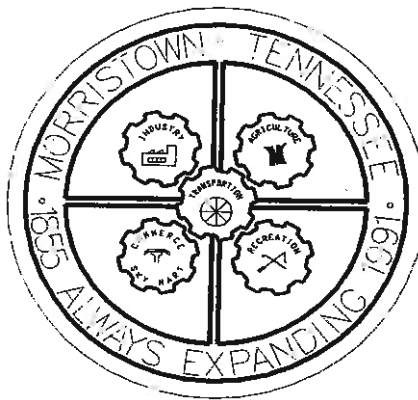


CITY OF MORRISTOWN

TENNESSEE



Gary R. Johnson, Mayor

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by the City of Morristown Finance Department

CITY OF MORRISTOWN COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2005

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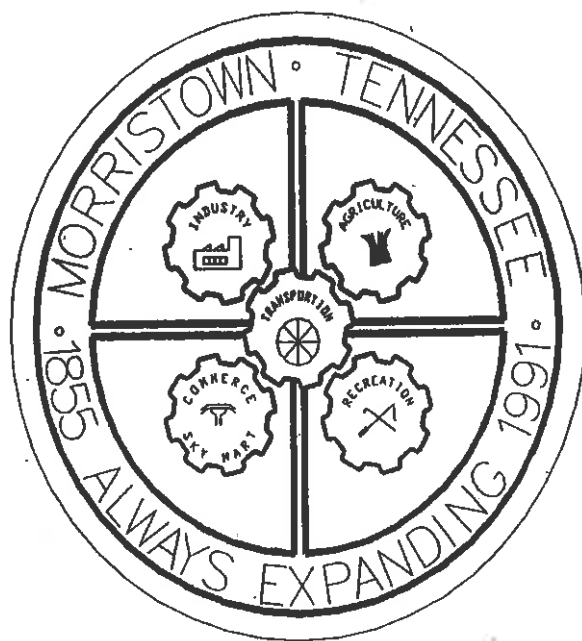
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INTRODUCTORY SECTION

CITY OF MORRISTOWN **TENNESSEE**



City of Morristown

Incorporated 1855

JAMES H. CRUMLEY
City Administrator



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 principals (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, 2005.

This report 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, PC, 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, 2005, 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, 2005, 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 Board of Mayor and Alderman.

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, water, electric and 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.

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 35 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.

Major industries located within the government's boundaries or in close proximity include manufacturers of furniture, automobile components, and paper. To maintain Morristown's competitiveness in the attraction of jobs, City Council authorizes the Morristown Industrial Development Board (IDB) to negotiate in-lieu-of-tax agreements with existing and prospective industries. In the very competitive world of industrial recruitment, prospects were not being shown Morristown due to our previous policy of no tax breaks for new or expanding businesses. After much discussion, the IDB now believes that to keep competitive with other cities in our region for jobs and investment, we must discuss the offering of property tax incentives.

City Council adopts guidelines to lead the IDB in negotiations and the resolution requires the Mayor and City Administrator to be informed on a regular basis about any on going projects. Each project would still require City Council's concurrence before any tax incentives are finalized with a prospect.

In October 2004, the City became aware that Kawasaki had a business opportunity that could not be fulfilled in their existing facility. Members of the Industrial Development Board and City staff began assisting the company in locating a second plant site in the East Tennessee Progress Center. Kawasaki chose a 20 acre parcel as the location for a 60,000 square foot building with expansion capabilities upward to 300,000 square feet. New employment would commence at 75 jobs and increase to over 100 additional opportunities. The existing 50,000 square foot facility and over 50 employees would continue as a separate business line. A FastTrack application was submitted in November 2004 and approved by the Department of Economic and Community Development for approximately \$650,000 in assistance with site preparation.

Fiscal Year 2005 saw the decision of Morristown to enter the telecommunications business through the construction of a fiber optic network to the wall of every residence in the city. In June of 2003, City Council charged Morristown Utility Systems (MUS) to reexamine the previous study concerning the provision of cable and internet service to residents of the City. MUS employed Icon Broadband Technologies to perform the necessary feasibility study and develop a business plan to implement that study if it

proved favorable. The study indicated that the provision of the service to the residents of the City was financially feasible and that the provision of service to the resident outside of the City improved the financial viability of the service. The decision to proceed was made by City Council in late 2004.

The Mayor and members of the MUS Board of Directors encouraged the local legislative delegation to pursue the designation of MUS as the pilot project for the State of Tennessee's study to see if the provision of municipal cable on a countywide basis was practical. Through the efforts of Representative John Litz and Senator Steve Southerland, Morristown and Hamblen County were selected to be the pilot project for the State. The State Comptroller has reviewed and approved the financial feasibility and business plan submitted by MUS and designated Hamblen County as the pilot project.

In anticipation of the construction of a fiber to the home network by MUS, City Council approves the issuance of \$23 million dollars in General Obligation and Cable and Sewer Revenue bonds in July 2005. The bonds are structured in two series. The first would be up to \$18 million for the Phase One construction of the fiber optic network to serve the City of Morristown, while the second series is to finance budget approved projects of the Sewer system and general fund of the City. The bonds are sold as variable rate debt obligations and "swapped" for a synthetic fixed rate derivative. Two years of interest is capitalized in the borrowing, allowing for the initial construction and start up phase of the system.

These bonds are sold as "double barrel" bonds. This means that the first pledge for the repayment is revenues derived from the enterprise operation of the utilities involved. Only if a shortfall in utility revenues occurs would the general taxing powers of the City be required to step up and pay the interest and principal on the bonds.

Another major capital project is building two new fire stations. These stations are required to maintain the Insurance Service Organization's (ISO) Class 3 fire rating in all portions of Morristown. The Class 3 rating places the Morristown Fire Department in the top 4% of rated fire departments nationally. Station Five opened in August 2004 to serve the west end of the community. Nine additional firefighters were employed to provide adequate staffing for the Fire Department. Construction cost on the three bay station was approximately \$1.2 million.

Station Six, to serve the south end of town, is budgeted in the FY 2006 budget at an estimated cost of \$1.5 million. Twelve employees are scheduled to be hired in early 2006 to begin their training. The station is scheduled to open in January 2007.

Redevelopment of Morristown College



City Staff examined a list of nineteen ideas for the October 2004 round of Transportation Enhancement grants (TEA-21).

The proposed projects could fall into two distinct categories. One group of projects would require tremendous political effort and commitment on the part of City Council, State Representatives and others to secure the commitment of the Governor for projects that would range from \$1.5 to \$2.0 million. Another list of projects could compete on merit for an appropriate share of the statewide allocation, between \$150,000 and \$200,000.

City Council determines to proceed with the \$1.5 million application for the historic renovation of the Laura Yard Hill Administration Building on the Morristown College campus.

The Morristown College property is the center of a larger focus area created by the Planning Department for improvements to the housing stock and infrastructure of the area. With the significant investments proposed for the College property and the long term focus and commitment of the City to this broader area, true neighborhood revitalization is possible.

The developer has proposed a general plan for the College property that would address a largely abandoned area, provide facilities for many diverse businesses and the workplace for new jobs. The City is interested in seeing the property redeveloped for similar reasons, including the enhancement of the local tax base and to improve the attractiveness of the community. Both developer and City have expressed an interest to work comprehensively together in reaching both parties' goals and objectives.

The heart of the agreement is a public-private partnership that would focus on an investment ratio of approximately equal amounts, as jointly agreed by the parties, prior to the beginning of the redevelopment. Public-Private partnerships are not legal partnerships as seen in other businesses, but a series of exchanges, commitments and agreements to which both parties agree to be bound and to work towards.

The developer would agree to purchase the property from its present owners, take measures to secure the campus and the existing buildings and make repairs as necessary to ensure the structural stability of the Laura Yard Hill Administration Building. He would also be responsible for developing detailed plans for the existing and any new buildings on the property, striving to maintain the campus atmosphere and any adaptive reuse of the structures on the National Historic Register. Marketing of the property is also Wise's responsibility.

The developer has agreed to donate two tracts of land to the City of Morristown. The first is approximately 8 acres as the site for the City's new comprehensive recreation facility. Secondly, he would donate the right of way for a new boulevard entrance street into the property. In addition to the right of way, he has proposed to be responsible for the construction of two entrance pillars at locations to announce the property, the construction of a water feature or other prominent architecture in the center of a roundabout built as part of the boulevard entrance street and to provide landscaping for the street median.

The City would construct a new public boulevard street as the primary entrance to the College. This street would feature sidewalks or walking paths, all underground utilities and distinctive street lighting. Water, sewer, storm water and other utilities would be installed at planned locations during the initial construction phase. . Precise locations of the roadway, utilities, grades, taps and other construction details will be mutually agreed upon by the Developer and the City. Funding for this street can be obtained from the City's existing gas tax budget and is estimated to cost \$600,000.

The City would also begin the design and construction of the community recreation facility. Funds are presently available for the construction of between \$3.5 and \$4.0 million dollars in pools, gyms and other public recreation facilities. Several ideas for outdoor and indoor pools or the gymnasium space are being considered as the best mix of facilities for starting the project. Eventually, a true multi-purpose facility with all the ideas mentioned would be completed after the debt on City Center is retired in 2010.

As a Phase One of future development on the Morristown College property, this agreement does not contemplate a specific plan for the renovation of the Laura Yard Hill Administration building or any other existing structure. The City has requested the assistance of the State of Tennessee in the historic renovation of the Administration Building and has submitted a \$1,500,000 grant request for that purpose to the Tennessee Department of Transportation. In addition, the Morristown Theatre Guild and the Reunion of the Ages have expressed their support of the renovation of the building and are actively pursuing assistance for the project.

Support for Public Education



Councilmember Frank McGuffin proposes that Morristown can assist in the preparation of high school graduates for entry into the local job market. The two part proposal would provide City funded scholarships to all graduates of the two high schools to Walters State Community College after all other financial aid opportunities had been extinguished. The second part of the proposal would assist high school juniors and seniors attend courses at Tennessee Technology Center and graduate high school with a certificated program skill from TTC.

The program is studied in conjunction with Walters State and the Tennessee Technology Center. Funding in the amount of \$75,000 is included in the FY 2006 budget to support scholarships at the two institutions.

The City Council also agreed to contribute \$60,000 in matching funds to the Hamblen County Board of Education for the opportunity to proceed with an International Center. While the City has no direct role in funding public education, the influx of non-English speaking residents affects the services we provide to all citizens of Morristown and the area. The International Center will serve school age children during the typical school day, but will be available for adult education of both non-English speaking adults as well as our residents that would like to learn a foreign language.

The Niswonger Foundation of Greenville has agreed to grant the school system operating funds for the center for a two year period. Walters State Community College has given without charge space for the International Center at the Public Safety campus. However, the space must be renovated before it will be suitable as a school facility. Costs of the renovation are estimated between \$150,000 and \$180,000.

The School Board approached the Jefferson Federal Foundation for assistance. The Foundation responded with an offer to fund 1/3rd of the cost of the renovation, provided both the City of Morristown and Hamblen County Government funded the remainder in equal shares.

Sanitary Sewer System

Morristown dedicated the Turkey Creek Wastewater Treatment Plant improvements. The new facility that has been complete and in full operation since December 2004 after receiving over \$4.5 million in expansion and renewal. Tours of the plant and discussions on any issues involving wastewater were conducted by staff from Veolia Water and the City.

Staff completes the contract for the operation of the Turkey Creek Wastewater Treatment plant with Veolia Water. This contract appears to accomplish the City's goal of achieving a \$200,000 cost reduction from the previous year's agreement. This saving will allow for additional construction in recently annexed areas to proceed on time.

Community Partnerships



The Robert McFarland chapter of the Sons of the Revolution has offered to partner with the City on the purchase of a full scale replica of the Liberty Bell as their donation towards Morristown's 150th birthday. Each organization would be responsible for one-half of the \$33,000 purchase price for the bell. The bell would be mounted on a granite block and permanently located on the plaza of City Center.

This would be the second full size replica in Tennessee, the other being at the State Capital in Nashville. The bell should be a destination for every 5-7th grade school system in East Tennessee, as well as a significant tourist promotion for visitors to Crockett Tavern and Downtown Morristown. Funds for the participation are available from the General Fund balance.

Community Development

Using a combination of State grant funds and local appropriation, Dr. Martin Luther King, Jr. Park began construction in May 2005. This fifteen acre passive recreation area occupies some of the highest elevations in Morristown and provides unparalleled views of the city and Cherokee Lake. The park is being developed with a handicap accessible

walking trail, an amphitheatre for 90 people, several picnic shelters and other amenities. This project is budgeted at \$400,000.

Likewise, the \$400,000 renovation of Sherwood Park also commenced in May. Using a State grant matched by funds of the private sector and Morristown Utilities, the over 100 year old baseball facility will be renewed. Sherwood is the baseball home for Morristown East High School.

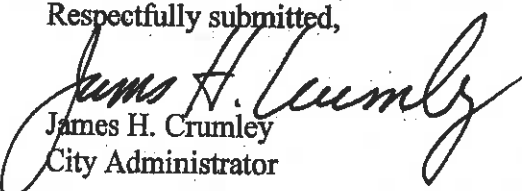
Community Development Block Grant (CDBG) funds was used to construct new restroom facilities at Frank Lorino Park and Fred Miller Park. Approximately \$150,000 was invested in the two new amenities. CDBG was also used on approximately \$40,000 of demolition work to selective area of the Downtown Skywalk system.

Acknowledgment. The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Morristown for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2004. This was the first year that the government has received this prestigious award. In order to be awarded a Certificate of Achievement, the government had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

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,


James H. Crumley
City Administrator


Dynise Robertson
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Morristown,
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



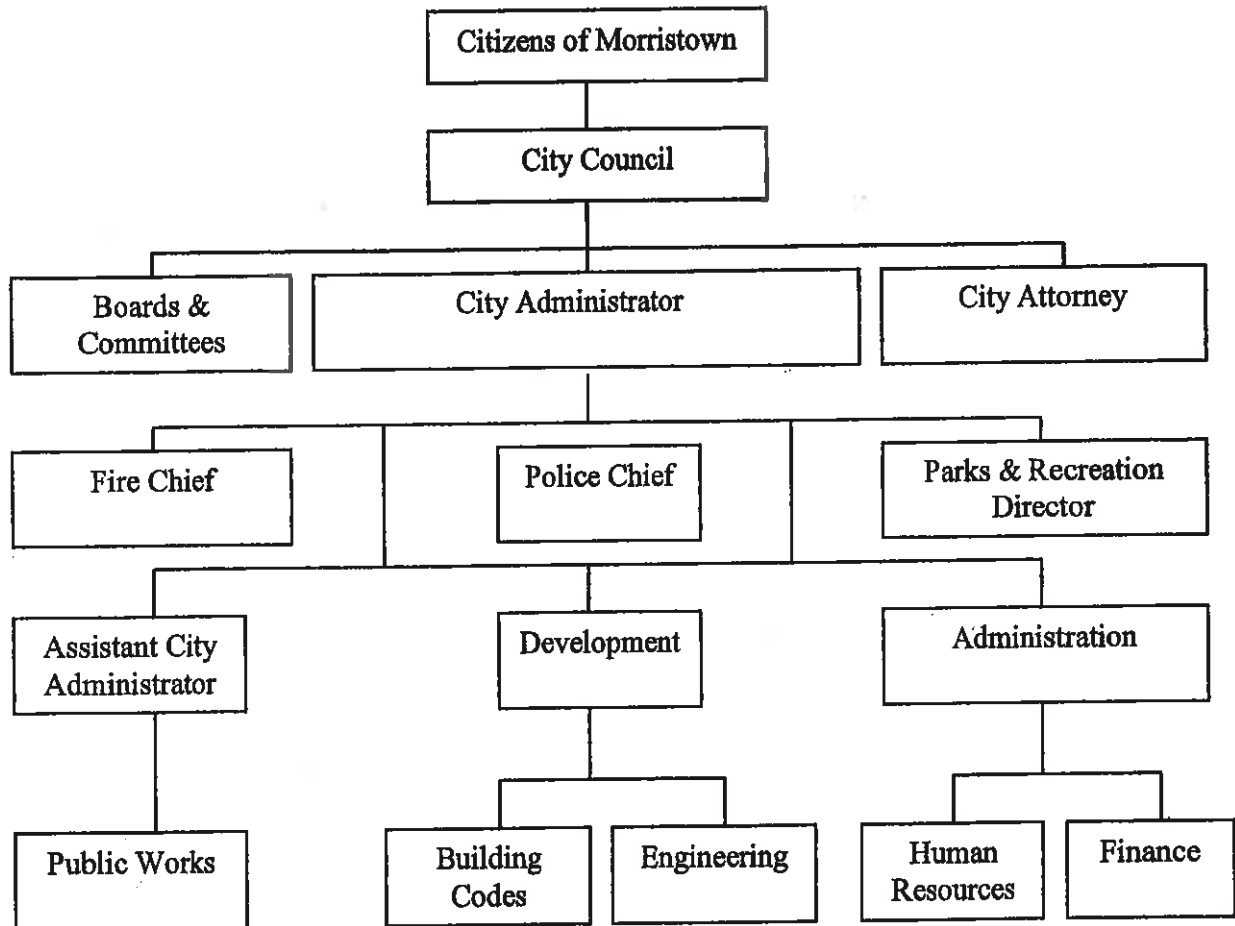
A handwritten signature in cursive script, reading "Nancy L. Zoller".

President

A handwritten signature in cursive script, reading "Jeffrey R. Enen".

Executive Director

**CITY OF MORRISTOWN
ORGANIZATION CHART
JUNE 30, 2005**



**CITY OF MORRISTOWN
CITY OFFICIALS
JUNE 30, 2005**

MAYOR

Gary R. Johnson

COUNCIL

Kay Senter, Vice Mayor

Claude Jinks

William Rooney

Frank McGuffin

Melvin Tucker

Rick Trent

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

City Engineer

Director of Parks and Recreation

James H. Crumley

John C. Kennerly

Richard Jessee

Dynise Robertson

Brian Janish

Alan Hartman

Roger Overholt

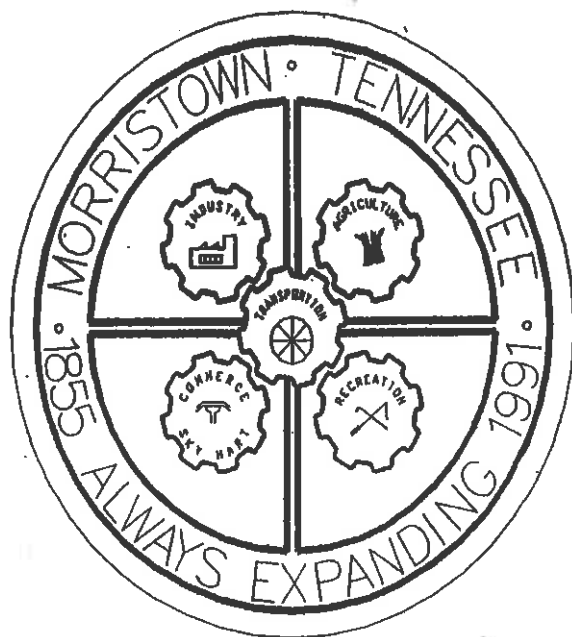
William Honeycutt

Jay Moore

Ralph Fielder

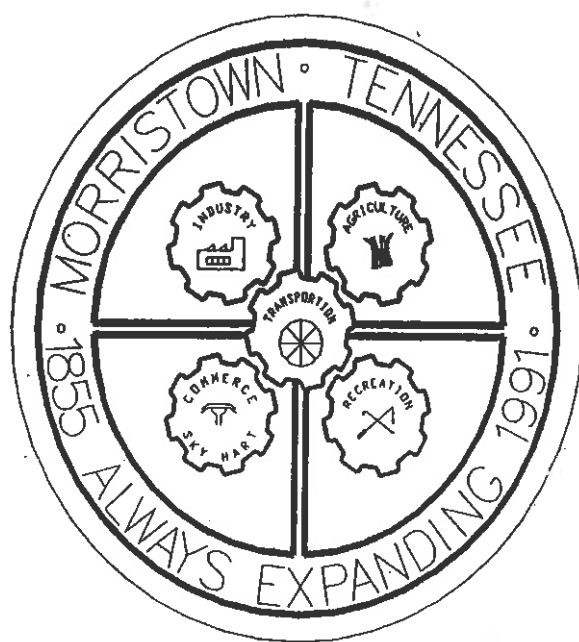
Bryan Fowler

Craig Price



FINANCIAL SECTION

**CITY OF MORRISTOWN
TENNESSEE**



CRAINE, THOMPSON, & JONES, P.C.

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 financial statements of the governmental activities, 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, 2005, as listed in the table of contents. These financial statements are the responsibility of the City of Morristown, Tennessee 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 \$101,148,936 as of June 30, 2005, and total revenue of \$54,409,979 for the year then ended. Those 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, 2005, 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 December 15, 2005, on our consideration of the City of Morristown, Tennessee 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.

The management's discussion and analysis on pages 19 through 28 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The 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 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.

Caine, Thompson + Jones P.C.

December 15, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management for the City of Morristown, we offer readers of the City of Morristown's financial statements this narrative overview and analysis of the financial activities of the City of Morristown for the fiscal year ended June 30, 2005. 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 3 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 \$117 million (net assets), an increase of \$2 million during FY 2005. Of this amount, \$15 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 \$7.2 million, an increase of \$800,000 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$ 5.2 million or 19 % of total general fund expenditures including transfers out.
- The City of Morristown's total bonded debt increased by \$22.2 million during the current fiscal year. The key factor in this increase was the issuance of \$18 million in revenue bond to finance the cable television and internet system construction of the Telecom system.

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 City's electric, water, and sewer systems. The Morristown Utilities Commission functions for all practical purposes as a department of the City and therefore has been included as a business-type activity of the primary government.

The government-wide financial statements can be found beginning on page 30 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 three categories: governmental funds, proprietary funds, and fiduciary 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 four 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 two governmental funds 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 30 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, 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 the Morristown Utilities Commission and for the sewer operations, both of which are considered to be major funds of the City of Morristown.

The basic proprietary fund financial statements can be found on page 36 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are *not* available to support the City of Morristown's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

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 39 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 \$117 million at the close of the most recent fiscal year. Net assets increased by \$2.2 million for the period.

By far the largest portion of the City of Morristown's net assets (73 percent) 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.

City of Morristown's Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2005
Current and other assets	\$ 31,148,563	\$ 29,808,496	\$ 39,902,467	\$ 20,744,743	\$ 71,051,030	\$ 50,553,239
Capital assets	30,769,243	29,491,764	89,520,395	84,527,450	120,289,638	114,019,214
Total assets	61,917,806	59,300,260	129,422,862	105,272,193	191,340,668	164,572,453
Long-term liabilities outstanding	13,046,630	10,912,231	43,154,110	20,576,757	56,200,740	31,488,988
Other liabilities	9,210,574	8,655,375	8,024,435	9,187,008	17,235,009	17,842,383
Total liabilities	22,257,204	19,567,606	51,178,545	29,763,765	73,435,749	49,331,371
Invested in capital assets, net of related debt	21,776,879	15,127,189	63,008,050	61,967,985	84,784,929	77,095,174
Restricted	13,965,390	7,142,741	3,522,421	554,347	17,487,811	7,697,088
Unrestricted	3,918,333	17,462,724	11,713,846	13,006,096	15,632,179	30,468,820
Net assets	\$ 39,660,602	\$ 39,732,654	\$ 78,244,317	\$ 75,528,428	\$ 117,904,919	\$ 115,261,082

An additional portion of the City of Morristown's net assets (15 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$15,222,068) may be used to meet Morristown's ongoing obligations to citizens and creditors.

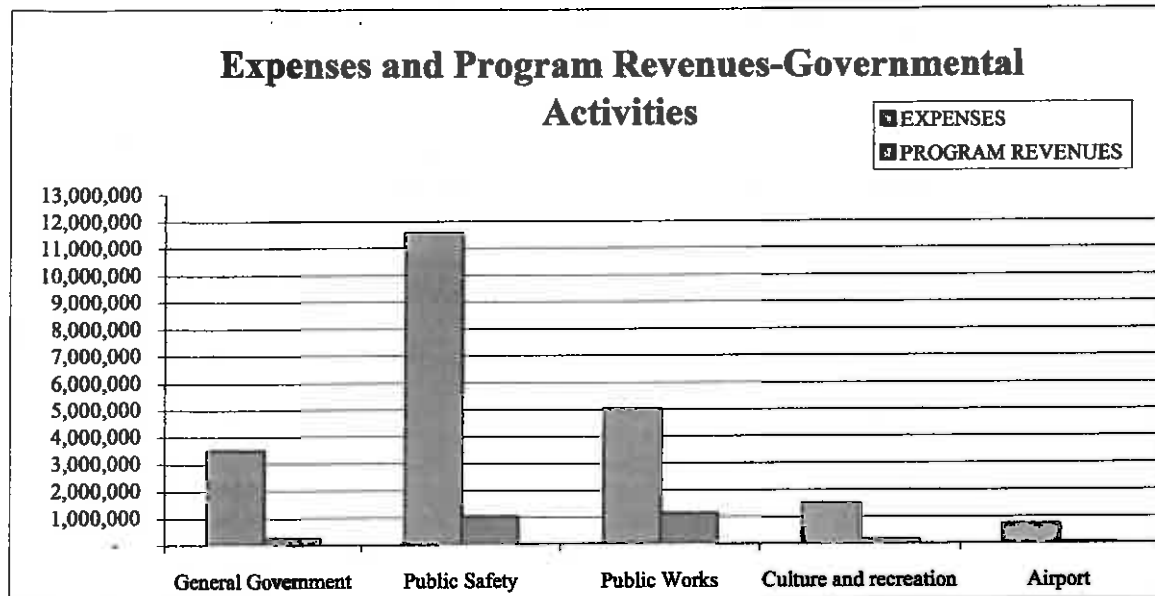
At the end of the current fiscal year, the City of Morristown is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The following is a summary of financial activities for the City during the fiscal year ended June 30, 2005.

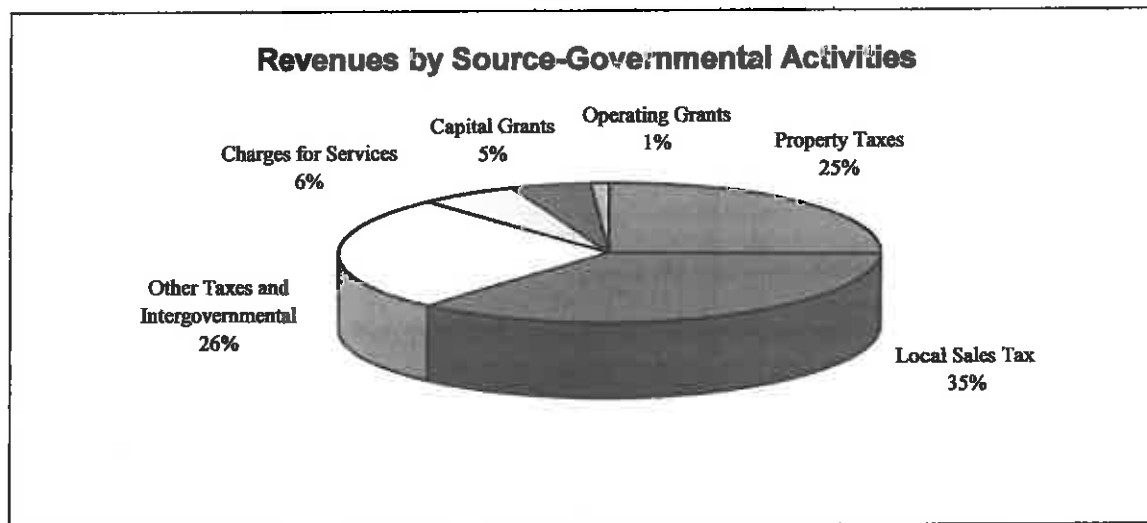
City of Morristown's Changes in Net Assets

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 1,299,475	\$ 1,802,946	\$ 58,999,132	\$ 58,312,770	\$ 60,298,607	\$ 60,115,716
Operating grants and contributions	106,773	352,717	-	278,750	106,773	631,467
Capital grants and contributions	1,114,648	1,361,550	500,000	25,721	1,614,648	1,387,271
General revenues:						
Property taxes	6,544,269	6,281,681	-	-	6,544,269	6,281,681
Sales tax	9,196,618	8,618,515	-	-	9,196,618	8,618,515
Intergovernmental	4,097,107	5,933,736	-	-	4,097,107	5,933,736
Other	3,189,808	719,321	-	-	3,189,808	719,321
Total revenues	25,548,698	25,070,466	59,499,132	58,617,241	85,047,830	83,687,707
Expenses:						
General government	3,532,804	2,790,124	-	-	3,532,804	2,790,124
Public Safety	11,553,257	10,096,348	-	-	11,553,257	10,096,348
Public Works	5,024,791	6,537,761	-	-	5,024,791	6,537,761
Economic development	1,448,415	385,088	-	-	1,448,415	385,088
Culture and recreation	1,469,315	1,534,531	-	-	1,469,315	1,534,531
Civic Support	544,398	576,028	-	-	544,398	576,028
Airport	704,585	477,425	-	-	704,585	477,425
Miscellaneous	434,580	681,138	-	-	434,580	681,138
Interest on long-term debt	217,831	396,490	-	-	217,831	396,490
Water	-	-	3,765,578	4,121,425	3,765,578	4,121,425
Sewer	-	-	4,696,065	4,677,513	4,696,065	4,677,513
Electric	-	-	47,493,148	47,956,603	47,493,148	47,956,603
Telcom system	-	-	4,176	-	4,176	-
Total expenses	24,929,976	23,474,933	55,958,967	56,755,541	80,888,943	80,230,474
Transfers	824,276	-	(824,276)	-	-	-
Increase in net assets	1,442,998	1,595,533	2,715,889	1,861,700	4,158,887	3,457,233
Net assets-7/1/2004	39,732,654	30,899,583	75,528,428	73,666,728	115,261,082	104,566,311
Prior period adjustment	(1,515,050)	7,237,538	-	-	(1,515,050)	7,237,538
Net assets-6/30/2005	\$ 39,660,602	\$ 39,732,654	\$ 78,244,317	\$ 75,528,428	\$ 117,904,919	\$ 115,261,082

The two largest sources of governmental activity revenue, property taxes and local sales tax, accounted for 60% of the total governmental activity revenues.



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



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 \$ 7,230,867 an increase of \$776,961 in comparison with the prior year.

The General Fund's fund balance increased \$863,593. Approximately \$5.2 million of the general fund balance constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to liquidate contracts and to fund a variety of other capital projects.

The general fund is the chief operating fund of the City of Morristown. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 5,254,556 while total fund balance reached \$ 7,177,566. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 28 percent of total general fund expenditures, while total fund balance represents 26 percent of that same amount. This compares to 20% and 25% respectively in the FY 2004 report.

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.

Unrestricted net assets of the Morristown Utility Commission, which operates electric and water service for the City, at the end of the year, amounted to \$10.5 million. The city operated sewer system amounted to \$ 1.2 million. The growth in unrestricted net assets for Morristown Utility Commission was \$ 2.2 million and for the city sewer fund \$.3 million. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Morristown's business-type activities.

General Fund Budgetary Highlights

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

- \$ 1,036,655 in increases allocated in site improvements for industries expanding or locating in Morristown.
- \$ 955,773 in increases for fire station and equipment.
- \$ 720,185 in increases allocated for new street construction.
- \$ 546,113 in increases for capital improvements and equipment purchases.

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

Additional budgetary highlights included:

- The completion of the "one officer-one vehicle" program in the police department.
- Funding for a 4% cost of living adjustment for all City employees.
- A net increase of for employees to work with the City's Transportation Planning Organization, public works, and fire department.

Departments continue to monitor operating cost within budgetary guidelines.

Capital Asset and Debt Administration

Capital assets. The City of Morristown's investment in capital assets for it governmental and business type activities as of June 30, 2005, amounts to \$ 30.7 million and \$ 89.5 million, respectively (net of accumulated depreciation). Capital assets increased \$1.2 and \$4.9 million respectively. This investment in capital assets includes land, buildings, system improvements, machinery and equipment, park facilities, roads, highways, and bridges.

City of Morristown's Capital Assets (net of depreciation)

	Governmental 2005	activities 2004	Business-Type 2005	activities 2004
Land	\$ 7,373,682	\$ 7,317,448	\$ -	\$ -
Buildings	10,014,217	10,509,384	-	-
Improvements other than buildings	3,571,112	3,775,706	-	-
Machinery and equipment	3,631,428	3,422,764	74,531,160	72,413,725
Infrastructure	5,188,726	3,941,783	-	-
Plant acquisition adjustment			669,827	818,015
Construction in progress	990,078	524,679	14,989,235	11,295,710
Total	\$ 30,769,243	\$ 29,491,764	\$ 90,190,222	\$ 84,527,450

Additional information on the City of Morristown's capital assets can be found on page 44 of this report.

Long-term debt. At the end of the current fiscal year, the City of Morristown had total bonded debt outstanding of \$ 48.5 million, of his amount; \$12 million comprises net direct debt of the general government. 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.

City of Morristown's Outstanding Debt
General Obligation and Revenue Bonds

	Governmental activities		Business-type activities		Total	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds	\$11,992,286	\$11,042,686			\$11,992,286	\$11,042,686
Revenue Bonds		-	\$36,498,408	\$15,201,571	\$36,498,408	\$15,201,571
Total	\$11,992,286	\$11,042,686	\$36,498,408	\$15,201,571	\$48,490,694	\$26,244,257

Additional information on the City of Morristown's long-term debt can be found on page 47 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Morristown is currently 5.5 percent, which is a decrease from a rate of 6.5 percent a year ago. This compares to the state's average unemployment rate of 4.8 percent and the national average rate of 5.8 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Morristown's budget for the 2005 fiscal year.

City Council adopts an operating budget for FY 2006 based on sound financial planning. Council spent in excess of 30 hours reviewing departmental and overall goals and then put forward a budget to support the work plan established by the budget. Key elements of the budget include a 1.5% cost of living adjustment for all employees and a 2.5% step raise for eligible employees, funding for 13 firefighters to open Station 6, two additional police officers, dollars for building tomorrow's work force through support of scholarships at Walter State and Tennessee Technology Center, funding for the first phase of the Moving Morristown projects of roads, funding for the City's commitments to the Morristown College Revitalization area including the indoor/outdoor swimming complex. Departments have sufficient funding to continue the level of services provided to our residents and through the use of debt an adequate amount of new and replacement equipment.

The Sewer Fund is improved through the addition of a Construction Manager, a Resident Inspector and a four person construction crew. Sufficient dollars are budgeted to purchase the equipment required to make the crew productive. With over \$18.5 in sewer projects scheduled for the next four years, dollars are provided to examine the current 10 year financial plan and recommend "mid-course" corrections if needed.

Morristown operates with a diverse tax base that combines a strong mix of manufacturing jobs with a regional retail base and a strong residential homebuilding component.

Morristown is noted for its industrial foundation of jobs and property tax base. Over 72% of the City's assessed valuation is derived from business and industry, the highest percentage of any county in Tennessee. Property taxes comprise 23% of the City's General Fund income.

Morristown businesses have diversified from the traditional hardwood furniture and textiles areas to becoming one of the leading communities in the South for the production of auto related parts and accessories. Morristown is the corporate headquarters for Berkline Corporation, an industry leader in the manufacture and sale of reclining upholstered furniture. Four of the ten largest employers in the manufacturing segment produce a varied array of automobile component parts, while two others are involved with food processing.

Morristown continues its focus on the recruitment of manufacturing jobs. Approximately 36% of the local work force is involved directly in manufacturing compared to 14% nationally and 19% for Tennessee. The East Tennessee Progress Center, a 950 acre industrial park, opened in 2001 and is already home to seven new businesses.

While desiring to maintain the strong record of industrial recruitment, Morristown also focuses on distribution business that takes advantage of the city's location at the intersections of I-81 and I-40.

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, 100 West First North Street, Morristown, Tennessee 37814.

FINANCIAL SECTION

**CITY OF MORRISTOWN
TENNESSEE**

BASIC FINANCIAL STATEMENTS

City of Morristown, Tennessee
Statement of Net Assets
June 30, 2005

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Unrestricted current assets:			
Cash and cash equivalents	\$ 1,758,332	\$ 9,507,785	\$ 11,266,117
Investments	1,280,705	-	1,280,705
Receivables (net of allowance for uncollectibles)	10,860,284	4,804,143	15,664,427
Inventories	38,718	1,025,297	1,064,015
Accrual for unbilled revenue	-	1,361,257	1,361,257
Due from others	195,000	358,973	553,973
Current portion of discounted energy units	-	88,814	88,814
Other current assets	324,686	392,006	716,692
Total unrestricted current assets	14,457,725	17,538,275	31,996,000
Restricted assets			
Temporarily restricted:			
Cash and cash equivalents	-	3,200,086	3,200,086
Investments	711,759	17,791,031	18,502,790
Total restricted current assets	711,759	20,991,117	21,702,876
Total current assets	15,169,484	38,529,392	53,698,876
Capital assets (net of accumulated depreciation)			
Land	7,373,682	-	7,373,682
Buildings	10,014,217	-	10,014,217
Improvements	3,571,112	-	3,571,112
Equipment	3,631,428	-	3,631,428
Infrastructure	5,188,726	-	5,188,726
Utility plant and equipment	-	74,531,160	74,531,160
Construction in progress	990,078	14,989,235	15,979,313
Net capital assets	30,769,243	89,520,395	120,289,638
Other assets:			
Real estate-non-operating:	14,699,079	-	14,699,079
Accounts receivable - long-term	1,280,000	-	1,280,000
Discounted energy units less current portion	-	703,248	703,248
Plant acquisition adjustments	-	669,827	669,827
Total other assets	15,979,079	1,373,075	17,352,154
Total assets	\$ 61,917,806	\$ 129,422,862	\$ 191,340,668
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 681,237	\$ 3,194,230	\$ 3,875,467
Accrued expenses	123,485	2,031,681	2,155,166
Due to others - bonds and deposits	-	1,706,920	1,706,920
Deferred credit to expense	60,000	-	60,000
Unearned revenue	7,080,852	-	7,080,852
Other current liabilities	-	219,667	219,667
Current portion of capital lease obligation	-	34,367	34,367
Current portion of long-term debt	1,265,000	808,161	2,073,161
Advances	-	29,409	29,409
Total current liabilities	9,210,574	8,024,435	17,235,009
Noncurrent liabilities:			
Capital lease obligation, less current portion	-	26,446	26,446
Revolving debt agreement	-	8,896,820	8,896,820
Long-term debt less current portion	12,202,286	8,896,820	21,099,106
Other long-term debt	844,344	-	844,344
Total noncurrent liabilities	13,046,630	17,820,086	30,866,716
Total liabilities	22,257,204	25,844,521	48,101,725
Net assets:			
Invested in operating capital assets net of related debt	21,776,879	-	21,776,879
Invested in non-operating capital assets net of related debt	10,709,079	-	10,709,079
Restricted for:			
Long-term accounts receivable	1,280,000	-	1,280,000
Uncompleted contracts	572,212	-	572,212
Encumbrances	81,528	-	81,528
State grant	536,264	-	536,264
State street aid	21,247	-	21,247
Narcotics	53,301	-	53,301
Capital improvements	711,759	3,522,421	4,234,180
Unrestricted	3,918,333	11,713,846	15,632,179
Total net assets	\$ 17,883,723	\$ 15,236,267	\$ 33,119,990

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

City of Morristown, Tennessee
Statement of Activities
Year Ended June 30, 2005

Functions/Program	Program revenues			Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	
					Governmental Activities	Business-type Activities
Primary government						
Governmental activities:						
General government	\$ 3,532,804	\$ 231,440	\$ -	\$ -	\$ (3,301,364)	\$ (3,301,364)
Public safety	11,553,257	936,037	81,773	-	(10,535,447)	(10,535,447)
Public works	5,024,791	-	-	1,114,648	(3,910,143)	(3,910,143)
Parks and recreation	1,469,315	131,998	-	-	(1,337,317)	(1,337,317)
Civic support	544,398	-	-	-	(544,398)	(544,398)
Economic development	1,448,415	-	-	-	(1,448,415)	(1,448,415)
Retiree benefits	434,580	-	-	-	(434,580)	(434,580)
Airport	704,585	-	25,000	-	(679,585)	(679,585)
Long-term debt expense	217,831	-	-	-	(217,831)	(217,831)
Total governmental activities	24,929,976	1,299,475	106,773	1,114,648	(22,409,080)	(22,409,080)
Business-type activities:						
Water	3,765,578	4,943,461	-	500,000	-	1,677,883
Sewer	4,696,065	4,589,153	-	-	-	(106,912)
Electric	47,493,148	49,466,518	-	-	-	1,973,370
Telecom system	4,176	-	-	-	-	(4,176)
Total business-type activities	55,958,967	58,999,132	-	500,000	3,540,165	3,540,165
Total primary government	\$ 80,888,943	\$ 60,298,607	\$ 106,773	\$ 1,614,648	(22,409,080)	(18,868,915)
General Revenues:						
Property taxes					\$ 6,544,269	\$ 6,544,269
In-lieu tax					72,748	72,748
Franchise taxes					853,208	853,208
Local sales tax					9,196,618	9,196,618
Alcohol beverage tax					1,032,668	1,032,668
Business and gross receipts tax					784,119	784,119
Hotel/motel tax					350,931	350,931
Use of money and property					96,134	96,134
Intergovernmental					4,097,107	4,097,107
Total governmental fund revenue					23,027,802	23,027,802
Transfers					824,276	(824,276)
Total general revenues and transfers					23,852,078	23,027,802
Change in net assets					1,442,998	4,158,887
Net assets - beginning					39,732,654	115,261,082
Prior period adjustment					(1,515,050)	(1,515,050)
Net assets as adjusted - beginning					38,217,604	113,746,032
Net assets - ending					\$ 39,660,602	\$ 117,904,919

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

City of Morristown, Tennessee
Balance Sheet
Governmental Funds
June 30, 2005

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,670,318	\$ 31,227	\$ 56,787	\$ 1,758,332
Receivables (net of allowance for uncollectibles)	10,808,412	47,343	4,529	10,860,284
Prepaid expenses	263,205			263,205
Inventories	38,718	-		38,718
Investments	1,992,464			1,992,464
Total assets	<u>\$ 14,773,117</u>	<u>\$ 78,570</u>	<u>\$ 61,316</u>	<u>\$ 14,913,003</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 599,049	\$ 77,566	\$ 4,622	\$ 681,237
Accrued expenses	119,088	1,004	3,393	123,485
Deferred credits to expense	60,000	-		60,000
Unearned revenue	6,817,414	-	-	6,817,414
Total liabilities	<u>7,595,551</u>	<u>78,570</u>	<u>8,015</u>	<u>7,682,136</u>
Fund balances:				
Reserved for:				
Uncompleted contracts	572,212	-	-	572,212
Encumbrances	81,528			81,528
State grant	536,264		-	536,264
State street aid	21,247			21,247
Narcotics	-	-	53,301	53,301
Capital Improvements	711,759			711,759
Unreserved	5,254,556	-	-	5,254,556
Total fund balance	<u>7,177,566</u>	<u>-</u>	<u>53,301</u>	<u>7,230,867</u>
Total liabilities and fund balance	<u>\$ 14,773,117</u>	<u>\$ 78,570</u>	<u>\$ 61,316</u>	

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

Assets not used in operations	14,360,478
Capital assets used in governmental activities are not financial resources and, therefore are not reported in funds	30,769,243
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds	1,475,000
Unamortized bond issue costs	61,481
Adjustment of deferred taxes for accrual basis	75,163
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	(14,311,630)
Net assets of governmental activities	<u>\$ 39,660,602</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, 2005

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 6,508,543	\$ -	\$ -	\$ 6,508,543
In lieu of taxes	72,748	-	-	72,748
Franchise	853,208	-	-	853,208
Local sales tax	9,196,618	-	-	9,196,618
Alcoholic beverages	1,032,668	-	-	1,032,668
Business and gross receipts	784,119	-	-	784,119
Hotel/motel tax	350,931	-	-	350,931
Total taxes	18,798,835	-	-	18,798,835
Licenses, permits and fines	818,422	-	117,615	936,037
Use of money and property	690,408	-	-	690,408
Service charges and fees	131,998	-	-	131,998
Intergovernmental	5,160,035	134,260	-	5,294,295
Total revenues	25,599,698	134,260	117,615	25,851,573
Expenditures				
Current:				
General Government:				
Mayor and Council	222,704	-	-	222,704
City Administrators	407,592	-	-	407,592
Elections	11,913	-	-	11,913
Finance	585,944	-	-	585,944
Purchasing	93,264	-	-	93,264
Computer operations	138,480	-	-	138,480
Human resources	249,072	-	-	249,072
Legal services	69,902	-	-	69,902
Community and economic affairs	493,641	-	-	493,641
Codes Enforcement	59,499	-	-	59,499
Metropolitan Transportation Organization	221,734	-	-	221,734
Engineering	283,479	-	-	283,479
Inspections	428,790	-	-	428,790
Other	56,452	-	-	56,452
Total general government	3,322,466	-	-	3,322,466
Public safety:				
Police	5,418,344	-	286,710	5,705,054
Fire	5,940,433	-	-	5,940,433
Other public safety	300,748	-	-	300,748
Total public safety	11,659,525	-	286,710	11,946,235
Public works	5,309,853	1,587,455	-	6,897,308
Parks and recreation	1,568,247	-	-	1,568,247
Airport	292,552	-	-	292,552
Civic support	544,398	-	-	544,398
Economic development	1,448,415	-	-	1,448,415
Retiree benefits	434,580	-	-	434,580
Miscellaneous	39,351	-	-	39,351
Debt service:				
Bond principal	1,050,400	174,400	-	1,224,800
Bond interest	153,087	25,246	-	178,333
Debt expense	4,157	513	-	4,670
Total debt service	1,207,644	200,159	-	1,407,803
Total expenditures	25,827,031	1,787,614	286,710	27,901,355
Excess (deficiency) of revenue over expe	(227,333)	(1,653,354)	(169,095)	(2,049,782)
Other financing sources (uses)				
Bond proceeds	1,992,464	-	-	1,992,464
Transfers in	824,276	1,653,354	72,463	2,550,093
Transfers out	(1,725,817)	-	-	(1,725,817)
Total other financing sources and uses	1,090,923	1,653,354	72,463	2,816,740
Net change in fund balance	863,590	-	(96,632)	766,958
Fund balance-beginning	6,313,973	-	149,933	6,463,906
Fund balance-ending	\$ 7,177,563	\$ -	\$ 53,301	\$ 7,230,864

The notes to the 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, 2005

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

Net change in fund balances--total governmental funds	\$ 766,961
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	1,854,646
Governmental funds report additions to the Industrial Park as expenditures, whereas, in the government-wide financial statement the expenditures are added to the cost and the profit or loss is recorded as the lots are sold.	(338,601)
The issuance of long-term debt (e. g., bonds, leases) provides current financial resources to government funds, while the repayment of the principal of long-term debt consumes the current financial resources of government funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(811,735)
Compensated absences are considered expenditures when paid on the governmental fund basis, but are on the accrual basis on the government-wide financial statements, thus the governmental basis is adjusted to the actual liability	(63,999)
Decrease in Deferred Property taxes	<u>35,726</u>
Changes in net assets of governmental activities	<u>\$ 1,442,998</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, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:	\$ 6,302,500	\$ 6,508,543	\$ 6,508,543	\$ -
Property	126,000	126,000	72,748	(53,252)
In lieu of taxes	840,000	840,000	853,208	13,208
Franchise	9,100,000	9,196,618	9,196,618	-
Local sales tax	1,015,790	1,015,790	1,032,668	16,878
Alcoholic beverages	720,000	720,000	784,119	64,119
Business and gross receipts	273,000	273,000	350,931	77,931
Hotel/motel tax	18,377,290	18,679,951	18,798,835	118,884
Total taxes	893,000	893,000	818,422	(74,578)
Licenses, permits and fines	220,000	391,029	690,408	299,379
Use of money and property	140,000	-	131,998	131,998
Service charges and fees	3,930,617	5,574,948	5,160,035	(414,913)
Intergovernmental	23,560,907	25,538,928	25,599,698	60,770
Total revenues				
Expenditures				
Current:				
General Government:	186,676	186,676	222,704	(36,028)
Mayor and Council	421,009	421,009	407,592	13,417
City Administrators	17,000	17,000	11,913	5,087
Elections	521,915	521,915	585,944	(64,029)
Finance	74,462	74,463	93,264	(18,801)
Purchasing	163,659	163,659	138,480	25,179
Computer operations	203,041	203,041	249,072	(46,031)
Human resources	101,232	101,232	69,902	31,330
Legal services	302,535	302,536	493,641	(191,105)
Community and economic affairs	61,369	61,369	59,499	1,870
Codes enforcement	683,508	683,508	221,734	461,774
Metropolitan transportation organization	296,679	296,679	283,479	13,200
Engineering	397,176	397,176	428,790	(31,614)
Inspections	-	-	56,452	(56,452)
Other	3,430,261	3,430,263	3,322,466	107,797
Total general government				
Public safety:	5,262,733	5,075,687	5,418,344	(342,657)
Police	4,837,184	5,767,776	5,940,433	(172,657)
Fire	128,386	300,386	300,745	(359)
Other public safety	10,228,303	11,143,849	11,659,522	(515,673)
Total public safety	4,669,136	5,592,221	5,309,853	282,368
Public works	1,533,366	1,533,367	1,568,247	(34,880)
Parks and recreation	108,300	329,923	292,552	37,371
Airport	495,500	495,500	544,398	(48,898)
Civic support	124,500	1,352,968	1,448,415	(95,447)
Economic development	424,938	424,939	434,580	(9,641)
Retiree health insurance	-	-	39,351	(39,351)
Miscellaneous				
Debt service:	1,077,425	1,077,425	1,050,400	27,025
Bond principal	573,535	576,535	153,087	423,448
Bond interest	5,000	5,000	4,157	843
Bond issuance costs	1,655,960	1,658,960	1,207,644	451,316
Total debt service	22,670,264	25,961,990	25,827,028	134,962
Total expenditures	\$ 890,643	\$ (423,062)	\$ (227,330)	\$ 195,732
Excess (deficiency) of revenue over expenditures				
Other financing sources (Uses)		\$ 1,280,705	\$ 1,992,464	\$ 711,759
Bond Proceeds	75,000	75,000	824,276	749,276
Transfers in	(1,584,643)	(1,780,077)	(1,725,817)	54,260
Transfers out	(1,509,643)	(424,372)	1,090,923	1,515,295
Total other financing sources and uses	(619,000)	(847,434)	863,593	1,711,027
Net change in fund balance	6,313,973	6,313,973	6,313,973	-
Fund balance, beginning	\$ 5,694,973	\$ 5,466,539	\$ 7,177,566	\$ 1,711,027
Fund balance-ending				

City of Morristown, Tennessee
Statement of Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities Enterprise Funds				Total
	Sewer System	Water System	Electric System	Telecom System	
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,050,514	\$ 1,460,314	\$ 6,996,957	\$ -	\$ 9,507,785
Investments	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	54,300	-	4,747,453	2,390	4,804,143
Accrual for unbilled revenue	205,903	176,140	979,214	-	1,361,257
Current portion of discounted energy units	-	-	88,814	-	88,814
Due from other funds	353,430	-	539,620	-	893,050
Due from others	-	-	358,973	-	358,973
Materials and supplies inventory	8,416	290,008	726,873	-	1,025,297
Total current assets	1,672,563	1,926,462	14,437,904	2,390	18,039,319
Restricted cash and cash equivalents:					
Cash and cash equivalents	-	531,390	-	2,668,696	3,200,086
Investments	2,991,031	-	-	14,800,000	17,791,031
Total restricted assets	2,991,031	531,390	-	17,468,696	20,991,117
Capital assets:					
Plant and equipment in service	44,545,506	36,289,833	49,933,930	-	130,769,269
Less accumulated depreciation	22,666,580	13,546,647	20,024,882	-	56,238,109
Sub-Total	21,878,926	22,743,186	29,909,048	-	74,531,160
Construction in progress	2,587,043	9,811,118	1,798,875	792,199	14,989,235
Total capital assets (net of accumulated depreciation)	24,465,969	32,554,304	31,707,923	792,199	89,520,395
Plant acquisition adjustments, net of accumulated amortization	-	233,381	436,446	-	669,827
Discounted energy units less current portion	-	-	703,248	-	703,248
Other assets	37,413	118,670	25,917	210,006	392,006
Total assets	\$ 29,166,976	\$ 35,364,207	\$ 47,311,438	\$ 18,473,291	\$ 130,315,912
Liabilities					
Current liabilities:					
Accounts payable	\$ 465,078	\$ 54,012	\$ 2,619,185	\$ 55,955	\$ 3,194,230
Due to other funds	-	125,458	-	414,162	539,620
Due to City of Morristown	-	-	353,430	-	353,430
Customer deposits	-	-	1,706,920	-	1,706,920
Accrued expenses	2,370	638,407	1,383,554	7,350	2,031,681
Other current liabilities	-	-	219,667	-	219,667
Current portion of capital lease obligation	-	34,367	-	-	34,367
Current portion of long-term debt	485,000	130,000	193,161	-	808,161
Advances from Tennessee Valley Authority Home Weatherization Loan Program, net of advances to customers	-	-	29,409	-	29,409
Total current liabilities	952,448	982,244	6,505,326	477,467	8,917,485
Noncurrent liabilities:					
Capital lease obligation, less current portion	-	26,446	-	-	26,446
Revolving debt agreement	-	8,896,820	-	-	8,896,820
Long-term debt less current portion	10,838,311	2,885,500	2,507,033	18,000,000	34,230,844
Total noncurrent liabilities	10,838,311	11,808,766	2,507,033	18,000,000	43,154,110
Total liabilities	11,790,759	12,791,010	9,012,359	18,477,467	52,071,595
Net Assets					
Invested in capital assets, net of related debt	13,158,255	20,581,171	29,007,729	260,895	63,008,050
Restricted	2,991,031	531,390	-	-	3,522,421
Unrestricted	1,226,931	1,460,636	9,291,350	(265,071)	11,713,846
Total net assets	17,376,217	22,573,197	38,299,079	(4,176)	78,244,317
Total liabilities and net assets	\$ 29,166,976	\$ 35,364,207	\$ 47,311,438	\$ 18,473,291	\$ 130,315,912

City of Morristown, Tennessee
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2005

	Business-type Activities				
	Enterprise Funds				
	Sewer System	Water System	Electric System	Telecom System	Total
Operating Revenues					
Metered sales	\$ 4,413,757	\$ 4,880,415	\$ 49,390,083	\$ -	\$ 58,684,255
Other operating revenues	175,396	63,046	76,435	-	314,877
Total operating revenues	4,589,153	4,943,461	49,466,518	-	58,999,132
Operating expenses:					
Power purchased	-	-	40,878,878	-	40,878,878
Operations	1,980,348	2,550,797	3,331,865	-	7,863,010
Maintenance	1,045,799	343,047	1,290,918	-	2,679,764
Depreciation and amortization	1,583,815	957,106	1,929,671	-	4,470,592
Taxes	-	-	180,306	-	180,306
Miscellaneous	-	43,769	19,265	4,176	67,210
Total operating expenses	4,609,962	3,894,719	47,630,903	4,176	56,139,760
Operating income	(20,809)	1,048,742	1,835,615	(4,176)	2,859,372
Other income (expense):					
Grants	-	500,000	-	-	500,000
Investment income	50,152	36,914	184,757	-	271,823
Interest expense	(394,005)	(16,049)	(47,002)	-	(457,056)
Net other income	(343,853)	520,865	137,755	-	314,767
Income (loss) before contributions and transfers	(364,662)	1,569,607	1,973,370	(4,176)	3,174,139
Capital contributions - tap fees	257,750	108,276	-	-	366,026
Transfers out	(173,000)	(32,020)	(619,256)	-	(824,276)
Change in net assets	(279,912)	1,645,863	1,354,114	(4,176)	2,715,889
Net assets-beginning	17,656,129	20,927,334	36,944,965	-	75,528,428
Net assets - ending	\$ 17,376,217	\$ 22,573,197	\$ 38,299,079	\$ (4,176)	\$ 78,244,317

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

City of Morristown, Tennessee
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2005

Business-type Activities
Enterprise Funds

	Sewer System	System	System	System	Total
Cash flows from operating activities					
Receipts from customers and users	\$ 4,631,930	\$ 4,907,499	\$ 48,015,970		\$ 57,555,399
Payments to suppliers	(2,043,495)	(1,746,128)	(42,500,426)	(4,176)	(46,294,225)
Payments to employees	(587,281)	(944,042)	(3,320,925)		(4,852,248)
Net cash provided by operating activities	2,001,154	2,217,329	2,194,619	(4,176)	6,408,926
Cash flows from noncapital financing activities:					
Transfers to primary government (tax equivalent payments)	(173,000)	(32,020)	(619,256)		(824,276)
Cash flows from financing activities					
Interest received on investments	50,152	36,914	184,757		271,823
Invested	(2,979,809)	-	-	(14,800,000)	(17,779,809)
Received from sale of stock	-	-	-		-
Net cash flows from investing activities	(2,929,657)	36,914	184,757	(14,800,000)	(17,507,986)
Cash flows from capital and related financing activities					
Payments on capital lease obligations	-	18,531	(839)		17,692
Net additions to plant acquisition adjustments	-	28,289	-		28,289
Net additions to property, plant and equipment	(2,471,567)	(4,447,405)	(2,507,347)	(755,573)	(10,181,892)
Interfund advances (repayments)	-	21,865	(436,027)	414,162	-
Contributions from developers	257,750	108,276			366,026
Appalachian Regional Commission Grant		500,000			500,000
Principal payments on long term debt	(465,000)	(520,000)	(193,163)		(1,178,163)
Interest paid on long term debt	(394,005)	(16,049)	(47,002)		(457,056)
Draws on note payable agreement	-	2,420,062	-		2,420,062
Proceeds from issuance of long term debt	3,888,444	-	-	17,814,283	21,702,727
Net cash flows from financing activities	815,622	(1,886,431)	(3,184,378)	17,472,872	13,217,685
(Decrease) increase in cash and cash equivalents	(285,881)	335,792	(1,424,258)	2,668,696	1,294,349
Cash and cash equivalents, beginning	1,336,395	1,655,912	8,421,215	-	11,413,522
Cash and cash equivalents, ending	\$ 1,050,514	\$ 1,991,704	\$ 6,996,957	\$ 2,668,696	\$ 12,707,871
Reconciliation of operating income to net cash provided by operating activities:					
Operating income	(20,809)	1,048,742	1,835,615	(4,176)	2,863,548
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation expense	1,583,815	1,011,221	1,933,452		4,528,488
Grants	-	-	-		-
Provision for losses on accounts receivable	-	-	100,000		100,000
Redemption of discounted energy units	-	-	84,035		84,035
Changes in operating assets and liabilities:					
Accounts receivable	9,806	-	(1,087,788)		(1,077,982)
Accrual of unbilled revenue	22,689	(35,962)	853,687		840,414
Materials and supplies inventory	32,560	159,238	(130,636)		61,162
Other assets	(15,739)	6,720	(78,294)		(87,313)
Accounts payable	391,202	(43,576)	(1,089,680)		(742,054)
Customer deposits and prepayments	-	-	7,071		7,071
Other liabilities	(2,370)	125,061	(222,343)		(99,652)
Net cash provided by operating activities	\$ 2,001,154	\$ 2,271,444	\$ 2,205,119	\$ (4,176)	\$ 6,477,717

City of Morristown, Tennessee
Notes to Financial Statements
June 30, 2005

I – 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 a water and electric system. The water and electric system 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.

- 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 is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function or segment and 2) grants and contributions that are restricted 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. The City accrues accumulated unpaid vacation and other compensated absences, when earned by the employee. The non-current portion (the amount estimated to be used in subsequent fiscal years) for government funds is maintained separately and represents a reconciling item between the fund and government-wide presentations. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

Property taxes, franchise taxes, licenses, 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.

The government reports the following major proprietary funds:

Morristown Utility Commission oversees the water and electric 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 years 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." These have been eliminated in the government-wide statement of net assets.

All trade receivables were considered collectible at June 30, 2005. 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 1st, 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.

6. *Compensated Absences*

It is the government's policy to permit employees to accumulate earned but 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.

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.

II – 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 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 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.

III -Stewardship, Compliance and Accountability

- A. Budgetary Information**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except for the capital projects funds with project-length budgets. All annual appropriations lapse at fiscal year end.

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. City Council amended the original budget, and the original and final amounts are presented in the financial statements included in this report.

IV – Detailed Notes on All Funds

A. Deposits and Investments

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

	Cash and Equivalents	Short-term Investments
Government type funds	\$ 1,758,332	\$ 1,992,464
Enterprise type funds	\$ 12,707,871	\$ 17,791,031
Totals	\$ 14,466,203	\$ 19,783,495

The City's investments are categorized to give an indication of the level of risk assumed by the City at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the City or its agent in the City's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counter-party's trust department or agent in the City's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counter-party or by its trust department or agent but not in the City's name. The City's investments are considered to be Category 1 under the above criteria.

The City has a repurchase agreement with Hamblen County Bank whereby City funds are invested overnight in securities of the U.S. Treasury Department. At June 30, 2005, the City had \$1,710,274 invested in these securities and has included these in cash and cash equivalents.

The short-term investments of \$19,783,495 represent un-drawn bond proceeds.

As of June 30, 2005, the City's deposits in financial institutions were entirely insured or collateralized with securities held by the City's agent in the City's name.

B. Receivables as of year end for the government's individual major funds and non-major funds in the aggregate were as follows:

	General	Non-Major and Other Funds	Enterprise	Totals
Receivables				
Interest	\$ 222	\$ -	\$ -	\$ 222
Taxes	7,229,540	-	-	7,229,540
Accounts	1,424,688	51,872	4,804,143	6,280,703
Intergovernmental	2,200,660	-	-	2,200,660
Gross receivables	10,855,110	51,872	4,804,143	15,711,125
Less: Allowance for bad debt	(46,698)	-	-	(46,698)
Net receivables	<u>\$ 10,808,412</u>	<u>\$ 51,872</u>	<u>\$ 4,804,143</u>	<u>\$ 15,664,427</u>

Included in taxes receivable of the General Fund is property taxes of \$6,217,387 that were assessed on January 1, 2005, but will not be billed until after June 30, 2005. There is an offsetting deferred income for the above balance.

C. Capital Assets

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

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,317,448	\$ 56,234	\$ -	\$ 7,373,682
Construction in progress	524,679	465,399	-	990,078
Total capital assets not being depreciated	<u>7,842,127</u>	<u>521,633</u>	<u>-</u>	<u>8,363,760</u>
Capital assets being depreciated:				
Buildings	15,563,118	35,150	(244,104)	15,354,164
Improvements other than buildings	10,982,853	-	-	10,982,853
Machinery and equipment	7,362,926	1,331,948	(55,789)	8,639,085
Infrastructure	10,664,399	1,614,077	-	12,278,476
Total capital assets being depreciated	<u>44,573,296</u>	<u>2,981,175</u>	<u>(299,893)</u>	<u>47,254,578</u>
Less: accumulated depreciation:				
Buildings	(5,056,327)	(283,620)	-	(5,339,947)
Improvements other than buildings	(6,941,084)	(470,657)	-	(7,411,741)
Machinery and equipment	(4,414,994)	(546,117)	(46,546)	(5,007,657)
Infrastructure	(6,722,616)	(367,134)	-	(7,089,750)
Total accumulated depreciation	<u>(23,135,021)</u>	<u>(1,667,528)</u>	<u>(46,546)</u>	<u>(24,849,095)</u>
Net capital assets being depreciated	<u>21,438,275</u>	<u>1,313,647</u>	<u>(346,439)</u>	<u>22,405,483</u>
Total capital assets-government activities	<u>\$ 29,280,402</u>	<u>\$ 1,835,280</u>	<u>\$ (346,439)</u>	<u>\$ 30,769,243</u>

	Balance July 1, 2004	Increases	Decreases	Balance June 30, 2005
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,628,216	\$ 64,718	\$ (16,051)	\$ 1,676,883
Construction in progress	11,295,710	9,994,548	(6,301,021)	14,989,237
Total assets not being depreciated	12,923,926	10,059,266	(6,317,072)	16,666,120
Capital assets being depreciated:				
Building and improvements	27,475,945	1,115,147	(49,178)	28,541,914
Transmission and distribution	86,843,394	4,931,102	(270,077)	91,504,419
Furniture, fixtures and equipment	8,770,786	398,756	(123,489)	9,046,053
Total capital assets being depreciated	123,090,125	6,445,005	(442,744)	129,092,386
Less accumulated depreciation:				
Building and improvements	(1,198,871)	(99,913)	-	(1,298,784)
Transmission and distribution	(46,863,091)	(4,041,399)	342,427	(50,562,063)
Furniture, fixtures and equipment	(4,242,078)	(300,765)	165,580	(4,377,263)
Total capital assets being depreciated	(52,304,040)	(4,442,077)	508,007	(56,238,110)
Net capital assets being depreciated	70,786,085	2,002,928	65,263	72,854,276
Total net capital assets	\$ 83,710,011	\$ 12,062,194	\$ (6,251,809)	\$ 89,520,396

Depreciation expense was charged to government activities as follows:

Public Safety	\$ 535,129
Public Works	588,833
Parks and Recreation	33,788
Airport	412,033
Total	<u>\$ 1,569,783</u>

Depreciation expense was charged to business-type activities as follows:

Sewer	\$ 1,583,815
Water and Electric Power	2,858,262
Total	<u>\$ 4,442,077</u>

D. Accounts payable and other current liabilities:

	Governmental	Business Type
Accounts Payable	\$ 681,237	\$ 3,194,230
Accrued payroll and other liabilities	123,485	2,251,348
Total	<u>\$ 804,722</u>	<u>\$ 5,445,578</u>

E. Interfund receivables, payables, and transfers

The interfund receivables and payables as of June 30, 2005, were as follows:

<u>Receivable from</u>	<u>Payable to</u>	<u>Amount</u>
Electric System	Water System	\$ 125,458
Electric System	Sewer Fund	\$ 353,430
Telcom System	Electric System	\$ 414,162
Total		<u>\$ 893,050</u>

Interfund transfers for the year ended June 30, 2005, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 1,607,231
General Fund	Narcotics Fund	150,000
Sewer Fund (in lieu of tax)	General Fund	98,000
Water Fund (in lieu of tax)	General Fund	32,020
Electric Fund (in lieu of tax)	General Fund	591,571
Total		<u>\$ 2,478,822</u>

F. Deferred revenue

Deferred items were all in the General Fund and consisted of the following:

June 30, 1005 and delinquent taxes receivable	\$ 6,817,414
Advance payment for street work	60,000
	<u>\$ 6,877,414</u>

G. Noncurrent liabilities

The following schedule presents the activities of the bond and notes payable of the City:

G. Changes in Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2005.

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturity Dates	Range of Interest Rates (%)	Balance July 1, 2004	Additions	Reductions	Balance June 30, 2005
Primary Government							
General long-term debt							
2003 Refunding Industrial Park	4,855,000	2003-2013	1.1 - 4.25	4,420,000	-	430,000	3,990,000
2000 Public Improvement	5,000,000	2017-2021	6	1,335,286	-	-	1,335,286
2001 Public Improvement	3,000,000	2011-2016	6	1,482,000	-	-	1,482,000
Woodrow and Carol Travis note	100,000	2002-2005	5	25,000	-	25,000	-
2001 Refunding	4,690,000	2003-2010	3.9	3,780,400	-	595,400	3,185,000
2005 Public Improvement	2,000,000	2014-2025	5	-	2,000,000	-	2,000,000
Total general bonds and notes				11,042,686	2,000,000	1,050,400	11,992,286
Revenue bonds and notes							
Sewer bonds							
2003 Refunding	1,775,000	2000-2014	2.0-5.0	1,635,000	-	135,000	1,500,000
2001 refunding	4,180,000	2003-2013	3.99	3,555,000	-	330,000	3,225,000
2000 public improvement	5,000,000	2003-2021	5.95-6.75	2,664,714	-	-	2,664,714
2001 Public Improvement	3,000,000	2011-2016	6	918,000	-	-	918,000
2005 Public Improvement	3,000,000	2014-2025	5	-	3,000,000	-	3,000,000
Electric System							
Holston Electric notes	-	2000-2004	None	-	-	-	-
Appalachian Electric notes	-	2000-2007	None	493,357	-	93,163	400,194
Series V-A-2 Bonds	2,500,000	2004-2018	Varies	2,400,000	-	100,000	2,300,000
Water system							
Water system bonds series 1992	2,500,000	2000-2007	4.8-5.7	650,000	-	205,000	445,000
Water system bonds series 1996	2,800,000	2000-2011	4.15-5.25	1,550,000	-	190,000	1,360,000
Water Department promissory note	995,500	2002-2013	Varies	795,500	-	75,000	720,500
Water Department promissory note	600,000	2004-2016	Varies	540,000	-	50,000	490,000
Telecom System	-	-	-	-	-	-	-
Telecom System promissory note	18,000,000	2016-2030	3.75	-	18,000,000	-	18,000,000
Total revenue bonds and notes				15,201,571	21,000,000	1,178,163	35,023,408
Solid Waste Bonds							
Solid Waste Refunding	1,649,400	2005-2012	2.0-5	-	1,649,400	174,400	1,475,000
Total bonds				\$ 26,244,257	\$ 24,649,400	\$ 2,407,963	\$ 48,490,694

Also, included in non-current liabilities is a liability for compensated absences in the sewer system of \$15,597 and in the general fund of \$844,344. In addition, there is included in the non-current liabilities, proceeds from a revolving loan agreement with the State of Tennessee, wherein the Water and Electric System have borrowed \$8,896,820 to improve the water system. In addition, the Water and Electric System have a capital leases payable of \$60,813, \$26,446 of which is included in long-term liabilities.

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2006	\$ 1,265,000	\$ 597,809	\$ 808,161	\$ 1,495,747
2007	1,305,000	561,494	1,250,710	1,367,385
2008	1,355,000	517,844	1,279,497	1,322,963
2009	1,405,000	469,827	1,474,496	1,280,223
2010	1,475,000	416,177	1,539,500	1,225,527
2011-2025	6,662,296	2,305,086	28,671,044	11,863,270
Totals	<u>\$ 13,467,296</u>	<u>\$ 4,868,237</u>	<u>\$ 35,023,408</u>	<u>\$ 18,555,115</u>

I. Prior period adjustment

For the city wide financial statements, the following adjustment was made to restate the net assets as of July 1, 2004.

Restatement of cost and allowance for depreciation of capital assets used in operations	\$ 567,924
Restatement of cost of non-operating capital assets	947,126
Total	<u>\$ 1,515,050</u>

J. Segment information:

There are four services provided by the City that are financed by user charges-sewer, power and water. Summary financial information for these enterprise funds is presented below:

CONDENSED STATEMENT OF NET ASSETS

	Sewer	Water	Electric	Telcom	Total
Assets:					
Current assets	\$ 1,672,563	\$ 1,926,462	\$ 15,679,495	\$ 2,390	\$ 19,280,910
Restricted assets	2,991,031	531,390	-	17,468,696	20,991,117
Capital assets (net)	24,465,969	32,554,304	31,707,923	792,199	89,520,395
Other assets	37,413	352,051	1,165,611	210,006	1,765,081
Total assets	<u>\$ 29,166,976</u>	<u>\$ 35,364,207</u>	<u>\$ 48,553,029</u>	<u>\$ 18,473,291</u>	<u>\$ 131,557,503</u>
Liabilities:					
Current liabilities	\$ 952,448	\$ 982,244	\$ 7,746,917	\$ 477,467	\$ 10,159,076
Noncurrent liabilities	10,838,311	11,808,766	2,507,033	18,000,000	43,154,110
Total liabilities	<u>\$ 11,790,759</u>	<u>\$ 12,791,010</u>	<u>\$ 10,253,950</u>	<u>\$ 18,477,467</u>	<u>\$ 53,313,186</u>
Net assets:					
Invested in capital assets net of related debt	\$ 13,158,255	\$ 20,581,171	\$ 29,007,729	\$ 260,895	\$ 63,008,050
Restricted assets	2,991,031	531,390	-		3,522,421
Unrestricted	1,226,931	1,460,636	9,291,350	(265,071)	11,713,846
Total net assets	<u>\$ 17,376,217</u>	<u>\$ 22,573,197</u>	<u>\$ 38,299,079</u>	<u>\$ (4,176)</u>	<u>\$ 78,244,317</u>

CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Telecom</u>	<u>Total</u>
Operating revenues	\$ 4,589,153	\$ 4,943,461	\$ 49,466,518	\$ -	\$ 58,999,132
Depreciation and amortization	(1,980,348)	(957,106)	(1,929,671)		(4,867,125)
Other operating expenses	(2,629,614)	(2,937,613)	(45,701,232)	(4,176)	(51,272,635)
Operating income	(20,809)	1,048,742	1,835,615	(4,176)	2,859,372
Other income (expense):					
Grants		500,000			500,000
Interest income	50,152	36,914	184,757	-	271,823
Interest expense	(394,005)	(16,049)	(47,002)	-	(457,056)
Other income or (expense) - net	(343,853)	520,865	137,755	-	314,767
Income (loss) before contributions					
and transfers	(364,662)	1,569,607	1,973,370	(4,176)	3,174,139
Tap fees and contributions					
from developers	257,750	108,276	-	-	366,026
Transfers out (tax equivalent					
payments to primary government)	(173,000)	32,020	(619,256)	-	(760,236)
Changes in net assets	(279,912)	1,709,903	1,354,114	(4,176)	2,779,929
Beginning net assets	17,656,129	20,927,334	36,944,965	-	75,528,428
Ending net assets	<u>\$17,376,217</u>	<u>\$ 22,637,237</u>	<u>\$ 38,299,079</u>	<u>\$ (4,176)</u>	<u>\$ 78,308,357</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Sewer</u>	<u>Water</u>	<u>Electricity</u>	<u>Telecom</u>	<u>Total</u>
Net cash provided (used) by					
operating activities	\$ 2,001,154	\$ 2,217,329	\$ 2,194,619	\$ (4,176)	\$ 6,408,926
Noncapital financing activities	(173,000)	(32,020)	(619,256)	-	(824,276)
Investing activities	(2,041,213)	36,914	184,757	(14,800,000)	(16,619,542)
Capital and related financing					
activities	(72,822)	(1,886,431)	(3,184,378)	17,472,872	12,329,241
Net increase (decrease)	(285,881)	335,792	(1,424,258)	2,668,696	\$ 1,294,349
Beginning cash and cash					
equivalents	1,336,395	1,655,912	8,421,215	-	11,413,522
Ending cash and cash					
equivalents	<u>\$ 1,050,514</u>	<u>\$ 1,991,704</u>	<u>\$ 6,996,957</u>	<u>\$ 2,668,696</u>	<u>\$ 12,707,871</u>

K. Restricted assets

The following assets were restricted:

General Fund – Bond proceeds for capital improvements	\$ 711,759
Sewer fund – Bond proceeds for capital improvements	2,991,031
Telecom System	17,468,696

L. State street aid activities:

The following is a summary of State Street Aid activity within the General Fund for the year ended June 30, 2005:

Reserve fund balance, July 1, 2004	\$ 580,973
Add – state gasoline tax revenues	707,916
Less – state gasoline tax expenditures	<u>(1,267,642)</u>
Reserve fund balance, June 30, 2005	<u>\$ 21,247</u>

V. Other Disclosures

A. Commitments and Contingencies:

At June 30, 2005, the City of Morristown had the following commitments:

General Fund – Uncompleted contracts	\$ 954,436
Sewer System – Uncompleted contracts	920,027
Sewer Operating Contract (approximate annual cost)	1,000,000
Water System – Construction contracts	498,000
Electric System – Construction contracts	861,720
Telecom – Construction contracts	11,791,407

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 affect on the financial condition of the government.

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 this service.

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 \$218,500 for the library operation during the fiscal year ended June 30, 2005

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, 2005, the City was charged \$755,773

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 10 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 5 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 10 years of service and members joining prior to July 1, 1979 were vested after 4 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, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at www.treasury.state.tn.us. Copies of footnotes in PDF format can be accessed at <http://www.treasury.state.tn.us/tcrs/PS/>.

Funding Policy

City of Morristown requires employees to contribute 5.0% of earnable compensation.

City of Morristown is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2005 was 7.37% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for City of Morristown is established and may be amended by the TCRS Board of Trustees.

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
June 30, 2005	\$ 842,965.00	100.00%	\$ -
June 30, 2004	\$ 352,027.00	100.00%	\$ -
June 30, 2003	\$ 319,915.00	100.00%	\$ -

Annual Pension Cost

For the year ended June 30, 2005, City of Morristown's annual pension cost of \$842,965 to TCRS was equal to City of Morristown's required and actual contributions. The required contribution was determined as part of the July 1, 2003 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. City of 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, 2001 was 30 years.

MORRISTOWN UTILITY COMMISSION

The Commission has a defined contribution retirement plan (Morristown Power and Water System Employees' Restated 401(k) Asset Accumulation 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 requirements.

During 2005, the amount of payroll covered by the plan was \$3,919,799 of total payroll of \$4,198,993. Under the plan terms, the Commission 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 2005, 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 up to \$40,000 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. The Commission contributed \$584,719 in 2005 into the Plan, which represents 15% of the covered payroll and 100% of the required contribution. The participants contributed \$279,972 in 2005 that represents 7% of the covered payroll.

E. Deferred Compensation Plan

The City of Morristown Primary Government offers its employees, with the exception of those employed by Morristown Utility Commission, a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan is available to certain City employees and permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All assets of the plan are held for the exclusive benefit of participants and therefore are no longer shown in the City's Trust and Agency Fund.

F. Post-Retirement Healthcare Benefits

City of Morristown – excluding water and electric systems

It is the City's policy to supplement hospital insurance premiums until age 65 for those employees who take early retirement. During the year ended June 30, 2005, there were 48 retirees under this plan with a cost to the City of \$527,822.

Water and Electric Systems

The Commission pays health insurance premiums for former full-time employees who have retired after attaining the age of 60 and have not yet attained the age of 65. The Commission will also pay 50% of these former employees' dependent coverage. The Commission is not required to provide these benefits by any statutory, contractual or other authority. As of June 30, 2005, there were six former employees eligible to participate in the plan. Benefits relating to these retirees are expensed when paid and totaled \$23,295 in 2005 and \$19,199 in 2004.

In August 2004, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 45, ("GASB 45") *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, which provides for employers to account for and report the annual cost of other post-employment benefits ("OPED") and the outstanding obligations and commitments related to OPED in a manner as they currently do for pensions under GASB 27, *Accounting for Pensions by State and Local Governmental Employers*. The Commission will be required to adopt GASB 45 in the fiscal year beginning July 1, 2009. The Commission has not assessed whether this statement will have a significant impact on the Commission's financial statements.

City of Morristown, Tennessee
Pension Plan
Required Supplemental Information
June 30, 2005

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b)-(a)	(a/b)	(c)	(b-a)/(c)
July 1, 2003	\$ 35,814	\$ 42,539	\$ 6,725	84.19%	\$ 9,748	68.99%
July 1, 2001	\$ 34,504	\$ 36,125	\$ 1,621	95.51%	\$ 9,032	17.95%
July 1, 1999	\$ 30,929	\$ 30,929	\$ -	100.00%	\$ 7,451	0.00%

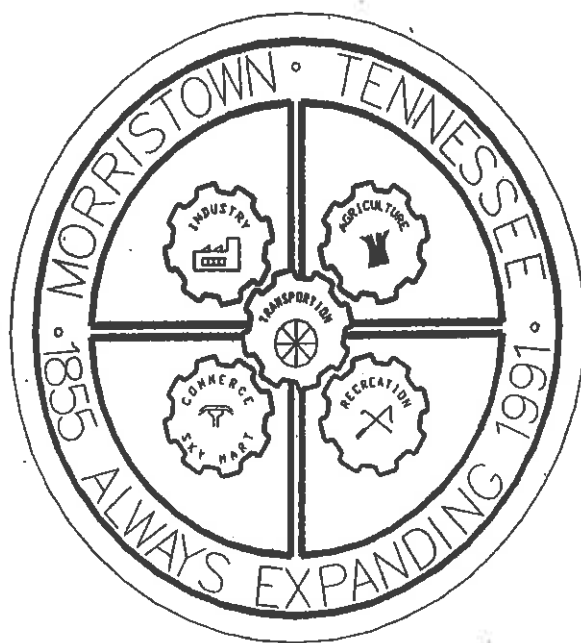
City of Morristown, Tennessee
Schedules of Revenue, Expenditures and changes in Fund Balance - Budget and Actual
Other Governmental Funds
June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Solid Waste Fund				
Expenditures				
Sanitation	\$ 665,493	\$ 665,493	\$ 617,342	\$ 48,151
Landfill	650,000	819,688	775,311	44,377
Recycling	191,687	191,687	167,485	24,202
Superfund	5,000	5,000	1,570	3,430
Total expenditures	1,512,180	1,681,868	1,561,708	120,160
Other Sources				
Transfers in	1,512,180	1,707,614	1,653,354	(54,260)
Net change in Fund Balance	-	25,746	91,646	(65,900)
Fund balance, July 1, 2004	-	-	-	-
Fund balance, June 30, 2005	\$ -	\$ -	\$ -	\$ -
Narcotics Fund				
Revenues				
Program Income	\$ 140,000	\$ 140,000	\$ 117,619	\$ (22,381)
Miscellaneous Revenue	107,000	107,000		(107,000)
Total revenues	247,000	247,000	117,619	(129,381)
Expenditures				
Narcotics enforcement	319,463	319,463	286,713	32,750
Excess of revenue over expenditures	(72,463)	(72,463)	(169,094)	(96,631)
Other Sources				
Transfers in	72,463	72,463	72,463	-
Net change in fund balance	-	-	(96,631)	(96,631)
Fund balance - beginning	149,933	149,933	149,933	-
Fund balance - ending	\$ 149,933	\$ 149,933	\$ 53,302	\$ (96,631)

City of Morristown, Tennessee
Schedule of State Financial Assistance
Year Ended June 30, 2005

Agency	Contract Number	Balance July 1, 2004	Receipts	Disbursements	Balance June 30, 2005
Tennessee Department of Transportation	32455-3409-04	\$ -	\$ 116,269	\$ 116,269	\$ -
Tennessee Department of Transportation	Z-05-02-3884-01			12,500	12,500
Tennessee Department of Transportation				200,000	200,000
Tennessee Department of Aeronautics	Z-05-02-4812-00			140,749	140,749
Tennessee Department of Aeronautics	Z-03-01-4204-00	500,000	500,000		-
Tennessee Department of Aeronautics	Z-04-01-8948-00	11,900	11,900		-
Tennessee Department of Aeronautics	Z-04-01-8108-00	12,500	12,500		-
Tennessee Department of Economic and Community Development	Z-02-008477-00	9,216			9,216
Tennessee Department of Environment and Conservation	Z-05-022819-00			8,772	8,772
Tennessee Department of Economic and Community Development	330.06-130		641,403	641,403	-
Tennessee Department of Economic and Community Development	Z-02-8513-00	120,251	120,251		-
Totals		\$ 653,867	\$ 1,402,323	\$ 1,119,693	\$ 371,237

The modified accrual basis was used in preparing this schedule.



STATISTICAL INFORMATION

**CITY OF MORRISTOWN
TENNESSEE**

CITY OF MORRISTOWN, TENNESSEE

GOVERNMENT-WIDE EXPENSES BY FUNCTION LAST TEN FISCAL YEARS (3rd YEAR OF IMPLEMENTATION)

Fiscal Year	General Government	Public Safety	Public Works	Parks and Recreation	Civic Support	Economic Development	Retiree Benefits	Airport	Other	Interest on Long-Term Debt	Water, Sewer, and Electric	TOTAL
2003	\$ 2,467,777	\$ 10,236,334	\$ 5,570,400	\$ 1,665,313	\$ 506,273	\$ 590,147	\$ 408,347	\$ 1,633,100	\$ 164,256	\$ 416,990	\$ 54,823,015	\$ 78,073,605
2004	\$ 2,790,124	\$ 10,287,565	\$ 6,337,761	\$ 1,534,531	\$ 576,028	\$ 385,088	\$ 434,580	\$ 477,425	\$ 81,574	\$ 396,490	\$ 56,033,950	\$ 79,508,883
2005	\$ 3,532,804	\$ 11,553,257	\$ 5,024,791	\$ 1,469,315	\$ 544,398	\$ 1,448,415	\$ 434,580	\$ 704,585	\$ -	\$ 217,831	\$ 55,958,967	\$ 80,888,943

CITY OF MORRISTOWN, TENNESSEE

GOVERNMENT-WIDE REVENUES LAST TEN FISCAL YEARS (3rd YEAR OF IMPLEMENTATION)

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES				
	Charges for Services	Operating Grants and Contributions		Local Taxes	Inter-Governmental	Use of Money and Property		Other
		Operating Grants and Contributions	Capital Grants and Contributions			Property		
2003	\$ 57,420,254	\$ 1,713,655	\$ 2,889,977	\$ 17,538,836	\$ 1,208,281	\$ 701,992	\$ 844,430	\$ 82,317,425
2004	\$ 60,115,716	\$ 378,438	\$ 1,640,300	\$ 17,970,228	\$ 2,148,591	\$ 712,843	\$ -	\$ 82,966,116
2005	\$ 60,298,607	\$ 106,773	\$ 1,614,648	\$ 18,834,561	\$ 4,097,107	\$ 96,134	\$ -	\$ 85,047,830

CITY OF MORRISTOWN, TENNESSEE
Changes in Net Assets
LAST TEN FISCAL YEARS (3rd YEAR OF IMPLEMENTATION)

	Fiscal Year	
	2003	2004
Governmental activities:		
General government	\$ 2,467,777	\$ 2,790,124
Public safety	10,236,334	10,287,565
Public works	5,570,400	6,537,761
Parks and recreation	1,665,313	1,534,531
Civic support	506,273	576,028
Economic development	590,147	385,088
Retiree benefits	-	408,347
Airport	1,633,100	477,425
Long-term debt expense	164,256	396,490
Other	416,990	81,574
Total governmental activities expenses	\$ 23,250,590	\$ 23,474,933
Business-type activities:		
Water	\$ 3,847,335	\$ 4,089,405
Sewer	4,207,882	4,579,513
Electric	46,767,798	47,365,032
Telecom system	-	-
Total business-type activities expenses	\$ 54,823,015	\$ 56,033,950
Total primary government expenses	\$ 78,073,605	\$ 79,508,883
Program Revenues		
Governmental activities:		
Charges for services:		
General government	\$ 202,996	\$ 165,575
Public safety	545,293	794,645
Public works	124,335	703,164
Parks and recreation	-	139,562
Civic support	-	-
Economic development	-	-
Retiree benefits	-	-
Airport	-	-
Long-term debt expense	-	-
Operating grants and contributions	1,713,655	352,717
Capital grants and contributions	2,617,657	1,361,550
Total governmental activities program revenues	\$ 5,203,936	\$ 3,517,213
		\$ 1,299,475

Business-type activities:

Water	\$	4,495,715	\$	4,406,024	\$	4,943,461
Sewer		4,540,720		4,492,542		4,589,153
Electric		47,511,195		49,414,204		49,466,518
Telecom system		-		-		-
Operating grants and contributions		-		378,438		-
Capital grants and contributions		272,320		1,640,300		-
Total business-type activities program revenue	\$	56,819,950	\$	60,331,508	\$	58,999,132
Total primary government program revenues	\$	62,023,886	\$	63,848,721	\$	60,298,607
Net (expense)/revenue						
Governmental activities	\$	(18,046,654)	\$	(19,957,720)	\$	(22,409,080)
Business-type activities		1,996,935		2,583,291		3,540,165
Total primary government net expense	\$	(16,049,719)	\$	(17,374,429)	\$	(18,868,915)

General Revenues and Other Changes in Net Assets

Governmental activities:

Taxes						
Property taxes	\$	6,154,751		6,288,159	\$	6,544,269
In-lieu tax		662,748		59,275		72,748
Franchise taxes		813,588		820,658		853,208
Local sales tax		8,053,275		8,618,515		9,196,618
Alcohol beverage tax		934,567		1,009,528		1,032,668
Business and gross receipts tax		681,903		861,386		784,119
Hotel/motel tax		238,004		312,707		350,931
Use of money and property		1,291,563		712,843		96,134
Intergovernmental		1,208,281		2,148,591		4,097,107
Transfers		-		721,591		824,276
Total governmental activities		20,038,680		21,553,253		23,852,078

Business-type activities:

Investment earnings		254,859		-		-
Transfers		-		(721,591)		(824,276)
Total business-type activities		254,859		(721,591)		(824,276)
Total primary government		20,293,539		20,831,662		23,027,802

Change in Net Assets

Governmental activities	\$	1,992,026	\$	1,595,533	\$	1,442,998
Business-type activities		2,251,794		1,861,700		2,715,889
Total primary government	\$	4,243,820	\$	3,457,233	\$	4,158,887

CITY OF MORRISTOWN, TENNESSEE
Net Assets by Component
LAST TEN FISCAL YEARS (3rd YEAR OF IMPLEMENTATION)

	Fiscal Year		
	2003	2004	2005
Governmental activities			
Invested in capital assets, net of related debt	\$ 20,792,189	\$ 20,792,189	\$ 32,485,958
Restricted	5,564,620	1,477,741	3,256,311
Unrestricted	4,542,774	17,462,724	3,918,333
Total governmental activities net assets	\$ 30,899,583	\$ 39,732,654	\$ 39,660,602
Business-type activities			
Invested in capital assets, net of related debt	\$ 62,632,218	\$ 61,967,985	\$ 63,008,050
Restricted	859,847	554,347	3,522,421
Unrestricted	10,174,665	13,006,096	11,713,846
Total business-type activities net assets	\$ 73,666,730	\$ 75,528,428	\$ 78,244,317
Primary Government			
Invested in capital assets, net of related debt	\$ 83,424,407	\$ 82,760,174	\$ 95,494,008
Restricted	6,424,467	2,032,088	6,778,732
Unrestricted	14,717,439	30,468,820	15,632,179
Total primary government net assets	\$ 104,566,313	\$ 115,261,082	\$ 117,904,919

City of Morristown
General Government Expenditures by Function
Last Ten Fiscal Years
June 30, 2005

Fiscal Year	General Government	Public Safety	Public Works	Parks and Recreation	Civic Support	Education	Economic Development	Airport	Debt Service	Pavement Management	Retiree Benefits	Other	Total
1996	\$ 2,169,694	\$ 5,854,486	\$ 8,814,674	\$ 1,173,874	\$ -	\$ 337,686	\$ 751,508	\$ 200,075	\$ 580,411	\$ -	\$ -	\$ -	19,882,408
1997	1,960,424	6,398,214	5,663,954	1,119,702	-	290,158	4,715,449	24,298	618,447	-	-	-	20,790,646
1998	1,918,183	6,575,769	6,051,638	1,351,018	-	339,103	1,392,429	461,185	628,907	-	-	-	18,718,232
1999	1,941,274	7,934,908	5,897,905	1,310,848	-	603,189	7,225,877	44,631	895,366	-	-	-	25,853,998
2000	2,736,539	7,813,802	5,575,753	1,301,755	553,772	-	2,822,931	62,896	1,012,345	-	-	-	21,879,793
2001	7,059,468	9,633,119	6,479,477	1,549,790	3,012,863	-	-	406,336	1,370,221	-	-	-	29,511,274
2002	2,693,490	9,599,598	5,795,618	1,336,872	\$88,517	-	1,341,468	877,627	1,016,532	-	-	-	23,249,722
2003	2,596,855	10,868,947	5,595,244	1,597,215	506,273	-	1,731,781	1,270,308	1,231,990	-	-	-	25,398,613
2004	2,603,517	10,949,337	5,684,476	1,766,941	569,689	-	1,379,815	590,071	1,129,863	530,779	408,347	229,795	25,842,630
2005	3,322,466	11,946,232	6,897,308	1,568,247	544,398	-	1,448,415	292,552	1,407,803	-	434,580	39,351	27,901,352

City of Morristown
General Government Revenue by Source
Last Ten Fiscal Years
June 30, 2005

<u>Fiscal Year</u>	<u>Taxes</u>	<u>Licenses, Permits and Fines</u>	<u>Use of Money and Property</u>	<u>Service Charges and Fees</u>	<u>Intergovernmental Revenue</u>	<u>Total Revenues</u>
1996	\$ 12,596,260	\$ 518,970	\$ 2,453,480	\$ 405,915	\$ 2,422,063	\$ 18,396,688
1997	13,340,541	591,007	1,451,829	148,142	2,614,017	18,145,536
1998	14,116,566	446,660	1,110,175	460,835	2,784,858	18,919,094
1999	15,345,716	491,817	1,090,507	311,724	2,920,789	20,160,553
2000	15,400,013	573,209	954,126	235,994	3,422,218	20,585,560
2001	16,242,120	763,978	2,237,014	241,981	7,299,618	26,784,711
2002	16,030,068	712,890	991,877	268,253	4,490,861	22,493,949
2003	17,538,836	1,720,054	469,234	124,335	5,390,157	25,242,616
2004	17,963,749	756,770	736,195	319,659	4,566,023	24,342,396
2005	18,798,835	936,037	690,408	131,998	5,294,295	25,851,573

City of Morristown
Schedule of Insurance Coverage (Excluding Morristown Utility Commission)
June 30, 2005

Types of Coverage	Items Insured	Amount of Coverage	DEDUCTIBLE	PERIOD OF
Blanket coverage (\$1,000 deductible)	Buildings and person property	\$ 29,409,263	N/A	7-1-03 to 6-30-04
	Electronic Data Processing Equipment	\$ 350,000	N/A	7-1-03 to 6-30-04
	Mobile Equipment	\$ 733,546	N/A	7-1-03 to 6-30-04
	Equipment Breakdown	\$ 30,142,809	\$1,000	7-1-03 to 6-30-04
General and Automotive Liability	Bodily or personal injury	\$250,000 per person	N/A	7-1-03 to 6-30-04
	Property damage	\$600,000 per occurrence	2,500	7-1-03 to 6-30-04
	Catastrophic medical expenses	\$85,000 per occurrence	2,500	7-1-03 to 6-30-04
	excess of bodily injury	\$1,000,000 per person	2,500	7-1-03 to 6-30-04
General Liability (additional coverages)	Medical payments	\$1,000 per person	5,000	7-1-03 to 6-30-04
	Fire damage	\$10,000 per accident	N/A	7-1-03 to 6-30-04
	Impounded property damage	\$85,000 per occurrence		
	Non-monetary defense costs	\$50,000 per occurrence		
Automobile Liability (additional coverages)	Uninsured Motorists	\$60,000 per occurrence		
		bodily injury		
		per occurrence		
		property damage		
Employee Dishonesty Forgery or Alteration Theft, Disappearance, or Destruction Computer Fraud	Employees	\$ 100,000		
	Employees	\$ 100,000		
	Employees	\$ 100,000		
	Employees	\$ 100,000		
COMPANY	TYPE OF COVERAGE	LIMITS	DEDUCTIBLE	PERIOD OF
Distributor's Insurance	Workers' Compensation	\$1,000,000		
Distributor's Insurance	Commercial General Liability	250,000		
Distributor's Insurance	Excess General Liability	750,000		
Distributor's Insurance	Automobile Liability	1,000,000		
Distributor's Insurance	Umbrella Liability	2,000,000		
Distributor's Insurance	Property Damage	39,362,593		
Distributor's Insurance	Boiler & Machinery	10,000,000		
Distributor's Insurance	Commercial Crime	1,000,000		
Distributor's Insurance	Public Officials and Employees' Liability	5,000,000		
Distributor's Insurance	Fiduciary Liability	1,000,000		

CITY OF MORRISTOWN, TENNESSEE
SCHEDULE OF LARGEST INDUSTRIAL EMPLOYERS
June 30, 2005

Company Name	Product/Services	Employees
Berkline Corporation	Upholstered furniture, Veneer & Plastic	1625
Mahle	Aluminum pistons	1423
Koch Foods, Div. Koch Poultry	Process poultry	950
Shelby Williams	Institutional furniture	675
Toyoda-Koki Automotive	Pumps and Hoses	572
Howmet Corporation	Ceramic cores, Wax patterns, Investment casting	525
Lear Corporation	Auto seat frames	430
Liberty Fibers	Rayon fibers	352
BOS Automotive Products	Sunshades and Cargo covers	347
Rich Products	Bakery products, wholesale	300
Team Technologies	Assembled plastic parts components	300
Wallace Hardware	Wholesale hardware distributor	264
Tuff Torq Corporation	Transmissions and Transaxles	247
NCR Corporation	Business machine paper rolls	245
Ampad Tennessee	Envelopes, Notepads	240
Renold Jeffrey	Engineered steel chain	240
Arvin Meritor	Component parts for truck axles	225
General Electric	Electric load centers	225
Techpack	Cosmetics packaging	180
MacDermid Printing Solutions	Printing blankets	170

City of Morristown, Tennessee
Property Tax Levies and Collections
Last Ten Tax Years
June 30, 2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Assessed value	337,417,760	346,543,360	378,873,280	401,714,160	420,402,762	446,839,120	454,515,175	569,848,349	576,334,387	586,357,798
Rate per \$100	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.09	1.09	1.09
Total tax levy	4,217,722	4,356,792	4,735,916	5,021,427	5,255,035	5,585,489	5,681,440	6,211,347	6,284,227	6,391,300
Collections/reductions:										
Initial tax year	4,032,097	4,197,266	4,543,078	4,914,764	5,099,870	5,368,291	5,436,677	5,908,338	5,986,563	6,085,471
Additional through June 30, 2005	183,227	156,328	189,833	101,965	109,185	196,204	219,923	259,336	210,336	-
Total collections/reductions	4,215,324	4,353,594	4,732,911	5,016,729	5,209,055	5,564,495	5,656,600	6,167,874	6,196,899	6,085,471
Taxes receivable, June 30, 2005	2,398	3,198	3,005	4,698	45,980	20,994	24,840	43,473	87,328	305,829
Percent of levy collected initial tax year	95.6%	96.34%	95.93%	97.88%	97.05%	96.11%	95.69%	95.12%	95.26%	95.21%

City of Morristown
Table of General Bonded Debt with Total Assessment
and Total Governmental Expenditure Ratios
Last Ten Tax Years
June 30, 2005

<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>
1995	6,802,600	337,417,746	.020 to 1	19,882,408	.342 to 1
1996	3,181,300	348,519,405	.019 to 1	20,790,646	.312 to 1
1997	6,167,200	378,873,280	.016 to 1	18,718,322	.379 to 1
1998	11,284,200	401,713,156	.028 to 1	25,853,988	.436 to 1
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

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers
Year Ended June 30, 2005

Sewer Rates

Inside - \$3.00 per 1,000 gallons of water used—minimum bill of \$6.00 per month.

Outside - \$6.00 per 1,000 gallons of water used—minimum bill of \$12.00 per month.

Customers:

Inside City	10,230
Outside City	<u>438</u>
Total	<u>10,668</u>

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers
Year Ended June 30, 2005

Electricity

Single Family Dwelling Customers:
Base Charges:

Customer charge:

\$9.98 per month, less Hydro Allocation Credit of \$1.71 per month.

Energy charge:

First 2,000 kilowatt-hours or less, 5.961¢ per kilowatt-hour. Excess over 2,000 kilowatt-hours per month at 5.777¢ per kilowatt-hour.

Commercial, Industrial

- A. For customers with contract demand for the month of 50 kilowatts or less, or if the customer has no contract demand.

Customer charge:

\$15.00 per delivery point per month for first 1,000 kilowatts.

Energy charge:

6.576¢ per kilowatt-hour per month

- B For customers with contract demand for the month greater than 50 kilowatts, but not more than 1,000 kilowatts:

Customer charge:

\$125 per delivery point per month.

Demand charge:

First 50 kilowatts of billing demand per month, no charge.

Excess over 50 kilowatts of billing demand per month at \$10.26 per kilowatt-hour.

Energy charge:

First 15,000 kilowatt hours per month at 6.086¢ per kilowatt-hour.

Excess over 15,000 kilowatt-hours per month at 3.445¢ per kilowatt-hour.

- C. For customers with contract demand for the month greater than 1,000 kilowatts, but not more than 5,000 kilowatts:

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers (continued)
Year Ended June 30, 2005

Customer charge:

\$200 per delivery point per month.

Demand charge:

First 1,000 kilowatts of billing demand per month at \$10.22 per kilowatt-hour.

Excess over 1,000 kilowatts of billing demand per month at \$11.15 per kilowatt-hour, plus an additional \$11.15 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds the higher of 2,500 kilowatts or its contract demand.

Energy charge:

3.447¢ per kilowatt-hour per month.

- D. For customers with contract demand for the month greater than 5,000 kilowatts, but not more than 15,000 kilowatts:

Customer charge:

\$1,500 per delivery point per month

Demand charge:

\$11.58 per kilowatt of billing demand per month plus an additional \$11.58 per kilowatt per month for kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand.

Energy charge:

3.035¢ per kilowatt-hour for up to 620 hours use of metered demand per month.

2.477¢ per kilowatt-hour for all additional kilowatt-hours per month.

- B. If the customer's contract demand is greater than 15,000 kilowatts but less than 25,000 kilowatts:

Customer charge:

\$1,500 per delivery point per month.

Demand charge:

\$11.07 per kilowatt of billing demand per month, plus an additional \$11.07 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand.

Energy charge:

3.035¢ per kilowatt-hour for up to 620 hours use of metered demand per month.

2.477¢ per kilowatt-hour for all additional kilowatt hours per month.

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers (continued)
Year Ended June 30, 2005

F. If the customer's contract demand is greater than 25,000 kilowatts:

Customer charge:

\$1,500 per delivery point per month.

Demand charge:

\$13.50 per kilowatt of billing demand per month, plus an additional \$13.50 per kilowatt per month for each kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand.

Energy charge:

2.433¢ per kilowatt-hour per month.

Number of customers – 14,122

Water

Availability

This rate shall apply to all standard metered connections. Standards as used refers to connections serving a single residence or single commercial establishment.

Inside City Rate

Customer charge \$4.65
First 50,000 gallons @\$1.55 per thousand gallons
Next 50,000 gallons @\$1.30 per thousand gallons
All over 100,000 gallons @\$1.10 per thousand gallons

Outside City Rate

Customer charge \$4.65
First 50,000 gallons @\$3.10 per thousand gallons
Next 50,000 gallons @2.60 per thousand gallons
Over 100,000 gallons @\$2.20 per thousand gallons

Minimum Bill – Inside City

5/8	" Meter \$	7.75
3/4	" Meter \$	8.25
1	" Meter \$	9.25
1 1/2"	Meter \$	10.75
2	" Meter \$	15.25
3	" Meter \$	52.00
4	" Meter \$	70.00
6	" Meter	\$100.00

Minimum Bill – Outside City

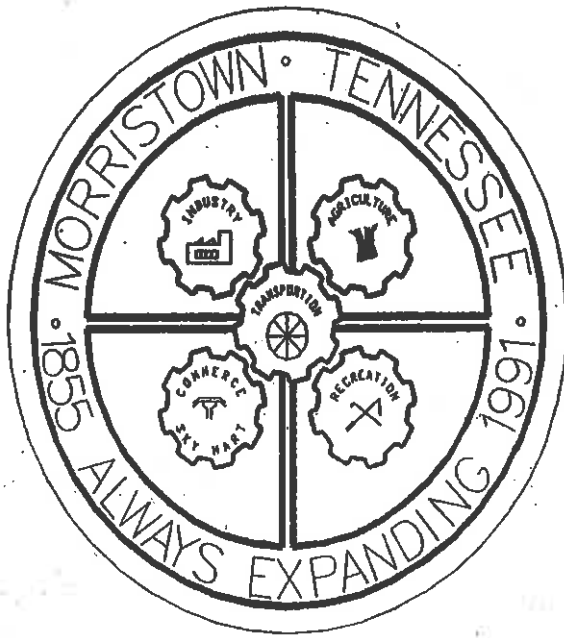
5/8	" Meter \$	10.85
3/4	" Meter \$	11.35
1	" Meter \$	12.10
1 1/2"	Meter \$	13.60
2	" Meter \$	18.10
3	" Meter \$	63.10
4	" Meter \$	73.10
6	" Meter	\$103.10

Private Fire Protection Service Charge

<u>Monthly</u>		<u>Annual</u>	
4"	\$ 25.00	4"	\$ 300.00
6"	\$ 40.00	6"	\$ 480.00
8"	\$ 50.00	8"	\$ 600.00
10"	\$100.00	10"	\$1,200.00
12"	\$125.00	12"	\$1,500.00

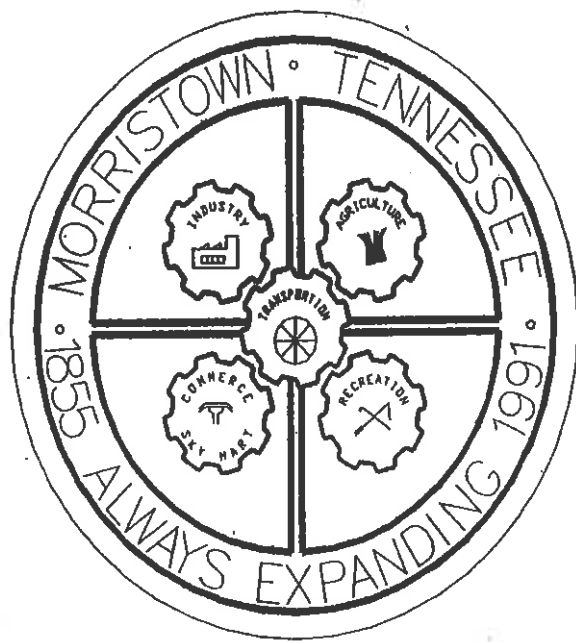
Number of Customers

12,363



GOVERNMENT AUDITING STANDARDS SECTION

**CITY OF MORRISTOWN
TENNESSEE**



CRAINE, THOMPSON, & JONES, P.C.

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 COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Mayor and Board of Aldermen
City of Morristown, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, , each major fund, and the aggregate remaining fund information of City of Morristown, Tennessee, as of and for the year ended June 30, 2005, which collectively comprise the City of Morristown, Tennessee's basic financial statements and have issued our report thereon dated December 15, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether 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 grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Morristown, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, City Council, 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.

December 15, 2005

