | 1,636,000 | - | 1,417,116 | 3,053,116 | - |
| Current portion of water storage rights payable | - | - | 89,122 | 89,122 | - |
| Accrued expenses | 16,046 | - | 39,369 | 55,415 | - |
| Unearned revenue | - | 45,333 | - | 45,333 | 10,000 |
| Other current liabilities | <u>11,062</u> | <u>9,014</u> | <u>35,101</u> | <u>55,177</u> | <u>-</u> |
| Total current liabilities | <u>7,097,634</u> | <u>598,152</u> | <u>1,931,514</u> | <u>9,627,300</u> | <u>283,674</u> |
| Noncurrent liabilities: | | | | | |
| Compensated absences | 158,967 | 66,008 | 178,450 | 403,425 | |
| TVA heat pump notes payable | 632,087 | - | - | 632,087 | |
| Water storage rights payable | - | - | 1,829,938 | 1,829,938 | |
| Net other post-retirement liability | 1,516,195 | 578,432 | 1,906,138 | 4,000,765 | |
| Net pension liability | 1,667,996 | 436,839 | 1,476,126 | 3,580,961 | |
| Long-term debt, less current portion | 7,160,000 | - | 3,928,619 | 11,088,619 | |
| Other non-current liabilities | <u>381,459</u> | <u>58,000</u> | <u>-</u> | <u>439,459</u> | |
| Total noncurrent liabilities | <u>11,516,704</u> | <u>1,139,279</u> | <u>9,319,271</u> | <u>21,975,254</u> | |
| Deferred inflows of resources: | | | | | |
| Pension inflow | <u>756,623</u> | <u>197,466</u> | <u>669,389</u> | <u>1,623,478</u> | |
| Total deferred inflows of resources | <u>756,623</u> | <u>197,466</u> | <u>669,389</u> | <u>1,623,478</u> | |
| Total liabilities and deferred inflows of resources | <u>19,370,961</u> | <u>1,934,897</u> | <u>11,920,174</u> | <u>33,226,032</u> | <u>283,674</u> |
| Net position: | | | | | |
| Net investment in capital assets | 37,088,775 | 8,979,849 | 54,395,952 | 100,464,576 | - |
| Unrestricted | <u>9,930,935</u> | <u>13,173,512</u> | <u>8,694,020</u> | <u>31,798,467</u> | <u>2,803,104</u> |
| Total net position | <u>47,019,710</u> | <u>22,153,361</u> | <u>63,089,972</u> | <u>132,263,043</u> | <u>2,803,104</u> |
| Total liabilities, deferred inflows, and net position | <u>\$ 66,390,671</u> | <u>\$ 24,088,258</u> | <u>\$ 75,010,146</u> | <u>\$ 165,489,075</u> | <u>\$ 3,086,778</u> |

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

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED June 30, 2016

| | <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 | \$ 50,893,115 | \$ 8,165,641 | \$ 13,557,685 | \$ 72,616,441 | \$ 4,552,998 |
| Other operating revenue | <u>1,018,725</u> | <u>231,832</u> | <u>560,481</u> | <u>1,811,038</u> | <u>57,784</u> |
| Total operating revenues | <u>51,911,840</u> | <u>8,397,473</u> | <u>14,118,166</u> | <u>74,427,479</u> | <u>4,610,782</u> |
| Operating expenses: | | | | | |
| Purchased utilities | 41,109,157 | 6,106,289 | - | 47,215,446 | - |
| Operating expenses | 2,863,335 | 976,415 | 4,524,883 | 8,364,633 | - |
| Maintenance expenses | 930,325 | 70,653 | 629,720 | 1,630,698 | - |
| Depreciation and amortization | 2,847,675 | 692,408 | 3,130,381 | 6,670,464 | - |
| Utilities | - | - | 1,789,955 | 1,789,955 | - |
| Administrative and general expenses | 972,282 | 726,586 | 3,339,082 | 5,037,950 | 572,420 |
| Health claims | - | - | - | - | 4,283,475 |
| Facilities rental | <u>345,823</u> | <u>-</u> | <u>-</u> | <u>345,823</u> | <u>-</u> |
| Total operating expenses | <u>49,068,597</u> | <u>8,572,351</u> | <u>13,414,021</u> | <u>71,054,969</u> | <u>4,855,895</u> |
| Operating income | <u>2,843,243</u> | <u>(174,878)</u> | <u>704,145</u> | <u>3,372,510</u> | <u>(245,113)</u> |
| Nonoperating revenues (expenses): | | | | | |
| Interest revenue | 40,239 | 38,904 | 35,647 | 114,790 | 7,826 |
| Interest expense | <u>(74,054)</u> | <u>(3,917)</u> | <u>(163,816)</u> | <u>(241,787)</u> | <u>-</u> |
| Total nonoperating revenues (expenses) | <u>(33,815)</u> | <u>34,987</u> | <u>(128,169)</u> | <u>(126,997)</u> | <u>7,826</u> |
| Capital asset transfer | - | - | 4,105,009 | 4,105,009 | - |
| Interfund transfers (out) | <u>(1,134,476)</u> | <u>(167,859)</u> | <u>(280,862)</u> | <u>(1,583,197)</u> | <u>-</u> |
| Income before contributions | 1,674,952 | (307,750) | 4,400,123 | 5,767,325 | (237,287) |
| Capital contributions | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Change in net position | 1,674,952 | (307,750) | 4,400,123 | 5,767,325 | (237,287) |
| Total net position, July 1, 2015 | <u>45,344,758</u> | <u>22,461,111</u> | <u>58,689,849</u> | <u>126,495,718</u> | <u>3,040,391</u> |
| Total net position, June 30, 2016 | <u>\$ 47,019,710</u> | <u>\$ 22,153,361</u> | <u>\$ 63,089,972</u> | <u>\$ 132,263,043</u> | <u>\$ 2,803,104</u> |

Reconciliation of changes in net position to statement of activities:

| | |
|--|---------------------|
| Total changes in net position of business-type activities | \$ 5,767,325 |
| Net income (loss) of internal service fund related to business-type activities | <u>(71,186)</u> |
| Changes in business-type net position included in the statement of activities | <u>\$ 5,696,139</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, 2016

| | <u>Business-type Activities/Enterprise Funds</u> | | | | Governmental Activities Internal Service Fund |
|--|--|--|--|----------------------|--|
| | Cookeville Electric Department | Cookeville Gas Department | Cookeville Water Quality Control Department | Totals | |
| Cash flows from operating activities: | | | | | |
| Cash receipts from customers | \$ 50,788,740 | \$ 8,117,315 | \$ 13,443,837 | \$ 72,349,892 | \$ 4,552,998 |
| Cash receipts from customer service charges | 534,726 | 145,666 | 562,971 | 1,243,363 | - |
| Other operating cash receipts | 584,745 | 77,940 | - | 662,685 | 57,784 |
| Cash payments to suppliers of goods and services | (40,803,896) | (5,840,036) | - | (46,643,932) | - |
| Cash payments to employees for services | (2,419,499) | (823,897) | (971,588) | (4,214,984) | - |
| Cash payments for interfund services used | (479,972) | (326,103) | (620,085) | (1,426,160) | - |
| Cash payments for maintenance expenses | (871,465) | (70,653) | (629,720) | (1,571,838) | - |
| Cash payments for claims | - | - | - | - | (4,452,294) |
| Utilities and other operating cash payments | (1,299,454) | (549,723) | (8,211,708) | (10,060,885) | (572,419) |
| Net cash provided by (used in) operating activities | <u>6,033,925</u> | <u>730,509</u> | <u>3,573,707</u> | <u>10,338,141</u> | <u>(413,931)</u> |
| Cash flows from noncapital financing activities: | | | | | |
| Interfund transfers (out) | (1,134,476) | (167,859) | (280,862) | (1,583,197) | - |
| Net cash (used in) noncapital financing activities | <u>(1,134,476)</u> | <u>(167,859)</u> | <u>(280,862)</u> | <u>(1,583,197)</u> | <u>-</u> |
| Cash flows from capital and related financing activities: | | | | | |
| Proceeds from sale of assets | - | 8,225 | - | 8,225 | - |
| Cash payments for interest | (74,539) | (4,903) | (166,144) | (245,586) | - |
| Reduction of long-term debt | (1,613,000) | (425,000) | (1,448,979) | (3,486,979) | - |
| Acquisition and construction of capital assets | (4,267,147) | (316,141) | (2,718,474) | (7,301,762) | - |
| Other capital asset adjustments | 573,108 | - | - | 573,108 | - |
| Net cash (used in) capital and related financing activities | <u>(5,381,578)</u> | <u>(737,819)</u> | <u>(4,333,597)</u> | <u>(10,452,994)</u> | <u>-</u> |
| Cash flows from investing activities: | | | | | |
| (Increase) decrease in temporary cash investments | (62,397) | (9,926) | 951,034 | 878,711 | (4,319) |
| Cash receipts from interest | 40,240 | 37,847 | 34,766 | 112,853 | 7,836 |
| Net cash provided by (used in) investing activities | <u>(22,157)</u> | <u>27,921</u> | <u>985,800</u> | <u>991,564</u> | <u>3,517</u> |
| Net increase (decrease) in cash and cash equivalents | (504,286) | (147,248) | (54,952) | (706,486) | (410,414) |
| Cash and cash equivalents, July 1, 2015 | 9,122,880 | 9,402,602 | 7,132,713 | 25,658,195 | 1,454,411 |
| Cash and cash equivalents, June 30, 2016 | <u>\$ 8,618,594</u> | <u>\$ 9,255,354</u> | <u>\$ 7,077,761</u> | <u>\$ 24,951,709</u> | <u>\$ 1,043,997</u> |
| Reconciliation of operating income to net cash provided by operating activities: | | | | | |
| Operating income (loss) | \$ 2,843,243 | \$ (174,878) | \$ 704,145 | \$ 3,372,510 | \$ (245,113) |
| Adjustments to reconcile operating income (loss) to net cash provided by operating activities: | | | | | |
| Depreciation and amortization | 2,847,675 | 692,408 | 3,130,381 | 6,670,464 | - |
| (Gain) on asset disposal | - | (8,225) | - | (8,225) | - |
| (Increase) decrease in accounts receivable | 96,324 | (47,041) | (54,222) | (4,939) | - |
| Decrease in due from other funds | 35,866 | - | - | 35,866 | - |
| Decrease in inventory of material and supplies | 119,064 | 343,903 | 16,895 | 479,862 | - |
| (Increase) in prepaid expenses and other current assets | (34,326) | - | - | (34,326) | - |
| Decrease in other assets | 4,178 | - | - | 4,178 | - |
| (Increase) in deferred outflows | (484,827) | (153,983) | (452,329) | (1,091,139) | - |
| (Increase) decrease in other receivables | 79,061 | - | - | 79,061 | (190,414) |
| Increase (decrease) in accounts payable | 151,917 | (78,002) | (251,054) | (177,139) | 599 |
| Increase in net pension | 431,820 | 119,892 | 384,459 | 936,171 | - |
| Increase in health claims payable | - | - | - | - | 20,997 |
| (Decrease) in TVA notes payable | (85,841) | - | - | (85,841) | - |
| Increase (decrease) in accrued expenses and compensated absences | (590) | 7,851 | (21,805) | (14,544) | - |
| Increase in net other post-retirement liability | 184,628 | 81,368 | 233,889 | 499,885 | - |
| Increase (decrease) in due to other funds | (11,573) | (36,619) | 13,839 | (34,353) | - |
| (Decrease) in deferred inflows | (149,141) | (34,765) | (130,491) | (314,397) | - |
| Increase in other non-current liabilities | 6,447 | 18,600 | - | 25,047 | - |
| Net cash provided by (used in) operating activities | <u>\$ 6,033,925</u> | <u>\$ 730,509</u> | <u>\$ 3,573,707</u> | <u>\$ 10,338,141</u> | <u>\$ (413,931)</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, 2016

| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | <u>Variance- Favorable</u> |
|-----------------------------------|-------------------|-------------------|-------------------|--------------------------------|
| | <u>Budget</u> | <u>Budget</u> | | <u>(Unfavorable)</u> |
| Revenues: | | | | |
| Taxes : | | | | |
| Property taxes current | \$ 5,798,934 | \$ 5,838,934 | \$ 5,960,052 | \$ 121,118 |
| Property taxes delinquent | 202,063 | 202,063 | 159,454 | (42,609) |
| Property taxes penalty & interest | 48,586 | 48,586 | 50,033 | 1,447 |
| In lieu of tax- CHA | 40,000 | 40,000 | 50,814 | 10,814 |
| In lieu of tax- Laurel Creek | 600 | 600 | 703 | 103 |
| In lieu of tax- Russell Stover | 46,000 | 46,000 | 46,406 | 406 |
| In lieu of tax- Academy LTD | - | - | 722 | 722 |
| In lieu of tax- TVA | 360,000 | 360,000 | 365,593 | 5,593 |
| Local option sales tax | 11,913,442 | 12,313,442 | 12,518,652 | 205,210 |
| Wholesale beer tax | 1,125,000 | 1,125,000 | 1,136,016 | 11,016 |
| Wholesale liquor tax | 325,000 | 325,000 | 462,500 | 137,500 |
| Business tax | 1,111,950 | 1,111,950 | 1,419,973 | 308,023 |
| Cable TV Franchise tax | 285,000 | 285,000 | 301,192 | 16,192 |
| Total taxes | <u>21,256,575</u> | <u>21,696,575</u> | <u>22,472,110</u> | <u>775,535</u> |
| Licenses and permits: | | | | |
| Beer permits | 6,170 | 6,170 | 6,883 | 713 |
| Beer license | 12,309 | 12,309 | 12,004 | (305) |
| Liquor license | 38,033 | 38,033 | 28,635 | (9,398) |
| Building permits | 190,000 | 190,000 | 197,232 | 7,232 |
| Electrical permits | 57,000 | 57,000 | 52,515 | (4,485) |
| Plumbing permits | 19,000 | 19,000 | 34,005 | 15,005 |
| Mechanical permits | 24,700 | 24,700 | 32,990 | 8,290 |
| Plan review fees | 43,700 | 43,700 | 49,508 | 5,808 |
| Fireworks permits | 11,833 | 11,833 | 13,600 | 1,767 |
| Miscellaneous permits | 21,817 | 21,817 | 29,694 | 7,877 |
| Total licenses and permits | <u>424,562</u> | <u>424,562</u> | <u>457,066</u> | <u>32,504</u> |
| Intergovernmental: | | | | |
| State excise tax | 45,000 | 45,000 | 79,161 | 34,161 |
| State income tax | 430,000 | 460,000 | 525,414 | 65,414 |
| State beer tax | 15,000 | 15,000 | 15,212 | 212 |
| Mixed drink tax | 155,000 | 155,000 | 166,209 | 11,209 |
| Gasoline inspection fee | 61,015 | 61,015 | 63,381 | 2,366 |
| Telecommunications sales tax | 3,000 | 3,000 | 2,615 | (385) |
| Training supplement | 72,600 | 72,600 | 72,000 | (600) |
| Grants-other | 62,050 | 150,050 | 137,814 | (12,236) |
| Total intergovernmental | <u>843,665</u> | <u>961,665</u> | <u>1,061,806</u> | <u>100,141</u> |
| Charges for services: | | | | |
| Clerk's fee | 12,323 | 12,323 | 18,609 | 6,286 |
| Recreation concessions | 56,981 | 56,981 | 50,528 | (6,453) |
| Recreational rentals/admissions | 125,026 | 125,026 | 144,758 | 19,732 |
| Daycamp fees | 56,209 | 56,209 | 79,335 | 23,126 |
| Miscellaneous | 845 | 845 | 800 | (45) |
| Total charges for services | <u>\$ 251,384</u> | <u>\$ 251,384</u> | <u>\$ 294,030</u> | <u>\$ 42,646</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, 2016

| | <u>Original</u> <u>Budget</u> | <u>Final</u> <u>Budget</u> | <u>Actual</u> | <u>Variance-</u> <u>Favorable</u> <u>(Unfavorable)</u> |
|-----------------------------------|----------------------------------|-------------------------------|----------------------|--|
| Revenues: | | | | |
| Fines, forfeitures and penalties: | | | | |
| Court fines and fees | \$ 335,151 | \$ 335,151 | \$ 267,590 | \$ (67,561) |
| Parking violations | 3,679 | 3,679 | 1,038 | (2,641) |
| Other | <u>30,057</u> | <u>30,057</u> | <u>26,298</u> | <u>(3,759)</u> |
| Total fines and costs | <u>368,887</u> | <u>368,887</u> | <u>294,926</u> | <u>(73,961)</u> |
| Miscellaneous: | | | | |
| Interest | 12,130 | 12,130 | 39,565 | 27,435 |
| Rent | 15,175 | 15,175 | 19,975 | 4,800 |
| Contributions | 250 | 10,250 | 10,306 | 56 |
| Admin charges to other funds | 465,996 | 465,996 | 462,790 | (3,206) |
| Other | <u>31,007</u> | <u>31,007</u> | <u>93,689</u> | <u>62,682</u> |
| Total miscellaneous | <u>524,558</u> | <u>534,558</u> | <u>626,325</u> | <u>91,767</u> |
| Total revenues | <u>\$ 23,669,631</u> | <u>\$ 24,237,631</u> | <u>\$ 25,206,263</u> | <u>\$ 968,632</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, 2016

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|---------------------------|----------------------------|-------------------------|----------------------|--|
| Expenses: | | | | |
| General government: | | | | |
| Salaries and wages | \$ 1,173,780 | \$ 1,173,780 | \$ 1,167,266 | \$ 6,514 |
| Payroll taxes and fringes | 472,005 | 472,005 | 467,554 | 4,451 |
| Contractual services | 104,200 | 119,200 | 122,232 | (3,032) |
| Utilities | 1,040,400 | 1,040,400 | 1,001,737 | 38,663 |
| Supplies and maintenance | 191,700 | 206,700 | 200,577 | 6,123 |
| Fixed charges | 15,120 | 15,120 | 15,886 | (766) |
| Miscellaneous | <u>29,000</u> | <u>39,000</u> | <u>41,831</u> | <u>(2,831)</u> |
| Total general government | <u>3,026,205</u> | <u>3,066,205</u> | <u>3,017,083</u> | <u>49,122</u> |
| Public safety: | | | | |
| Police: | | | | |
| Salaries and wages | 5,250,000 | 5,250,000 | 4,916,800 | 333,200 |
| Payroll taxes and fringes | 2,296,016 | 2,296,016 | 2,106,986 | 189,030 |
| Supplies and maintenance | 900,450 | 903,123 | 710,253 | 192,870 |
| Fixed charges | 123,500 | 273,500 | 203,515 | 69,985 |
| Miscellaneous | <u>12,000</u> | <u>100,000</u> | <u>82,861</u> | <u>17,139</u> |
| Total police | <u>8,581,966</u> | <u>8,822,639</u> | <u>8,020,415</u> | <u>802,224</u> |
| Fire: | | | | |
| Salaries and wages | 2,977,400 | 2,977,400 | 2,966,287 | 11,113 |
| Payroll taxes and fringes | 1,397,216 | 1,397,216 | 1,340,395 | 56,821 |
| Supplies and maintenance | 377,561 | 377,561 | 309,673 | 67,888 |
| Fixed charges | 28,300 | 78,300 | 105,050 | (26,750) |
| Miscellaneous | <u>5,000</u> | <u>5,000</u> | <u>5,195</u> | <u>(195)</u> |
| Total fire | <u>4,785,477</u> | <u>4,835,477</u> | <u>4,726,600</u> | <u>108,877</u> |
| Total public safety | <u>\$ 13,367,443</u> | <u>\$ 13,658,116</u> | <u>\$ 12,747,015</u> | <u>\$ 911,101</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, 2016

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|-----------------------------|----------------------------|-------------------------|-------------------|--|
| Planning and codes: | | | | |
| Salaries and wages | \$ 843,500 | \$ 843,500 | \$ 840,769 | \$ 2,731 |
| Payroll taxes and fringes | 329,128 | 329,128 | 309,089 | 20,039 |
| Supplies and maintenance | 106,650 | 106,650 | 92,191 | 14,459 |
| Fixed charges | 6,800 | 6,800 | 21,893 | (15,093) |
| Miscellaneous | <u>3,000</u> | <u>3,000</u> | <u>2,674</u> | <u>326</u> |
| Total planning and codes | <u>1,289,078</u> | <u>1,289,078</u> | <u>1,266,616</u> | <u>22,462</u> |
| Parks and maintenance: | | | | |
| Salaries and wages | 839,450 | 851,450 | 822,121 | 29,329 |
| Payroll taxes and fringes | 360,018 | 360,018 | 334,702 | 25,316 |
| Supplies and maintenance | 205,650 | 205,650 | 175,355 | 30,295 |
| Fixed charges | 20,250 | 60,250 | 47,494 | 12,756 |
| Miscellaneous | <u>200</u> | <u>200</u> | <u>516</u> | <u>(316)</u> |
| Total parks and maintenance | <u>1,425,568</u> | <u>1,477,568</u> | <u>1,380,188</u> | <u>97,380</u> |
| Public works: | | | | |
| Salaries and wages | 1,838,500 | 1,838,500 | 1,804,737 | 33,763 |
| Payroll taxes and fringes | 800,170 | 800,170 | 749,098 | 51,072 |
| Supplies and maintenance | 463,375 | 463,375 | 324,091 | 139,284 |
| Fixed charges | 67,960 | 118,960 | 102,186 | 16,774 |
| Miscellaneous | <u>21,250</u> | <u>21,250</u> | <u>16,887</u> | <u>4,363</u> |
| Total public works | <u>3,191,255</u> | <u>3,242,255</u> | <u>2,996,999</u> | <u>245,256</u> |
| Capital outlay: | | | | |
| Capital outlay | <u>891,734</u> | <u>880,609</u> | <u>645,087</u> | <u>235,522</u> |
| Total capital outlay | <u>\$ 891,734</u> | <u>\$ 880,609</u> | <u>\$ 645,087</u> | <u>\$ 235,522</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, 2016

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|---|----------------------------|-------------------------|------------------|--|
| Culture and recreation: | | | | |
| Salaries and wages | \$ 929,470 | \$ 929,470 | \$ 896,736 | \$ 32,734 |
| Payroll taxes and fringes | 375,627 | 375,627 | 342,661 | 32,966 |
| Supplies and maintenance | 394,575 | 394,575 | 325,648 | 68,927 |
| Fixed charges | 18,200 | 68,200 | 67,060 | 1,140 |
| Miscellaneous | 18,300 | 18,300 | 22,891 | (4,591) |
| | <u>1,736,172</u> | <u>1,786,172</u> | <u>1,654,996</u> | <u>131,176</u> |
| Total culture and recreation | | | | |
| Community Support: | | | | |
| Nonprofit contributions: | | | | |
| Putnam County Library | \$ 325,000 | \$ 325,000 | \$ 322,500 | \$ 2,500 |
| Putnam County Imagination Library | 10,000 | 10,000 | 10,000 | - |
| Cookeville Arts Council | 18,608 | 18,608 | 18,608 | - |
| Cumberland Arts Society, Inc. | 1,900 | 1,900 | 1,900 | - |
| Tennessee Rehabilitation Center | 53,589 | 53,589 | 53,589 | - |
| U C Regional Airport | 28,000 | 28,000 | 28,000 | - |
| Chamber of Commerce | 14,750 | 14,750 | 14,750 | - |
| Chamber of Commerce-Highlands | 50,000 | 50,000 | 50,000 | - |
| Chamber of Commerce-Sports Council | 50,000 | 50,000 | 50,000 | - |
| Emergency Management Agency | 25,400 | 25,400 | 25,400 | - |
| WCTE Public Television | 10,000 | 10,000 | 10,000 | - |
| Operation CityScape | 32,417 | 32,417 | 32,417 | - |
| Genesis House, Inc. | 11,407 | 11,407 | 11,407 | - |
| Stephens Center for Child Abuse | 2,377 | 2,377 | 2,377 | - |
| Kids Putnam, Inc. | 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 | 9,025 | 9,025 | 7,424 | 1,601 |
| Thirteenth Judicial District Regional Drug Court | 7,500 | 7,500 | 7,500 | - |
| Putnam County Veterans Organization | 6,000 | 6,000 | 6,000 | - |
| UCHRA - CASA | 1,500 | 1,500 | 1,500 | - |
| UCHRA - Meals on Wheels | 1,901 | 1,901 | 1,901 | - |
| Veterans Honor Guard | 2,000 | 2,000 | 2,000 | - |
| | <u>740,811</u> | <u>740,811</u> | <u>736,710</u> | <u>4,101</u> |
| Total community support | | | | |

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, 2016

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|----------------------------|-------------------------|----------------------|--|
| Total expenditures | \$ 25,668,266 | \$ 26,140,814 | \$ 24,444,694 | \$ 1,696,120 |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,998,635)</u> | <u>(1,903,183)</u> | <u>761,569</u> | <u>2,664,752</u> |
| Other financing sources (uses): | | | | |
| Interfund transfers in | 1,722,746 | 1,722,746 | 1,690,621 | (32,125) |
| Interfund transfers (out) | (80,000) | (80,000) | (80,000) | - |
| Insurance recoveries | - | 10,692 | 10,692 | - |
| Sale of assets | <u>-</u> | <u>7,781</u> | <u>110,110</u> | <u>102,329</u> |
| Net other financing sources | <u>1,642,746</u> | <u>1,661,219</u> | <u>1,731,423</u> | <u>70,204</u> |
| Net change in fund balance | <u>\$ (355,889)</u> | <u>\$ (241,964)</u> | 2,492,992 | <u>\$ 2,734,956</u> |
| Fund balance, July 1, 2015 | | | <u>12,385,588</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 14,878,580</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 (the City) 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, 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 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 43) as audited by other auditors.

The City has recorded \$ 700,000 in payments in lieu of taxes and \$ 2,788,000 for utilities services from the Medical Center during the year ended June 30, 2016.

The financial statements for Cookeville Regional Medical Center Authority 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 position 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 nonmajor funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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 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 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 2016 fiscal budget which approved such additional expenditures/expenses. 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 \$208,000 for the year ended June 30, 2016.

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 \$3,875,000 in 2016.

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.

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, 2016, the liability for accrued vacation leave is approximately \$1,304,000.

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 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. Bond issue costs are expensed in the period incurred.

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. Deferred Outflows / Inflows of Resources

In addition to assets, the Statement of Financial Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The City only has one item that qualifies for reporting in this category. It is comprised of the deferrals of pension earnings as well as contributions made after the measurement date of the net pension liability.

In addition to liabilities, the Statement of Financial Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. Deferred inflows for pensions are comprised of the deferral of pension experience and earnings recorded in accordance with GASB Statement No. 68. Unavailable revenues from property taxes are amounts in the governmental funds that were receivable and measurable at year-end but were not available to finance expenditures for the current year.

P. Net Position and Fund Balances

Net position represents the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources in the government-wide and business-type fund financial statements. Net position is displayed in three components: net investment in capital assets, restricted, and unrestricted. Net investment in capital assets 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 after adding back unspent proceeds. Net position is 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 unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

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. 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.

Q. *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 \$28,000 to the Upper Cumberland Regional Airport for the year ended June 30, 2016.

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, 2016. An interlocal agreement has been approved that transfers sole responsibility of Putnam County Emergency Management Agency

to Putnam County, Tennessee. Under this agreement, the City of Cookeville would continue to make a contribution of \$25,400 per year for services provided.

The Tennessee Central Heritage Rail Trail Authority was created through an interlocal agreement between Putnam County and the cities of Algood, Cookeville and Monterey. The Town of Monterey has subsequently withdrawn from this agreement. 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 Rail Trail Authority. The City of Cookeville contributed \$7,424 to the Rail Trail Authority for the year ended June 30, 2016.

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 \$322,500 to the Putnam County Library for the year ended June 30, 2016.

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.

R. 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.

S. Recently Issued Accounting Pronouncements

The following are recent accounting pronouncements which, to the extent applicable, pose consideration for the City. Management is currently in the process of determining the impact of these Statements to the City's financial statements.

The GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal year 2017 for the City. The requirements of this Statement will improve financial reporting primarily through enhanced note disclosures and schedules of required supplementary information that will be presented by OPEB plans that are administered through trusts that meet the specified criteria. The net OPEB liability information, including ratios, will offer an up-to-date indication of the extent to which the total OPEB liability is covered by the fiduciary net position of the OPEB plan.

The GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal year 2018 for the City. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, 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 also are addressed.

The GASB issued Statement No. 77, *Tax Abatement Disclosures*, which is effective for fiscal year 2017 for the City. This Statement improved financial reporting by giving users of financial statements essential information regarding tax abatements that is not currently reported consistently or comprehensively.

The GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, required for fiscal periods beginning after December 15, 2015, fiscal year 2017 for the City. This Statement amends the scope and applicability of GASB Statement No. 68 regarding pensions provided to employees of state and local governmental employers through certain cost-sharing multiple-employer defined benefit pension plans.

The GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*, which is effective for fiscal periods beginning after June 15, 2016, fiscal year 2017 for the City. This Statement improves financial reporting by clarifying the financial statement presentation requirements for certain component units.

The GASB issued Statement No. 82, *Pension Issues*, which is effective for fiscal periods beginning after June 15, 2016, except for certain provisions effective for fiscal period beginning after June 15, 2017, fiscal years 2017 and 2018, respectively for the City. This Statement improves financial reporting by enhancing consistency in the application of financial reporting requirements for certain pension issues.

T. 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 Cookeville's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from Cookeville'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.

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 \$491,000 for the year ended June 30, 2016.

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

A schedule of interfund receivables and payables follows:

| <u>Due from:</u> | <u>Due to:</u> | | | <u>Business-type Activities</u> | <u>Total Due From</u> |
|----------------------------------|--------------------------------|-------------------------|---|-------------------------------------|-------------------------------|
| | <u>Governmental Activities</u> | | | | |
| | <u>General Fund</u> | <u>Debt Service</u> | <u>Other Governmental Funds</u> | <u>Electric</u> | |
| <u>Governmental Activities:</u> | | | | | |
| Major Governmental Funds | | | | | |
| General Fund | | \$ 4,088 | \$ 2,490 | \$ 871 | \$ 7,449 |
| Other Governmental Funds | \$ 548,121 | - | - | - | 548,121 |
| <u>Business-type Activities:</u> | | | | | |
| Electric | 226,271 | - | - | - | 226,271 |
| Water Quality Control | 55,499 | - | - | 2,910 | 58,409 |
| Gas | 32,666 | - | - | 84,000 | 116,666 |
| Total Due To | \$ 862,557 | \$ 4,088 | \$ 2,490 | \$ 87,781 | \$ 956,916 |

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>Transfer to:</u> | <u>General</u> | <u>Animal Control</u> | <u>Economic Development</u> | <u>Quality of Life</u> | <u>Cookeville Electric Department</u> | <u>Cookeville Gas Department</u> | <u>Cookeville Water Quality Control Department</u> | <u>Total</u> |
| Animal Control | \$ 80,000 | | | | | | | \$ 80,000 |
| Capital Projects | - | | | | | | | - |
| Economic Developer | - | | | | | | | - |
| General | - | \$ - | \$ 100,000 | \$ 7,424 | \$ 1,134,476 | \$ 167,859 | \$ 280,862 | 1,690,621 |
| Total: | <u>\$ 80,000</u> | <u>\$ -</u> | <u>\$ 100,000</u> | <u>\$ 7,424</u> | <u>\$ 1,134,476</u> | <u>\$ 167,859</u> | <u>\$ 280,862</u> | <u>\$ 1,770,621</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, 2015 | Additions | Retirements | Amortization | Transfers & Reclasses | Balance June 30, 2016 |
|--|-------------------------|---------------------|---------------------|---------------------|--------------------------|--------------------------|
| Government-type activities: | | | | | | |
| Capital assets not being depreciated | | | | | | |
| Land | \$ 10,372,587 | \$ 121,751 | | | | \$ 10,494,338 |
| Construction in progress | 3,783,562 | 4,314,177 | | | \$ (4,156,363) | 3,941,376 |
| Total capital assets not being depreciated | <u>14,156,149</u> | <u>4,435,928</u> | | | <u>(4,156,363)</u> | <u>14,435,714</u> |
| Capital assets, being depreciated | | | | | | |
| Buildings | 13,009,863 | 197,333 | | | 51,354 | 13,258,550 |
| Improvements | 2,331,534 | 545,856 | | | - | 2,877,390 |
| Vehicles | 9,476,940 | 229,532 | \$ (317,534) | | 28,208 | 9,417,146 |
| Machinery and equipment | 3,287,620 | 183,407 | (90,107) | | (28,208) | 3,352,712 |
| Software | 306,305 | - | - | | - | 306,305 |
| Easements | - | 39,469 | - | | - | 39,469 |
| Infrastructure | 49,710,660 | - | - | | - | 49,710,660 |
| Total capital assets being depreciated | <u>78,122,922</u> | <u>1,195,597</u> | <u>(407,641)</u> | | <u>51,354</u> | <u>78,962,232</u> |
| Less accumulated depreciation for: | | | | | | |
| Buildings | (3,741,206) | (281,120) | - | | - | (4,022,326) |
| Improvements | (1,247,786) | (145,508) | - | | - | (1,393,294) |
| Vehicles | (8,046,700) | (592,357) | 317,534 | | (13,472) | (8,334,995) |
| Machinery and equipment | (2,600,910) | (176,491) | 90,107 | | 13,472 | (2,673,822) |
| Software | (302,139) | (4,166) | - | | - | (306,305) |
| Easements | - | (13,156) | - | | - | (13,156) |
| Infrastructure | (25,787,025) | (1,587,500) | - | | - | (27,374,525) |
| Total accumulated depreciation | <u>(41,725,766)</u> | <u>(2,800,298)</u> | <u>407,641</u> | | <u>-</u> | <u>(44,118,423)</u> |
| Total capital assets being depreciated, net | <u>36,397,156</u> | <u>(1,604,701)</u> | <u>-</u> | | <u>51,354</u> | <u>34,843,809</u> |
| Total government-type activities capital assets, net | <u>\$ 50,553,305</u> | <u>\$ 2,831,227</u> | <u>\$ -</u> | | <u>\$ (4,105,009)</u> | <u>\$ 49,279,523</u> |
| Business-type activities: | | | | | | |
| Capital assets not being depreciated | | | | | | |
| Land and easements | \$ 3,857,353 | | | | | \$ 3,857,353 |
| Construction in progress | 2,291,609 | \$ 3,031,466 | | | \$ (1,689,415) | 3,633,660 |
| Total capital assets not being depreciated | <u>6,148,962</u> | <u>3,031,466</u> | | | <u>(1,689,415)</u> | <u>7,491,013</u> |
| Capital assets being depreciated | | | | | | |
| Buildings and improvements | 4,702,236 | - | | | - | 4,702,236 |
| Plant and distribution system | 163,924,517 | 9,152,739 | \$ (1,743,736) | | - | 171,333,520 |
| Machinery and equipment | 12,493,684 | 803,957 | (106,125) | | - | 13,191,516 |
| Furniture and equipment | 649,979 | 108,025 | (31,103) | | - | 726,901 |
| Plant acquisition adjustment | 10,184,660 | - | - | \$ (828,686) | - | 9,355,974 |
| Total capital assets being depreciated | <u>191,955,076</u> | <u>10,064,721</u> | <u>(1,880,964)</u> | <u>(828,686)</u> | <u>-</u> | <u>199,310,147</u> |
| Less accumulated depreciation for: | | | | | | |
| Buildings and improvements | (2,446,396) | (110,335) | - | - | - | (2,556,731) |
| Plant and distribution system | (76,721,612) | (5,147,759) | 1,172,266 | - | - | (80,697,105) |
| Machinery and equipment | (7,975,400) | (457,000) | 104,490 | - | - | (8,327,910) |
| Furniture and equipment | (611,413) | (32,788) | 31,098 | - | - | (613,103) |
| Total accumulated depreciation | <u>(87,754,821)</u> | <u>(5,747,882)</u> | <u>1,307,854</u> | <u>-</u> | <u>-</u> | <u>(92,194,849)</u> |
| Total capital assets being depreciated, net | <u>104,200,255</u> | <u>4,316,839</u> | <u>(573,110)</u> | <u>(828,686)</u> | <u>-</u> | <u>107,115,298</u> |
| Total business-type activities capital assets, net | <u>\$ 110,349,217</u> | <u>\$ 7,348,305</u> | <u>\$ (573,110)</u> | <u>\$ (828,686)</u> | <u>\$ (1,689,415)</u> | <u>\$ 114,606,311</u> |

The City has active construction projects as of June 30, 2016. Total accumulated commitments for ongoing capital projects are comprised of the following:

Governmental activities:

| | |
|---|---------------------|
| Rails with Trails Construction Project | \$ 544,957 |
| Bennett Road Construction | <u>8,250,323</u> |
| Total commitments - governmental activities | <u>\$ 8,795,280</u> |

Proprietary Fund activities:

| | |
|---|------------------|
| Water Quality | |
| Total commitments - Proprietary Fund activities | <u>\$ 88,471</u> |

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

Governmental activities:

| | |
|--|---------------------|
| General government | \$ 82,600 |
| Planning and codes | 14,083 |
| Public safety | 499,578 |
| Public works | 1,949,258 |
| Parks & maintenance | 58,760 |
| Culture and recreation | <u>196,019</u> |
| Total depreciation expense - governmental activities | <u>\$ 2,800,298</u> |

Business-type activities:

| | |
|---|---------------------|
| Cookeville Water Quality Control Department | \$ 3,036,485 |
| Cookeville Electric Department | 2,018,989 |
| Cookeville Gas Department | <u>692,408</u> |
| Total depreciation expense - business-type activities | <u>\$ 5,747,882</u> |

NOTE 6 - LONG-TERM LIABILITIES:

The following summarizes long-term liabilities transactions of the City of Cookeville during the year ended June 30, 2016

| | Balance July 1, 2015 | Additions | Reductions | Balance June 30, 2016 | Amounts Due Within One Year |
|---|-------------------------|---------------------|-----------------------|--------------------------|-----------------------------------|
| <u>Governmental Activities:</u> | | | | | |
| Bonds and notes payable: | | | | | |
| General Obligation Bonds | \$ 9,300,000 | \$ 9,815,000 | \$ (920,000) | \$ 18,195,000 | \$ 1,185,000 |
| Notes payable | 6,546,000 | - | (1,187,667) | 5,358,333 | 1,229,667 |
| Total bonds and notes payable | <u>15,846,000</u> | <u>9,815,000</u> | <u>(2,107,667)</u> | <u>23,553,333</u> | <u>2,414,667</u> |
| Other liabilities: | | | | | |
| Compensated absences | 1,012,160 | - | (112,390) | 899,770 | - |
| Total other liabilities | <u>1,012,160</u> | <u>-</u> | <u>(112,390)</u> | <u>899,770</u> | <u>-</u> |
| Total governmental activities long-term liabilities: | <u>\$ 16,858,160</u> | <u>\$ 9,815,000</u> | <u>\$ (2,220,057)</u> | <u>\$ 24,453,103</u> | <u>\$ 2,414,667</u> |
| <u>Business-Type Activities:</u> | | | | | |
| Bonds and notes payable: | | | | | |
| Revenue bonds payable | \$ 3,725,000 | \$ - | \$ (665,000) | \$ 3,060,000 | \$ 245,000 |
| Notes payable | 13,817,083 | - | (2,735,348) | 11,081,735 | 2,808,116 |
| Total bonds and notes payable | <u>17,542,083</u> | <u>-</u> | <u>(3,400,348)</u> | <u>14,141,735</u> | <u>3,053,116</u> |
| Other liabilities: | | | | | |
| Compensated absences | 402,520 | 905 | - | 403,425 | - |
| TVA heat pump notes payable | 717,928 | 84,954 | (170,795) | 632,087 | - |
| Water storage rights payable | 2,005,691 | - | (86,631) | 1,919,060 | 89,122 |
| Total other liabilities | <u>3,126,139</u> | <u>85,859</u> | <u>(257,426)</u> | <u>2,954,572</u> | <u>89,122</u> |
| Total business-type activities long-term liabilities: | <u>\$ 20,668,222</u> | <u>\$ 85,859</u> | <u>\$ (3,657,774)</u> | <u>\$ 17,096,307</u> | <u>\$ 3,142,238</u> |

Bonds and notes payable at June 30, 2016, are comprised of the following:

Governmental Bonds and Notes Payable:

| | |
|--|----------------------|
| 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. | \$ 5,070,000 |
| 2.0% through 3.2% General Obligation Bonds, Series 2013, issued December 19, 2013, payable in varying amounts plus semi-annual interest through 2029. | 3,560,000 |
| 2.0% through 2.75% General Obligation Bonds, Series 2015, issued November 10, 2015, payable in varying amounts plus semi-annual interest through 2031. | 9,565,000 |
| 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, 2016 is .58%. | 124,000 |
| 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, 2016 is .58%. | 215,000 |
| 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, 2016 is .58%. | 1,497,000 |
| 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, 2016 is .58%. | 1,726,000 |
| 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, 2016 is .58%. | 1,463,000 |
| Capital outlay note payable to Regions Bank dated October 1, 2014 with maturity date of October 1, 2017 principal and interest payments due annually. Interest rate 1.33%. | <u>333,333</u> |
| | <u>\$ 23,553,333</u> |

Business-type Bonds and Notes Payable:

| | |
|--|----------------------|
| Revolving loan payable to State of Tennessee, interest rate 3.14%, due in monthly installments through 2017. | \$ 737,311 |
| Revolving loan payable to State of Tennessee, interest rate 2.5%, due in monthly installments through 2031. | 1,621,424 |
| 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, 2016 is .61%. | 2,987,000 |
| 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%. | 3,060,000 |
| Notes payable to UCEMC related to various annexations, payable annually through 2017 without interest. | 2,000,000 |
| Notes payable to Tennessee Municipal Bond Fund, maximum borrowing of \$6,000,000, payable annually beginning in 2009 through 2024, variable interest rate. | <u>3,736,000</u> |
| | <u>\$ 14,141,735</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 |
| 2017 | \$ 1,185,000 | \$ 527,409 |
| 2018 | 1,260,000 | 499,209 |
| 2019 | 1,290,000 | 468,321 |
| 2020 | 1,315,000 | 435,236 |
| 2021 | 1,350,000 | 397,556 |
| 2022 | 1,380,000 | 357,859 |
| 2023 | 1,420,000 | 316,184 |
| 2024 | 1,455,000 | 272,221 |
| 2025 | 1,495,000 | 225,929 |
| 2026 | 1,535,000 | 175,836 |
| 2027 | 980,000 | 122,256 |
| 2028 | 1,010,000 | 96,465 |
| 2029 | 1,040,000 | 69,010 |
| 2030 | 730,000 | 40,700 |
| 2031 | 750,000 | 20,625 |
| Total | <u>\$ 18,195,000</u> | <u>\$ 4,024,816</u> |

Notes Payable

| Year Ending June 30, | Governmental Activities | | Business-type Activities | |
|-------------------------|-------------------------|-------------------|--------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2017 | \$ 1,229,667 | \$ 33,578 | \$ 2,808,116 | \$ 93,530 |
| 2018 | 921,666 | 25,197 | 2,339,911 | 70,954 |
| 2019 | 786,000 | 18,600 | 1,292,440 | 61,298 |
| 2020 | 820,000 | 14,042 | 1,354,900 | 51,677 |
| 2021 | 442,000 | 9,285 | 578,432 | 41,626 |
| 2022 | 462,000 | 6,723 | 604,024 | 36,273 |
| 2023 | 481,000 | 4,043 | 631,676 | 30,727 |
| 2024 | 216,000 | 1,253 | 661,400 | 24,964 |
| 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 | 721 |
| Total | <u>\$ 5,358,333</u> | <u>\$ 112,721</u> | <u>\$ 11,081,735</u> | <u>\$ 481,250</u> |

Revenue Bonds

| Year Ending June 30, | Business-type Activities | |
|-------------------------|--------------------------|-------------------|
| | Principal | Interest |
| 2017 | \$ 245,000 | \$ 67,987 |
| 2018 | 250,000 | 63,037 |
| 2019 | 255,000 | 57,988 |
| 2020 | 260,000 | 51,538 |
| 2021 | 270,000 | 43,588 |
| 2022 | 275,000 | 35,412 |
| 2023 | 285,000 | 28,437 |
| 2024 | 290,000 | 22,688 |
| 2025 | 300,000 | 16,788 |
| 2026 | 310,000 | 10,494 |
| 2027 | 320,000 | 3,600 |
| Total | <u>\$ 3,060,000</u> | <u>\$ 401,557</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 \$144,295 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, 2017 through 2033.

| | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|-----------|--------------------|------------------|---------------------|
| 2017 | \$ 89,122 | \$ 55,173 | \$ 144,295 |
| 2018 | 91,684 | 52,611 | 144,295 |
| 2019 | 94,320 | 49,975 | 144,295 |
| 2020 | 97,032 | 47,263 | 144,295 |
| 2021 | 99,822 | 44,473 | 144,295 |
| 2022-2026 | 543,842 | 177,633 | 721,475 |
| 2027-2031 | 626,645 | 94,830 | 721,475 |
| 2032-2033 | 276,593 | 11,984 | 288,577 |
| | <u>\$1,919,060</u> | <u>\$533,942</u> | <u>\$ 2,453,002</u> |

NOTE 7 - PENSION PLANS:

General Information about the Pension Plan

Plan description. Employees of Cookeville 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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits provided. Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with 5 years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at 3 percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent.

Employees covered by benefit terms. At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

| | |
|--|---------------------|
| Inactive employees or beneficiaries currently receiving benefits | 451 |
| Inactive employees entitled to but not yet receiving benefits | 742 |
| Active employees | <u>397</u> |
| Total | <u><u>1,590</u></u> |

Contributions. Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. Employees are non-contributory. Cookeville makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2016, employer contributions for Cookeville were \$3,230,243 based on a rate of 16.04 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept Cookeville's state shared taxes if required employer contributions are not remitted. The employer's actuarially determined contribution (ADC) and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Liability (Asset)

Cookeville's net pension liability (asset) was measured as of June 30, 2015, and the total pension liability (asset) used to calculate net pension liability (asset) was determined by an actuarial valuation as of that date.

Actuarial assumptions. The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.0 percent |
| Salary increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment rate of return | 7.5 percent, net of pension plan investment expenses, including inflation |
| Cost-of-Living Adjustment | 2.5 percent |

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June

30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Long-Term Expected Real Rate of Return | Target Allocations |
|---------------------------------------|--|-----------------------|
| U.S. equity | 6.46% | 33% |
| Developed market international equity | 6.26% | 17% |
| Emerging market international equity | 6.40% | 5% |
| Private equity and strategic lending | 4.61% | 8% |
| U.S. fixed income | 0.98% | 29% |
| Real estate | 4.73% | 7% |
| Short-term securities | 0.00% | <u>1%</u> |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate. The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from Cookeville will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Position Liability

| | Total Pension Liability <u>(a)</u> | Increase (Decrease) Plan Fiduciary Net Position <u>(b)</u> | Net Pension Liability (Asset) <u>(a) - (b)</u> |
|--|--|---|--|
| Balance at June 30, 2014 | \$ 115,305,672 | \$ 106,177,777 | \$ 9,127,895 |
| Service cost | 1,689,810 | | 1,689,810 |
| Interest | 8,602,992 | | 8,602,992 |
| Differences between expected and actual experience | (713,628) | | (713,628) |
| Contributions-employer | | 3,098,708 | (3,098,708) |
| Contributions-employee | | 64,305 | (64,305) |
| Net investment income | | 3,248,066 | (3,248,066) |
| Benefit payments, including refunds of employee contributions | (4,577,856) | (4,577,856) | - |
| Administrative expense | - | (20,940) | 20,940 |
| Net changes | <u>5,001,318</u> | <u>1,812,283</u> | <u>3,189,035</u> |
| Balance at June 30, 2015 | <u>\$ 120,306,990</u> | <u>\$ 107,990,060</u> | <u>\$ 12,316,930</u> |

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability (asset) of the City calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | 1% Decrease <u>(6.50%)</u> | Current Rate <u>(7.50%)</u> | 1% Increase <u>(8.50%)</u> |
|-------------------------------|-------------------------------|--------------------------------|-------------------------------|
| Net Pension Liability (Asset) | \$27,803,729 | \$12,316,930 | (\$624,060) |

Pension Expense (Income) and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Pension expense. For the year ended June 30, 2016, Cookeville recognized pension expense of \$1,457,475.

Deferred outflows of resources and deferred inflows of resources. For the year ended June 30, 2016, Cookeville reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|--|---|
| Differences between expected and actual experience | | \$ 609,530 |
| Changes of assumptions | | - |
| Net difference between projected and actual earnings of pension plan investments | \$ 3,615,052 | 4,977,472 |
| Contributions subsequent to measurement date of June 30, 2015 | <u>3,138,004</u> | <u>-</u> |
| Total | <u>\$ 6,753,056</u> | <u>\$ 5,587,002</u> |

The amount shown above for "Contributions subsequent to the measurement date of June 30, 2015," will be recognized as a reduction (increase) to net pension liability (asset) in the following measurement period. A contribution of \$92,239 was paid for employees assisting with customer service. This amount was allocated to the proprietary funds as part of an administrative overhead charge and expensed as incurred.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|-------------|
| 2017 | (\$882,475) |
| 2018 | (\$882,475) |
| 2019 | (\$882,475) |
| 2020 | \$789,559 |
| 2021 | - |
| Thereafter | - |

In the table shown above, positive amounts will increase pension expense while negative amounts will decrease pension expense.

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 \$410,000 deductible in aggregate.

Claims expensed during the year ended June 30, 2016, totaled approximately \$121,000 for general liability and \$528,000 for worker's compensation. Liabilities for claims incurred but not reported as of June 30, 2016, are not calculated by an actuary. The plan administrator reported claims payable of approximately \$245,000 as of June 30, 2016 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, 2016, are not calculated by an actuary. The plan administrator reported health claims payable of approximately \$272,000 as of June 30, 2016. 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, 2016, the amount for health insurance claims and premiums totaled approximately \$4,300,000.

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, 2015 |
| 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, 2016 were as follows:

| | Governmental Activities | Business-Type Activities | Total |
|--------------------------------|----------------------------|-----------------------------|----------------------|
| Annual required contribution | \$ 2,254,827 | \$ 522,014 | \$ 2,776,841 |
| Interest on Net OPEB | 371,193 | 140,036 | 511,229 |
| Adjustment | (372,952) | (140,699) | (513,651) |
| Contribution made | <u>(718,201)</u> | <u>(21,466)</u> | <u>(739,667)</u> |
| Change in Net OPEB, Obligation | 1,534,867 | 499,885 | 2,034,752 |
| Net OPEB Obligation, beginning | <u>9,279,854</u> | <u>3,500,880</u> | <u>12,780,734</u> |
| Net OPEB Obligation, ending | <u>\$ 10,814,721</u> | <u>\$ 4,000,765</u> | <u>\$ 14,815,486</u> |

Three-Year Trend Information

| Year | Annual OPEB Cost (AOC) | Percentage of AOC Contributed | Net OPEB Obligation (Asset) |
|------|---------------------------|-------------------------------------|-----------------------------------|
| 2016 | \$ 2,774,419 | 27% | \$ 14,815,486 |
| 2015 | 2,590,632 | 27% | 12,780,734 |
| 2014 | 2,476,922 | 25% | 10,874,979 |

NOTES TO FINANCIAL STATEMENTS
(COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY)
AUDITED BY OTHER AUDITORS

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements

Years Ended June 30, 2016 and 2015

NOTE A--REPORTING ENTITY

Cookeville Regional Medical Center Authority (the Authority) was established by a Private Act of the State of Tennessee legislature during 1999 (the Private Act) for the purpose of operating Cookeville Regional Medical Center (CRMC) 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 CRMC as that of the Authority and granted such powers to the Authority as permitted under the State of Tennessee Private Act Hospital Authority Act of 1996. The initial members of the Board of Trustees of the Authority, a quasi-municipal corporation independent of the City of Cookeville (the City), were the same as those of the Medical Center and were elected by the Cookeville City Council as provided in the Private Act. The Authority is considered a component unit of the City for the City's financial reporting purposes. The Authority consists of CRMC and its component units (collectively, the Medical Center) 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 as a department of the Medical Center.

The primary mission of the Medical Center is to provide inpatient and outpatient healthcare services to the citizens of Cookeville, Tennessee, Putnam County and surrounding areas.

Blended Component Units: The accompanying financial statements include the accounts of four blended component units as the governing bodies of each are essentially the same as that of CRMC. The CRMC Children's Center (the Children's Center) and Cookeville Regional Medical Group, Inc. began operations during the year ended June 30, 2005.

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(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

The Children's Center was established to provide a quality early childhood program to employees of CRMC. In March 2012, the former CRMC MSO, Inc. (the MSO) was formally renamed Cookeville Regional Medical Group, Inc. (CRMG). The CRMG was established to provide physician services to the City of Cookeville and the surrounding areas. In January 2012, CRMC MSO Sub 1 (MSO Sub 1) was established to provide cardiology services. In August 2012, Cumberland River Hospital, Inc. (Cumberland River) in Celina, Tennessee was acquired by CRMC to extend the health network into surrounding counties. In August 2015, Cumberland River achieved Critical Access Hospital designation and, as such, is now reimbursed for patient care services based on cost. CRMC and its blended component units are individually considered major funds as the Medical Center believes these funds are important to financial statement users.

NOTE B--SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting: The Medical Center utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis, which is an economic resources measurement focus approach to accounting. In December 2010, Governmental Accounting Standards Board (GASB) issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. GASB 62 makes the GASB *Accounting Standards Codification* the sole source of authoritative accounting technical literature for governmental entities in the United States of America. In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*. GASB 62 and 63 were effective for periods beginning after December 15, 2011.

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 investment portfolios, to be cash equivalents. Cash and cash equivalents consist of amounts maintained in bank deposit and money market accounts which are insured by the Federal Deposit Insurance Corporation, state depository insurance funds or multiple financial institution collateral pools, or otherwise collateralized by securities held by the Medical Center or by its agents in the Medical Center's name. The fair value approximates cost due to the nature of the assets.

Inventories: Inventories consist principally of medical and surgical supplies, general store supplies, pharmacy items and dietary foods and are stated at the lower of cost (first-in, first-out method) or fair market value.

Investments: Investments consist of short-term repurchase agreements, certificates of deposit, mortgage-backed securities, and United States government agency securities. These investments are reported at fair market value in accordance with GASB Statement No. 31, *Accounting and*

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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 remaining 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 position as a component of investment income.

Assets Limited as to Use: Assets limited as to use include cash and investments designated by the Board of Trustees for future capital improvements, over which the Board retains control and may at its discretion use for other purposes and amounts required by a bond indenture agreement.

Derivative Instruments: The Medical Center records all derivatives as assets or liabilities in the statements of net position at estimated fair value. The Medical Center's derivative holdings consist of an interest rate swap agreement (Note I). 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 in the statements of net position as deferred outflows. Effectiveness is determined by considering whether the changes in cash flows or fair values of the potential hedging derivative instrument substantially offset the changes in cash flows or fair values of the hedgeable item.

The Medical Center's objective in using derivatives is to manage the mix of fixed versus variable rate debt.

Property and Equipment: Property and equipment 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 to be 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 to determine if facts and circumstances indicate that the carrying value may have been impaired. Costs of maintenance and repairs are expensed as incurred. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Investment in Joint Venture: Investment in a joint venture is accounted for under the equity method of accounting and the Medical Center recognizes its share in the results of the underlying activities in the joint venture.

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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.

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 position.

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 payers. 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 collectability. Such evaluation includes historical experience, aging of the receivables and other factors which affect the collectability of the receivables. The estimated provision for bad debts is reported as a reduction in net patient service revenue.

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

Net Position: Net position of the Medical Center is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the remaining balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted* net position is the noncapital net position 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 for pension related purposes or as required by revenue bond indentures. *Unrestricted* is the remaining net position that does not meet the definition of *net investment in capital assets* or *restricted*. The Medical Center first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Operating Revenue and Expenses: The Medical Center's statements of revenue, expenses and changes in net position 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 and investment income, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services, other than financing costs and losses on disposal of assets.

Charity Care: The Medical Center accepts all patients regardless of their ability to pay. A patient is classified as a charity patient by reference to certain established policies of the Medical Center. In assessing a patient's inability to pay, the Medical Center utilizes generally recognized poverty income levels. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, charges related to charity care are not included in net patient service revenue. In addition to these charity care services, the Medical Center provides a number of other services to benefit underprivileged patients for which little or no payment is received, including providing services to TennCare and state indigent patients and providing various public health education, health evaluation and screening programs.

Income Taxes: The Medical Center is classified as an organization exempt from federal income taxes as a quasi-municipal corporation and formerly as an enterprise fund of the City. Accordingly, no provision for income taxes has been included in the accompanying financial statements.

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.

Performance Indicator: Increase (decrease) in net position reflected in the accompanying statements of revenue, expenses and changes in net position is a performance indicator.

Pensions: For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Medical Center's participation in the Public Employee Retirement Plan of the Tennessee Consolidated Retirement System (TCRS), and additions to/deductions from the Medical Center'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

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

accordance with the benefit terms of the Public Employee Retirement Plan of TCRS. Investments are reported at fair value.

Recently Issued or Effective Accounting Pronouncements: In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*, which prescribes how governmental entities should define and measure fair value, provides guidance on which assets and liabilities should be measured at fair value, and expands disclosures related to fair value measurements. The Statement amends the definitions of fair value currently utilized by GASB and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is described as an exit price. The Statement assumes that the transaction occurs in the principal, or most advantageous, market for the asset or liability and fair value is to be determined using one of three valuation approaches: market, cost, or income. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows or income and expenses, to a single, current, discounted amount. The Statement generally requires investments to be measured at fair value and defines an investment as a security or other asset that (a) a governmental entity holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. A government entity is permitted in certain circumstances to establish the fair value of an investment that does not have a readily determinable fair value by using the net asset value per share, or its equivalent, of the investment. The Statement establishes a hierarchy of inputs to valuation techniques used to measure fair value. That hierarchy has three levels. Level 1 inputs are quoted prices, unadjusted, in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices, included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. The provisions of this Statement are effective for fiscal years beginning after June 15, 2015. Early adoption is permitted. The Medical Center adopted this Statement during 2016 and it did not have a significant impact on the financial statements.

Subsequent Events: The Medical Center has evaluated all events or transactions that occurred after June 30, 2016, through November 8, 2016, the date the financial statements were available to be issued. During this period, management did not note any material recognizable subsequent events that require recognition or disclosure in the June 30, 2016 financial statements with the exception of that noted at Note H.

Reclassifications: Certain 2015 amounts have been reclassified to conform with the 2016 presentation in the accompanying financial statements.

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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

A significant portion of the amount of services provided by the Medical Center is to patients whose bills are paid by third-party payers 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 revenue, expenses and changes in net position is as follows:

| | <i>Year Ended June 30,</i> | |
|--|----------------------------|-----------------------|
| | <i>2016</i> | <i>2015</i> |
| Gross patient service charges | \$ 670,539,035 | \$ 610,885,816 |
| Less: Medicare contractual adjustments | (229,311,862) | (207,411,241) |
| TennCare contractual adjustments | (61,461,405) | (55,078,839) |
| Other contractual adjustments | (79,844,056) | (65,691,889) |
| Bad debt | (21,345,078) | (21,137,682) |
| Charity care | (2,223,232) | (3,596,299) |
| | <u>(394,185,633)</u> | <u>(352,915,950)</u> |
| Net patient service revenue | <u>\$ 276,353,402</u> | <u>\$ 257,969,866</u> |

Net patient accounts receivable consist of the following:

| | <i>June 30,</i> | |
|--|----------------------|----------------------|
| | <i>2016</i> | <i>2015</i> |
| Medicare | \$ 11,633,108 | \$ 11,088,217 |
| TennCare | 3,710,424 | 2,648,546 |
| Blue Cross and commercial | 7,477,275 | 7,427,332 |
| Patients, including self-insured | 24,528,163 | 22,944,675 |
| | <u>47,348,970</u> | <u>44,108,770</u> |
| Less: estimated allowance for uncollectible accounts | <u>(19,667,391)</u> | <u>(17,483,725)</u> |
| | <u>\$ 27,681,579</u> | <u>\$ 26,625,045</u> |

NOTE D--THIRD-PARTY PAYER AGREEMENTS

The Medical Center renders services to patients under contractual arrangements with the Medicare and Medicaid programs. Effective January 1, 1994, the Medicaid program in

**COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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 specific reserves or allowances have been established with regard to these increased audits and reviews as management is not able to estimate such amounts. Management believes that any adjustments from these increased audits and reviews will not have a material adverse impact on the financial statements. However, due to uncertainties in the estimation, it is at least reasonably possible that management's estimate will change in the future, although the amount of the change cannot be estimated. In addition, participation in these programs subjects the Medical Center to significant rules and regulations; failure to adhere to such could result in fines, penalties or expulsion from the programs.

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

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 \$161,000,000 and \$25,000,000, respectively, in 2016 and approximately \$150,000,000 and \$23,000,000, respectively, in 2015. Laws and regulations governing the Medicare and TennCare programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The filed cost reports are subject to audits, reviews, and investigations.

The Medical Center has also entered into reimbursement agreements with certain commercial insurance companies, health maintenance organizations and preferred provider organizations. The basis for reimbursement under these agreements includes prospectively determined rates per discharge, per diem rates, case rates and discounts from established charges.

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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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 in revenue of approximately \$3,137,000 and \$2,290,000 for the years ended June 30, 2016 and 2015, respectively.

The American Recovery and Reinvestment Act of 2009 (ARRA) established incentive payments under the Medicare and Medicaid programs for hospitals that implemented “meaningful use” certified electronic health records (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 in hospitals that first start receiving payments in federal fiscal year 2014 or 2015.

The Medical Center attested to achieving the Medicare meaningful use criteria during 2016 and 2015. The Medical Center recognized income from Medicare of approximately \$1,661,000 and \$2,062,000 in 2016 and 2015, respectively. There was no income recognized from Medicaid in 2016 or 2015. Compliance with meaningful use criteria is subject to audit by the federal government or its designee and incentive payments are subject to adjustment in a future period.

Cumberland River met the meaningful use criteria during 2014 and received approximately \$797,000 during the year ended June 30, 2015. There were no meaningful use funds received by Cumberland River during the year ended June 30, 2016.

The income is reported as other revenue in the accompanying statements of revenue, expenses and changes in net position.

NOTE E--INVESTMENTS AND ASSETS LIMITED AS TO USE

The Medical Center’s investments (including assets limited as to use) are reported at estimated fair value based on quoted market prices. The Medical Center invests in U.S. government agency securities, mortgage-backed securities, certificates of deposit, and short-term repurchase agreements that are in accordance with the Medical Center’s investment policy.

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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

The carrying amounts of deposits and investments included in the Medical Center's statements of net position are as follows:

| | <i>June 30,</i> | |
|--|-----------------|---------------|
| | <i>2016</i> | <i>2015</i> |
| Carrying amount: | | |
| Cash and cash equivalents | \$ 48,264,178 | \$ 50,768,265 |
| Investments | 14,463,605 | 8,926,125 |
| Total deposits and investments | \$ 62,727,783 | \$ 59,694,390 |
| Included in the following statements of net position captions: | | |
| Cash and cash equivalents | \$ 38,264,178 | \$ 40,279,847 |
| Short-term investments | 282 | 500,955 |
| Long-term investments | 14,463,323 | 8,425,170 |
| Assets internally designated for capital acquisition | 10,000,000 | 10,000,000 |
| Assets designated by bond indenture agreement | - | 488,418 |
| | \$ 62,727,783 | \$ 59,694,390 |

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, 2016 is as follows:

| | <i>Fair Value</i> | <i>Investment Maturities (in Years)</i> | | | |
|--|-------------------|---|--------------|---------------|---------------------|
| | | <i>Less Than 1</i> | <i>1 - 5</i> | <i>6 - 10</i> | <i>More Than 10</i> |
| Undesignated | \$ 14,463,605 | \$ 282 | \$ 2,997,624 | \$ - | \$ 11,465,699 |
| Assets internally designated for capital acquisition | 10,000,000 | 10,000,000 | - | - | - |
| Cash and cash equivalents | 38,264,178 | 38,264,178 | - | - | - |
| Total | \$ 62,727,783 | \$ 48,264,460 | \$ 2,997,624 | \$ - | \$ 11,465,699 |

Credit Risk: The Medical Center's investment policy requires that investments be made only in U.S. government agency securities, U.S. Treasury 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, 2016 and 2015, 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).

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

Custodial Credit Risk: The Medical Center's investment securities may be exposed to custodial credit risk at certain times when 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. At June 30, 2016, no more than \$1,500,000 is invested in any one investment security. As of June 30, 2016 and 2015, the Medical Center's investments consist of mortgage-backed securities, all of which are issued by Federal National Mortgage Association, Government National Mortgage Association, or Federal Home Loan Mortgage Corporation, and U.S. Treasury securities.

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

| | <u>2016</u> | <u>2015</u> |
|---|-------------------|-------------------|
| Interest income, net of realized gains/losses | \$ 412,389 | \$ 275,611 |
| Unrealized (loss) gain on investments | (84,392) | (47,204) |
| | <u>\$ 327,997</u> | <u>\$ 228,407</u> |

NOTE F--PROPERTY AND EQUIPMENT, NET

The Authority's rights to use of the capital assets of the Medical Center, which belong to the City of Cookeville, are defined in the Private Act and in the agreement between the City and the Authority as discussed in Note A. A summary of property and equipment and schedule of activity is as follows:

| | <i>Balance at</i> <i>June 30, 2015</i> | <i>Additions</i> | <i>Retirements</i> | <i>Transfers</i> | <i>Balance at</i> <i>June 30, 2016</i> |
|------------------------------------|---|------------------|--------------------|-------------------|---|
| Land | \$ 16,270,720 | \$ 290,300 | \$ (169,725) | \$ - | \$ 16,391,295 |
| Land improvements | 6,009,583 | - | - | - | 6,009,583 |
| Building | 184,590,923 | 354,774 | (147,180) | 9,213,478 | 194,011,995 |
| Automobiles | 141,819 | 28,434 | - | - | 170,253 |
| Equipment | 87,619,741 | 4,168,292 | (4,538,362) | 2,554,164 | 89,803,835 |
| Equipment under capitalized leases | 5,564,021 | - | - | - | 5,564,021 |
| | <u>300,196,807</u> | <u>4,841,800</u> | <u>(4,855,267)</u> | <u>11,767,642</u> | <u>311,950,982</u> |

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

| | <i>Balance at</i> | | | | <i>Balance at</i> |
|--|-----------------------|-----------------------|---------------------|------------------|-----------------------|
| | <i>June 30, 2015</i> | <i>Additions</i> | <i>Retirements</i> | <i>Transfers</i> | <i>June 30, 2016</i> |
| Less: accumulated depreciation and amortization: | | | | | |
| Land improvements | 2,884,264 | 267,917 | - | - | 3,152,181 |
| Building | 53,542,762 | 5,632,763 | (3,345) | - | 59,172,180 |
| Automobiles | 141,819 | 6,516 | - | - | 148,335 |
| Equipment | 73,003,712 | 8,934,363 | (4,548,011) | - | 77,390,064 |
| Equipment under capitalized leases | 5,623,903 | 107,823 | - | - | 5,731,726 |
| | 135,196,460 | 14,949,382 | (4,551,356) | - | 145,594,486 |
| Construction in progress | 8,024,367 | 4,401,624 | - | (11,767,642) | 658,349 |
| | <u>\$ 173,024,714</u> | <u>\$ (5,705,958)</u> | <u>\$ (303,911)</u> | <u>\$ -</u> | <u>\$ 167,014,845</u> |
| | | | | | |
| | <i>Balance at</i> | | | | <i>Balance at</i> |
| | <i>June 30, 2014</i> | <i>Additions</i> | <i>Retirements</i> | <i>Transfers</i> | <i>June 30, 2015</i> |
| Land | \$ 16,074,556 | \$ 196,164 | \$ - | \$ - | \$ 16,270,720 |
| Land improvements | 6,009,583 | - | - | - | 6,009,583 |
| Building | 184,567,975 | 4,026 | - | 18,922 | 184,590,923 |
| Automobiles | 180,122 | - | (38,303) | - | 141,819 |
| Equipment | 87,308,130 | 2,174,412 | (2,827,121) | 964,320 | 87,619,741 |
| Equipment under capitalized leases | 5,431,889 | 132,132 | - | - | 5,564,021 |
| | 299,572,255 | 2,506,734 | (2,865,424) | 983,242 | 300,196,807 |
| Less: accumulated depreciation and amortization: | | | | | |
| Land improvements | 2,616,347 | 267,917 | - | - | 2,884,264 |
| Building | 47,948,713 | 5,594,049 | - | - | 53,542,762 |
| Automobiles | 180,122 | - | (38,303) | - | 141,819 |
| Equipment | 65,890,413 | 9,543,461 | (2,430,162) | - | 73,003,712 |
| Equipment under capitalized leases | 5,516,080 | 107,823 | - | - | 5,623,903 |
| | 122,151,675 | 15,513,250 | (2,468,465) | - | 135,196,460 |
| Construction in progress | 4,930,487 | 4,077,122 | - | (983,242) | 8,024,367 |
| | <u>\$ 182,351,067</u> | <u>\$ (8,929,394)</u> | <u>\$ (396,959)</u> | <u>\$ -</u> | <u>\$ 173,024,714</u> |

Construction in progress at June 30, 2016 consists of construction on the pharmacy, the cardiovascular operating room relocation and expansion, and the new linear accelerator project. Estimated costs to complete these projects amounted to approximately \$5,745,000 at June 30, 2016.

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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

NOTE G--INVESTMENT IN JOINT VENTURE

The Medical Center previously 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 June 30, 2016 and 2015 is as follows (unaudited):

| | <i>Year Ended June 30,</i> | |
|-----------------|----------------------------|---------------------|
| | <i>2016</i> | <i>2015</i> |
| Assets | \$ 2,219,000 | \$ 2,131,000 |
| Liabilities | \$ 525,000 | \$ 671,000 |
| Member's equity | 1,694,000 | 1,460,000 |
| | <u>\$ 2,219,000</u> | <u>\$ 2,131,000</u> |

NOTE H--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 A. A schedule of changes in the Medical Center's long-term debt is as follows:

| | <i>Balance at</i> | | | <i>Balance at</i> | <i>Amounts Due</i> |
|---------------------------------|----------------------|------------------|-----------------------|----------------------|---------------------|
| | <i>June 30, 2015</i> | <i>Additions</i> | <i>Reductions</i> | <i>June 30, 2016</i> | <i>Within</i> |
| | | | | | <i>One Year</i> |
| Series 2009 Bonds | \$ 26,855,000 | \$ - | \$ (720,000) | \$ 26,135,000 | \$ 777,206 |
| Series 2010-A Bonds | 10,365,970 | - | (582,555) | 9,783,415 | 600,785 |
| Series 2010-B Bonds | 13,979,030 | - | (784,945) | 13,194,085 | 809,509 |
| Build America Bonds Series 2010 | 26,980,000 | - | (880,000) | 26,100,000 | 930,000 |
| Companion Instrument | 735,076 | - | (468,751) | 266,325 | 266,325 |
| | <u>\$ 78,915,076</u> | <u>\$ -</u> | <u>\$ (3,436,251)</u> | <u>\$ 75,478,825</u> | <u>\$ 3,383,825</u> |

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Years Ended June 30, 2016 and 2015

| | <i>Balance at</i> | | <i>Balance at</i> | | <i>Amounts Due</i> |
|---------------------------------|----------------------|------------------|-----------------------|----------------------|---------------------|
| | <i>June 30, 2014</i> | <i>Additions</i> | <i>Reductions</i> | <i>June 30, 2015</i> | <i>Within</i> |
| | | | | | <i>One Year</i> |
| Series 2009 Bonds | \$ 27,545,000 | \$ - | \$ (690,000) | \$ 26,855,000 | \$ 720,000 |
| Series 2010-A Bonds | 10,924,030 | - | (558,060) | 10,365,970 | 582,555 |
| Series 2010-B Bonds | 14,730,970 | - | (751,940) | 13,979,030 | 784,945 |
| Build America Bonds Series 2010 | 27,810,000 | - | (830,000) | 26,980,000 | 880,000 |
| Companion Instrument | 1,218,650 | - | (483,574) | 735,076 | 468,751 |
| | <u>\$ 82,228,650</u> | <u>\$ -</u> | <u>\$ (3,313,574)</u> | <u>\$ 78,915,076</u> | <u>\$ 3,436,251</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 then outstanding balance of the Series 2006 Bonds. Also during 2010, the Medical Center issued \$12,775,000 Revenue Refunding Bonds (Series 2010-A) and \$17,225,000 Revenue Refunding Bonds (Series 2010-B) (collectively, the Series 2010 Bonds) in order to fully redeem or pay off the then-outstanding balance of the Series 2001 A-2, 2001 A-3, and Series 2006 Bonds. The Series 2009 Bonds and Series 2010 Bonds bear interest at a variable rate, equal to the sum of 65% of the sum of the 30-day London Interbank Offered Rate (LIBOR) plus 2%, plus .25%. The rate was 1.61% and 1.42% at June 30, 2016 and 2015, 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 I).

The Series 2009 Bonds and Series 2010 Bonds have maturity dates of December 30, 2016 and January 19, 2017, respectively, and 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.

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 2.29% and 2.04% at June 30, 2016 and 2015, respectively. These Bonds also provide for a refundable tax credit paid to the Medical Center by the United States Treasury Department and the Internal Revenue Service 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. The Build American Bonds have a maturity date of December 1, 2034.

The debt service requirements at June 30, 2016 related to long-term debt are as follows:

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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

| Year Ending June 30, | Principal Maturities or Sinking Fund Requirements | | | | | Interest | | | | |
|-------------------------|---|---------------------------|---------------------------|--|-------------------------|----------------------|---------------------------|---------------------------|--|-------------------------|
| | Series 2009 Bonds | Series 2010-A Bonds | Series 2010-B Bonds | Build America Bonds Series 2010 | Companion Instrument | Series 2009 Bonds | Series 2010-A Bonds | Series 2010-B Bonds | Build America Bonds Series 2010 | Companion Instrument |
| | | | | | | | | | | |
| 2017 | \$ 777,206 | \$ 600,785 | \$ 809,509 | \$ 930,000 | \$ 266,325 | \$ 317,402 | \$ 117,596 | \$ 158,594 | \$ 590,404 | \$ 835 |
| 2018 | 810,071 | 626,190 | 843,740 | 980,000 | - | 409,453 | 146,939 | 198,180 | 567,919 | - |
| 2019 | 831,389 | 642,669 | 865,943 | 1,030,000 | - | 396,183 | 136,681 | 184,358 | 544,271 | - |
| 2020 | 23,716,334 | 659,147 | 888,146 | 1,080,000 | - | 445,791 | 126,493 | 170,631 | 520,868 | - |
| 2021 | - | 7,254,624 | 9,786,747 | 1,130,000 | - | - | 29,436 | 39,711 | 493,490 | - |
| 2022 | - | - | - | 1,180,000 | - | - | - | - | 466,357 | - |
| 2023 | - | - | - | 1,230,000 | - | - | - | - | 438,061 | - |
| 2024 | - | - | - | 1,280,000 | - | - | - | - | 409,703 | - |
| 2025 | - | - | - | 1,340,000 | - | - | - | - | 377,810 | - |
| 2026 | - | - | - | 1,400,000 | - | - | - | - | 345,622 | - |
| 2027 | - | - | - | 1,460,000 | - | - | - | - | 312,039 | - |
| 2028 | - | - | - | 1,520,000 | - | - | - | - | 277,796 | - |
| 2029 | - | - | - | 1,580,000 | - | - | - | - | 240,690 | - |
| 2030 | - | - | - | 1,650,000 | - | - | - | - | 202,749 | - |
| 2031 | - | - | - | 1,720,000 | - | - | - | - | 163,182 | - |
| 2032 | - | - | - | 1,780,000 | - | - | - | - | 122,468 | - |
| 2033 | - | - | - | 1,860,000 | - | - | - | - | 79,399 | - |
| 2034 | - | - | - | 1,940,000 | - | - | - | - | 34,777 | - |
| 2035 | - | - | - | 1,010,000 | - | - | - | - | - | - |
| | \$ 26,135,000 | \$ 9,783,415 | \$ 13,194,085 | \$ 26,100,000 | \$ 266,325 | \$ 1,568,829 | \$ 557,145 | \$ 751,474 | \$ 6,187,605 | \$ 835 |

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, 2016.

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. The Medical Center was in compliance with these covenants as of June 30, 2016 and 2015.

Subsequent to June 30, 2016, the Medical Center reached agreements with its existing lenders to refinance, and extend the maturity date for, the Series 2009 Bonds and Series 2010 Bonds. The Series 2009 Bonds and Series 2010 Bonds maturity dates have been extended to June 26, 2020 and July 17, 2020, respectively. The new agreements require semiannual principal reductions and the variable interest rate terms and covenants remained unchanged from the existing agreements. Due to the Medical Center demonstrating its intent and ability to refinance the Series 2009 Bonds and Series 2010 Bonds by executing new agreements with its lenders; the current portion of long-term debt as reported in the statement of net position for the year ended June 30, 2016, along with the maturities documented elsewhere in this Note, reflect the terms of the refinancing agreements reached subsequent to June 30, 2016.

NOTE I--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 H). As a part of this transaction, the Medical Center received an up-front payment of \$3,410,000 in the form of a borrowing from the counterparty,

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Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

which was used to terminate the interest rate swaps previously held. As a result, the fixed rate on the interest rate swap was adjusted to account for this borrowing. This off-market interest rate swap is therefore considered a hybrid instrument, composed of the borrowing (the Companion Instrument) and an interest rate swap. The Companion Instrument is recorded as debt for financial reporting purposes at its amortized historical cost (Note H). Amortization of the Companion Instrument is reported as interest expense in the financial statements.

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

A summary of the interest rate swap is as follows:

| | |
|-----------------------|--|
| Variable rate payers: | Fifth Third Bank First Tennessee Bank, N.A. |
| Term: | March 1, 2010 - December 31, 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 \$541,008 and \$1,616,930 as of June 30, 2016 and 2015, respectively, and was accounted for in the statements of net position with the proper offsetting deferred outflow in accordance with GASB Statement No. 53.

At June 30, 2016, the Authority had the following derivative instrument outstanding:

| | <i>Changes in Fair Value</i> | | <i>Fair Value at June 30, 2016</i> | | <i>Notional</i> |
|--------------------------|------------------------------|---------------|------------------------------------|---------------|-----------------|
| | <i>Classification</i> | <i>Amount</i> | <i>Classification</i> | <i>Amount</i> | |
| Business-Type Activities | | | | | |
| Cash flow hedges | Deferred outflow | \$ 1,075,922 | Debt | \$ 541,008 | \$ 49,112,500 |

The following table displays the Authority's net cash flows of derivatives hedging debt:

| <i>Year Ending</i> | | | <i>Hedging</i> | |
|--------------------|------------------|-----------------|---------------------|---------------|
| <i>June 30,</i> | <i>Principal</i> | <i>Interest</i> | <i>Derivatives,</i> | <i>Total</i> |
| | | | <i>Net</i> | |
| 2017 | \$ 49,112,500 | \$ 389,914 | \$ 443,255 | \$ 49,945,669 |

Credit Risk: As described above, the Medical Center's interest rate swap is held by Fifth Third Bank and First Tennessee Bank, N.A. The credit ratings for these counterparties was Baa1 (Moody's) and Baa3 (Moody's), respectively, at June 30, 2016.

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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.

Basis Risk: The Authority is exposed to basis risk on its pay-fixed interest rate swap hedging derivative instruments because the variable-rate payments received by the Authority on these hedging derivative instruments are based on a rate or index other than interest rates the Authority pays on its hedged variable-rate debt, which is remarketed every 30 days. As of June 30, 2016, the interest rate on the Authority's hedged variable-rate debt is 1.61%, while the swap index rate is fixed at 3.43%.

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.

NOTE J--LEASES

The Medical Center leases equipment and office space primarily under 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, 2016 are as follows:

| <u>Year Ending June 30,</u> | <u>Operating Leases</u> |
|-------------------------------------|-----------------------------|
| 2017 | \$ 745,642 |
| 2018 | 352,053 |
| 2019 | 288,123 |
| 2020 | 164,736 |
| 2021 | 125,981 |
| Thereafter | 249,002 |
| Total future minimum lease payments | <u>\$ 1,925,537</u> |

Total rental expense was \$1,787,212 and \$1,665,332 for the years ended June 30, 2016 and 2015, respectively.

NOTE K--RETIREMENT PLANS

General Information About the Pension Plan

Plan Description: Employees of the Medical Center are provided a defined benefit pension plan through the Public Employee Retirement Plan, an agent multiple-employer pension plan

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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 publically available financial report that can be obtained at www.treasury.tn.gov/tcrs.

Benefits Provided: Tennessee Code Annotated Title 8, Chapters 34-37 establishes the benefit terms and can be amended only by the Tennessee General Assembly. The chief legislative body may adopt the benefit terms permitted by statute. Members are eligible to retire with an unreduced benefit at age 60 with five years of service credit or after 30 years of service credit regardless of age. Benefits are determined by a formula using the member's highest five consecutive year average compensation and the member's years of service credit. Reduced benefits for early retirement are available at age 55 and vested. Members vest with five years of service credit. Service related disability benefits are provided regardless of length of service. Five years of service is required for non-service related disability eligibility. The service related and non-service related disability benefits are determined in the same manner as a service retirement benefit but are reduced 10 percent and include projected service credits. A variety of death benefits are available under various eligibility criteria.

Member and beneficiary annuitants are entitled to automatic cost of living adjustments (COLAs) after retirement. A COLA is granted each July for annuitants retired prior to the 2nd of July of the previous year. The COLA is based on the change in the consumer price index (CPI) during the prior calendar year, capped at three percent, and applied to the current benefit. No COLA is granted if the change in the CPI is less than one-half percent. A one percent COLA is granted if the CPI change is between one-half percent and one percent. A member who leaves employment may withdraw their employee contributions, plus any accumulated interest.

Employees Covered by Benefit Terms: At the measurement date of June 30, 2015, the following employees were covered by the benefit terms:

| | |
|--|-------|
| Inactive employees or beneficiaries currently receiving benefits | 257 |
| Inactive employees entitled to but not yet receiving benefits | 425 |
| Active employees | 454 |
| | <hr/> |
| | 1,136 |
| | <hr/> |

The Medical Center withdrew from TCRS effective July 1, 2006. Employees hired after the date of withdrawal are not eligible to participate in TCRS. Employees active as of the withdrawal date will continue to accrue salary and service credit in TCRS. The employer remains responsible for the pension liability for employees that were active as of the withdrawal date and for retirees of the employer.

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Years Ended June 30, 2016 and 2015

Contributions: Contributions for employees are established in the statutes governing the TCRS and may only be changed by the Tennessee General Assembly. The Medical Center adopted a noncontributory retirement plan for its employees by assuming employee contributions up to 5.0% of annual covered payroll. The Medical Center makes employer contributions at the rate set by the Board of Trustees as determined by an actuarial valuation. For the year ended June 30, 2015, the Actuarially Determined Contribution (ADC) for the Medical Center was \$2,837,650 based on a rate of 10.52 percent of covered payroll. By law, employer contributions are required to be paid. The TCRS may intercept the Medical Center's state shared taxes if required employer contributions are not remitted. The employer's ADC and member contributions are expected to finance the costs of benefits earned by members during the year, the cost of administration, as well as an amortized portion of any unfunded liability.

Net Pension Asset: The Medical Center's net pension asset was measured as of June 30, 2015, and the total pension liability (asset) used to calculate net pension asset was determined by an actuarial valuation as of that date.

Actuarial Assumptions: The total pension liability as of June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Inflation | 3.0 percent |
| Salary Increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment rate of return | 7.5 percent, net of pension plan investment expenses, including inflation |
| Cost-of-Living Adjustment | 2.5 percent |

Mortality rates were based on actual experience from the June 30, 2012 actuarial experience study adjusted for some of the expected future improvement in life expectancy.

The actuarial assumptions used in the June 30, 2015 actuarial valuation were based on the results of an actuarial experience study performed for the period July 1, 2008 through June 30, 2012. The demographic assumptions were adjusted to more closely reflect actual and expected future experience.

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees in conjunction with the June 30, 2012 actuarial experience study by considering the following three techniques: (1) the 25-year historical return of the TCRS at June 30, 2012, (2) the historical market returns of asset classes from 1926 to 2012 using the TCRS investment policy asset allocation, and (3) capital market projections that were utilized as a building-block method in which best-estimate ranges of expected future real rates of return

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(expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. Four sources of capital market projections were blended and utilized in the third technique. The blended capital market projection established the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding inflation of 3 percent. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <i>Asset Class</i> | <i>Long-Term Expected Real Rate of Return</i> | <i>Target Allocation</i> |
|---------------------------------------|---|------------------------------|
| U.S. equity | 6.46% | 33% |
| Developed market international equity | 6.26% | 17% |
| Emerging market international equity | 6.40% | 5% |
| Private equity and strategic lending | 4.61% | 8% |
| U.S. fixed income | 0.98% | 29% |
| Real estate | 4.73% | 7% |
| Short-term securities | 0.00% | 1% |
| | | 100% |

The long-term expected rate of return on pension plan investments was established by the TCRS Board of Trustees as 7.5 percent based on a blending of the three factors described above.

Discount rate: The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current rate and that contributions from the Medical Center will be made at the actuarially determined contribution rate pursuant to an actuarial valuation in accordance with the funding policy of the TCRS Board of Trustees and as required to be paid by state statute. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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Changes in the Net Pension Asset

| | <i>Increase (Decrease)</i> | | |
|---|----------------------------|-----------------------|--------------------------|
| | <i>Total Pension</i> | <i>Plan Fiduciary</i> | <i>Net Pension</i> |
| | <i>Liability</i> | <i>Net Position</i> | <i>Liability (Asset)</i> |
| | <i>(a)</i> | <i>(b)</i> | <i>(a) - (b)</i> |
| Balance at June 30, 2014 | \$ 87,666,801 | \$ 96,648,489 | \$ (8,981,688) |
| Changes for the year: | | | |
| Service Cost | 1,963,255 | - | 1,963,255 |
| Interest | 6,662,556 | - | 6,662,556 |
| Differences between expected and actual experience | (4,113,420) | - | (4,113,420) |
| Contributions-employer | - | 2,837,650 | (2,837,650) |
| Contributions-employees | - | - | - |
| Net investment income | - | 2,995,490 | (2,995,490) |
| Benefit payments, including refunds of employee contributions | (1,591,953) | (1,591,953) | - |
| Administrative expense | - | (24,336) | 24,336 |
| Net Changes | 2,920,438 | 4,216,851 | (1,296,413) |
| Balance at June 30, 2015 | \$ 90,587,239 | \$ 100,865,340 | \$ (10,278,101) |

Sensitivity of the Net Pension Asset to Changes in the Discount Rate: The following presents the net pension asset of the Medical Center calculated using the discount rate of 7.5 percent, as well as what the net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate:

| | <i>1%</i> | <i>Current</i> | <i>1%</i> |
|--|-----------------|----------------------|-----------------|
| | <i>Decrease</i> | <i>Discount Rate</i> | <i>Increase</i> |
| | <i>(6.5%)</i> | <i>(7.5%)</i> | <i>(8.5%)</i> |
| The Medical Center's net pension liability (asset) | \$ 4,199,492 | \$ (10,278,101) | \$ (22,103,638) |

Negative Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Negative Pension Expense: For the year ended June 30, 2016, the Medical Center recognized negative pension expense of \$818,412.

Deferred outflows of resources and deferred inflows of resources: For the year ended June 30, 2016, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

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| | <i>Deferred Outflows of Resources</i> | <i>Deferred Inflows of Resources</i> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 4,611,165 |
| Net difference between projected and actual earnings on pension plan investments | 3,439,158 | 4,490,569 |
| Contributions subsequent to the measurement date of June 30, 2015 | 2,698,588 | (not applicable) |
| Total | <u>\$ 6,137,746</u> | <u>\$ 9,101,734</u> |

The amount shown above for “contributions subsequent to the measurement date of June 30, 2015,” will be recognized as an increase to net pension asset in the subsequent measurement period.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u><i>Year Ending June 30:</i></u> | |
|------------------------------------|----------------|
| 2017 | \$ (2,174,121) |
| 2018 | (2,174,121) |
| 2019 | (2,174,121) |
| 2020 | 859,790 |
| 2021 | - |
| Thereafter | - |

Payable to the Pension Plan: At June 30, 2016, the Medical Center reported a payable of \$276,038 for the outstanding amount of contributions to the pension plan in accrued salaries and related liabilities in the statement of net position as of the year ended June 30, 2016.

Prior to July 1, 2006, the Medical Center offered one retirement option, the pension plan. Effective July 1, 2006, the Medical Center offered two retirement options to those employees who were hired on or before June 30, 2006, the pension plan and a 401(k) noncontributory plan. The Medical Center ceased to offer the pension plan 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 pension plan or begin participating in the noncontributory retirement plan in which the Medical Center contributes up to 7.0% of annual covered payroll. The Medical Center ceased making contributions to the noncontributory plan in the last quarter of 2014.

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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. Contributions by participants are made by entering into a salary reduction agreement to reduce the participant's compensation by a specified percentage not to exceed the lower of 15% of total compensation or limits established by the Internal Revenue Service. The Medical Center then matches the participant's contribution up to 1% of the participant's salary. One year of service is defined as 1,000 hours of work in a plan year.

Vesting of the Medical Center's contributions on behalf of the participants in the Plan is as follows: service of one year - 20%, two years - 40%, three years - 60%, four years - 80%, and five or more years - 100%.

The Medical Center's contributions to the profit sharing plan were \$1,196,779 and \$672,847 for the years ended June 30, 2016 and 2015, respectively.

NOTE L--OTHER RECEIVABLES

Other current and long-term receivables at June 30, 2016 and 2015 include \$1,311,147 and \$1,599,600, 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.

NOTE M--COMMITMENTS AND CONTINGENCIES

Medical malpractice liability is limited under provisions of the Tennessee Governmental Tort Liability Act (T.C.A. 29-20-403, et seq.), which removed tort liability from governmental entities which, in the opinion of counsel for the Medical Center, includes the Medical Center. In addition to requiring claims to be made in conformance with this Act, special provisions include, but are not limited to, special notice of requirements imposed upon the claimant, a one year statute of limitations, and a provision requiring that the governmental entity purchase insurance or be self-insured within certain limits. This Act also prohibits a judgment or award exceeding the minimum amounts of insurance coverage set out in the Act (\$300,000 for bodily injury or death of any one person and \$700,000 in the aggregate for all persons in any one accident, occurrence or act) or the amount of insurance purchased by the governmental entity.

During 2003, the Medical Center became self-insured due to the fact that their professional liability carrier became insolvent. There are known incidents occurring through June 30, 2016 that have resulted in the assertion of claims, although other claims may be asserted, arising from

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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 can be 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 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 \$1,513,517 and \$1,593,004 at June 30, 2016 and 2015, respectively. Total expenses under this program amounted to approximately \$13,770,000 and \$10,130,000 for the years ended June 30, 2016 and 2015, respectively.

The Medical Center is also self-insured for workers' compensation with umbrella coverage in excess of \$600,000 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, 2016 and 2015, approximately \$800,000 and \$1,195,000, respectively, was accrued and included in other accrued expenses on the statements of net position for estimated claims incurred but not reported.

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 under the provisions of the Health Insurance Portability and Accountability Act of 1996, matters related to patient records, privacy and security. Government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

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. At June 30, 2016 and 2015, the Medical Center recorded a reserve which is shown as a reduction in patient accounts receivable in the accompanying statements of net position. The reserve is based on the percentage success rate and the total dollar of potential claims that are under audit.

Healthcare Reform: In March 2010, Congress adopted comprehensive healthcare 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 healthcare 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 several years and a number of additional steps are required to implement these requirements. Changes to existing Medicaid coverage and payments have occurred, and are expected to continue to occur, as a result of this legislation. While the full impact of the 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.

NOTE N--PHYSICIAN EMPLOYMENT COMMITMENTS

Beginning in 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 3-5 years. Future minimum compensation commitments under employment agreements at June 30, 2016, are as follows:

| <u>Year Ending June 30,</u> | |
|-----------------------------|----------------------|
| 2017 | \$ 12,679,592 |
| 2018 | 6,946,463 |
| 2019 | 3,602,500 |
| 2020 | 618,333 |
| 2021 | 422,500 |
| | <u>\$ 24,269,388</u> |

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

NOTE O--RELATED PARTY TRANSACTIONS

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, 2016 and 2015. Operating expenses also include \$2,995,768 and \$3,154,914 in 2016 and 2015, respectively, for the purchase of utilities.

NOTE P--FAIR VALUE MEASUREMENT

GASB Statement No. 72 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As such, GASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB describes fair value as an exit price where measurement assumes a transaction takes place in an entity's principal market, or most advantageous market in the absence of a principal market, and the market participants are acting in their economic best interests. GASB Statement No. 72 requires an entity to use valuation techniques that are appropriate under the circumstances and for which sufficient data are available to measure fair value. Valuation techniques should be applied consistently and maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Valuation Hierarchy: GASB Statement No. 72 establishes a hierarchy of inputs to valuation techniques used to measure fair value. The hierarchy has three levels which are defined as follows:

- *Level 1:* Inputs to the valuation technique are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- *Level 2:* Inputs to the valuation technique, other than quoted prices within *Level 1*, that are observable for an asset or liability, either directly or indirectly.
- *Level 3:* Inputs to the valuation technique are unobservable.

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

COOKEVILLE REGIONAL MEDICAL CENTER AUTHORITY
(Cookeville Regional Medical Center and Affiliates)

Notes to Financial Statements - Continued

Years Ended June 30, 2016 and 2015

The following table presents assets and liabilities reported at fair value as of June 30, 2016 and 2015, and their respective classification under the GASB Statement No. 72 valuation hierarchy:

Fair Value Measurement on a Recurring Basis as of June 30, 2016:

| | <i>Carrying Value</i> | <i>Quoted Prices in Active Markets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> |
|---------------------------------------|-----------------------|--|--|--|
| Assets: | | | | |
| United States government agency bonds | \$ 14,463,605 | \$ - | \$ 14,463,605 | \$ - |
| Liabilities: | | | | |
| Interest rate swap | \$ 541,008 | \$ - | \$ 541,008 | \$ - |

Fair Value Measurement on a Recurring Basis as of June 30, 2015:

| | <i>Carrying Value</i> | <i>Quoted Prices in Active Markets (Level 1)</i> | <i>Significant Other Observable Inputs (Level 2)</i> | <i>Significant Unobservable Inputs (Level 3)</i> |
|---------------------------------------|-----------------------|--|--|--|
| Assets: | | | | |
| United States government agency bonds | \$ 8,926,125 | \$ - | \$ 8,926,125 | \$ - |
| Liabilities: | | | | |
| Interest rate swap | \$ 1,616,930 | \$ - | \$ 1,616,930 | \$ - |

United States government agency bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices. The interest rate swap classified in Level 2 of the fair value hierarchy is valued using a market approach that considers benchmark interest rates.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF COOKEVILLE, TENNESSEE

REQUIRED SUPPLEMENTARY INFORMATION

**Schedule of Changes in the Net Pension Liability (Asset) and Related Ratios
for fiscal year ending June 30,**

| | <u>2015</u> | <u>2014</u> |
|--|------------------------------|------------------------------|
| Total Pension Liability | | |
| Service cost | \$ 1,689,810 | \$ 1,679,057 |
| Interest | 8,602,992 | 8,203,522 |
| Changes of benefit terms | - | - |
| Differences between expected and actual experience | (713,628) | (64,380) |
| Changes of assumptions | - | - |
| Benefit Payments, including refunds of employee contributions | <u>(4,577,856)</u> | <u>(4,427,527)</u> |
| Net Change in Total Pension Liability (Asset) | 5,001,318 | 5,390,672 |
| Total Pension Liability (Asset) - beginning | <u>115,305,672</u> | <u>109,915,000</u> |
| Total Pension Liability (Asset) - ending (a) | <u>\$ 120,306,990</u> | <u>\$ 115,305,672</u> |
| Plan Fiduciary Net Position | | |
| Contributions - employer | \$ 3,098,708 | \$ 2,868,403 |
| Contributions - employee | 64,305 | 21,800 |
| Net investment income | 3,248,066 | 15,179,084 |
| Benefit Payments, including refunds of employee contributions | (4,577,856) | (4,427,527) |
| Administrative expenses | (20,940) | (19,856) |
| Other | <u>-</u> | <u>-</u> |
| Net Change in Plan Fiduciary Net Position | 1,812,283 | 13,621,904 |
| Plan Fiduciary Net Position - beginning | <u>106,177,777</u> | <u>92,555,874</u> |
| Plan Fiduciary Net Position - ending (b) | <u>\$ 107,990,060</u> | <u>\$ 106,177,778</u> |
| Net Pension Liability (Asset) - ending (a) - (b) | <u>\$ 12,316,930</u> | <u>\$ 9,127,894</u> |
| Plan Fiduciary Net Position as a % of the Total Pension Liability | 89.76% | 92.08% |
| Covered-employee payroll | \$ 19,317,787 | \$ 17,871,672 |
| Net Pension Liability (Asset) as a % of covered-employee payroll | 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 added to this schedule in future fiscal years until 10 years of information is available.

CITY OF COOKEVILLE, TENNESSEE

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Cookeville's Contributions

Based on Participation in the Public Employee Pension Plan of TCRS

Last Fiscal Year ending June 30,

| | <u>2014</u> | <u>2015</u> | <u>2016</u> |
|--|------------------|------------------|------------------|
| Actuarially determined contribution | \$ 2,868,403 | \$ 3,098,708 | \$ 3,230,243 |
| Contributions in relation to the actuarially determined contribution | <u>2,868,403</u> | <u>3,098,708</u> | <u>3,230,243</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered-employee payroll | \$ 17,871,672 | \$ 19,317,787 | \$ 20,138,670 |
| Contributions as a percentage covered-employee payroll | 16.05% | 16.04% | 16.04% |

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

CITY OF COOKEVILLE, TENNESSEE

REQUIRED SUPPLEMENTARY INFORMATION

Tennessee Consolidated Retirement System

Valuation date: Actuarially determined contribution rates for 2016 were calculated based on the July 1, 2015 actuarial valuation.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Frozen initial liability |
| Amortization method | Level dollar, closed (not to exceed 20 years) |
| Remaining amortization period | 9 years |
| Asset valuation | 10-year smoothed within a 20 percent corridor to market value |
| Inflation | 3.0 percent |
| Salary increases | Graded salary ranges from 8.97 to 3.71 percent based on age, including inflation, averaging 4.25 percent |
| Investment Rate of Return | 7.5 percent, net of investment expense, including inflation |
| Retirement age | Pattern of retirement determined by experience study |
| Mortality | Customized table based on actual experience including an adjustment for some anticipated improvement |
| Cost of Living Adjustments | 2.5 percent |

Other Post-Employment Benefits

Funded Status and Schedule of Funding Progress

| 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) |
|--------------------------------|--|---|---------------------------------|--------------------------|---------------------------|---|
| 7/1/2015 | \$ - | \$ 34,077,025 | \$ 34,077,025 | 0.00% | \$ 16,221,373 | 210.1% |
| 7/1/2014 | \$ - | \$ 32,183,786 | \$ 32,183,786 | 0.00% | \$ 15,522,845 | 207.3% |
| 7/1/2013 | \$ - | \$ 31,238,898 | \$ 31,238,898 | 0.00% | \$ 16,221,373 | 192.6% |

**COMBINING & INDIVIDUAL FUND INFORMATION
AND OTHER SUPPLEMENTARY INFORMATION**

CITY OF COOKEVILLE, TENNESSEE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
June 30, 2016

| | Special Revenue Funds | | | | | | Total Other |
|--|------------------------------|---------------------|-------------------|-------------------|---------------------|---------------------|---------------------|
| | Drug | State | Sanitation | Animal | Economic | Quality | Governmental |
| | Fund | Street | Fund | Control | Development | of Life | Funds |
| | | Aid Fund | | Board Fund | Fund | Fund | |
| <u>Assets</u> | | | | | | | |
| Cash | \$ 221,197 | \$ 518,883 | \$ 431,393 | \$ 145,944 | \$ 727,616 | \$ 261,478 | \$ 2,306,511 |
| Temporary cash investments | - | 491,139 | - | 28,322 | - | - | 519,461 |
| Accounts receivable | - | - | 140,049 | - | - | - | 140,049 |
| Taxes receivable | - | - | 340,889 | - | 340,889 | 85,222 | 767,000 |
| Less allowance for bad debts | - | - | (6,274) | - | (5,488) | (1,372) | (13,134) |
| Other receivables | 2,878 | 77,074 | 143 | 206 | 239 | 726,097 | 806,637 |
| Prepaid assets | - | - | - | - | 176,592 | - | 176,592 |
| Due from other funds | - | - | - | - | 1,992 | 498 | 2,490 |
| Total assets | <u>\$ 224,075</u> | <u>\$ 1,087,096</u> | <u>\$ 906,200</u> | <u>\$ 174,472</u> | <u>\$ 1,241,840</u> | <u>\$ 1,071,923</u> | <u>\$ 4,705,606</u> |
| <u>Liabilities</u> | | | | | | | |
| Accounts payable | \$ 23 | \$ 2,411 | \$ 13,700 | \$ 8,915 | \$ 1,957 | \$ 201,310 | \$ 228,316 |
| Due to other funds | - | - | 32,626 | 1,917 | - | 513,578 | 548,121 |
| Unearned revenue | - | 4,678 | - | 866 | 3,244 | 46,832 | 55,620 |
| Other liabilities | 90,063 | 113,200 | 317 | 900 | - | - | 204,480 |
| Total liabilities | 90,086 | 120,289 | 46,643 | 12,598 | 5,201 | 761,720 | 1,036,537 |
| <u>Deferred Inflows of Resources</u> | | | | | | | |
| Unavailable revenue property taxes | - | - | 335,401 | - | 335,401 | 83,850 | 754,652 |
| Total deferred inflows of resources | - | - | 335,401 | - | 335,401 | 83,850 | 754,652 |
| Restricted fund balances | 133,989 | 966,807 | 524,156 | - | - | - | 1,624,952 |
| Committed fund balances | - | - | - | 161,874 | 901,238 | 226,353 | 1,289,465 |
| Total fund balances | <u>133,989</u> | <u>966,807</u> | <u>524,156</u> | <u>161,874</u> | <u>901,238</u> | <u>226,353</u> | <u>2,914,417</u> |
| Total liabilities, deferred inflows of resources and fund balances | <u>\$ 224,075</u> | <u>\$ 1,087,096</u> | <u>\$ 906,200</u> | <u>\$ 174,472</u> | <u>\$ 1,241,840</u> | <u>\$ 1,071,923</u> | <u>\$ 4,705,606</u> |

CITY OF COOKEVILLE, TENNESSEE
NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED June 30, 2016

| | <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: | | | | | | | |
| Local taxes | | \$ 201 | | | \$ 311,960 | \$ 77,990 | \$ 390,151 |
| Intergovernmental | | 854,434 | \$ 5,363 | \$ 94,500 | 4,830,527 | 1,353,712 | 7,138,536 |
| Charges for services | | - | 1,558,918 | 48,040 | - | - | 1,606,958 |
| Fines, forfeitures and penalties | \$ 92,463 | - | - | - | - | - | 92,463 |
| Rent | - | - | - | - | - | - | - |
| Interest | 681 | 2,766 | 1,198 | 714 | 3,118 | 668 | 9,145 |
| Other | - | 9,605 | 5,475 | 22,996 | 14,127 | 11,262 | 63,465 |
| Total revenues | <u>93,144</u> | <u>867,006</u> | <u>1,570,954</u> | <u>166,250</u> | <u>5,159,732</u> | <u>1,443,632</u> | <u>9,300,718</u> |
| Expenditures: | | | | | | | |
| Economic development | - | - | - | - | 4,877,778 | - | 4,877,778 |
| Public safety | 23,330 | - | - | 246,081 | - | - | 269,411 |
| Public works | - | 651,907 | 1,473,895 | - | 12,509 | - | 2,138,311 |
| Culture and recreation | - | - | - | - | - | 1,510,090 | 1,510,090 |
| Community support | - | - | - | - | - | 5,000 | 5,000 |
| Capital outlay | 9,300 | 53,243 | - | - | 402,249 | 162,818 | 627,610 |
| Total expenditures | <u>32,630</u> | <u>705,150</u> | <u>1,473,895</u> | <u>246,081</u> | <u>5,292,536</u> | <u>1,677,908</u> | <u>9,428,200</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>60,514</u> | <u>161,856</u> | <u>97,059</u> | <u>(79,831)</u> | <u>(132,804)</u> | <u>(234,276)</u> | <u>(127,482)</u> |
| Other financing sources (uses): | | | | | | | |
| Operating transfers in | - | - | - | 80,000 | - | - | 80,000 |
| Operating transfers out | - | - | - | - | (100,000) | (7,424) | (107,424) |
| Sale of assets | 401 | 1,416 | - | - | 200 | - | 2,017 |
| Total other financing sources (uses) | <u>401</u> | <u>1,416</u> | <u>-</u> | <u>80,000</u> | <u>(99,800)</u> | <u>(7,424)</u> | <u>(25,407)</u> |
| Net change in fund balances | 60,915 | 163,272 | 97,059 | 169 | (232,604) | (241,700) | (152,889) |
| Fund balances, July 1, 2015 | <u>73,074</u> | <u>803,535</u> | <u>427,097</u> | <u>161,705</u> | <u>1,133,842</u> | <u>468,053</u> | <u>3,067,306</u> |
| Fund balances, June 30, 2016 | <u>\$ 133,989</u> | <u>\$ 966,807</u> | <u>\$ 524,156</u> | <u>\$ 161,874</u> | <u>\$ 901,238</u> | <u>\$ 226,353</u> | <u>\$ 2,914,417</u> |

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|------------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes: | | | | |
| Current property taxes | \$ 440,425 | \$ 440,425 | \$ 451,317 | \$ 10,892 |
| Delinquent property taxes | 17,000 | 17,000 | 14,053 | (2,947) |
| Penalty & Interest | 5,000 | 5,000 | 5,769 | 769 |
| In-lieu of taxes | <u>700,000</u> | <u>700,000</u> | <u>700,000</u> | <u>-</u> |
| Total taxes | <u>1,162,425</u> | <u>1,162,425</u> | <u>1,171,139</u> | <u>8,714</u> |
| Intergovernmental: | | | | |
| State shared sales tax | 2,100,000 | 2,100,000 | 2,506,658 | 406,658 |
| Other intergovernmental | <u>70,896</u> | <u>70,896</u> | <u>72,269</u> | <u>1,373</u> |
| | <u>2,170,896</u> | <u>2,170,896</u> | <u>2,578,927</u> | <u>408,031</u> |
| Rent | 26,172 | 26,172 | 26,172 | - |
| Interest | <u>10,000</u> | <u>10,000</u> | <u>31,657</u> | <u>21,657</u> |
| Total revenues | <u>3,369,493</u> | <u>3,369,493</u> | <u>3,807,895</u> | <u>438,402</u> |
| Expenditures: | | | | |
| Debt service - principal | 2,107,667 | 2,107,667 | 2,107,667 | - |
| Debt service - interest | 1,152,760 | 1,152,760 | 503,435 | 649,325 |
| Administrative expenditures | <u>21,000</u> | <u>21,000</u> | <u>9,322</u> | <u>11,678</u> |
| Total expenditures | <u>3,281,427</u> | <u>3,281,427</u> | <u>2,620,424</u> | <u>661,003</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>88,066</u> | <u>88,066</u> | <u>1,187,471</u> | <u>1,099,405</u> |
| Net change in fund balance | <u>\$ 88,066</u> | <u>\$ 88,066</u> | 1,187,471 | <u>\$ 1,099,405</u> |
| Fund balance, July 1, 2015 | | | <u>9,068,260</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 10,255,731</u> | |

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL IMPROVEMENT BOND FUND
FOR THE YEAR ENDED June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|---------------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| TDOT Grant | \$ 4,000,000 | \$ 4,000,000 | \$ 1,785,713 | \$ (2,214,287) |
| Other intergovernmental | - | - | - | - |
| | <u>4,000,000</u> | <u>4,000,000</u> | <u>1,785,713</u> | <u>(2,214,287)</u> |
| Interest | <u>500</u> | <u>500</u> | <u>1,292</u> | <u>792</u> |
| Total revenues | <u>4,000,500</u> | <u>4,000,500</u> | <u>1,787,005</u> | <u>(2,213,495)</u> |
| Expenditures: | | | | |
| Parks & Recreation - Capital Outlay | 235,000 | 235,000 | 30,548 | 204,452 |
| Public Safety - Capital Outlay | 500,000 | 540,000 | 39,668 | 500,332 |
| Public Works - Capital Outlay | 13,405,200 | 13,405,200 | 4,484,121 | 8,921,079 |
| Administrative expenditures | 25,500 | 25,500 | 129 | 25,371 |
| Bond issue costs | <u>153,000</u> | <u>153,000</u> | <u>127,854</u> | <u>25,146</u> |
| Total expenditures | <u>14,318,700</u> | <u>14,358,700</u> | <u>4,682,320</u> | <u>9,676,380</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(10,318,200)</u> | <u>(10,358,200)</u> | <u>(2,895,315)</u> | <u>7,462,885</u> |
| Other financing sources: | | | | |
| Proceeds of Bond issue | 10,300,000 | 10,300,000 | 9,815,000 | (485,000) |
| Premium on issue of debt | - | - | 184,550 | 184,550 |
| Net other financing sources: | <u>10,300,000</u> | <u>10,300,000</u> | <u>9,999,550</u> | <u>(300,450)</u> |
| Net change in fund balance | <u>\$ (18,200)</u> | <u>\$ (58,200)</u> | 7,104,235 | <u>\$ 7,162,435</u> |
| Fund balance, July 1, 2015 | | | <u>549,581</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 7,653,816</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, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|---------------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes | | | | |
| Property taxes delinquent | \$ 250 | \$ 250 | \$ 117 | \$ (133) |
| Property taxes penalty & interest | 100 | 100 | 84 | (16) |
| Total taxes | <u>350</u> | <u>350</u> | <u>201</u> | <u>(149)</u> |
| Intergovernmental | | | | |
| State gasoline & motor fuel | 817,793 | 837,793 | 585,348 | (252,445) |
| State - 3 cent tax | - | - | 174,469 | 174,469 |
| State - Gas 1989 | - | - | 94,002 | 94,002 |
| TEMA funds | - | - | 615 | 615 |
| TDOT Grant | <u>950,000</u> | <u>950,000</u> | <u>-</u> | <u>(950,000)</u> |
| Total Intergovernmental | <u>1,767,793</u> | <u>1,787,793</u> | <u>854,434</u> | <u>(933,359)</u> |
| Other revenue | - | 10,000 | 9,605 | 395 |
| Interest | <u>2,300</u> | <u>2,300</u> | <u>2,766</u> | <u>466</u> |
| Total revenues | <u>1,770,443</u> | <u>1,800,443</u> | <u>867,006</u> | <u>(932,647)</u> |
| Expenditures: | | | | |
| Paving | 600,000 | 600,000 | 584,952 | 15,048 |
| Sidewalk improvements | 35,000 | 35,000 | 11,719 | 23,281 |
| Intersection improvements | 60,000 | 60,000 | 11,421 | 48,579 |
| Street maintenance supplies | 35,000 | 35,000 | 35,516 | (516) |
| TDOT grant expense | 1,146,800 | 1,146,800 | 2,133 | 1,144,667 |
| Vehicles & equipment | 15,000 | 35,000 | 30,743 | 4,257 |
| Land, Right of Way, Easement | - | 22,500 | 22,500 | - |
| Other | <u>7,100</u> | <u>7,100</u> | <u>6,166</u> | <u>934</u> |
| Total expenditures | <u>1,898,900</u> | <u>1,941,400</u> | <u>705,150</u> | <u>1,236,250</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(128,457)</u> | <u>(140,957)</u> | <u>161,856</u> | <u>302,813</u> |
| Other financing sources: | | | | |
| Sale of assets | <u>-</u> | <u>-</u> | <u>1,416</u> | <u>1,416</u> |
| Net other financing sources: | <u>-</u> | <u>-</u> | <u>1,416</u> | <u>1,416</u> |
| Net change in fund balance | <u>\$ (128,457)</u> | <u>\$ (140,957)</u> | <u>163,272</u> | <u>\$ 304,229</u> |
| Fund balance, July 1, 2015 | | | <u>803,535</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 966,807</u> | |

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DRUG FUND
FOR THE YEAR ENDED June 30, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|-----------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Fines, forfeitures & penalties | \$ 80,000 | \$ 80,000 | \$ 92,463 | \$ 12,463 |
| Interest | 500 | 500 | 681 | 181 |
| Total revenues | <u>80,500</u> | <u>80,500</u> | <u>93,144</u> | <u>12,644</u> |
| Expenditures: | | | | |
| Investigative | 12,000 | 12,000 | 12,000 | - |
| Seized property expense | - | - | 130 | (130) |
| Equipment & materials | 14,700 | 14,700 | 1,392 | 13,308 |
| Computer equip & software | - | - | 9,600 | (9,600) |
| Travel Training | 6,000 | 6,000 | - | 6,000 |
| Other expenses | 300 | 300 | 208 | 92 |
| Capital outlay | 41,000 | 41,000 | 9,300 | 31,700 |
| Total expenditures | <u>74,000</u> | <u>74,000</u> | <u>32,630</u> | <u>41,370</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>6,500</u> | <u>6,500</u> | <u>60,514</u> | <u>54,014</u> |
| Other financing sources: | | | | |
| Sale of assets | - | - | 401 | 401 |
| Net other financing sources: | <u>-</u> | <u>-</u> | <u>401</u> | <u>401</u> |
| Net change in fund balance | <u>\$ 6,500</u> | <u>\$ 6,500</u> | 60,915 | <u>\$ 54,415</u> |
| Fund balance, July 1, 2015 | | | <u>73,074</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 133,989</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, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|--------------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Charges for services | \$ 1,498,000 | \$ 1,523,000 | \$ 1,558,918 | \$ 35,918 |
| Interest | 500 | 500 | 1,198 | 698 |
| TEMA grant | - | - | 5,363 | 5,363 |
| Other revenue | 500 | 500 | 5,475 | 4,975 |
| Total revenues | <u>1,499,000</u> | <u>1,524,000</u> | <u>1,570,954</u> | <u>46,954</u> |
| Expenditures: | | | | |
| Personnel | 581,650 | 581,650 | 572,075 | 9,575 |
| Taxes & fringes | 269,690 | 269,690 | 238,892 | 30,798 |
| Materials & supplies | 18,750 | 18,750 | 8,111 | 10,639 |
| Vehicle expense | 389,500 | 389,500 | 363,266 | 26,234 |
| Fixed charges | 17,700 | 47,700 | 45,801 | 1,899 |
| Other operating expense | 116,765 | 116,765 | 105,313 | 11,452 |
| Landfill services | 31,000 | 41,000 | 40,819 | 181 |
| Other equipment | 106,500 | 106,500 | 99,618 | 6,882 |
| Total expenditures | <u>1,531,555</u> | <u>1,571,555</u> | <u>1,473,895</u> | <u>97,660</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(32,555)</u> | <u>(47,555)</u> | <u>97,059</u> | <u>144,614</u> |
| Net change in fund balance | <u>\$ (32,555)</u> | <u>\$ (47,555)</u> | <u>97,059</u> | <u>\$ 144,614</u> |
| Fund balance, July 1, 2015 | | | <u>427,097</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 524,156</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, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|--------------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Intergovernmental: | | | | |
| Putnam County Allocation | \$ 80,000 | \$ 80,000 | \$ 80,000 | \$ - |
| City of Algood Allocation | 7,350 | 7,350 | 7,350 | - |
| Town of Baxter Allocation | 2,875 | 2,875 | 1,150 | (1,725) |
| Town of Monterey Allocation | 6,000 | 6,000 | 6,000 | - |
| Total intergovernmental | <u>96,225</u> | <u>96,225</u> | 94,500 | (1,725) |
| Charges for services | 57,500 | 57,500 | 48,040 | (9,460) |
| Interest | 40 | 40 | 714 | 674 |
| Other revenue | 20,000 | 20,000 | 22,996 | 2,996 |
| Total revenues | <u>173,765</u> | <u>173,765</u> | <u>166,250</u> | <u>(7,515)</u> |
| Expenditures: | | | | |
| Personnel | 135,000 | 135,000 | 126,743 | 8,257 |
| Taxes & fringes | 39,078 | 39,078 | 37,272 | 1,806 |
| Utility expense | 37,200 | 37,200 | 28,956 | 8,244 |
| Supplies & maintenance | 46,950 | 46,950 | 42,582 | 4,368 |
| Other expense | 8,150 | 8,150 | 10,528 | (2,378) |
| Total expenditures | <u>266,378</u> | <u>266,378</u> | <u>246,081</u> | <u>20,297</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(92,613)</u> | <u>(92,613)</u> | <u>(79,831)</u> | <u>12,782</u> |
| Other financing sources: | | | | |
| Operating transfers in | <u>80,000</u> | <u>80,000</u> | <u>80,000</u> | <u>-</u> |
| Net other financing sources: | <u>80,000</u> | <u>80,000</u> | <u>80,000</u> | <u>-</u> |
| Net change in fund balance | <u>\$ (12,613)</u> | <u>\$ (12,613)</u> | 169 | <u>\$ 12,782</u> |
| Fund balance, July 1, 2015 | | | <u>161,705</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 161,874</u> | |

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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, 2016

| | <u>Budgeted Amounts</u> | | <u>Total</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|---------------------|-------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes | | | | |
| Property taxes current | \$ 293,617 | \$ 293,617 | \$ 300,878 | \$ 7,261 |
| Property taxes delinquent | 10,500 | 10,500 | 8,412 | (2,088) |
| Property taxes penalty & interest | <u>2,000</u> | <u>2,000</u> | <u>2,670</u> | <u>670</u> |
| Total property taxes | 306,117 | 306,117 | 311,960 | 5,843 |
| Intergovernmental: | | | | |
| Putnam County Allocation | 14,637 | 14,637 | 3,027 | (11,610) |
| Economic Development Grant | - | 4,827,500 | 4,827,500 | - |
| Interest | 1,000 | 1,000 | 3,118 | 2,118 |
| Other revenues | <u>68,308</u> | <u>68,308</u> | <u>14,127</u> | <u>(54,181)</u> |
| Total revenues | <u>390,062</u> | <u>5,217,562</u> | <u>5,159,732</u> | <u>(57,830)</u> |
| Expenditures: | | | | |
| Industrial/Business park development: | | | | |
| Construction | 410,000 | 520,000 | 342,253 | 177,747 |
| Other development expense | 104,583 | 104,583 | 32,691 | 71,892 |
| Land, ROW & Easements | - | 60,000 | 59,996 | 4 |
| Grant Expense | - | 4,827,500 | 4,827,500 | - |
| Miscellaneous | <u>40,150</u> | <u>40,150</u> | <u>30,096</u> | <u>10,054</u> |
| Total expenditures | <u>554,733</u> | <u>5,552,233</u> | <u>5,292,536</u> | <u>259,697</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(164,671)</u> | <u>(334,671)</u> | <u>(132,804)</u> | <u>201,867</u> |
| Other financing sources (uses): | | | | |
| Sale of assets | - | - | 200 | 200 |
| Operating transfers out | <u>(100,000)</u> | <u>(100,000)</u> | <u>(100,000)</u> | <u>-</u> |
| Net other financing sources: | <u>(100,000)</u> | <u>(100,000)</u> | <u>(99,800)</u> | <u>200</u> |
| Net change in fund balance | <u>\$ (264,671)</u> | <u>\$ (434,671)</u> | <u>(232,604)</u> | <u>\$ 202,067</u> |
| Fund balance, July 1, 2015 | | | <u>1,133,842</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 901,238</u> | |

See Independent Auditor's Report

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, 2016

| | <u>Budgeted Amounts</u> | | <u>Total Actual</u> | <u>Variance- Favorable (Unfavorable)</u> |
|--|-------------------------|---------------------|-------------------------|--|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes | | | | |
| Property taxes current | \$ 73,404 | \$ 73,404 | \$ 75,220 | \$ 1,816 |
| Property taxes delinquent | 2,000 | 2,000 | 2,103 | 103 |
| Property taxes penalty & interest | <u>500</u> | <u>500</u> | <u>667</u> | <u>167</u> |
| Total property taxes | 75,904 | 75,904 | 77,990 | 2,086 |
| Intergovernmental: | | | | |
| TDOT Grant | 1,624,000 | 1,624,000 | 1,183,354 | (440,646) |
| Putnam County Allocation | 130,000 | 130,000 | 85,179 | (44,821) |
| City of Algood Allocation | <u>130,000</u> | <u>130,000</u> | <u>85,179</u> | <u>(44,821)</u> |
| Total Intergovernmental | 1,884,000 | 1,884,000 | 1,353,712 | (530,288) |
| Contributions | - | 11,000 | 11,262 | 262 |
| Interest | <u>800</u> | <u>800</u> | <u>668</u> | <u>(132)</u> |
| Total revenues | <u>1,960,704</u> | <u>1,971,704</u> | <u>1,443,632</u> | <u>(528,072)</u> |
| Expenditures: | | | | |
| Tennessee Central Heritage | | | | |
| Rails with Trails project | 2,030,000 | 2,030,000 | 1,481,242 | 548,758 |
| Non-Profit contribution | 5,000 | 5,000 | 5,000 | - |
| Parks & recreation capital outlay | 120,000 | 193,000 | 162,818 | 30,182 |
| Parks & recreation other | - | 15,000 | 27,729 | (12,729) |
| Other expense | <u>200</u> | <u>200</u> | <u>1,119</u> | <u>(919)</u> |
| Total expenditures | <u>2,155,200</u> | <u>2,243,200</u> | <u>1,677,908</u> | <u>565,292</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(194,496)</u> | <u>(271,496)</u> | <u>(234,276)</u> | <u>37,220</u> |
| Other financing sources: | | | | |
| Operating transfers(out) | <u>(9,025)</u> | <u>(9,025)</u> | <u>(7,424)</u> | <u>1,601</u> |
| Net other financing sources: | <u>(9,025)</u> | <u>(9,025)</u> | <u>(7,424)</u> | <u>1,601</u> |
| Net change in fund balance | <u>\$ (203,521)</u> | <u>\$ (280,521)</u> | (241,700) | <u>\$ 38,821</u> |
| Fund balance, July 1, 2015 | | | <u>468,053</u> | |
| Fund balance, June 30, 2016 | | | <u>\$ 226,353</u> | |

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF CHANGES IN PROPERTY TAXES RECEIVABLE

June 30, 2016

| <u>Tax Year</u> | <u>Balance July 1,</u> | <u>Property Tax Levied</u> | <u>Anticipated Levy</u> | <u>Abatements & Adjustments</u> | <u>Collections</u> | <u>Balance June 30,</u> | <u>Delinquent Taxes Filed*</u> |
|------------------------|-------------------------------|-----------------------------------|--------------------------------|--|---------------------------|--------------------------------|---------------------------------------|
| 2016 | | | \$ 7,158,677 | | | \$ 7,158,677 | |
| 2015 | | \$ 6,964,347 | - | \$ (263) | \$ (6,769,656) | 194,428 | |
| 2014 | \$ 229,012 | - | - | (13,701) | (147,715) | 67,596 | \$ 67,596 |
| 2013 | 72,850 | - | - | - | (25,814) | 47,036 | 47,036 |
| 2012 | 156,771 | - | - | (84,105) | (16,318) | 56,348 | 56,348 |
| 2011 | 265,686 | - | - | (218,891) | (7,689) | 39,106 | 39,106 |
| 2010 | 24,409 | - | - | - | (2,553) | 21,856 | 21,856 |
| 2009 | 12,751 | - | - | - | (3,835) | 8,916 | 8,916 |
| 2008 | 11,297 | - | - | - | (2,057) | 9,240 | 9,240 |
| 2007 | 9,569 | - | - | - | (1,532) | 8,037 | 8,037 |
| 2006 | 11,273 | - | - | - | (1,481) | 9,792 | 9,792 |
| | <u>\$ 793,618</u> | <u>\$ 6,964,347</u> | <u>\$ 7,158,677</u> | <u>\$ (316,960)</u> | <u>\$ (6,978,650)</u> | <u>\$ 7,621,032</u> | <u>\$ 267,927</u> |

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* Outstanding Delinquent Taxes filed with clerk and master.

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CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF TAX RATES AND ASSESSMENTS

JUNE 30, 2016

| <u>Tax Year</u> | <u>Tax rate</u> | <u>Assessed Value</u> |
|-----------------|-----------------|-----------------------|
| 2016 | .84 per 100 | \$822,493,881 |
| 2015 | .90 per 100 | 745,993,796 |
| 2014 | .90 per 100 | 738,211,161 |
| 2013 | .90 per 100 | 718,327,143 |
| 2012 | .90 per 100 | 699,534,122 |
| 2011 | .87 per 100 | 691,237,550 |
| 2010 | .87 per 100 | 659,223,510 |
| 2009 | .87 per 100 | 656,978,714 |
| 2008 | .87 per 100 | 640,260,446 |
| 2007 | .79 per 100 | 619,049,296 |
| 2006 | .79 per 100 | 605,586,006 |
| 2005 | .88 per 100 | 520,822,737 |
| 2004 | .88 per 100 | 510,293,044 |

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF BOND DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2016

| <u>Fiscal Year Maturity</u> | <u>2010 General Obligation Bonds</u> | <u>2013 General Obligation Bonds</u> | <u>2015 General Obligation Bonds</u> | <u>Total Bonds</u> | <u>Future Interest Requirements</u> |
|------------------------------------|---|---|---|-----------------------------|--|
| 2017 | \$ 450,000 | \$ 235,000 | \$ 500,000 | \$ 1,185,000 | \$ 527,409 |
| 2018 | 455,000 | 240,000 | 565,000 | 1,260,000 | 499,209 |
| 2019 | 470,000 | 245,000 | 575,000 | 1,290,000 | 468,321 |
| 2020 | 480,000 | 250,000 | 585,000 | 1,315,000 | 435,236 |
| 2021 | 495,000 | 255,000 | 600,000 | 1,350,000 | 397,556 |
| 2022 | 510,000 | 260,000 | 610,000 | 1,380,000 | 357,859 |
| 2023 | 525,000 | 270,000 | 625,000 | 1,420,000 | 316,184 |
| 2024 | 545,000 | 275,000 | 635,000 | 1,455,000 | 272,221 |
| 2025 | 560,000 | 285,000 | 650,000 | 1,495,000 | 225,929 |
| 2026 | 580,000 | 295,000 | 660,000 | 1,535,000 | 175,836 |
| 2027 | - | 305,000 | 675,000 | 980,000 | 122,256 |
| 2028 | - | 315,000 | 695,000 | 1,010,000 | 96,465 |
| 2029 | - | 330,000 | 710,000 | 1,040,000 | 69,010 |
| 2030 | - | - | 730,000 | 730,000 | 40,700 |
| 2031 | - | - | 750,000 | 750,000 | 20,625 |
| | <u>\$ 5,070,000</u> | <u>\$ 3,560,000</u> | <u>\$ 9,565,000</u> | <u>\$ 18,195,000</u> | <u>\$ 4,024,816</u> |

CITY OF COOKEVILLE, TENNESSEE
GENERAL LONG-TERM DEBT
SUMMARY OF NOTES PAYABLE DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2016

| Fiscal Year Maturity | 2002 Tennessee Municipal Bond Fund Variable Interest* | 2003 Tennessee Municipal Bond Fund Variable Interest* | 2005 Tennessee Municipal Bond Fund Variable Interest* | 2007 Tennessee Municipal Bond Fund Variable Interest* | 2008 Tennessee Municipal Bond Fund Variable Interest* | 2014 Capital Outlay Note | Total Notes Payable | Future Interest Requirements |
|-------------------------------------|--|--|--|--|--|---|------------------------------------|---|
| 2017 | \$ 124,000 | \$ 215,000 | \$ 352,000 | \$ 219,000 | \$ 153,000 | \$ 166,667 | \$ 1,229,667 | \$ 33,578 |
| 2018 | - | - | 367,000 | 227,000 | 161,000 | 166,666 | 921,666 | 25,197 |
| 2019 | - | - | 381,000 | 236,000 | 169,000 | - | 786,000 | 18,600 |
| 2020 | - | - | 397,000 | 246,000 | 177,000 | - | 820,000 | 14,042 |
| 2021 | - | - | - | 256,000 | 186,000 | - | 442,000 | 9,285 |
| 2022 | - | - | - | 266,000 | 196,000 | - | 462,000 | 6,723 |
| 2023 | - | - | - | 276,000 | 205,000 | - | 481,000 | 4,043 |
| 2024 | - | - | - | - | 216,000 | - | 216,000 | 1,253 |
| | <u>\$ 124,000</u> | <u>\$ 215,000</u> | <u>\$ 1,497,000</u> | <u>\$ 1,726,000</u> | <u>\$ 1,463,000</u> | <u>\$ 333,333</u> | <u>\$ 5,358,333</u> | <u>\$ 112,721</u> |

*Principal and interest requirements based on current debt and interest rate. The current interest rate at June 30, 2016 is .58% on the variable rate Tennessee Municipal Bond Fund debt.

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE
WATER QUALITY CONTROL DEPARTMENT - PROPRIETARY FUND
BONDS AND NOTES PAYABLE DEBT SERVICE REQUIREMENTS
CLASSIFIED BY MATURITY DATE
JUNE 30, 2016

| Fiscal Year Maturity | State of Tennessee 3.14% Revolving | Tennessee Municipal Bond Fund* | State of Tennessee 2.50% Revolving | Total Bonds and Notes Payable | Future Interest Requirements |
|-----------------------------|---|---------------------------------------|---|--------------------------------------|-------------------------------------|
| 2017 | \$ 631,428 | \$ 693,000 | \$ 92,688 | \$ 1,417,116 | \$ 71,861 |
| 2018 | 105,883 | 728,000 | 95,028 | 928,911 | 51,553 |
| 2019 | - | 764,000 | 97,440 | 861,440 | 44,281 |
| 2020 | - | 802,000 | 99,900 | 901,900 | 37,160 |
| 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 | 21,768 |
| 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 | 721 |
| | <u>\$ 737,311</u> | <u>\$ 2,987,000</u> | <u>\$ 1,621,424</u> | <u>\$ 5,345,735</u> | <u>\$ 378,196</u> |

*The note has a variable rate of interest, so the interest paid will differ from the projected amount. The current interest rate at June 30, 2016 is .61%.

See Independent Auditor's Report

CITY OF COOKEVILLE, TENNESSEE
DEBT SERVICE REQUIREMENTS - PROPRIETARY FUND
ELECTRIC DEPARTMENT
JUNE 30, 2016

Various Annexations - Non Interest Bearing

| Year Ending <u>June 30,</u> | Principal <u>Requirements</u> |
|--------------------------------|----------------------------------|
| 2017 | \$ 1,000,000 |
| 2018 | <u>1,000,000</u> |
| | <u>\$ 2,000,000</u> |

Tennessee Municipal Bond Fund - Notes and Bonds Payable

| Fiscal Year <u>Maturity</u> | 2008 Principal <u>Requirements*</u> | Revenue and Tax Bonds Series 2012 <u>Principal</u> | Total Notes and Bonds Payable | Interest <u>Requirements*</u> |
|--------------------------------|---|---|--|----------------------------------|
| 2017 | \$ 391,000 | \$ 245,000 | \$ 636,000 | \$ 89,656 |
| 2018 | 411,000 | 250,000 | 661,000 | 82,438 |
| 2019 | 431,000 | 255,000 | 686,000 | 75,005 |
| 2020 | 453,000 | 260,000 | 713,000 | 66,055 |
| 2021 | 476,000 | 270,000 | 746,000 | 55,478 |
| 2022 | 499,000 | 275,000 | 774,000 | 44,542 |
| 2023 | 524,000 | 285,000 | 809,000 | 34,672 |
| 2024 | 551,000 | 290,000 | 841,000 | 25,883 |
| 2025 | - | 300,000 | 300,000 | 16,788 |
| 2026 | - | 310,000 | 310,000 | 10,494 |
| 2027 | - | <u>320,000</u> | <u>320,000</u> | <u>3,600</u> |
| | <u>\$ 3,736,000</u> | <u>\$ 3,060,000</u> | <u>\$ 6,796,000</u> | <u>\$ 504,611</u> |

*The note has a variable rate of interest, so the interest paid will differ from the projected amount. The current interest rate at June 30, 2016 is .58%.

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF INVESTMENTS

JUNE 30, 2016

| | State of Tennessee Local Government <u>Investment Pool</u> |
|---|---|
| Governmental Activities: | |
| Major Funds | |
| General | \$ 2,384,136 |
| Debt Service | 3,089,810 |
| Capital Projects | 4 |
| Non-major funds | <u>519,461</u> |
| Total Governmental Activities | <u>5,993,411</u> |
| Business-type Activities: | |
| Major Funds | |
| Cookeville Electric Department | 2,683,865 |
| Cookeville Gas Department | 4,338,571 |
| Cookeville Water Quality Control Department | <u>2,687,460</u> |
| Total Business-type Activities | <u>9,709,896</u> |
| Internal Service Fund: | |
| Employee Health Insurance Fund | <u>1,852,070</u> |
| Total Internal Service Fund | <u>1,852,070</u> |
| Total Temporary Cash Investments | <u>\$ 17,555,377</u> |

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS & STATE FINANCIAL ASSISTANCE

FOR THE YEAR ENDED JUNE 30, 2016

| Grant/Contract Number | CFDA Number | Program | Grantor Agency | (Receivable) Deferred at 07/01/15 | Receipts | Expenditures | (Receivable) Deferred at 06/30/16 |
|----------------------------------|-------------|--|--|-----------------------------------|---------------------|---------------------|-----------------------------------|
| Z15GHSO76 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administrator | \$ (3,631) | \$ 4,266 | \$ 635 | \$ - |
| Z15GHSO78 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administrator | (1,050) | 3,503 | 2,453 | - |
| Z15GHSO77 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administrator | (7,719) | 10,460 | 2,741 | - |
| Z16GHSO81 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administrator | - | 451 | 17,736 | (17,285) |
| Z16GHSO79 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administrator | - | 21,851 | 23,290 | (1,439) |
| Z16GHSO80 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administration | - | 11,460 | 12,493 | (1,033) |
| Z16GHSO82 | 20.600 | Governor's Highway Safety Grant | State of Tennessee, Department of Transportation Pass-through from National Highway Traffic Safety Administrator | - | 5,000 | 5,000 | - |
| | | | <i>Total CFDA # 20.600</i> | <u>\$ (12,400)</u> | <u>\$ 56,991</u> | <u>\$ 64,348</u> | <u>\$ (19,757)</u> |
| 10052537 | 16.607 | Bulletproof Vest Partnership | U.S. Department of Justice | \$ (1,485) | \$ 1,485 | \$ - | \$ - |
| 10052537 | 16.607 | Bulletproof Vest Partnership | U.S. Department of Justice | - | 5,734 | 5,734 | - |
| | | | <i>Total CFDA # 16.607</i> | <u>\$ (1,485)</u> | <u>\$ 7,219</u> | <u>\$ 5,734</u> | <u>\$ -</u> |
| 2014-DJ-BX-0786 | 16.738 | Edward Byrne Memorial Justice Assistance Grant | U.S. Department of Justice/Bureau of Justice Assistance | \$ - | \$ 10,333 | \$ 10,333 | ^(a) \$ - |
| 2015-DJ-BX-0709 | 16.378 | Edward Byrne Memorial Justice Assistance Grant | U.S. Department of Justice/Bureau of Justice Assistance | - | - | 2,231 | (2,231) |
| | | | <i>Total CFDA # 16.738</i> | <u>\$ -</u> | <u>\$ 10,333</u> | <u>\$ 12,564</u> | <u>\$ (2,231)</u> |
| 070090 | 20.205 | Rails to Trails Project | State of Tennessee, Department of Transportation Pass-through from U.S. Department of Transportation | \$ (51,323) | \$ 513,343 | \$ 1,183,353 | \$ (721,333) |
| STP-M-9204(10) STP-M-9204(11) | 20.205 | Surface Transportation Grant | State of Tennessee, Department of Transportation Pass-through from U.S. Department of Transportation | (247,050) | 393,416 | 1,918,741 | (1,772,375) |
| 060010 | 20.205 | Rails to Trails Project | Rails to Trails Conservancy, Washington D.C. | 606 | - | - | 606 |
| | | | <i>Total CFDA # 20.205</i> | <u>\$ (297,767)</u> | <u>\$ 906,759</u> | <u>\$ 3,102,094</u> | <u>\$ (2,493,102)</u> |
| FEMA-4211-DR-TN | 97.036 | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | State of Tennessee, Emergency Management Agency Pass-through from Federal Emergency Management Agency | \$ (404,143) | \$ 404,143 | \$ - | \$ - |
| | | | <i>Total CFDA # 97.036</i> | <u>\$ (404,143)</u> | <u>\$ 404,143</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | TOTAL FEDERAL AWARDS | <u>\$ (715,795)</u> | <u>\$ 1,385,445</u> | <u>\$ 3,184,740</u> | <u>\$ (2,515,090)</u> |
| 43371 | N/A | FastTrack Grant | State of Tennessee, Department of Economic and Community Development | \$ - | \$ 4,827,500 | \$ 4,827,500 | \$ - |
| N/A | N/A | Disaster Grants - Public Assistance (Presidentially Declared Disasters) | State of Tennessee, Emergency Management Agency | - | 36,841 | 36,841 | - |
| GG-08-23787-00 | N/A | Internet Crimes Against Children | Nashville Police Department | - | 25,000 | 25,000 | - |
| N/A | N/A | Governor's Healthier Tennessee | The Governor's Foundation for Health and Wellness | - | 5,000 | 2,000 | 3,000 |
| | | | TOTAL STATE FINANCIAL ASSISTANCE | <u>\$ -</u> | <u>\$ 4,894,341</u> | <u>\$ 4,891,341</u> | <u>\$ 3,000</u> |
| | | | TOTAL FEDERAL AWARDS AND STATE FINANCIAL ASSISTANCE | <u>\$ (715,795)</u> | <u>\$ 6,279,786</u> | <u>\$ 8,076,081</u> | <u>\$ (2,512,090)</u> |

See Independent Auditor's Report.

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.

^(a) Of the federal expenditures presented in this line item, the City provided local law enforcement \$4,133.

MISCELLANEOUS INFORMATION - UNAUDITED

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES - UNAUDITED
JUNE 30, 2016

| Electric Department | Retail Rate 1-Jun-16 w/wholesale FCA \$0.01837 |
|--|---|
| Residential Customer Charge | \$10.00 |
| Alternate Usage Blocks Block1 kWh (1st 800 kwh) | \$0.09167 |
| Block2 kWh (additional kwh) | \$0.08681 |
| GSA1 Customer Charge | \$20.00 |
| All kWh | \$0.10057 |
| GSA2 Customer Charge | \$50.00 |
| 1st 15,000 kWh | \$0.10119 |
| Additional kWh | \$0.05714 |
| kW, 0-50 | \$0.00 |
| kW, 51-1,000 | \$12.99 |
| GSA3 Customer Charge | \$100.00 |
| All kWh | \$0.06100 |
| kW, 0-1,000 | \$11.87 |
| kW, 1,001 - 5,000 | \$11.85 |
| SDE-General Power Customer Charge | \$1,500.00 |
| SGSB Demand Charge | |
| Onpeak | \$10.12 |
| Maximum | \$4.92 |
| Excess Over Contract | \$10.12 |
| Energy Charge | |
| Onpeak | \$0.08946 |
| Offpeak First 200 hours | \$0.06622 |
| Offpeak Next 200 hours | \$0.02306 |
| Offpeak Additional kWh | \$0.01989 |
| SDE-Manufacturing Customer Charge | \$1,500.00 |
| SMSB Demand Charge | |
| Onpeak | \$9.52 |
| Maximum | \$2.14 |
| Excess Over Contract | \$9.52 |
| Energy Charge | |
| Onpeak | \$0.07150 |
| Offpeak First 200 hours | \$0.04827 |
| Offpeak Next 200 hours | \$0.02069 |
| Offpeak Additional kWh | \$0.01831 |
| Outdoor Lighting Customer Charge | \$2.50 |
| All kWh | \$0.06172 |

| Charges for Outdoor Lighting for Individual Customers | | | | |
|---|-----|------------|--------------------|-------|
| | KWH | FAC Rental | 1-Jun-16 Energy | Total |
| | | | \$0.06172 | |
| 100 WHPS | 42 | 5.13 | 2.59 | 7.72 |
| 250 LED | 20 | 12.03 | 1.23 | 13.26 |
| 250 WHPS | 105 | 7.10 | 6.48 | 13.58 |
| 250 WHPS-FLOOD | 105 | 11.09 | 6.48 | 17.57 |
| 400 WHPS | 165 | 7.10 | 10.18 | 17.28 |
| 400 WHPS-FLOOD | 165 | 11.09 | 10.18 | 21.27 |
| 175 WMV | 70 | 4.21 | 4.32 | 8.53 |
| 400 WMV | 155 | 5.49 | 9.57 | 15.06 |
| 250 WMHD | 105 | 7.74 | 6.48 | 14.22 |
| 350 WMHD-FLOOD | 140 | 8.14 | 8.64 | 16.78 |
| 350 WMHD-SHOE | 140 | 9.84 | 8.64 | 18.48 |
| 400 WMHD | 165 | 7.78 | 10.18 | 17.96 |
| 1000 WMHD | 398 | 9.42 | 24.56 | 33.98 |
| LED 50 CARETAKER | 17 | 6.73 | 1.05 | 7.78 |
| LED TYPE 3 REGULAR | 130 | 18.99 | 8.02 | 27.01 |
| LED TYPE 5 REGULAR | 130 | 18.72 | 8.02 | 26.74 |
| LED TYPE 5 SHOE | 130 | 23.74 | 8.02 | 31.76 |

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES - UNAUDITED (CONTINUED)
JUNE 30, 2016

Gas Department

Residential Rate - Classes 22,60,13,and 61 at July 1, 2016

Monthly rate (inside): First 5,000 cu. ft. for \$.719 per 100 cu. ft.
Next 5,000 cu. ft. for \$.709 per 100 cu. ft.
All additional for \$.699 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$.899 per 100 cu. ft.
Next 5,000 cu. ft. for \$.886 per 100 cu. ft.
All additional for \$.874 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, 2016

Monthly rate (inside): First 5,000 cu. ft. for \$.769 per 100 cu. ft.
Next 10,000 cu. ft. for \$.739 per 100 cu. ft.
All additional for \$.709 per 100 cu. ft.

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

Monthly rate (outside): First 5,000 cu. ft. for \$.961 per 100 cu. ft.
Next 10,000 cu. ft. for \$.924 per 100 cu. ft.
All additional for \$.886 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, 2016

Monthly rate (inside): First 10,000 cu. ft. for \$.739 per 100 cu. ft.
Next 20,000 cu. ft. for \$.719 per 100 cu. ft.
All additional for \$.699 per 100 cu. ft.

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

Monthly rate (outside): First 10,000 cu. ft. for \$.924 per 100 cu. ft.
Next 20,000 cu. ft. for \$.899 per 100 cu. ft.
All additional for \$.874 per 100 cu. ft.

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

Interruptible Rate - Class 55

\$.345 per 100 cu. ft. (inside)

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY RATES - UNAUDITED (CONTINUED)
JUNE 30, 2016

Water Quality Control Department

Inside Water Rates

| | |
|-----------------------------|--------------------------|
| Zero Usage (Base Charge) | \$4.10 (minimum bill) |
| All gallons over zero usage | \$3.07 per 1,000 gallons |

Outside Water Rates

| | |
|-----------------------------|--------------------------|
| Zero Usage (Base Charge) | \$6.15 (minimum bill) |
| All gallons over zero usage | \$4.57 per 1,000 gallons |

Water Storage Rate

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

Sewer Rates

| | |
|--|---|
| Inside - Residential/Commercial/Industrial | \$4.51 per 1,000 gallons \$5.50 (minimum bill) |
|--|---|

CITY OF COOKEVILLE, TENNESSEE
WATER LOSS SCHEDULE - UNAUDITED
 For the year ended June 30, 2016

? Click to access definition
 + Click to add a comment

Water Audit Report for: **City of Cookeville Water Quality Control (0000133)**
 Reporting Year: **2016** 7/2015 - 6/2016

Please enter data in the white cells below. Where available, metered values should be used; if metered values are unavailable please estimate a value. Indicate your confidence in the accuracy of the input data by grading each component (n/a or 1-10) using the drop-down list to the left of the input cell. Hover the mouse over the cell to obtain a description of the grades
All volumes to be entered as: MILLION GALLONS (US) PER YEAR

To select the correct data grading for each input, determine the highest grade where

WATER SUPPLIED

----- Enter grading in column 'E' and 'J' ----->

| | | | | |
|--------------------------|-----|-----|-----------|-------|
| Volume from own sources: | + ? | 9 | 3,949.267 | MG/Yr |
| Water imported: | + ? | n/a | | MG/Yr |
| Water exported: | + ? | | | MG/Yr |

Master Meter and Supply Error Adjustments

| | | |
|-------|---|-------|
| Pcnt: | Value: | MG/Yr |
| + ? | <input type="radio"/> <input type="radio"/> | |
| + ? | <input type="radio"/> <input type="radio"/> | |
| + ? | <input type="radio"/> <input type="radio"/> | |

Enter negative % or value for under-registration
 Enter positive % or value for over-registration

WATER SUPPLIED: **3,949.267** MG/Yr

AUTHORIZED CONSUMPTION

| | | | | |
|---------------------|-----|-----|-----------|-------|
| Billed metered: | + ? | 9 | 2,603.859 | MG/Yr |
| Billed unmetered: | + ? | n/a | | MG/Yr |
| Unbilled metered: | + ? | n/a | | MG/Yr |
| Unbilled unmetered: | + ? | | 49.366 | MG/Yr |

Default option selected for Unbilled unmetered - a grading of 5 is applied but not displayed

AUTHORIZED CONSUMPTION: **2,653.225** MG/Yr

Click here: ? for help using option buttons below

Pcnt: Value: MG/Yr

1.25%

Use buttons to select percentage of water supplied OR value

Pcnt: Value: MG/Yr

0.25%

1.00% 0.250 MG/Yr

WATER LOSSES (Water Supplied - Authorized Consumption)

1,296.042 MG/Yr

Apparent Losses

Unauthorized consumption: + ? **9.873** MG/Yr

Default option selected for unauthorized consumption - a grading of 5 is applied but not displayed

| | | | | |
|----------------------------------|-----|---|--------|-------|
| Customer metering inaccuracies: | + ? | 9 | 26.302 | MG/Yr |
| Systematic data handling errors: | + ? | 7 | 0.250 | MG/Yr |

Apparent Losses: **36.425** MG/Yr

Real Losses (Current Annual Real Losses or CARL)

Real Losses = Water Losses - Apparent Losses: ? **1,259.617** MG/Yr

WATER LOSSES: **1,296.042** MG/Yr

NON-REVENUE WATER

NON-REVENUE WATER: ? **1,345.408** MG/Yr

= Water Losses + Unbilled Metered + Unbilled Unmetered

SYSTEM DATA

| | | | | |
|---|-----|----|--------|-----------------|
| Length of mains: | + ? | 10 | 390.5 | miles |
| Number of <u>active AND inactive</u> service connections: | + ? | 9 | 17,284 | |
| Service connection density: | ? | | 44 | conn./mile main |

Are customer meters typically located at the curbside or property line? No (length of service line, beyond the property boundary, that is the responsibility of the utility)

Average length of customer service line: + ? 10 30.0 ft

Average operating pressure: + ? 6 78.5 psi

COST DATA

| | | | | |
|---|-----|----|-------------|--|
| Total annual cost of operating water system: | + ? | 10 | \$8,201,764 | \$/Year |
| Customer retail unit cost (applied to Apparent Losses): | + ? | 8 | \$7.36 | \$/1000 gallons (US) |
| Variable production cost (applied to Real Losses): | + ? | 8 | \$582.44 | \$/Million gallons <input type="checkbox"/> Use Customer Retail Unit Cost to value real losses |

WATER AUDIT DATA VALIDITY SCORE:

***** YOUR SCORE IS: 85 out of 100 *****

A weighted scale for the components of consumption and water loss is included in the calculation of the Water Audit Data Validity Score

PRIORITY AREAS FOR ATTENTION:

Based on the information provided, audit accuracy can be improved by addressing the following components:

- 1: Volume from own sources
- 2: Unauthorized consumption
- 3: Systematic data handling errors

CITY OF COOKEVILLE, TENNESSEE
 WATER LOSS SCHEDULE - UNAUDITED
 For the year ended June 30, 2016



AWWA Free Water Audit Software:
System Attributes and Performance Indicators

WAS v5.0

American Water Works Association.

Water Audit Report for:
 Reporting Year:

***** YOUR WATER AUDIT DATA VALIDITY SCORE IS: 85 out of 100 *****

System Attributes:

| | | |
|------------------------|--|-------|
| Apparent Losses: | <input type="text" value="36.425"/> | MG/Yr |
| + Real Losses: | <input type="text" value="1,259.617"/> | MG/Yr |
| = Water Losses: | <input type="text" value="1,296.042"/> | MG/Yr |

Unavoidable Annual Real Losses (UARL): MG/Yr

Annual cost of Apparent Losses:

Annual cost of Real Losses:

Valued at **Variable Production Cost**

Return to Reporting Worksheet to change this assumption

Performance Indicators:

Financial: { Non-revenue water as percent by volume of Water Supplied:
 Non-revenue water as percent by cost of operating system: Real Losses valued at Variable Production Cost

Operational Efficiency: { Apparent Losses per service connection per day: gallons/connection/day
 Real Losses per service connection per day: gallons/connection/day
 Real Losses per length of main per day*:
 Real Losses per service connection per day per psi pressure: gallons/connection/day/psi

From Above, Real Losses = Current Annual Real Losses (CARL): million gallons/year

Infrastructure Leakage Index (ILI) [CARL/UARL]:

* This performance indicator applies for systems with a low service connection density of less than 32 service connections/mile of pipeline

CITY OF COOKEVILLE, TENNESSEE
PRINCIPAL CITY OFFICIALS - UNAUDITED
JUNE 30, 2016

| Official Title | Name | Bond* |
|-----------------------|----------------|--------------|
| City Council: | | |
| Mayor | Ricky Shelton | \$150,000 |
| Vice-Mayor | Larry Epps | \$150,000 |
| Councilman | Dwight Henry | \$150,000 |
| Councilman | Charles Womack | \$150,000 |
| Councilman | Jim Woodford | \$150,000 |
| | | |
| City Manager | Mike Davidson | \$150,000 |
| | | |
| Finance Director | Brenda Imel | \$150,000 |
| | | |
| City Clerk | Cathy McClain | \$150,000 |

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

CITY OF COOKEVILLE, TENNESSEE
SCHEDULE OF UTILITY CUSTOMERS - UNAUDITED
JUNE 30, 2016

At June 30, 2016, the utility departments serviced the following number of customers:

| <u>Department</u> | <u>Number of Customers</u> |
|--------------------------|-----------------------------------|
| Electric | 17,535 |
| Gas | 9,761 |
| Water | 14,256 |
| Sewer | 14,262 |
| Sanitation | 1,055 |

COMPLIANCE AND INTERNAL CONTROL

CITY OF COOKEVILLE, TENNESSEE

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2016

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

 Material weakness(es) identified? Yes X No

 Significant deficiency(ies) identified? Yes X None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

 Material weakness(es) identified? Yes X No

 Significant deficiency(ies) identified? Yes X None reported

Type of auditor's report issued on compliance for major programs Unmodified

Any audit findings disclosed that are required to be reported
in accordance with 2 CFR 200.516(a)? Yes X No (None)

Identification of major programs:

| <u>CFDA Number</u> | <u>Name of Federal Program</u> |
|--------------------|--------------------------------|
| 20.205 | Rails to Trails Grant |

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes No

Section II - Financial Statement Findings

None reported

Section III - Federal Audit Findings and Questioned Costs

None reported

Section IV - Summary of Prior Audit Findings

The City of Cookeville, Tennessee had no prior year audit findings.



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 of
The 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 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 (the "City"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 29, 2016. Our report includes a reference to other auditors who audited the financial statements of Cookeville Regional Medical Center Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Duncan, Wheeler & Wilkerson, P.C.

December 29, 2016
Cookeville, Tennessee



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To the City Council
City of Cookeville, Tennessee

Report on Compliance for Each Major Federal Program

We have audited the City of Cookeville, Tennessee's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2016. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Duncan, Wheeler & Wilkerson, P.C.

Cookeville, Tennessee
December 29, 2016