

CITY OF MORRISTOWN, TENNESSEE

AUDIT REPORT

June 30, 2007

City of Morristown
Comprehensive Annual Financial Report
Year Ended June 30, 2007

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June 30, 2007

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INTRODUCTORY SECTION

May 20, 2008

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, 2007.

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, 2007, 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, 2007, 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 27,000. 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 24 as part of the basic financial statements for the City's fund.

Factors Affecting Financial Condition

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

Local economy.

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.

Colgate-Palmolive announced Morristown as the site of their only facility for the production of their flagship toothpaste product, Colgate Total in December 2005. 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 \$70 million.

During the fiscal year, public works projects of new roads (Veterans Parkway), site grading, water/sewer extensions and a rail spur were all in some phase of completion for locating the Colgate-Palmolive Total toothpaste plant on a 40 acre site in Morristown. In conjunction with the State of Tennessee and the Appalachian Regional Commission, over \$3,976,000 was committed for the public works improvements, excluding roads. Of this the City General Fund was obligated for \$600,000 of the improvements. This use of General Fund balance was a planned drawdown of reserves.

Local Option Sales Tax

A shortfall of \$ 1,223,161 in the budget for the Local Option Sales Tax collection is attributable to two different reasons. First, there was only 1% growth in collections from the prior year. The budget was predicated on 6% growth from the estimate of the FY 2006 collection. This was a major factor in the reduction to General Fund balance.

There was also an administrative error in the estimate which increased the shortfall by an additional \$400,000. The error was caused by double-compounding the sales tax growth rate used for the FY 07 budget. The error has been detailed and eliminated for future

years by additional reviews of revenue estimates prior to adoption of the budget by City Council.

Recreation

Four new soccer fields at a cost of \$960,000 were completed 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 have 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.

Public Safety

To meet the requirement for reestablishing the Class 3 rating city wide, City Council authorized in FY 2006 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 and completed in April 2007. Cost of the station is \$1,500,000.

Roadways

Five bids were opened Friday, January 12, 2007 for the construction of the first three legs of Veterans Parkway. The low bid was that of G. W. Wyatt Construction of Jefferson City at the cost of \$3,996,194.62. The bid included the excavation of the road and necessary drainage structures and the removal of rock for four lanes of roadway, but stone and paving for only two lanes.

This completes the engineering, right-of-way and grading for four lanes of Veterans Parkway and applies the stone and asphalt for two lanes and appropriate turn lanes at intersections. The first leg intersects SR 160 near the present Deering Road and then goes cross country to the Colgate-Palmolive plant. The second leg follows the existing Howell Road from the Colgate plant to Merchants Greene. The third leg is a new route from Merchants Greene to Bellwood Road.

Building roads is an expensive business. As progress on the road construction began, significantly more rock than originally estimated added approximately \$2,000,000 to the project expense. The City's costs to date for Veterans Parkway are:

Engineering	\$ 250,000
Right-of-way	\$ 376,000
Clearing and grubbing	\$ 36,000
Construction	\$5,994,195
Inspection services	\$ 250,000
Miscellaneous	<u>\$ 150,000</u>

Total	\$7,056,195
Estimated State reimbursement	\$ 948,000
From Moving Morristown bonds	\$6,108,195

Timing of the City's bond issues to reimburse expenses of Veterans Parkway and the \$2,000,000 cost overrun has negatively impacted fund balance for the General Fund. City Council is examining methods of rebuilding General Fund balance as part of their budget strategy in the 2008 and 2009 budgets.

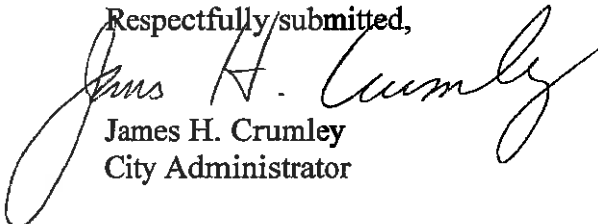
Cash management policies and practices. The City's investment policy is to minimize market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Depository Insurance or collateralized. Cash was invested in certificates of deposit, repurchase agreements, and the State Treasurer's investment pool. The government held all collateral, on deposit, during the fiscal year ended June 30, 2007 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 44 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 42 .

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


Dynise Robertson
Finance Director

***CITY OF MORRISTOWN
CITY OFFICIALS***

June 30, 2007

MAYOR

Sami Barile

COUNCIL

Kay Senter, Vice Mayor

Claude Jinks

William Rooney

Frank McGuffin

Mel Tucker

Rick Trent

City Administrator

Assistant City Administrator

City Attorney

Director of Finance

Director of Personnel/Budget

Director of Planning

Police Chief

Fire Chief

Chief Building Official

Director of Public Works (Acting)

City Engineer

Director of Parks and Recreation

James H. Crumley

Ralph Fielder

Richard Jessee

Dynise Robertson

Brian Janish

Alan Hartman

Roger Overholt

William Honeycutt

Jay Moore

Ralph Fielder

Bryan Fowler

Craig Price

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET

P.O. BOX 1779

SUITE 300, MILLENNIUM SQUARE

MORRISTOWN, TENNESSEE 37816-1779

423-586-7650

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, general fund and solid waste budgetary comparisons, business-type activities, major funds, and remaining fund information which collectively comprise the basic financial statements of the City of Morristown, Tennessee as of and for the year ended June 30, 2007, 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 \$109,038,343 as of June 30, 2007, and total revenue of \$66,516,101 for the year then ended. These financial statements were audited by other auditors and the reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Morristown Utility Commission, is based solely on the reports of the other auditors.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Morristown, Tennessee as of June 30, 2007, 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 April 16, 2008, 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.

Honorable Mayor and Board of Aldermen

The management's discussion and analysis on pages 9 through 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Caine, Thompson & Jones P.C.

Morristown, Tennessee
April 16, 2008

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, 2007. Readers are encouraged to consider the information presented here in conjunction with additional information that is furnished in the letter of transmittal, which can be found on page 1 of this report.

Financial Highlights

- The assets of the City of Morristown exceeded its liabilities at the close of the most recent fiscal year by \$112 million (net assets), a decrease of \$6 million during FY 2007. Of this amount, \$23 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 \$4.8 million, an increase of \$7.8 million in comparison with the prior year.
- The City of Morristown's total bonded debt increased by \$3.4 million during the current fiscal year. The key factor in this increase was the issuance of \$6.5 million general fund and enterprise 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, sewer, and telcom 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 19 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Morristown, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Morristown can be divided into 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 21 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 26 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 30 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 \$112 million at the close of the most recent fiscal year. Net assets decreased by \$6 million for the period.

By far the largest portion of the City of Morristown's net assets (77 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	
	2007	2006	2007	2006	2007 *	2006
Current and other assets	\$ 33,515,029	\$ 38,885,192	\$ 20,454,112	\$24,343,611	\$ 53,428,463	\$ 63,228,803
Capital assets	34,796,775	31,761,839	118,523,995	108,892,114	153,320,770	140,653,952
Total assets	67,771,126	70,647,031	138,978,117	133,235,775	206,749,243	203,882,755
Long-term liabilities outstanding	22,197,515	21,841,520	49,673,768	32,987,680	71,871,283	54,829,200
Other liabilities	12,539,821	10,569,188	9,502,134	20,112,515	22,041,955	30,681,702
Total liabilities	34,737,336	32,410,708	59,175,902	53,100,195	93,913,238	85,510,903
Invested in capital assets, net of related debt	20,829,489	32,367,332	65,694,276	65,965,213	86,523,765	98,332,545
Restricted	153,829	3,461,659	557,111	531,9031	710,940	3,993,562
Unrestricted	11,751,704	2,407,332	13,849,596	13,638,464	25,601,300	16,045,796
Net assets	\$ 32,735,022	\$ 38,236,323	\$ 80,100,983	\$80,135,560	\$ 112,836,005	\$ 118,371,853

*2007 Net of Eliminations

An additional portion of the City of Morristown's net assets (.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$25,601,300) may be used to meet Morristown's ongoing obligations to citizens and creditors.

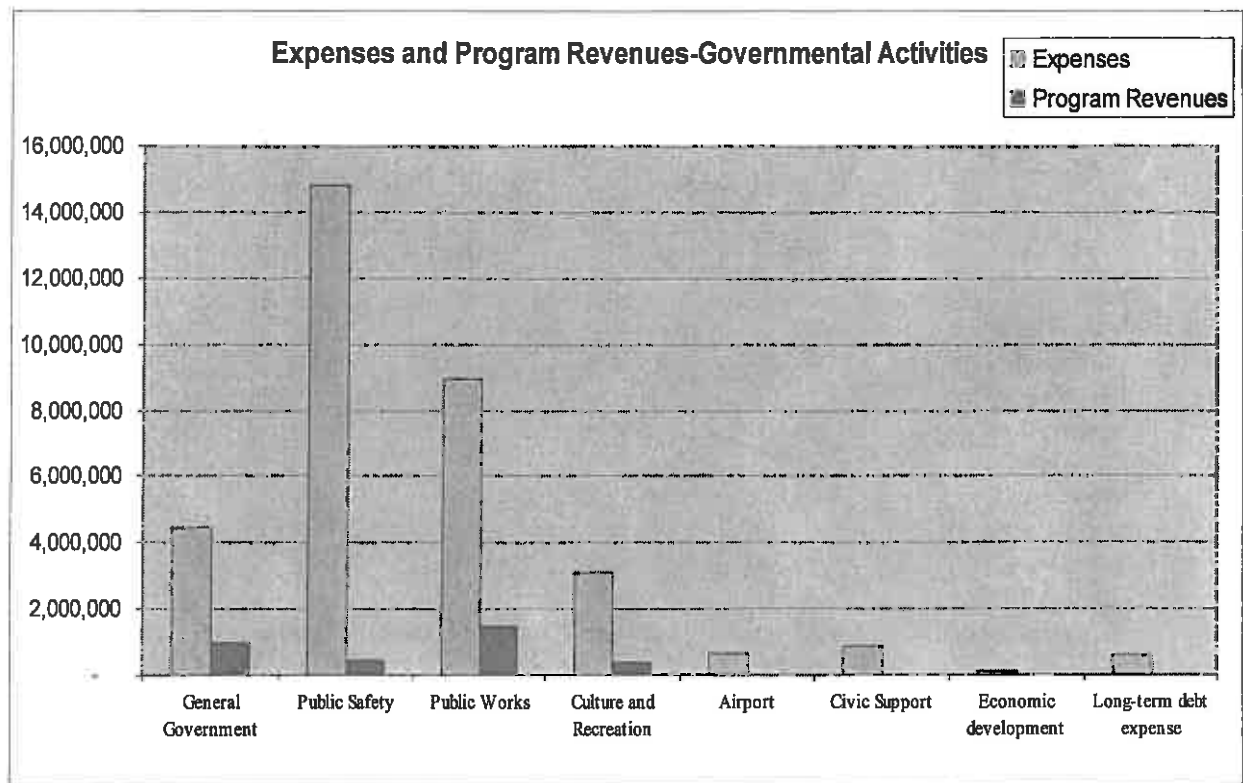
At the end of the current fiscal year, the City of Morristown is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities decreased the City of Morristown's net assets by \$5,458,513. The following is a summary of financial activities for the City during the fiscal year ended June 30, 2007.

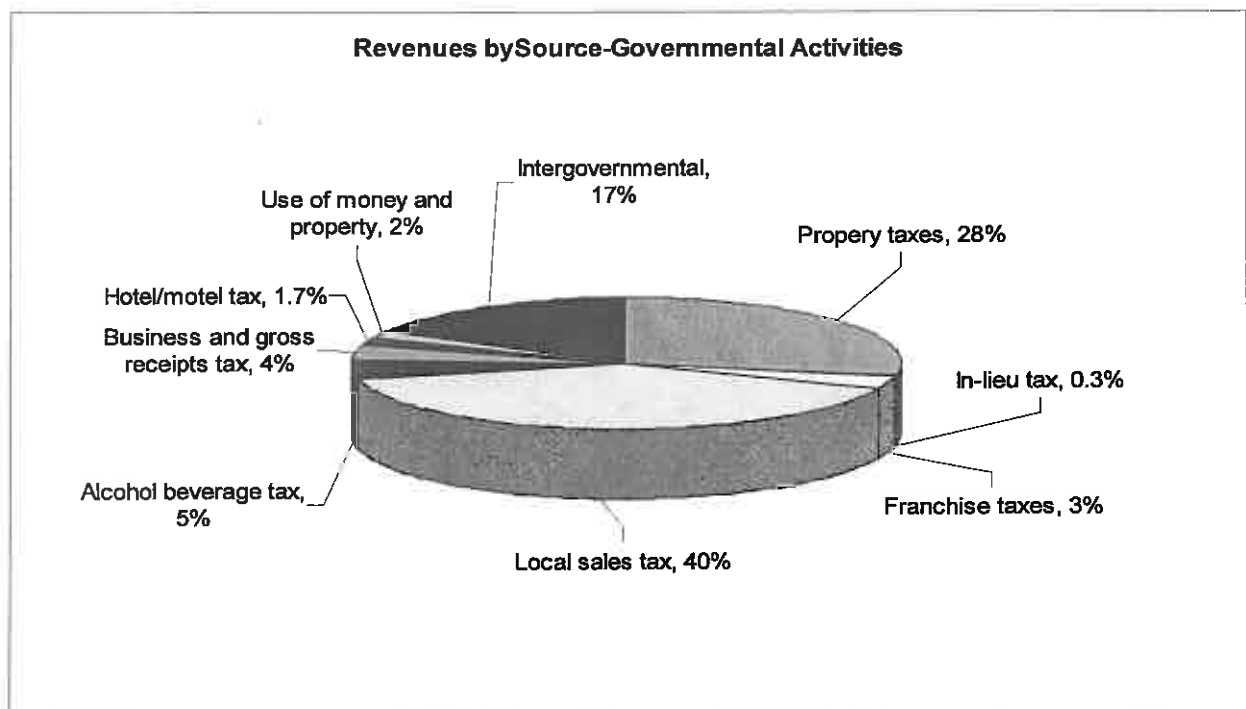
City of Morristown's Changes in Net Assets

	Governmental activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues:						
Charges for services	\$ 1,109,542	\$ 1,541,741	\$72,072,574	\$ 66,012,824	\$ 73,182,116	\$ 67,554,565
Operating grants and contributions	448,884	505,818	-	-	448,884	505,818
Capital grants and contributions	1,702,895	3,234,328	-	-	1,702,895	3,234,328
General revenues:						
Property taxes	6,744,789	6,989,567	-	-	6,744,789	6,989,567
Sales tax	9,594,019	9,491,687	-	-	9,594,019	9,491,687
Intergovernmental	3,989,312	3,405,261	-	-	3,989,312	3,405,260
Other	3,716,510	4,048,917	-	-	3,716,510	4,048,917
Total revenues	27,305,951	29,217,318	72,072,574	66,012,824	99,378,525	95,230,142
Expenses:						
General government	4,427,912	3,732,690	-	-	4,427,912	3,732,690
Public Safety	14,783,116	12,011,746	-	-	14,783,116	12,011,746
Public Works	8,936,753	7,884,650	-	-	8,936,753	7,884,650
Economic development	126,444	3,879,932	-	-	126,444	3,879,932
Culture and recreation	3,107,468	1,864,017	-	-	3,107,468	1,864,017
Civic Support	856,949	532,178	-	-	856,949	532,178
Airport	631,368	554,398	-	-	631,368	554,398
Miscellaneous	-	292,973	-	-	-	292,973
Interest on long-term debt	582,295	337,239	-	-	582,295	337,239
Water	-	-	4,486,115	4,241,596	4,486,115	4,241,596
Sewer	-	-	5,682,668	5,170,188	5,682,668	5,170,188
Electric	-	-	56,800,708	53,341,801	56,800,708	53,341,801
Telcom system	-	-	4,449,839	741,677	4,449,839	714,677
Total expenses	33,452,305	31,089,823	71,419,330	63,468,262	104,871,635	94,558,085
Decrease/Increase in net assets before transfer	(6,146,354)	(1,872,505)	653,244	2,544,562	(5,493,110)	672,057
Transfers	687,841	653,299	(687,841)	(653,299)	-	-
Decrease/Increase in net assets	(5,458,513)	(1,219,206)	(34,597)	1,891,263	(5,493,110)	672,057
Net assets-7/1/2006	38,236,323	39,660,602	80,135,580	78,244,317	118,371,903	117,699,846
Prior period adjustment	(42,788)	(205,073)	-	-	(42,788)	(205,073)
Net assets-6/30/2007	\$ 32,735,022	\$ 38,236,323	\$ 80,100,983	\$ 80,135,580	\$ 112,836,005	\$ 118,371,903

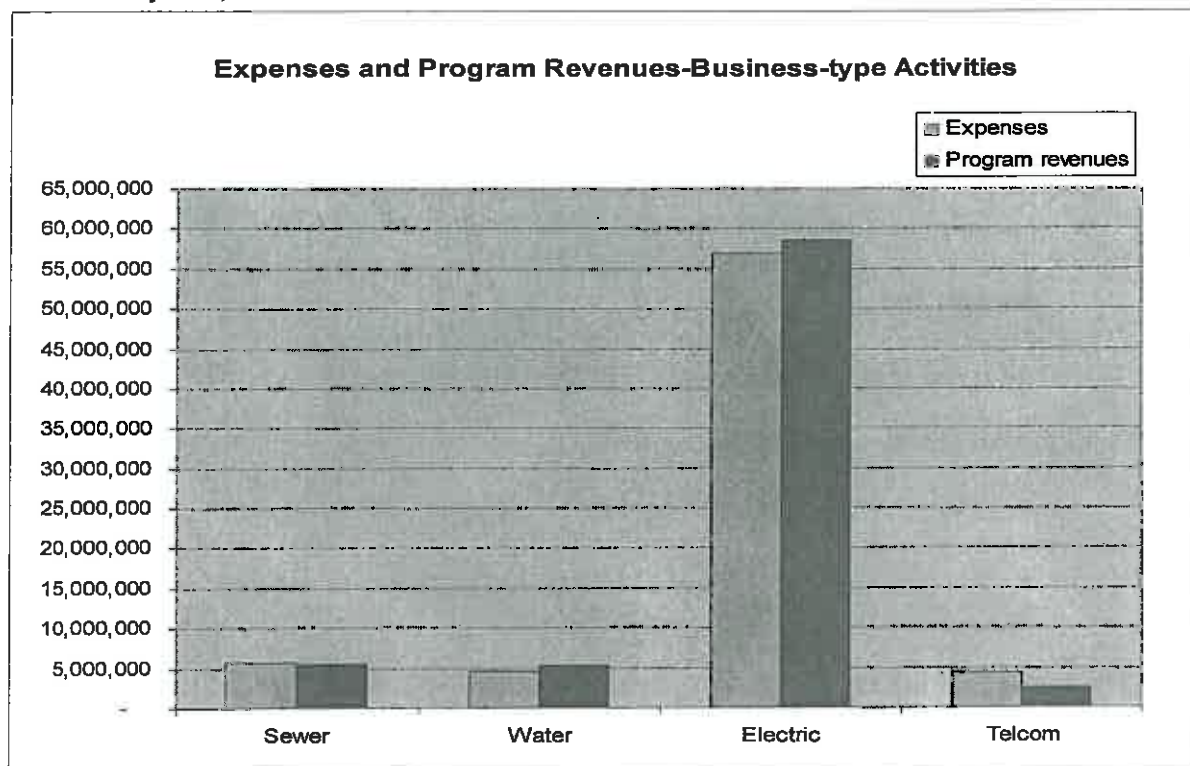
The two largest sources of governmental activity revenue, property taxes and local sales tax, accounted for 60% of the total governmental activity revenues.



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



Business-type activities. Business-type activities decreased the City of Morristown's net assets by \$34,597.



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 \$4,834,084 a decrease of \$7,789,246 in comparison with the prior year.

The General Fund's fund balance decreased \$7,943,020. Approximately \$2.3 million of the general fund balance is reserved for long term interfund loans. The remainder of fund balance is reserved to liquidate contracts and to fund a variety of other capital projects.

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 \$12.8 million.

General Fund Budgetary Highlights

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

- \$3,702,283 in increases allocated for street improvements.
- \$2,197,641 in increases allocated for industrial park projects.
- \$1,516,740 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 fund balance and bond proceeds.

Additional budgetary highlights included:

- The construction of Fire Station #6 and the purchase of a required fire apparatus.
- 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 its governmental and business type activities as of June 30, 2006, amounts to \$ 34.7 million and \$ 118 million, respectively (net of accumulated depreciation). Capital assets increased \$3 million and \$ 9.4 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	
	2007	2006	2007	2006
Land	\$ 7,864,762	\$ 7,553,889	\$ 1,857,055	\$ 1,857,055
Buildings	9,799,574	9,995,182	14,389,334	14,456,104
Improvements other than buildings	3,393,116	3,803,024	-	-
Machinery and equipment	3,354,377	3,684,128	2,866,130	2,933,754
Infrastructure	6,090,817	6,204,986	-	-
Transmission and distribution	-	-	88,436,910	70,178,108
Construction in progress	4,294,129	520,630	10,974,566	19,693,943
Total	\$34,796,775	\$ 31,761,839	\$ 118,523,995	\$ 109,118,964

Additional information on the City of Morristown's capital assets can be found on page 35 of this report.

Long-term debt. At the end of the current fiscal year, the City of Morristown had total bonded debt outstanding of \$ 70.8 million; of this amount \$20 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	
	2007	2006	2007	2006	2007	2006
General Obligation Bonds	\$21,158,317	\$16,522,286	-	-	\$21,158,317	\$16,522,286
Revenue Bonds	-	-	\$48,583,584	\$50,819,116	\$48,583,584	\$50,819,116
Total	\$21,158,317	\$16,522,286	\$48,583,584	\$50,819,116	\$69,741,901	\$67,341,402

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 first property tax increase occurred in Fiscal Year 2003, and the only second since 1980. Since the last increase in FY 03 the City has been able to build, equip and staff two new fire stations. The City's tax rate will be \$1.37 for FY 08, and increase 41%. The increase is necessary to balance the General Fund and provide much needed replacement capital and seven new police officer positions.
- The creation of a Storm Water Utility Fund to account for and fund storm water drainage and management projects.
- Budget a conservative estimate for local option sales tax collections due to uncertainty with fuel prices and new retail options for residents of neighboring communities.

Requests for Information

This financial report is designed to provide a general overview of the City of Morristown's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for addition financial information should be addressed to the City of Morristown, Finance Department Director, 100 West First North Street, Morristown, Tennessee 37814. 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
Statement of Net Assets
June 30, 2007

Primary Government

	Governmental Activities	Business-type Activities	Eliminations	Total
ASSETS				
Cash and cash equivalents	\$ 692,986	\$ 8,949,817		\$ 9,642,803
Receivables (net of allowance for uncollectibles)	14,459,386	5,985,982		20,445,368
Inventories	26,888	1,222,678		1,249,566
Accrual for unbilled revenue		1,644,323		1,644,323
Due from others		178,360		178,360
Due from other funds	95,178	4,789,727	(4,884,905)	-
Interfund loans - current	145,000		(145,000)	-
Discounted energy units		99,205		99,205
Other current assets		62,771		62,771
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	-	250,000		250,000
Investments	1,699,397	557,111		2,256,508
Capital assets (net of accumulated depreciation):				
Land	7,864,762			7,864,762
Buildings	9,799,574	-		9,799,574
Improvements	3,393,116	-		3,393,116
Equipment	3,354,377			3,354,377
Infrastructure	8,090,817			8,090,817
Utility plant and equipment		107,549,430		107,549,430
Construction in progress	4,294,129	10,974,565		15,268,694
Real estate-non-operating:	14,791,431	-		14,791,431
Accounts receivable - long-term	875,000	-		875,000
Interfund loans receivable - long term	2,300,500		(2,300,500)	-
Discounted energy units less current portion		511,450		511,450
Other assets	429,283	424,074		853,357
Plant acquisition adjustments	-	568,351		568,351
Total assets	\$ 70,311,804	\$ 143,767,844	\$ (7,330,405)	\$ 206,749,243
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 2,319,704	\$ 4,891,312		\$ 7,311,016
Accrued expenditures and other current liabilities	252,927	2,514,638		2,767,565
Due to others - bonds and deposits	48,710			48,710
Due to other funds	1,848,415	3,036,490	(4,884,905)	-
Deferred credit to expense	60,000			60,000
Escrow - Seized property	72,923			72,923
Customer deposits		1,784,254		1,784,254
Unearned revenue	9,785,557	170,000		9,955,557
Advances		41,930		41,930
Noncurrent liabilities:				
General bonded debt:				
Due within one year	1,355,000	1,138,104		2,493,104
Due in more than one year	20,883,317	47,445,480		68,328,797
Capital lease obligation				
Due within one year		25,981		25,981
Due in more than one year		47,377		47,377
Loans from General Fund				
Due within one year		145,000	(145,000)	-
Due in more than one year		2,300,500	(2,300,500)	-
Compensated absences:				
Estimated to be paid within one year	656,134			656,134
Estimated to be paid after one year	294,095	25,795		319,890
Total liabilities	37,576,782	63,666,861	(7,330,405)	93,913,238
Net assets				
Invested in operating capital assets net of related debt	19,838,458	66,685,307		86,523,765
Restricted for:				
Uncompleted contracts and encumbrances	2,522,772			2,522,772
Narcotics	153,829			153,829
Debt service		557,111		557,111
Unrestricted	10,219,963	12,858,565		23,078,528
Total net assets	\$ 32,735,022	\$ 80,100,983	\$ -	\$ 112,836,005

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

City of Morristown, Tennessee
Statement of Activities
Year Ended June 30, 2007

	Net (Expense) Revenue and Changes in Net Assets				
	Program revenues		Primary Government		
	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Total
Functions/Program					
Primary government					
Governmental activities:					
General government	\$ 4,427,912	\$ 557,097	\$ 411,878	\$ -	\$ (3,458,937)
Public safety	14,783,116	414,861	14,366	-	(14,353,889)
Public works	8,936,753	-	-	1,450,055	(7,486,698)
Parks and recreation	3,107,468	137,584	8,140	252,840	(2,708,904)
Civic support	856,949	-	-	-	(856,949)
Economic development	126,444	-	-	-	(126,444)
Airport	631,368	-	14,500	-	(616,868)
Long-term debt expense	582,295	-	-	-	(582,295)
Total governmental activities	33,452,305	1,109,542	448,884	1,702,895	(30,190,984)
Business-type activities:					
Water	4,486,115	5,335,578	-	-	849,463
Sewer	5,682,668	5,556,473	-	-	(126,195)
Electric	56,800,708	58,631,933	-	-	1,831,225
Telecom system	4,449,839	2,548,590	-	-	(1,901,249)
Total business-type activities	71,419,330	72,072,574	-	-	653,244
Total primary government	\$ 104,871,635	\$ 73,182,116	\$ 448,884	\$ 1,702,895	\$ (29,537,740)
Property taxes					
In-lieu tax					\$ 6,744,789
Franchise taxes					65,529
Local sales tax					732,339
Alcohol beverage tax					9,594,019
Business and gross receipts tax					1,107,005
Hotel/motel tax					943,210
Use of money and property					417,120
Intergovernmental (Unrestricted)					451,307
Total governmental fund revenue					3,989,312
Transfers					24,044,630
Total general revenues and transfers					28,033,944
Change in net assets					(5,493,110)
Net assets - beginning					118,371,903
Prior period adjustment					(42,788)
Net assets as adjusted - beginning					118,329,115
Net assets - ending					\$ 112,836,005

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

City of Morristown, Tennessee
Balance Sheet
Governmental Funds
June 30, 2007

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 351,284	\$ 94,871	\$ 246,831	\$ 692,986
Receivables (net of allowance for uncollectibles)	14,403,063	51,174	5,149	14,459,386
Due from other funds	95,178			95,178
Interfund loans receivable -current	145,000			145,000
Inventories	26,868	-	-	26,868
Investments	1,699,397			1,699,397
Interfund loans receivable -long term	2,300,500			2,300,500
Total assets	\$ 19,021,290	\$ 146,045	\$ 251,980	\$ 19,419,315
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,172,239	\$ 135,758	\$ 11,707	\$ 2,319,704
Due to other funds	1,848,415			1,848,415
Due to others	48,710			48,710
Accrued expenditures	239,931	9,303	3,693	252,927
Escrow - seized property		-	72,923	72,923
Deferred credits to expenditures	60,000	-		60,000
Unearned revenue	9,982,552	-	-	9,982,552
Total liabilities	14,351,847	145,061	88,323	14,585,231
Fund balances:				
Reserved for:				
Uncompleted contracts	2,368,943			2,368,943
Narcotics	-		153,829	153,829
Reserve for Interfund loans -long term	2,300,500			2,300,500
Unreserved		984		984
Fund balance - reserved for encumbrances			9,828	9,828
Total equity	4,669,443	984	163,657	4,834,084
Total liabilities and fund equity	\$ 19,021,290	146,045	\$ 251,980	
Amounts reported for governmental activities in the statement of net assets are different because:				
Assets not used in operations				14,791,431
Capital assets used in governmental activities are not financial resources and, therefore are not reported in funds				34,796,775
Other long-term assets are not available to pay for current-period expenditures and, therefore are deferred in the funds				1,080,000
Unamortized bond issue costs				224,283
Adjustment of deferred taxes for accrual basis				196,995
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds				(23,188,546)
Net assets of governmental activities				\$ 32,735,022

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, 2007

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
Revenues				
Taxes:				
Property	\$ 6,960,375	\$ -	\$ -	\$ 6,960,375
In lieu of taxes	65,529	-	-	65,529
Franchise	732,339	-	-	732,339
Local sales tax	9,594,019	-	-	9,594,019
Alcoholic beverages	1,107,005	-	-	1,107,005
Business and gross receipts	943,210	-	-	943,210
Hotel/motel tax	417,120	-	-	417,120
Total taxes	19,819,597	-	-	19,819,597
Licenses, permits and fines	808,709	-	284,779	1,093,488
Use of money and property	329,777	-	-	329,777
Service charges and fees	137,584	-	-	137,584
Intergovernmental	5,899,091	242,000	-	6,141,091
Total revenues	26,994,758	242,000	284,779	27,521,537
Expenditures				
Current:				
General Government:				
Mayor and Council	156,120	-	-	156,120
City Administrators	474,518	-	-	474,518
Elections	14,931	-	-	14,931
Finance	605,956	-	-	605,956
Purchasing	88,400	-	-	88,400
Computer operations	205,776	-	-	205,776
Human resources	576,819	-	-	576,819
Legal services	109,530	-	-	109,530
Community and economic affairs	530,662	-	-	530,662
Codes enforcement	62,597	-	-	62,597
Metropolitan transportation organization	439,796	-	-	439,796
Community development block grant	-	-	-	-
Engineering	364,628	-	-	364,628
Inspections	397,967	-	-	397,967
Other	351,305	-	-	351,305
Total general government	4,378,805	-	-	4,378,805
Public safety:				
Police	5,937,058	-	366,505	6,303,563
Fire	7,676,700	-	-	7,676,700
Other public safety	346,496	-	-	346,496
Total public safety	13,960,254	-	366,505	14,326,759
Public works	8,641,303	1,739,983	-	10,381,286
Parks and recreation	3,229,978	-	-	3,229,978
Civic support	856,174	-	-	856,174
Economic development	2,224,061	-	-	2,224,061
Airport	190,240	-	-	190,240
Debt service:				
Bond principal	1,105,000	-	-	1,105,000
Bond interest	449,487	-	-	449,487
Professional services	155,077	-	-	155,077
Total debt service	1,709,564	-	-	1,709,564
Total expenditures	35,190,379	1,739,983	366,505	37,296,867
Deficiency of revenue over expenditures	\$ (8,195,621)	\$ (1,497,983)	\$ (81,726)	\$ (9,775,330)
Other financing sources (uses):				
Bond Proceeds	\$ 4,750,000	-	-	4,750,000
Transfers in	687,841	1,497,983	235,500	2,421,324
Transfers out	(1,733,483)	-	-	(1,733,483)
Total other financing sources and uses	3,704,358	1,497,983	235,500	5,437,841
Net change in fund balance	(4,491,263)	-	153,774	(4,337,489)
Fund balance, beginning	12,612,463	984	9,883	12,623,330
Prior period adjustment	(3,451,757)	-	-	(3,451,757)
Fund balance-ending	\$ 4,669,443	\$ 984	\$ 163,657	\$ 4,834,084

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

City of Morristown, Tennessee
Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended June 30, 2007

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

Net change in fund balances--total governmental funds	(4,337,489)
Governmental funds report capital outlays as expenditures. In the government-wide financial statements, capital asset additions are reported as additions to capital assets	4,653,073
In the government-wide financial statements, certain capital assets are depreciated. In the governmental basis financial statements, capital assets are charged to expenditures, therefore, depreciation is not taken	(1,929,785)
The issuance of long-term debt (e. g., bonds, leases) provides current financial resources to government funds under the governmental fund basis, but is considered an increase in debt in the government-wide financial statements	(4,750,000)
The payment of long-term debt is reported as an expenditure in the governmental funds financial statements but is considered as a reduction in debt in the city-wide financial statements	1,105,000
The payment of bond issue expense is considered an expenditure in the governmental financial statements, whereas in the city-wide financial statements these are considered assets and are amortized	22,269
Compensated absences are considered expenditures when paid on the governmental fund basis, but in the government-wide financial statements are considered expenses as incurred	(5,995)
Government funds financial statements report property taxes collected within 60 days after the close of the fiscal year as revenue, under the modified accrual basis whereas the government-wide financial statements report these revenues on the accrual basis	<u>(215,586)</u>
Changes in net assets of governmental activities	<u><u>\$ (5,458,513)</u></u>

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

City of Morristown, Tennessee
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
General Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:				
Property	\$ 6,840,000	\$ 6,840,000	\$ 6,960,375	\$ 120,375
In lieu of taxes	760,000	760,000	65,529	(894,471)
Franchise	1,005,000	1,005,000	732,339	(272,661)
Local sales tax	10,817,180	10,817,180	9,584,019	(1,223,161)
Alcoholic beverages	1,075,000	1,075,000	1,107,005	32,005
Business and gross receipts	850,000	850,000	943,210	93,210
Hotel/motel tax	375,000	375,000	417,120	42,120
Total taxes	21,722,180	21,722,180	19,819,597	(1,902,583)
Licenses, permits and fees	878,500	878,500	808,709	(67,791)
Use of money and property	275,000	275,000	329,777	54,777
Service charges and fees	155,000	155,000	137,584	(17,416)
Intergovernmental	4,587,960	4,587,960	5,899,091	1,311,131
Total revenues	27,616,640	27,616,640	26,994,758	(621,882)
Expenditures				
Current:				
General Government:				
Mayor and Council	181,200	181,200	156,120	25,080
City Administrators	428,170	428,170	474,518	(48,348)
Elections	13,000	13,000	14,931	(1,931)
Finance	560,100	560,100	605,956	(45,856)
Purchasing	72,600	72,600	88,400	(15,800)
Computer operations	172,400	172,400	205,776	(33,376)
Human resources	241,400	241,400	576,619	(335,219)
Legal services	100,000	100,000	109,530	(9,530)
Community and economic affairs	440,100	440,100	530,862	(90,562)
Codes enforcement	59,900	59,900	62,587	(2,687)
Metropolitan transportation organization	700,000	700,000	439,796	260,204
Community development block grant	340,000	340,000	-	340,000
Engineering	348,600	348,600	364,828	(16,028)
Inspections	383,800	383,800	397,967	(14,167)
Other	-	-	351,305	(351,305)
Total general government	4,039,270	4,039,270	4,378,805	(337,604)
Public safety:				
Police	5,841,400	5,841,400	5,937,058	(295,658)
Fire	6,076,300	7,648,876	7,676,700	(27,825)
Other public safety	329,120	329,120	346,496	(17,376)
Total public safety	12,046,820	13,619,396	13,960,254	(340,859)
Public works:				
Parks and recreation	4,882,900	8,585,183	8,641,303	(56,120)
Civic support	1,710,950	3,227,690	3,229,978	(2,288)
Economic development	530,500	530,500	856,174	(325,674)
Industrial Parks	175,000	2,372,641	2,224,061	148,580
Airport	25,000	25,000	-	25,000
Retiree health insurance	140,000	260,000	190,240	69,760
Debt service:				
Bond principal	275,700	275,700	-	275,700
Bond interest	1,700,000	1,700,000	1,105,000	595,000
Professional services	600,000	600,000	449,487	150,513
Total debt service	5,000	5,000	155,077	(150,077)
Total expenditures	2,305,000	2,305,000	1,709,564	595,436
Excess (deficiency) of revenue over expenditures	\$ 1,485,500	\$ (7,623,739)	\$ (8,185,621)	\$ (569,951)
Other financing sources (uses)				
Bond Proceeds		\$ 3,250,000	\$ 4,750,000	\$ 1,500,000
Transfers in	175,000	175,000	687,841	512,841
Transfers out	(1,660,500)	(1,733,483)	(1,733,483)	-
Total other financing sources (uses)	(1,485,500)	1,691,517	3,704,358	2,012,841
Net change in fund balance	-	(5,932,222)	(4,491,263)	1,440,959
Fund balance, beginning	12,612,643	12,612,643	12,612,463	-
Prior period adjustment	-	-	(3,451,757)	-
Fund balance-ending	\$ 12,612,643	\$ 6,680,421	\$ 4,669,443	\$ (2,010,978)

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

City of Morristown, Tennessee
Schedule of Revenue, Expenditures and Changes in Fund Balance -
Budget and Actual
Solid Waste Fund
Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Positive (Negative)
Revenue				
Intergovernmental revenue	\$ 242,000	\$ 242,000	\$ 242,000	\$ -
Expenditures				
Sanitation	729,400	729,400	717,205	(12,195)
Landfill	500,000	572,983	594,810	21,827
Recycling	190,600	190,600	185,968	(4,632)
Superfund	5,000	5,000		(5,000)
Debt service:				
Debt principal	200,000	200,000	200,000	-
Debt interest	42,000	42,000	42,000	-
Total debt service	242,000	242,000	242,000	-
Total expenditures	1,667,000	1,739,983	1,739,983	-
Excess (deficiency) of revenues over expenditures	(1,425,000)	(1,497,983)	(1,497,983)	-
Other sources:				
Transfers from General Fund	1,425,000	1,497,983	1,497,983	-
Net change in fund balance	-	-	-	-
Fund balance, July 1, 2006	984	984	984	-
Fund balance, June 30, 2007	\$ 984	\$ 984	\$ 984	\$ -

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

City of Morristown, Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities			
	Sewer System	Power System	Water System	Telecom System
Assets				
Unrestricted current assets:				
Cash and cash equivalents	\$ 272,588	\$ 5,994,822	\$ 1,679,797	\$ 1,002,610
Accounts receivable:				
Trade, net of allowances	55,350	5,930,632	-	-
Due from other funds	2,287,694	2,197,281	304,752	-
Due from others	-	178,360	-	-
Accrual for unbilled revenue	303,143	1,170,052	171,128	-
Due from others	-	-	-	-
Current portion of discounted energy units	-	99,205	-	-
Other current assets	-	-	-	62,771
Materials and supplies inventory	37,576	796,905	388,197	-
Total unrestricted current assets	2,956,351	16,367,257	2,543,874	1,065,381
Total current assets	2,956,351	16,367,257	2,453,874	1,065,381
Restricted investments	250,000	-	557,111	-
Capital assets:				
Plant and equipment in service	49,457,741	56,094,690	48,801,917	19,160,002
Less accumulated depreciation	(26,061,105)	(23,402,775)	(15,699,509)	(801,531)
	23,396,636	32,691,915	33,102,408	18,358,471
Construction in progress	8,096,504	1,708,742	688,904	480,415
Net capital assets	31,493,140	34,400,657	33,791,312	18,838,886
Plant acquisition adjustments, net of accumulated depreciation	-	391,547	176,804	-
Discounted energy units, less current portion	-	511,450	-	-
Other assets	30,010	97,141	118,670	178,253
Total assets	\$ 34,729,501	\$ 51,768,052	\$ 37,187,771	\$ 20,082,520
				\$ 143,767,844

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

City of Morristown, Tennessee
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business-type Activities			
	Sewer System	Power System	Enterprise Funds Water System	Telecom System
Liabilities and Net Assets				
Current liabilities:				
Accounts payable:				
Trade	\$ 771,578	\$ 3,864,870	\$ 108,409	\$ 246,455
Due to other funds	8,573	525,885	-	2,502,032
Deferred revenues	-	-	-	170,000
Customer deposits	-	1,752,384	-	31,870
Accrued payroll related liabilities	17,505	1,526,475	615,955	66,165
Other accrued liabilities	-	264,486	-	24,052
Current portion of capital lease obligation	-	-	14,000	11,981
Loans from General Fund	-	-	145,000	-
Current portion of long-term debt	525,000	193,284	419,820	-
Advances from Tennessee Valley:				
Program, net of advances to customers	-	41,930	-	-
Total current liabilities	1,322,656	8,169,314	1,303,184	3,052,555
Noncurrent liabilities:				
Capital lease obligation, less current portion	-	-	-	47,377
Long-term debt - less current portion	16,551,683	2,265,904	10,627,893	18,000,000
Loans from General Fund	-	-	800,500	1,500,000
Compensated absences	25,795	-	-	-
Total non-current liabilities	16,577,478	2,265,904	11,428,393	19,547,377
Total liabilities	17,900,134	10,435,218	12,731,577	22,599,932
Net assets (deficit):				
Invested in capital assets, net of related debt	14,416,457	31,941,469	21,811,728	(1,484,347)
Restricted	-	-	557,111	-
Unrestricted net assets (deficit)	2,412,910	9,391,365	2,087,355	(1,033,065)
Total net assets (deficit)	16,829,367	41,332,834	24,456,194	(2,517,412)
Total liabilities and net assets	\$ 34,729,501	\$ 51,768,052	\$ 37,187,771	\$ 20,082,520
				\$ 143,767,844

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

City of Morristown, Tennessee
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2007

	Business-type Activities			
	Sewer System	Power System	Water System	Telecom System
Operating Revenues:				
Metered sales	\$ 5,304,558	\$ 57,538,710	\$ 5,276,340	\$ -
Broadband sales	-	-	-	2,515,823
Other operating revenues	251,915	1,093,223	59,238	32,767
Total operating revenues	5,556,473	58,631,933	5,335,578	2,548,590
Operating expenses:				
Power purchased	-	49,108,223	-	-
Operations	2,223,045	4,056,519	2,729,877	3,061,545
Maintenance	1,460,080	1,486,619	434,228	94,265
Depreciation and amortization	1,801,514	2,259,968	1,155,171	740,945
Taxes	-	190,494	-	54,560
Miscellaneous	-	25,327	48,879	-
Total operating expenses	5,484,639	57,127,150	4,368,155	3,951,315
Operating income (loss)	71,834	1,504,783	967,423	(1,402,725)
Other income (expense):				
Investment income	8,905	412,506	122,612	-
Interest expense	(415,336)	(86,064)	(351,578)	(498,524)
Net other income (expense)	(406,431)	326,442	(228,966)	(498,524)
Income (loss) before contributions and transfers	(334,597)	1,831,225	738,457	(1,901,249)
Contributions from developers				
Capital contributions - tap fees	208,402	-	111,006	-
Transfers out (tax equivalent payments to City of Morristown)	-	-	-	-
Net income (loss)	(126,195)	(655,890)	(31,951)	(687,841)
		1,175,335	817,512	(1,901,249)
Change in net assets	(126,195)	1,175,335	817,512	(1,901,249)
Net assets- (deficit) at beginning of year	16,955,562	40,157,499	23,638,682	(616,163)
Net assets - ending	\$ 16,829,367	\$ 41,332,834	\$ 24,456,194	\$ (2,517,412)

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, 2007

	Business-Type Activities				
	Enterprise Funds				
	Sewer System	Power System	Water System	Telecom System	Total
Cash flows from operating activities					
Cash received from customers	\$ 5,429,130	\$ 57,679,957	\$ 5,326,322	\$ 2,715,860	\$ 71,151,269
Cash received from City of Morristown	-	978,875	-	-	978,875
Cash paid to suppliers	(2,688,404)	(50,483,175)	(2,016,585)	(2,682,958)	(57,879,122)
Cash paid to employees	(1,064,396)	(3,709,422)	(1,099,007)	(552,000)	(6,424,825)
Net cash provided by operating activities	1,678,330	4,458,235	2,210,730	(519,098)	7,826,197
Cash flows from noncapital financing activities:					
Transfers to City of Morristown (tax equivalent payments)	-	(655,890)	(31,951)	-	(687,841)
Interfund advances	(2,858,152)	-	-	-	(2,858,152)
Net cash flows from investing activities	(2,858,152)	(655,890)	(31,951)	-	(687,841)
Cash flows from investing activities:					
Interest received on investments	8,905	412,506	122,612	-	515,118
Sale (purchase) of investments	-	-	(22,107)	300,000	277,893
Net cash flows from investing activities	8,905	412,506	100,505	300,000	821,916
Cash flows from capital and related financing activities					
Bond proceeds	7,227,650	-	-	-	7,227,650
Payments on capital lease obligations	-	-	(12,319)	(3,042)	(15,361)
Net additions to plant acquisition adjustments	-	(154,697)	-	-	(154,697)
Net additions to capital assets	(5,594,586)	(4,134,462)	(2,297,733)	(3,326,783)	(15,353,564)
Interfund (repayments) advances	-	(905,877)	(333,199)	1,239,076	-
Contributions from developers	-	-	111,006	-	111,006
Capital contributions - lap fees	208,402	-	-	-	208,402
Principal payments on long term debt	(505,000)	(47,845)	(788,968)	-	(1,341,813)
Payment of loans from general fund	-	-	(135,000)	-	(135,000)
Interest paid on long term debt	(411,738)	(88,064)	(351,578)	(498,524)	(1,347,904)
Draws on note payable agreement	-	-	1,377,312	1,582,400	2,959,712
Net cash flows from financing activities	924,728	(5,328,945)	(2,430,479)	(1,026,873)	(8,069,971)
Increase (decrease) in cash and cash equivalents	(246,189)	(1,116,094)	(151,195)	(1,245,971)	(2,759,449)
Cash and cash equivalents, beginning	518,777	7,110,916	1,830,992	2,248,581	11,709,266
Cash and cash equivalents, ending	\$ 272,588	\$ 5,994,822	\$ 1,679,797	\$ 1,002,610	\$ 8,949,817

	Business-Type Activities				
	Enterprise Funds				
	Sewer System	Power System	Water System	Telecom System	Total
Reconciliation of operating income to net cash provided by operating activities:					
Operating income (loss)	\$ 71,834	\$ 1,504,783	\$ 967,423	\$ (1,402,725)	\$ 1,141,315
Adjustments to reconcile operating income to net cash flows from operating activities:					
Depreciation and amortization	1,801,514	2,379,121	1,265,318	783,369	6,229,322
Provision for losses on accounts receivable	-	153,532	-	-	153,532
Redemption of discounted energy units	-	93,435	-	-	93,435
Changes in operating assets and liabilities:					
Accounts receivable	11,366	(428,067)	-	-	(428,067)
Accrual of unbilled revenue	(49,737)	85,156	(9,256)	-	6,163
Materials and supplies inventory	-	83,559	(80,862)	-	(17,303)
Other assets	-	138,666	23,370	(60,689)	101,347
Trade accounts payable	(178,291)	314,159	17,165	(37,181)	115,852
Customer deposits and prepayments	-	8,458	-	28,270	36,728
Other liabilities	21,644	163,433	27,572	189,858	382,507
Net cash provided by operating activities	\$ 1,678,330	\$ 4,458,235	\$ 2,210,730	\$ (519,098)	\$ 7,814,831

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 water, electric, and telecom systems. The water, electric, and telecom systems are operated by a separate board appointed by the Mayor and approved by City Council.

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

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

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

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit 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. Compensated absences, consisting of unused vacation pay and others compensated absences, are not included in the governmental basis financial statements, but are shown as a reconciling item and included in the city-wide financial statements. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

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

The government reports the following major governmental funds:

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

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

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

2. Receivables and payables

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

All trade receivables were considered collectible at June 30, 2007. 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 includes property, plant, equipment, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets used in the government-wide financial statements are defined as those having an individual cost of more than \$5,000 and an estimated life in excess of two years. Estimated useful lives for the major classes of equipment were as follows:

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

6. *Compensated Absences*

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

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

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

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

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. 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. Management can transfer amounts between departments. City Council amended the original budget, and the original and final amounts are presented in the financial statements included in this report.

IV – Detailed Notes on All Funds

A. Deposits and Investments

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

	<u>Cash and Equivalents</u>	<u>Short-term Investments</u>
Government type funds	\$ 692,986	\$ 1,699,397
Enterprise type funds	8,949,817	807,111
Totals	<u>\$ 9,642,803</u>	<u>\$ 2,506,508</u>

As of June 30, 2007, 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, 2007, were not covered by the bank collateral pool administered by the Treasurer of the State of Tennessee. Banks participating in the pool report the aggregate balance of their public funds to the State. Collateral to secure those deposits must be pledged to protect the State of Tennessee in the Local Government Investment Pool.

The City has a repurchase agreement with Hamblen County Bank whereby City funds are invested overnight in securities of the U.S. Treasury Department. At June 30, 2007, the City had \$4,744,792 invested in these securities and has included these in cash and cash equivalents.

Short-term investments represent un-drawn bond proceeds.

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

	General	Non-Major and Other Funds	Enterprise	Totals
Receivables:				
Taxes	\$ 10,086,586	\$ -	\$ -	\$ 10,086,566
Accounts	439,066	56,323	5,985,982	6,481,371
Intergovernment	3,934,977	-	-	3,937,977
Gross receivables	14,460,629	56,323	5,985,982	20,505,934
Less: Allowance for bad debt	(57,566)	-	-	(57,566)
Net receivables	<u>\$ 14,403,063</u>	<u>\$ 56,323</u>	<u>\$ 5,985,982</u>	<u>\$ 20,448,368</u>

Included in taxes receivable of the General Fund is property taxes of \$6,835,272 that were assessed as of January 1, 2006, but will not be billed until after June 30, 2007. 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, 2006	Increases	Decreases	Balance June 30, 2007
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,553,889	\$ 310,873	\$ -	\$ 7,864,762
Construction in progress	520,630	4,040,918	(267,419)	4,294,129
Total capital assets not being depreciated	<u>8,074,519</u>	<u>4,351,791</u>	<u>(267,419)</u>	<u>12,158,891</u>
Capital assets being depreciated:				
Buildings	15,598,268	66,980	-	15,665,248
Improvements other than buildings	11,684,311	102,194	-	11,786,505
Machinery and equipment	9,287,216	550,405	(243,365)	9,594,256
Infrastructure	13,739,223	404,135	-	14,143,358
Total capital assets being depreciated	<u>50,309,018</u>	<u>1,123,714</u>	<u>(243,365)</u>	<u>51,189,367</u>
Less: accumulated depreciation:				
Buildings	(5,603,086)	(262,588)	-	(5,865,674)
Improvements other than buildings	(7,881,287)	(512,102)	-	(8,393,389)
Machinery and equipment	(5,603,088)	(636,791)	-	(6,239,879)
Infrastructure	(7,534,237)	(518,304)	-	(8,052,541)
Total accumulated depreciation	<u>(26,621,698)</u>	<u>(1,929,785)</u>	<u>-</u>	<u>(28,551,483)</u>
Net capital assets being depreciated	<u>23,687,320</u>	<u>(806,071)</u>	<u>(243,365)</u>	<u>22,637,884</u>
Total capital assets-government activities	<u>\$ 31,761,839</u>	<u>\$ 3,545,720</u>	<u>\$ (510,784)</u>	<u>\$ 34,796,775</u>

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,857,055	-	\$ -	\$ 1,857,055
Construction in progress	19,693,943	14,878,557	(23,597,934)	10,974,566
Total assets not being depreciated	<u>21,550,998</u>	<u>14,878,557</u>	<u>(23,597,934)</u>	<u>12,831,621</u>
Capital assets being depreciated:				
Buildings	17,347,728	321,136	(865)	17,667,999
Transmission and distribution	122,388,251	23,031,745	(324,346)	145,095,650
Furniture, fixtures and equipment	8,257,715	889,670	(253,738)	8,893,647
Total capital assets being depreciated	<u>147,993,694</u>	<u>24,242,551</u>	<u>(578,949)</u>	<u>171,657,296</u>
Less accumulated depreciation:				
Buildings and improvements	(2,891,624)	(387,906)	865	(3,278,655)
Transmission and distribution	(52,210,143)	(4,806,040)	357,443	(56,658,740)
Furniture, fixtures and equipment	(5,323,961)	(937,294)	233,738	(6,027,517)
Total accumulated depreciation	<u>(60,425,728)</u>	<u>(6,131,240)</u>	<u>592,046</u>	<u>(65,964,922)</u>
Net capital assets being depreciated	<u>87,567,966</u>	<u>18,111,311</u>	<u>13,097</u>	<u>105,692,374</u>
Total net capital assets - business activities	<u>109,118,964</u>	<u>32,989,868</u>	<u>(23,584,837)</u>	<u>118,523,995</u>
Total net capital assets	<u>\$ 140,880,803</u>	<u>\$ 36,535,588</u>	<u>\$ (24,095,621)</u>	<u>\$ 153,320,770</u>

Depreciation expense was charged to government activities as follows:

General government	\$ 122,894
Public safety	619,818
Public works	642,459
Parks and recreation	103,486
Airport	441,128
Total	<u>\$ 1,929,785</u>

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

Sewer	\$ 1,797,915
Water, Electric, Power and Telecom	4,333,325
Total	<u>\$ 6,131,240</u>

D. Accounts payable and other current liabilities:

	<u>Governmental</u>	<u>Business Type</u>	<u>Total</u>
Accounts payable	\$ 2,319,704	\$ 4,991,312	\$ 7,311,016
Accrued payroll and other liabilities	<u>252,927</u>	<u>2,514,638</u>	<u>2,767,565</u>
Total	<u>\$ 2,572,631</u>	<u>\$ 7,505,950</u>	<u>\$ 10,078,581</u>

E. Interfund receivables, advances, payables, and transfers

The interfund receivables and payables as of June 30, 2007, were as follows:

<u>Receivable From</u>	<u>Payable to</u>	<u>Amount</u>
Telecom System	Electric System	\$ 2,197,281
Telecom System	Water System	304,752
Electric system	Sewer System	439,280
General Fund	Sewer System	1,848,414
Telecom System	General Fund	95,178
Total		<u>\$ 4,884,905</u>

The first two items receivables from Telecom System represent temporary loans. The next item receivable from Electric System represents collection of sewer fees, which are collected through the Electric System and remitted to the Sewer System on a monthly basis. The next item, receivable from General Fund, resulted from the General Fund overdrawing its share of the common operating bank account used by all City Funds. The last item represents Telecom System's share of bond issue expense paid from the General Fund. These were expected to be liquidated over a short term.

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

<u>Receivable from</u>	<u>Payable to</u>	<u>Amount</u>
Telecom System	Electric System	\$ 945,500
Water System	Electric System	1,500,000
Total		<u>2,445,500</u>

The interfund transfers were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Amount</u>
General Fund	Solid Waste Fund	\$ 1,497,983
General Fund	Narcotics Fund	235,500
Electric System	General Fund	655,890
Water System	General Fund	31,951
Total		<u>\$ 2,421,324</u>

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

F. Deferred items

Deferred items consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Taxes due after June 30, 2007	\$ 9,725,557	\$ -	\$ 9,725,557
Advance payments for street work	60,000		60,000
Telecom System	<u>-</u>	<u>170,000</u>	<u>170,000</u>
Total	<u>\$ 9,785,557</u>	<u>\$ 170,000</u>	<u>\$ 9,955,557</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 leases payable of \$26,319, \$13,160 of which is included in long-term liabilities.

G. Changes in Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2007:

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturity Dates	Range of Interest Rate (%)	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Primary Government							
General Government							
2003 Refunding Industrial Park	4,855,000	2003-2013	1.1-4.25	3,550,000		450,000	3,100,000
2000 Public Improvement	5,000,000	2017-2021	6	2,335,286			2,335,286
2001 Public Improvement (Restated)	3,000,000	2011-2016	6	2,082,000			2,082,000
2001 Refunding	4,690,000	2003-2010	3.9	2,630,000		580,000	2,050,000
2005 Public Improvement	2,000,000	2014-2025	5	1,925,000		75,000	1,850,000
2006 Public Improvement (Restated)	4,991,031	2014-2027	5	4,991,031			4,991,031
2007 Public Improvement	3,250,000	2009-2028	5	-	4,750,000		4,750,000
Total general government				17,513,317	4,750,000	1,105,000	21,158,317
Enterprise Funds							
Sewer bonds:							
2003 Refunding TLDA	1,775,000	2000-2014	2.0-5.0	1,360,000		145,000	1,215,000
2001GO Refunding	4,180,000	2003-2013	3.99	2,880,000		360,000	2,520,000
2000 Public ImprovementSeries IV-F3	5,000,000	2003-2021	5.95-6.75	2,664,714			2,664,714
2001 Public Improvement Series AIG	3,000,000	2011-2016	6	918,000			918,000
2005 Public Improvement Series D1D	3,000,000	2014-2025	5	3,000,000			3,000,000
2006 Public Improvement (Restated)	5,008,969	2014-2027	5	5,008,969			5,008,969
2007 Public Improvement	1,750,000	2009-2028	5	1,750,000			1,750,000
Electric System							
Appalachian Electric notes		2000-2007	None	307,033	137,867	60,712	384,188
Series V-A-2 bonds	2,500,000	2004-2018	Varies	2,200,000		125,000	2,075,000
Water system							
Water system bonds series 1992	2,500,000	2000-2007	4.8-5.7	220,000		220,000	-
Water system bonds series 1996	2,800,000	2000-2011	4.15-5.25	1,160,000		210,000	950,000
DWSRF promissary note				9,079,369	1,377,312	358,968	10,097,713
Telecom System							
Telecom System D-1-A Bond	1,800,000	2016-2030	3.75	18,000,000	1,515,179		18,000,000
Total Enterprise Funds				48,548,085		1,479,680	48,563,584
Other							
Solid Waste Bonds (Joint Venture)							
Solid Waste Refunding	1,649,400	2005-2012	2.0-5	1,280,000		200,000	1,080,000
Total				67,341,402	6,265,179	2,784,680	70,821,901

The proceeds of \$10,000,000 2006 Refunding bonds was all allocated to the General Fund for the fiscal year ended June 30, 2006. However, \$6,000,000 of these bonds were transferred to the Sewer Fund.

Capital Leases:							
Water Department				26,319	62,396	12,319	14,000
Telecom						3,038	59,358
Total				26,319	62,396	15,357	73,358

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

Year Ending	Government Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2008	\$ 1,355,000	\$ 989,962	\$ 1,047,973	\$ 1,926,373
2009	1,502,500	937,327	1,821,691	1,877,007
2010	1,572,500	878,802	1,893,083	1,811,211
2011	1,080,500	817,589	2,018,686	1,741,479
2012	1,165,500	775,127	2,105,674	1,664,502
2013-2017	4,739,890	3,177,454	10,525,156	7,332,825
2018-2022	5,040,146	1,935,428	12,046,982	5,029,913
2023-2027	4,220,750	785,575	13,710,870	2,433,352
2028-2030	481,531	39,775	3,413,469	339,850
Totals	<u>\$ 21,158,317</u>	<u>\$ 10,337,039</u>	<u>\$ 48,583,584</u>	<u>\$ 24,156,512</u>

Following are debt requirements for capital leases:

Capital leases:

2008	\$ 26,308
2009	14,378
2010	14,378
2011	14,378
2012	14,378
2013	2,396
Total future minimum lease payments	86,216
Less amount representing interest	(12,858)
Present value of future minimum lease payments (including \$25,981 classified as current)	<u>\$ 73,358</u>

Telecom 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 of 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, 2007, 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 a \$18 million principal amount. The interest rate 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, 2007, rates under this agreement were as follows:

	<u>2007</u>
Fixed payment to counterparty	3.31%
Variable payment from counterparty	<u>-3.51%</u>
Net interest rate swap payment	-0.20%
Variable rate bond coupon payments	<u>3.81%</u>
Synthetic interest rate on bonds	<u><u>3.61%</u></u>

The swap agreement yielded interest savings of approximately \$52,000 in 2007.

As of June 30, 2007, the swap had a positive fair value of \$113,215. 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, 2007, 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 swap counterparty was unrated at the time of the swap. In order to mitigate the potential for 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, 2007. 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, 2007, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for the term were as follows. As rates vary, variable-rate bond interest payments and net swap payments will vary.

I. Prior period adjustment

Toward the close of the previous year, bonds were issued in the principal amount of \$10,000,000, with the proceeds recorded in the General Fund. However, a decision was made to use \$5,008,969 of this bond issue for capital improvements to the Sewer System.

Prior to the current year, the General Fund paid construction costs of the Sewer System in the amount of \$407,283. These were reclassified.

An adjustment was made to correct the long-term debt where the proceeds went to Morristown Utility and the Utility System had been carrying the balance of the promissory notes as long-term debt, but since the Morristown Utility System is part of the primary government of the City of Morristown, those promissory notes represent advances by the City of Morristown. This adjustment decreased the City-Wide Unrestricted Fund Balance by \$650,000.

These adjustments are summarized as follows:

Bond issue adjustment - Net	\$ 199,929
Reclassification of prior year construction costs	407,283
Adjustment resulting from scheduling of payments on bonds differently from payment of Morristown Utility System promissory notes	<u>(650,000)</u>
Net adjustment	<u>\$ (42,788)</u>

Restricted assets:

The following assets were restricted:

General Fund – Bond proceeds for capital improvements	\$ 1,699,397
Sewer fund – Bond proceeds for capital improvements	250,000
Water System – Interest and sinking funds	557,111

J. State street aid activities:

The following is a summary of State Street Aid activity within the General Fund for the year ended June 30, 2007:

Reserve fund balance, July 1, 2006	\$ -0-
Add – state gasoline tax revenues	715,670
Less – state expenditures	<u>(715,670)</u>
Reserve fund balance, June 30, 2007	<u>\$ -0-</u>

K. Other Disclosures:

A. Commitments and Contingencies:

At June 30, 2007, the City of Morristown had the following commitments:

General Fund – Uncompleted contracts	\$ 3,034,370
Sewer System – Uncompleted contracts	3,210,292
Sewer Operating Contract (approximate annual cost)	1,000,000

Contingent liabilities:

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

B. Concentration of Credit Risk

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

C. Joint Ventures

Morristown-Hamblen County Library – The City of Morristown and Hamblen County jointly own the Morristown-Hamblen Library. Each appoints an equal number of members to its board by directors. The City contributed \$228,500 for the library operation during the fiscal year ended June 30, 2007.

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, 2007, the City was charged \$607,867

D. Pension Plan Information

CITY OF MORRISTOWN

Plan Description

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

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for the PSPP. That report may be obtained by writing to Tennessee Treasury Department, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, TN 37243-0230 or can be accessed at <http://treasury.state.tn.us/ters/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, 2007, was 11.81% 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.

Annual Pension Cost

For the year ended June 30, 2007, City of Morristown's annual pension cost of \$1,552,236 to TCRS was equal to City of Morristown's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. 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 28 years. An actuarial valuation was performed as of July 1, 2005, which established contribution rates effective July 1, 20

TREND INFORMATION

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2007	\$ 1,552,236	100.00%	\$0.00
June 30, 2006	\$ 892,786	100.00%	\$0.00
June 30, 2005	\$ 842,965	100.00%	\$0.00

MORRISTOWN UTILITY COMMISSION – RETIREMENT PLAN

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 2007, the amount of payroll covered by the plan was \$5,039,678 of total payroll of \$5,559,543. 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 2007 the discretionary contribution amounted to 12% of the participants' salary. Participants are not required but may contribute up to a total of 75% of their salary subject to IRS limitations. All employees who have completed one year of service as defined by the Plan and who have attained the age of 21 are eligible to participate in the Plan.

Participants are 100% vested in the employer contributions when they are made. The Commission contributed \$751,414 in 2007 into the Plan, which represents 15% of the covered payroll and 100% of the required contribution. The participants contributed \$374,504 in 2007 which 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, electric and telecom 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, 2007, there were 44 retirees under this plan with a cost to the City of \$325,744. Compensated absences that will be paid within one year are estimated to be \$350,000. Funds typically used in the past to liquidate this liability are the Sewer Fund and the General Fund.

Water, Electric and Telecom 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, 2007, there were four former employees eligible to participate in the plan. Benefits relating to these retirees are expensed when paid and totaled \$14,316 in 2007.

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, 2007

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b)-(a)	(a/b)	(c)	(b-a)/(c)
July 1, 2005	\$ 37,471	\$ 44,061	\$ 6,590	85.04%	\$ 11,194	58.87%
July 1, 2003	\$ 35,814	\$ 42,539	\$ 6,725	84.19%	\$ 9,748	68.99%
June 30, 2001	\$ 34,504	\$ 36,125	\$ 1,621	95.51%	\$ 9,032	17.95%

City of Morristown, Tennessee

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

Other Governmental Funds

Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<u>Narcotics Fund</u>				
Revenues				
Program Income	\$ 120,723	\$ 120,723	\$ 284,779	\$ 164,056
Miscellaneous Revenue			-	-
Total revenues	<u>120,723</u>	<u>120,723</u>	<u>284,779</u>	<u>164,056</u>
Expenditures				
Narcotics enforcement	<u>409,524</u>	<u>409,524</u>	<u>366,505</u>	<u>43,019</u>
Excess of expenditures over revenue	(288,801)	(288,801)	(81,726)	207,075
Other Sources				
Transfers in	<u>235,500</u>	<u>235,500</u>	<u>235,500</u>	<u>-</u>
Net change in fund balance	(53,301)	(53,301)	153,774	207,075
Fund balance - beginning	<u>9,883</u>	<u>9,883</u>	<u>9,883</u>	<u>-</u>
Fund balance - ending	<u>\$ (43,418)</u>	<u>\$ (43,418)</u>	<u>\$ 163,657</u>	<u>\$ 207,075</u>

City of Morristown, Tennessee
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2007

CFDA or Grant Number	Program Name	Grantor Agency	(A) Balance, July 1, 2006 Receivable	(B) Receipts	(C) Federal Expenditures	(A) Balance, June 30, 2007 Balance
20.505 MTPO		Federal Transit Administration	\$ 189,858	\$ 170,261	\$ 253,554	\$ 31,845
14.218 Community Development Block Grant		Housing and Urban Development	\$ 24,531	\$ 323,695	\$ 299,164	\$ -
10.599 Summer Feeding		U.S. Dept. of Agriculture	\$ 42,788	\$ 87,979	\$ 89,902	\$ 44,711
16.607 Bullet Proof Vest Partnerships		U.S. Dept. of Justice	\$ -	\$ 5,479	\$ 5,479	\$ -
97.044 Assistance to Firefighters Grant		Dept. of Homeland Security	\$ -	\$ 11,134	\$ 28,800	\$ 17,666
16.592 Local Law Enforcement Block Grant		Local Law Enforcement Block Grant	\$ -	\$ 12,166	\$ 12,166	\$ -
20.600 Highway Safety Grant		State and Community Highway Safety	\$ -	\$ 22,738	\$ 32,796	\$ 10,058
16.609 Project Safe Neighborhood		U.S. Dept. of Justice	\$ 10,041	\$ 11,272	\$ 1,231	\$ -
Total			\$ 267,218	\$ 644,723	\$ 723,091	\$ 104,279

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, 2007

Agency	Contract Number	Balance, July 1, 2006 Receivable	Receipts	Disbursements	Balance, June 30, 2007 Balance
Tennessee Department of Community Development	GG-07-12811-00	-	192,278	200,978	8,700
Tennessee Department of Community Development	GG-06-12584-00	710,785	1,021,942	311,157	-
Tennessee Department of Environment & Conservation	Z-05-022833-00	147,160	328,899	181,739	-
Tennessee Housing Development Agency	HM-02-27	100,354	257,179	156,825	-
Tennessee Department of Aeronautics	Z-07-035612-00	-	-	13,500	13,500
Tennessee Department of Aeronautics	Z-05-02-4812-00	332,344	332,344	-	-
Tennessee Department of Aeronautics	Z-06-02-8738-00	13,500	13,500	-	-
Tennessee Department of Aeronautics	Totals	\$ 1,304,143	\$ 2,146,141	\$ 864,199	\$ 22,200

The modified accrual basis was used in preparing this schedule.

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STATISTICAL SECTION

City of Morristown, Tennessee
Statistical Information
June 30, 2007

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

Financial Trends

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

Revenue Capacity

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

Debt Capacity

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

Demographic and Economic Information

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

Operating Information

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

City of Morristown, Tennessee
Net Assets by Component
Last Ten Fiscal Years
Fifth Year of Implementation
June 30, 2007

	Fiscal Year Ended				
	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007
Governmental activities:					
Invested in capital assets, net of related debt	\$ 20,792,189	\$ 33,486,758	\$ 32,485,958	\$ 32,367,332	\$ 20,829,489
Restricted	5,564,620	1,434,155	3,256,311	3,461,659	153,829
Unrestricted	4,542,774	4,811,741	3,918,333	2,407,332	12,742,735
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>	<u>\$ 33,726,053</u>
Business-type activities:					
Invested in capital assets, net of related debt	\$ 62,632,218	\$ 61,967,985	\$ 63,008,050	\$ 65,965,213	\$ 65,694,276
Restricted	859,847	554,347	3,522,421	531,903	557,111
Unrestricted	10,174,665	13,006,096	11,713,846	13,638,464	12,858,565
Total business type net assets	<u>\$ 73,666,730</u>	<u>\$ 75,528,428</u>	<u>\$ 78,244,317</u>	<u>\$ 80,135,580</u>	<u>\$ 79,109,952</u>
Primary government:					
Invested in capital assets, net of related debt	\$ 83,424,407	\$ 82,760,174	\$ 95,494,008	\$ 98,332,545	\$ 86,523,765
Restricted	6,424,467	2,032,088	6,778,732	3,993,562	710,940
Unrestricted	14,717,439	30,468,820	15,632,179	16,045,796	25,601,300
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>	<u>\$ 112,836,005</u>

City of Morristown, Tennessee
Changes in Fund Balances of Governmental Funds
 Last Ten Fiscal Years
 Fifth Year of Implementation
 (Modified Accrual Basis of Accounting)
 June 30, 2007

	Fiscal Year				
	2003	2004	2005	2006	2007
Revenues					
Taxes	\$ 17,538,836	\$ 17,963,749	\$ 18,798,835	\$ 19,509,714	\$ 19,819,597
Licenses, permits and fines	1,720,054	756,770	936,037	904,316	1,093,488
Use of money and property	469,234	736,195	690,408	607,576	329,777
Service charges and fees	124,335	319,659	131,998	155,179	137,584
Intergovernmental	5,390,157	4,566,023	5,294,295	7,664,424	6,141,091
Total revenues	<u>25,242,616</u>	<u>24,342,396</u>	<u>25,851,573</u>	<u>28,841,209</u>	<u>\$ 27,521,537</u>
Expenditures					
General government	2,432,599	2,603,517	3,322,466	3,654,202	4,378,805
Public safety	10,868,947	10,949,337	11,946,235	12,010,039	14,326,759
Public works	5,595,244	6,215,255	6,897,308	9,055,173	10,381,286
Parks and recreation	1,597,215	1,766,941	1,568,247	1,957,729	3,229,978
Airport	1,270,308	590,071	292,552	275,700	190,240
Civic support	506,273	569,689	544,398	532,178	856,174
Economic development	1,731,781	1,379,815	1,448,415	4,355,672	2,224,061
Retiree benefits		408,347	434,580	292,973	-
Miscellaneous	164,256	229,795	39,351	20,531	-
Debt service					
Principal	815,000	764,600	1,224,800	1,265,000	1,105,000
Interest	382,892	360,360	178,333	178,432	449,487
Debt expense	34,098	4,903	4,670	299,340	155,077
Total expenditures	<u>25,398,613</u>	<u>25,842,630</u>	<u>27,901,355</u>	<u>33,896,969</u>	<u>37,296,867</u>
Deficiency of revenue over expenditures	<u>(155,997)</u>	<u>(1,500,234)</u>	<u>(2,049,782)</u>	<u>(5,055,760)</u>	<u>(9,775,330)</u>
Other financing sources (uses)					
Transfers in	2,632,114	4,290,237	2,550,093	2,371,219	2,421,324
Transfers out	(2,632,114)	(5,005,138)	(1,725,817)	(1,717,920)	(1,733,483)
Bonds issued			1,992,464	10,000,000	4,750,000
Total other financing sources (uses)	<u>-</u>	<u>(714,901)</u>	<u>2,816,740</u>	<u>10,653,299</u>	<u>5,437,841</u>
Net change in fund balance	<u>\$ (155,997)</u>	<u>\$ (2,215,135)</u>	<u>\$ 766,958</u>	<u>\$ 5,597,539</u>	<u>\$ (4,337,489)</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>	<u>4.58%</u>

City of Morristown, Tennessee
Changes in Net Assets
Last Ten Fiscal Years
Fifth Year of Implementation
(Accrual Basis)
June 30, 2007

	Fiscal Year Ended				
	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007
Expenses					
Governmental activities:					
General government	\$ 2,487,777	\$ 2,790,124	\$ 3,532,804	\$ 3,732,680	\$ 4,427,912
Public safety	10,236,334	10,287,585	11,553,257	12,011,746	14,783,116
Public works	5,570,400	6,537,761	5,024,791	7,884,650	8,936,753
Parks and recreation	1,685,313	1,534,531	1,469,315	1,864,017	3,107,468
Civic support	506,273	576,028	544,398	532,178	858,949
Economic development	590,147	385,088	1,448,415	3,879,932	126,444
Retiree benefits		408,347	434,580	292,973	
Airport	1,633,100	477,425	704,585	554,398	631,368
Long-term debt expense	164,256	396,490	217,831	337,239	582,295
Other	416,990	81,574	-	-	-
Total governmental activities expenses	<u>23,250,590</u>	<u>23,474,933</u>	<u>24,929,976</u>	<u>31,089,823</u>	<u>33,452,305</u>
Business-type activities:					
Water	3,847,335	4,089,405	3,765,578	4,241,596	4,486,115
Sewer	4,207,882	4,579,513	4,696,065	5,170,188	5,682,668
Electric	46,767,798	47,365,032	47,493,148	53,341,801	56,800,708
Telecom system			4,176	714,677	4,449,839
Total business-type activities expenses	<u>\$ 54,823,015</u>	<u>\$ 56,033,950</u>	<u>\$ 55,958,967</u>	<u>\$ 63,468,262</u>	<u>\$ 71,419,330</u>
Total primary government expenses	<u>\$ 78,073,605</u>	<u>\$ 79,508,883</u>	<u>\$ 80,888,943</u>	<u>\$ 94,558,085</u>	<u>\$ 104,871,635</u>
Program Revenues					
Governmental activities:					
Charges for services:					
General government	\$ 202,996	\$ 165,575	\$ 231,440	\$ 223,537	\$ 557,097
Public safety	545,293	794,645	936,037	904,316	414,861
Public works	124,335	703,164		258,709	
Parks and recreation		139,562	131,998	155,179	137,584
Civic support					
Economic development					
Retiree benefits					
Airport					
Long-term debt expense					
Operating grants and contributions	1,713,655	352,717		505,818	448,884
Capital grants and contributions	2,617,557	1,361,550		3,234,328	1,702,895
Total governmental activities program revenues	<u>\$ 5,203,936</u>	<u>\$ 3,517,213</u>	<u>\$ 1,299,475</u>	<u>\$ 5,281,887</u>	<u>\$ 3,261,321</u>
Business-type activities:					
Charges for services:					
Water	4,495,715	4,406,024	4,943,461	5,339,101	5,335,578
Sewer	4,540,720	4,492,542	4,589,153	4,749,533	5,556,473
Electric	47,511,195	49,414,204	49,466,518	55,821,500	58,631,933
Telecom system				102,690	2,548,590
Operating grants and contributions		378,438			
Capital grants and contributions	272,320	1,640,300			
Total business-type activities program revenues	<u>56,819,950</u>	<u>60,331,508</u>	<u>58,999,132</u>	<u>66,012,824</u>	<u>72,072,574</u>
Total primary government program revenues	<u>\$ 62,023,886</u>	<u>\$ 63,848,721</u>	<u>\$ 60,298,607</u>	<u>\$ 71,294,711</u>	<u>\$ 75,333,895</u>
Net (expense) revenue:					
Governmental activities	\$ (18,046,654)	\$ (19,957,720)	\$ (23,630,501)	\$ (25,807,936)	\$ (30,190,984)
Business-type activities	1,996,935	2,583,291	3,040,165	4,749,533	853,244
Total primary government net expense	<u>\$ 1,996,935</u>	<u>\$ (17,374,429)</u>	<u>\$ (20,590,336)</u>	<u>\$ (23,263,374)</u>	<u>\$ (29,537,740)</u>
General Revenues and Other Changes in Net Assets					
Governmental activities:					
Taxes					
Property taxes	\$ 6,154,751	\$ 6,288,159	\$ 6,544,269	\$ 6,989,567	\$ 6,744,789
In-lieu taxes	662,748	59,275	72,748	92,446	85,529
Franchise taxes	813,588	820,658	853,208	1,006,887	732,339
Local sales tax	8,053,275	8,618,515	9,196,618	9,491,687	9,594,019
Alcohol beverage tax	934,567	1,009,528	1,032,668	1,076,180	1,107,005
Business and gross receipts tax	681,903	861,386	784,119	881,441	943,210
Hotel/motel tax	238,004	312,707	350,931	384,387	417,120
Use of money and property	1,291,563	712,843	96,134	607,576	451,307
Intergovernmental	1,208,281	2,148,591	4,097,107	3,405,260	3,989,312
Transfers		721,591	824,276	653,299	687,841
Total governmental activities	<u>20,038,680</u>	<u>21,553,253</u>	<u>23,852,078</u>	<u>24,588,730</u>	<u>24,732,471</u>
Business-type activities:					
Investment earnings	254,859				
Transfers		(721,591)	(824,276)	(653,299)	(887,841)
Total business-type activities	<u>254,859</u>	<u>(721,591)</u>	<u>(824,276)</u>	<u>(653,299)</u>	<u>(887,841)</u>
Total primary government	<u>20,293,539</u>	<u>20,831,662</u>	<u>23,027,802</u>	<u>23,935,431</u>	<u>24,044,630</u>
Change in Net Assets					
Governmental activities	1,992,026	1,595,533	221,577	(1,219,206)	(5,458,513)
Business-type activities	2,251,794	1,861,700	2,215,889	1,891,263	(34,597)
Total primary government	<u>\$ 4,243,820</u>	<u>\$ 3,457,233</u>	<u>\$ 2,437,466</u>	<u>\$ 672,057</u>	<u>\$ (5,493,110)</u>

City of Morristown, Tennessee
Fund Balance of Governmental Funds
Last Ten Fiscal Years
Fifth Year of Implementation
(Modified Accrual Basis of Accounting)
June 30, 2007

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

City of Morristown, Tennessee
Government Activities Revenue by Source
Last Ten Fiscal Years (5th Year of Implementation)
(Accrual Basis of Accounting)

Fiscal Year	Property Tax	In-lieu Tax	Franchise Tax	Local Sales Tax	Alcohol Beverage Tax	Business and Gross Receipts Tax	Hotel/Motel Tax	Use of Money and Property	Inter-Governmental	Transfers	Total
2003	\$6,154,751	\$ 662,748	\$ 813,588	\$8,053,275	\$ 934,567	\$ 681,903	\$ 238,004	\$1,291,563	\$ 1,208,281	\$ -	\$20,038,680
2004	6,288,159	59,275	820,658	8,618,515	1,009,528	861,386	312,707	712,843	2,148,591	721,591	21,553,253
2005	6,544,269	72,748	853,208	9,196,818	1,032,668	784,119	350,931	96,134	4,097,107	824,276	23,852,078
2006	6,989,567	92,446	1,006,887	9,491,687	1,076,180	881,441	384,387	607,576	3,405,260	653,299	24,588,730
2007	6,744,789	65,529	732,339	9,594,019	1,107,005	943,210	417,120	451,307	3,989,312	687,841	24,732,471

City of Morristown, Tennessee
Table of General Bonded Debt with Total
Assessment and Total Governmental
Expenditure Ratios
Ten tax years ended 2006
June 30, 2007

Tax Year	General Bonded Debt	Total Assessment	Ratio of Bonded Debt to Total Assessment	Total Expenditures	Ratio of Bonded Debt to Total Expenditures
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
2006	22,538,317	704,667,216	.032 to 1	37,296,867	.604 to 1

City of Morristown, Tennessee
Property Tax Levies and Collections
For the Ten Years Ended 2006
June 30, 2007

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Assessed value	378,873,280	401,714,160	420,402,762	446,839,120	454,515,175	569,848,349	576,534,587	586,357,798	614,747,798	704,867,216
Rate per \$100	1.25	1.25	1.25	1.25	1.25	1.09	1.09	1.09	1.09	0.97
Total tax levy	4,735,916	5,021,427	5,255,035	5,585,489	5,681,440	6,211,347	6,284,227	6,391,300	6,700,751	6,835,272
Collections/reductions:										
Initial tax year	4,543,078	4,914,764	5,099,870	5,368,291	5,438,677	5,908,338	5,986,563	6,085,471	6,421,637	6,546,642
Additional through June 30, 2007	189,833	101,965	109,185	196,204	219,923	259,536	210,336	221,104	171,013	0
Total collections/reductions	4,732,911	5,016,729	5,209,055	5,564,495	5,658,600	6,167,874	6,196,899	6,306,575	6,592,650	6,546,642
Taxes receivable, June 30, 2007	3,005	4,688	45,980	20,994	24,840	43,473	87,328	84,725	108,101	288,630
Percent of levy collected initial tax year	95.93%	97.88%	97.05%	96.11%	95.60%	95.12%	95.26%	98.67%	98.39%	95.76%
Percent of levy outstanding June 30, 2007	0.06%	0.09%	0.87%	0.38%	0.44%	0.70%	1.39%	1.33%	4.17%	

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

	2007			Nine Years Ago		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
Berkline Corporation	1625	1	6%	1889	1	7%
MAHLE, Inc.	1368	2	5%	1150	2	4%
Koch Foods	1026	3	4%			
JTEK Automotive, Inc.	612	4	2%			
Lear Corporation	605	5	2%	840	3	3%
Howmet Corporation	578	6	2%			
CFGroup/Morristown, TN	550	7	2%			
Rich Products Corporation	300	8	1%			
Team Technologies, Inc.	300	9	1%			
Wallace Hardware Co., Inc.	264	10	1%			
Universal Furniture Industries				815	4	3%
Shelby Williams Industries, Inc.				800	5	3%
Anchor Advance Products, Inc.				600	6	2%
Burnett Produce Company				600	7	2%
Lenzing Fibers Corporation				530	8	2%
Norris Homes				500	9	2%
Lea Industries				475	10	2%
Total	7228		26%	8199		30%

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

Tax Year	Real Property				Personal Property		Less:		Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
	Residential Property	Commercial Property	Public Utility Property	Other	Commercial Property	Public Utility Property	Tax Exempt Real Property	Tax Exempt Real Property			
1997	98,774,225	166,311,120	922,570	1,140,250	94,171,799	-	361,319,964	361,319,964	1.25	1,085,563,975	33.28%
1998	101,964,225	170,194,960	1,438,800	1,121,375	115,351,160	-	390,070,520	390,070,520	1.25	1,177,250,559	33.13%
1999	105,804,800	181,856,720	1,438,800	989,300	117,308,547	-	407,398,167	407,398,167	1.25	1,225,572,257	33.24%
2000	151,735,700	241,152,880	1,918,125	1,339,675	146,310,970	-	542,457,350	542,457,350	1.25	1,637,704,995	33.12%
2001	153,493,650	244,658,040	493,845	1,763,125	151,200,316	4,147	551,613,123	551,613,123	1.25	1,668,996,219	33.05%
2002	154,997,600	257,138,640	493,845	1,765,775	135,664,289	2,368	550,062,517	550,062,517	1.09	1,653,214,110	33.27%
2003	157,210,650	268,536,960	493,845	1,783,150	133,871,424	2,185	561,898,214	561,898,214	1.09	1,683,016,247	33.39%
2004	160,143,125	274,685,480	493,845	1,776,850	133,299,257	2,872	570,401,429	570,401,429	1.09	1,706,865,190	33.42%
2005	197,382,450	311,856,480	581,570	2,358,850	161,306,661	2,270	673,488,281	673,488,281	0.97	2,030,459,639	33.17%
2006	208,319,300	320,294,680	577,060	2,554,275	172,813,509	2,270	704,561,094	704,561,094	0.97	2,130,508,894	33.07%

City of Morristown
Operating Indicators by Function
Last Ten Fiscal Years (5th Year of Implementation)

Function	Fiscal Year				
	2003	2004	2005	2006	2007
Police					
Physical arrests	5,216	5,226	5,250	5,266	7,572
Parking violations	8,629	8,636	8,645	8,652	7,179
Fire					
Number of calls answered	2,976	2,979	2,985	3,211	3,390
Inspections	1,800	1,808	1,815	1,827	2,376
Highways and streets					
Street maintainance/resurfacing (miles)	3	0.11	8.11	4.73	0.4
Sanitation					
Brush collected (annual)	2,428.6	2,585.3	2,606.2	2,792.5	3,411.5
Refuse collected	14,106.8	14,247.6	14,928.6	15,008.8	9,944.0

Sources: Various city departments.

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
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
2007	25,686	673,075,944	26,204	41.2	14	10,613	5.7

City of Morristown
Capital Asset Statistics by Function
Last Ten Fiscal Years (5th Year of Implementation)

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

Sources: Various city departments.

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers
Year Ended June 30, 2007

Sewer Rates

Inside - \$3.65 per 1,000 gallons of water used—minimum bill of \$7.30 per month.

Outside - \$7.30 per 1,000 gallons of water used—minimum bill of \$21.90 per month.

Customers:

Inside City	10,578
Outside City	<u>438</u>
Total	<u>11,016</u>

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers
Year Ended June 30, 2007

Residential

Customer charge per month	\$ 8.40
Energy charge:	
First 2,000 kilowatt hours	7.189¢
Additional kilowatt hours per month	7.002¢

Commercial, Industrial, Governmental and Institutional:

Demand of up to 50 kilowatt hours:	
Customer charge per month	\$ 15.25
Energy charge per kilowatt hour per month	7.902¢

Demand of 51 to 1,000 kilowatt hours	\$ 127.00
Excess over 50 kilowatts per month	\$ 11.48
Energy charge:	
First 15,000 kilowatt hours per month	7.404¢
Additional kilowatt hours per month	4.378¢

Demand of 1,001 to 5,000 kilowatt hours:	
Customer charge per month	\$ 205.00
Demand charge:	
First 1,000 kilowatts per month	\$ 11.49
Excess over 1,000 kilowatts per month	\$ 12.64
Energy charge:	
Per kilowatt hours per month	\$ 4.380¢

Demand of 5,001 to 15,000 kilowatts:	
Customer charge per month	\$1,500.00
Demand charge:	
Per kilowatt	\$ 10.61
First 620 kilowatt hours per kilowatt per month	3.216¢
Additional kilowatt hour per month	2.707¢

Non-manufacturing demand of 15,001 to 25,000 kilowatts:	
Customer charge per month	\$1,500.00
Demand charge:	
Per kilowatt hour per month	\$ 12.95
Energy charge:	
First 620 kilowatt hours per month	3.872¢
Additional kilowatt hours per month	3.241¢

Number of customers	12,684
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City of Morristown, Tennessee
Schedule of Water Rates and Number of Customers
Year Ended June 30, 2007

Inside City rate	
Customer charge per month	\$ 4.65
First 50,000 gallons	1.55
Next 50,000 gallons	1.30
Over 100,000	1.10

Minimum bill:	
6/8" 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

Outside City rates:	
Customer charges per month	4.65
First 50,000 gallons	3.10
Next 50,000 gallons	2.60
Over 100,000 gallons	2.20

Minimum bill:	
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

Monthly fire protection charges:	
4"	25.00
6"	40.00
8"	50.00
10"	100.00
12"	125.00

Number of customers	12,684
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City of Morristown, Tennessee
Schedule of Monthly Telecom Rates
Year Ended June 30, 2007

Standard Cable:

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

Internet:

Residential	
Tier 1	29.92
Tier 2	39.95
Tier 3	59.95
Tier 4	99.95

Telephone:

Residential	22.92
Basic pick	25.00
Additional services	3.75-8.95
Long distance per minute	5c

Commercial:

Access line	25.95
Business local telephone service	6.95-25.95
Long distance rate per minute	5c

Note: The Telecom System began operations in 2006.

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 Board of Mayor and Aldermen
City of Morristown, Tennessee

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Morristown, Tennessee, as of and for the year ended June 30, 2007, which collectively comprise the City of Morristown, Tennessee's basic financial statements and have issued our report thereon dated April 16, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Morristown, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the City of Morristown, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Morristown, Tennessee's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. These findings are numbered 07-1 and 07-2.

Honorable Board of Mayor and Aldermen

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Morristown, Tennessee's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of City of Morristown, Tennessee, in a separate letter dated April 16, 2008.

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

Craine, Thompson + Jones P.C.

Morristown, Tennessee
April 16, 2008

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET
P.O. BOX 1779
SUITE 300, MILLENNIUM SQUARE
MORRISTOWN, TENNESSEE 37816-1779
423-586-7650

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

Honorable Mayor and City Council
City of Morristown, Tennessee

Compliance

We have audited the compliance of City of Morristown, Tennessee with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2007. City of Morristown, Tennessee's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of City of Morristown's management. Our responsibility is to express an opinion on City of Morristown's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133 *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Morristown, Tennessee's compliance with those requirements and performing such other procedure as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of City of Morristown, Tennessee's compliance with those requirements.

In our opinion, City of Morristown, Tennessee complied, in all material effects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2007.

Internal Control Over Compliance

The management of City of Morristown, Tennessee's is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Morristown, Tennessee's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Morristown, Tennessee's internal control over compliance.

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

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

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

Craine, Thompson + Jones P.C.

Morristown, Tennessee
April 16, 2008

City of Morristown, Tennessee
Schedule of Findings and Questioned Costs
June 30, 2007

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:	
Community Development Block Grant	14.218
MTPO	20.505
Dollar threshold used to distinguish between Type A and B programs	\$300,000
Auditee qualified as low-risk auditee	no

Section II – Financial Statement Findings:

No matters were reported

Compliance Findings

No matters were reported.

Internal Control Findings

Finding No. 1

CONDITION - Information received by the Finance Department from other departments is sometimes incorrect or not received on a timely basis.

REASON IMPROVEMENT NEEDED: The Finance Department is dependent on other departments for information used to supplement, compute, or support financial transactions.

CAUSE OF CONDITION: The City does not have in place accounting policies and procedures that have been formally adopted by the City’s governing body.

**City of Morristown, Tennessee
Schedule of Findings and Questioned Costs
June 30, 2007**

Internal Control Matters (Continued):

EFFECT OF CONDITION: Sewer Fund transactions were erroneously posted to the General Fund. Certain debt transactions did not receive proper initial accounting treatment. These errors, if not corrected, would have resulted in the misstatement of the financial statements.

RECOMMENDATION: The City should develop and adopt formal written accounting policies and procedures. Such policies and procedures should encompass the accounting cycle from beginning to end and provide guidance for end of month and end of year reconciliations and reports. These policies and procedures should also include provisions for communications between departments.

Point #1 – We concur that City documents could have been better organized and communicated. The City staff will develop guidelines to ensure that the critical and essential documents necessary to the audit process are organized and prepared in an acceptable manner.

Point #2 – We concur. Staff is developing a Capital Project Reporting mechanism that includes a quarterly budget amendment.

Finding No. 2

CONDITION: The City is unable to monitor certain budgetary operations on a current basis.

REASON IMPROVEMENT NEEDED: The monitoring of budgetary operations is a critical management function, especially in an economic downturn.

CAUSE OF CONDITION: City Council is unable to obtain complete financial information until fieldwork for annual audit is completed. This condition is related to the absence of formal accounting policies and procedures

EFFECT OF CONDITION: Council is unable to adequately monitor the operation of the City's budget.

RECOMMENDATION: The City should incorporate formal procedures for the monitoring of its budget in its policies and procedures for accounting.

COSTS AND BENEFITS OF RECOMMENDED ACTION: Costs to the City should be minimal. Controls over budgetary operations will be improved as Council will have the ability to monitor on an ongoing basis.

Section III – Federal Award Findings and Questioned Costs

No matters were reported

