

CITY OF FRANKLIN, TENNESSEE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | |
|--|-----------------------|
| Operating revenues: | |
| Metered water sales | \$ 8,234,455 |
| Sewer service charges | 10,338,401 |
| Reclaimed water sales | 145,994 |
| Other revenues from operations | 692,633 |
| Total operating revenues | <u>19,411,483</u> |
| Operating expenses: | |
| Water & sewer billing expenses | 186,587 |
| Water distribution expenses | 1,332,472 |
| Water plant expenses | 4,569,591 |
| Water administration | 1,912,772 |
| Sewer administration | 747,130 |
| General administration | 737,973 |
| Sewer collection expenses | 1,911,174 |
| Sewer plant expenses | 3,419,476 |
| Reclaimed water expenses | 144,193 |
| Depreciation | 4,895,605 |
| Total operating expenses | <u>19,856,973</u> |
| Operating loss | <u>(445,490)</u> |
| Nonoperating revenues (expenses): | |
| Interest income | 169,072 |
| Gain (loss) on sale of assets | 11,796 |
| Amortization expense | (46,717) |
| Interest expense | (1,493,066) |
| Total nonoperating revenues (expenses) | <u>(1,358,915)</u> |
| Net loss before contributions and transfers | <u>(1,804,405)</u> |
| Contributions and transfers: | |
| Tap and access fees | 1,531,644 |
| Capital contributions | 2,124,156 |
| Developer contributions | 185,590 |
| Total contributions and transfers | <u>3,841,390</u> |
| Change in net assets | 2,036,985 |
| Net assets, beginning of year | <u>121,387,751</u> |
| Net assets, end of year | <u>\$ 123,424,736</u> |

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

CITY OF FRANKLIN, TENNESSEE
STATEMENT OF CASH FLOWS
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | <u>Water and Sewer Fund</u> |
|--|---------------------------------|
| Cash flows from operating activities: | |
| Cash received from consumers | \$ 15,252,019 |
| Cash paid to employees for services | (3,130,845) |
| Cash paid to suppliers of goods and services | (6,922,894) |
| Transfers from other funds | - |
| Net cash provided by operating activities | <u>5,198,280</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of property, plant and equipment | (6,197,212) |
| Contributions from tap fees and grant funds | 3,655,800 |
| Sale of fixed assets | 54,755 |
| Interest paid on bonds | (1,522,357) |
| Issuance of long-term debt | 1,066,323 |
| Bond costs related to new debt | - |
| Payments on long-term debt and capital lease obligations | <u>(3,032,418)</u> |
| Net cash used in capital and related financing activities | <u>(5,975,109)</u> |
| Cash flows from investing activities: | |
| Purchases of investments | (506,000) |
| Interest received and gains on investments | <u>169,072</u> |
| Net cash used in investing activities | <u>(336,928)</u> |
| Net decrease in cash and restricted cash | (1,113,757) |
| Cash and restricted cash - Beginning of year | <u>14,090,035</u> |
| Cash and restricted cash - End of year | <u>\$ 12,976,278</u> |
| Cash and cash equivalents | |
| Unrestricted cash and cash equivalents | \$ 5,757,053 |
| Restricted cash and cash equivalents | <u>7,219,225</u> |
| Total cash and cash equivalents | <u>\$ 12,976,278</u> |

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

CITY OF FRANKLIN, TENNESSEE
STATEMENT OF CASH FLOWS (Cont.)
PROPRIETARY FUND - WATER AND SEWER FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | <u>Water and Sewer Fund</u> |
|---|---------------------------------|
| Reconciliation of operating income (loss) to net cash provided (used) by operations: | |
| Operating (loss) | \$ (445,490) |
| Adjustments to reconcile operating (loss) to net cash provided by operating activities: | |
| Depreciation | 4,895,605 |
| Change in: | |
| Accounts receivable | (1,005,749) |
| Grants receivable | 2,495,886 |
| Inventory | (63,513) |
| Accounts payable | (521,611) |
| Deferred revenue | (128,550) |
| Compensated absences | (28,298) |
| Net cash provided by operating activities | <u>\$ 5,198,280</u> |
| Supplemental schedule of non-cash capital financing activities: | |
| Capital assets added as developer contributions | <u>\$ 185,590</u> |
| Capital assets added financed through capital leases | <u>\$ 273,353</u> |

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

CITY OF FRANKLIN, TENNESSEE
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND - PENSION FUND
DECEMBER 31, 2010

ASSETS

Investments at fair value:

| | |
|--|----------------------|
| Short-term investments | \$ 839,904 |
| Equity securities and mutual funds | <u>51,649,179</u> |
| Total investments | <u>52,489,083</u> |
| | |
| Total assets | <u>52,489,083</u> |
| | |
| Net assets held in trust for pension benefits | <u>\$ 52,489,083</u> |

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

CITY OF FRANKLIN, TENNESSEE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUND - PENSION FUND
FOR THE YEAR ENDED DECEMBER 31, 2010

Additions:

Contributions:

| | |
|------------------------|------------------|
| Employer contributions | \$ 5,297,661 |
| Employee contributions | <u>275,363</u> |
| Total contributions | <u>5,573,024</u> |

Investment income:

| | |
|---------------------------------|------------------|
| Net appreciation in investments | 6,713,652 |
| Investment earnings | <u>359,046</u> |
| Total investment income | <u>7,072,698</u> |

| | |
|------------------------|-------------------|
| Total additions | <u>12,645,722</u> |
|------------------------|-------------------|

Deductions:

| | |
|------------------------|----------------|
| Pension benefits | 1,823,332 |
| Administration expense | <u>314,946</u> |

| | |
|-------------------------|------------------|
| Total deductions | <u>2,138,278</u> |
|-------------------------|------------------|

| | |
|---------------------|------------|
| Net increase | 10,507,444 |
|---------------------|------------|

| | |
|--|-------------------|
| Net assets held in trust for pension benefits - beginning | <u>41,981,639</u> |
|--|-------------------|

| | |
|---|----------------------|
| Net assets held in trust for pension benefits - ending | <u>\$ 52,489,083</u> |
|---|----------------------|

CITY OF FRANKLIN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Franklin was incorporated in 1799. The City operates under a mayor-alderman form of government. The City provides the following services: public safety, streets, sanitation, parks, planning, codes, and water and sewer services. As required by U.S. generally accepted accounting principles, these financial statements present all funds, which comprise the City.

The accompanying financial statements present the government and component units, if any. Component units are entities for which the government is considered to be financially accountable. Component units, although legally separate entities, are required to be presented in the government's financial statements using either a "blended" or "discrete" presentation. As of June 30, 2011, the City had no component units which were required to be included in these financial statements.

Related Organization: The City's officials are also responsible for appointing the members of the board of the Franklin Housing Authority; however, the City does not provide funding, has no obligation for the debt issued by the Authority, and cannot impose its will upon the operations of the Authority.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. The effect of all significant interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the City's non-fiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation and reduced by outstanding debt that is attributable to the acquisition, construction and improvement of those assets. Debt that was issued for capital purposes is not a part of the calculation of net assets invested in capital assets, net of related debt, until the proceeds have been used to acquire capital assets.

Restricted net assets result from restriction placed on net assets by external sources such as creditors, grantors and contributors, or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets which do not meet the definition of the two preceding categories.

The statement of activities demonstrates the degree to which the direct expenses of the given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and the proprietary fund. Major individual governmental funds and the major individual enterprise fund are reported as separate columns in the fund financial statements. Non major funds are combined and reported in a single column.

CITY OF FRANKLIN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are proprietary fund financial statements. Revenues are recorded when earned and expenses recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within sixty days (60) of the end of the current fiscal period. Generally, expenditures are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, state shared revenue, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Debt Service Fund was established to service the general obligation debt of the City through interfund transfers and property tax collections.

The Multi-Purpose Capital Project Fund was established to account for the various capital projects of the City.

The City reports the following major proprietary fund:

The Water and Sewer Fund accounts for the water, sewer, and reclaimed water services provided to customers of the system.

Additionally, the City reports the following fiduciary fund type:

The Pension Fund accounts for the activities of the pension plan maintained for employees of the City, which accumulates resources for pension payments to qualified employees.

The financial statements of the City are prepared in accordance with U.S. generally accepted accounting principles. The City's reporting entity applies all relevant *Governmental Accounting Standards Board* (GASB) pronouncements and applicable *Financial Accounting Standards Board* (FASB) pronouncements and *Accounting Principle Board* (APB) opinions issued on or before November 30, 1989 unless they conflict with GASB pronouncements. The City's reporting entity does not apply FASB pronouncements issued after November 30, 1989.

CITY OF FRANKLIN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

C. Measurement Focus, Basis of Accounting, and Financial Statements Presentation (Cont.)

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes and other charges between the government's utility divisions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering goods in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the various utility funds are charges to customers for sales and services. The Water and Sewer Fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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 they are needed.

Joint Operation of the Conference Center

In June 1999, the City completed construction of the Conference Center at Cool Springs (Conference Center), which operates a conference center facility. The Conference Center was funded jointly by the City and Williamson County (the County) through issuance of a combined total of \$12,000,000 in general obligation debt (one-half each by City and County). An Interlocal Agreement executed between the City and County (the Parties) provides for equal ownership by each of the Parties of a one-half undivided interest in the Conference Center and further specifies that each of the Parties shall be entitled to one-half of the net revenue and shall be responsible for one-half of all costs and expenses of the operation and maintenance of the Conference Center. The City's undivided interest in the investment in the Conference Center facility totaled \$6,172,334 at June 30, 2011, and is accounted for as a joint venture asset of the City. The City's one-half interest in Conference Center operations is presented with governmental activities in the statements of net assets and activities. Complete financial statements for the Conference Center may be obtained from the Department of Finance at City Hall.

D. Assets, Liabilities, and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with maturities of three-months or less from the date of acquisition. State statutes authorize the City to invest in certificates of deposit, obligations of the U.S. Treasury, agencies and instrumentalities, obligations guaranteed by the U.S. government or its agencies, repurchase agreements, and the State's investment pool. Pension Fund investments also include various domestic and international equities and mutual funds.

Investments for the City are reported at fair value; securities traded on a national or international exchange are valued primarily at quoted market prices.

CITY OF FRANKLIN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

Property tax receivables are shown net of an allowance for uncollectibles. The allowance is recorded based on the past history of collections. Court fines receivable are also shown net of an allowance for uncollectibles. The allowance is recorded based on management's estimate of what portion of the outstanding receivable will be collected in the future.

The allowances for uncollectible customer accounts recorded in the proprietary funds are based on past history of uncollectible accounts and management's analysis of current accounts. Bad debts in the proprietary fund are recorded by the direct write-off method.

Property taxes are levied annually on January 1. The taxes are due and payable from the following October through February in the year succeeding the tax levy. An unperfected lien attaches by statute to property on March 1 for unpaid taxes from the prior year's levy. Taxes uncollected by April 1, the year after due may be submitted to the Chancery Court for collection. Tax liens become perfected at the time the court enters judgment.

Inventories and Prepaid Items

Inventories are valued at cost in the governmental activities and the lower of cost or market in the business-type activities using the FIFO method. The costs of governmental fund-type inventories are recorded as expenditures when consumed rather than when purchased (consumption method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

The City elects to use restricted assets before unrestricted assets when the situation arises where either can be used. Certain assets of the Water & Sewer Fund are classified as restricted assets because their use is limited by applicable debt or other agreement.

Capital Assets

Capital assets, including property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of three years. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value or materially extend the useful life of the asset are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CITY OF FRANKLIN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Capital assets of the City are depreciated using the straight line method over the following useful lives:

| | |
|----------------------------|---------------|
| Infrastructure | 50 years |
| Buildings and improvements | 25 - 50 years |
| Distribution systems | 10 - 50 years |
| Equipment | 3 - 10 years |
| Furniture and fixtures | 3 - 10 years |

Compensated Absences

City policy provides for the accumulation of unused vacation days equal to those earned in the current year. It also provides for the accumulation of sick days. No amounts of sick leave are vested in the event of employee termination; however, the employee is entitled to payment for unused sick leave upon retirement up to a maximum of 120 days.

All annual leave is accrued when incurred in the government-wide and proprietary fund (Water and Sewer) financial statements. A liability for these amounts is reported in the governmental funds (specifically General, Sanitation, and Storm Water) only if amounts are actually due employees as a result of termination and / or retirement.

Bond premiums, discounts and issuance costs

In the governmental funds, bond premiums, discounts and issuance costs are treated as other financing sources or uses or expenditures in the year of issue. In the government-wide and proprietary fund statements, bond premiums, discounts and issuance costs are deferred and amortized over the term of the related bonds.

Derivative financial instruments

Derivative financial instruments consist of interest rate swap agreements and are accounted for at fair value in accordance with GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments."

Property Tax

The City's property tax is due each October 1 on the assessed valued listed as of the prior January 1 for all real and personal property located in the City's legal boundaries. All City taxes on real estate are declared to be a lien on such realty from January 1 of the year the assessments are made.

Assessed values are established by the State of Tennessee at the following rates of assessed market value:

| | |
|------------------------------------|-----|
| Public Utility Property | 55% |
| Industrial and Commercial Property | |
| Real | 40% |
| Personal | 30% |
| Farm and Residential Property | 25% |

For fiscal year 2011, taxes were levied at a rate of \$.434 per \$100 of assessed valuation.

Payments may be made during the period from October 1 through February 28. Current tax collections of \$11,507,981 for the fiscal year ended June 30, 2011 were approximately 98% of the tax levy.

Taxes become delinquent in March of the year subsequent to the levy date; at that time delinquent taxes are turned over to the County Clerk and Master for collection proceedings.

CITY OF FRANKLIN, TENNESSEE
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

At June 30, 2011, property taxes receivable amounted to \$12,501,517, of this amount, property taxes assessed January 1, 2011 and levied October 1, 2011 amounted to \$11,232,926. Property taxes are recognized as revenue if available; if not available, amounts are presented as deferred in the governmental fund financial statements.

Long-term Obligations

In the government-wide financial statements, and the proprietary fund in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Offset Fee Agreement - Water and Sewer Fund

The City, under an agreement with the developer of a local residential complex, had agreed to credit the water customers monthly for reclaimed water over a period of time until the original offset was reduced to zero in return for the developer's installation of specified reclaimed water infrastructure contributed to the City. A credit will be applied against revenues from the sale of water under the agreement. The remaining balance on the agreement amounted to \$451,525 at June 30, 2011 and is presented as deferred revenue until such time as it is earned under terms of the agreement.

Fund Balance

In accordance with GASB 54, which was implemented during fiscal year 2011, the governmental funds report fund balances in classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The categories of fund balance are as follows:

Nonspendable - The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted - Fund balance is reported as restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Mayor and Alderman level of decision-making authority are reported as committed fund balance. Committed fund balance also incorporates contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

Assigned - Amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed, are reported as assigned fund balance.

CITY OF FRANKLIN, TENNESSEE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont.)

D. Assets, Liabilities, and Net Assets or Equity (Cont.)

Unassigned – Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. In other governmental funds, if expenditures incurred for specific purposes have exceeded the amounts restricted, committed, or assigned to those purposes, those amounts are reported as a negative unassigned fund balance.

The City's practice is to expend any available restricted, committed or assigned resources, in that order, prior to expending unassigned resources.

Estimates

Estimates used in the preparation of financial statements require management to make assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with U.S. generally accepted accounting principles for the General Fund and the Special Revenue Funds. The Board of Mayor and Aldermen approves and appropriates the budgets for these funds annually. All annual appropriations lapse at fiscal year-end.

As an extension of the formal budgetary process, the Board of Mayor and Aldermen may transfer or appropriate additional funds for expenditures not anticipated at the time of budget adoption. The City's policy is to not allow expenditures to exceed budgetary amounts at the total fund expenditure level without obtaining additional appropriation approval from the Board.

B. Deficit Fund Balances and Excess Expenditures

The following funds have deficit fund balances at June 30, 2011: Road Impact Fee Fund (\$796,990) and Facilities Tax Fund (\$291,165). The City expects to fund these deficits with revenues from licenses and permits and facilities tax, respectively.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The City is authorized to invest funds in, among other things, financial institutions and direct obligations of the Federal Government. During 2011, the City, except for the Pension Fund, invested in certificates of deposit, interest-bearing checking accounts, and government sponsored agency securities.

Deposits:

Custodial Credit Risk: The City's policies limit deposits to those instruments allowed by applicable state laws and described above. State statutes require that all deposits with financial institutions must be collateralized by securities whose market value is equal to 105% of the value of uninsured deposits. The deposits must be collateralized by federal depository insurance, by the Tennessee Bank Collateral Pool, by collateral held by the City's agent in the City's name, or by the Federal Reserve Banks acting as third party agents. As of June 30, 2011, all bank deposits were fully collateralized or insured.