

# City of Morristown, Tennessee

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June 30, 2009

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**City of Morristown, Tennessee**  
**Comprehensive Annual Financial Report**  
**June 30, 2009**

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January 5, 2010

To the Honorable Mayor, Members of the Governing Council, and Citizens of the City of Morristown:

State law requires that all general-purpose local governments publish within six months of the close of each year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Morristown for the fiscal year ended June 30, 2009.

This request consists of management's representations concerning the finances of the City of Morristown. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Morristown has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and compile sufficient reliable information for the preparation of the City of Morristown's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Morristown's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Morristown's financial statements have been audited by Craine, Thompson, and Jones, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Morristown for the fiscal year ended June 30, 2009, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Morristown's financial statements for the fiscal year ended June 30, 2009, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Morristown was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance report section of this CAFR.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Morristown's MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The City of Morristown was incorporated in 1855 and operates under a council-administrator form of government. It is located between two major Tennessee Valley Authority lakes approximately 40 miles northeast of Knoxville on Interstate-81 and approximately 60 miles southwest of the Tri-Cities area on the same highway. The City currently occupies a land area of approximately 22 square miles and serves a population of approximately 25,000. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Council.

Policy-making and legislative authority are vested in the Mayor and Council members consisting of the mayor and six other members. The Council is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees, and hiring the City Administrator, City Attorney, Police Chief, and Fire Chief. The City's Administrator is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City and for appointing the heads of various departments.

The City of Morristown provides a full range of services, including police, fire, street construction and maintenance, planning and zoning, parks and recreation, cultural events and general administrative services. In addition, sewer service and solid waste collection are provided under an Enterprise fund concept with user charges established by the Council to ensure adequate coverage of operating expenses and payments on outstanding debt. Morristown Utility System's Board is appointed by City Council. The MUS Board provides water and electric service with user charges established by this board.

The annual budget serves as the foundation for the City of Morristown's financial planning and control. All departments of the City of Morristown are required to submit requests for appropriation to the City Administrator. The City Administrator uses these requests as the starting point for developing a proposed budget. The City Administrator then presents this proposed budget to the Council for review by May 15. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Morristown's fiscal year. The appropriated budget is prepared by fund, function, and department. The City Administrator may make transfers of appropriations within a department. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on page 24 as part of the basic financial statements for the City's fund.

### **Factors Affecting Financial Condition**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Morristown operates.

#### **Local Economy.**

The economy has had an impact on nearly every segment of Morristown's largest taxpayers. A list of the principal employers can be found on page 64.

Morristown Utility System is the public water, electric and telecom provider for the City. As a public owned and operated utility, it has seen approximately 4.5% decline in the amounts of water and electric power served. Adjustments have been made in daily operations to manage this decline without layoffs or service reductions.

MAHLE is a German based manufacturer of pistons for automobile engines and other larger types of equipment. From a peak employment of 1,600 in 2002 MAHLE has reduced the number of workers by approximately 750 people. The business sells to all the various auto manufacturers and is not overly dependent on one line of production. Their outlook for providing pistons to the new Volkswagen plant in Chattanooga (less than 150 miles) appears excellent.

JTEKT is a Japanese based manufacturer of power steering gear and other parts, principally for Toyota. JTEKT has done various things to offset the economic conditions related to the industry. These include permanent and temporary layoffs of approximately 150 workers, releasing temporary service employees, a reduction in employee hours, wage freezes, furloughs and early retirement incentives.

Tuff-Torq is a Japanese based manufacturer of transaxles and transmission for lawn tractors, principally for John Deere. They have reduced hours and dismissed temporary workers, but have experienced no significant layoffs of employees at this time.

Berklene Corporation is a manufacturer of moving and other lines of furniture. Approximately 150 employees have been furloughed from their original base of 1,350 jobs.

VIFAN is an Italian owned manufacturer of sheet film for food processing and other users. VIFAN has just completed a \$70 million dollar plant expansion which doubled the capacity of the Morristown facility and added approximately 40 jobs.

CBL owns College Square Mall, a 465,000 square foot regional facility. Retailing at the College Square Mall is showing mixed results with the loss of large regional anchor tenants like Goody's offset by the addition of twelve new movie screens by Carmike. Overall, occupancy rates in the College Square Mall have fallen from 98% to just of 90%.

OTICS USA is another Japanese owned manufacturer of internal engine parts, principally for Toyota. While employee hours have been reduced, wages frozen and furloughs, to date there have been no layoffs at this plant.

Lear Siegler manufactures automotive seat frames for Ford, Subaru and others at their Morristown facility. Layoffs at this plant have reduced the work force from a peak of over 600 to just over 100 currently. This is one of the few unionized plants in Morristown and one of the last metal stamping facilities for the automotive seating business in the United States.

The list of the principal employers found on page 64 also shows the large percentage of the work force involved in manufacturing, with five of the largest 10 businesses engaged in the production of significant products. The ten largest employers include the local public schools and Walters State Community College (approximately 6,000 students), two regional hospitals, one retailer and five manufacturers ranging from food processing to turbine blades for jet engines.

Residential is the smallest component of Morristown's property tax base, making up only 28% of the total assessment. The continued decline of residential building permits reflects the weakness in the higher end housing markets (\$300,000 and above). Although the average price of a home sold over the last nine months has increased from \$125,000 to \$127,000, the length of time a home is on the market has increased from 133 days to 196 days. Both national home supply stores are more than 30% off of their peak sales in FY 2007. Most residential construction takes place in Hamblen County outside the corporate limits. The same weakness seen in the Morristown permit results continues over into the County's building permit requests.

Foreclosures have also slowed the housing markets in Morristown and Hamblen County. There were 389 foreclosures filed during calendar year 2008, an increase of 216% from calendar year 2006. The 389 foreclosures filed represents 1.49% of the housing stock in Hamblen County.

### **Sales Tax**

The overall economic health of the City of Morristown reflects the nationwide economic downturn. The General Fund's largest revenue source is the local option sales tax. In FY 2009 the city experienced a 7.1% decline in the local option sales tax to finish the year almost \$1.1 M under budget. In addition to the financial challenges caused by the loss of sales tax revenue, one-eighth of one percent of local option sales tax will no longer be designated for the City and will begin to go to Hamblen County on July 1, 2009.

### **Major Initiatives**

Morristown's most recent additions to the industrial base include the 2008 start up of Colgate-Palmolive's state of the art facility for the production of their flagship product, Total Toothpaste. This \$70 million dollar facility employs approximately 225 people. Colgate will not appear on the list of largest taxpayers for ten years due to an in-lieu-of-tax agreement which reduces their property tax burden by 75% over those ten years.

Most recently, Double H Plastics of Philadelphia, PA have purchased an existing industrial building for the expansion of their plastic extrusion businesses. This nearly \$20 million dollar investment will employ approximately 75 people.

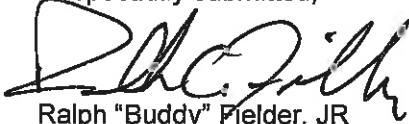
The City of Morristown and the Industrial Development Board continue to recruit new industry and support expansion of our existing industry. These efforts helped to bring VIFAN's \$70 million dollar investment that doubles the capacity of the polypropylene sheet film plant. ColorTech, a German manufacturer of specialty inks for the printing business, is also engaged in a \$15 million dollar expansion of their Morristown plant.

Morristown's automotive manufactures produce for many different brands of vehicles, but principally Toyota. Four automotive plants are classified as Tier 1 suppliers of Toyota. The geographic location of Morristown allows local manufacturers to support Toyota facilities in Georgetown, KY, Huntsville, AL and Martinsburg, WV.

### **Acknowledgement**

The preparation of the CFAR could not have been accomplished without the efforts and dedication of the staff of the Department of Finance. We would like to express our appreciation to the Finance staff and other personnel from various departments, agencies, and authorities that assisted in the preparation. Also, we would like to thank the Mayor and Council for their guidance and support.

Respectfully submitted,



Ralph "Buddy" Fielder, JR  
Assistant City Administrator



Dynise Robertson  
Finance Director

***CITY OF MORRISTOWN***  
***CITY OFFICIALS***  
*June 30, 2009*

**MAYOR**

*Sami Barile*

**COUNCIL**

*Kay Senter*  
*Claude Jinks*  
*William Rooney*  
*Frank McGuffin*  
*Gene Brooks*  
*Bob Garrett*

*City Administrator*  
*Acting City Administrator*  
*Assistant City Administrator*  
*City Attorney*  
*Director of Finance*  
*Director of Personnel/Budget*  
*Director of Planning*  
*Police Chief*  
*Fire Chief*  
*Chief Building Official*  
*Director of Public Works (Acting)*  
*City Engineer*  
*Director of Parks and Recreation*

*Tony Cox*  
*Lynn Wampler*  
*Ralph Fielder*  
*Richard Jessee*  
*Dynise Robertson*  
*Brian Janish*  
*Alan Hartman*  
*Roger Overholt*  
*William Honeycutt*  
*Jay Moore*  
*Ralph Fielder*  
*Bryan Fowler*  
*Craig Price*





# CRAINE, THOMPSON, & JONES, P.C.

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## CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET

P.O. Box 1779

SUITE 300, MILLENNIUM SQUARE

MORRISTOWN, TENNESSEE 37816-1779

423-586-7650

## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Board of Aldermen  
City of Morristown  
Morristown, Tennessee

We have audited the accompanying financial statements of the governmental activities, general fund and solid waste budgetary comparisons, business-type activities, major funds, and remaining fund information which collectively comprise the basic financial statements of the City of Morristown, Tennessee as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the City of Morristown, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Morristown Utility Commission proprietary fund types, which statements reflect total assets of \$115,781,956 as of June 30, 2009, and total revenue of \$84,908,994 for the year then ended. These financial statements were audited by other auditors and the reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morristown Utility Commission, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morristown, Tennessee as of June 30, 2009, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 5, 2010, on our consideration of the City of Morristown, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

---

JAMES W. CRAINE, CPA  
GLENN B. THOMPSON, CPA, CFP, PFS  
MIRA J. CRAINE, CPA

THOMAS M. JONES, CPA  
HIRAM H. JONES, CPA

Honorable Mayor and Board of Aldermen

The management's discussion and analysis on pages 8 through 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Morristown, Tennessee basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules, combining non-major fund financial statements and the schedules of expenditures of federal and state awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements and the General Fund and Solid Waste Fund budgetary comparison schedules taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Craige, Thompson + Jones, P.C.*

Morristown, Tennessee  
January 5, 2010

## Management's Discussion & Analysis

As management of the City of Morristown, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on page 1 of this report.

### Financial Highlights

- The assets of the City of Morristown exceeded its liabilities at the close of the most recent fiscal year by approximately \$132.2 million (net assets), an increase of nearly \$5.8 million during FY 2009. Of this amount, \$10.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Morristown's governmental funds reported combined ending fund balances of just over \$2.6 million, an increase of almost \$650K from the prior year. There was a prior period adjustment to correct the an interfund loan/bond issue that occurred in FY 2006. This reduced the ending FY 2008 general fund balance by \$1,500,500.
- The City of Morristown's total long-term debt increased by about \$3.6 million during the current fiscal year. The key factor in this increase was the new issuance of about \$6.4 million in bonds and other long-term debt for the sewer fund. The general fund's long-term debt decreased by almost \$1.5 million.
- The City of Morristown's general fund reported a negative unrestricted fund balance of \$114,452 on June 30, 2009. This is a result of lower than expected revenue collections.

### Overview of the Financial Statements

This discussion and analysis serves as an introduction to the City of Morristown's financial statements. The basic financial statements consist of three parts: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to 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 of Morristown's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the City of Morristown's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Morristown is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxed and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the City of Morristown 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 governmental activities of the City of Morristown include general government, public safety, highways and streets, sanitation, economic development, and culture and

recreation. The business-type activities include the electric, water, storm water, telecom and sewer systems. Of the business-type activities, the Morristown Utilities Commission is responsible for water, electric and telecom. The Morristown Utilities Commission is an administrative unit of the City and therefore has been included as a business-type activity of the primary government. The Morristown Utilities Commission issues a separate comprehensive annual financial report and information from that report is used in this report. Readers should consult the Morristown Utility Commission's Annual Comprehensive Financial Report for more detailed information on their finances.

The government-wide financial statements can be found beginning on page 19 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 of Morristown, 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 of Morristown 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 on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating 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 of Morristown maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the solid waste fund, both of which are considered to be major funds. Data from the other governmental fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Morristown 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.

The basic governmental fund financial statements can be found beginning on page 19 of this report.

**Proprietary funds.** The City of Morristown maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Morristown uses enterprise funds to account for its water, sewer, storm water, telecom and electric systems.

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 sewer, water, electric and telecom systems, all of which are considered to be major funds of the City of Morristown. The storm water system is not considered to be a major fund, however it is presented separately in the proprietary fund financial statements because it is the only other proprietary fund.

The basic proprietary fund financial statements can be found on page 26 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on page 31 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Morristown's progress in funding its obligation to provide pension benefits to its employees.

### Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the City of Morristown, assets exceeded liabilities by almost \$132.2 million at the close of the most recent fiscal year. Net assets increased by \$5.8 million for the period.

<b>City of Morristown's Net Assets</b>						
	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$27,580,034	\$29,939,576	\$31,314,824	\$29,957,381	\$ 58,894,858	\$ 59,896,957
Capital assets	55,325,232	54,935,491	134,648,347	126,407,923	189,973,579	181,343,414
Total assets	82,905,266	84,875,067	165,963,171	156,365,304	248,868,437	241,240,371
Long-term liabilities						
outstanding	21,818,617	23,519,019	60,758,742	56,046,452	82,577,359	79,565,471
Other liabilities	14,709,605	16,836,687	19,420,581	18,486,664	34,130,186	35,323,351
Total liabilities	36,528,222	40,355,706	80,179,323	74,533,116	116,707,545	114,888,822
Net assets:						
Invested in capital assets,						
net of related debt	43,754,778	41,772,607	73,440,732	68,057,045	117,195,510	109,829,652
Restricted	2,736,718	2,746,754	1,331,951	0	4,068,669	2,746,754
Unrestricted	(114,452)	0	11,011,165	13,775,143	10,896,713	13,775,143
Total Net assets	\$ 46,377,044	\$ 44,519,361	\$ 85,783,848	\$ 81,832,188	\$ 132,160,892	\$ 126,351,549

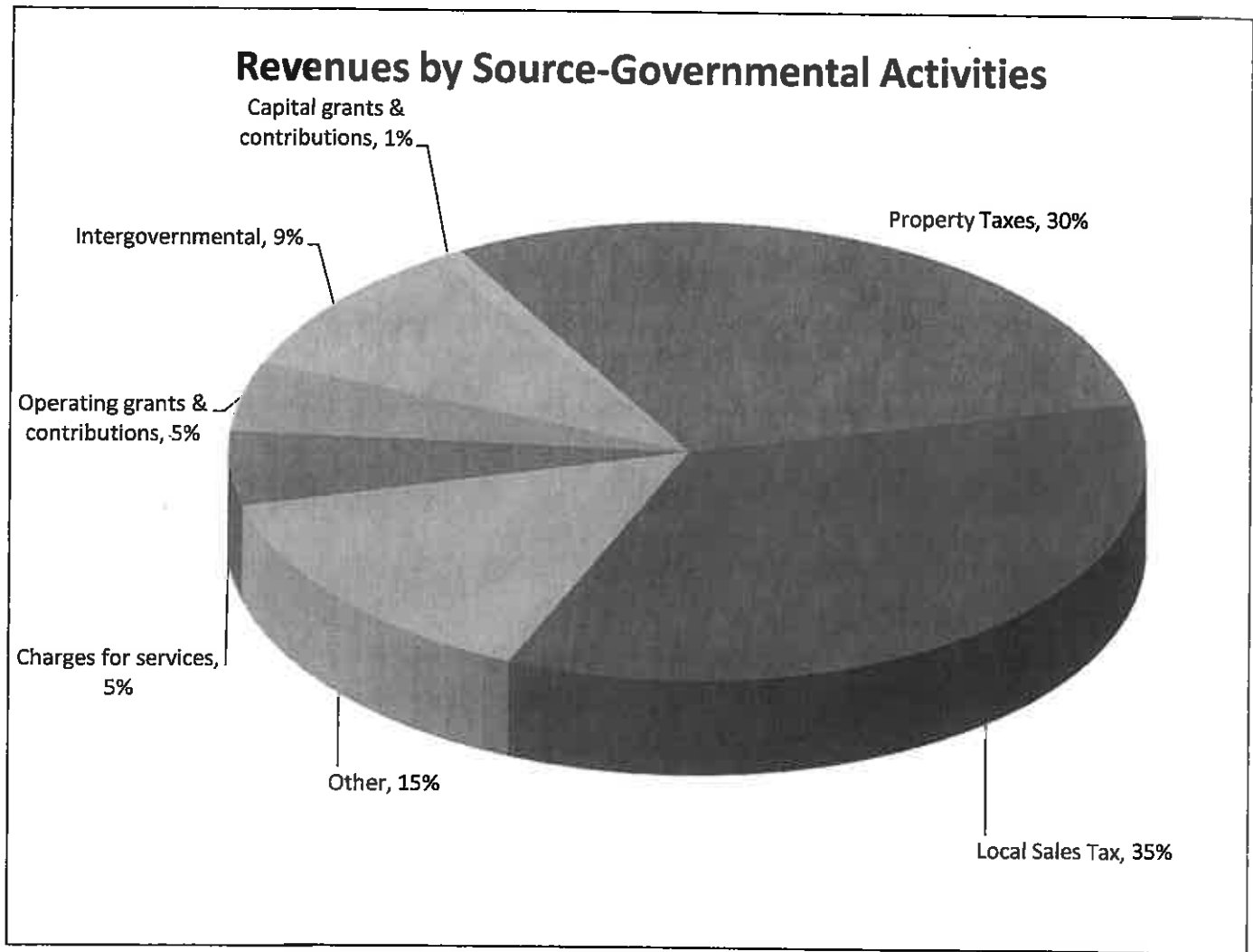
By far the largest portion of the City of Morristown's net assets (88.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Morristown uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Morristown'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.

An additional portion of the City of Morristown's net assets (3.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$10,896,713) may be used to meet Morristown's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Morristown is able to report positive balances in two of the three categories of net assets for governmental activities, and all three categories of net assets for business-type activities. The general fund had a negative unrestricted fund balance of \$114,452 on June 30, 2009.

City of Morristown's Changes in Net Assets						
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 1,557,509	\$ 1,187,253	\$ 91,526,394	\$ 82,284,354	\$ 93,083,903	\$ 83,471,607
Operating grants & contributions	1,454,660	888,336	-	-	1,454,660	888,336
Capital grants & contributions	312,160	1,546,886	546,085	55,500	858,245	1,602,386
General revenues:						
Property taxes	8,766,697	9,521,787	-	-	8,766,697	9,521,787
Sales tax	10,389,929	9,446,110	-	-	10,389,929	9,446,110
Intergovernmental	2,813,264	3,834,117	-	-	2,813,264	3,834,117
Other	4,319,799	3,763,385	161,484	387,820	4,481,283	4,151,205
Total revenues	29,614,018	30,187,874	92,233,963	82,727,674	121,847,981	112,915,548
Expenses:						
General government	3,807,015	4,729,356	-	-	3,807,015	4,729,356
Public safety	13,721,953	14,938,433	-	-	13,721,953	14,938,433
Public works	5,536,365	12,760,354	-	-	5,536,365	12,760,354
Economic development	464,294	1,117,549	-	-	464,294	1,117,549
Parks & recreation	2,070,840	2,404,471	-	-	2,070,840	2,404,471
Civic support	496,633	558,723	-	-	496,633	558,723
Airport	302,588	573,847	-	-	302,588	573,847
Miscellaneous	-	-	-	-	-	-
Interest on long-term debt	591,654	785,032	-	-	591,654	785,032
Water	-	-	5,172,597	5,056,029	5,172,597	5,056,029
Sewer	-	-	7,108,351	6,760,588	7,108,351	6,760,588
Storm water	-	-	543,434	436,016	543,434	436,016
Electric	-	-	69,522,516	61,105,276	69,522,516	61,105,276
Telecom	-	-	6,914,905	6,907,546	6,914,905	6,907,546
Total expenses	26,991,342	37,867,765	89,261,803	80,265,455	116,253,145	118,133,220
Increase (decrease) in net assets before transfers	2,622,676	(7,679,891)	2,972,160	2,462,219	5,594,836	(5,217,672)
Transfers	735,507	731,014	(735,507)	(731,014)	-	-
Increase (decrease) in net assets	3,358,183	(6,948,877)	2,236,653	1,731,205	5,594,836	(5,217,672)
Net assets - July 1, 2008	44,519,361	32,735,022	81,832,188	80,100,982	126,351,549	112,836,004
Prior period adjustment	(1,500,500)	18,733,216	1,715,007	-	214,507	18,733,216
Net assets - June 30, 2009	\$ 46,377,044	\$ 44,519,361	\$ 85,783,848	\$ 81,832,187	\$ 132,160,892	\$ 126,351,548

The graph below presents the major sources of revenue for governmental activities.

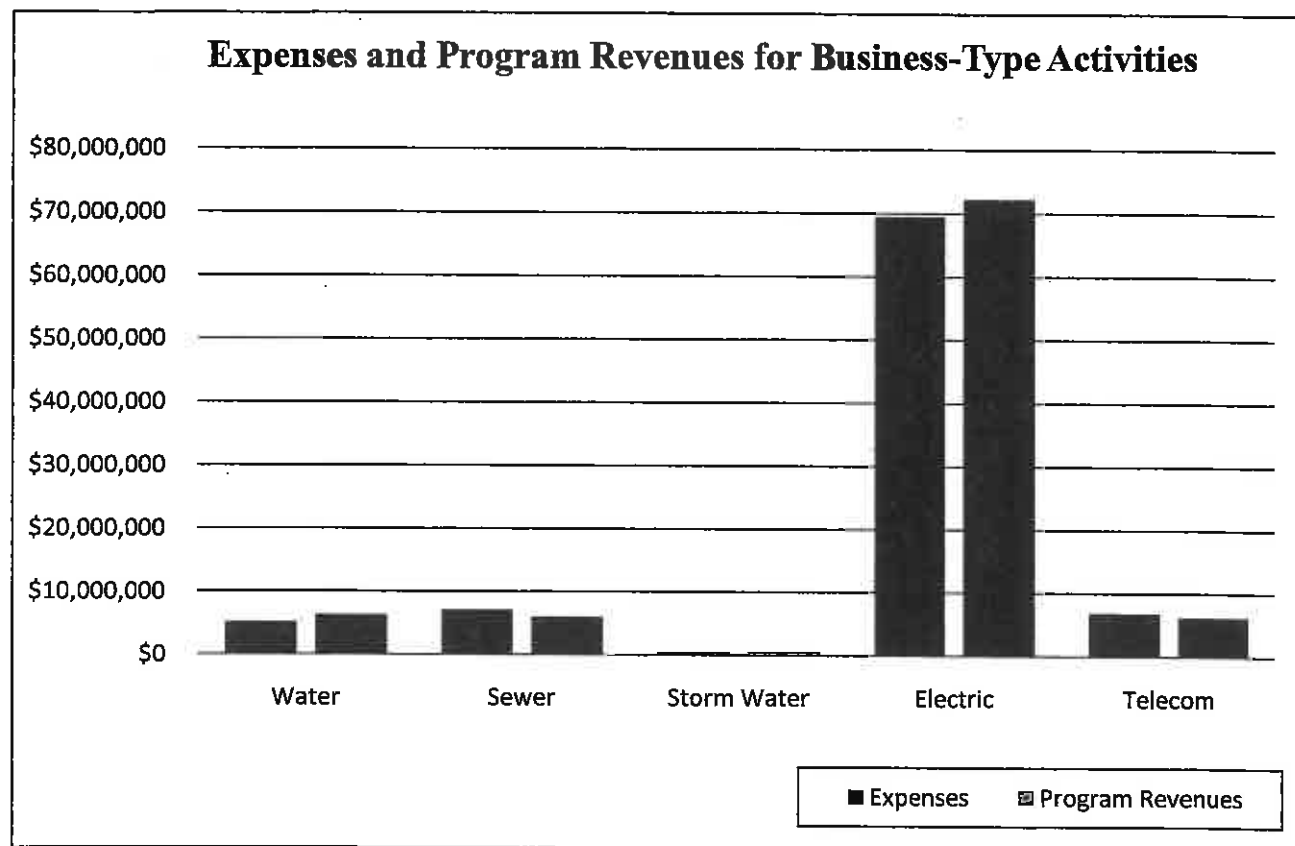


The City's reliance on the sales tax for over a third of its revenues has contributed to the decline in reserves over the last three fiscal years. Taxable sales declined 1.54% from FY 2007 to FY 2008, and an additional 7.1% from FY 2008 to FY 2009. Gross collections increased by \$943,819 for the fiscal year due primarily to an increase in the local option sales tax rate. The local option sales tax rates and how it is divided is as follows:

<b>City of Morristown/Hamblen County Local Option Sales Tax Rate</b>				
	<b>FY 2007</b>	<b>FY 2008</b>	<b>FY 2009</b>	<b>FY 2010</b>
City portion	1.250%	1.250%	1.500%	1.375%
County portion	1.250%	1.250%	1.250%	1.375%
Total rate	2.500%	2.500%	2.750%	2.750%
City collections	\$ 9,594,019	\$ 9,446,110	\$ 10,389,929	

The property tax continues to be a stable revenue source for the City. However, for FY 2009 collections were more than \$755,000 less than FY 2008 due primarily to a decrease in the property tax rate from \$1.37 to \$1.22. This \$0.15 reduction was implemented by City Council in response to local voters' successfully passing a referendum increasing the local option sales tax rate for Morristown from 2.5% to 2.75%.

Intergovernmental revenues received by the City can vary when there are projects managed by the City but paid for primarily by other entities, such as the State of Tennessee or federal government. For FY 2009 the City managed and/or paid for and was subsequently reimbursed for several projects including caisson work at the Vifan site and expenditures for the Lakeway Area Metropolitan Transportation Planning Organization.



## Financial Analysis of the Government's Funds

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

**Governmental funds.** The focus of the City of Morristown'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 of Morristown's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Morristown's governmental funds reported combined ending fund balances of \$2,622,266 a increase of \$649,755 in comparison with the prior year after a prior period adjust of \$1,500,500 is taken into account.



The general fund's fund balance increased \$688,031. This was due to the recognition of \$564,526 of unexpended bond proceeds and eleven months of local option sales tax rate of 1.5%, as opposed to 1.25% for FY 2008 and 1.375% that will be effective for FY 2010. The general fund's unreserved fund balance is a negative \$114,452.

On June 30, 2009 the general fund had an interfund loan payable to the sewer fund for \$1,241,512. This loan was required to allow the general fund to continue its day-to-day operations. The general fund also had \$565,526 of unexpended bond proceeds as of June 30, 2009.

The solid waste fund is used to account for the City's sanitation and recycling operations. The solid waste fund's operations are funded entirely by the general fund. The debt service paid by the solid waste fund is funded entirely by the Morristown/Hamblen County Solid Waste Authority. The City receives an amount equal to the annual debt service expenditures each year. The debt was issued by the City and ultimately the City is responsible for its repayment should the Morristown/Hamblen County Solid Waste Authority be unable to meet the obligation.

**Proprietary Funds.** The City of Morristown's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

The City's sewer fund suffered a decrease in net assets of \$886,542 for FY 2009. This was due primarily to a significant decrease in sewer charges. Several large industrial users reduced their usage during the year due to the effect the unfavorable economic conditions have had on their businesses. The sewer fund purchased an additional wastewater treatment in the Lowland community on June 30, 2009. The purchase price was \$750,000 payable on June 30, 2009, plus a minimum payment of \$182,500 per year for the next 25 years. The present value of these future payments (\$2,850,233) has been recorded as a long-term debt and is listed as such. Additional long-term debt was issued to fund energy improvement projects for \$1,710,000 and general sewer construction projects for \$1,805,275. As of June 30, 2009, approximately \$1,500,000 of the bonds issued for the energy improvement projects had not been spent.

The storm water system had operating income of \$22,939 for the fiscal year in its second year of operations. During FY 2009 the infrastructure assets from the general fund that are a part of the storm water system were transferred to the storm water fund, as well as the equipment utilized for storm water operations. This transfer represents the large bulk of the \$1,712,345 prior period adjustment to the storm water net assets. On June 30, 2009 the storm water fund had a \$649,477 outstanding interfund loan from the sewer fund. This loan was necessary to allow the storm water fund to continue to operate during the fiscal year and will be necessary for the future if the revenue structure does not change substantially. The storm water fund does not have any debt.

Unrestricted net assets of the Morristown Utility Commission, which operates electric, water, and telecom service for the City, at the end of the year, amounted to \$10,635,767, an increase of \$1,686,615. The Morristown Utility Commission debt decreased by \$186,527. The telecom system issued \$615,000 of new debt to fund the expansion of the system. For a more thorough discussion of the Morristown Utility Commission's finances readers should consult the Comprehensive Annual Financial Report issued by the Commission for FY 2009.

## General Fund Budgetary Highlights

Differences between the original budget and the final amended budget for FY 2009 can be briefly summarized as follows:

- \$477,289 in increases allocated to Energy Systems Group for the installation of energy related upgrades to city owned facilities.
- \$429,545 in increases allocated to the Morristown-Hamblen Library.
- \$310,873 in increases allocated to VIFAN improvements.
- \$295,000 in increases allocated to the Narcotics Fund.
- \$198,961 in increases allocated to airport improvements.
- \$76,087.05 in increases allocated to transfer to the Solid Waste Fund

The increases were funded from grants and grant sources, fund balance, and bond proceeds.

Additional budgetary highlights for FY 2009 included:

- The property tax rate was reduced by \$0.15 from \$1.37 to \$1.22. The decrease was due to the approval by the voters in May 2008 to increase the local option sales tax rate from 2.5% to 2.75%. Morristown City Council pledged to reduce the property tax rate by \$0.15 if the voters approved the sales tax increase.
- All eligible employees received a 2.5% cost-of-living adjustment on July 1, 2008.
- The city opted to move its group health insurance to a self-funded basis.

## Capital Asset and Debt Administration

**Capital assets.** The City of Morristown's investment in capital assets for its governmental and business type activities as of June 30, 2009, amounts to \$ 55.3 million and \$ 134.6 million, respectively (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

City of Morristown's Capital Assets (net of depreciation)						
	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land	7,919,279	7,864,862	-	-	7,919,279	7,864,862
Buildings	10,915,441	11,096,654	-	-	10,915,441	11,096,654
Improvements other than buildings	2,377,858	2,796,312	-	-	2,377,858	2,796,312
Machinery & equipment	3,696,716	3,943,626	-	-	3,696,716	3,943,626
Infrastructure	30,415,938	28,713,507	-	-	30,415,938	28,713,507
Utility plant and equipment	-	-	132,262,985	118,266,499	132,262,985	118,266,499
Construction in progress	-	-	2,385,362	8,141,424	2,385,362	8,141,424
Total	55,325,232	54,414,961	134,648,347	126,407,923	189,973,579	180,822,884

Additional information on the City of Morristown's capital assets can be found on page 37 of this report.

**Long-term debt.** At the end of the current fiscal year, the City of Morristown had total bonded debt outstanding of \$ 85.8 million; of this amount \$23.2 million comprises net direct debt of governmental activities. The remainder of the City of Morristown's debt represents bonds secured by specified revenue sources and the full faith and credit of the government.

The general fund issued \$1,290,000 of bonds for energy projects to be completed on items in the general fund. As of June 30, 2009, \$565,525 was unexpended from this bond issue. The City was also able to obtain a \$183,604 interest-free loan from the State of Tennessee. This loan was used to fund a portion of the City's share of the renovations to the library. It will be the responsibility of the general fund to pay back this loan over a seven year period.

The City continues to rely heavily on variable rate debt, with \$63.4 of the total outstanding debt in a fully variable rated product. The telecom system's outstanding debt of \$20,115,000 consists entirely of a variable rate product.

In an effort to diversify itself from the risk of variable rate debt the sewer system has completed its second year of participating in the State Revolving Fund program. This program is administered by the State of Tennessee and allows the City to access long-term debt at a fixed favorable rate. The current outstanding debt for the SRF program carries a fixed rate of 2.06%. Not all projects the sewer system borrows money for will be eligible for the SRF program.

In FY 2009 the City refinanced \$13,851,317 of debt in the general fund and \$12,423,683 of debt in the sewer fund. The Morristown Utility Commission refinanced \$19,500,000 of debt in the telecom system. All of the new debt issued for the refinancing was done through the Tennessee Municipal League Bond Fund and are variable rate products. The following is a brief summary of the City's long-term debt by fund:

## City of Morristown's Long-Term Debt

	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
Governmental activities				
General fund	\$ 24,008,317	\$ 13,951,219	\$ 15,438,122	\$ 22,521,414
Solid waste fund	875,000	-	210,000	665,000
Total governmental activities	24,883,317	13,951,219	15,648,122	23,186,414
Business-type activities				
Sewer system	24,148,418	19,673,690	14,205,675	29,616,433
Storm water system	-	-	-	-
Electric system	2,488,123	-	215,505	2,272,618
Water system	11,214,285	-	586,022	10,628,263
Telecom system	19,500,000	20,115,000	19,500,000	20,115,000
Total business-type activities	57,350,826	39,788,690	34,507,202	62,632,314
Total Debt	\$ 82,234,143	\$ 53,739,909	\$ 50,155,324	\$ 85,818,728

Additional information on the City of Morristown's long-term debt can be found on page 43 of this report.

### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Morristown was 12.1% for November 2009, which is an increase from a rate of 7.8% a year ago. This compares to the state's average unemployment rate of 10.3% and the national rate of 10.0%.
- Inflationary trends in the region compare favorably to national indices.
- Taxable sales were down over 7% in FY 2009 when compared to FY 2008. In addition to the decline of taxable sales, the local option sales tax rate for the City's general fund went from 1.5% in FY 2009 to 1.375% for FY 2010. As a result the City was forced to cut over \$1 million of personnel costs in the FY 2010 budget.
- Sewer revenues dropped over eight percent in FY 2009 when compared to FY 2008. Sewer rates were increased by 8% for FY 2010.

In November 2009 of the current fiscal year management informed City Council of a projected shortfall of over \$900,000 in the general fund. As a result management recommended to City Council about \$940,000 in mid-year reductions in order to avoid a negative change in fund balance for the year. Some of the reductions involved reducing employees' hours, eliminating vacant positions and making cuts to general operations. Council approved the recommendations and management is continuing to closely monitor the current fiscal year.

All of these factors were considered in the preparation and continual monitoring of the City of Morristown's budget for the FY 2010.

## **Requests for Information**

This financial report is designed to provide a general overview of the City of Morristown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for addition financial information should be addressed to the City of Morristown, Finance Department Director, P.O. Box 1499, Morristown, Tennessee 37816-1499. The Comprehensive Annual Financial Report and other information about the City may be found on the City's website [www.mymorristown.com](http://www.mymorristown.com), as part of our continuing usage of advancing technology and e-commerce.

Statement of Net Assets

June 30, 2009

	Primary Government			
	Government Activities	Business-Type Activities	Eliminations	Total
<b>ASSETS</b>				
Cash and cash equivalents	\$ 63,885	\$ 9,295,330		\$9,359,015
Receivables (net of allowance for uncollectibles)	14,757,792	8,073,730		22,831,522
Inventories	38,892	1,273,244		1,312,136
Accrual for unbilled revenue		1,841,048		1,841,048
Due from others		2,066,392	(2,066,392)	
Due from other funds	28,003	8,402,815	(8,875,503)	(444,685)
Interfund loans - current	155,000	-	(155,000)	
Discounted energy units		110,812		110,812
Other current assets	23,624	51,775		75,399
Restricted assets:				
Temporarily restricted:				
Investments	28,995	308,502		337,497
Capital assets (net of accumulated depreciation):				
Land	7,919,279			7,919,279
Buildings	10,915,441			10,915,441
Improvements	2,377,858			2,377,858
Equipment	3,696,716			3,696,716
Infrastructure	30,415,938			30,415,938
Utility plant and equipment		132,262,985		132,262,985
Construction in progress		2,385,362		2,385,362
Real estate-non-operating:	11,729,522			11,729,522
Accounts receivable - long-term				
Interfund loans receivable - long term	495,000		(495,000)	
Discounted energy units less current portion		296,727		296,727
Other assets	259,521	1,028,544		1,288,065
Plant acquisition adjustments		565,905		565,905
Total assets	\$ 82,905,266	\$ 165,963,171	\$ (9,591,895)	\$ 239,276,542
<b>LIABILITIES AND NET ASSETS</b>				
<b>Liabilities</b>				
Accounts payable	\$ 1,324,232	\$ 4,977,653		\$ 6,301,885
Accrued expenditures and other current liabilities	319,249	2,345,808		2,665,057
Due to others - bonds and deposits	32,748			32,748
Due to other funds		6,972,102	(6,972,102)	
Interfund payable	1,241,512	649,477	(1,890,989)	
Customer deposits		2,175,276		2,175,276
Unearned revenue	10,050,984	247,970	(78,804)	10,220,150
Advances		54,622		54,622
General bonded debt				
Due within one year	1,696,359	1,784,455		3,480,814
Due in more than one year	21,490,055	60,217,859		81,707,914
Capital lease obligation				
Due within one year		27,415		27,415
Due in more than one year		45,883		45,883
Loans from General Fund				
Due within one year		155,000	(155,000)	
Due in more than one year		495,000	(495,000)	
Compensated absences:				
Estimated to be paid within one year	259,521			259,521
Estimated to be paid after one year	778,562	50,803		829,365
Total liabilities	37,193,222	80,179,323	(9,591,895)	107,780,650
<b>Net assets</b>				
Invested in operating capital assets				
net of related debt	43,089,778	73,440,732		116,530,510
Restricted for:				
Uncompleted contracts and encumbrances	775,905	1,331,951		2,107,856
Narcotics	3,199			3,199
Reserve for interfund advance	919,866			919,866
Reserve for insurance and retirement	185,000			185,000
Reserve for building maintenance	160,000			160,000
Reserve for economic downturn	100,000			100,000
Reserve for unexpended bond proceeds	564,526			564,526
Other reserves	28,222			28,222
Unrestricted	(114,452)	11,011,165		10,896,713
Total net assets	\$ 45,712,044	\$ 85,783,848	\$ -	\$ 131,495,892

The notes to financial statements are an integral part of this statement.

## Net (Expense) Revenue and

\$	8,766,697
	784,365
	10,399,929
	1,178,386
	947,659
	367,704
	408,116
	2,148,264
	24,991,120
	<hr/>
	24,991,120
	4,929,836
	126,351,549
	214,507
	126,566,056
\$	\$ 131,495,892

City of Morristown, Tennessee  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 62,987	\$ 698	\$ 63,685
Receivables (net of allowance for uncollectibles)	14,712,584	32,248	12,960	14,757,792
Due from other funds	28,003	-	-	28,003
Interfund loans receivable -current	155,000	-	-	155,000
Inventories	38,892	-	-	38,892
Investments	28,995	-	-	28,995
Prepaid expenditures	23,624	-	-	23,624
Interfund loans receivable -long term	495,000	-	-	495,000
Total assets	<u>\$ 15,482,098</u>	<u>\$ 95,235</u>	<u>\$ 13,658</u>	<u>\$ 15,590,991</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 1,231,693	\$ 89,947	\$ 2,592	\$ 1,324,232
Interfund payable	1,241,512	-	-	1,241,512
Due to others	32,748	-	-	32,748
Accrued expenditures	306,094	5,288	7,867	319,249
Unearned revenue	10,050,984	-	-	10,050,984
Total liabilities	<u>12,863,031</u>	<u>95,235</u>	<u>10,459</u>	<u>12,968,725</u>
Fund balances:				
Reserved for:				
Uncompleted contracts	650,217	-	-	650,217
Narcotics	-	-	-	-
Reserve for interfund advance	919,866	-	-	919,866
Reserve for insurance and retirement	185,000	-	-	185,000
Reserve for building maintenance	160,000	-	-	160,000
Reserve for economic downturn	100,000	-	-	100,000
Reserve for unexpended bond proceeds	564,526	-	-	564,526
Other reserves	28,222	-	-	28,222
Unreserved	(114,452)	-	3,199	(111,253)
Fund balance - reserved for encumbrances	125,688	-	-	125,688
Total equity	<u>2,619,067</u>	<u>-</u>	<u>3,199</u>	<u>2,622,266</u>
Total liabilities and fund equity	<u>\$ 15,482,098</u>	<u>\$ 95,235</u>	<u>\$ 13,658</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Assets not used in operations	-	-	-	11,729,522
Capital assets used in governmental activities are not financial resources and, therefore are not reported in funds	-	-	-	55,325,232
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	-	-	-	(23,964,976)
Net assets of governmental activities				<u>\$ 45,712,044</u>

The notes to financial statements are an integral part of this statement.



City of Morristown, Tennessee  
Statement of Revenue, Expenditures, and Changes in Fund Balances  
Governmental Funds  
Year Ended June 30, 2009

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
<b>Revenues</b>				
Taxes:				
Property	\$ 8,766,697	\$ -	\$ -	\$ 8,766,697
Franchise	784,365	-	-	784,365
Local sales tax	10,389,929	-	-	10,389,929
Alcoholic beverages	1,178,386	-	-	1,178,386
Business and gross receipts	947,659	-	-	947,659
Hotel/motel tax	367,704	-	-	367,704
Total taxes	22,434,740	-	-	22,434,740
Licenses, permits and fines	1,341,291	-	155,790	1,497,081
Use of money and property	246,632	-	-	246,632
Service charges and fees	132,712	-	-	132,712
Intergovernmental	5,099,802	240,644	-	5,340,446
Total revenues	29,255,177	240,644	155,790	29,651,611
<b>Expenditures</b>				
Current:				
General Government:				
Mayor and Council	103,259	-	-	103,259
City Administrators	397,822	-	-	397,822
Elections	14,158	-	-	14,158
Finance	494,830	-	-	494,830
Purchasing	55,226	-	-	55,226
Computer operations	163,311	-	-	163,311
Human resources	196,312	-	-	196,312
Legal services	105,427	-	-	105,427
Community and economic affairs	366,334	-	-	366,334
Codes enforcement	54,988	-	-	54,988
Metropolitan transportation organization	839,316	-	-	839,316
Community development block grant	206,853	-	-	206,853
Engineering	312,434	-	-	312,434
Inspections	422,183	-	-	422,183
Clean and Green	51,927	-	-	51,927
Main Street	38,770	-	-	38,770
Total general government	3,823,150	-	-	3,823,150
Public safety:				
Police	6,803,455	-	489,066	7,292,521
Fire	6,524,686	-	-	6,524,686
Emergency Communications & Civil Service	260,280	-	-	260,280
Animal Control	133,532	-	-	133,532
Total public safety	13,721,953	-	489,066	14,211,019

(Continued)

City of Morristown, Tennessee  
**Statement of Revenue, Expenditures, and Changes in Fund Balances**  
Governmental Funds  
Year Ended June 30, 2009

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
Public works	5,060,090	1,630,864	-	6,690,954
Parks and recreation	1,809,424	-	-	1,809,424
Civic support	496,633	-	-	496,633
Library	841,649	-	-	841,649
Economic development	464,294	-	-	464,294
Airport	302,588	-	-	302,588
Retiree health insurance	261,416	-	-	261,416
Debt service:				
Bond principal	1,586,805	210,000	-	1,796,805
Bond interest	538,250	30,644	-	568,894
Professional services	53,404	-	-	53,404
Total debt service	2,178,459	240,644	-	2,419,103
Total expenditures	28,959,656	1,871,508	489,066	31,320,230
Deficiency of revenue over expenditures	295,521	(1,630,864)	(333,276)	(1,668,619)
Other financing sources (uses):				
Bond Proceeds	1,473,604	-	-	1,473,604
Transfers in	795,053	1,630,864	295,000	2,720,917
Transfers out	(1,876,147)	-	-	(1,876,147)
Total other financing sources and uses	392,510	1,630,864	295,000	2,318,374
Net change in fund balance	688,031	-	(38,276)	649,755
Fund balance- beginning, as previously stated	3,431,536	-	41,475	3,473,011
Prior period adjustment	(1,500,500)	-	-	(1,500,500)
Fund balance- beginning, as restated	1,931,036	-	41,475	1,972,511
Fund balance-ending	\$ 2,619,067	\$ -	\$ 3,199	\$ 2,622,266

The notes to financial statements are an integral part of this statement.

**City of Morristown, Tennessee**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**Year Ended June 30, 2009**

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances--total governmental funds	\$ 649,755
Governmental funds report capital outlays as expenditures. In the government-wide financial statements, capital asset additions are reported as additions to capital assets.	3,870,105
In the government-wide financial statements, certain capital assets are depreciated. In the governmental basis financial statements, capital assets are charged to expenditures, therefore, depreciation is not taken.	(3,480,364)
The issuance of long-term debt (e. g., bonds, leases) provides current financial resources to government funds under the governmental fund basis, but is considered an increase in debt in the government-wide financial statements.	(13,215,873)
The payment of long-term debt is reported as an expenditure in the governmental funds financial statements but is considered as a reduction in debt in the city-wide financial statements.	15,648,122
The payment of bond issue expense is considered an expenditure in the governmental financial statements, whereas in the city-wide financial statements are considered assets and are amortized.	
Compensated absences are considered expenditures when paid on the governmental fund basis, but in the government-wide financial statements are considered expenses as incurred.	(778,562)
Government funds financial statements report property taxes collected within 60 days after the close of the fiscal year as revenue under the modified accrual basis, whereas the government-wide financial statements reported these revenues on the accrual basis.	-
Changes in net assets of governmental activities	<u><u>\$ 2,693,183</u></u>

The notes to financial statements are an integral part of this statement.

City of Morristown, Tennessee  
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual  
General Fund  
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes:				
Property	\$ 8,679,854	\$ 8,763,212	\$ 8,766,697	\$ 3,485
Franchise	672,000	723,633	784,365	60,732
Local sales tax	11,458,335	11,458,335	10,389,929	(1,068,406)
Alcoholic beverages	1,155,000	1,155,000	1,178,386	23,386
Business and gross receipts	935,000	1,081,605	947,659	(133,946)
Hotel/motel tax	487,200	487,200	367,704	(119,496)
Total taxes	23,387,389	23,668,985	22,434,740	(1,234,245)
Licenses, permits and fees	923,000	1,379,748	1,341,291	(38,457)
Use of money and property	250,000	250,000	246,632	(3,368)
Service charges and fees	135,000	135,000	132,712	(2,288)
Intergovernmental	4,795,638	5,125,874	5,099,802	(26,072)
Total revenues	29,491,027	30,559,607	29,255,177	(1,304,430)
<b>Expenditures</b>				
Current:				
General Government:				
Mayor and Council	141,897	141,897	103,259	38,638
City Administrators	438,000	438,000	397,822	40,178
Elections	15,000	15,000	14,158	(841)
Finance	568,024	568,024	494,830	74,194
Purchasing	72,789	72,789	55,226	17,563
Computer operations	194,761	194,761	163,311	31,450
Human resources	231,923	231,923	196,312	35,611
Legal services	92,157	92,157	105,427	(13,270)
Community and economic affairs	361,369	361,369	366,334	(4,965)
Codes enforcement	61,970	61,970	54,988	6,982
Metropolitan transportation organization	789,998	789,998	839,316	(49,318)
Community development block grant	355,940	335,940	206,853	129,087
Engineering	327,914	327,914	312,434	15,480
Inspections	422,765	422,765	422,183	582
Clean and Green	50,150	50,150	51,927	(1,777)
Main Street	38,734	38,734	38,770	(36)
Total general government	4,164,391	4,144,391	3,823,150	317,358
Public safety:				
Police	6,741,562	6,741,562	6,803,455	(61,893)
Fire	6,569,585	6,569,585	6,524,686	44,899

(Continued)

City of Morristown, Tennessee  
**Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual**  
General Fund  
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Emergency Communications & Civil Service	202,450	202,450	260,280	(57,830)
Animal Shelter	133,532	133,532	133,532	-
Total public safety	13,647,129	13,647,129	13,721,953	(74,824)
Public works	4,842,398	5,319,687	5,060,090	259,597
Parks and recreation	1,850,461	1,850,461	1,809,424	41,037
Civic support	352,000	781,545	496,633	284,912
Library	228,500	228,500	841,649	(613,149)
Economic development	200,000	510,873	464,294	46,579
Airport	90,000	288,961	302,588	(13,627)
Retiree health insurance	478,050	478,050	261,416	216,634
Debt service:				
Bond principal	1,413,500	1,413,500	1,586,805	(173,305)
Bond interest	778,730	778,730	538,250	240,480
Professional services	10,000	10,000	53,404	(43,404)
Total debt service	2,202,230	2,202,230	2,178,459	23,771
Total expenditures	28,055,159	29,451,827	28,959,656	488,288
Excess (deficiency) of revenue over expenditures	1,435,868	1,107,780	295,521	(816,143)
Other financing sources (uses)				
Bond Proceeds	-	719,175	1,473,604	754,429
Transfers in	760,000	760,000	795,053	35,053
Transfers out	(1,343,278)	(1,361,761)	(1,876,147)	(514,366)
Total other financing sources (uses)	(583,278)	117,394	392,510	275,116
Net change in fund balance	852,589	1,225,174	688,031	(537,144)
Fund balance- beginning, as previously stated	4,315,907	3,949,841	3,431,536	(518,305)
Prior period adjustment	-	-	(1,500,500)	(1,500,500)
Fund balance- beginning, as restated	4,315,907	3,949,841	1,931,036	(2,018,805)
Fund balance-ending	\$ 5,168,496	\$ 5,175,015	\$ 2,619,067	\$ (2,555,949)

The notes to financial statements are an integral part of this statement.

City of Morristown, Tennessee  
**Schedule of Revenue, Expenditures and Changes in Fund Balance -**  
**Budget and Actual**  
**Solid Waste Fund**  
**Year Ended June 30, 2009**

Revenue	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Intergovernmental revenue	\$ -	\$ 290,644	\$ 240,644	\$ 50,000
<b>Expenditures</b>				
Sanitation	772,092	789,594	728,672	60,922
Landfill	640,000	640,000	677,406	(37,406)
Recycling	210,187	210,187	224,786	(14,599)
Superfund	1,000	1,000	-	1,000
Debt service:				
Debt principal	240,644	240,644	210,000	30,644
Debt interest	-	-	30,644	(30,644)
Total debt service	240,644	240,644	240,644	-
Total expenditures	1,863,923	1,881,425	1,871,508	9,917
Excess (deficiency) of revenues over expenditures	(1,863,923)	(1,590,781)	(1,630,864)	40,083
Other sources:				
Transfers from General Fund	1,573,279	1,591,781	1,630,864	39,083
Net change in fund balance	(290,644)	1,000	-	1,000
Fund balance, July 1, 2008	-	-	-	-
Fund balance, June 30, 2009	\$ (290,644)	\$ 1,000	\$ -	\$ 1,000

The notes to financial statements are an integral part of this statement.

City of Morristown, Tennessee  
Statement of Net Assets  
Proprietary Funds  
June 30, 2009

**Business-type Activities**  
**Enterprise Funds**

	Sewer System	Storm Water System	Power System	Water System	Telecom System	Total
<b>Assets</b>						
Unrestricted current assets:						
Cash and cash equivalents	\$ 41,954	\$ -	\$ 6,198,344	\$ 2,320,492	\$ 734,540	\$ 9,295,330
Accounts receivable:						
Trade, net of allowances	1,448,565	67,051	6,558,114			8,073,730
Due from other funds			6,354,688	48,147		6,402,815
Due from others	1,890,989		175,403			2,066,392
Accrual for unbilled revenue	268,075	24,002	1,356,410	192,561		1,841,048
Interfund Loan Receivable						
Due from others						
Current portion of discounted energy units			110,812			110,812
Other current assets					51,775	51,775
Advances from Tennessee Valley						
Program, net of advances to customers						
Materials and supplies inventory						
Total unrestricted current assets	37,576	91,053	762,824	472,844	-	1,273,244
	3,687,159		21,516,575	3,034,044	786,315	29,115,146
Total current assets	3,687,159	91,053	21,516,575	3,034,044	786,315	29,115,146
Restricted investments				308,502		308,502
Capital assets:						
Plant and equipment in service	73,463,016	4,541,155	60,195,262	51,374,376	23,996,770	213,570,579
Less accumulated depreciation	(29,798,903)	(2,426,812)	(27,028,584)	(18,074,574)	(3,978,721)	(81,307,594)
	43,664,113	2,114,343	33,166,678	33,299,802	20,018,049	132,262,985
Construction in progress	438,786	-	1,128,581	676,829	141,166	2,385,362
Net capital assets	44,102,899	2,114,343	34,295,259	33,976,631	20,159,215	134,648,347
Plant acquisition adjustments, net of accumulated depreciation			445,679	120,226		565,905
Discounted energy units, less current portion			296,727			296,727
Other assets	23,242	162,519	17,877	67,694	757,212	1,028,544
Total assets	\$ 47,813,300	\$ 2,367,915	\$ 56,572,117	\$ 37,507,097	\$ 21,702,742	\$ 165,963,171

The notes to financial statements are an integral part of this statement.

City of Morristown, Tennessee  
Statement of Net Assets  
Proprietary Funds  
June 30, 2008

Business-type Activities

	Enterprise Funds					Total
	Sewer System	Storm Water System	Power System	Water System	Telecom System	
<b>Liabilities and Net Assets</b>						
Current liabilities:						
Accounts payable:						
Trade	\$ 169,354	\$ 5,002	\$ 4,604,120	\$ 63,066	\$ 136,111	\$ 4,977,653
Due to other funds	8,573		48,147		6,354,668	6,411,388
City of Morristown			560,714			560,714
Deferred revenues					247,970	247,970
Customer deposits			2,109,774		65,502	2,175,276
Accrued payroll related liabilities			1,371,218	461,362	93,465	1,942,235
Other accrued liabilities	13,250	2,920	253,189	28,350	122,034	403,573
Current portion of capital lease obligation					27,415	27,415
Interfund payable		649,477				649,477
Current portion of long-term debt	876,650		215,509	672,296		1,764,455
Loans from General Fund				155,000		155,000
Program, net of advances to customers			54,622			54,622
Total current liabilities	1,067,827	657,399	9,217,293	1,380,094	7,047,165	19,369,778
Noncurrent liabilities:						
Capital lease obligation, less current portion					45,883	45,883
Long-term debt - less current portion	28,739,783		2,057,109	9,305,967	20,115,000	60,217,859
Loans from General Fund				495,000		495,000
Compensated absences	50,803					50,803
Total non-current liabilities	28,790,586	-	2,057,109	9,800,967	20,160,883	60,809,545
Total liabilities	29,858,413	657,399	11,274,402	11,181,061	27,208,048	80,179,323
Net assets (deficit):						
Invested in capital assets, net of related debt	16,152,213	2,114,343	32,022,641	23,359,034	(207,499)	73,440,732
Restricted	1,020,332	3,117		308,502		1,331,951
Unrestricted net assets (deficit)	782,342	(406,944)	13,275,074	2,658,500	(5,297,807)	11,011,165
Total net assets (deficit)	17,954,887	1,710,516	45,297,715	26,326,036	(5,505,306)	85,783,848
Total liabilities and net assets	\$ 47,813,300	\$ 2,367,915	\$ 56,572,117	\$ 37,507,097	\$ 21,702,742	\$ 165,963,171

The notes to the financial statements are an integral part of these statements.



City of Morristown, Tennessee  
Statement of Revenue, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
Year Ended June 30, 2009

	Business-type Activities Enterprise Funds					Total
	Sewer System	Storm Water System	Power System	Water System	Telecom System	
<b>Operating Revenues:</b>						
Metered sales	\$ 5,764,270	\$ 566,373	\$ 71,139,201	\$ 6,271,847	\$ -	\$ 83,741,491
Broadband sales	-	-	-	-	5,470,822	5,470,822
Interfund Services Provided	286,757	-	1,144,508	60,204	737,184	737,184
Other operating revenues	6,051,027	566,373	72,283,709	6,331,851	85,428	1,576,897
Total operating revenues					6,293,434	91,526,394
<b>Operating expenses:</b>						
Power purchased	-	-	60,369,658	-	-	60,369,658
Operations	4,281,037	364,011	4,414,620	3,165,323	4,568,381	16,793,372
Maintenance	278,021	53,960	1,709,297	487,875	204,183	2,733,336
Interfund Services Used	-	-	737,184	-	-	737,184
Depreciation and amortization	1,915,848	125,463	1,973,308	1,157,415	1,531,502	6,703,536
Taxes	-	-	204,238	-	65,368	269,606
Miscellaneous	-	-	52,307	40,952	-	93,259
Total operating expenses	6,474,906	543,434	69,460,612	4,851,565	6,369,434	87,699,951
Operating income (loss)	(423,879)	22,939	2,823,097	1,480,286	(76,000)	3,826,443
<b>Other income (expense):</b>						
Investment income	562	-	116,211	36,995	7,716	161,484
Interest expense	(633,445)	-	(61,904)	(321,032)	(545,471)	(1,561,852)
Net other income (expense)	(632,883)	-	54,307	(284,037)	(537,755)	(1,400,368)
Income (loss) before contributions and transfers	(1,056,762)	22,939	2,877,404	1,196,249	(613,755)	2,426,075
Contributions from developers	-	-	-	-	-	-
Capital contributions - tap fees	-	321,865	-	54,000	-	375,865
Transfers out (tax equivalent payments to City of Morristown)	170,220	-	-	-	-	170,220
Changes in net assets	(886,542)	344,804	(703,487)	(32,020)	-	(735,507)
Net assets (deficit) at beginning of year, as previously stated	18,838,767	(346,633)	43,123,798	25,107,807	(4,891,551)	81,832,188
Prior period adjustment	2,662	1,712,345	-	-	-	1,715,007
Net assets (deficit) at beginning of year, as restated	18,841,429	1,365,712	43,123,798	25,107,807	(4,891,551)	83,547,195
Net assets - ending	\$ 17,954,887	\$ 1,710,516	\$ 45,297,715	\$ 26,326,036	\$ (5,505,306)	\$ 85,783,848

The notes to the financial statements are an integral part of this statement.

City of Morristown, Tennessee  
Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2009

	Business-Type Activities Enterprise Funds					Total
	Sewer System	Storm Sewer System	Power System	Water System	Telecom System	
<b>Cash flows from operating activities:</b>						
Cash received from customers	\$ 6,631,824	\$ 481,801	\$ 72,482,728	\$ 6,343,012	\$ 6,293,256	\$ 92,232,621
Cash received from City of Morristown			1,243,817			1,243,817
Cash paid to suppliers	(4,752,008)	(152,840)	(63,216,874)	(2,447,554)	(4,798,857)	(75,367,933)
Cash paid to employees	(791,725)	(292,526)	(3,840,496)	(1,366,424)	(780,802)	(7,071,973)
Net cash provided by operating activities	1,088,091	36,435	6,669,175	2,529,034	713,797	11,036,532
<b>Cash flows from noncapital financing activities:</b>						
Transfers to City of Morristown (tax equivalent payments)			(703,487)	(32,020)		(735,507)
Interfund advances	609,011	649,477				1,258,488
Net cash flows from investing activities	609,011	649,477	(703,487)	(32,020)		522,981
<b>Cash flows from investing activities:</b>						
Interest received on investments	562		116,211	36,995	7,716	161,484
Sale (purchase) of investments				(7,079)		(7,079)
Net cash flows from investing activities	562	-	116,211	29,916	7,716	154,405
<b>Cash flows from capital and related financing activities:</b>						
Bond proceeds	6,529,210			(1,058)	(26,334)	6,529,210
Payments on capital lease obligations						(27,392)
Net additions to plant acquisition adjustments						-
Net additions to capital assets	(7,932,763)	(339,886)	(1,770,692)	(1,578,020)	(1,505,549)	(13,126,900)
Interfund (repayments) advances			(921,767)	559,444	362,323	-
Contributions from developers		321,865		54,000		375,865
Capital contributions - tap fees						-
Principal payments on long term debt	(1,031,195)		(215,505)	(586,022)		(1,832,722)
Amortization of bond issuance costs	(3,384)					(3,384)
Interest paid on long term debt	(633,445)		(61,904)	(321,032)	(545,471)	(1,561,852)
Proceeds from long term borrowings					615,000	615,000
Net cash flows from financing activities	(3,071,577)	(18,021)	(2,969,856)	(1,872,688)	(1,100,031)	(9,032,175)
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,373,913)</b>	<b>667,891</b>	<b>3,112,041</b>	<b>654,242</b>	<b>(378,518)</b>	<b>2,681,743</b>
<b>Cash and cash equivalents, beginning</b>	<b>1,415,867</b>	<b>(667,891)</b>	<b>3,086,303</b>	<b>1,666,250</b>	<b>1,113,058</b>	<b>6,613,587</b>
<b>Cash and cash equivalents, ending</b>	<b>\$ 41,954</b>	<b>\$ -</b>	<b>\$ 6,198,344</b>	<b>\$ 2,320,492</b>	<b>\$ 734,540</b>	<b>\$ 9,295,330</b>

**Business-Type Activities**

	<b>Enterprise Funds</b>				
	<b>Sewer System</b>	<b>Storm Sewer System</b>	<b>Power System</b>	<b>Water System</b>	<b>Telecom System</b>
	\$ (886,542)	\$ 22,939	\$ 2,823,097	\$ 1,480,286	\$ (76,000)
					\$ 3,363,780
	1,915,848	125,463	1,973,308	1,157,415	1,531,502
			384,028	-	-
			104,366	-	-
				-	-
	389,242	(84,572)	477,380	-	-
	609,011				
	17,951			11,161	-
			123,081	(70,585)	-
	3,384		39,411	31,762	-
	(965,880)	(27,395)	144,966	(4,510)	(591,730)
			186,560	-	(51,309)
	5,077		337,864	-	(8,055)
			75,114	(76,495)	(90,611)
	\$ 1,088,091	\$ 36,435	\$ 6,669,175	\$ 2,529,034	\$ 713,797
					\$ 11,036,532

**Reconciliation of operating income to net cash provided by operating activities:**

Operating income (loss)

Adjustments to reconcile operating income to net cash flows from operating activities:

Depreciation and amortization

Provision for losses on accounts receivable

Redemption of discounted energy units

Changes in operating assets and liabilities:

Accounts receivable

Loans receivable

Accrual of unbilled revenue

Materials and supplies inventory

Other assets

Trade accounts payable

Customer deposits and prepayments

Other liabilities

**Net cash provided by operating activities**

The notes to financial statements are an integral part of this statement.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Morristown, Tennessee is a municipal corporation operating under the Council-Administrator form of government. The City's major operations include police and fire protection, parks and recreation, public works, sewer and general administrative services. In addition, the City owns and operates water, electric, and telecom systems. The water, electric, and telecom systems are operated by a separate board appointed by the Mayor and approved by City Council.

The City's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the City has the option to apply FASB pronouncements issued after that date to its business-type activities and enterprise funds, the City has chosen not to do so. The more significant accounting policies established in GAAP and used by the City are discussed below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-Management's Discussion and Analysis-for State and Local Governments. Certain of the significant changes in the statement include the following.

- For the first time the financial statements include:
  - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
  - Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The City elected to implement both the general provisions and infrastructure provisions.

#### **A. Reporting Entity**

These financial statements present the City (the primary government). There are no component units.

#### **B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary governments. For the most part, the effect of inter-fund 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 activities demonstrates the degree to which the direct expenses of a 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

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 requirement 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, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 certain amounts and disclosures. Accordingly, actual results could differ from these estimates.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are 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 eligible requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current 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 collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. Compensated absences, consisting of unused vacation pay and others compensated absences, are not included in the governmental basis financial statements, but are shown as a reconciling item and included in the city-wide financial statements. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Property taxes, franchise taxes, licenses, intergovernmental revenue, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue during the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government 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 for those required to be accounted for in another fund.

The *Solid Waste Fund* is the fund used to pay for all solid waste expenditures. Transfers are made from the General Fund to meet these expenditures.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The government reports the following major proprietary funds:

Morristown Utility Commission oversees the water, electric and telecom activities. The sewer activities are directed by the City Administrator.

Additionally, the government reports the following fund types:

The *Narcotics Fund* is required by State of Tennessee.

Special revenue funds receive revenue from designated sources and transfers from the General Fund and are expended for designated purposes.

Standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the *Government Accounting Standards*. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidelines.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's enterprise funds 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.

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

#### **D. Assets, Liabilities, and Net Assets or Equity**

##### *1. Deposits and investments*

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

##### *2. Receivables and payables*

Activity between funds that are representative of lending/borrowing arrangements and other activities that are outstanding at the end of the year are referred to as either "due to/from other funds" or "advances to/from other funds." These have been eliminated in the government-wide statement of net assets.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

All trade receivables were considered collectible at June 30, 2009. Based on experience, an allowance for uncollected property taxes of .1% of the tax levies for the past ten years is maintained.

Property taxes are levied as of January 1 on property values assessed as of the same date. Bills for those taxes are usually mailed the first of July. A 2% discount is offered for payment within thirty days after the bills are mailed. On December 1<sup>st</sup>, any unpaid taxes become delinquent and a penalty of 4½% is assessed with an additional 1% per month for additional delinquency. After one year and eleven months, any unpaid taxes are sent to the County Clerk and Master for collection.

#### **3. *Inventories***

All inventories are valued at the lower of cost or market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

#### **4. *Restricted Assets***

This represents constraints placed on the use of assets through external restraints imposed by creditors (such as through debt covenants) or by grants, contributors, or laws and regulations of other governments or constraints imposed by law or enabling legislation.

#### **5. *Capital Assets***

Capital assets, which include property, plant, equipment, and infrastructure assets (i.e., 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 used in the government-wide financial statements are defined as those having an individual cost of more than \$5,000 and an estimated life in excess of two years. Estimated useful lives for the major classes of equipment were as follows:

Infrastructure (roads and streets)	20 years
Automotive	6 years
Other mobile equipment	12-15 years
Computer equipment	5 - 7 years
Buildings	15-50 years

#### **6. *Compensated Absences***

It is the government's policy to permit employees to accumulate earned but not unused sick pay benefits. There is no liability for unpaid accumulated sick leave since the government does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Morristown Utilities Commission policy is to recognize the cost of both vacation pay and sick leave benefits as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days. Employees are reimbursed for accumulated sick leave upon retirement or termination at an equivalent salary rate of

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

100%, 50% or 33-1/3% depending on the date earned. Sick leave accumulation is limited to ninety days effective January 2008.

#### **7. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types 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 statement of net assets. Bond premiums and discounts, as well as issuance costs are deferred and amortized over the life of the bonds.

In the fund financial statements, governmental fund types recognize bond premium and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received 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.

#### **8. Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

### **NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

- A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and the government-wide statement of net assets.

- B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balance includes a reconciliation between net changes in fund balance-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities.

### **NOTE 3 -STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

#### **A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.



# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 3 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)**

Around the first of March, the budget process begins, with the City Administrator giving direction to department heads. Toward the end of March, Department heads submit their proposed budgets, and these are reviewed by the City Administrator, who makes the final decisions before submission to City Council. City Council has work sessions and makes their revisions and publishes the proposed budget in the local newspaper. Before June 30, City Council adopts the budget ordinance with two readings.

The appropriated budget is prepared by fund, function, and department, but the budget ordinance is on the fund level. The government's department heads may make transfers of appropriations within their department. The legal level of budgetary control is the fund level. Management can transfer amounts between departments. City Council amended the original budget, and the original and final amounts are presented in the financial statements included in this report.

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS**

#### **A. Deposits and Investments**

At year-end, deposits and short-term investments were as follows:

	<b>Cash and Equivalents</b>	<b>Short-term Investments</b>
Government type funds	\$ 63,685	\$ 28,995
Enterprise type funds	9,295,330	308,502
Totals	<u>\$ 9,359,015</u>	<u>\$ 337,497</u>

As of June 30, 2009, all of Morristown Utility Commission's deposits were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. A portion of the City's deposits as of June 30, 2009, were not covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the pool report the aggregate balance of their public funds to the State. Collateral to secure those deposits must be pledged to protect the State of Tennessee in the Local Government Investment Pool.

The City has a repurchase agreement with GreenBank whereby City funds are invested overnight in securities of the U.S. Treasury Department. At June 30, 2009, the City had \$ 448,643 invested in these securities and has included these in cash and cash equivalents.

Short-term investments represent un-drawn bond proceeds.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

Receivables as of year end for the government's individual major funds and nonmajor in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Non-Major and Other Funds	Enterprise	Totals
Receivables:				
Taxes	\$ 10,026,856	\$ -	\$ -	\$ 10,026,856
Accounts	4,890,055	45,208	7,629,045	12,564,308
Intergovernment	28,003	-	-	28,003
Gross receivables	14,944,914	45,208	7,629,045	22,619,167
Less: Allowance for bad debt	(70,381)	-	-	(70,381)
Net receivables	<u>\$ 14,874,533</u>	<u>\$ 45,208</u>	<u>\$ 7,629,045</u>	<u>\$ 22,548,786</u>

Included in taxes receivable of the General Fund is property taxes of \$9,067,399 that were assessed as of January 1, 2009, but will not be billed until after June 30, 2009. There is an offsetting deferred income for the above balance.

### **B. Capital Assets**

Capital assets of the City of Morristown primary government were as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,864,762	\$ 54,517	\$ -	\$ 7,919,279
Construction in progress	520,630	-	520,630	-
Total capital assets not being depreciated	<u>8,385,392</u>	<u>54,517</u>	<u>520,630</u>	<u>7,919,279</u>
Capital assets being depreciated:				
Buildings	16,995,934	115,334	-	17,111,268
Improvements other than buildings	11,710,849	102,694	-	11,813,543
Machinery and equipment	10,517,645	140,075	-	10,657,720
Infrastructure	38,093,369	3,978,115	-	42,071,484
Total capital assets being depreciated	<u>77,317,797</u>	<u>4,336,218</u>	<u>-</u>	<u>81,654,015</u>
Less: accumulated depreciation:				
Buildings	(5,899,280)	(296,547)	-	(6,195,827)
Improvements other than buildings	(8,914,537)	(521,148)	-	(9,435,685)
Machinery and equipment	(6,574,019)	(386,985)	-	(6,961,004)
Infrastructure	(9,379,862)	(2,275,684)	-	(11,655,546)
Total accumulated depreciation	<u>(30,767,698)</u>	<u>(3,480,364)</u>	<u>-</u>	<u>(34,248,062)</u>
Net capital assets being depreciated	<u>46,550,099</u>	<u>855,854</u>	<u>-</u>	<u>47,405,953</u>
Total capital assets-government activities	<u>\$ 54,935,491</u>	<u>\$ 910,371</u>	<u>\$ 520,630</u>	<u>\$ 55,325,232</u>

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,857,055	\$ 122,500	\$ -	\$ 1,979,555
Construction in progress	8,141,424	5,374,645	7,568,944	5,947,125
Total assets not being depreciated	9,998,479	5,497,145	7,568,944	7,926,680
Capital assets being depreciated:				
Building and improvements	18,911,028	815,239	-	19,726,267
Transmission and distribution	162,468,935	13,632,957	413,451	175,688,441
Furniture, fixtures and equipment	7,573,906	893,530	62,115	8,405,321
Total capital assets being depreciated	188,953,869	15,341,726	475,566	203,820,029
Less accumulated depreciation:				
Building and improvements	(3,707,799)	(347,823)	-	(4,055,622)
Transmission and distribution	(62,162,348)	(8,436,785)	496,295	(70,102,838)
Furniture, fixtures and equipment	(6,674,280)	(729,386)	31,575	(7,372,091)
Total accumulated depreciation	(72,544,427)	(9,513,994)	527,870	(81,530,551)
Net capital assets being depreciated	116,409,442	5,827,732	1,003,436	122,289,478
Total net capital assets - business type activities	126,407,921	11,324,877	8,572,380	130,216,158
Total net capital assets	\$ 181,343,412	\$ 12,235,248	\$ 9,093,010	\$ 185,541,390

Depreciation expense was charged to government activities as follows:

General government	\$ 218,931
Public safety	533,659
Public works	2,159,344
Parks and recreation	127,302
Airport	441,128
Total	\$ 3,480,364

### C. Accounts payable and other current liabilities:

	Governmental	Business Type	Total
Accounts payable	\$ 1,324,232	\$ 4,977,653	\$ 6,301,885
Accrued payroll and other liabilities	319,249	2,345,808	2,665,057
Total	\$ 1,643,481	\$ 7,323,461	\$ 8,966,942

City of Morristown, Tennessee

Notes to Financial Statements

June 30, 2009

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**NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

**D. Interfund receivables, advances, payables, and transfers**

The interfund receivables and payables as of June 30, 2009, were as follows:

The first two items represent temporary operating cash advances between the Power System, Water System and Telecom System.

The next two items, Sewer Fund's receivables from General Fund and Storm Water System, resulted from the General Fund and Storm Water System overdrawing their share of the common operating bank account used by all City Funds.

The interfund advances were on a longer-term basis and represent proceeds of General Obligation bond issues that were funneled to Morristown Utility System.

Receivable From	Payable to	Purpose	Amount
Telecom System	Power System	Operating and Maint. Costs	\$ 6,354,688
<del>Power System</del>	<del>Water System</del>	<del>Operating Cash Advance</del>	<del>48,147</del>
General Fund	Sewer Fund	Operating Cash Advance	1,241,512
Storm Water Fund	Sewer Fund	Operating Cash Advance	649,477
Water System	General Fund	Interfund Advances	650,000

Not reversed

Added Cash  
Added Cash

The interfund transfers were as follows:

Transfer from	Transfer to	Purpose	Amount
General Fund	Solid Waste Fund	Operating Transfer	\$ 1,630,864
General Fund	Narcotics Fund	Operating Transfer	295,000
Water System	General Fund	Operating Transfer	32,020
Electric System	General Fund	Operating Transfer	703,487

Budget and Aud. it

operating  
operating

In Lieu

The first two items represent operating subsidies. The last two items represent payments in lieu of taxes.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **E. Post-Retirement Healthcare Benefits**

City of Morristown – excluding Water, Electric, and Telecom Systems

An actuarial evaluation made as of November 1, 2007, is presented as follows:

#### **1) A BRIEF DESCRIPTION OF THE RETIREE MEDICAL, DENTAL AND VISION INSURANCE PLAN:**

##### **Type of Coverage:**

- |                                     |  |
|-------------------------------------|--|
| <b>a. Plan Types:</b>               | Self-funded Medical and Dental; Fully-insured Vision   |
| <b>b. Eligibility:</b>              | Age 55 and 10 years of service or 30 years of service until Medicare eligible  |
| <b>c. Benefit/Cost Sharing:</b>     | Employer pays 85% of medical premium and 100% of dental and vision premiums  |
| <b>d. Spouse Benefit:</b>           | Yes, while retiree is eligible   |
| <b>e. Surviving Spouse Benefit:</b> | None   |
| <b>f. Annual Premiums:</b>          | Average Medical: Retiree \$4,200; Spouse \$4,200<br>Average Dental: Retiree \$276; Spouse \$508<br>Average Vision: Retiree \$90; Spouse \$51 |

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

#### 2) GASB 45 DISCLOSURE REQUIREMENTS – ESTIMATED

##### A. Annual OPEB Cost and Net OPEB Obligation

7/1/2008  
6/30/2009

1. Annual Required Contribution ARC)	\$ 518,360
2. Interest on net OPEB Obligation	-
3. Adjustment to ARC	-
4. Annual OPEB Cost (expense) (1 + 2 + 3)	518,360
5. Contributions made (assumed end of year)	518,360
6. Increase in net OPEB Obligation (4 - 5)	-
7. Net OPEB Obligation - beginning of year	-
8. Net OPEB Obligation - end of year (6 + 7)	\$ -

\*Contributions made was assumed to equal Expected Benefit Payments

The annual OPEB Cost, the percentage of annual OPEB cost contributed to the plan and the Net OPEB obligation for fiscal years 2008/2009 are as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributions</u>	<u>Net OPEB Obligation</u>
6/30/2009	\$ 518,360	100.0%	\$ -

##### B. Funded Status and Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percentage of Covered Payroll (AAL) (b - a)/c)</u>
11/01/07	\$ -	\$ 5,333,339	\$ 5,333,339	0.00%	11,663,580	45.73%

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **C. Methods and Assumptions**

Funding interest rate	7.00%
2007 Medical Trend Rate	10.00%
Ultimate Trend Rate	5.00%
Year Ultimate Trend Rate Reached	2012
Actuarial Cost Method	Entry Age Normal
Annual Payroll Growth Rate	3.50%
The Remaining Amortization Period at June 30, 2008	29 years

#### **Morristown Utility System (Water, Electric, and Telecom Systems)**

The Systems provide medical, dental and life insurance benefits to retirees. Employees who retire at age 55 with 10 years of service or at age 65 with five years of service are eligible to participate. The Systems pay 100% of the retiree's medical, dental and life insurance premiums. In addition, the Systems pay 50% of the retiree's dependent's medical premiums. The retiree's spouse is also eligible for medical benefits (same as retiree) as long as the retiree is eligible (there are no surviving spouse benefits). The life insurance benefit available to retirees is \$5,000. The average annual medical and dental premium is \$4,300 and \$276, respectively.

During the year ended June 30, 2009, the Systems implemented the Provisions of GASB Statement No. 45, ("GASB 45) *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pension*. GASB 45 requires the accrual of liabilities for OPEB generally over the employment of participants rather than as premiums are paid. The total expense recognized under these new requirements during 2009 totaled \$93,301, \$8,602 and \$28,839 for the Power, Water and Telecom Systems, respectively.

The Systems' OPEB is a single employee defined benefit plan and is not required to issue a separate financial report.

#### **E. Deferred Items**

Deferred items consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Taxes due after June 30, 2008	\$ 9,503,941	\$ -	\$ 9,503,941
Electric	-	247,970	247,970
Total	<u>\$ 9,503,941</u>	<u>\$ 247,970</u>	<u>\$ 9,751,911</u>

Also, included in non-current liabilities is a liability for compensated absences in the sewer system of \$66,021 and in the general fund of \$1,038,083. In addition, there is included in the non-current liabilities \$9,247,763 proceeds from a revolving loan agreement with the State of Tennessee, wherein the Morristown Utility System has borrowed \$9,247,763 to improve the water system. In addition, Morristown Utility System has a capital leases payable of \$45,883, \$73,736 of which is included in long-term liabilities.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Annual debt service requirement for general obligation and revenue bonds are as follows:**

Year Ending	<b><u>Governmental Type</u></b>		<b><u>Business Type</u></b>	
	Principal	Interest	Principal	Interest
2010	\$ 1,696,359	\$ 1,095,815	\$ 1,764,455	\$ 1,685,664
2011	1,371,131	1,029,721	2,723,097	1,723,814
2012	1,430,486	974,039	2,838,974	1,634,608
2013	1,191,862	911,226	2,673,159	1,635,933
2014	968,088	875,519	2,675,658	1,447,576
2015-2019	4,143,658	3,610,313	12,326,020	6,083,031
2020-2024	4,102,039	2,631,129	12,648,441	4,309,905
2025-2029	4,647,032	1,498,276	12,949,399	2,356,318
2030-2034	3,301,116	576,339	9,939,042	853,407
2035-2039	334,643	31,296	2,094,069	41,062
Totals	<u>\$ 23,186,414</u>	<u>\$ 13,233,673</u>	<u>\$ 62,632,314</u>	<u>\$ 21,771,318</u>

Following are debt requirements for capital leases:

2010	\$ 31,014
2011	31,014
2012	15,764
Total future minimum lease payments	77,792
Less amounts representing interest	(4,494)
Present value of future minimum lease payments (including \$27,415 classified as current)	<u>\$ 73,298</u>



**City of Morristown, Tennessee**  
**Changes in Long-Term Debt**  
**June 30, 2009**

The following is a summary of the changes in long-term debt for the year ended June 30, 2009

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturity Dates	Range of Interest Rate (%)	Balance		Additions	Reductions	Balance June 30, 2009
				July 1, 2008	June 30, 2008			
<b>Primary Government</b>								
<u>General Government</u>								
2000 Public Improvement (IV-F3)	\$ 5,000,000	2017-2021	6	\$ 2,335,286	\$ 2,335,286			
2001 Public Improvement (A-1-G)	2,082,000	2006-2017	Variable	2,082,000				2,082,000
2001 Refunding	5,085,000	2003-2012	Variable	1,440,000			640,000	800,000
2003 Refunding Industrial Park (B-2-B)	4,855,000	2003-2013	Variable	2,835,000			480,000	2,155,000
2005 Public Improvement (D-1-D)	2,000,000	2014-2025	Variable	1,775,000			1,775,000	
2006 Public Improvement (D-8-B)	4,991,031	2014-2027	Variable	4,991,031			4,991,031	
2007 Public Improvement (D-10-C)	4,750,000	2009-2028	Variable	4,750,000			4,750,000	
2008 Public Improvement (\$8M)	4,000,000	2009-2028	Variable	4,000,000			121,000	3,879,000
2008 Public Improvement (\$3M)	1,290,000	2009-2029	Variable		1,290,000			1,290,000
2008 Public Improvement (\$20M) (Water)	8,193,665	2009-2035	Variable		8,193,665		244,171	7,949,494
Local Government Energy Loan	1,011,200	2009-2035	Variable		1,011,200		30,134	981,066
2008 Public Improvement (\$5M)	183,604	2010-2016	7		183,604			183,604
Total general government	3,272,750	2009-2028	Variable	-	3,272,750	71,500		3,201,250
				24,008,317	13,951,219	15,438,122		22,521,414

Enterprise Funds

Sewer bonds:

2000 Public Improvement (IV-F3)	5,000,000	2003-2021	Variable	2,664,714	-		2,684,714	918,000
2001 Public Improvement Series (A-1-G)	918,000	2006-2017	Variable	918,000				1,750,000
2001 Refunding	4,455,000	2002-2013	Variable	2,145,000			395,000	910,000
2003 Refunding (B-2-A)	1,360,000	2006-2014	Variable	1,065,000			155,000	
2005 Public Improvement Series (D-1-D)	3,000,000	2014-2027	Variable	3,000,000			3,000,000	
2006 Public Improvement (D-8-B)	5,028,969	2009-2028	Variable	5,008,969			5,008,969	
2007 Public Improvement (D-10-C)	1,750,000	2014-2025	Variable	1,750,000			1,750,000	
2008 Public Improvement (\$8M)	4,000,000	2009-2028	Variable	4,000,000			121,000	3,879,000
2008 Public Improvement (\$3M)	1,710,000	2009-2029	Variable		1,710,000			1,710,000
2008 Public Improvement (\$20M)	10,795,135	2009-2035	Variable		10,795,135		321,695	10,473,440
MPLG, LLC (Waste Water Treatment Plant)	3,601,030	2009-2034	4		3,601,030		750,797	2,850,233
State Revolving Fund 07-203	5,402,010	Various	2.06	3,598,735		1,805,275		5,402,010
2008 Public Improvement (\$5M)	1,762,250	2009-2028	Variable	-	1,762,250		38,500	1,723,750
<u>Electric System</u>								
Appalachian Electric notes		2000-2007	None	538,123			90,505	447,618
Series V-A-2 bonds	2,500,000	2004-2018	Variable	1,950,000			125,000	1,825,000

(Continued)

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturity Dates	Range of Interest Rate (%)	Balance July 1, 2008	Additions	Reductions	Balance June 30, 2009
<u>Water system</u>							
Water system bonds series 1996	2,800,000	2000-2011	Variable	730,000	-		730,000
Water system promissory note	1,011,200	2009-2036	Variable	480,500		90,000	390,500
Water system promissory note	600,000	2010-2013	Variable	320,000		60,000	260,000
DWSRF promissory note	10,492,562	2007-2026	2.61	9,683,785		436,022	9,247,763
<u>Telecom System</u>							
Telecom System D-1-A Bonds	18,000,000	2016-2030	3.75	18,000,000	-	18,000,000	-
Note payable to City of Morristown	1,500,000			1,500,000		1,500,000	
Telecom System 2008 TML Bonds	20,115,000				20,115,000		20,115,000
Total Enterprise Funds				57,350,826	39,788,690	34,507,202	62,632,314
<u>Other</u>							
<u>Solid Waste Bonds (Joint Venture)</u>							
Solid Waste Refunding (Joint Venture)	1,649,400	2005-2012	2.0-5	875,000	-	210,000	665,000
Total				\$ 82,234,143	\$ 53,739,909	\$ 50,155,324	\$ 85,818,728
<u>Capital Leases:</u>							
<u>Telecom</u>							
				\$ 99,632	\$ -	\$ 26,334	\$ 73,298
Total				\$ 99,632	\$ -	\$ 26,334	\$ 73,298

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **G. Prior period adjustment**

Prior to the current year, the General Fund recorded revenues for bond proceeds in the amount of \$1,500,500 that were subsequently loaned to Morristown Utility Systems. The funds should not have been recorded as bond proceeds.

The Storm Water Fund assumed responsibility for storm water sewers constructed in prior years. The Storm Water Fund also failed to record one month of revenue in the prior period. The total prior period adjustment for the Storm Water Fund totaled \$1,712,345.

The following assets were restricted:

Water System – Interest and sinking funds	\$ 308,502
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#### **H. State street aid activities:**

The following is a summary of State Street Aid activity within the General Fund for the year ended June 30, 2009:

Reserve fund balance, July 1, 2008	\$ -0-
Add – state gasoline tax revenues	678,242
Less – state expenditures	<u>(678,242)</u>
Reserve fund balance, June 30, 2009	<u>\$ -0-</u>

#### **I. Other Disclosures:**

##### **A. Commitments and Contingencies:**

At June 30, 2009, the City of Morristown had the following commitments:

General Fund – Uncompleted contracts	\$ 650,217
Sewer System – Uncompleted contracts	2,102,000
Sewer Operating Contract (approximate annual cost)	1,000,000

Contingent liabilities:

The government is the defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material effect on the financial condition of the government.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **B. Concentration of Credit Risk**

The City of Morristown and Morristown Utility Commission provide electric, water and sewer service to customers in the City of Morristown and Hamblen County. Loss experience has not been significant for these services.

#### **C. Joint Ventures**

Morristown-Hamblen County Library – The City of Morristown and Hamblen County jointly own the Morristown-Hamblen Library. Each appoints an equal number of members to its board by directors. The City contributed \$228,500 for the library operation and \$613,149 library renovations during the fiscal year ended June 30, 2009.

Hamblen County-Morristown Solid Waste Authority – The City of Morristown and Hamblen County jointly own the Hamblen County-Morristown landfill. Each appoints an equal number of members to the board of directors. This operation is self-sufficient in that users are charged for services rendered. During the year ended June 30, 2009, the City was charged \$677,406.

#### **D. Pension Plan Information**

##### **CITY OF MORRISTOWN**

##### **Plan Description**

Employees of Morristown are members of the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement benefits as well as death and disability benefits. Benefits are determined by a formula using the member's high five-year average salary and years of service. Members become eligible to retire at the age of 60 with ten years of service or at any age with 30 years of service. A reduced retirement benefit is available to vested members at the age of 55. Disability benefits are available to active members with five years of service who become disabled and cannot engage in gainful employment. There is no service requirement for disability that is the result of an accident or injury occurring while the member was in the performance of duty. Members joining the system after July 1, 1979, become vested after ten years of service and members joining prior to July 1, 1979 were vested after four years of service. Benefit provisions are established in state statute found in Title 8, Chapter 34-37 of the Tennessee Code Annotated (TCA). State statutes are amended by the Tennessee General Assembly. Political subdivisions such as City of Morristown participate in the TCRS as individual entities and are liable for all costs associated with the operation and administration of their plan. Benefit improvements are not applicable to a political subdivision unless approved by the chief governing body.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10<sup>th</sup> Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at [http:// treasury.state.tn.us/tcrs/PS/](http://treasury.state.tn.us/tcrs/PS/).

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **Funding Policy**

MORRISTOWN requires employees to contribute 5.0% of earnable compensation.

MORRISTOWN is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2009, was 13.69% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for MORRISTOWN is established and may be amended by the TCRS Board of Trustees

#### **Annual Pension Cost**

For the year ended June 30, 2009, MORRISTOWN's annual pension cost of \$1,840,091 to TCRS was equal to MORRISTOWN's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. MORRISTOWN's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 28 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

### **TREND INFORMATION**

#### **Funded Status and Funding Progress**

As of July 1, 2007, the most recent actuarial valuation date, the plan was 73.78% percent funded. The actuarial liability for benefits was \$56.72 million, and the actuarial value of assets was \$41.85 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$14.87 million. The covered payroll (annual payroll of active employees covered by the plan) was \$13.03 million, and the ratio of the UAAL to the covered payroll was 114.11 percent.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of the plan assets are increasing or decreasing over time relative to the AALs for benefits.

The annual required contributions (ARC) was calculated using the aggregate actuarial cost method. Since the aggregate actuarial cost method does not identify or separately amortize unfunded actuarial liabilities, information about funded status and funding progress has been prepared using the entry age actuarial cost method for that purpose, and this information is intended to serve as a surrogate for the funded status and funding progress of the plan.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2008	\$1,794,218	100.00%	\$0.00
June 30, 2007	\$1,552,236	100.00%	\$0.00
June 30, 2006	\$892,786	100.00%	\$0.00

(Dollar amounts in thousands)

#### **Required Supplementary Information**

#### **Schedule of Funding Progress for MORRISTOWN**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability (AAL) Entry Age</u>	<u>Unfunded AAL (UAAL) (b)-(a)</u>	<u>Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a Percentage Payroll (b-a)/(c)</u>
<u>7/1/2007</u>	<u>(a)</u>	<u>(b)</u>	<u>(b)-(a)</u>	<u>(a/b)</u>	<u>(c)</u>	<u>(b-a)/(c)</u>
7/1/07	\$41,850	\$56,723	\$14,873	73.78%	\$13,034	114.11%

(Dollar amounts in thousands)

The Governmental Accounting Standards Board (GASB) requires the plan to prepare the Schedule of Funding Progress using the entry age actuarial cost method. The requirement to present the Schedule of Funding Progress using the Entry Age actuarial method was a change made during the year and therefore only the most current year is presented.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)

#### Morristown Utility System's Retirement Plan

The Systems' share in a defined contribution retirement plan, Morristown Power and Water System Employees' Restated 401(k) Asset Accumulation Plan (the "Plan"), covering substantially all employees. The Commission is the administrator of the Plan and is responsible for establishing or amending the Plan provisions and contribution requirement

##### **Power System:**

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
2009	\$ 3,801,445	\$ 3,683,446	\$ 559,884	15%	\$ 260,598	7%
2008	\$ 3,840,368	\$ 3,563,342	\$ 531,775	15%	\$ 263,978	7%

##### **Water System:**

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
2009	\$ 1,289,929	\$ 1,156,596	\$ 171,201	15%	\$ 100,004	9%
2008	\$ 1,149,462	\$ 1,142,852	\$ 170,793	15%	\$ 83,029	7%

##### **Telecom System:**

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
2009	\$ 773,425	\$ 650,033	\$ 97,504	15%	\$ 41,008	6%
2008	\$ 701,910	\$ 607,256	\$ 91,088	15%	\$ 31,782	5%

Under the Plan terms, the Systems will match participant contributions up to 3% of the participant's salary and may also contribute an additional amount to the Plan at its discretion. During 2009 and 2008, the discretionary contribution amounted to 12% of the participants' salary. Participants are not required but may contribute up to a total of 75% of their salary subject to IRS limitations. All employees who have completed one year of service as defined by the Plan and who have attained the age of 21 are eligible to participate in the Plan. Participants are 100% vested in the employer contributions when they are made.

# City of Morristown, Tennessee

## Notes to Financial Statements

June 30, 2009

### **NOTE 4 – DETAILED NOTES ON ALL FUNDS (Continued)**

#### **E. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which the City carries commercial insurance purchased from independent third parties. The City has not experienced an insurance settlement in excess of insurance coverage in any of the past three fiscal years. The City bears the risk of loss up to the deductible amounts that are disclosed in the accompanying Statistical Section.



**Schedule of Funding Progress for Morristown, Tennessee (Excluding Morristown Utility Commission)**

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) ((b - a)/c)
07/01/07	\$ 41,850	\$ 56,723	\$ 14,873	73.78%	\$ 13,034	114.11%
07/01/05	37,471	44,061	6,590	85.04%	11,194	58.87%
07/01/03	35,814	42,539	6,725	84.19%	9,748	68.99%
06/30/01	34,504	36,125	1,621	95.51%	9,032	17.95%

City of Morristown, Tennessee

Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual

Other Governmental Funds

Year Ended June 30, 2009

	Narcotics Fund			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
<b>Revenues</b>				
Program Income	\$ 416,803	\$ 416,803	\$ 155,790	\$ (261,013)
City Fines & Costs			-	-
Total revenues	416,803	416,803	155,790	(261,013)
<b>Expenditures</b>				
Narcotics enforcement	510,466	510,466	489,066	21,400
Excess of expenditures over revenue	(93,663)	(93,663)	(333,276)	(239,613)
<b>Other Sources</b>				
Transfers in	-	295,000	295,000	-
Net change in fund balance	(93,663)	201,337	(38,276)	(239,613)
Fund balance - beginning	41,475	41,475	41,475	-
Fund balance - ending	\$ (52,188)	\$ 242,812	\$ 3,199	\$ (239,613)

City of Morristown, Tennessee  
Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2009

CFDA or Grant Number	Community Development Block Grant	Grantor Agency	(A) Balance July 1, 2008 Receivable	(B) Receipts	Federal Expenditures	(D) Balance June 30, 2009 Balance
20.505	MPTO	Federal Trust Administration	\$ 55,176	\$ 272,681	\$ 950,329	\$ 732,824
14.218	Community Development Block Grant	Housing and Urban Development	-	296,935	296,935	-
10.599	Summer Feeding	U.S. Department of Agriculture	39,040	56,586	51,466	33,920
97.044	Assistance to Firefighters Grant	Department of Homeland Security	-	95,866	95,886	-
17	Internet Crimes Against Children	U.S. Dept. of Justice	2,957	16,993	14,036	-
16.579	Edward Byrne Justice Assistance (05)	Bureau of Justice Assistance	32,042	32,042	-	-
16.579	Edward Byrne Justice Assistance (07)	Bureau of Justice Assistance	12,297	12,297	-	-
20.600	Highway Safety Grant	State and Community Highway Safety	-	34,200	34,200	-
16.607	Bulletproof Vest Program	U.S. Dept. of Justice	-	2,374	2,374	-
16.609	Project Safe Neighborhood	U.S. Department of Justice	-	11,257	11,257	-
Total			\$ 141,512	\$ 831,231	\$ 1,456,482	\$ 766,744

The modified accrual basis of accounting as used on preparing this schedule.

City of Morristown, Tennessee  
Schedule of State Financial Assistance  
Year Ended June 30, 2009

	Contract Number	Balance July 1, 2008 Receivable	Receipts	Disbursements	Balance June 30, 2009 Balance
Tennessee Department of Community Development	GG-08-24950-00	\$ 642,300	\$ 1,098,351	\$ 724,923	\$ 268,872
Tennessee Department of Community Development	GG-05-11784-01	546,629	517,499	-	-
Tennessee Department of Aeronautics		-	-	76,810	76,810
Tennessee Department of Aeronautics	Z-08-02-1603-00	13,500	-	-	-
Total		\$ 1,202,429	\$ 1,615,850	\$ 801,733	\$ 345,682

# City of Morristown, Tennessee

## Statistical Information

June 30, 2009

This part of the City of Morristown's comprehensive annual financial report financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the government's overall financial health.

### ***Financial Trends***

These schedules contain trend information to help the reader understand how the government's financial performance and well-being have changed over time.

### ***Revenue Capacity***

These schedules contain information to help the reader assess the government's most significant local revenue source, the property tax.

### ***Debt Capacity***

These schedules present information to help the reader assess the affordability of the government's current levels of outstanding debt and the government's ability to issue additional debt in the future.

### ***Demographic and Economic Information***

These schedules offer demographic and economic indicators to help the reader understand the environment within which the government's financial activities take place.

### ***Operating Information***

These schedules contain service and infrastructure data to help the reader understand how the information in the government's financial report relates to the services the government's financial report relates to the services the government provides and the activities it performs.

City of Morristown, Tennessee  
Net Assets by Component  
Last Ten Fiscal Years  
Seventh Year of Implementation  
June 30, 2009

	6/30/2003	6/30/2004	6/30/2005	Fiscal Year Ended 6/30/2006	6/30/2007	6/30/2008	6/30/2009
<b>Governmental activities:</b>							
Invested in capital assets, net of related debt	\$ 20,792,189	\$ 33,486,758	\$ 32,485,958	\$ 32,367,332	\$ 20,829,489	\$ 41,772,607	\$ 43,089,778
Restricted	5,564,620	1,434,155	3,256,311	3,461,659	153,829	2,746,754	2,622,266
Unrestricted	4,542,774	4,811,741	3,918,333	2,407,332	12,742,735		
<b>Total governmental activities net assets</b>	<b>\$ 30,899,583</b>	<b>\$ 39,732,654</b>	<b>\$ 39,660,602</b>	<b>\$ 38,236,323</b>	<b>\$ 33,726,053</b>	<b>\$ 44,519,361</b>	<b>\$ 45,712,044</b>
<b>Business-type activities:</b>							
Invested in capital assets, net of restated debt	\$ 62,632,218	\$ 61,967,985	\$ 63,008,050	\$ 65,965,213	\$ 65,694,276	\$ 68,057,045	\$ 73,440,732
Restricted	859,847	554,347	3,522,421	531,903	557,111		1,331,951
Unrestricted	10,174,665	13,006,096	11,713,846	13,638,464	12,858,565	13,775,143	11,011,165
<b>Total business-type net assets</b>	<b>\$ 73,666,730</b>	<b>\$ 75,528,428</b>	<b>\$ 78,244,317</b>	<b>\$ 80,135,580</b>	<b>\$ 79,109,952</b>	<b>\$ 81,832,188</b>	<b>\$ 85,783,848</b>
<b>Primary government:</b>							
Invested in capital assets, net of related debt	\$ 83,424,407	\$ 82,760,174	\$ 95,494,008	\$ 98,332,545	\$ 86,523,765	\$ 109,829,652	\$ 116,530,510
Restricted	6,424,467	2,032,088	6,778,732	3,983,562	710,940	2,341,975	3,954,217
Unrestricted	14,717,439	30,468,820	15,632,179	16,045,796	25,601,300	14,179,922	11,011,165
<b>Total Primary government</b>	<b>\$ 104,566,313</b>	<b>\$ 115,261,082</b>	<b>\$ 117,904,919</b>	<b>\$ 118,371,903</b>	<b>\$ 112,836,005</b>	<b>\$ 126,351,549</b>	<b>\$ 131,495,892</b>

City of Morristown, Tennessee  
Changes in Fund Balances of Governmental Funds  
 Last Ten Fiscal Years  
 Seventh Year of Implementation  
 (Modified Accrual Basis of Accounting)  
 June 30, 2009

	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Revenues							
Taxes	\$ 17,538,836	\$ 17,963,749	\$ 18,798,835	\$ 19,509,714	\$ 19,819,597	\$ 22,261,063	\$ 22,434,740
Licenses, permits and fines	1,720,054	756,770	936,037	904,316	1,093,488	1,045,551	1,497,081
Use of money and property	469,234	736,195	690,408	607,576	329,777	470,219	246,632
Service charges and fees	124,335	319,659	131,998	155,179	137,584	141,703	132,712
Intergovernmental	5,390,157	4,566,023	5,294,295	7,664,424	6,141,091	6,269,338	5,340,446
Total revenues	25,242,616	24,342,396	25,851,573	28,841,209	27,521,537	30,187,874	29,651,611
Expenditures							
General government	2,432,599	2,603,517	3,322,466	3,654,202	4,378,805	4,578,048	3,823,150
Public safety	10,868,947	10,949,337	11,946,235	12,010,039	14,326,759	14,553,542	14,211,019
Public works	5,595,244	6,215,255	6,897,308	9,055,173	10,381,286	11,036,209	6,690,954
Parks and recreation	1,597,215	1,766,941	1,568,247	1,957,729	3,229,978	2,338,137	2,070,840
Airport	1,270,308	590,071	292,552	275,700	190,240	132,719	302,588
Civic support	506,273	569,689	544,398	532,178	856,174	558,723	1,338,282
Economic development	1,731,781	1,379,815	1,448,415	4,355,672	2,224,061	1,117,549	464,294
Retiree benefits		408,347	434,580	292,973			
Miscellaneous	164,256	229,795	39,351	20,531			
Debt service							
Principal	815,000	764,600	1,224,800	1,265,000	1,105,000	3,150,000	1,796,805
Interest	382,892	360,360	178,333	178,432	449,487	722,876	568,894
Debt expense	34,098	4,903	4,670	299,340	155,077	62,156	53,404
Total expenditures	25,398,613	25,842,630	27,901,355	33,896,969	37,296,867	38,249,959	31,320,230
Deficiency of revenue over expenditures	(155,997)	(1,500,234)	(2,049,782)	(5,055,760)	(9,775,330)	(8,062,085)	(1,668,619)
Other financing sources (uses)							
Transfers in	2,632,114	4,290,237	2,550,093	2,371,219	2,421,324	2,443,018	2,720,917
Transfers out	(2,632,114)	(5,005,138)	(1,725,817)	(1,717,920)	(1,733,483)	(1,712,003)	(1,876,147)
Bonds issued			1,992,464	10,000,000	4,750,000	5,970,000	1,473,604
Total other financing sources (uses)	-	(714,901)	2,816,740	10,653,299	5,437,841	6,701,015	2,318,374
Net change in fund balance	\$ (155,997)	\$ (2,215,135)	\$ 766,958	\$ 5,597,539	\$ (4,337,489)	\$ (1,361,070)	\$ 649,755
Debt service as a percentage of total governmental expenditures	4.85%	4.37%	5.05%	5.14%	4.58%	10.29%	7.72%

City of Morristown, Tennessee  
**Changes in Net Assets**  
 Last Ten Fiscal Years  
 Seventh Year of Implementation  
 (Accrual Basis)  
 June 30, 2009

	Fiscal Year Ended						
	6/30/2003	6/30/2004	6/30/2005	90/30/06	6/30/2007	6/30/2008	6/30/2009
<b>Expenses:</b>							
Governmental activities:							
General government	\$ 2,467,777	\$ 2,790,124	\$ 3,532,804	\$ 3,732,690	\$ 4,427,912	\$ 4,729,356	\$ 3,807,015
Public safety	10,236,334	10,287,585	11,553,257	12,011,746	14,783,116	14,938,433	13,721,953
Public works	5,570,400	6,537,761	5,024,791	7,884,650	8,936,753	12,760,354	5,536,365
Parks and recreation	1,865,313	1,534,531	1,469,315	1,864,017	3,107,468	2,404,471	2,070,840
Civic support	506,273	576,028	544,398	532,178	856,949	558,723	496,633
Economic development	590,147	385,088	1,448,415	3,879,932	128,444	1,117,549	464,294
Retiree benefits	-	408,347	434,580	292,973	-	-	0
Airport	1,633,100	477,425	704,585	554,398	631,368	573,847	302,588
Long-term debt expense	164,256	398,490	217,831	337,239	582,295	785,032	591,654
Other	416,990	81,574	-	-	-	-	-
Total governmental activities expenses	23,250,590	23,474,933	24,929,976	31,089,823	33,452,305	37,867,765	26,991,342
Business-type activities:							
Water	3,847,335	4,088,405	3,765,578	4,241,596	4,486,115	5,056,029	5,140,577
Sewer	4,207,882	4,579,513	4,896,065	5,170,188	5,682,688	6,760,588	7,108,351
Electric	46,767,798	47,365,032	47,493,148	53,341,801	56,800,708	61,105,276	68,759,483
Telecom System	-	-	4,176	714,677	4,449,839	6,907,546	6,914,905
Storm Water	-	-	-	-	-	436,016	543,434
Total business-type expenses	54,823,015	56,033,950	55,958,967	63,468,262	71,419,350	80,265,455	88,466,750
Total primary government expenses	78,073,605	79,508,883	80,888,943	94,558,085	104,871,635	118,133,220	115,458,092
<b>Program Revenues:</b>							
Governmental activities:							
Charges for services:							
General government	202,996	165,575	231,440	223,537	557,097	409,037	198,418
Public safety	545,293	794,645	936,037	904,316	414,861	778,216	1,359,091
Public works	124,335	703,164	-	258,709	-	-	-
Parks and recreation	-	139,562	131,998	155,179	137,584	-	-
Civic support	-	-	-	-	-	-	-
Economic development	-	-	-	-	-	-	-
Retiree benefits	-	-	-	-	-	-	-
Airport	-	-	-	-	-	-	-
Long-term expense	-	-	-	-	-	-	-
Operating grants and contributions	1,713,655	352,717	-	505,818	448,884	888,336	1,454,680
Capital grants and contributions	2,617,657	1,361,550	-	3,234,328	1,702,895	1,546,886	312,160
Total governmental activities program revenues	5,203,936	3,517,213	1,299,475	5,281,687	3,281,321	3,622,475	3,324,329
Business-type activities:							
Charge for services:							
Water	4,495,715	4,406,024	4,943,461	5,339,101	5,335,578	5,572,994	6,331,851
Sewer	4,540,720	4,492,542	4,589,153	4,749,533	5,556,473	8,766,896	6,221,247
Electric	47,511,195	49,414,204	49,466,518	55,821,500	58,631,933	63,351,409	72,283,709
Telecom system	-	-	-	102,690	2,548,590	4,503,672	6,293,434
Storm Water	-	-	-	-	-	89,383	888,238
Operating grants and contributions	-	378,438	-	-	-	-	-
Capital grants and contributions	272,320	1,640,300	-	-	-	55,500	54,000
Total business-type activities program revenues	56,819,950	60,331,508	58,999,132	66,012,824	72,072,574	82,339,854	92,072,479
Total primary government program revenue	\$ 62,023,886	\$ 63,848,721	\$ 60,298,607	\$ 71,294,711	\$ 75,333,895	\$ 85,962,329	\$ 95,396,808
Net (expense) revenue:							
Governmental activities	\$ (18,046,654)	\$ (19,957,720)	\$ (23,630,501)	\$ (25,807,936)	\$ (30,190,984)	\$ (34,245,290)	\$ (23,667,013)
Business-type activities	1,996,935	2,583,291	3,040,165	2,544,582	653,244	2,074,399	3,805,729
Total primary government net expense	\$ (16,049,719)	\$ (17,374,429)	\$ (20,590,336)	\$ (23,263,374)	\$ (29,537,740)	\$ (32,170,891)	\$ (20,061,284)



City of Morristown, Tennessee  
Changes in Net Assets  
 Last Ten Fiscal Years  
 Seventh Year of Implementation  
 (Accrual Basis)  
 June 30, 2009

	Fiscal Year Ended						
	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008	6/30/2009
<b>General Governmental and Other Changes</b>							
<b>In Net Assets</b>							
Governmental activities:							
Property taxes	\$ 6,154,751	\$ 6,288,159	\$ 6,544,269	\$ 6,959,587	\$ 6,744,789	\$ 9,521,787	\$ 8,786,697
In-lieu taxes	662,748	59,275	72,748	92,446	85,529	35,536	-
Franchise taxes	813,588	820,658	853,208	1,006,887	732,339	826,802	784,365
Local sales tax	8,053,275	8,618,515	9,196,618	9,491,887	9,594,019	9,446,110	10,389,929
Alcohol beverage tax	934,567	1,009,528	1,032,688	1,076,180	1,107,005	1,138,908	1,178,386
Business and gross receipts tax	681,903	861,386	784,119	881,441	943,210	866,833	947,659
Hotel/motel tax	238,004	312,707	350,931	384,387	417,120	425,087	367,704
Use of money and property	1,291,563	712,843	96,134	607,576	451,307	470,219	246,632
Intergovernmental	1,208,281	2,148,591	4,097,107	3,405,260	3,989,312	3,834,117	2,148,264
Transfers	-	721,591	824,276	653,299	687,841	731,014	1,530,560
Total governmental activities	20,038,680	21,553,253	23,852,078	24,558,730	24,732,471	27,296,413	26,380,196
Business-type activities:							
Investment earnings	254,859	-	-	-	-	-	-
Use of money and property	-	-	-	-	-	387,820	161,484
Transfers	-	(721,591)	(824,276)	(653,299)	(687,841)	(731,014)	(1,530,560)
Total business-type activities	254,859	(721,591)	(824,276)	(653,299)	(687,841)	(343,194)	(1,369,076)
Total primary government	\$ 20,293,539	\$ 20,831,662	\$ 23,027,802	\$ 23,905,431	\$ 24,044,630	\$ 26,953,219	\$ 24,991,120
<b>Changes in Net Assets</b>							
Governmental activities	1,992,026	1,595,533	221,577	(1,219,206)	(5,458,513)	(6,948,877)	2,693,183
Business-type activities	2,251,794	1,861,700	2,125,889	1,891,263	(34,597)	1,731,206	2,236,653
Total primary government	\$ 4,243,820	\$ 3,457,233	\$ 2,347,466	\$ 672,057	\$ (5,493,110)	\$ (5,217,671)	\$ 4,929,836
<b>General fund</b>							
Reserved	2,273,995	1,281,222	1,923,010	8,551,478	4,689,443	-	2,819,067
Unreserved	3,114,420	5,032,750	5,254,556	4,060,987	-	2,705,279	-
Total general fund	\$ 5,388,415	\$ 6,313,972	\$ 7,177,566	\$ 12,612,463	\$ 4,689,443	\$ 2,705,279	\$ 2,819,067
<b>All other governmental funds</b>							
Reserved	3,290,625	149,933	53,301	9,883	163,657	41,475	3,199
Total all other governmental funds	\$ 3,290,625	\$ 149,933	\$ 53,301	\$ 9,883	\$ 163,657	\$ 41,475	\$ 3,199

City of Morristown, Tennessee  
Fund Balance of Governmental Funds  
Last Ten Fiscal Years  
Seventh Year of Implementation  
(Modified Accrual Basis of Accounting)  
June 30, 2009

	2003	2004	2005	Fiscal Year 2006	2007	2008	2009
General Fund							
Reserved	\$ 2,273,995	\$ 1,281,222	\$ 1,923,010	\$ 8,551,476	\$ 4,669,443	\$ 3,431,536	\$ 2,619,067
Unreserved	3,114,420	5,032,750	5,254,556	4,060,987	-	-	-
Total general fund	<u>\$ 5,388,415</u>	<u>\$ 6,313,972</u>	<u>\$ 7,177,566</u>	<u>\$ 12,612,463</u>	<u>\$ 4,669,443</u>	<u>\$ 3,431,536</u>	<u>\$ 2,619,067</u>
All other governmental funds							
Reserved	\$ 3,290,625	\$ 149,933	\$ 53,301	\$ 9,883	\$ 163,657	\$ 41,475	\$ 3,199
Unreserved, reported in:							
Special revenue funds				984	984	984	-
Total all other governmental funds	<u>\$ 3,290,625</u>	<u>\$ 149,933</u>	<u>\$ 53,301</u>	<u>\$ 10,867</u>	<u>\$ 164,641</u>	<u>\$ 42,459</u>	<u>\$ 3,199</u>

City of Morristown, Tennessee  
Government Activities Revenue by Source  
Last Ten Fiscal Years (7th Year of Implementation)  
(Accrual Basis of Accounting)

Fiscal Year	Property Tax	In-lieu Tax	Franchise Tax	Local Sales Tax	Alcohol Beverage Tax	Business and Gross Receipts Tax	Hotel/Motel Tax	Use of Money and Property	Inter-Governmental	Transfers	Total
2003	\$ 6,154,751	\$ 662,748	\$ 813,588	\$ 8,053,275	\$ 934,567	\$ 681,903	\$ 238,004	\$ 1,291,563	\$ 1,208,281	\$ -	\$ 20,038,680
2004	6,288,159	59,275	820,658	8,618,515	1,009,528	861,386	312,707	712,843	2,148,591	721,591	21,553,253
2005	6,544,269	72,748	853,208	9,196,618	1,032,668	784,119	350,931	96,134	4,097,107	824,276	23,852,078
2006	6,989,567	92,446	1,006,887	9,491,687	1,076,180	881,441	384,387	607,576	3,405,260	653,299	24,588,730
2007	6,960,375	65,529	732,339	9,594,019	1,107,005	943,210	417,120	1,276,070	5,898,091	687,841	27,682,599
2008	9,521,787	35,536	826,802	9,446,110	1,138,908	866,833	425,087	1,421,389	6,027,338	731,015	30,440,805
2009	8,766,697	-	784,365	10,389,929	1,178,386	947,659	367,704	1,876,425	5,340,445	795,053	30,446,663

**City of Morristown, Tennessee**  
**Table of General Bonded Debt with Total Assessment**  
**and Expenditure Ratio**  
**Ten tax years ended 2008**  
**June 30, 2009**

<u>Tax Year</u>	<u>General Bonded Debt</u>	<u>Total Assessment</u>	<u>Ratio of Bonded Debt to Total Assessment</u>	<u>Total Expenditures</u>	<u>Ratio of Bonded Debt to Total Expenditures</u>
1999	10,901,300	420,402,672	.026 to 1	21,879,793	.498 to 1
2000	18,242,200	446,747,982	.041 to 1	29,511,274	.618 to 1
2001	14,020,286	454,515,175	.030 to 1	23,249,722	.603 to 1
2002	13,155,286	569,848,349	.023 to 1	25,398,613	.518 to 1
2003	11,042,686	576,534,587	.019 to 1	25,842,630	.427 to 1
2004	12,202,286	570,401,429	.021 to 1	27,901,352	.437 to 1
2005	20,922,286	614,747,798	.034 to 1	33,896,969	.617 to 1
2006	22,538,317	704,667,216	.032 to 1	37,296,867	.604 to 1
2007	24,008,317	693,683,310	.034 to 1	38,249,959	.628 to 1
2008	22,521,414	735,127,536	.033 to 1	26,991,342	.834 to 1

City of Morristown, Tennessee  
Property Tax Levies and Collections  
For the Ten Years Ended 2009  
June 30, 2009

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Assessed value	\$ 420,402,762	\$ 446,839,120	\$ 454,515,175	\$ 569,646,349	\$ 576,534,587	\$ 586,357,798	\$ 614,747,798	\$ 704,667,216	\$ 693,883,310	\$ 735,127,538
Rate per \$100	1.25	1.25	1.25	1.09	1.09	1.09	1.09	0.97	1.37	1.22
Total tax levy	5,255,035	5,586,489	5,661,440	6,211,347	6,284,227	6,391,300	6,700,751	6,835,272	9,503,463	8,968,580
Collections/reductions:										
Initial tax year	5,099,870	5,368,291	5,436,877	5,908,338	5,986,563	6,085,471	6,421,637	6,548,642	8,767,049	
Additional through June 30, 2009	109,185	196,204	219,923	259,536	210,336	221,104	171,013	212,881		
Total collections/reductions	5,209,055	5,564,495	5,656,800	6,167,874	6,196,899	6,306,575	6,592,650	6,759,523	8,767,049	
Taxes receivable, June 30, 2009	45,980	20,994	24,840	43,473	87,328	84,725	108,101	75,749	736,414	
Percent of levy collected Initial tax year	97.05%	96.11%	95.69%	95.12%	95.28%	95.67%	96.39%	95.78%	92.25%	0.00%
Percent of levy outstanding June 30, 2009	0.87%	0.38%	0.44%	0.70%	1.39%	1.33%	4.17%	1.11%		

City of Morristown, Tennessee  
Principal Employers  
Current Year and Ten Years Ago

	2009			Ten Years Ago		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Hamblen County Department of Education	1,350	1				
Koch Foods	882	2	5%			
Berkline Corporation	818	3	3%			
MAHLE, Inc.	794	4	3%	1,639	1	6%
Walters State Community College	766	5	3%	1,500	2	6%
Morristown Hamblen Healthcare	691	6	3%			
Lakeway Regional Hospital	501	7	2%			
Howmet Corporation	480	8	2%			
JTEKT Automotive	470	9	2%	600	6	2%
Wal-Mart	443	10	2%			
Universal Furniture Industries						
Lear Corporation				1,100	3	3%
Shelby Williams Industries, Inc.				840	4	3%
Moll Industries, Anchor Brush Div.				800	5	3%
Lea Industries				600	7	2%
Toyota TRW Auto, Inc.				550	8	2%
Lenzing Fibers Corporation				485	9	2%
				406	10	2%
Total	5,845		27%	4,281		31%

City of Morristown, Tennessee  
Assessed Value and Estimated Actual Value of Taxable Property  
Last Ten Tax Years  
June 30, 2009

Tax Year	Residential Property	Commercial Property	Public Utility Property	Other	Commercial Property	Public Utility Property	Total Assessment Value	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
1999	105,804,800	181,856,720	1,438,800	989,300	117,308,547	-	407,398,167	1.25	1,225,572,257	33.24%
2000	151,735,700	241,152,880	1,918,125	1,339,675	146,310,970	-	542,457,350	1.25	1,637,704,995	33.12%
2001	153,493,650	244,658,040	493,845	1,763,125	151,200,316	4,147	551,813,123	1.25	1,668,996,219	33.05%
2002	154,997,600	257,138,640	493,845	1,765,775	135,684,289	2,368	550,062,517	1.09	1,653,214,110	33.27%
2003	157,210,650	268,536,960	493,845	1,783,150	133,871,424	2,185	561,898,214	1.09	1,683,016,247	33.39%
2004	160,143,125	274,685,480	493,845	1,776,850	133,299,257	2,872	570,401,429	1.09	1,706,865,190	33.42%
2005	197,382,450	311,856,480	581,570	2,358,850	161,306,661	2,770	673,488,281	0.97	2,030,459,639	33.17%
2006	208,319,300	320,294,680	577,060	2,554,275	172,813,509	2,770	704,561,094	0.97	2,130,508,894	33.07%
2007	214,131,050	323,243,200	577,060	3,551,000	152,179,019	1,981	693,663,310	1.37	2,257,282,643	30.73%
2008	222,757,250	335,363,800	557,095	4,638,175	165,505,013	2,837	728,824,170	1.22	2,377,490,324	30.66%

**City of Morristown**  
**Operating Indicators by Function**  
**Last Ten Fiscal Years (7th Year of Implementation)**

Function	Fiscal Year						
	2003	2004	2005	2006	2007	2008	2009
Police:							
Physical arrests	5,216	5,226	5,250	5,266	7,572	6,487	5,620
Parking violations	8,629	8,636	8,645	8,652	7,179	14,809	15,211
Fire							
Number of calls answered	2,976	2,979	2,985	3,211	3,390	3,337	3,232
Inspections	1,800	1,808	1,815	1,827	2,376	2,361	948
Highway and streets:							
Street maintenance/resurfacing (miles)	3	0.11	8.11	4.73	0.4	6.18	2.39
Sanitation:							
Brush collected (annual)	2,428.6	2,585.3	2,606.2	2,792.5	3,411.5	2,711.2	3,327.04
Refuse collected	14,106.8	14,247.6	14,928.6	15,008.8	9,944.0	8,555.7	9,770.21



**City of Morristown, Tennessee**  
**Demographic and Economic Statistics**  
**Last Ten Fiscal Years**

<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>Median Age</b>	<b>Education Level In Years of Formal Schooling</b>	<b>School Enrollment</b>	<b>Unemployment Rate</b>
2000	24,966	564,930,648	22,628	36.1	13.6	10,225	4.2
2001	24,977	589,107,522	23,586	36.3	13.8	10,225	6.3
2002	25,137	603,137,178	23,994	36.5	13.9	10,439	6.1
2003	25,023	625,875,276	25,012	36.6	14.0	10,440	6.5
2004	25,055	649,175,050	25,910	36.7	14.2	10,439	6.1
2005	25,402	661,950,718	26,059	36.9	14.3	10,519	6.4
2006	25,716	674,119,224	26,214	40.0	14.1	10,513	4.6
2007	25,686	673,075,944	26,204	41.2	14.0	10,613	5.7
2008	26,419	695,823,622	26,338	36.0	13.4	10,398	7.2
2009	25,800	696,780,600	27,007	36.8	13.3	10,079	13.48

City of Morristown  
Operating Indicators by Function  
 Last Ten Fiscal Years (7th Year of Implementation)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Fiscal Year 2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>
<b>Function</b>							
Public Safety							
Police:							
Stations	1	1	1	1	1	1	1
Patrol units	48	48	48	48	48	48	48
Fire stations	5	4	5	5	6	6	6
Sanitation							
Collection trucks	5	5	5	5	4	4	4
Highways and streets							
Street (miles)	228	237	240	241	263	263	320
Culture and recreation							
Parks acreage	249	257	232	257	259	259	264
Parks	14	14	15	15	16	16	16

# City of Morristown, Tennessee

## Schedule of Utility Rates and Number of Customers

June 30, 2009

### Sewer Rates

Inside - \$4.59 per 1,000 gallons of water used—minimum bill of \$9.18 per month.

Outside - \$9.18 per 1,000 gallons of water used—minimum bill of \$27.54 per month.

#### Customers:

Inside City	11,523
Outside City	<u>109</u>
Total	<u>11,632</u>

$$\begin{array}{r} 125 \\ 460 \overline{) 5,764,000} \\ \underline{460} \phantom{000} \\ 1160 \phantom{00} \\ \underline{920} \phantom{00} \\ 2440 \phantom{00} \end{array}$$

$$\begin{array}{r} 4.59 \\ 1.08 \\ \hline 5.67 \\ 5.67 \times 109 \\ \hline 618.13 \end{array}$$

# City of Morristown, Tennessee

## Schedule of Utility Rates and Number of Customers

June 30, 2009

### Residential

Customer charge per month	\$ 13.21
Energy charge:	
First 2,000 kilowatt hours	7.582¢
Additional kilowatt hours per month	7.375¢

### Commercial, Industrial, Governmental and Institutional:

Demand of up to 50 kilowatt hours:	
Customer charge per month	\$ 21.50
Energy charge per kilowatt hour per month	8.463¢
Demand of 51 to 1,000 kilowatt hours	\$ 127.00
Excess over 50 kilowatts per month	\$ 12.86
Energy charge:	
First 15,000 kilowatt hours per month	7.896¢
Demand of 1,001 to 5,000 kilowatt hours:	
Customer charge per month	\$ 266.00
Demand charge:	
First 1,000 kilowatts per month	\$ 12.90
Excess over 1,000 kilowatts per month	\$ 14.29
Energy charge:	
Per kilowatt hours per month	\$ 4.522¢
Demand of 5,001 to 15,000 kilowatts:	
Customer charge per month	\$1,500.00
Demand charge:	
Per kilowatt	\$ 11.63
First 620 kilowatt hours per kilowatt per month	3.899¢
Additional kilowatt hour per month	3.337¢
Non-manufacturing demand of 15,001 to 25,000 kilowatts:	
Customer charge per month	\$1,500.00
Demand charge:	
Per kilowatt hour per month	\$ 14.21
Energy charge:	
First 620 kilowatt hours per month	4.625¢
Additional kilowatt hours per month	3.928¢

Number of customers	14,270
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# City of Morristown, Tennessee

## Schedule of Water Rates and Number of Customers

June 30, 2009

### Inside City Rate

Customer charge per month	\$	4.65
First 50,000 gallons		1.90
Next 50,000 gallons		1.65
Over 100,000		1.45

### Minimum bill:

5/8" meter	8.45
3/4" meter	8.95
1" meter	9.70
1 1/2" meter	11.20
2" meter	15.70
3" meter	60.70
4" meter	70.70
6" meter	100.70

### Outside City rates:

Customer charges per month	4.65
First 50,000 gallons	3.80
Next 50,000 gallons	3.30
Over 100,000 gallons	2.90

### Minimum bill:

5/8" meter	12.25
3/4" meter	12.75
1" meter	13.50
1 1/2" meter	15.00
2" meter	19.50
3" meter	64.50
4" meter	74.50
6" meter	104.50

### Monthly fire protection charges

4"	25.00
6"	40.00
8"	50.00
10"	100.00
12"	125.00

### Number of Customers

12,506

# City of Morristown, Tennessee

## Schedule of Monthly Telecom Rates

June 30, 2009

### Standard Cable:

Expanded basic	\$ 41.95
Digital basic	49.95
Digital bronze	59.95
Digital silver	67.95
Digital gold	80.95
Premium channels	9.95-11.95

### Internet:

#### Residential

Tier 1	29.95
Tier 2	39.95
Tier 3	59.95
Tier 4	99.95

#### Commercial

Tier 1	39.95
Tier 2	74.95
Tier 3	99.95
Tier 4	149.95
Tier 5	199.95

### Telephone:

#### Residential

Basic pick	22.95
Preferred Pack	25.00
Additional services	3.75-8.95
Long distance per minute	0.05

### Commercial

Access line	25.95
Business local telephone service	36.95
Additional services	6.95-25.95
Long distance rate per minute	0.05

Note: The Telecom System began operations in 2006.

# CRAINE, THOMPSON, & JONES, P.C.

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## **CERTIFIED PUBLIC ACCOUNTANTS**

225 WEST FIRST NORTH STREET

P.O. Box 1779

SUITE 300, MILLENNIUM SQUARE

MORRISTOWN, TENNESSEE 37816-1779

423-586-7650

### **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**

Honorable Board of Mayor and Aldermen  
City of Morristown, Tennessee

We have audited 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 City of Morristown, Tennessee, as of and for the year ended June 30, 2009, which collectively comprise the City of Morristown, Tennessee's basic financial statements and have issued our report thereon dated January 5, 2010. 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.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered City of Morristown, Tennessee's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Morristown, Tennessee's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Morristown, Tennessee's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Morristown, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the City of Morristown, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Morristown, Tennessee's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The finding is numbered 09-1.

## Honorable Board of Mayor and Aldermen

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Morristown, Tennessee's internal control.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morristown, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements 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.

We noted certain matters that we reported to management of City of Morristown, Tennessee, in a separate letter dated January 5, 2010.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Craine, Thompson + Jones, P.C.*

Morristown, Tennessee  
January 5, 2010



# CRAINE, THOMPSON, & JONES, P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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423-586-7650

### REPORT ON COMPLIANCE WITH REQUIREMENT APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Honorable Mayor and City Council  
City of Morristown, Tennessee

#### Compliance

We have audited the compliance of City of Morristown, Tennessee with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. City of Morristown, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Morristown's management. Our responsibility is to express an opinion on City of Morristown's compliance based on our audit.

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 OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 City of Morristown, Tennessee's compliance with those requirements and performing such other procedure as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Morristown, Tennessee's compliance with those requirements.

In our opinion, City of Morristown, Tennessee complied, in all material effects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

#### Internal Control Over Compliance

The management of City of Morristown, Tennessee's is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Morristown, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 City of Morristown, Tennessee's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operations of control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Craine, Thompson + Jones, P.C.*

Morristown, Tennessee  
January 5, 2010

**City of Morristown, Tennessee**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2009**

**Section I – Summary of Auditor's Results**

**Financial Statements**

Type of auditor's report issued:	unqualified
Material weaknesses identified?	No
Reportable conditions identified not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weaknesses identified	no
Reportable conditions identified not considered	none reported
Type of auditor's report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a):	no
Identification of major programs:	
MTPO	20.505
Dollar threshold used to distinguish between Type A and B programs	\$300,000
Auditee qualified as low-risk auditee	no

**Section II – Financial Statement Findings:**

No matters were reported

**Compliance Findings**

No matters were reported.

**Internal Control Findings**

**Finding No. 1**

**CONDITION** – Management did not obtain approval from City Council or Tennessee Division of Local Finance for interfund loans caused by individual funds with negative balances within the pooled cash arrangement.

**REASON IMPROVEMENT NEEDED:** City of Morristown, Tennessee pools its cash from its various funds into a bank account. The State of Tennessee has determined that if individual funds within the pooled cash arrangement have a negative balance in its share of pooled cash, the negative balance should be treated as an interfund loan. Interfund loans for operating purposes must be repaid within the same fiscal year of the loan. The interfund loan must be approved by City Council and Tennessee Division of Local Finance.

At June 30, 2009, the General Fund and Storm Water Fund's share of pooled cash was negative. City of Morristown, Tennessee management did not receive City Council or Tennessee Division of Local Finance approval for the interfund loans.

**City of Morristown, Tennessee**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2009**

**Internal Control Matters (Continued):**

**CAUSE OF CONDITION:** No approval obtained for interfund loans within pooled cash caused by individual funds having negative balances at June 30, 2009.

**RECOMMENDATION:** Management should seek City Council and Tennessee Division of Local Finance approval for interfund loans caused by negative balances for individual funds within the pooled cash arrangement.

**Management Response**

- General Fund Interfund Loan Payable

On June 30, 2009 the City's General Fund had an outstanding interfund loan with the Sewer Fund of \$1,241,512. This loan was necessary in order to allow the City to continue day-to-day operations. As of December 1, 2009 the loan was paid back in its entirety.

There are two significant items which led to the necessity of this loan to the General Fund for the fiscal year ending June 30, 2009. The first item contributing to this situation in the General Fund was the inclusion of operating and capital expenditures for the Lakeway Area Metropolitan Transportation Planning Organization (LAMPTO) in the General Fund. LAMPTO is a multi-agency organization comprised of representatives of Morristown, Jefferson City, White Pine, Hamblen County and Jefferson County. It is funded by the federal government (with some programs administered through the State of Tennessee). The City of Morristown serves as the "host" organization, providing office space to the personnel and handling all financial matters for LAMPTO. Typically, the City of Morristown will pay for a project or operating expense for LAMPTO, and then subsequently receive reimbursement from the appropriate state or federal agency. As of June 30, 2009 the City's General Fund had an account receivable for LAMPTO reimbursements of \$732,823. The City had already expended these funds on operating and capital expenditures, but had not yet received reimbursement. Management has made a decision that beginning for the fiscal year ending June 30, 2010 the City will utilize a separate fund to maintain the LAMPTO transactions (as well as Community Development Block Grant funds) and the General Fund will no longer be affected by the activities of this function.

The other significant item is an account receivable of \$948,141 from the State of Tennessee for reimbursement of expenses related to the construction of Veterans Parkway. The City's General Fund initially paid 100% of the expenses for Veterans Parkway, with the State of Tennessee pledging to pay for a portion. The project was completed in FY 2008, however due to cost overruns and a disagreement over the final amount the State would contribute due to the overruns it took significantly longer for the City to actually receive the funds. The full balance of \$948,141 was received by the City on August 17, 2009.

These two significant accounts receivable total \$1,680,964, exceeding the amount of the loan outstanding from the Sewer Fund on June 30, 2009. If these two accounts receivable had been paid in full before the end of the fiscal year the General Fund would not have any outstanding loans as of June 30, 2009.

- Storm Water Fund Interfund Loan Payable

The Storm Water Fund had an interfund loan from the Sewer Fund of \$649,477 that was outstanding on June 30, 2009. Without the loan the Storm Water Fund would have had a negative cash balance. The issue of a negative cash balance in the Storm Water Fund goes back to FY 2008. At the end of FY 2008 the Storm Water Fund had a negative cash balance of \$667,891. FY 2008 was the first year of the Storm Water Fund and the City was not able to implement a storm water fee as quickly as expected. As a result the Storm Water Fund had 12 months of expenses and only two months of revenues. There were also one-time costs associated with the startup that were not covered by the incoming revenue.

The loan interfund loan outstanding on June 30, 2009 was necessary in order for the Storm Water Fund to continue day-to-day operations. As of January 2010 the loan has not been paid back. The Storm Water Fund does not have the ability to pay back this loan in a timely manner under the current revenue structure in place. The current revenue structure does cover the day-to-operations. Management has advised City Council of this situation and will present City Council with a new fee structure recommendation during the FY 2011 budget discussions. Management will propose a loan amortization schedule with a five-year payback.

**City of Morristown, Tennessee**  
**Schedule of Findings and Questioned Costs**  
**June 30, 2009**

- Other

In response to this issue management has contacted officials at the State of Tennessee and sought guidance on these loans from others such as finance consultants at the University of Tennessee's Municipal Technical Advisory Service. Management has also work with the external auditor to find a resolution to this issue. It is management's understanding that the external auditor contacted State officials as well. State officials are aware of the loans but cannot approve the loans at this time. Management has taken steps to notify City Council of these loans and will do so in the future if it becomes necessary. Management has also adopted an internal policy which specifies how cash balances are maintained and tracked. This policy should allow management to identify negative cash balances in funds in a more timely manner and seek the proper approvals from City Council and the State of Tennessee Division of Local Finance.

**Section III – Federal Award Findings and Questioned Costs**

No matters were reported

