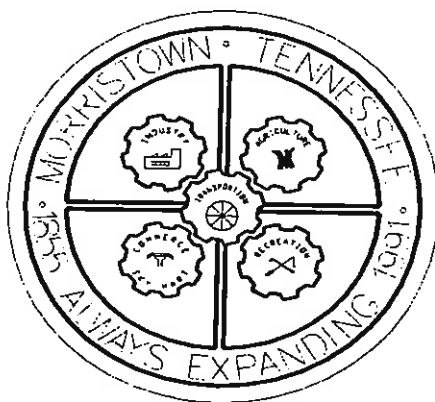


CITY OF MORRISTOWN

TENNESSEE



Gary R. Johnson, Mayor

COMPREHENSIVE ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2006

Prepared by the City of Morristown Finance Department

City of Morristown

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2006

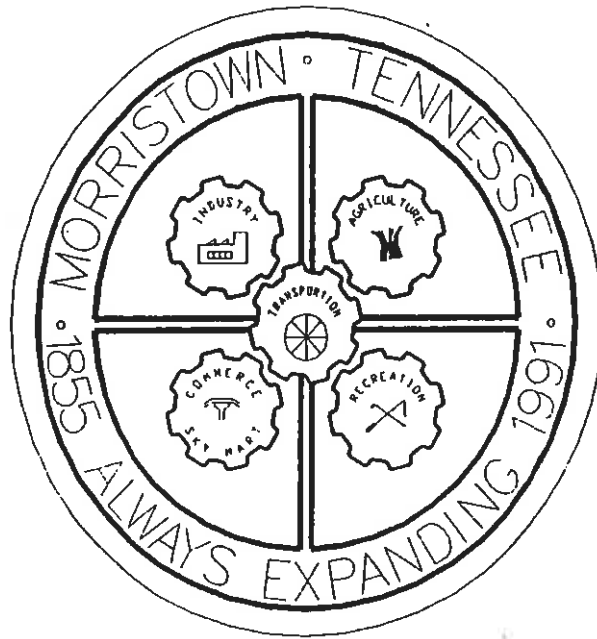
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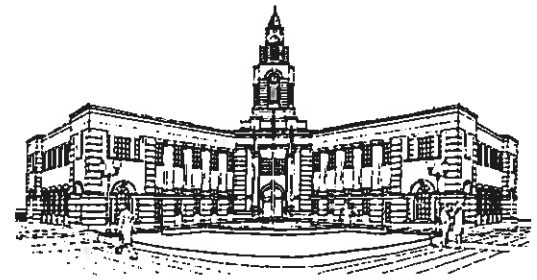
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INTRODUCTORY SECTION

CITY OF MORRISTOWN
TENNESSEE





December 15, 2006

To the Honorable Mayor, Members of the City 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, 2006.

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, 2006, 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, 2006, 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.

City Council adopted 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 still requires City Council's concurrence before any tax incentives are finalized with a prospect.

In December 2005, Colgate-Palmolive announced Morristown as the site of their only facility for their flagship toothpaste product, Colgate Total. The site chosen is on Howell Road across the Norfolk Southern Railroad from Morristown Municipal Airport. The plant will initially employ 225 people with a capital investment of over \$57 million.

Substantial commitments from the City and State were required to secure the plant's location to Morristown. The donation of approximately 40 acres that the City has owned as industrial property since 1980 was a significant part of the negotiations. An agreement for the City and State to prepare the site for construction, including the building of a rail spur to serve the facility, at a projected cost of \$3,970,000 was crucial in the decision making by Colgate. Of this total, the City General Fund obligated \$1,070,000 towards the site improvements.

The State agreed to assist the City with the construction of three legs of Veterans Parkway. Total costs of highway construction were anticipated to be \$3,500,000 with the State agreeing to fund 50 percent. The water, sewer and electric public utilities also invested significant dollars to serve the Colgate plant without any upfront contribution by Colgate.

In Morristown's first attempt, the Tennessee Department of Economic and Community Development awarded the "Three Star" designation, its highest recognition for preparedness in economic development.

In preparation for a major expansion by Kawasaki Tennessee, Inc., site preparation on 20 acres for the construction of the new plant was commenced by the City with financial assistance by the State of Tennessee. Even after normal geotechnical exploration was

completed, an S-shaped area of rock was discovered in the area of the plant floor, increasing costs by nearly \$635,000 beyond the original budget. The City and Industrial Board successfully worked with the State to have all additional funding for the rock removal covered by the State. The site was complete in late 2005.

Ethics

City Council was proactive in adopting a formal code of ethics for themselves and all City employees. With the problems of some members of the State Legislature in the Tennessee Waltz investigation, news stories from surrounding counties about corruption in local government employees and the general trend towards the public's distrust of government, Mayor Gary Johnson has asked that the ethics ordinance for Morristown become a top priority. The ordinance clearly sets a standard for conduct that all officials and employees representing the citizens of Morristown should follow.

Recreation



Continuing the use of partnerships with community organizations, the Morristown Rotary Club donates over \$32,000 and efforts with design and planning for the construction of a "Splashpad" at Fred Miller Park. Total costs of the project were \$72,000 with the City contributing the balance of the funding. Originally conceived as a 50/50 financial partnership, the extras for the park were purchased strictly by the City and City Council's request.

Four new soccer fields at a cost of \$960,000 are begun at Wayne Hansard Park on the southwest side of Morristown. The demand for soccer and the need for a championship venue for the four high school soccer teams has prompted City Council to add this park improvement project to their agenda. Funding for the work comes from the City's 2006 commitment to parks from General Obligation bonds.

The City accepts full responsibility for the renovation of Sherwood Park in April 2006. The initial development plan for \$465,000 of state, utility and private funds has now grown to nearly \$530,000. Private funds for the project have not materialized. City Council agrees to step in and complete the park renovation by March 2007 and obligate the City to fund any cost overruns.

Following City Council's policy of acquiring land adjacent to Fred Miller Park, two parcels of property were purchased during FY 2005-2006. Two additional properties are under consideration in the following fiscal year.

Public Safety

After the Insurance Service Organization's review of Morristown, the Class 3 fire rating is renewed for the vast majority of the City. However, the commercial development and the East Tennessee Progress Center near Interstate 81 Exit 8 are rated as a Class 10 due to the long distances between the development and any of the City's existing fire stations.

To meet the requirement for reestablishing the Class 3 rating city wide, City Council authorizes the construction of Fire Station Six. Funding for the construction came from General Obligation bonds, while the staffing was divided between two city operating budgets (FY 2006 and 2007). Groundbreaking occurred in November 2006 with anticipated completion in April 2007. Cost of the station is \$1,400,000.

After an April 2006 thunderstorm with straight line winds in excess of 70 miles per hour, the main communications tower for Public Safety service was demolished. A top priority was the reconstruction of the tower with stronger foundations. Designs were completed and bid, with the tower reentering service in November 2006 at a cost of \$104,000.

Roadways

The "Moving Morristown" program of roads to relieve congestion on West Andrew Johnson Highway and to open areas for commercial development proceeded during the year. Veterans Parkway, the proposed West Andrew Johnson reliever, was preliminarily designed on four of the planned seven segments. With the announcement of Colgate-Palmolive's new Total toothpaste plant, three legs have been committed to final design, right-of-way acquisition and construction. A fourth leg has moved to the right-of-way acquisition phase. Veterans Parkway from State Route 160 to Bellwood Road is anticipated to be complete by late summer 2007.

The frontage road system along the present West Andrew Johnson Highway also saw significant advances. Designs on Walters Drive, Pearce Drive and Barker Street were all completed with actual construction approved for Barker Street. Walters Drive and Pearce Drive are scheduled to begin construction mid-2007.

Much of the area around the City Center was disrupted as construction on East First North continued. This major reconstruction of over 1 mile of major arterial street in the downtown area included new roadbed, upgraded water and storm water systems and new sidewalks and landscape islands. This \$3,200,000 project is scheduled for completion in April 2007.

The construction of an interstate quality interchange on Crockett Parkway at State Route 343 in the Witt community is met by significant opposition at the public hearing held by the Tennessee Department of Transportation. In May 2006, TDOT withdraws its support for the Appalachian Regional Commission funded project. TDOT has been supportive of keeping the funding in Morristown by advancing the idea that the interchange could be built at Crockett Parkway and Cherokee Park Drive.

Education

City Council partners with the Hamblen County Board of Education, Hamblen County Government and the Jefferson Federal Foundation to renovate space controlled by Walters State Community College as the home of the International Learning Center. This project would place foreign language students of all ages in English immersion classrooms until their proficiency in English enables them to return to regular school classes. The City contributes \$60,000 as their share of renovation costs for the classrooms.

Sanitary Sewer System



The mid-course study of the ten year sewer master plan reveals that the need for major line rehabilitation has accelerated, while revenues from surcharges have dramatically decreased. The installation of pre-treatment facilities at several Morristown businesses has reduced the income from surcharges by \$500,000 per year. In addition, major trunk sewer line collapses are discovered on West First North, South Cumberland and Morris Boulevard.

To be responsive, over \$24,000,000 in rehabilitation of sewer lines needs to be completed in a four year period. Existing funding sources are able to fund approximately \$15,000,000 over the same time period. Lamar Dunn and Associates, the City's consultant for the ten year master plan, recommends a 33% sewer rate increase over a two year period to properly be able to finance the remaining work. City Council adopts the rate increases in late 2006 after proper public hearings and comment periods.

The first of three phases in the replacement of the Turkey Creek sewer trunk line begins early 2006. Turkey Creek is the main interceptor sewer for a majority of Morristown. The line is in excess of 80 years old and suffers from a number of collapses and leaks over its 3 mile length. This project replaces over 1.25 miles of old clay sewer pipe with 30" diameter PVC while maintaining the environmental integrity of the system. Funding for the completed replacement project at over \$3,200,000 is included in the City's 10 year sewer master plan.

From the bankruptcy of Liberty Fibers, the City has the opportunity to purchase a 10 million gallon per day wastewater treatment plant located on the Nolichucky River. The asset of the wastewater treatment plant was valued by McGill and Associates in excess of \$7 million. From the location of the existing plant, nearly 40% of the land area of Hamblen County can be sewered by gravity with minimal expenditures to retrofit the plant for municipal wastes. The strategic goal of having only one provider of sanitary sewer service for Hamblen County will be difficult without the capability of this wastewater plant. Negotiations with the bankruptcy trustee are on going.

The major Collinson Ford trunk sewer construction project was completed during early 2006. This \$1,900,000 project will provide sanitary sewer services to two recently annexed subdivisions, but more importantly, by City Council agreeing to sewer to the geographic end of the drainage way, at least three other developed subdivisions not presently in the City and hundreds of acres for future development can now be easily served.

The three year provision of sanitary sewer service to the four "donut hole" annexations was initiated and on time for providing both sanitary sewers and storm water drainage systems for these areas.

Cash management policies and practices. The City's investment policy is to minimize market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Depository Insurance or collateralized. Cash was invested in certificates of deposit, repurchase agreements, and the State Treasurer's investment pool. The government held all collateral, on deposit, during the fiscal year ended June 30, 2006 in the category of lowest risk as defined by Governmental Accounting Standards Board.

Risk management. The Risk Management Program includes all lines of loss exposure. These exposure areas include: Workers' compensation, Property Damage, General Liability, Error and Omission; Crime; and Accidental Death and Dismemberments. Please see page 80 to the financial statements for more information.

Pension and other post employment benefits. The City of Morristown provides pension and benefits for all of the employees through the Tennessee Consolidated Retirement System. The City of Morristown also provides post retirement health care benefits for certain retirees and their dependents. Additional information on the City's pension arrangements and post employment benefits can be found on page 55.

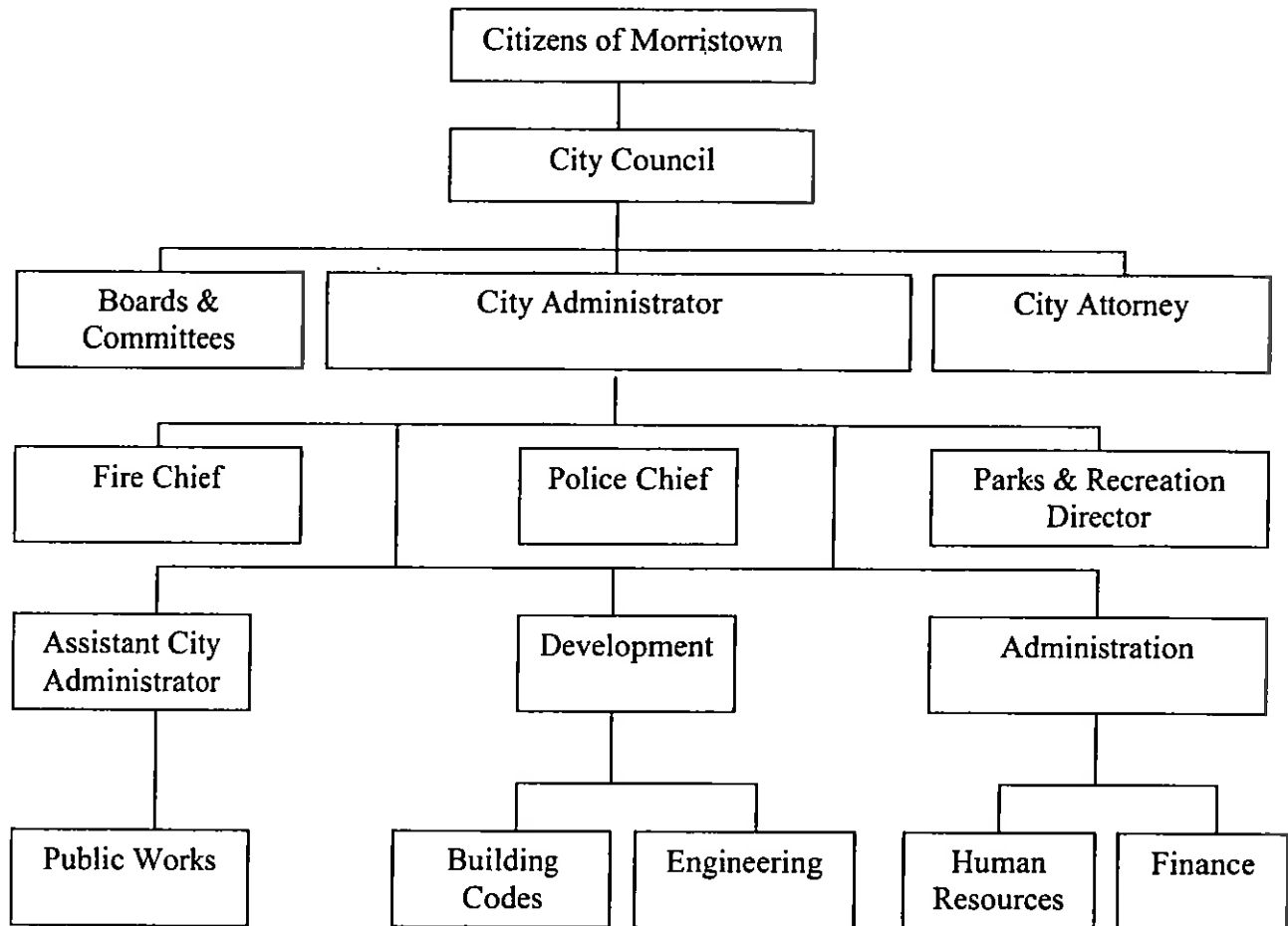
Acknowledgment. The preparation of the CFAR could not have been accomplished without the efforts and dedication of the staff of the Department of Finance. We would like to express our appreciation to the Finance staff and other personnel from various departments, agencies, and authorities that assisted 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


Dyrise Robertson
Finance Director

**CITY OF MORRISTOWN
ORGANIZATION CHART
JUNE 30, 2006**



**CITY OF MORRISTOWN
CITY OFFICIALS
JUNE 30, 2006**

MAYOR

Gary R. Johnson

COUNCIL

Kay Senter, Vice Mayor

Claude Jinks

William Rooney

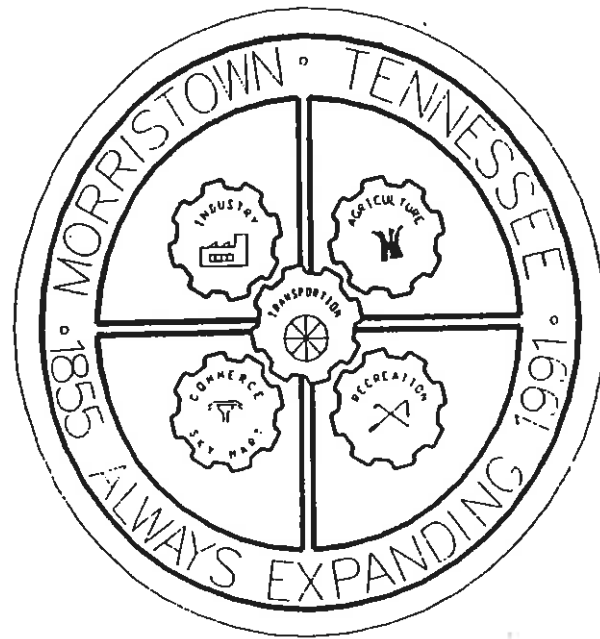
Frank McGuffin

Melvin Tucker

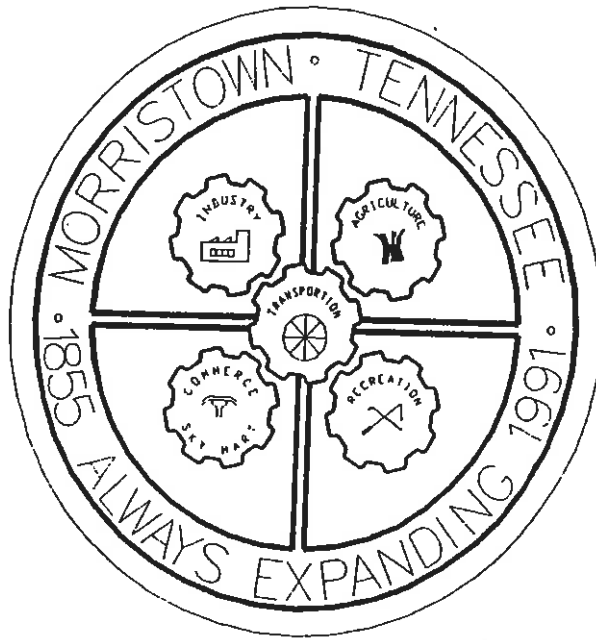
Rick Trent

City Administrator
Assistant City Administrator
City Attorney
Director of Planning
Director of Personnel/Budget
Director of Finance
Police Chief
Fire Chief
Chief Building Official
City Engineer
Sewer Engineer
Director of Parks and Recreation

James H. Crumley
Ralph Fielder
Richard Jessee
Alan Hartman
Brian Janish
Dynise Robertson
Roger Overholt
William Honeycutt
Jay Moore
Jeff Branham
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 accompanying financial statements of the governmental activities, general fund budgetary comparisons, business-type activities, major funds, and remaining fund information which collectively comprise the basic financial statements of the City of Morristown, Tennessee as of and for the year ended June 30, 2006, 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 \$105,091,844 as of June 30, 2006, and total revenue of \$61,263,291 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, 2006, 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, 2006, 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.

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

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

Honorable Mayor and Board of Aldermen

The management's discussion and analysis on pages 19 through 20 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 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.

Craine, Thompson + Jones P.C.

December 15, 2006

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, 2006. 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 \$118 million (net assets), a decrease of \$.4 million during FY 2006. Of this amount, \$16 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 \$12.6 million, an increase of \$5.5 million in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General fund was \$ 4.1 million or 15 % of the 2007 general fund operating budget including transfers out.
- The City of Morristown's total bonded debt increased by \$7.5 million during the current fiscal year. The key factor in this increase was the issuance of \$10 million in general obligation bonds for general fund projects.

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 three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the solid waste fund, both of which are considered to be major funds. Data from

the other governmental fund are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Morristown adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found beginning on page 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 \$118 million at the close of the most recent fiscal year. Net assets increased by \$1 million for the period.

By far the largest portion of the City of Morristown's net assets (83 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	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 38,885,192	\$ 31,148,563	\$ 24,343,611	\$ 39,902,467	\$ 63,228,803	\$ 71,051,030
Capital assets	31,761,839	30,769,243	108,892,114	89,520,395	140,653,952	120,289,638
Total assets	70,647,031	61,917,806	133,235,775	129,422,862	203,882,806	191,340,668
Long-term liabilities outstanding	21,841,520	13,046,630	32,987,680	43,154,110	54,829,200	56,200,740
Other liabilities	10,569,188	9,210,574	20,112,515	8,024,435	30,681,702	17,235,009
Total liabilities	32,410,708	22,257,204	53,100,195	51,178,545	85,510,903	73,435,749
Invested in capital assets, net of related debt	32,367,332	32,485,958	65,965,213	63,008,050	98,332,545	84,784,929
Restricted	3,461,659	3,256,311	531,903	3,522,421	3,993,562	17,487,811
Unrestricted	2,407,332	3,918,333	13,638,464	11,713,846	16,045,796	15,632,179
Net assets	\$ 38,236,323	\$ 39,660,602	\$ 80,135,580	\$ 78,244,317	\$ 118,371,903	\$ 117,904,919

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* (\$16,045,796) may be used to meet Morristown's ongoing obligations to citizens and creditors.

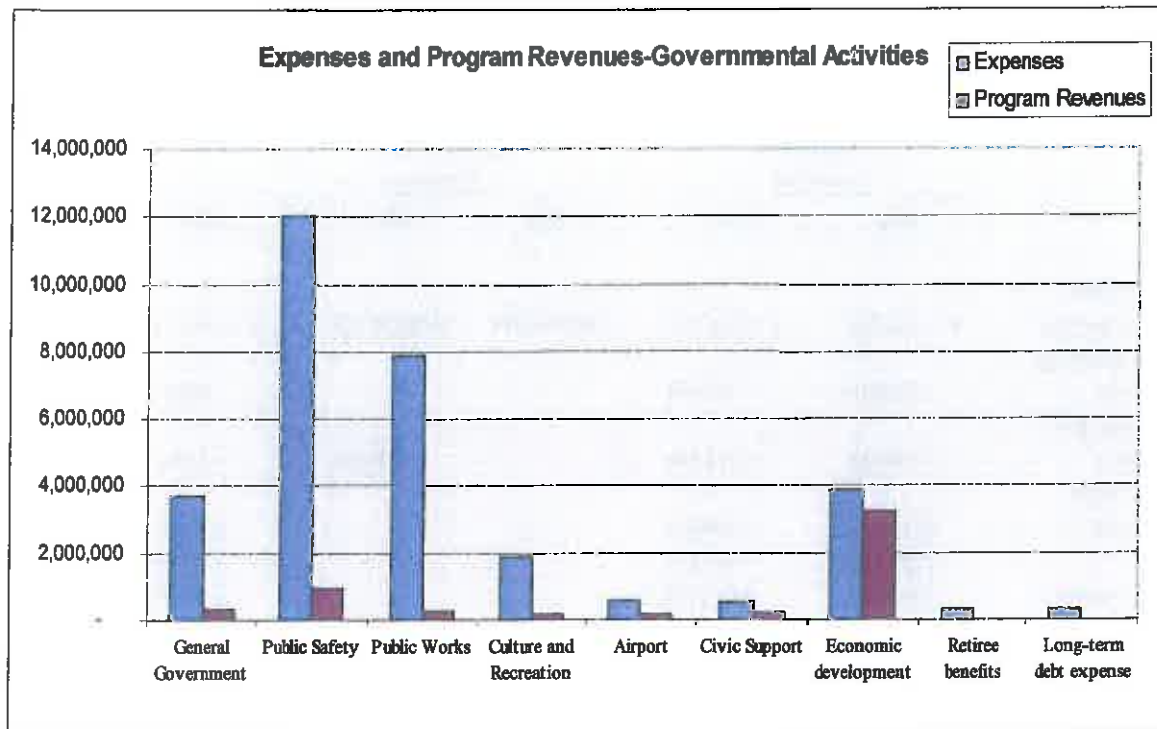
At the end of the current fiscal year, the City of Morristown is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities decreased the City of Morristown's net assets by \$1,219,206. The following is a summary of financial activities for the City during the fiscal year ended June 30, 2006.

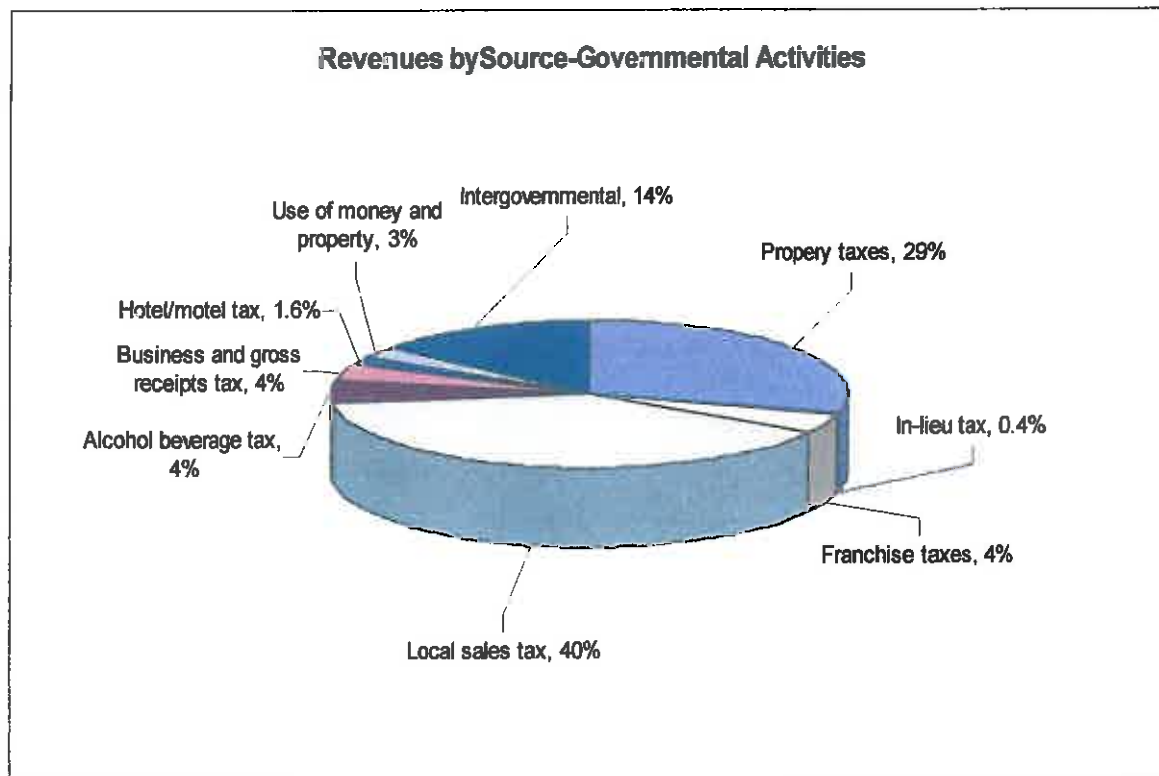
City of Morristown's Changes in Net Assets

	Governmental activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues:						
Program revenues:						
Charges for services	\$ 1,541,741	\$ 1,299,475	\$66,012,824	\$ 58,999,132	\$ 67,554,565	\$ 60,298,607
Operating grants and contributions	505,818	106,773	-	-	505,818	106,773
Capital grants and contributions	3,234,328	1,114,648	-	500,000	3,234,328	1,614,648
General revenues:						
Property taxes	6,989,567	6,544,269	-	-	6,989,567	6,544,269
Sales tax	9,491,687	9,196,618	-	-	9,491,687	9,196,618
Intergovernmental	3,405,260	4,097,107	-	-	3,405,260	4,097,107
Other	4,048,917	3,189,808	-	-	4,048,917	3,189,808
Total revenues	29,217,318	25,548,698	66,012,824	59,499,132	95,230,142	85,047,830
Expenses:						
General government	3,732,690	3,532,804	-	-	3,732,690	3,532,804
Public Safety	12,011,746	11,553,257	-	-	12,011,746	11,553,257
Public Works	7,884,650	5,024,791	-	-	7,884,650	5,024,791
Economic development	3,879,932	1,448,415	-	-	3,879,932	1,448,415
Culture and recreation	1,864,017	1,469,315	-	-	1,864,017	1,469,315
Civic Support	532,178	544,398	-	-	532,178	544,398
Airport	554,398	704,585	-	-	554,398	704,585
Miscellaneous	292,973	434,580	-	-	292,973	434,580
Interest on long-term debt	337,239	217,831	-	-	337,239	217,831
Water	-	-	4,241,596	3,765,578	4,241,596	3,765,578
Sewer	-	-	5,170,188	4,696,065	5,170,188	4,696,065
Electric	-	-	53,341,801	47,493,148	53,341,801	47,493,148
Telcom system	-	-	714,677	4,176	714,677	4,176
Total expenses	31,089,823	24,929,976	63,468,262	55,958,967	94,558,085	80,888,943
Decrease/Increase in net assets before transfer	(1,872,505)	618,722	2,544,562	3,540,165	672,057	4,158,887
Transfers	653,299	824,276	(653,299)	(824,276)	-	-
Decrease/Increase in net assets	(1,219,206)	1,442,998	1,891,263	2,715,889	672,057	4,158,887
Net assets-7/1/2005	39,660,602	39,732,654	78,244,317	75,528,428	117,699,846	115,261,082
Prior period adjustment	(205,073)	(1,515,050)	-	-	(205,073)	(1,515,050)
Net assets-6/30/2006	\$ 38,236,323	\$ 39,660,602	\$ 80,135,580	\$ 78,244,317	\$ 118,371,903	\$ 117,904,919

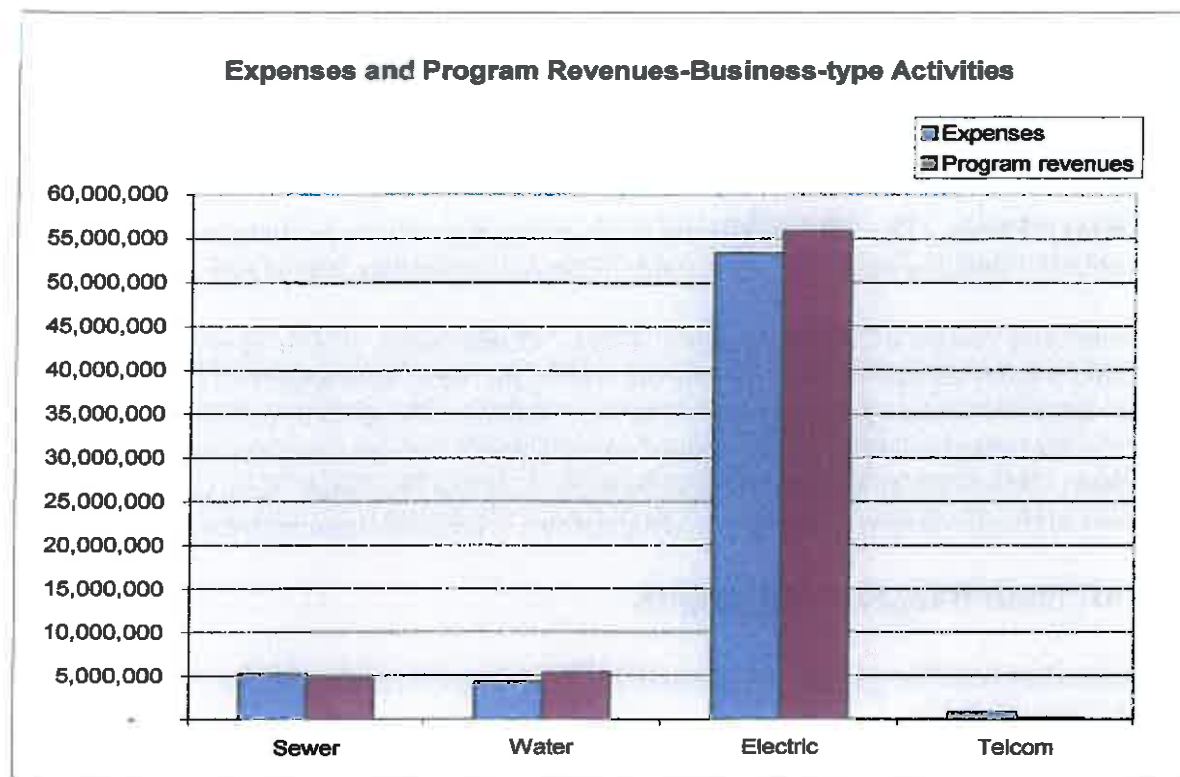
The two largest sources of governmental activity revenue, property taxes and local sales tax, accounted for 56% of the total governmental activity revenues.



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



Business-type activities. Business-type activities increased the City of Morristown's net assets by \$1,891,263.



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 \$12,623,330 an increase of \$5,597,539 in comparison with the prior year.

The General Fund's fund balance increased \$5,639,973. Approximately \$4.1 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 \$ 4,060,987 while total fund balance reached \$ 12,612,463. 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 15 percent of total general fund expenditures, while total fund balance represents 40 percent of that same amount. This compares to 28% and 26% respectively in the FY 2005 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, water, and telcom service for the City, at the end of the year, amounted to \$11.2 million. The city operated sewer system amounted to \$ 2.3 million. The growth in unrestricted net assets for Morristown Utility Commission was \$ 800,000 and for the city sewer fund \$ 1.1 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:

- \$4,805,572 in increases allocated for industrial park projects.
- \$1,981,839 in increases allocated for street improvements.
- \$418,204 in increases allocated to the police department for additional cars and equipment.
- \$339,079 in increases allocated to the recreation department for park improvements.
- \$54,038 in increase allocated to the fire department for a new fire station.

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

Additional budgetary highlights included:

- Funding for a 1.5% cost of living adjustment for all City employees and a 2.5% step raise for eligible employees.

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's governmental and business type activities as of June 30, 2006, amounts to \$ 31.7 million

and \$ 109 million, respectively (net of accumulated depreciation). Capital assets increased \$1 million and \$ 19 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 activities		Business-Type activities	
	2006	2005	2006	2005
Land	\$ 7,553,889	\$ 7,373,682	\$ -	\$ -
Buildings	9,995,182	10,014,217	-	-
Improvements other than buildings	3,803,024	3,571,112	-	-
Machinery and equipment	3,684,128	3,631,428	89,198,171	74,531,160
Infrastructure	6,204,986	5,188,726	-	-
Plant acquisition adjustment			528,416	669,827
Construction in progress	520,630	990,078	19,693,943	14,989,235
Total	\$31,761,839	\$ 30,769,243	\$ 109,420,530	\$ 90,190,222

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 \$ 55.9 million; of this amount \$20.9 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	
	2006	2005	2006	2005	2006	2005
General Obligation Bonds	\$20,922,286	\$11,992,286	-	-	\$20,922,286	\$11,992,286
Revenue Bonds	-	-	\$35,070,247	\$36,498,408	\$35,070,247	\$36,498,408
Total	\$20,922,286	\$11,992,286	\$35,070,247	\$36,498,408	\$55,992,533	\$48,490,694

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 4.9 percent, which is a decrease from a rate of 5.4 percent a year ago. This compares to the state's average unemployment rate of 5.0 percent and the national average rate of 5.5 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 2007 fiscal year.

The 2006-2007 annual budget continued the trend of holding tax rates steady.

Key elements of the General Fund budget include a 1.5% cost of living adjustment for all employees and a 2.5% step raise for eligible employees, over \$400,000 of additional retirement funding, funding for 13 firefighters to open Station 6, dollars for building tomorrow's work force through support of scholarships at Walters State and Tennessee Technology Center, funding for \$7 million of the Moving Morristown projects of roads, \$1 million in parks improvement and 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.

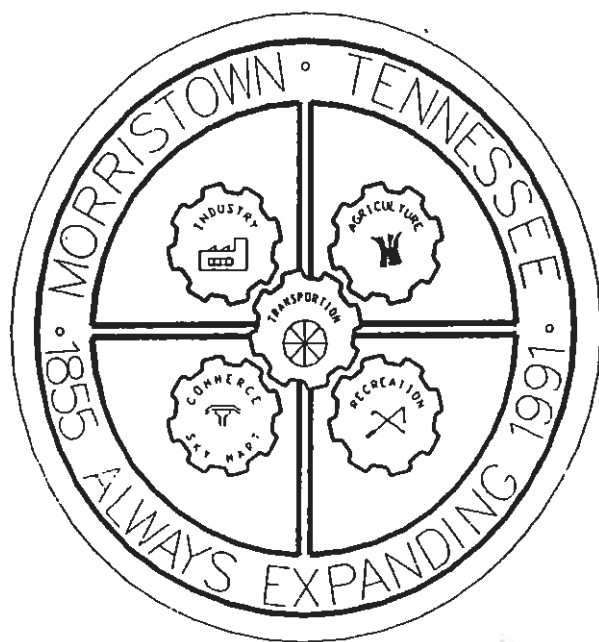
The existing co-pay PPO health insurance plan utilized by about 85% of the work force would be eliminated. All employees would enroll in the existing PPO with its \$100 deductible. The budget is balanced with this health plan option.

The local option sales tax makes up 40% of the City's revenue stream. Beginning with local retail sales in February 2006, the collections of the local option sales taxes for Morristown has not met budget expectations. Fiscal Year 2006 saw actual sales increase by 3.2 %, falling \$273,313, below the budget established. With four months collected of the Fiscal Year 2007 local option sales taxes, collections are 2.8% below the same four months of the previous year. When coupled with a 5% growth projection, the FY 2007 General Fund budget estimate for local option sales tax may finish as much as \$650,000 below the projection. Department heads have been asked to slow or stop any discretionary spending. However the large percentage of the City's budget attributable to payroll and benefits and the fact that six months of the Fiscal Year have passed indicate the difficulty of the Fiscal Year 2007 General Fund finishing in the black. New assumptions about local option sales tax growth will be in place for the Fiscal Year 2008 budget preparation.

The Sewer Fund was 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, funding was provided to examine the current 10 year financial plan and recommend "mid-course" corrections if needed. Later during the year, City Council enacted a 33% sewer rate increase as a result of the mid-course master plan study.

Requests for Information

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



FINANCIAL SECTION
CITY OF MORRISTOWN
TENNESSEE

BASIC FINANCIAL STATEMENTS

City of Morristown, Tennessee
Statement of Net Assets
June 30, 2006

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Unrestricted current assets:			
Cash and cash equivalents	\$ 1,669,664	\$ 9,463,786	\$ 11,133,450
Investments	-	-	-
Receivables (net of allowance for uncollectibles)	13,190,719	5,722,993	18,913,712
Due from Sewer Fund	1,018,310	-	1,018,310
Inventories	41,706	1,205,375	1,247,081
Accrual for unbilled revenue	-	1,650,486	1,650,486
Due from others	200,000	232,004	432,004
Current portion of discounted energy units	-	93,865	93,865
Other current assets	-	2,098	2,098
Total unrestricted current assets	16,120,399	18,370,607	34,491,006
Restricted assets			
Temporarily restricted:			
Cash and cash equivalents	1,507,876	2,248,581	3,756,457
Investments	4,871,824	1,822,934	6,694,758
Total restricted current assets	6,379,700	4,071,515	10,451,215
Total current assets	22,500,099	22,442,122	44,942,221
Capital assets (net of accumulated depreciation)			
Land	7,553,889	-	7,553,889
Buildings	9,995,182	-	9,995,182
Improvements	3,803,024	-	3,803,024
Equipment	3,684,128	-	3,684,128
Infrastructure	6,204,986	-	6,204,986
Utility plant and equipment	-	89,198,171	89,198,171
Construction in progress	520,630	19,693,942	20,214,572
Net capital assets	31,761,839	108,892,113	140,653,952
Other assets:			
Real estate-non-operating	15,103,079	-	15,103,079
Accounts receivable - long-term	1,080,000	-	1,080,000
Discounted energy units less current portion	-	610,225	610,225
Other Assets	202,014	762,898	964,912
Plant acquisition adjustments	-	528,416	528,416
Total other assets	16,385,093	1,901,539	18,286,632
Total assets	\$ 70,647,031	\$ 133,235,774	\$ 203,882,805
LIABILITIES AND NET ASSETS			
Liabilities:			
Current liabilities:			
Accounts payable	\$ 1,970,772	\$ 5,051,217	\$ 7,021,989
Accrued expenses	322,226	2,025,342	2,347,568
Due to General Fund	75,928	1,747,526	1,823,454
Due to others - bonds and deposits	-	1,018,310	1,018,310
Deferred credit to expense	60,000	-	60,000
Unearned revenue	6,835,262	31,000	6,866,262
Other current liabilities	-	272,931	272,931
Current portion of capital lease obligation	-	13,159	13,159
Current portion of long-term debt	1,305,000	825,712	2,130,712
Advances	-	34,788	34,788
Total current liabilities	10,569,188	11,019,985	21,589,173
Noncurrent liabilities:			
Capital lease obligation, less current portion	-	13,160	13,160
Revolving debt agreement	-	9,079,369	9,079,369
Long-term debt less current portion	20,897,286	32,987,680	53,884,966
Other long-term debt	944,234	-	944,234
Total noncurrent liabilities	21,841,520	42,080,209	63,921,729
Total liabilities	32,410,708	53,100,194	85,510,902
Net assets:			
Invested in operating capital assets net of related debt	20,769,253	65,965,213	86,734,466
Invested in non-operating capital assets net of related debt	11,598,079	-	11,598,079
Restricted for:			
Long-term accounts receivable	1,280,000	-	1,280,000
Uncompleted contracts	1,553,984	-	1,553,984
Encumbrances	81,528	-	81,528
State grant	536,264	-	536,264
Narcotics	9,883	-	9,883
Capital improvements	-	531,903	531,903
Unrestricted	2,407,332	13,638,464	16,045,796
Total net assets	\$ 38,236,323	\$ 80,135,580	\$ 118,371,903

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

City of Morristown, Tennessee
Statement of Activities
Year Ended June 30, 2006

Functions/Program Primary government	Program revenues			Changes in Net Assets		
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities
Governmental activities:						
General government	\$ 3,732,690	\$ 223,537	\$ 75,412		\$ (3,433,741)	\$ (3,433,741)
Public safety	12,011,746	904,316	30,897		(11,076,533)	(11,076,533)
Public works	7,884,650	258,709	-		(7,625,941)	(7,625,941)
Parks and recreation	1,864,017	155,179	-		(1,708,838)	(1,708,838)
Civic support	532,178	-	218,697		(313,481)	(313,481)
Industrial Parks	3,879,932	-	-	3,234,328	(645,604)	(645,604)
Retiree benefits	292,973	-	-		(292,973)	(292,973)
Airport	554,398	-	180,812		(373,586)	(373,586)
Long-term debt expense	337,239	-	-		(337,239)	(337,239)
Total governmental activities	31,089,823	1,541,741	505,818	3,234,328	(25,807,936)	(25,807,936)
Business-type activities:						
Water	4,241,596	5,339,101	-	-		1,097,505
Sewer	5,170,188	4,749,533	-	-		(420,655)
Electric	53,341,801	55,821,500	-	-		2,479,699
Telecom system	714,677	102,690	-	-		(611,987)
Total business-type activities	63,468,262	66,012,824	-	-		2,544,562
Total primary government	\$ 94,558,085	\$ 67,554,565	\$ 505,818	\$ 3,234,328	(25,807,936)	(23,263,374)
General Revenues:						
Property taxes					\$ 6,989,567	\$ 6,989,567
In-lieu tax					92,446	92,446
Franchise taxes					1,006,887	1,006,887
Local sales tax					9,491,687	9,491,687
Alcohol beverage tax					1,076,180	1,076,180
Business and gross receipts tax					881,441	881,441
Hotel/motel tax					384,387	384,387
Use of money and property					607,576	607,576
Intergovernmental					3,405,260	3,405,260
Total governmental fund revenue					23,935,431	23,935,431
Transfers					-	-
Total general revenues and transfers					653,299	(653,299)
Change in net assets					24,588,730	(653,299)
Net assets - beginning					(1,219,206)	1,891,263
Prior period adjustment					39,660,602	78,244,317
Net assets as adjusted - beginning					(205,073)	-
Net assets - ending					39,455,529	78,244,317
					\$ 38,236,323	\$ 80,135,580
						\$ 118,371,903

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

City of Morristown, Tennessee
Balance Sheet
Governmental Funds
June 30, 2006

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 3,107,592	\$ 36,087	\$ 33,861	\$ 3,177,540
Receivables (net of allowance for uncollectibles)	13,125,329	57,081	8,309	13,190,719
Prepaid expenses	1,018,310			1,018,310
Inventories	41,706			41,706
Investments	4,871,824			4,871,824
Total assets	<u>\$ 22,164,761</u>	<u>\$ 93,168</u>	<u>\$ 42,170</u>	<u>\$ 22,300,099</u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$ 1,882,404	\$ 83,120	\$ 5,248	\$ 1,970,772
Due to others	51,914			51,914
Accrued expenditures	310,137	9,064	3,025	322,226
Escrow-seized funds	-		24,014	24,014
Deferred credits to expense	60,000			60,000
Unearned revenue	7,247,843			7,247,843
Total liabilities	<u>9,552,298</u>	<u>92,184</u>	<u>32,287</u>	<u>9,676,769</u>

Fund balances:

Reserved for:

Uncompleted contracts	1,553,984	-		1,553,984
Encumbrances	81,528	-		81,528
State grant	536,264	-		536,264
State street aid	-	-		-
Narcotics	-	-	9,883	9,883
Bond Proceeds	6,379,700	-		6,379,700
Unreserved	4,060,987	984		4,061,971
Total fund balance	<u>12,612,463</u>	<u>984</u>	<u>9,883</u>	<u>12,623,330</u>

Total liabilities and fund balance	<u>\$ 22,164,761</u>	<u>\$ 93,168</u>	<u>\$ 42,170</u>
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Amounts reported for governmental activities in the statement of net assets are different because:

Assets not used in operations	15,103,079
Capital assets used in governmental activities are not financial resources and, therefore are not reported in funds	31,761,839
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds	1,280,000
Unamortized bond issue costs	202,014
Adjustment of deferred taxes for accrual basis	(531,653)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	(22,202,286)
Net assets of governmental activities	<u>\$ 38,236,323</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, 2006

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 6,576,986	\$ -	\$ -	\$ 6,576,986
In lieu of taxes	92,446	-	-	92,446
Franchise	1,006,887	-	-	1,006,887
Local sales tax	9,491,687	-	-	9,491,687
Alcoholic beverages	1,076,180	-	-	1,076,180
Business and gross receipts	881,141	-	-	881,141
Hotel/motel tax	384,387	-	-	384,387
Total taxes	19,509,714	-	-	19,509,714
Licenses, permits and fines	760,027	-	144,289	904,316
Use of money and property	607,576	-	-	607,576
Service charges and fees	155,179	-	-	155,179
Intergovernmental	7,405,715	258,709	-	7,664,424
Total revenues	28,438,211	258,709	144,289	28,841,209
Expenditures				
Current:				
General Government:				
Mayor and Council	140,543	-	-	140,543
City Administrators	433,534	-	-	433,534
Finance	544,489	-	-	544,489
Purchasing	89,136	-	-	89,136
Computer operations	149,041	-	-	149,041
Human resources	491,613	-	-	491,613
Legal services	81,632	-	-	81,632
Community and economic affairs	564,604	-	-	564,604
Codes Enforcement	88,208	-	-	88,208
Metropolitan Transportation Organization	197,957	-	-	197,957
Community Development Block Grant	211,748	-	-	211,748
Engineering	281,304	-	-	281,304
Inspections	380,393	-	-	380,393
Total general government	3,654,202	-	-	3,654,202
Public safety:				
Police	5,829,093	-	296,043	6,125,136
Fire	5,570,026	-	-	5,570,026
Other public safety	314,877	-	-	314,877
Total public safety	11,713,996	-	296,043	12,010,039
Public works	7,429,277	1,625,896	-	9,055,173
Parks and recreation	1,957,729	-	-	1,957,729
Airport	275,700	-	-	275,700
Civic support	532,178	-	-	532,178
Industrial Parks	4,355,672	-	-	4,355,672
Retiree benefits	292,973	-	-	292,973
Other	20,531	-	-	20,531
Debt service:				
Bond principal	1,070,000	195,000	-	1,265,000
Bond interest	132,532	45,900	-	178,432
Debt expense	298,827	513	-	299,340
Total debt service	1,501,359	241,413	-	1,742,772
Total expenditures	31,733,617	1,867,309	296,043	33,896,969
Excess (deficiency) of revenue over expe	(3,295,406)	(1,608,600)	(151,754)	(5,055,760)
Other financing sources (uses)				
Bond proceeds	10,000,000	-	-	10,000,000
Transfers in	653,299	1,609,584	108,336	2,371,219
Transfers out	(1,717,920)	-	-	(1,717,920)
Total other financing sources and uses	8,935,379	1,609,584	108,336	10,653,299
Net change in fund balance	5,639,973	984	(43,418)	5,597,539
Fund balance-beginning	7,177,563	-	53,301	7,230,864
Prior period adjustment	(205,073)	-	-	(205,073)
Fund balance as adjusted, beginning	6,972,490	-	53,301	7,025,791
Fund balance-ending	\$ 12,612,463	\$ 984	\$ 9,883	\$ 12,623,330

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, 2006

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

Net change in fund balances--total governmental funds	\$ 5,597,539
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.	992,596
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.	404,000
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.	(8,594,467)
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	(99,890)
Decrease in Deferred Property taxes	481,016
Changes in net assets of governmental activities	\$ (1,219,206)

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, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property	\$ 6,505,000	\$ 6,608,000	\$ 6,576,986	\$ (31,014)
In lieu of taxes	96,701	96,701	92,446	(4,255)
Franchise	825,000	825,000	1,006,887	181,887
Local sales tax	9,765,000	9,765,000	9,491,687	(273,313)
Alcoholic beverages	1,025,000	1,025,000	1,076,180	51,180
Business and gross receipts	875,000	875,000	881,141	6,141
Hotel/motel tax	310,000	310,000	384,387	74,387
Total taxes	19,401,701	19,504,701	19,509,714	5,013
Licenses, permits and fines	890,000	890,000	760,027	(129,973)
Use of money and property	470,000	558,486	607,576	49,090
Service charges and fees	130,000	130,000	155,179	25,179
Intergovernmental	4,379,012	8,107,446	7,405,715	(701,731)
Total revenues	25,270,713	29,190,633	28,438,211	(752,422)
Expenditures				
Current:				
General Government:				
Mayor and Council	161,641	161,641	140,543	21,098
City Administrators	400,177	400,177	433,534	(33,357)
Finance	534,878	534,877	544,489	(9,612)
Purchasing	73,097	73,103	89,136	(16,033)
Computer operations	151,020	151,020	149,041	1,979
Human resources	209,904	209,904	491,613	(281,709)
Legal services	100,077	100,076	81,632	18,444
Community and economic affairs	445,617	445,618	564,604	(118,986)
Codes enforcement	62,709	62,710	88,208	(25,498)
Metropolitan transportation organization	772,178	772,178	197,957	574,221
Community Development Block Grant	337,716	337,716	211,748	125,968
Engineering	298,555	298,555	281,304	17,251
Inspections	353,254	353,253	380,393	(27,140)
Other	-	400,000	-	400,000
Total general government	3,900,823	4,300,828	3,654,202	646,626
Public safety:				
Police	5,202,582	5,620,795	5,829,093	(208,298)
Fire	5,480,166	5,534,194	5,570,026	(35,832)
Other public safety	324,271	324,271	314,877	9,394
Total public safety	11,007,019	11,479,260	11,713,996	(234,736)
Public works	4,505,678	6,487,515	7,429,277	(941,762)
Parks and recreation	1,448,234	1,787,311	1,957,729	(170,418)
Airport	138,050	138,050	275,700	(137,650)
Civic support	502,000	502,000	532,178	(30,178)
Economic development	175,000	175,000	-	175,000
Industrial Parks	25,000	4,830,572	4,355,672	474,900
Retiree health insurance	318,448	318,448	292,973	25,475
Other	400,000	400,000	20,531	379,469
Debt service:				
Bond principal	1,320,000	1,320,000	1,070,000	250,000
Bond interest	600,000	600,000	132,532	467,468
Bond issuance costs	5,000	5,000	298,827	(293,827)
Total debt service	1,925,000	1,925,000	1,501,359	423,641
Total expenditures	24,345,252	32,343,984	31,733,617	610,367
Excess (deficiency) of revenue over expenditures	\$ 925,461	\$ (3,153,351)	\$ (3,295,406)	\$ (142,055)
Other financing sources (Uses)				
Bond Proceeds	\$ -	\$ 3,024,594	\$ 10,000,000	\$ 6,975,406
Transfers in	728,299	728,299	653,299	(75,000)
Transfers out	(1,653,760)	(1,653,760)	(1,717,920)	(64,160)
Total other financing sources and uses	(925,461)	2,099,133	8,935,379	6,836,246
Net change in fund balance	-	(1,054,218)	5,639,973	6,694,191
Fund balance, beginning	7,177,583	7,177,563	7,177,563	-
Prior period adjustment	-	-	(205,073)	(205,073)
Fund balance-ending	<u>\$ 7,177,583</u>	<u>\$ 6,123,345</u>	<u>\$ 12,612,463</u>	<u>\$ 6,489,118</u>

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

City of Morristown, Tennessee
Statement of Net Assets
Proprietary Funds
Year Ended June 30, 2006

	Business-type Activities Enterprise Funds				
	Sewer System	Water System	Electric System	Telecom System	Total
Assets					
Current assets:					
Cash and cash equivalents	\$ 518,777	\$ 1,834,093	\$ 7,110,916	\$ -	\$ 9,463,786
Investments	-	-	-	-	-
Accounts receivable (net of allowance for uncollectibles)	66,896	-	5,656,097	-	5,722,993
Accrual for unbilled revenue	253,406	161,872	1,235,208	-	1,650,486
Current portion of discounted energy units	-	-	93,865	-	93,865
Due from other funds	350,126	-	1,291,404	-	1,641,530
Due from others	-	-	232,004	-	232,004
Other current assets	-	-	-	2,098	2,098
Materials and supplies inventory	37,576	307,335	860,464	-	1,205,375
Total current assets	<u>1,226,781</u>	<u>2,303,300</u>	<u>16,479,958</u>	<u>2,098</u>	<u>20,012,137</u>
Restricted cash and cash equivalents:					
Cash and cash equivalents	-	-	-	2,248,581	2,248,581
Investments	991,031	-	-	-	991,031
Total restricted current assets	<u>991,031</u>	<u>-</u>	<u>-</u>	<u>2,248,581</u>	<u>3,239,612</u>
Total current assets	<u>2,217,812</u>	<u>2,303,300</u>	<u>16,479,958</u>	<u>2,250,679</u>	<u>23,251,749</u>
Restricted investments	<u>-</u>	<u>531,903</u>	<u>-</u>	<u>300,000</u>	<u>831,903</u>
Capital assets:					
Plant and equipment in service	48,194,385	46,952,797	53,636,320	840,397	149,623,899
Less accumulated depreciation	24,263,190	14,512,544	21,631,831	18,163	60,425,728
Sub-Total	<u>23,931,195</u>	<u>32,440,253</u>	<u>32,004,489</u>	<u>822,234</u>	<u>89,198,171</u>
Construction in progress	3,602,844	290,355	554,354	15,246,389	19,693,942
Total capital assets (net of accumulated depreciation)	<u>27,534,039</u>	<u>32,730,608</u>	<u>32,558,843</u>	<u>16,068,623</u>	<u>108,892,113</u>
Plant acquisition adjustments, net of accumulated amortization	-	205,093	323,323	-	528,416
Discounted energy units less current portion	-	-	610,225	-	610,225
Other assets	33,609	142,040	182,163	405,086	762,898
Total assets	<u>\$ 29,785,460</u>	<u>\$ 35,912,944</u>	<u>\$ 50,154,512</u>	<u>\$ 19,024,388</u>	<u>\$ 134,877,304</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ 949,869	\$ 91,244	\$ 3,726,470	\$ 283,635	\$ 5,051,218
Due to other funds	1,018,310	28,447	350,126	1,262,957	2,659,840
Due to City of Morristown	-	-	-	-	-
Customer deposits	-	-	1,743,926	3,600	1,747,526
Deferred revenues	-	-	-	31,000	31,000
Accrued expenses	15,861	588,383	1,390,193	30,905	2,025,342
Other current liabilities	-	-	244,477	28,454	272,931
Current portion of capital lease obligation	-	13,159	-	-	13,159
Current portion of long-term debt	505,000	135,000	185,712	-	825,712
Advances from Tennessee Valley Authority Home Weatherization Loan Program, net of advances to customers	-	-	34,788	-	34,788
Total current liabilities	<u>2,489,040</u>	<u>856,233</u>	<u>7,675,692</u>	<u>1,640,551</u>	<u>12,661,516</u>
Noncurrent liabilities:					
Capital lease obligation, less current portion	-	13,160	-	-	13,160
Revolving debt agreement	-	9,079,369	-	-	9,079,369
Long-term debt less current portion	10,317,714	2,325,500	2,321,321	18,000,000	32,964,535
Other long-term liabilities	23,145	-	-	-	23,145
Total noncurrent liabilities	<u>10,340,859</u>	<u>11,418,029</u>	<u>2,321,321</u>	<u>18,000,000</u>	<u>42,080,209</u>
Total liabilities	<u>12,829,899</u>	<u>12,274,262</u>	<u>9,997,013</u>	<u>19,640,551</u>	<u>54,741,725</u>
Net Assets					
Invested in capital assets, net of related debt	14,604,512	21,164,420	30,051,810	144,471	65,965,213
Restricted	-	531,903	-	-	531,903
Unrestricted	2,351,050	1,942,359	10,105,689	(760,634)	13,638,464
Total net assets	<u>16,955,562</u>	<u>23,638,682</u>	<u>40,157,499</u>	<u>(616,163)</u>	<u>80,135,580</u>
Total liabilities and net assets	<u>\$ 29,785,461</u>	<u>\$ 35,912,944</u>	<u>\$ 50,154,512</u>	<u>\$ 19,024,388</u>	<u>\$ 134,877,305</u>

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, 2006

	Business-type Activities Enterprise Funds				
	Sewer System	System	System	System	Total
Cash flows from operating activities					
Receipts from customers and users	\$ 4,692,738	\$ 5,353,369	\$ 53,809,525	\$ 137,582	\$ 63,993,214
Cash received from City of Morristown	-	-	823,007	-	823,007
Payments to suppliers	(2,785,583)	(1,875,045)	(46,671,359)	(239,587)	(51,571,574)
Payments to employees	(655,267)	(1,155,661)	(3,700,229)	(364,729)	(5,875,886)
Net cash provided by operating activities	<u>1,251,888</u>	<u>2,322,663</u>	<u>4,260,944</u>	<u>(466,734)</u>	<u>7,368,761</u>
Cash flows from noncapital financing activities:					
Transfers to primary government (tax equivalent payments)	-	(32,020)	(621,279)	-	(653,299)
Interfund advances	1,018,310	-	-	-	1,018,310
Net cash flows from investing activities	<u>1,018,310</u>	<u>(32,020)</u>	<u>(621,279)</u>	<u>-</u>	<u>365,011</u>
Cash flows from financing activities					
Interest received on investments	32,612	77,978	324,992	-	435,582
Purchase of investments	-	(513)	-	14,500,000	14,499,487
Sale of investments (bond proceeds)	2,000,000	-	-	-	2,000,000
Net cash flows from investing activities	<u>2,032,612</u>	<u>77,465</u>	<u>324,992</u>	<u>14,500,000</u>	<u>16,935,069</u>
Cash flows from capital and related financing activities					
Payments on capital lease obligations	-	(34,494)	-	-	(34,494)
Net additions to plant acquisition adjustments	-	28,288	-	-	28,288
Net additions to capital assets	(5,251,819)	(1,238,072)	(2,825,441)	(15,281,891)	(24,597,223)
Interfund advances (repayments)	1,018,310	(97,011)	(751,784)	848,795	1,018,310
Contributions from developers	-	78,869	-	(20,285)	58,584
Capital contributions-tap fees	213,250	-	-	-	213,250
Principal payments on long term debt	(477,452)	(555,000)	(193,161)	-	(1,225,613)
Interest paid on long term debt	(336,836)	(359,458)	(80,312)	-	(776,606)
Draws on note payable agreement	-	182,549	-	-	182,549
Net cash flows from financing activities	<u>(4,834,547)</u>	<u>(1,994,329)</u>	<u>(3,850,698)</u>	<u>(14,453,381)</u>	<u>(25,132,955)</u>
(Decrease) increase in cash and cash equivalents	<u>(531,737)</u>	<u>373,779</u>	<u>113,959</u>	<u>(420,115)</u>	<u>(464,114)</u>
Cash and cash equivalents, beginning	<u>1,050,514</u>	<u>1,460,314</u>	<u>6,996,957</u>	<u>2,668,696</u>	<u>12,176,481</u>
Cash and cash equivalents, ending	<u>\$ 518,777</u>	<u>\$ 1,834,093</u>	<u>\$ 7,110,916</u>	<u>\$ 2,248,581</u>	<u>\$ 11,712,367</u>
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	(329,681)	1,300,116	2,235,019	(591,702)	2,613,752
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation and amortization	1,600,414	1,061,768	2,109,958	5,467	4,777,607
Provision for losses on accounts receivable	-	-	136,000	-	136,000
Redemption of discounted energy units	-	-	87,972	-	87,972
Changes in operating assets and liabilities:					
Accounts receivable	(12,596)	-	(1,066,958)	292	(1,079,262)
Accrual of unbilled revenue	(47,503)	14,268	(255,994)	-	(289,229)
Due from other funds	3,304	-	-	-	3,304
Materials and supplies inventory	(29,160)	(17,327)	(133,591)	-	(180,078)
Other assets	-	(23,370)	(29,277)	(195,080)	(247,727)
Accounts payable	53,619	37,232	1,103,981	227,680	1,422,512
Customer deposits and prepayments	-	-	37,006	3,600	40,606
Other liabilities	13,491	(50,024)	36,828	83,009	83,304
Net cash provided by operating activities	<u>\$ 1,251,888</u>	<u>\$ 2,322,663</u>	<u>\$ 4,260,944</u>	<u>\$ (466,734)</u>	<u>\$ 7,368,761</u>

City of Morristown, Tennessee
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2006

	Business-type Activities Enterprise Funds				
	Sewer System	Water System	Electric System	Telecom System	Total
Operating Revenues					
Metered sales	\$ 4,597,042	\$ 5,282,318	\$ 54,818,091	\$ 102,323	\$ 64,799,774
Other operating revenues	152,491	56,783	1,003,409	367	1,213,050
Total operating revenues	4,749,533	5,339,101	55,821,500	102,690	66,012,824
Operating expenses:					
Power purchased	-	-	46,256,090	-	46,256,090
Operations	2,003,548	2,464,850	3,671,456	602,834	8,742,688
Maintenance	1,475,252	446,312	1,312,788	84,026	3,318,378
Depreciation and amortization	1,600,414	1,077,909	2,117,455	5,467	4,801,245
Taxes	-	-	187,230	2,065	189,295
Miscellaneous	-	49,914	41,462	-	91,376
Total operating expenses	5,079,214	4,038,985	53,586,481	694,392	63,399,072
Operating income	(329,681)	1,300,116	2,235,019	(591,702)	2,613,752
Other income (expense):					
Investment income	32,612	77,978	324,992	-	435,582
Interest expense	(336,836)	(359,458)	(80,312)	(20,285)	(796,891)
Net other income	(304,224)	(281,480)	244,680	(20,285)	(361,309)
Income (loss) before contributions and transfers	(633,905)	1,018,636	2,479,699	(611,987)	2,252,443
Contributions from developers	-	78,869	-	-	78,869
Capital contributions - tap fees	213,250	-	-	-	213,250
Transfers out	-	(32,020)	(621,279)	-	(653,299)
Change in net assets	(420,655)	1,065,485	1,858,420	(611,987)	1,891,263
Net assets-beginning	17,376,217	22,573,197	38,299,079	(4,176)	78,244,317
Net assets - ending	\$ 16,955,562	\$ 23,638,682	\$ 40,157,499	\$ (616,163)	\$ 80,135,580

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

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, electric, and telcom activities. The sewer activities are directed by the City Administrator.

Additionally, the government reports the following fund types:

The *narcotics fund* is required by State of Tennessee.

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

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

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's enterprise funds and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

2. Receivables and payables

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

All trade receivables were considered collectible at June 30, 2006. 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	\$ 3,177,540	\$ 4,871,824
Enterprise type funds	\$ 11,712,367	\$ 991,031
Totals	<u>\$ 14,889,907</u>	<u>\$ 5,862,855</u>

As of June 30, 2006, Morristown Utility Commission has approximately \$179,000 in cash and cash equivalents exposed to credit risk because the related accounts were uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the Commission's name or were not categorized at all. A portion of the City's deposits as of June 30, 2006, were not covered by the bank collateral pool administered by the Treasury of the State of Tennessee. Banks participating in the pool report the aggregate balance of their public funds to the State. Collateral to secure those deposits must be pledged to protect the State of Tennessee in the Local Government Investment Pool.

The City has a repurchase agreement with Hamblen County Bank whereby City funds are invested overnight in securities of the U.S. Treasury Department. At June 30, 2006, the City had \$4,744,792 invested in these securities and has included these in cash and cash equivalents.

The short-term investments represent un-drawn bond proceeds.

Morristown Utility Commission has \$300,000 invested in municipal bonds that have an AAA rating. This is in conformity with state statutes.

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				
Taxes	7,365,259	-	-	7,365,259
Accounts	1,744,013	8,309	5,722,993	7,475,315
Intergovernment	4,071,135	57,081	-	4,128,216
Gross receivables	13,180,407	65,390	5,722,993	18,968,790
Less: Allowance for bad debt	(55,078)	-	-	(55,078)
Net receivables	\$ 13,125,329	\$ 65,390	\$ 5,722,993	\$ 18,913,712

Included in taxes receivable of the General Fund is property taxes of \$6,835,272 that were assessed on January 1, 2006, but will not be billed until after June 30, 2006. 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, 2005	Increases	Decreases	Balance June 30, 2006
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,373,682	\$ 180,207	\$ -	\$ 7,553,889
Construction in progress	990,078	1,363,139	(1,832,587)	520,630
Total capital assets not being depreciated	8,363,760	1,543,346	(1,832,587)	8,074,519
Capital assets being depreciated:				
Buildings	15,354,164	244,104	-	15,598,268
Improvements other than buildings	10,982,853	701,458	-	11,684,311
Machinery and equipment	8,639,085	648,131	-	9,287,216
Infrastructure	12,278,476	1,460,747	-	13,739,223
Total capital assets being depreciated	47,254,578	3,054,440	-	50,309,018
Less: accumulated depreciation:				
Buildings	(5,339,947)	(263,139)	-	(5,603,086)
Improvements other than buildings	(7,411,741)	(469,546)	-	(7,881,287)
Machinery and equipment	(5,007,657)	(595,431)	-	(5,603,088)
Infrastructure	(7,089,750)	(444,487)	-	(7,534,237)
Total accumulated depreciation	(24,849,095)	(1,772,603)	-	(26,621,698)
Net capital assets being depreciated	22,405,483	1,281,837	-	23,687,320
Total capital assets-government activities	\$ 30,769,243	\$ 2,825,183	\$ (1,832,587)	\$ 31,761,839

	Balance July 1, 2005	Increases	Decreases	Balance June 30, 2006
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,716,406	\$ 140,649	\$ -	\$ 1,857,055
Construction in progress	14,989,236	23,104,140	(18,399,433)	19,693,943
Total assets not being depreciated	16,705,642	23,244,789	(18,399,433)	21,550,998
Capital assets being depreciated:				
Building and improvements	28,541,914	10,762,618	(142,223)	39,162,309
Transmission and distribution	90,243,535	6,770,224	(281,765)	96,731,994
Furniture, fixtures and equipment	10,267,415	1,677,976	(72,849)	11,872,542
Total capital assets being depreciated	129,052,864	19,210,818	(496,837)	147,766,845
Less accumulated depreciation:				
Building and improvements	(1,298,784)	202,927		(1,501,711)
Transmission and distribution	(41,807,537)	(3,994,119)	483,555	(43,318,101)
Furniture, fixtures and equipment	(13,131,789)	(556,653)	82,525	(13,605,917)
Total capital assets being depreciated	(56,238,110)	4,753,699	566,080	(60,425,729)
Net capital assets being depreciated	72,814,754	14,457,119	69,243	87,341,116
Total net capital assets-business type activities	89,520,396	37,701,908	(18,330,190)	108,892,114
Total net capital assets	\$ 120,289,639	\$ 40,527,091	\$ (20,162,777)	\$ 140,653,953

Depreciation expense was charged to government activities as follows:

General Government	\$ 95,396
Public Safety	554,425
Public Works	595,076
Parks and Recreation	115,673
Airport	412,033
Total	<u>\$ 1,772,603</u>

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

Sewer	\$ 1,596,610
Water and Electric Power	3,157,088
Total	<u>\$ 4,753,698</u>

D. Accounts payable and other current liabilities:

	Governmental	Business Type
Accounts Payable	\$ 1,970,772	\$ 5,050,218
Accrued payroll and other liabilities	322,226	2,025,342
Total	<u>\$ 2,292,998</u>	<u>\$ 7,075,560</u>

E. Interfund receivables, payables, and transfers

The interfund receivables and payables as of June 30, 2006 were as follows:

<u>Receivable from</u>	<u>Payable to</u>	<u>Amount</u>
Telcom System	Electric System	\$ 1,262,957
Sewer System	General Fund	1,018,310
Electric System	Sewer System	350,126
Water System	Electric System	28,477
Total		<u>\$ 2,659,840</u>

Interfund transfers for the year ended June 30, 2006, were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 1,609,584
Electric System	General Fund	621,279
General Fund	Narcotics Fund	108,336
Water System	General Fund	32,020
Total		<u>\$ 2,371,219</u>

F. Deferred revenue

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

June 30, 2006 and delinquent taxes receivable	\$ 6,835,262
Advance payment for street work	60,000
	<u>\$ 6,895,262</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, 2006.

<u>Description and Purpose</u>	<u>Amount of Original Issue (Bonds Only)</u>	<u>Range of Final Maturity Dates</u>	<u>Range of Interest Rates (%)</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2006</u>
Primary Government							
General long-term debt							
2003 Refunding Industrial Park	4,855,000	2003-2013	1.1 - 4.25	3,990,000	-	440,000	3,550,000
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	-	-	-	-
2001 Refunding	4,690,000	2003-2010	3.9	3,185,000	-	555,000	2,630,000
2005 Public Improvement	2,000,000	2014-2025	5	2,000,000	-	75,000	1,925,000
2006 Public Improvement	10,000	2014-2027	5	-	10,000,000	-	10,000,000
Total general bonds and notes				<u>11,992,286</u>	<u>10,000,000</u>	<u>1,070,000</u>	<u>20,922,286</u>
Revenue bonds and notes							
Sewer bonds							
2003 Refunding	1,775,000	2000-2014	2.0-5.0	1,500,000	-	140,000	1,360,000
2001 refunding	4,180,000	2003-2013	3.99	3,225,000	-	345,000	2,880,000
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	400,194	-	93,161	307,033
Series V-A-2 Bonds	2,500,000	2004-2018	Varies	2,300,000	-	100,000	2,200,000
Water system							
Water system bonds series 1992	2,500,000	2000-2007	4.8-5.7	445,000	-	225,000	220,000
Water system bonds series 1996	2,800,000	2000-2011	4.15-5.25	1,360,000	-	200,000	1,160,000
Water Department promissory note	995,500	2002-2013	Varies	720,500	-	75,000	645,500
Water Department promissory note	600,000	2004-2016	Varies	490,000	-	55,000	435,000
Telecom System							
Telecom System promissory note	18,000,000	2016-2030	3.75	18000000	-	-	18,000,000
Total revenue bonds and notes				<u>35,023,408</u>	<u>-</u>	<u>1,233,161</u>	<u>33,790,247</u>
Solid Waste Bonds							
Solid Waste Refunding	1,649,400	2005-2012	2.0-5	1475000	-	195,000	1,280,000
Total bonds				<u>\$ 48,490,694</u>	<u>\$ 10,000,000</u>	<u>\$ 2,498,161</u>	<u>\$ 55,992,533</u>

Also, included in non-current liabilities is a liability for compensated absences in the sewer system of \$23,145 and in the general fund of \$944,234. In addition, there is included in the non-current liabilities \$9,079,369 proceeds from a revolving loan agreement with the State of Tennessee, wherein the Morristown Utility System has borrowed \$9,079,369 to improve the water system. In addition, Morristown Utility System has a capital lease payable of \$26,319, \$13,160 of which is included in long-term liabilities.

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

Year Ending	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2007	\$ 1,305,000	\$ 1,022,605	\$ 825,712	\$ 1,361,537
2008	1,355,000	1,017,844	1,279,497	1,315,376
2009	1,405,000	969,827	1,474,496	1,270,773
2010	1,475,000	916,177	1,539,500	1,214,551
2011	941,750	859,839	3,241,080	1,527,513
2012-2027	15,720,536	7,723,997	25,429,964	11,015,566
Totals	<u>\$ 22,202,286</u>	<u>\$ 12,510,289</u>	<u>\$ 33,790,249</u>	<u>\$ 17,705,316</u>

Telcom System Series D-1-A Bond

During 2005, the City issued variable rate \$18,000,000 Public Building Authority of Blount County Bonds (Series D-1-A) on behalf of the Telecom system. The bonds were issued for the purpose of financing the cable television and internet infrastructure of the Telecom System. The bonds are payable in annual installments ranging from \$375,000 in 2009 to \$1,525,000 in 2030. These bonds are included in the business activity liabilities.

The Bond is secured by the taxing authority of the City. As of June 30, 2006, the Commission had \$2,548,581 in proceeds from this debt issue on deposit with a financial institution which were restricted in use to acquisition, construction, improvement, renovation, equipping and repair of a cable television and internet system.

Under its loan agreement, the Public Building Authority of Blount County, Tennessee (the "Authority"), at the request of the City, has entered into an interest rate swap agreement for all of the outstanding Local Government Improvement Bonds, Series D-1-A.

In order to protect against the potential of rising interest rates and to balance its mixture of variable and fixed rate debt, the City requested the Authority, on its behalf, to enter into an interest rate swap in connection with its \$18 million Series B-1-A variable-rate bonds. The intention of the swap was to effectively change the City's variable interest rate on the bonds to a synthetic fixed rate.

Under the swap, the Authority pays the counterparty a fixed payment of 3.314% and receive a variable payment computed as 59% of the one-month London Interbank Offered Rate ("LIBOR") plus 35 basis points (0.35%). The swap has a notional amount of \$18 million and the associated variable-rate bond has an \$18 million principal amount. The interest swap agreement is based on the same amortization schedule as the outstanding principal of the Series D-1-A Bonds. The bonds' variable-rates have historically approximated the bond Market Association Municipal Index TM (the "BMA").

The bonds mature on June 1, 2030, and the related swap agreement matures on June 1, 2015. As of June 30, 2006 and 2005, rated under this agreement were as follows:

	2006	2005
Fixed payment to counterparty	3.31%	3.31%
Variable payment from counterparty	-3.58%	-2.31%
Net interest rate swap payment	-0.27%	1.00%
Variable rate bond coupon payments	3.91%	2.30%
Synthetic interest rate on bonds	3.64%	3.30%

The swap agreement yielded interest savings of approximately \$114,000 and \$30,000 in 2006 and 2005, respectively.

As of June 30, 2006, the swap had a positive fair value of \$236,752. The positive fair value of the swap may be countered by increases in total interest payments required under the variable-rate bond, creating higher synthetic rates. Because the rates on the government's variable-rate bonds adjust to changing interest rates, the bonds do not have a corresponding fair value increase. The fair value model calculates future cash flows by projecting forward rates, and then discounts those cash flows at their present value.

As of June 30, 2006, the City's exposure to credit risk is equal to the amount of the swap's positive fair value. However, should interest rates change and the fair value of the swap becomes negative, the City would no longer be exposed to credit risk, the Authority, on behalf of the City, received a Financial Guarantee Insurance Policy for the swap agreement from Ambac Assurance Corporation, who was rated "AAA" by Standard and Poor's and Fitch and "Aaa" by Moody's Investor Service as of June 30, 2006. If Ambac's credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian.

As noted above, the swap exposes the city to basis risk should BMA increase to above 59% of LIBOR plus 35 basis points, thus increasing the synthetic rate on the bonds. If a change occurs that results in the BMA to be below 59% of LIBOR plus 35 basis points, then the synthetic rate on the bonds will decrease.

The derivative contract uses the International Swap Dealers Association Master Agreement, which includes standard termination events, such as failure to pay and bankruptcy. The Schedule to the Master Agreement includes an "additional termination provision." The Authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of the termination the swap has a negative fair value, the Authority would be liable to the counterparty for a payment equal to the swap's fair value. Likewise, if the swap has a positive fair value at termination, the counterparty would be liable to the Authority for a payment equal to the swap's fair value.

As of June 30, 2006, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

I. Prior period adjustment

It was discovered that an accounts receivable for the general fund was overstated by \$205,073 at June 20, 2005.

J. Segment information:

There are three 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

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Telcom</u>	<u>Total</u>
Assets:					
Current assets	\$ 2,217,812	\$ 2,303,300	\$ 16,479,958	\$ 2,2250,679	\$ 23,251,749
Restricted assets		531,903	-	300,000	831,903
Capital assets (net)	27,534,040	32,730,608	32,558,843	16,068,623	108,892,114
Other assets	33,609	347,133	1,115,711	405,086	1,901,539
Total assets	<u>\$ 29,785,461</u>	<u>\$ 35,912,944</u>	<u>\$ 50,154,512</u>	<u>\$ 19,024,388</u>	<u>\$ 134,877,305</u>
Liabilities:					
Current liabilities	\$ 2,489,040	\$ 856,233	\$ 7,675,692	\$ 1,640,551	\$ 12,661,516
Noncurrent liabilities	10,340,859	11,418,029	2,321,321	18,000,000	42,080,209
Total liabilities	<u>\$ 12,829,899</u>	<u>\$ 12,274,262</u>	<u>\$ 9,997,013</u>	<u>\$ 19,640,551</u>	<u>\$ 54,741,725</u>
Net assets:					
Invested in capital assets net of related debt	\$ 14,604,512	\$ 21,164,420	\$ 30,051,810	\$ 144,471	\$ 65,965,213
Restricted assets		531,903	-	-	531,903
Unrestricted	2,351,050	1,942,359	10,105,689	(760,634)	13,638,464
Total net assets	<u>\$ 16,955,562</u>	<u>\$ 23,638,682</u>	<u>\$ 40,157,499</u>	<u>\$ (616,163)</u>	<u>\$ 80,135,580</u>

CONDENSED STATEMENT OF NET ASSETS CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Telcom</u>	<u>Total</u>
Operating revenues	\$ 4,749,533	\$ 5,339,101	\$ 55,821,500	\$ 102,690	\$ 66,012,824
Depreciation and amortization	(1,600,414)	(1,077,909)	(2,117,455)	(5,467)	(4,801,245)
Other operating expenses	<u>(3,478,800)</u>	<u>(2,961,076)</u>	<u>(51,469,026)</u>	<u>(688,925)</u>	<u>(58,597,827)</u>
Operating income	<u>(329,681)</u>	<u>1,300,116</u>	<u>2,235,019</u>	<u>(591,702)</u>	<u>2,613,752</u>
Other income (expense):					
Interest income	32,612	77,978	324,992	-	435,582
Interest expense	<u>(336,836)</u>	<u>(359,458)</u>	<u>(80,312)</u>	<u>(20,285)</u>	<u>(796,891)</u>
Other income or (expense) - net	<u>(304,224)</u>	<u>(281,480)</u>	<u>244,680</u>	<u>(20,285)</u>	<u>(361,309)</u>
Income (loss) before contributions and transfers	(633,905)	1,018,636	2,479,699	(611,987)	2,252,443
Tap fees and contributions from developers	213,250	78,869	-	-	292,119
Transfers out (tax equivalent payments to primary government)		32,020	(621,279)		(653,299)
Changes in net assets	(420,655)	1,065,485	1,858,420	(611,987)	1,891,263
Beginning 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>
Ending net assets	<u>\$16,955,562</u>	<u>\$ 22,638,682</u>	<u>\$ 40,157,499</u>	<u>\$ (616,163)</u>	<u>\$ 80,135,580</u>

CONDENSED STATEMENT OF CASH FLOWS

	<u>Sewer</u>	<u>Water</u>	<u>Electric</u>	<u>Telcom</u>	<u>Total</u>
Net cash provided (used) by operating activities	\$ 1,251,888	\$ 2,322,663	\$ 4,260,944	\$ (466,734)	\$ 7,368,761
Cash flows from noncapital financing activities	1,018,310	(32,020)	(621,279)		365,011
Cash flows from investing activities	2,032,612	77,465	324,992	14,500,000	16,935,069
Cash flows from capital and related financing activities	(4,834,547)	(1,994,329)	(3,850,698)	(14,453,381)	(25,132,955)
Increase or (decrease) in cash and cash equivalents	(531,737)	373,779	113,959	(420,115)	(464,114)
Cash and cash equivalents, beginning	<u>1,050,514</u>	<u>1,460,314</u>	<u>6,996,957</u>	<u>2,668,696</u>	<u>12,176,481</u>
Cash and cash equivalents, ending	<u>518,777</u>	<u>1,834,093</u>	<u>7,110,916</u>	<u>2,248,581</u>	<u>11,712,367</u>

K. Restricted assets

The following assets were restricted:

General Fund – Bond proceeds for capital improvements	\$ 6,379,700
Sewer fund – Bond proceeds for capital improvements	991,031
Telecom System	2,548,581
Water System-Interest and sinking funds	531,903

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, 2006:

Reserve fund balance, July 1, 2005	\$ 21,247
Add – state gasoline tax revenues	713,071
Less – state gasoline tax expenditures	<u>(734,318)</u>
Reserve fund balance, June 30, 2006	<u>\$ 0</u>

V. Other Disclosures

A. Commitments and Contingencies:

At June 30, 2006, the City of Morristown had the following commitments:

General Fund – Uncompleted contracts	\$ 1,553,984
Sewer System – Uncompleted contracts	2,989,646
Sewer Operating Contract (approximate annual cost)	1,000,000
Telecom – Construction contracts	1,302,826

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, 2006.

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, 2006, 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, 2006 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	\$ 892,786	100.00%	\$ -
June 30, 2004	\$ 842,965	100.00%	\$ -
June 30, 2003	\$ 352,027	100.00%	\$ -

Annual Pension Cost

For the year ended June 30, 2006, City of Morristown's annual pension cost of \$892,786 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, 2005 was 10 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 2006.

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 2006, the amount of payroll covered by the plan was \$4,571,399 of total payroll of \$5,200,790. 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 2006 and 2005, the discretionary contribution amounted to 10% and 12%, respectively, of the participants' salary. Participants are not required but may contribute up to a total of 75% of their salary subject to IRS limitations. All employees who have completed one year of service as defined by the Plan and who have attained the age of 21 are eligible to participate in the Plan.

Participants are 100% vested in the employer contributions when they are made. The Commission contributed \$692,833 in 2006 and \$619,200 in 2005 into the Plan, which represents 13% and 15% of the covered payroll and 100% of the required contribution. The participants contributed \$339,505 in 2006 and \$299,866 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, 2006, there were 49 retirees under this plan with a cost to the City of \$340,307.

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, 2006, there were six former employees eligible to participate in the plan. Benefits relating to these retirees are expensed when paid and totaled \$22,266 in 2006 and \$23,295 in 2005.

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 Commissions financial statements.

G. Risk Management

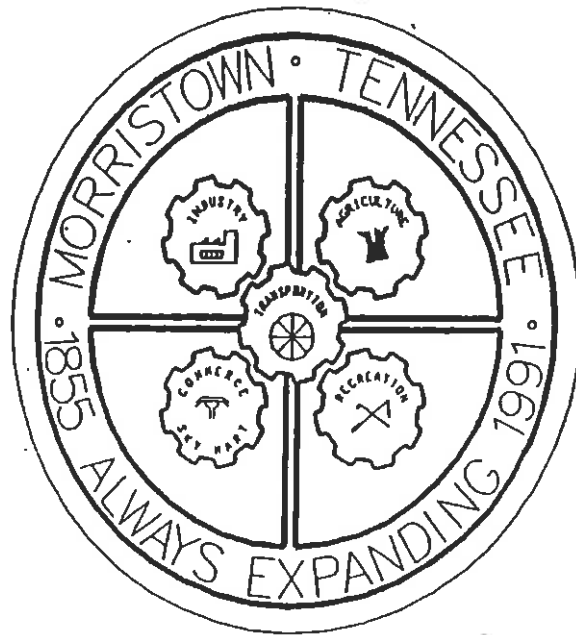
The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; natural disasters; and injuries of employees for which the City carries commercial insurance purchased from independent third parties. The City has not experienced an insurance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

City of Morristown, Tennessee
Required Supplementary Information
June 30, 2006

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

(Dollar amounts in thousands)

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, 2005	\$ 37,471	\$ 44,061	\$ 6,590	85.04%	\$ 11,194	58.87%
July 1, 2003	\$ 35,814	\$ 37,413	\$ 1,599	95.73%	\$ 9,748	16.40%
June 30, 2001	\$ 34,504	\$ 36,125	\$ 1,621	95.51%	\$ 9,032	17.95%



FINANCIAL SECTION
CITY OF MORRISTOWN
TENNESSEE

COMBINING AND INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

City of Morristown, Tennessee
Balance Sheet
Nonmajor Governmental Funds
June 30, 2006

	Special Revenue Narcotics
ASSETS	
Cash and cash equivalents	\$ 33,861
Accounts receivable	8,309
Total assets	<u>\$ 42,170</u>
LIABILITIES	
Accounts payable	\$ 5,248
Accrued expenditures	3,025
Escrow-seized property	24,014
Total liabilities	<u>\$ 32,287</u>
FUND BALANCES	
Reserved for narcotics	9,883
Total liabilities and fund balances	<u>\$ 42,170</u>

City of Morristown, Tennessee
Combining Statement of Revenue, Expenditures, and Changes in Fund Balance
Nonmajor Governmental Funds
June 30, 2006

	<u>Special Revenue</u> <u>Narcotics</u>
Revenue	
Service and charges and fees	\$ 33,861
Expenditures	
Current:	
Public safety:	
Police	296,043
Excess (deficiency) of revenues over expenditures	<u>(151,754)</u>
Other Sources	
Transfers from General Fund	<u>108,336</u>
Net change in Fund Balance	(43,418)
Fund balance, July 1, 2005	<u>53,301</u>
Fund balance, June 30, 2006	<u>\$ 9,883</u>

City of Morristown, Tennessee
Schedules of Revenue, Expenditures and changes in Fund Balance - Budget and Actual
Other Governmental Funds
June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Solid Waste Fund				
Revenue				
Intergovernmental revenue	\$ -	\$ 241,334	\$ 258,709	17,375.00
Expenditures				
Sanitation	658,025	665,832	662,801	(3,031.00)
Landfill	700,000	773,513	768,549	(4,964.00)
Recycling	182,399	182,399	182,578	179.00
Superfund	5,000	5,000	11,968	6,968.00
Debt service:				
Debt principal	-	195,434	195,000	(434.00)
Debt interest	-	45,900	45,900	-
Professional and consulting	-	-	513	513.00
Total debt service	-	241,334	241,413	79.00
Total expenditures	1,545,424	1,868,078	1,867,309	(769.00)
Excess (deficiency) of revenues over expenditures	(1,545,424)	(1,626,744)	(1,608,600)	18,144.00
Other Sources				
Transfers in	1,545,424	1,626,744	1,609,584	(17,160)
Net change in Fund Balance	-	-	984	984
Fund balance, July 1, 2005	-	-	-	-
Fund balance, June 30, 2006	\$ -	\$ -	\$ 984	\$ 984
Narcotics Fund				
Revenues				
Program Income	\$ 213,094	\$ 213,094	\$ 144,289	\$ (68,805)
Miscellaneous Revenue	108,336	108,336	-	(108,336)
Total revenues	321,430	321,430	144,289	(177,141)
Expenditures				
Narcotics enforcement	321,430	321,430	296,043	25,387
Excess of revenue over expenditures	-	-	(151,754)	(151,754)
Other Sources				
Transfers in	-	-	108,336	108,336
Net change in fund balance	-	-	(43,418)	(43,418)
Fund balance - beginning	53,301	53,301	53,301	-
Fund balance - ending	\$ 53,301	\$ 53,301	\$ 9,883	\$ (43,418)

SUPPLEMENTARY SCHEDULES

**CITY OF MORRISTOWN
TENNESSEE**

City of Morristown, Tennessee
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

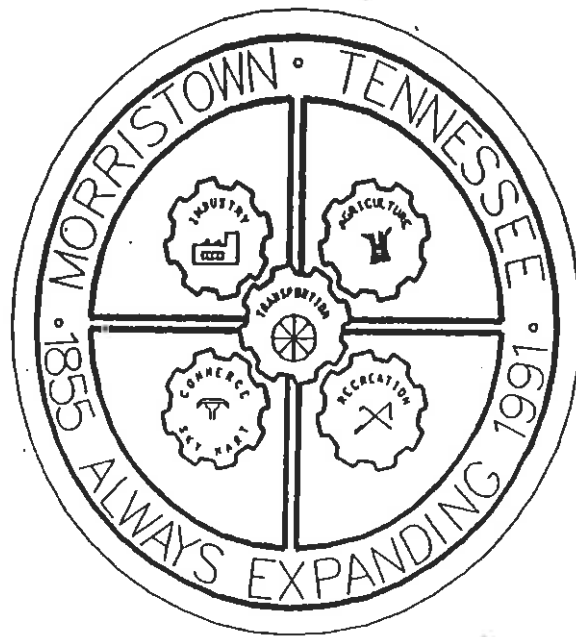
CFDA or Grant Number	Program Name	Grantor Agency	(A) Balance, July 1, 2005 Receivable	(B) Receipts	(C) Federal Expenditures	(A) Balance, June 30, 2006 Balance
11.300 EDA		Economic Development Admin	\$ 528,235	\$ -	\$ -	\$ 528,235
20.205 MTPO		Federal Transit Administration	\$ 121,691	\$ 86,170	\$ 154,338	\$ 189,858
14.218 Community Development Block Grant		Housing and Urban Development	\$ -	\$ 199,540	\$ 224,071	\$ 24,531
10.599 Summer Feeding		U.S. Dept. of Agriculture	\$ 40,189	\$ 88,155	\$ 90,754	\$ 42,788
16.607 Bullet Proof Vest Partnership		U.S. Dept. of Justice	\$ -	\$ 6,168	\$ 6,168	\$ -
16.609 Project Safe Neighborhood		U.S. Dept. of Justice	\$ 5,259	\$ 21,803	\$ 26,586	\$ 10,041
Total			\$ 695,374	\$ 401,837	\$ 501,917	\$ 795,453

The modified accrual basis of accounting was used in preparing this schedule.

City of Morristown, Tennessee
Schedule of State Financial Assistance
Year Ended June 30, 2006

Agency	Contract Number	Balance, July 1, 2005 Receivable	Receipts	Disbursements	Balance, June 30, 2006 Balance
Tennessee Department of Community Development	GG-05-11784-01	-	658,101	658,101	-
Tennessee Department of Community Development	Z-02-008477-00	9,216	9,216	-	-
Tennessee Department of Environment & Conservation	Z-05-022819-00	8,772	8,772	-	-
Tennessee Department of Community Development	GG-06-12584-00	200,000	-	510,785	710,785
Tennessee Department of Transportation	CPD-201606-01	-	-	58,938	58,938
Tennessee Department of Agriculture	Z-05-021098-00	-	2,171	2,171	-
Tennessee Department of Environment & Conservation	Z-05-022833-00	-	-	147,160	147,160
Tennessee Housing Development Agency	HM-02-27	-	85,155	185,509	100,354
Tennessee Department of Aeronautics	Z-05-02-3884-01	12,500	12,500	-	-
Tennessee Department of Aeronautics	Z-05-02-4812-00	140,748	-	191,625	332,344
Tennessee Department of Aeronautics	Z-06-02-8738-00	-	-	13,500	13,500
Totals		\$ 371,236	\$ 775,915	\$ 1,767,789	\$ 1,363,081

The modified accrual basis was used in preparing this schedule.



STATISTICAL INFORMATION
CITY OF MORRISTOWN
TENNESSEE

CITY OF MORRISTOWN, TENNESSEE
Net Assets by Component
LAST TEN FISCAL YEARS (4th YEAR OF IMPLEMENTATION)

	Fiscal Year			
	2003	2004	2005	2006
Governmental activities				
Invested in capital assets, net of related debt	\$ 20,792,189	\$ 20,792,189	\$ 32,485,958	\$ 32,367,332
Restricted	5,564,620	1,477,741	3,256,311	3,461,659
Unrestricted	4,542,774	17,462,724	3,918,333	2,407,332
Total governmental activities net assets	<u>\$ 30,899,583</u>	<u>\$ 39,732,654</u>	<u>\$ 39,660,602</u>	<u>\$ 38,236,323</u>
Business-type activities				
Invested in capital assets, net of related debt	\$ 62,632,218	\$ 61,967,985	\$ 63,008,050	\$ 65,965,213
Restricted	859,847	554,347	3,522,421	531,903
Unrestricted	10,174,665	13,006,096	11,713,846	13,638,464
Total business-type activities net assets	<u>\$ 73,666,730</u>	<u>\$ 75,528,428</u>	<u>\$ 78,244,317</u>	<u>\$ 80,135,580</u>
Primary Government				
Invested in capital assets, net of related debt	\$ 83,424,407	\$ 82,760,174	\$ 95,494,008	\$ 98,332,545
Restricted	6,424,467	2,032,088	6,778,732	3,993,562
Unrestricted	14,717,439	30,468,820	15,632,179	16,045,796
Total primary government net assets	<u>\$ 104,566,313</u>	<u>\$ 115,261,082</u>	<u>\$ 117,904,919</u>	<u>\$ 118,371,903</u>

CITY OF MORRISTOWN, TENNESSEE
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS (4th YEAR OF IMPLEMENTATION)
(Modified Accrual Basis of Accounting)
June 20, 2006

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Revenues				
Taxes	\$ 17,538,836	\$17,963,749	\$ 18,798,835	\$ 19,509,714
Licenses, permits and fines	1,720,054	756,770	936,037	904,316
Use of money and property	469,234	736,195	690,408	607,576
Service charges and fees	124,335	319,659	131,998	155,179
Intergovernmental	5,390,157	4,566,023	5,294,295	7,664,424
Total revenues	<u>25,242,616</u>	<u>24,342,396</u>	<u>25,851,573</u>	<u>28,841,209</u>
Expenditures				
General government	2,432,599	2,603,517	3,322,466	3,654,202
Public Safety	10,868,947	10,949,337	11,946,235	12,010,039
Public works	5,595,244	6,215,255	6,897,308	9,055,173
Parks and recreation	1,597,215	1,766,941	1,568,247	1,957,729
Airport	1,270,308	590,071	292,552	275,700
Civic support	506,273	569,689	544,398	532,178
Economic development	1,731,781	1,379,815	1,448,415	4,355,672
Retiree benefits	-	408,347	434,580	292,973
Miscellaneous	164,256	229,795	39,351	20,531
Debt service:				
Bond principal	815,000	764,600	1,224,800	1,265,000
Bond interest	382,892	360,360	178,333	178,432
Debt expense	34,098	4,903	4,670	299,340
Total expenditures	<u>25,398,613</u>	<u>25,842,630</u>	<u>27,901,355</u>	<u>33,896,969</u>
Excess (deficiency) of revenue over expenditures	<u>(155,997)</u>	<u>(1,500,234)</u>	<u>(2,049,782)</u>	<u>(5,055,760)</u>
Other financing sources (uses)				
Transfers in	2,632,114	4,290,237	2,550,093	2,371,219
Transfers out	(2,632,114)	(5,005,138)	(1,725,817)	(1,717,920)
Bonds issued	-	-	1,992,464	10,000,000
Total other financing sources and uses	<u>-</u>	<u>(714,901)</u>	<u>2,816,740</u>	<u>10,653,299</u>
Net change in fund balance	<u>\$ (155,997)</u>	<u>\$ (2,215,135)</u>	<u>\$ 766,958</u>	<u>\$ 5,597,539</u>
Debt service as a percentage of total governmental expenditures	<u>4.85%</u>	<u>4.37%</u>	<u>5.05%</u>	<u>5.14%</u>

CITY OF MORRISTOWN, TENNESSEE
Changes in Net Assets
LAST TEN FISCAL YEARS (4th YEAR OF IMPLEMENTATION)
(Accrual Basis)
June 30, 2006

	Fiscal Year		
	2003	2004	2005
Governmental activities:			
General government	\$ 2,467,777	\$ 2,790,124	\$ 3,532,804
Public safety	10,236,334	10,287,565	11,553,257
Public works	5,570,400	6,537,761	5,024,791
Parks and recreation	1,665,313	1,534,531	1,469,315
Civic support	506,273	576,028	544,398
Economic development	590,147	385,088	1,448,415
Retiree benefits	-	408,347	434,580
Airport	1,633,100	477,425	704,585
Long-term debt expense	164,256	396,490	217,831
Other	416,990	81,574	-
Total governmental activities expenses	\$ 23,250,590	\$ 23,474,933	\$ 24,929,976
Business-type activities:			
Water	\$ 3,847,335	\$ 4,089,405	\$ 3,765,578
Sewer	4,207,882	4,579,513	4,696,065
Electric	46,767,798	47,365,032	47,493,148
Telecom system	-	-	4,176
Total business-type activities expenses	\$ 54,823,015	\$ 56,033,950	\$ 55,958,967
Total primary government expenses	\$ 78,073,605	\$ 79,508,883	\$ 80,888,943
Program Revenues			
Governmental activities:			
Charges for services:			
General government	\$ 202,996	\$ 165,575	\$ 231,440
Public safety	545,293	794,645	936,037
Public works	124,335	703,164	-
Parks and recreation	-	139,562	131,998
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
			\$ 5,281,887

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	-	-	102,690
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)	\$ (23,630,501)
Business-type activities	1,996,935	2,583,291	3,040,165
Total primary government net expense	\$ (16,049,719)	\$ (17,374,429)	\$ (20,590,336)
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)	(653,299)
Total primary government	20,293,539	20,831,662	23,027,802
Change in Net Assets			
Governmental activities	\$ 1,992,026	\$ 1,595,533	\$ 221,577
Business-type activities	2,251,794	1,861,700	2,215,889
Total primary government	\$ 4,243,820	\$ 3,457,233	\$ 2,437,466

CITY OF MORRISTOWN, TENNESSEE
Governmental Activities Tax Revenues by Source
LAST TEN FISCAL YEARS (4th YEAR OF IMPLEMENTATION)
 (accrual basis of accounting)

Fiscal Year	Property Tax	In-lieu Tax	Franchise Tax	Local Sales Tax	Business and Gross		Hotel/Motel Tax	Use of Money and Property		Inter-governmental	Transfers	Total
					Alcohol Beverage Tax	Receipts Tax		Property	Transfers			
2003	\$6,154,751	\$662,748	\$813,588	\$8,053,275	\$934,567	\$681,903	\$238,004	\$1,291,563	\$-	\$1,208,281	\$-	\$20,038,680
2004	6,288,159	59,275	820,658	8,618,515	1,009,528	861,386	312,707	712,843		2,148,591	721,591	21,553,253
2005	6,544,269	72,748	853,208	9,196,618	1,032,668	784,119	350,931	96,134		4,097,107	824,276	23,852,078
2006	6,989,567	92,446	1,006,887	9,491,687	1,076,180	881,441	384,387	607,576		3,405,260	653,299	24,588,730

CITY OF MORRISTOWN, TENNESSEE
General Government Tax Revenues by Source
LAST TEN FISCAL YEARS (4th YEAR OF IMPLEMENTATION)
(modified accrual basis of accounting)

Fiscal Year	Property Tax	In-lieu Tax	Franchise Tax	Local Sales Tax	Alcohol Beverage Tax	Business and			Total
						Gross Receipts Tax	Hotel/Motel Tax		
2003	\$ 6,154,751	\$ 662,748	\$ 813,588	\$ 8,053,275	\$ 934,567	\$ 681,903	\$ 238,004		\$ 17,538,836
2004	6,281,681	59,275	820,658	8,618,515	1,009,528	861,386	312,707		17,963,750
2005	6,508,543	72,748	853,208	9,196,618	1,032,668	784,119	350,931		18,798,835
2006	6,576,986	92,446	1,006,887	9,491,687	1,076,180	881,141	384,387		19,509,714

City of Morristown
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Tax Years

Fiscal Year Ended June 30	Real Property			Personal Property		Less: Tax Exempt Real Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Residential Property	Commercial Property	Public Utility Property	Commercial Property	Public Utility Property				
1996	94,582,750	153,884,720	894,795	82,739,046	-	333,162,636	1.25	1,001,973,160	33.25%
1997	98,774,225	166,311,120	922,570	94,171,799	-	361,319,964	1.25	1,085,563,975	33.28%
1998	101,964,225	170,194,960	1,438,800	115,351,160	-	390,070,520	1.25	1,177,250,559	33.13%
1999	105,804,800	181,856,720	1,438,800	117,308,547	-	407,398,167	1.25	1,225,572,257	33.24%
2000	151,735,700	241,152,880	1,918,125	146,310,970	-	542,457,350	1.25	1,637,704,995	33.12%
2001	153,493,650	244,658,040	493,845	151,200,316	4,147	551,613,123	1.25	1,668,996,219	33.05%
2002	154,997,600	257,138,640	493,845	135,664,289	2,368	550,062,517	1.09	1,653,214,110	33.27%
2003	157,210,650	268,536,960	493,845	133,871,424	2,185	561,898,214	1.09	1,683,016,247	33.39%
2004	160,143,125	274,685,480	493,845	133,299,257	2,872	570,401,429	1.09	1,706,865,190	33.42%
2005	197,382,450	311,856,480	581,570	161,306,661	2,270	673,488,281	0.97	2,030,459,639	33.17%

City of Morristown
Principal Property Taxpayers
For Year Ended June 30, 2006

Taxpayer	Taxable Assessed Value	Percentage of Total Taxable Assessed Value
MAHLE	84,000,165	12.47%
Toyoda-TRW	65,906,028	9.80%
Berkline/TBC	37,924,067	5.63%
Tuff Torq	33,089,339	4.91%
Vifan	29,384,378	4.36%
CBL Morristown LTD	23,910,700	3.55%
Lear Operation	29,124,014	4.32%
Shelby Williams	14,871,539	2.21%
Meritor/Rockwell	18,119,714	2.69%
Bellsouth	8,126,414	1.21%
	<u>344,456,358</u>	<u>51.15%</u>

City of Morristown, Tennessee
Property Tax Levies and Collections
Last Ten Tax Years
June 30, 2006

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assessed value										
Rate per \$100	346,543,360	378,873,280	401,714,160	420,402,762	446,839,120	454,515,175	569,848,349	576,534,587	586,357,798	673,488,281
Total tax levy	1.25	1.25	1.25	1.25	1.25	1.25	1.09	1.09	1.09	0.97
Collections/reductions:	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	6,532,836
Initial tax year	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	6,421,637
Additional through June 30, 2006	156,328	189,833	101,965	109,185	196,204	219,923	259,536	210,336	-	-
Total collections/reductions	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	6,421,637
Taxes receivable, June 30, 2006	3,198	3,005	4,698	45,980	20,994	24,840	43,473	87,328	305,829	111,199
Percent of levy collected initial tax year	96.34%	95.93%	97.88%	97.05%	96.11%	95.69%	95.12%	95.26%	95.21%	98.30%

City of Morristown
Table of General Bonded Debt with Total Assessment
and Total Governmental Expenditure Ratios
Last Ten Tax Years
June 30, 2006

<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>
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
2004	12,202,286	570,401,429	.021 to 1	27,901,352	.437 to 1
2005	20,922,286	614,747,798	.034 to 1	33,896,969	.617 to 1

City of Morristown
Demographic and Economic Statistics
Last Ten Fiscal Years

Fiscal Year	Population	Personal Income	Per Capita Personal Income	Median Age	Education Level in Years of Formal Schooling	School Enrollment	Unemployment Rate
1997	22,899	469,429,500	20,500	35.3	13.2	10,014	6.6
1998	23,068	494,301,104	21,428	35.5	13.4	9,846	4.8
1999	23,297	515,422,828	22,124	35.7	13.5	9,632	4.2
2000	24,966	564,930,648	22,628	36.1	13.6	10,225	4.2
2001	24,977	589,107,522	23,586	36.3	13.8	10,225	6.3
2002	25,137	603,137,178	23,994	36.5	13.9	10,439	6.1
2003	25,023	625,875,276	25,012	36.6	14.0	10,440	6.5
2004	25,055	649,175,050	25,910	36.7	14.2	10,439	6.1
2005	25,402	661,950,718	26,059	36.9	14.3	10,519	6.4
2006	25,716	674,119,224	26,214	40.0	14.4	10,513	4.6

City of Morristown
Principal Employers
For Year Ended June 30, 2006

Employer	Employees	Percentage of Total City Employment
Berkline Corportation	1,625	4.55%
MAHLE	1,423	3.99%
Hamblen County Department of Education	1,225	3.43%
Koch Foods	1,026	2.87%
Morristown Hamblen Healthcare	897	2.51%
Walters State Communtiy College	708	1.98%
JTEKT Automotive	612	1.71%
Lear Corportation	605	1.69%
Howmet	578	1.62%
Wal-Mart	550	1.54%
	<u>9,249</u>	<u>25.89%</u>

City of Morristown
Capital Asset Statistics by Function
Last Ten Fiscal Years (4th Year of Implementation)

Function	Fiscal Year			
	2003	2004	2005	2006
Public safety				
Police:				
Stations	1	1	1	1
Patrol units	48	48	48	48
Fire stations	5	4	4	4
Sanitation				
Collection trucks	5	5	5	5
Highways and streets				
Street (miles)	42.2	42.3	42.8	55.1
Culture and recreation				
Parks acreage	249	257	232	257
Parks acreage	14	14	15	15

Sources: Various city departments.

City of Morristown
Operating Indicators by Function
Last Ten Fiscal Years (4th Year of Implementation)

Function	Fiscal Year			
	2003	2004	2005	2006
Police				
Physical arrests	5,216	5,226	5,250	5,266
Parking violations	8,629	8,636	8,645	8,652
Fire				
Number of calls answered	2,976	2,979	2,985	2,996
Inspections	1,800	1,808	1,815	1,827
Highways and streets				
Street maintainance/resurfacing (miles)	3	0.11	8.11	4.73
Sanitation				
Brush collected (annual)	2,428.6	2,585.3	2,606.2	2,792.5
Refuse collected	14,106.8	14,247.6	14,928.6	15,008.8

Sources: Various city departments.

City of Morristown
Schedule of Insurance Coverage (Excluding Morristown Utility Commission)
June 30, 2006

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
		\$600,000 per occurrence		
	Property damage	\$85,000 per occurrence		
	Catastrophic medical expenses excess of bodily injury	\$1,000,000 per person		
	Medical payments	\$1,000 per person		
General Liability (additional coverages)		\$10,000 per accident		
	Fire damage	\$85,000 per occurrence		
	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		
Employee Dishonesty Forgery or Alteration Theft, Disappearance, or Destruction Computer Fraud		property damage		
	Employees	\$ 100,000		
	Employees	\$ 100,000		
	Employees	\$ 100,000		
Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance Distributor's Insurance	TYPE OF COVERAGE	LIMITS		
	Workers' Compensation	\$1,000,000		
	Commercial General Liability	250,000		
	Excess General Liability	750,000		
	Automobile Liability	1,000,000		
	Umbrella Liability	2,000,000		
	Property Damage	39,362,593		
	Boiler & Machinery	10,000,000		
	Commercial Crime	1,000,000		
	Public Officials and Employees' Liability	5,000,000		
	Fiduciary Liability	1,000,000		

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers
Year Ended June 30, 2006

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, 2006

Electricity

Single Family Dwelling Customers:
Base Charges:

Customer charge:

\$8.40 per month, less Hydro Allocation Credit of \$1.71 per month.

Energy charge:

First 2,000 kilowatt-hours or less, 6.735¢ per kilowatt-hour. Excess over 2,000 kilowatt-hours per month at 6.548¢ 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:

\$15.25 per delivery point per month for first 1,000 kilowatts.

Energy charge:

7.453¢ 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:

\$127 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 \$11.48 per kilowatt-hour.

Energy charge:

First 15,000 kilowatt hours per month at 6.955¢ per kilowatt-hour.

Excess over 15,000 kilowatt-hours per month at 3.935¢ 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, 2006

Customer charge:

\$205 per delivery point per month.

Demand charge:

First 1,000 kilowatts of billing demand per month at \$11.49 per kilowatt-hour.

Excess over 1,000 kilowatts of billing demand per month at \$12.64 per kilowatt-hour, plus an additional \$12.64 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:

3.937¢ 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:

\$12.95 per kilowatt of billing demand per month plus an additional \$12.95 per kilowatt per month for kilowatt, if any, of the amount by which the customer's billing demand exceeds its contract demand.

Energy charge:

3.427¢ per kilowatt-hour for up to 620 hours use of metered demand per month.

2.796¢ 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:

\$12.95 per kilowatt of billing demand per month, plus an additional \$12.95 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:

3.427¢ per kilowatt-hour for up to 620 hours use of metered demand per month.

2.796¢ 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, 2006

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

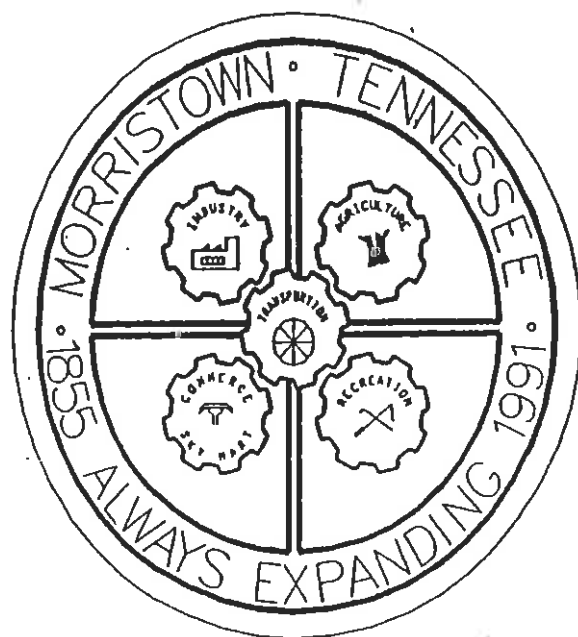
5/8 "	Meter \$	10.85
3/4 "	Meter \$	11.35
1 "	Meter \$	12.10
1 1/2"	Meter \$	13.60
2 "	Meter \$	18.10
3 "	Meter \$	63.10
4 "	Meter \$	73.10
6 "	Meter \$	103.10

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

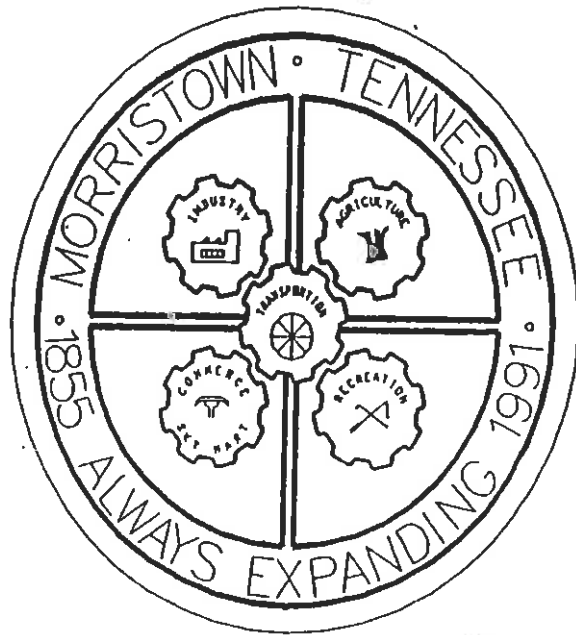
Number of Customers

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

Honorable Mayor and Board of Aldermen
City of Morristown, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Morristown, Tennessee, as of and for the year ended June 30, 2006, which collectively comprise the City of Morristown, Tennessee's basic financial statements and have issued our report thereon dated December 31, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Morristown, Tennessee's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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 that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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.

Compliance and Other Matters

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

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, 2006

City of Morristown, Tennessee
Schedule of Findings and Questioned Costs
Year Ended June 30, 2006

Section I – Summary of Auditor’s Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weaknesses identified	no
Reportable conditions identified not considered	none reported
Type of auditor's report issued on compliance for major programs:	unqualified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a):	no

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Clusters</u>	
11.300	Economic Development	
Dollar threshold used to distinguish between Type A and B programs		\$300,000
Auditee qualified as low-risk auditee		no

Section II – Financial Statement Findings:

No matters were reported

Section III – Federal Award Findings and Questioned Costs

No matters were reported