

CITY OF MORRISTOWN, TENNESSEE

AUDIT REPORT

June 30, 2008

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May 16, 2009

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

State law requires that all general-purpose governments publish annually a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the Comprehensive Annual Financial Report (CAFR) of the City of Morristown for the fiscal year ended June 30, 2008.

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 presentations, 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 of 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 & Jones, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Morristown for the fiscal year ended June 30, 2008, 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, 2008, 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 the 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 south west 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 Aldermen.

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 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, 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 Conditions

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 negotiation 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.

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 drawn down 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 predicted on 6% growth from the estimate of the FY 2006 collection. This was a major factor in the reduction in General Fund balance.

There was also an administrative error in the estimate that 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 requirements for re-establishing 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 Obligations 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 structure 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	<u>\$ 7,056,195</u>
Estimated State reimbursement	<u>\$ 948,000</u>
From moving Morristown bonds	<u>\$ 6,108,195</u>

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 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, 2008, in the category of lowest risk as defined by Governmental Accounting Standards Board.

Risk Management

The Risk Management Program includes all lines of loss expense. 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 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, 2008

MAYOR

Sami Barile

COUNCIL

*Kay Senter
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, 2008, as listed in the table of contents. These financial statements are the responsibility of the City of Morristown, Tennessee's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Morristown Utility Commission proprietary fund types, which statements reflect total assets of \$112,486,734 as of June 30, 2008, and total revenue of \$73,428,075 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, 2008, 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 May 16, 2009, on our consideration of the City of Morristown, Tennessee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

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

Honorable Mayor and Board of Aldermen

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

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

Craine, Thompson & Jones P.C.

Morristown, Tennessee
May 16, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Morristown, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2008. 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 - 4 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 \$126 million (net assets), an increase of \$13.5 million during FY 2008. Of this amount, \$32 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 \$3.4, a decrease of \$1.2 million in comparison with the prior year.
- The City of Morristown's total bonded debt increased by \$5.5 million during the current fiscal year. The key factor in this increase was the issuance of \$8 million in general obligation bonds for general fund and sewer projects.

Overview of the Financial Statements

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

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Morristown's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that

will only result in cash flows in future fiscal periods (e.g., uncollected taxed and earned but unused vacation leave).

Both the government-wide financial statements distinguish functions of the City of Morristown that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Morristown include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities include the City's electric, water, and sewer systems. The Morristown Utilities Commission functions for all practical purposes as a department of the City and therefore has been included as a business-type activity of the primary government.

The government-wide financial statements can be found beginning on page 19 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Morristown, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Morristown can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Morristown maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the solid waste fund, both of which are considered to be major funds. Data from the other governmental fund are combined into a single, aggregated presentation. Individual fund

data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

The basic governmental fund financial statements can be found beginning on pages 21-24 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 pages 26-30 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31 to 47 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 \$126 million at the close of the most recent fiscal year. Net assets increased by \$13.5 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	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 29,939,576	\$ 35,515,029	\$ 29,957,381	\$25,243,849	\$ 59,896,957	\$ 60,758,878
Capital assets	54,935,491	34,796,775	126,407,923	118,523,995	181,343,414	153,320,770
Total assets	84,875,067	70,311,804	156,365,304	143,767,844	241,240,371	214,079,648
Long-term liabilities outstanding	23,259,816	20,883,317	56,046,452	49,819,152	79,306,268	70,702,469
Other liabilities	17,095,890	16,693,465	18,486,664	13,847,709	35,582,554	30,541,174
Total liabilities	40,355,706	37,576,782	74,533,116	63,666,861	114,888,822	101,243,643
Invested in capital assets, net of related debt	41,772,607	19,838,458	68,057,045	66,685,307	109,829,652	86,523,765
Restricted	2,746,754	2,676,601		557,111	2,746,754	3,233,712
Unrestricted		10,219,963	13,775,143	12,858,565	13,775,143	23,078,528
Net assets	\$ 44,519,361	\$ 32,735,022	\$ 81,832,188	\$80,100,983	\$126,351,549	\$ 112,836,005

An additional portion of the City of Morristown's net assets (2 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$13,775,143) 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.

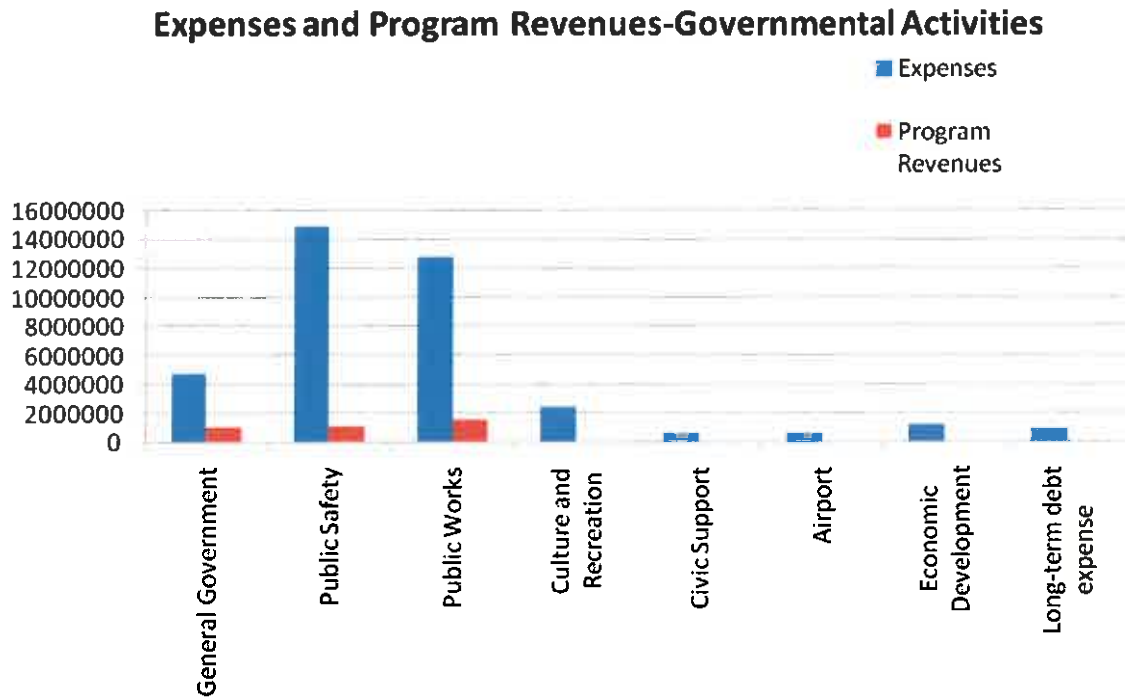
Governmental activities. Governmental activities increased the City of Morristown's net assets by \$11,784,339. The following is a summary of financial activities for the City during the fiscal year ended June 30, 2008.

City of Morristown's Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 1,187,253	\$ 1,109,542	\$82,284,354	\$ 72,072,574	\$ 83,471,607	\$ 73,182,116
Operating grants and Contributions	888,336	448,884	-	-	888,336	448,884
Capital grants and Contributions	1,546,886	1,702,895	55,500	-	1,602,386	1,702,895
General revenues:						
Property taxes	9,521,787	6,744,789	-	-	9,521,787	6,744,789
Sales tax	9,446,110	9,594,019	-	-	9,446,110	9,594,019
Intergovernmental	3,834,117	3,989,312	-	-	3,834,117	3,989,312
Other	3,763,385	3,716,510	387,820	-	4,151,205	3,716,510
Total revenues	<u>30,187,874</u>	<u>27,305,951</u>	<u>82,727,674</u>	<u>72,072,574</u>	<u>112,915,548</u>	<u>99,378,525</u>
Expenses:						
General government	4,729,356	4,427,912	-	-	4,729,356	4,427,912
Public Safety	14,938,433	14,783,116	-	-	14,938,433	14,783,116
Public Works	12,760,354	8,936,753	-	-	12,760,354	8,936,753
Economic development	1,117,549	126,444	-	-	1,117,549	126,444
Culture and recreation	2,404,471	3,107,468	-	-	2,404,471	3,107,468
Civic Support	558,723	856,949	-	-	558,723	856,949
Airport	573,847	631,368	-	-	573,847	631,368
Miscellaneous	-	-	-	-	-	-
Interest on long-term Debt	785,032	582,295	-	-	785,032	582,295
Water	-	-	5,056,029	4,486,115	5,056,029	4,486,115
Sewer	-	-	6,760,588	5,682,668	6,760,588	5,682,668
Storm Water	-	-	436,016	-	436,016	-
Electric	-	-	61,105,276	56,800,708	61,105,276	56,800,708
Telecom system	-	-	6,907,546	4,449,839	6,907,546	4,449,839
Total expenses	<u>37,867,765</u>	<u>33,452,305</u>	<u>80,265,455</u>	<u>71,419,330</u>	<u>118,133,220</u>	<u>104,871,635</u>
Decrease/increase in net assets before transfer	(7,679,891)	(6,146,354)	2,462,219	653,244	(5,217,672)	(5,493,110)
Transfers	731,014	687,841	(731,014)	(687,841)	-	-
Decrease/increase in net assets	(6,948,877)	(5,458,513)	1,731,205	(34,597)	(5,217,672)	(5,493,110)
Net assets-Beginning	32,735,022	38,236,323	80,100,983	80,135,580	112,836,005	118,371,903
Prior period adjustment	18,733,216	(42,788)	-	-	18,733,216	(42,788)
Net assets-Ending	<u>\$ 44,519,361</u>	<u>\$ 32,735,022</u>	<u>\$ 81,832,188</u>	<u>\$ 80,100,983</u>	<u>\$ 126,351,549</u>	<u>\$ 112,836,005</u>

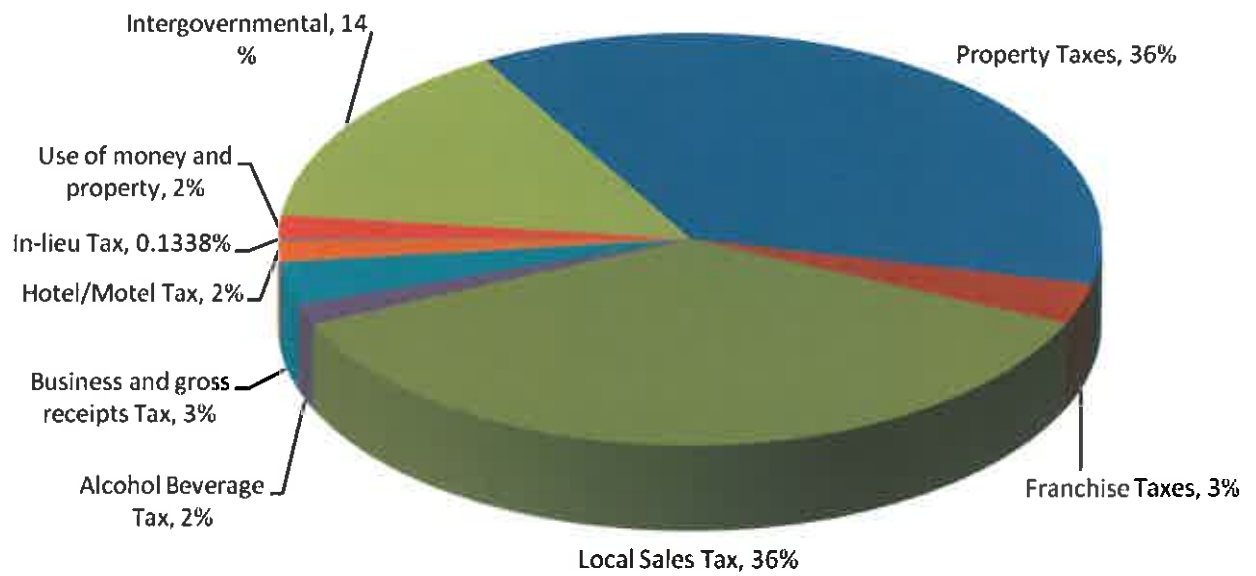
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The two largest sources of governmental activity revenue, property taxes and local sales tax, accounted for 70% of the total governmental activity revenues.



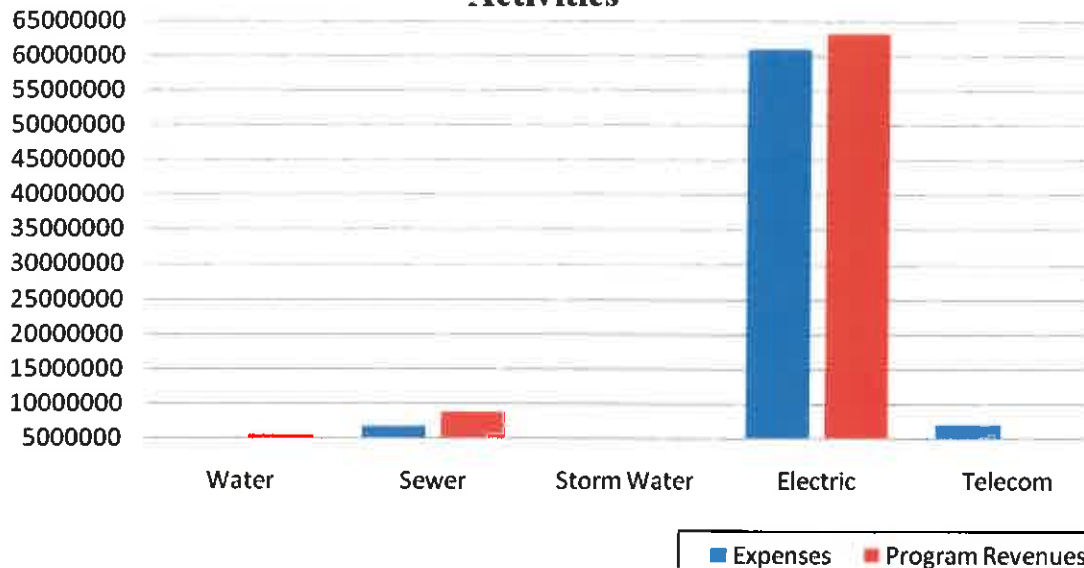
The graph below presents the major sources of revenue for governmental activities.

Revenues by Source-Governmental Activities



Business-type activities. Business-type activities increased the City of Morristown's net assets by \$1,731,205.

Expenses and Program Revenues-Business-Type Activities



Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the City of Morristown's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City of Morristown's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City of Morristown's governmental funds reported combined ending fund balances of \$3,473,009 a decrease of \$1,361,070 in comparison with the prior year.

The General Fund's fund balance decreased \$1,237,909. This was due to unfavorable economic conditions resulting in revenue shortfalls of approximately \$725,000, and the completion of several capital projects including the construction at Wayne Hansard Park of four new soccer fields and various road projects. 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 telecom service for the City, at the end of the year, amounted to \$8.9 million. The city operated sewer system and amounted to \$ 5.3 million. The decrease in unrestricted net assets for Morristown Utility Commission was \$ 1.5 million and the increase for the city sewer fund \$2.9 million. Other factors concerning the finances of these two funds have already been addressed in the discussion of the City of Morristown's business-type activities.

General Fund Budgetary Highlights

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

- \$5,439,760 in increases allocated for industrial park and road projects.
- \$387,775 in increases allocated to the recreation department for park improvements.
- \$224,040 in increase allocated to utilities.

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

Additional budgetary highlights included:

- \$.40 or 41% property tax increase.
- All eligible employees received a 2.5% step-raise on their anniversary date.
- All employees received a one-time payment of 1% of their base pay as of December 1, 2007.
- The creation of the Storm Water Utility Fund for storm water drainage and management.
- 11 new positions and six eliminated positions.

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, 2008, amounts to \$ 54.9 million and \$ 126 million, respectively (net of accumulated depreciation). Capital assets increased \$20 million and \$ 7.8 million respectively. This investment in capital assets includes land, buildings, improvements other than buildings, equipment, infrastructure and construction in progress.

City of Morristown's Capital Assets

(net of depreciation)

	Governmental Activities		Business-Type activities	
	2008	2007	2008	2007
Land	\$ 7,864,762	\$ 7,864,762	\$ -	\$ -
Buildings	11,096,654	9,799,574	-	-
Improvements other than buildings	2,796,312	3,393,116	-	-
Machinery and equipment	3,943,626	3,354,377	118,266,499	107,549,430
Infrastructure	28,713,507	6,090,817	-	-
Plant acquisition adjustment	-	-	-	-
Construction in progress	520,630	4,294,129	8,141,424	10,974,565
Total	\$54,935,491	\$ 34,796,775	\$ 126,407,923	\$ 118,523,995

Additional information on the City of Morristown's capital assets can be found on page 36 of this report.

Long-term debt. At the end of the current fiscal year, the City of Morristown had total bonded debt outstanding of \$ 75.4 million; of this amount \$24 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	
	2008	2007	2008	2007	2008	2007
General Obligation Bonds	\$24,883,316	\$21,158,317	-	-	\$24,883,316	\$21,158,317
Revenue Bonds	-	-	\$53,568,592	\$48,583,584	\$53,568,592	\$48,583,584
Total	\$24,008,317	\$21,158,317	\$51,453,591	\$48,583,584	\$78,451,908	\$69,741,901

Additional information on the City of Morristown's long-term debt can be found on page 41 of this report.

Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for the City of Morristown is currently 7.2 percent, which is an increase from a rate of 4.4 percent a year ago. This compares to the state's average unemployment rate of 6.5 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Morristown's budget for the 2009 fiscal year.

Requests for Information

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

FINANCIAL STATEMENTS

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

	Primary Government			Total
	Government Activities	Business-Type Activities	Eliminations	
ASSETS				\$6,900,752
Cash and cash equivalents	\$ 287,165	\$ 6,613,587		23,981,547
Receivables (net of allowance for uncollectibles)	15,262,240	8,719,307		1,264,387
Inventories	22,317	1,242,070		1,969,239
Accrual for unbilled revenue		1,969,239		329,455
Due from others		329,455	(8,562,859)	
Due from other funds	26,010	6,536,849	(2,650,000)	
Interfund loans - current	150,000	2,500,000		104,848
Discounted energy units		104,848		4,485
Other current assets		4,485		48,278
Advances from TVA		48,278		
Restricted assets:				
Temporarily restricted:				330,418
Cash and cash equivalents	28,995	301,423		
Investments				
Capital assets (net of accumulated depreciation):				7,864,762
Land	7,864,762			11,096,654
Buildings	11,096,654			2,796,312
Improvements	2,796,312			3,943,626
Equipment	3,943,626			28,713,507
Infrastructure	28,713,507	118,266,499		118,266,499
Utility plant and equipment	520,630	8,141,424		8,662,054
Construction in progress	11,729,522			11,729,522
Real estate-non-operating:			(2,150,500)	
Accounts receivable - long-term	2,150,500			407,057
Interfund loans receivable - long term		407,057		773,255
Discounted energy units less current portion	282,827	490,428		690,355
Other assets		690,355		
Plant acquisition adjustments				
	<u>\$ 84,875,067</u>	<u>\$ 156,365,304</u>	<u>\$ (11,363,359)</u>	<u>\$ 229,877,012</u>
Total assets				
LIABILITIES AND NET ASSETS				\$ 7,915,498
Liabilities	\$ 2,017,690	\$ 5,897,808		2,808,354
Accounts payable	267,774	2,540,680		33,826
Accrued expenditures and other current liabilities	33,826			
Due to others - bonds and deposits	26,010	6,536,849	(6,562,859)	
Due to other funds				
Deferred credit to expense			(2,500,000)	
Escrow - Siezed property	2,500,000			1,845,467
Interfund loan payable		1,845,467		9,872,633
Customer deposits	9,632,540	240,093		
Unearned revenue				
Advances				
Noncurrent liabilities:				2,881,413
General bonded debt:	1,632,500	1,248,913		77,031,229
Due within one year	23,259,816	53,771,413		
Due in more than one year				26,954
Capital lease obligation		26,954		73,736
Due within one year		73,736		
Due in more than one year				
Loans from General Fund		150,000	(150,000)	
Due within one year		2,150,500	(2,150,500)	
Due in more than one year				726,347
Compensated absences:	726,347			310,006
Estimated to be paid within one year	259,203	50,803		103,526,463
Estimated to be paid after one year	40,355,706	74,533,116	(11,363,359)	
Total liabilities				
Net assets				109,829,652
Invested in operating capital assets net of related debt	41,772,607	68,057,045		404,779
Restricted for:	404,779			41,475
Uncompleted contracts and encumbrances	41,475			2,300,500
Narcotics	2,300,500			13,775,143
Debt service		13,775,143		
Unrestricted				
	<u>\$ 44,519,361</u>	<u>\$ 81,832,188</u>	<u>\$ -</u>	<u>\$ 126,351,549</u>
Total net assets				

City of Morristown, Tennessee
Statement of Activities
Year Ended June 30, 2008

	Net (Expense) Revenue and Changes in Net Assets				
	Primary Government				Total
	Expenses	Charges for Service	Program revenues Operating Grants and Contributions	Governmental Activities	
			Capital Grants and Contributions	Business-type Activities	
Functions/Program					
Primary government					
Governmental activities:					
General government	\$ 4,729,356	\$ 409,037	\$ 571,846	\$ (3,748,473)	\$ (3,748,473)
Public safety	14,938,433	778,216	302,990	(13,857,227)	(13,857,227)
Public works	12,760,354			(11,237,515)	(11,237,515)
Parks and recreation	2,404,471			(2,380,424)	(2,380,424)
Economic development	1,117,549			(1,117,549)	(1,117,549)
Civic Support	558,723		13,500	(558,723)	(558,723)
Airport	573,847			(560,347)	(560,347)
Long-term debt expense	785,032			(785,032)	(785,032)
Total governmental activities	37,867,765	1,187,253	888,336	(34,245,290)	(34,245,290)
Business-type activities:					
Water	5,056,029	5,572,994		572,465	572,465
Sewer	6,760,588	7,328,056		2,006,308	2,006,308
Storm Water	436,016	89,383		(346,633)	(346,633)
Electric	61,105,276	63,351,409		2,246,133	2,246,133
Telecom system	6,907,546	4,503,672		(2,403,874)	(2,403,874)
Total business-type activities	80,265,455	80,845,514		2,074,399	2,074,399
Total primary government	118,133,220	82,032,767	888,336	(34,245,290)	(32,170,891)
		Property taxes		\$ 9,521,787	\$ 9,521,787
		In-lieu tax		35,536	35,536
		Franchise taxes		826,802	826,802
		Local sales tax		9,446,110	9,446,110
		Alcohol beverage tax		1,138,908	1,138,908
		Business and gross receipts tax		866,833	866,833
		Hotel/motel tax		425,087	425,087
		Use of money and property		387,820	387,820
		Intergovernmental (unrestricted)		3,834,117	3,834,117
		Total governmental fund revenue		26,565,399	26,565,399
		Transfers		731,014	731,014
		Total general revenues and transfers		27,296,413	26,953,219
		Change in net assets		1,731,205	(5,217,672)
		Net assets - beginning		80,100,983	112,836,005
		Prior period adjustment			18,733,216
		Net assets as adjusted - beginning		80,100,983	131,569,221
		Net assets - ending		\$ 81,832,188	\$ 126,351,549

City of Morristown, Tennessee
Balance Sheet
 Governmental Funds
 June 30, 2008

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 240,092	\$ -	\$ 47,073	\$ 287,165
Receivables (net of allowance for uncollectibles)	15,164,146	92,945	5,149	15,262,240
Due from other funds	26,010	-	-	26,010
Interfund loans receivable -current	150,000	-	-	150,000
Inventories	22,317	-	-	22,317
Investments	28,995	-	-	28,995
Prepaid expenditures	23,624	-	-	23,624
Interfund loans receivable -long term	2,150,500	-	-	2,150,500
	<u>\$ 17,805,684</u>	<u>\$ 92,945</u>	<u>\$ 52,222</u>	<u>\$ 17,950,851</u>
Total assets				
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,947,569	\$ 91,090	\$ 5,041	\$ 2,043,700
Interfund loan payable	2,500,000	-	-	2,500,000
Due to others	33,826	-	-	33,826
Accrued expenditures	260,213	1,855	5,706	267,774
Escrow - seized property	-	-	-	-
Deferred credits to expenditures	-	-	-	-
Unearned revenue	9,632,540	-	-	9,632,540
	<u>14,374,148</u>	<u>92,945</u>	<u>10,747</u>	<u>14,477,840</u>
Total liabilities				
Fund balances:				
Reserved for:				
Uncompleted contracts	995,419	-	-	995,419
Narcotics	-	-	41,475	41,475
Reserve for Interfund loans -long term	2,300,500	-	-	2,300,500
Unreserved				
Fund balance - reserved for encumbrances	135,617	-	-	135,617
Total equity	<u>3,431,536</u>	<u>-</u>	<u>41,475</u>	<u>3,473,011</u>
	<u>\$ 17,805,684</u>	<u>\$ 92,945</u>	<u>\$ 52,222</u>	
Total liabilities and fund equity				
Amounts reported for governmental activities in the statement of net assets are different because:				
Assets not used in operations	-	-	-	11,729,522
Capital assets used in governmental activities are not financial resources and, therefore are not reported in funds	-	-	-	54,935,491
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds	-	-	-	(25,618,663)
Net assets of governmental activities				<u>\$ 44,519,361</u>

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

City of Morristown, Tennessee
Statement of Revenue, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2008

	General	Solid Waste Fund	Narcotics Fund	Total Governmental Funds
Revenues				\$ 9,521,787
Taxes:	\$ 9,521,787	\$ -	\$ -	35,536
Property	35,536	-	-	826,802
In lieu of taxes	826,802	-	-	9,446,110
Franchise	9,446,110	-	-	1,138,908
Local sales tax	1,138,908	-	-	866,833
Alcoholic beverages	866,833	-	-	425,087
Business and gross receipts	425,087	-	-	22,261,063
Hotel/motel tax	22,261,063	-	236,084	1,045,551
Total taxes	809,467	-	-	470,219
Licenses, permits and fines	470,219	-	-	141,703
Use of money and property	141,703	-	-	6,269,338
Service charges and fees	6,027,338	242,000	-	-
Intergovernmental	-	-	236,084	30,187,874
Total revenues	29,709,790	242,000	236,084	
Expenditures				132,382
Current:				381,537
General Government:	132,382	-	-	16,041
Mayor and Council	381,537	-	-	514,866
City Administrators	16,041	-	-	57,549
Elections	514,866	-	-	160,873
Finance	57,549	-	-	255,349
Purchasing	160,873	-	-	59,040
Computer operations	255,349	-	-	534,894
Human resources	59,040	-	-	88,721
Legal services	534,894	-	-	325,862
Community and economic affairs	88,721	-	-	388,437
Codes enforcement	325,862	-	-	324,698
Metropolitan transportation organization	388,437	-	-	418,315
Community development block grant	324,698	-	-	919,684
Engineering	418,315	-	-	4,578,048
Inspections	919,684	-	-	-
Other	4,578,048	-	-	7,713,577
Total general government	-	-	464,891	6,709,690
Public safety:	7,248,686	-	-	130,275
Police	6,709,690	-	-	14,553,542
Fire	130,275	-	464,891	11,036,209
Other public safety	14,088,651	-	-	2,338,137
Total public safety	9,187,852	1,848,357	-	558,723
Public works	2,338,137	-	-	1,117,549
Parks and recreation	558,723	-	-	132,719
Civic support	1,117,549	-	-	-
Economic development	132,719	-	-	3,150,000
Airport	-	-	-	722,876
Debt service:	3,150,000	-	-	62,156
Bond principal	722,876	-	-	3,935,032
Bond interest	62,156	-	-	-
Professional services	3,935,032	-	-	38,249,959
Total debt service	-	1,848,357	464,891	(8,062,085)
Total expenditures	35,936,711	1,848,357	464,891	
Deficiency of revenue over expenditures	(6,226,921)	(1,606,357)	(228,807)	
Other financing sources (uses):	5,970,000	-	-	5,970,000
Bond Proceeds	731,015	1,605,378	106,625	2,443,018
Transfers in	(1,712,003)	-	-	(1,712,003)
Transfers out	-	-	-	6,701,015
Total other financing sources and uses	4,989,012	1,605,378	106,625	
Net change in fund balance	(1,237,909)	(979)	(122,182)	(1,361,070)
Fund balance, beginning	4,669,445	979	163,657	4,834,081
Fund balance-ending	\$ 3,431,536	\$ -	\$ 41,475	\$ 3,473,011

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, 2008

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

Net change in fund balances—total governmental funds	\$ (1,361,070)
Governmental funds report capital outlays as expenditures. In the government-wide financial statements, capital asset additions are reported as additions to capital assets.	1,192,322
In the government-wide financial statements, certain capital assets are depreciated. In the governmental basis financial statements, capital assets are charged to expenditures, therefore, depreciation is not taken.	(3,233,781)
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.	(5,970,000)
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.	3,150,000
The payment of bond issue expense is considered an expenditure in the governmental financial statements, whereas in the city-wide financial statements are considered assets and are amortized.	-
Compensated absences are considered expenditures when paid on the governmental fund basis, but in the government-wide financial statements are considered expenses as incurred.	(726,348)
Government funds financial statements report property taxes collected within 60 days after the close of the fiscal year as revenue under the modified accrual basis, whereas the government-wide financial statements reported these revenues on the accrual basis.	
Changes in net assets of governmental activities	<u><u>\$ (6,948,877)</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, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
Taxes:	\$ 9,636,300	\$ 9,636,000	\$ 9,521,787	\$ (114,213)
Property	35,000	35,000	35,536	536
In lieu of taxes	850,000	850,000	828,802	(23,198)
Franchise	9,690,000	9,600,000	9,446,110	(243,890)
Local sales tax	1,115,000	1,115,000	1,138,908	23,908
Alcoholic beverages	899,998	899,998	866,833	(33,165)
Business and gross receipts	385,000	385,000	425,087	40,087
Hotel/motel tax	22,611,298	22,610,998	22,261,083	(349,935)
Total taxes	1,021,900	1,021,900	809,467	(212,433)
Licenses, permits and fees	250,002	250,002	470,219	220,217
Use of money and property	150,000	150,000	141,703	(8,297)
Service charges and fees	4,872,400	5,451,134	6,027,338	576,204
Intergovernmental	28,705,600	29,484,034	29,709,790	225,756
Total revenues				
Expenditures				
Current:				
General Government:	165,622	165,622	132,382	33,240
Mayor and Council	453,089	453,089	381,537	71,532
City Administrators	13,000	13,000	16,041	(3,041)
Elections	577,767	577,767	514,866	62,901
Finance	78,746	78,746	57,549	21,197
Purchasing	208,844	208,844	160,873	47,971
Computer operations	272,897	272,897	255,349	17,548
Human resources	78,800	78,800	59,040	19,760
Legal services	448,608	448,608	534,694	(86,086)
Community and economic affairs	161,596	161,596	88,721	72,875
Codes enforcement	703,568	703,568	325,862	377,704
Metropolitan transportation organization	301,300	392,808	388,437	4,371
Community development block grant	351,904	351,904	324,698	27,206
Engineering	419,012	419,012	418,315	697
Inspections	911,605	911,605	919,884	(8,079)
Other	5,146,336	5,237,844	4,578,048	659,796
Total general government				
Public safety:	8,936,057	7,018,969	7,248,888	(229,717)
Police	6,358,237	6,358,237	6,709,690	(351,453)
Fire	130,275	130,275	130,275	-
Other public safety	13,424,569	13,507,481	14,088,651	(581,170)
Total public safety	8,807,422	8,571,010	9,187,852	(618,842)
Public works	2,446,917	2,587,150	2,338,137	249,013
Parks and recreation	540,500	540,500	558,723	(18,223)
Civic support	150,000	1,142,421	1,117,549	24,872
Economic development	-	-	-	-
Industrial Parks	140,000	140,000	132,719	7,281
Airport	355,902	355,902	-	355,902
Retiree health insurance	-	-	-	-
Debt service:	1,700,000	3,150,000	3,150,000	-
Bond principal	600,000	722,876	722,876	-
Bond interest	5,000	5,000	82,156	(57,156)
Professional services	2,305,000	3,877,876	3,935,032	(57,156)
Total debt service	33,318,646	35,960,184	35,936,711	23,473
Total expenditures				
	(4,611,046)	(6,476,150)	(6,226,921)	249,229
Excess (deficiency) of revenue over expenditures				
Other financing sources (uses)	4,294,814	5,970,000	5,870,000	-
Bond Proceeds	895,000	895,000	731,015	(163,985)
Transfers in	(1,649,971)	(1,826,318)	(1,712,003)	114,315
Transfers out	3,539,643	5,038,682	4,989,012	(49,670)
Total other financing sources (uses)				
	(1,071,403)	(1,437,468)	(1,237,909)	199,559
Net change in fund balance				
	5,387,310	5,387,309	4,669,445	(717,864)
Fund balance, beginning				
	\$ 4,315,907	\$ 3,948,841	\$ 3,431,536	\$ (518,305)
Fund balance-ending				

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, 2008

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Positive
				(Negative)
Revenue				
Intergovernmental revenue	\$ -	\$ 242,000	\$ 242,000	\$ -
Expenditures				
Sanitation	743,870	743,870	714,269	29,601
Landfill	600,000	600,000	685,868	(85,868)
Recycling	194,476	194,476	205,174	(10,698)
Superfund	5,000	5,000	1,046	3,954
Debt service:		305,011	205,000	100,011
Debt principal	-	-	37,000	(37,000)
Debt interest	-	305,011	242,000	63,011
Total debt service	-	305,011	242,000	63,011
Total expenditures	1,543,346	1,848,357	1,848,357	-
Excess (deficiency) of revenues over expenditures	(1,543,346)	(1,606,357)	(1,606,357)	
Other sources:				
Transfers from General Fund	1,543,346	1,606,357	1,606,357	
Net change in fund balance		-	-	
Fund balance, July 1, 2007	984	984	984	
Fund balance, June 30, 2008	\$ 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, 2008

	Business-type Activities Enterprise Funds					Total
	Sewer System	Storm Water System	Power System	Water System	Telecom System	
Assets						
Unrestricted current assets:						
Cash and cash equivalents	\$ 1,415,867	\$ (667,891)	\$ 3,086,303	\$ 1,866,250	\$ 1,113,058	\$ 6,813,587
Accounts receivable:						
Trade, net of allowances	1,293,303	6,481	7,419,522	-	-	8,719,308
Due from other funds	544,504	-	5,384,754	607,591	-	6,536,849
Due from others	-	-	312,763	-	16,692	329,455
Accrual for unbilled revenue	286,026	-	1,479,491	203,722	-	1,969,239
Interfund Loan Receivable	2,500,000	-	-	-	-	2,500,000
Due from others	-	-	104,848	-	-	104,848
Current portion of discounted energy units	-	-	-	-	4,485	4,485
Other current assets	-	-	-	-	-	-
Advances from Tennessee Valley	-	-	48,278	-	-	48,278
Program, net of advances to customers	-	-	802,235	402,259	-	1,242,070
Materials and supplies inventory	37,576	(681,410)	18,638,194	2,879,822	1,134,235	28,068,117
Total unrestricted current assets	6,077,276	(661,410)	18,638,194	2,879,822	1,134,235	28,068,117
Total current assets	6,077,276	(661,410)	18,638,194	2,879,822	1,134,235	28,068,117
Restricted investments						
Capital assets:						
Plant and equipment in service	61,968,490	179,021	58,121,974	49,415,282	21,126,157	190,810,924
Less accumulated depreciation	(27,883,055)	-	(25,338,254)	(16,905,786)	(2,417,330)	(72,544,425)
	34,085,435	179,021	32,783,720	32,509,496	18,708,827	118,286,499
	4,000,549	-	1,618,004	1,046,530	1,476,341	8,141,424
Construction in progress	-	-	-	-	-	-
	38,085,984	179,021	34,401,724	33,556,026	20,185,168	126,407,923
Net capital assets	38,085,984	179,021	34,401,724	33,556,026	20,185,168	126,407,923
Plant acquisition adjustments, net of accumulated depreciation						
	-	-	541,840	148,515	-	690,355
Discounted energy units, less current portion						
	-	-	407,057	-	-	407,057
Other assets						
	26,626	171,073	25,483	71,167	196,080	490,429
Total assets	\$ 44,189,886	\$ (311,315)	\$ 54,014,298	\$ 36,955,953	\$ 21,515,483	\$ 156,365,304

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

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

	Business-type Activities Enterprise Funds					Total
	Sewer System	Storm Water System	Power System	Water System	Telecom System	
Liabilities and Net Assets						
Current liabilities:						
Accounts payable:	\$ 1,165,152	\$ 35,317	\$ 4,393,076	\$ 67,576	\$ 187,420	\$ 5,848,541
Trade	8,573				5,992,345	6,000,918
Due to other funds			585,198			585,198
City of Morristown					240,083	240,083
Deferred revenues			1,771,910		73,557	1,845,467
Customer deposits			1,410,269	566,227	100,842	2,085,511
Accrued payroll related liabilities	8,173		241,924		213,145	455,069
Other accrued liabilities				1,058	25,896	28,954
Current portion of capital lease obligation			215,505	150,000		150,000
Loans from General Fund	602,500			430,908		1,248,813
Current portion of long-term debt						
Advances from Tennessee Valley:						
Program, net of advances to customers						
Total current liabilities	1,784,398	35,317	8,617,882	1,215,769	6,833,298	18,485,664
Noncurrent liabilities:						
Capital lease obligation, less current portion					73,736	73,736
Long-term debt - less current portion	23,515,918		2,272,618	9,982,877	18,000,000	53,771,413
Loans from General Fund				850,500	1,500,000	2,150,500
Compensated absences	50,803					50,803
Total non-current liabilities	23,566,721		2,272,618	10,633,377	19,573,736	56,046,452
Total liabilities	25,351,119	35,317	10,890,500	11,849,146	26,407,034	74,533,116
Net assets (deficit):						
Invested in capital assets, net of related debt	13,967,566		31,913,601	22,356,081	(180,203)	68,057,045
Restricted	(476,919)			301,423		(175,496)
Unrestricted net assets (deficit)	5,348,120	(346,633)	11,210,197	2,450,303	(4,711,348)	13,950,639
Total net assets (deficit)	18,838,767	(346,633)	43,123,798	25,107,807	(4,891,551)	81,832,188
Total liabilities and net assets	\$ 44,189,885	\$ (311,316)	\$ 54,014,298	\$ 38,956,953	\$ 21,515,483	\$ 156,365,303

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

City of Morristown, Tennessee
Statement of Revenue, Expenses, and Changes in Fund Net Assets
Proprietary Funds
Year Ended June 30, 2008

	Business-type Activities Enterprise Funds					Total
	Sewer System	Storm Water System	Power System	Water System	Telecom System	
Operating Revenues:						
Metered sales	\$ 6,091,832	\$ 89,383	\$ 62,213,981	\$ 5,508,181	\$ -	\$ 73,903,377
Broadband sales	1,236,224	-	1,137,428	64,813	4,424,700	4,424,700
Other operating revenues	7,328,056	89,383	63,351,409	5,572,994	78,972	2,517,437
Total operating revenues					4,503,672	80,845,514
Operating expenses:						
Power purchased			52,593,697			52,593,697
Operations	3,994,826		4,291,530	2,872,271	3,893,586	15,052,213
Maintenance	144,469	60,906	1,596,362	567,957	197,596	2,567,290
Depreciation and amortization	1,821,950		2,309,990	1,219,756	1,488,938	6,840,634
Taxes		20,520	204,529		72,620	297,669
Miscellaneous		354,590	21,632	40,361	14,175	430,758
Total operating expenses	5,961,245	436,016	61,017,740	4,700,345	5,666,915	77,782,261
Operating income (loss)	1,366,811	(346,633)	2,333,669	872,649	(1,163,243)	3,063,253
Other income (expense):						
Investment income	3,092		243,825	111,168	29,735	387,820
Interest expense	(799,343)		(87,536)	(355,684)	(1,240,631)	(2,483,194)
Net other income (expense)	(796,251)		156,289	(244,516)	(1,210,896)	(2,095,374)
Income (loss) before contributions and transfers	570,560	(346,633)	2,489,958	628,133	(2,374,139)	967,879
Contributions from developers						55,500
Capital contributions - tap fees	1,255,758					
Transfers out (tax equivalent payments to City of Morristown)	183,082					
Net income (loss)	2,009,400	(346,633)	1,790,964	(32,020)	(2,374,139)	(731,014)
Change in net assets						292,365
Net assets-(deficit) at beginning of year	16,829,367		41,332,834	24,456,194	(2,517,412)	80,100,983
Net assets - ending	\$ 18,838,767	\$ (346,633)	\$ 43,123,798	\$ 25,107,807	\$ (4,891,551)	\$ 80,393,348

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

City of Morristown, Tennessee
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2008

	Business-Type Activities					
	Enterprise Funds					
	Sewer System	Storm Sewer System	Power System	Water System	Telecom System	Total
Cash flows from operating activities:						
Cash received from customers	\$ 5,104,796	\$ 82,902	\$ 60,388,811	\$ 5,540,401	\$ 4,615,452	\$ 75,732,362
Cash received from City of Morristown	(3,457,551)	(400,699)	1,266,968	(2,455,142)	(3,322,242)	1,266,968
Cash paid to suppliers	(288,190)		(54,445,131)	(1,082,567)	(667,232)	(64,080,765)
Cash paid to employees	1,359,055	(317,797)	(3,956,574)	(1,082,567)	(667,232)	(5,994,563)
Net cash provided by operating activities			3,254,074	2,002,692	625,978	6,924,002
Cash flows from noncapital financing activities:						
Transfers to City of Morristown (tax equivalent payments)	(2,500,000)		(698,994)	(32,020)		(731,014)
Interfund advances	(2,500,000)		(698,994)	(32,020)		(2,500,000)
Net cash flows from investing activities						(3,231,014)
Cash flows from investing activities:						
Interest received on investments	3,092		243,825	111,167	29,735	387,819
Sale (purchase) of investments				255,688		255,688
Net cash flows from investing activities	3,092		243,825	366,855	29,735	643,507
Cash flows from capital and related financing activities:						
Bond proceeds	8,346,078			(12,942)	(33,026)	8,346,078
Payments on capital lease obligations			(234,721)			(45,968)
Net additions to plant acquisition adjustments			(2,004,410)	(956,181)	(2,835,220)	(234,721)
Net additions to capital assets	(6,199,443)	(350,094)	(3,187,473)	(302,839)	3,490,312	(12,345,348)
Interfund (repayments) advances				55,500		1,311,258
Contributions from developers	1,255,758		(193,284)	(778,928)		183,082
Capital contributions - tap fees	183,082		(87,536)	(355,684)	(1,240,631)	(1,477,212)
Principal payments on long term debt	(505,000)					
Payment of loans from general fund	(799,343)					
Interest paid on long term debt						
Proceeds from long term borrowings	2,281,132	(350,094)	(5,707,424)	(2,351,074)	73,300	(2,483,194)
Net cash flows from financing activities						(6,672,725)
Increase (decrease) in cash and cash equivalents	1,143,279	(667,891)	(2,908,519)	(13,547)	110,448	(2,336,230)
Cash and cash equivalents, beginning	272,588		5,994,822	1,679,797	1,002,610	8,949,817
Cash and cash equivalents, ending	\$ 1,415,867	\$ (667,891)	\$ 3,086,303	\$ 1,666,250	\$ 1,113,058	\$ 6,613,587

Business-Type Activities
Enterprise Funds

	Sewer System	Storm Sewer System	Power System	Water System	Telecom System	Total
Reconciliation of operating income to net cash provided by operating activities:						
Operating income (loss)	\$ 1,366,811	\$ (346,633)	\$ 2,333,669	\$ 872,649	\$ (1,163,243)	\$ 3,063,253
Adjustments to reconcile operating income to net cash flows from operating activities:						
Depreciation and amortization	1,821,950		2,309,990	1,219,756	1,488,938	6,840,634
Provision for losses on accounts receivable			391,528			391,528
Redemption of discounted energy units			98,750	-		98,750
Changes in operating assets and liabilities:						
Accounts receivable	505,237	(6,481)	(1,860,416)			(1,381,662)
Loans receivable	(2,500,000)					
Accrual of unbilled revenue	17,117		(309,439)	(32,593)	-	(324,915)
Materials and supplies inventory			(5,330)	(14,062)	-	(19,392)
Other assets	3,384		(62,745)	47,503	93,860	82,002
Trade accounts payable	190,876	35,317	441,601	(40,836)	(59,034)	567,924
Customer deposits and prepayments			19,526		41,687	61,213
Other liabilities	(46,320)		(83,058)	(49,725)	223,770	44,667
Net cash provided by operating activities	\$ 1,359,055	\$ (317,797)	\$ 3,254,074	\$ 2,002,692	\$ 625,978	\$ 6,924,002

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

City of Morristown, Tennessee
Notes to Financial Statements
June 30, 2008

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 are discussed below.

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

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

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

A. Reporting Entity

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

B. Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit 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, electric and telecom activities. The sewer activities are directed by the City Administrator.

Additionally, the government reports the following fund types:

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

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

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

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

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

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and investments

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

2. Receivables and payables

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

All trade receivables were considered collectible at June 30, 2008. 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	\$ 287,165	\$ 28,995
Enterprise type funds	6,613,587	301,423
Totals	<u>\$ 6,900,752</u>	<u>\$ 330,418</u>

As of June 30, 2008, Morristown Utility Commission has approximately \$15,000 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 Telecom System's name or were not collateralized at all. A portion of the City's deposits as of June 30, 2008, 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, 2008, the City had \$1,432,773 invested in these securities and has included these in cash and cash equivalents.

Short-term investments represent un-drawn bond proceeds.

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	\$ 9,748,308	\$ -	\$ -	\$ 9,748,308
Accounts	5,460,209	98,094	8,719,306	14,277,609
Intergovernment	26,010	-	-	26,010
Gross receivables	15,234,527	98,094	8,719,306	24,051,927
Less: Allowance for bad debt	(70,381)	-	-	(70,381)
Net receivables	<u>\$ 15,164,146</u>	<u>\$ 98,094</u>	<u>\$ 8,719,306</u>	<u>\$ 23,981,546</u>

Included in taxes receivable of the General Fund is property taxes of \$6,835,272 that were assessed as of January 1, 2008, but will not be billed until after June 30, 2008. There is an offsetting deferred income for the above balance.

B. Capital Assets

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

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 7,864,762	\$ -	\$ -	\$ 7,864,762
Construction in progress	520,630	-	-	520,630
Total capital assets not being depreciated	<u>8,385,392</u>	<u>-</u>	<u>-</u>	<u>8,385,392</u>
Capital assets being depreciated:				
Buildings	15,665,248	1,330,686	-	16,995,934
Improvements other than buildings	11,684,311	26,538	-	11,710,849
Machinery and equipment	9,364,560	1,165,784	12,699	10,517,645
Infrastructure	13,739,223	24,354,146	-	38,093,369
Total capital assets being depreciated	<u>50,453,342</u>	<u>26,877,154</u>	<u>12,699</u>	<u>77,317,797</u>
Less: accumulated depreciation:				
Buildings	(5,603,086)	(296,194)	-	(5,899,280)
Improvements other than buildings	(8,393,389)	(521,148)	-	(8,914,537)
Machinery and equipment	(6,003,205)	(570,814)	-	(6,574,019)
Infrastructure	(7,534,237)	(1,845,625)	-	(9,379,862)
Total accumulated depreciation	<u>(27,533,917)</u>	<u>(3,233,781)</u>	<u>-</u>	<u>(30,767,698)</u>
Net capital assets being depreciated	<u>22,919,425</u>	<u>23,643,373</u>	<u>12,699</u>	<u>46,550,099</u>
Total capital assets-government activities	<u>\$ 31,304,817</u>	<u>\$ 23,643,373</u>	<u>\$ 12,699</u>	<u>\$ 54,935,491</u>

	Balance July 1, 2007	Increases	Decreases	Balance June 30, 2008
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 1,857,055	\$ -	\$ -	\$ 1,857,055
Construction in progress	10,974,566	10,580,304	13,413,446	8,141,424
Total assets not being depreciated	12,831,621	10,580,304	13,413,446	9,998,479
Capital assets being depreciated:				
Building and improvements	18,484,769	426,259	-	18,911,028
Transmission and distribution	144,721,770	18,200,365	453,200	162,468,935
Furniture, fixtures and equipment	7,116,614	714,230	256,938	7,573,906
Total capital assets being depreciated	170,323,153	19,340,854	710,138	188,953,869
Less accumulated depreciation:				
Building and improvements	(3,278,665)	(429,134)	-	(3,707,799)
Transmission and distribution	(56,658,740)	(5,915,258)	411,650	(62,162,348)
Furniture, fixtures and equipment	(6,027,517)	(812,673)	165,910	(6,674,280)
Total accumulate depreciated	(65,964,922)	(7,157,065)	577,560	(72,544,427)
Net capital assets being depreciated	104,358,231	12,183,789	1,287,698	116,409,442
Total net capital assets - business type activities	117,189,852	22,764,093	14,701,144	126,407,921
Total net capital assets	\$ 148,494,669	\$ 46,407,466	\$ 14,713,843	\$ 181,343,412

Depreciation expense was charged to government activities as follows:

General government	\$ 98,780
Public safety	587,906
Public works	2,066,235
Parks and recreation	39,804
Airport	441,128
Total	\$ 3,233,853

D. Accounts payable and other current liabilities:

	Governmental	Business Type	Total
Accounts payable	\$ 2,017,690	\$ 5,897,808	\$ 7,915,498
Accrued payroll and other liabilities	267,774	2,540,580	2,808,354
Total	\$ 2,285,464	\$ 8,438,388	\$ 10,723,852

E. Interfund receivables, advances, payables, and transfers

The interfund receivables and payables as of June 30, 2008, were as follows:

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>Purpose</u>	<u>Amount</u>
Telecom System	Water System	Operating Cash Advance	\$ 607,591
Electric System	Water System	Operating Cash Advance	(607,591)
Telecom System	Electric System	Short-term Note	<u>5,992,345</u>
Total			<u>\$ 5,992,345</u>

The interfund transfers were as follows:

<u>Transfer from</u>	<u>Transfer to</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Solid Waste Fund	Operating Transfer	\$ 1,605,378
General Fund	Narcotics Fund	Operating Transfer	106,625
Water System	General Fund	Operating Transfer	32,020
Electric System	General Fund	Operating Transfer	<u>698,995</u>
			<u>\$ 2,443,018</u>

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

F. Post-Retirement Healthcare Benefits

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

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

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

Type of Coverage:

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

2) GASB 45 DISCLOSURE REQUIREMENTS – ESTIMATED

A. Annual OPEB Cost and Net OPEB Obligation

	7/1/2007 6/30/2008
1. Annual Required Contribution ARC)	\$ 593,254
2. Interest on net OPEB Obligation	-
3. Adjustment to ARC	-
4. Annual OPEB Cost (expense) (1 + 2 + 3)	593,254
5. Contributions made (assumed end of year)	404,467
6. Increase in net OPEB Obligation (4 - 5)	188,787
7. Net OPEB Obligation - beginning of year	-
8. Net OPEB Obligation - end of year (6 + 7)	\$ 188,787

*Contributions made was assumed to equal Expected Benefit Payments

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

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributions	Net OPEB Obligation
6/30/2008	\$ 593,254	68.2%	\$ 188,787

B. Funded Status and Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) (b - a)/c)
11/01/07	\$	\$ 6,667,645	\$ 6,667,345	0.00%	N/A	N/A

C. Methods and Assumptions

Funding interest rate	4.00%
2007 Medical Trend Rate	10.00%
Ultimate Trend Rate	5.00%
Year Ultimate Trend Rate Reached	2012
Actuarial Cost Method	Entry Age Normal
Annual Payroll Growth Rate	2.50%
The Remaining Amortization Period at June 30, 2008	29 years

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

These Systems pay 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 Systems will also pay 50% of these former employees' dependent coverage. The Systems are not required to provide these benefits by any statutory, contractual or other authority. As of June 30, 2008, the Power System had nine former employees eligible to participate in the plan. Benefits relating to these retirees are expensed when paid and totaled \$25,635 in 2008 and \$14,316 in 2007.

In August 2004, GASB Statement No. 45, ("GASB 45) *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, was issued which provides for employers to account for and report the annual cost of other post-employment benefits ("OPEB") and the outstanding obligations and commitments related to OPEB in a manner as they currently do for pensions under GASB 27, *Accounting for Pensions by State and Local Governmental Employers*. The Systems will be required to adopt GASB 45 in the fiscal year beginning July 1, 2008. The Systems have not yet assessed whether this statement will have a significant impact on the System's financial statements.

Deferred items consisted of the following:

	<u>Governmental</u>	<u>Business-Type</u>	<u>Total</u>
Taxes due after June 30, 2007	\$ 9,632,540	\$ -	\$ 9,632,540
Electric	-	240,093	240,093
Total	<u>\$ 9,632,540</u>	<u>\$ 240,093</u>	<u>\$ 9,872,633</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.

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

Year Ending	<u>Governmental Type</u>		<u>Business Type</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,623,500	\$ 1,186,879	\$ 1,369,913	\$ 2,057,976
2010	1,699,500	1,122,304	1,642,301	2,287,292
2011	1,214,000	1,054,741	2,169,408	2,228,226
2012	1,305,500	1,005,604	2,257,896	2,142,008
2013	1,050,970	947,729	2,062,323	2,058,422
2014-2018	5,850,713	3,930,851	11,509,247	8,946,998
2019-2023	6,273,667	2,376,841	12,487,325	6,426,785
2024-2028	5,640,466	851,528	11,805,179	3,526,047
2029-2033	234,000	11,250	5,610,000	1,532,750
2034-2025			2,655,000	200,750
Totals	<u>\$ 24,892,316</u>	<u>\$ 12,487,727</u>	<u>\$ 53,568,592</u>	<u>\$ 31,407,254</u>

Following are debt requirements for capital leases:

2009	\$ 31,014
2010	31,014
2011	31,014
2012	15,764
Total future minimum lease payments	108,806
Less amounts representing interest	(9,174)
Present value of future minimum lease payments (including \$25,896 classified as current)	<u>\$ 99,632.00</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, 2008, the Commission had \$2,548,581 in proceeds from this debt issue on deposit with a financial institution that 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 3.31% 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").

As of June 30, 2008, rates under this agreement were as follows:

	<u>2008</u>	<u>2007</u>
Fixed payment to counterparty	3.31%	3.31%
Variable payment from counterparty	-2.55%	-3.51%
Net interest rate swap payment	0.76%	-0.20%
Variable rate bond coupon payments	6.75%	3.81%
Synthetic interest rate on bonds	<u>7.51%</u>	<u>3.61%</u>

The swap agreement yielded additional interest savings of approximately \$428,000 in 2008 and interest savings of \$52,000 in 2007. As of June 30, 2008, the swap had a negative fair value of approximately \$380,000.

As of June 30, 2008, the City was not exposed to credit risk because the swap had negative fair value. 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 ("Ambac"), who was rated "AA" by Standard and Poor's and Fitch and "Aa3" by Moody's Investor Service as of June 30, 2008. If Ambac's credit rating is downgraded, the counterparty is required to post collateral with a third-party custodian.

As discussed 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.

Subsequent to June 30, 2008, the City terminated the Swap Agreement with Ambac.

I. Prior period adjustment

Prior to the current year, the General Fund assumed responsibility for subdivision streets constructed by developers in the amount of \$18,733,216.

The entire amount has been recorded as infrastructure within net assets invested in operating net assets.

The following assets were restricted:

Water System – Interest and sinking funds	\$ 301,423
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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, 2008:

Reserve fund balance, July 1, 2007	\$ -0-
Add – state gasoline tax revenues	731,609
Less – state expenditures	<u>(731,609)</u>
Reserve fund balance, June 30, 2008	<u>\$ -0-</u>

Changes in Long-Term Debt

The following is a summary of the changes in long-term debt for the year ended June 30, 2008

Description and Purpose	Amount of Original Issue (Bonds Only)	Range of Final Maturity Dates	Range of Interest Rate (%)	Balance July 1, 2007	Additions	Reductions	Balance June 30, 2008
Primary Government							
General Government							
2003 Refunding Industrial Park	\$ 4,855,000	2003-2013	1.1-4.25	\$ 3,100,000	\$ -	\$ 465,000	\$ 2,635,000
2000 Public Improvement	5,000,000	2017-2021	6	2,335,286	-	-	2,335,286
2001 Public Improvement	3,000,000	2011-2016	6	2,082,000	-	-	2,082,000
2001 Refunding	4,890,000	2003-2010	3.9	2,050,000	-	610,000	1,440,000
2005 Public Improvement	2,000,000	2014-2025	5	1,850,000	-	75,000	1,775,000
2006 Public Improvement	4,991,031	2014-2027	5	4,891,031	-	-	4,991,031
2007 Public Improvement	3,250,000	2009-2028	5	4,750,000	4,000,000	-	4,750,000
2008 Public Improvement	4,000,000	2009-2028	5	-	-	1,150,000	4,000,000
Total general government				21,158,317	-	1,150,000	24,008,317
Enterprise Funds							
Sewer bonds:							
2003 Refunding	1,775,000	2000-2014	2.0-5.0	1,215,000	-	150,000	1,065,000
2001 GO Refunding	4,180,000	2003-2013	3.99	2,520,000	-	375,000	2,145,000
2000 Public Improvement IV-F3	5,000,000	2003-2021	2.95-6.75	2,864,714	-	-	2,864,714
2001 Public Improvement Series A/G	3,000,000	2014-2025	6	918,000	-	-	918,000
2005 Public Improvement Series DTD	3,000,000	2014-2027	5	3,000,000	-	-	3,000,000
2006 Public Improvement (restated)	5,028,969	2009-2028	5	5,008,969	-	-	5,008,969
2007 Public Improvement	1,750,000	2014-2025	5	1,750,000	-	-	1,750,000
2008 Public Improvement	4,000,000	2009-2028	5	-	4,000,000	-	4,000,000
Electric System							
Appalachian Electric notes	-	2000-2007	None	384,188	222,219	68,284	538,123
Series V-A-2 bonds	2,500,000	2004-2018	Varies	2,075,000	-	125,000	1,950,000
Water system							
Water system bonds series 1992	2,500,000	2000-2007	4.8-5.7	-	-	-	-
Water system bonds series 1996	2,800,000	2000-2011	4.15-5.25	950,000	-	220,000	730,000
DWSRF promissory note	-	-	-	10,097,713	-	413,928	9,683,785
Telecom System							
Telecom System D-1-A Bonds	18,000,000	2016-2030	3.75	18,000,000	-	-	18,000,000
Total Enterprise Funds				48,583,564	4,222,219	1,352,212	51,453,591
Other							
Solid Waste Bonds (Joint Venture)							
Solid Waste Refunding (Joint Venture)	1,649,400	2005-2012	2.0-5	1,080,000	-	205,000	875,000
Total				\$ 70,821,901	\$ 4,222,219	\$ 2,707,212	\$ 76,336,908
Capital Leases:							
Telecom				\$ 59,358	\$ 54,714	\$ 14,440	\$ 99,632
Total				\$ 59,358	\$ 54,714	\$ 14,440	\$ 99,632

K. Other Disclosures:

A. Commitments and Contingencies:

At June 30, 2008, the City of Morristown had the following commitments:

General Fund – Uncompleted contracts	\$ 1,383,405
Sewer System – Uncompleted contracts	2,102,000
Sewer Operating Contract (approximate annual cost)	1,000,000

Contingent liabilities:

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

B. Concentration of Credit Risk

The City of Morristown and Morristown Utility Commission provide electric, water and sewer service to customers in the City of Morristown and Hamblen County. Loss experience has not been significant for 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, 2008.

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, 2008, the City was charged \$685,830.

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/tcrs/PS/](http://treasury.state.tn.us/tcrs/PS/).

Funding Policy

MORRISTOWN requires employees to contribute 5.0% of earnable compensation.

MORRISTOWN is required to contribute at an actuarially determined rate; the rate for the fiscal year ending June 30, 2008, was 13.25% of annual covered payroll. The contribution requirement of plan members is set by state statute. The contribution requirement for MORRISTOWN is established and may be amended by the TCRS Board of Trustees

Annual Pension Cost

For the year ended June 30, 2008, MORRISTOWN's annual pension cost of \$1,794,218 to TCRS was equal to MORRISTOWN's required and actual contributions. The required contribution was determined as part of the July 1, 2005 actuarial valuation using the frozen entry age actuarial cost method. Significant actuarial assumptions used in the valuation include (a) rate of return on investment of present and future assets of 7.5% a year compounded annually, (b) projected salary increases of 4.75% (graded) annual rate (no explicit assumption is made regarding the portion attributable to the effects of inflation on salaries), (c) projected 3.5% annual increase in the Social Security wage base, and (d) projected post retirement increases of 3.0% annually. The actuarial value of assets was determined using techniques that smooth the effect of short-term volatility in the market value of total investments over a five-year period. MORRISTOWN's unfunded actuarial accrued liability is being amortized as a level dollar amount on a closed basis. The remaining amortization period at July 1, 2005 was 28 years. An actuarial valuation was performed as of July 1, 2007, which established contribution rates effective July 1, 2008.

TREND INFORMATION

Funded Status and Funding Progress

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

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

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

Trend Information

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

(Dollar amounts in thousands)

Required Supplementary Information

Schedule of Funding Progress for MORRISTOWN

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

(Dollar amounts in thousands)

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

Morristown Utility System's Retirement Plan

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

Power System:

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
2008	\$ 3,840,368	\$ 3,563,342	\$ 531,775	15%	\$ 263,977	7%
2007	3,845,704	3,677,893	547,146	15%	275,000	7%

Water System:

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
2008	\$ 1,149,462	\$ 1,142,852	\$ 170,793	15%	\$ 83,028	7%
2007	1,126,579	1,097,075	164,561	15%	86,095	8%

Telecom System:

	<u>Total Payroll</u>	<u>Covered Payroll</u>	<u>Employer Contributions</u>	<u>% of Covered Payroll</u>	<u>Employee Contributions</u>	<u>% of Covered Payroll</u>
2008	\$ 701,910	\$ 607,256	\$ 91,088	15%	\$ 31,781	5%
2007	587,260	264,710	39,707	15%	12,596	5%

Under the Plan terms, the Systems will match participant contributions up to 3% of the participant's salary and may also contribute an additional amount to the Plan at its discretion. During 2008 and 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.

E. Risk Management

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

City of Morristown, Tennessee
Required Supplementary Information
June 30, 2008

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

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll (AAL) (b - a)/c
07/01/07	\$ 41,850	\$ 56,723	\$ 14,873	73.78%	13,034	114.11%
07/01/05	37,471	44,061	6,590	85.04%	11,194	58.87%
07/01/03	35,814	42,539	6,725	84.19%	9,748	68.99%
08/30/01	34,504	36,125	1,621	95.51%	9,032	17.95%

City of Morristown, Tennessee
Schedules of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual
Other Governmental Funds
Year Ended June 30, 2008

	Narcotics Fund			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
Program Income	\$ 330,895	\$ 330,895	\$ 236,084	\$ (94,811)
City Fines & Costs				-
Total revenues	<u>330,895</u>	<u>330,895</u>	<u>236,084</u>	<u>(94,811)</u>
Expenditures				
Narcotics enforcement	<u>437,520</u>	<u>464,891</u>	<u>464,891</u>	<u>-</u>
Excess of expenditures over revenue	(106,625)	(133,996)	(228,807)	(94,811)
Other Sources				
Transfers in	<u>106,625</u>	<u>106,625</u>	<u>106,625</u>	<u>-</u>
Net change in fund balance	-	(27,371)	(122,182)	(94,811)
Fund balance - beginning	<u>163,657</u>	<u>163,657</u>	<u>163,657</u>	<u>-</u>
Fund balance - ending	<u>\$ 163,657</u>	<u>\$ 136,286</u>	<u>\$ 41,475</u>	<u>\$ (94,811)</u>

City of Morristown, Tennessee
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2008

CFDA or Grant Number	Community Development Block Grant	Grantor Agency	(A)		(B)		(D)	
			Balance July 1, 2007	Receivable	Receipts	Federal Expenditures	Balance June 30, 2008	Balance
20.505	MPTO	Federal Trust Administration	\$	31,845	\$	280,591	\$	55,176
14.218	Community Development Block Grant	Housing and Urban Development			289,452	289,452		
10.599	Summer Feeding	U.S. Department of Agriculture		44,711	100,825	95,154		39,040
97.044	Assistance to Firefighters Grant	Department of Homeland Security		17,666	103,166	85,500		2,957
17	Internet Crimes Against Children	U.S. Dept. of Justice				2,957		
16.579	Edward Byrne Justice Assistance (05)	Bureau of Justice Assistance			20,454	32,042		32,042
16.579	Edward Byrne Justice Assistance (07)	Bureau of Justice Assistance		10,058	65,684	55,626		12,297
20.600	Highway Safety Grant	State and Community Highway Safety			12,694	12,694		
16.609	Project Safe Neighborhood	U.S. Department of Justice						
Total			\$	104,280	\$	849,535	\$	141,512

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

City of Morristown, Tennessee
Schedule of State Financial Assistance
Year Ended June 30, 2008

	Contract Number	Balance July 1, 2007 Receivable	Receipts	Disbursements	Balance June 30, 2008 Balance
Tennessee Department of Community Development	GG-07-12811-00	\$ 8,700	\$ 25,912	\$ 17,212	
Tennessee Department of Community Development	GG-08-24950-00	-	-	642,300	642,300
Tennessee Department of Community Development	GG-07-23643-00		412,095	412,095	
Tennessee Department of Community Development	GG-05-11784-01			546,629	546,629
Tennessee Department of Environment and Conservation	Z-05-022833-00	-	-	-	-
Tennessee Department of Aeronautics	Z-07-035612-00	13,500	13,500	-	
Tennessee Department of Aeronautics	Z-08-02-1603-00	-	-	13,500	13,500
Total		\$ 22,200	\$ 451,507	\$ 1,631,736	\$ 1,202,429

City of Morristown, Tennessee
Statistical Information
June 30, 2008

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
Sixth Year of Implementation
June 30, 2008

	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	3,286,311	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	\$ 30,899,583	\$ 39,732,654	\$ 39,690,602	\$ 38,236,323	\$ 33,726,053
Business-type activities:					
Invested in capital assets, net of restated 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	12,856,585
Total business -type net assets	\$ 73,666,730	\$ 75,528,428	\$ 78,244,317	\$ 80,135,580	\$ 79,109,952
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	6,776,732	3,993,562	710,940
Unrestricted	14,717,439	30,468,820	15,632,179	16,045,798	25,601,300
Total Primary government	\$ 104,566,313	\$ 115,261,082	\$ 117,904,919	\$ 118,371,903	\$ 112,836,005
					\$ 126,351,549

City of Morristown, Tennessee
Changes in Fund Balance of Governmental Funds
Last Ten Fiscal Years
Sixth Year of Implementation
June 30, 2008

	Fiscal Year Ended					
	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008
Revenues:						
Taxes	\$ 17,538,836	\$ 17,963,749	\$ 18,798,835	\$ 19,509,714	\$ 19,819,597	\$ 22,261,063
Licenses, permits and fines	1,720,054	756,770	936,037	904,316	1,093,488	1,045,551
Use of money and property	469,234	736,195	690,408	607,576	329,777	470,219
Service charges and fees	124,335	319,659	131,998	155,179	137,584	141,703
Intergovernmental	5,390,157	4,566,023	5,294,295	7,664,424	6,141,091	6,269,338
Total revenues	25,242,616	24,342,396	25,851,573	28,841,209	27,521,537	30,187,874
Expenditures:						
General government	2,432,599	2,603,517	3,322,466	3,654,202	4,378,805	4,578,048
Public safety	10,868,947	10,949,337	11,946,235	12,010,039	14,326,759	14,553,542
Public works	5,595,244	6,215,255	6,897,308	9,055,173	10,381,286	11,036,209
Parks and recreation	1,597,215	1,766,941	1,568,247	1,957,729	3,229,978	2,338,137
Airport	1,270,308	590,071	292,552	275,700	190,240	132,719
Civic support	506,273	569,689	544,398	532,178	856,174	558,723
Economic development	1,731,781	1,379,815	1,448,415	4,355,672	2,224,061	1,117,549
Retiree benefits	-	408,347	434,580	292,973	-	-
Miscellaneous	164,256	229,795	39,351	20,531	-	-
Debt service:						
Principal	815,000	746,600	1,224,800	1,265,000	1,105,000	3,150,000
Interest	382,892	360,360	178,333	178,432	449,487	722,876
Debt expense	34,098	4,903	4,870	299,340	155,077	62,156
Total expenditures	25,398,613	25,842,630	27,901,355	33,896,969	37,296,867	38,249,959
Deficiency of revenue over expenditures	(155,997)	(1,500,234)	(2,049,782)	(5,055,760)	(9,775,330)	(8,062,085)
Other financing sources (uses):						
Transfers in	2,632,114	4,290,237	2,550,093	2,371,219	2,421,324	2,443,018
Transfers out	(2,632,114)	(5,005,138)	(1,725,817)	(1,717,920)	(1,733,483)	(1,712,003)
Bonds issued	-	-	1,992,464	10,000,000	4,750,000	5,970,000
Total other financing sources (uses)	-	(714,901)	2,816,740	10,653,299	5,437,841	6,701,015
Net change in fund balance	\$ (155,997)	\$ (2,215,135)	\$ 766,958	\$ 5,597,539	\$ (4,337,489)	\$ (1,361,070)
Debt service as a percentage of total governmental expenditures	4.85%	4.37%	5.05%	5.14%	4.58%	10.29%

City of Morristown, Tennessee
Changes in Net Assets
Last Ten Fiscal Years
Sixth Year of Implementation
(Accrual Basis)
June 30, 2008

	Fiscal Year Ended					
	6/30/2003	6/30/2004	6/30/2005	90/30/06	6/30/2007	6/30/2008
Expenses:						
Governmental activities:						
General government	\$ 2,467,777	\$ 2,790,124	\$ 3,532,804	\$ 3,732,690	\$ 4,427,912	\$ 4,729,358
Public safety	10,236,334	10,287,585	11,553,257	12,011,746	14,783,116	14,938,433
Public works	5,570,400	6,537,761	5,024,791	7,884,650	8,936,753	12,760,354
Parks and recreation	1,665,313	1,534,531	1,489,315	1,864,017	3,107,468	2,404,471
Civic support	506,273	576,028	544,398	532,178	856,949	658,723
Economic development	590,147	385,088	1,448,415	3,879,932	126,444	1,117,549
Retiree benefits		408,347	434,580	292,973		573,847
Airport	1,633,100	477,425	704,585	554,398	631,368	785,032
Long-term debt expense	164,256	396,490	217,831	337,239	582,295	
Other	416,990	81,574				
Total governmental activities expenses	23,250,590	23,474,933	24,929,976	31,089,823	33,452,305	37,867,765
Business-type activities:						
Water	3,847,335	4,089,405	3,765,578	4,241,596	4,486,115	5,056,029
Sewer	4,207,882	4,579,513	4,696,065	5,170,188	5,682,688	6,760,588
Electric	46,767,798	47,365,032	47,493,148	53,341,801	58,800,708	61,105,276
Telecom System			4,176	714,677	4,449,839	6,907,546
Storm Water						438,016
Total business-type expenses	54,823,015	58,033,950	55,958,967	63,468,262	71,419,350	80,265,455
Total primary government expenses	78,073,605	79,508,883	80,888,943	94,558,085	104,871,635	117,650,707
Program Revenues:						
Governmental activities:						
Charges for services:						
General government	202,996	165,575	231,440	223,537	557,097	409,037
Public safety	545,293	794,645	936,037	904,316	414,861	778,216
Public works	124,335	703,164		258,709		
Parks and recreation		139,562	131,998	155,179	137,584	
Civic support						
Economic development						
Retiree benefits						
Airport						
Long-term expense						
Operating grants and contributions	1,713,655	352,717		505,818	448,884	888,336
Capital grants and contributions	2,617,657	1,361,550		3,234,328	1,702,895	1,546,886
Total governmental activities program revenues	5,203,936	3,517,213	1,299,475	5,281,887	3,261,321	3,622,475
Business-type activities:						
Charge for services:						
Water	4,495,715	4,406,024	4,943,461	5,339,101	5,335,578	5,572,994
Sewer	4,540,720	4,492,542	4,589,153	4,749,533	5,556,473	8,766,896
Electric	47,511,195	49,414,204	49,486,518	55,821,500	58,831,933	63,351,409
Telecom system				102,690	2,548,590	4,503,672
Storm Water						89,383
Operating grants and contributions		378,438				55,500
Capital grants and contributions	272,320	1,640,300				
Total business-type activities program revenues	56,819,950	60,331,508	58,999,132	66,012,824	72,072,574	82,339,854
Total primary government program revenue	\$ 62,023,886	\$ 63,848,721	\$ 60,298,607	\$ 71,294,711	\$ 75,333,895	\$ 85,962,329
Net (expense) revenue:						
Governmental activities	\$ (18,046,654)	\$ (19,957,720)	\$ (23,630,501)	\$ (25,807,936)	\$ (30,190,984)	\$ (34,245,290)
Business-type activities	1,996,935	2,583,291	3,040,165	2,544,562	653,244	2,074,399
Total primary government net expense	\$ (16,049,719)	\$ (17,374,429)	\$ (20,590,336)	\$ (23,263,374)	\$ (29,537,740)	\$ (32,170,891)

City of Morristown, Tennessee
Changes in Net Assets
Last Ten Fiscal Years
Sixth Year of Implementation
(Accrual Basis)
June 30, 2008

	Fiscal Year Ended					
	6/30/2003	6/30/2004	6/30/2005	6/30/2006	6/30/2007	6/30/2008
General Governmental and Other Changes						
In Net Assets						
Governmental activities:						
Property taxes	\$ 6,154,751	\$ 6,288,159	\$ 6,544,269	\$ 6,959,567	\$ 6,744,789	\$ 9,521,787
In-lieu taxes	662,748	59,275	72,748	92,446	65,529	35,536
Franchise taxes	813,588	820,658	853,208	1,006,887	732,339	826,802
Local sales tax	8,053,275	8,618,515	9,196,618	9,491,687	9,594,019	9,446,110
Alcohol beverage tax	934,567	1,009,528	1,032,668	1,076,180	1,107,005	1,138,908
Business and gross receipts tax	681,903	861,386	784,119	881,441	943,210	868,833
Hotel/motel tax	238,004	312,707	350,931	384,387	417,120	425,087
Use of money and property	1,291,563	712,843	96,134	607,576	451,307	470,219
Intergovernmental	1,208,281	2,148,591	4,097,107	3,405,280	3,989,312	3,834,117
Transfers	-	721,591	824,276	653,299	687,841	731,014
Total governmental activities	<u>20,038,680</u>	<u>21,553,253</u>	<u>23,852,078</u>	<u>24,558,730</u>	<u>24,732,471</u>	<u>27,296,413</u>
Business-type activities:						
Investment earnings	254,859	-	-	-	-	-
Use of money and property	-	-	-	-	-	387,820
Transfers	-	(721,591)	(824,276)	(653,299)	(687,841)	(731,014)
Total business-type activities	<u>254,859</u>	<u>(721,591)</u>	<u>(824,276)</u>	<u>(653,299)</u>	<u>(687,841)</u>	<u>(343,194)</u>
Total primary government	<u>\$ 20,293,539</u>	<u>\$ 20,831,662</u>	<u>\$ 23,027,802</u>	<u>\$ 23,905,431</u>	<u>\$ 24,044,630</u>	<u>\$ 26,953,219</u>
Changes in Net Assets						
Governmental activities	1,992,026	1,595,533	221,577	(1,219,206)	(5,458,513)	(6,948,877)
Business-type activities	2,251,794	1,861,700	2,125,889	1,891,263	(34,597)	1,731,206
Total primary government	<u>\$ 4,243,820</u>	<u>\$ 3,457,233</u>	<u>\$ 2,347,466</u>	<u>\$ 672,057</u>	<u>\$ (5,493,110)</u>	<u>\$ (5,217,671)</u>
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	-	2,705,279
Total general fund	<u>\$ 5,388,415</u>	<u>\$ 6,313,972</u>	<u>\$ 7,177,566</u>	<u>\$ 12,612,463</u>	<u>\$ 4,669,443</u>	<u>\$ 2,705,279</u>
All other governmental funds						
Reserved	3,290,625	149,933	53,301	9,883	163,657	41,475
Total all other governmental funds	<u>\$ 3,290,625</u>	<u>\$ 149,933</u>	<u>\$ 53,301</u>	<u>\$ 9,883</u>	<u>\$ 163,657</u>	<u>\$ 41,475</u>

City of Morristown, Tennessee
Fund Balance of Governmental Funds
 Last Ten Fiscal Years
 Sixth Year of Implementation
 (Modified Accrual Basis of Accounting)
 June 30, 2008

	Fiscal Year			
	2003	2004	2005	2006
				2007
				2008
General Fund				
Reserved	\$ 2,273,995	\$ 1,281,222	\$ 1,923,010	\$ 8,551,476
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>
All other governmental funds				
Reserved	\$ 3,290,625	\$ 149,933	\$ 53,301	\$ 9,883
Unreserved, reported in:				
Special revenue funds	<u>\$ 3,290,625</u>	<u>\$ 149,933</u>	<u>\$ 53,301</u>	<u>\$ 10,867</u>
Total all other governmental funds				
				984
				<u>\$ 164,641</u>
				<u>\$ 41,475</u>
				<u>\$ 42,459</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	9,196,618	1,032,668	784,119	350,931	96,134	4,097,107	824,276	23,852,078
2006	6,989,567	92,446	1,006,887	9,491,687	1,076,180	881,441	384,387	607,576	3,405,260	653,299	24,588,730
2007	6,960,375	65,529	732,339	9,594,019	1,107,005	943,210	417,120	1,276,070	5,899,091	687,841	27,682,599
2008	9,521,787	35,536	826,803	9,446,110	1,138,908	866,833	425,087	1,421,388	6,027,338	731,015	30,440,805

City of Morristown, Tennessee
Table of General Bonded Debt with Total Assessment
and Expenditure Ratio
Ten tax years ended 2007
June 30, 2008

<u>Tax Year</u>	<u>General Bonded Debt</u>	<u>Total Assessment</u>	<u>Ratio of Bonded Debt to Total Assessment</u>	<u>Total Expenditures</u>	<u>Ratio of Bonded Debt to Total Expenditures</u>
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
2007	24,008,317	693,683,310	.034 to 1	38,249,959	.628 to 1

City of Morristown, Tennessee
Property Tax Levies and Collections
For the Ten Years Ended 2008
June 30, 2008

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Assessed value	\$ 401,714,160	\$ 420,402,762	\$ 446,838,120	\$ 454,515,175	\$ 569,848,349	\$ 576,534,587	\$ 686,357,798	\$ 614,747,798	\$ 704,667,216	\$ 693,663,310
Rate per \$100	1.25	1.25	1.25	1.25	1.09	1.09	1.09	1.09	0.97	1.37
Total tax levy	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	9,503,463
Collections/reductions:										
Initial tax year	4,914,764	5,099,870	5,368,291	5,436,677	5,908,338	5,988,563	6,065,471	6,421,837	6,546,642	8,767,049
Additional through June 30, 2008	101,965	109,185	196,204	219,923	259,536	210,336	221,104	171,013	212,881	-
Total collections/reductions	5,016,729	5,209,055	5,564,495	5,656,600	6,167,874	6,198,899	6,306,575	6,592,850	6,759,523	8,767,049
Taxes receivable, June 30, 2008	4,698	45,980	20,994	24,840	43,473	87,328	84,725	108,101	75,749	736,414
Percent of levy collected Initial tax year	97.89%	97.05%	96.11%	95.69%	95.12%	95.26%	96.67%	98.39%	95.76%	92.25%
Percent of levy outstanding June 30, 2008	0.09%	0.67%	0.36%	0.44%	0.70%	1.39%	1.33%	4.17%	1.11%	-

	2008			Ten Years Ago		
	Percentage of Total Employment		Rank	Percentage of Total Employment		Rank
	Employees			Employees		
Hamblen County Department of Education	1,350	1				
MAHLE, Inc.	1,242	2				
Berkline Corporation	1,200	3		1,889	1	
Koch Foods	882	4				7%
Walters State Community College	734	5				
Morristown Hamblen Healthcare	676	6				
JTEK Automotive, Inc.	620	7				
Howmet Corporation	618	8				
Wal-Mart	550	9				
Lakeway Regional Hospital	501	10		815	4	3%
Universal Furniture Industries				800	5	3%
Shelby Williams Industries, Inc.				600	6	2%
Anchor Advance Products, Inc.				600	7	2%
Burnett Produce Company				530	8	2%
Lenzing Fibers Corporation				500	9	2%
Norris Homes				475	10	2%
Lea Industries						
Total	8,373			6,209		23%

City of Morristown, Tennessee
Assessed Value and Estimated Actual Value of Taxable Property
Last Ten Tax Years
June 30, 2008

Tax Year	Residential Property	Commercial Property	Public Utility Property	Other	Commercial Property	Public Utility Property	Less: Tax Exempt Real Property	Total Direct Tax Rate	Estimated Actual Taxable Value	Assessed Value as a Percentage of Actual Value
1998	101,964,225	170,194,960	1,438,800	1,121,375	115,351,160	-	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	1.25	1,225,572,257	33.24%
2000	151,735,700	241,152,880	1,918,125	1,338,675	146,310,970	-	542,457,350	1.25	1,637,704,985	33.12%
2001	153,493,650	244,658,040	493,845	1,763,125	151,200,316	4,147	551,613,123	1.25	1,668,996,219	33.05%
2002	154,997,600	257,138,640	493,845	1,765,775	135,664,289	2,368	550,062,517	1.09	1,653,214,110	33.27%
2003	157,210,650	268,536,960	493,845	1,783,150	133,871,424	2,185	561,898,214	1.09	1,663,016,247	33.39%
2004	160,143,125	274,685,480	493,845	1,776,850	133,295,257	2,872	570,401,429	1.09	1,706,865,190	33.42%
2005	197,382,450	311,656,480	581,570	2,358,850	161,306,661	2,770	673,488,281	0.97	2,030,459,639	33.17%
2006	208,319,300	320,294,680	577,060	2,654,275	172,813,509	2,770	704,561,094	0.97	2,130,508,894	33.07%
2007	214,131,050	323,243,200	577,060	3,551,000	152,179,019	1,981	693,683,310	1.37	2,257,282,643	30.73%

City of Morristown
Operating Indicators by Function
 Last Ten Fiscal Years (6th Year of Implementation)

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

City of Morristown, Tennessee
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
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	14.1	10,513	4.6
2007	25,686	673,075,944	26,204	41.2	14.0	10,613	5.7
2008	26,419	695,823,622	26,338	36.0	13.4	10,398	7.2

City of Morristown
Operating Indicators by Function
 Last Ten Fiscal Years (6th Year of Implementation)

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

City of Morristown, Tennessee
Schedule of Utility Rates and Number of Customers
Year Ended June 30, 2008

Sewer Rates

Inside - \$4.20 per 1,000 gallons of water used—minimum bill of \$8.40 per month.

Outside - \$8.40 per 1,000 gallons of water used—minimum bill of \$25.20 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, 2008

Residential	\$ 11.50
Customer charge per month	
Energy charge:	7.943¢
First 2,000 kilowatt hours	0.736¢
Additional kilowatt hours per month	
Commercial, Industrial, Governmental and Institutional:	
Demand of up to 50 kilowatt hours:	\$ 21.50
Customer charge per month	8.787¢
Energy charge per kilowatt hour per month	
Demand of 51 to 1,000 kilowatt hours	\$ 127.00
Excess over 50 kilowatts per month	\$ 12.52
Energy charge:	8.220¢
First 15,000 kilowatt hours per month	
Demand of 1,001 to 5,000 kilowatt hours:	\$ 266.00
Customer charge per month	
Demand charge:	\$ 12.54
First 1,000 kilowatts per month	\$ 13.87
Excess over 1,000 kilowatts per month	
Energy charge:	\$ 4.946¢
Per kilowatt hours per month	
Demand of 5,001 to 15,000 kilowatts:	\$1,500.00
Customer charge per month	
Demand charge:	\$ 11.89
Per kilowatt	3.070¢
First 620 kilowatt hours per kilowatt per month	3.113¢
Additional kilowatt hour per month	
Non-manufacturing demand of 15,001 to 25,000 kilowatts:	\$1,500.00
Customer charge per month	
Demand charge:	\$ 13.78
Per kilowatt hour per month	
Energy charge:	4.234¢
First 620 kilowatt hours per month	3.559¢
Additional kilowatt hours per month	
	12,937
Number of customers	

City of Morristown, Tennessee
Schedule of Water Rates and Number of Customers
Year Ended June 30, 2008

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	12,937
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City of Morristown, Tennessee
Schedule of Monthly Telecom Rates
Year Ended June 30, 2008

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	0.05
Commercial:	
Access line	25.95
Business local telephone service	6.95-25.95
Long distance rate per minute	0.05

Note: The Telecom System began operations in 2006.

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2008, which collectively comprise the City of Morristown, Tennessee's basic financial statements and have issued our report thereon dated May 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Morristown, Tennessee's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than remote likelihood that a misstatement of the City of Morristown, Tennessee's financial statements that is more than inconsequential will not be prevented or detected by the City of Morristown, Tennessee's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The finding is numbered 08-1.

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

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

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 May 16, 2009.

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.

Craige, Thompson + Jones P. C.

Morristown, Tennessee
May 16, 2009

CRAINE, THOMPSON, & JONES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

225 WEST FIRST NORTH STREET

P.O. BOX 1779

SUITE 300, MILLENNIUM SQUARE

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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, 2008. 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, 2008.

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.

Caine, Thompson + Jones P. C.

Morristown, Tennessee
May 16, 2009

City of Morristown, Tennessee
Schedule of Findings and Questioned Costs
June 30, 2008

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 – The Storm Water Fund had a deficit fund balance at June 30, 2008.

REASON IMPROVEMENT NEEDED: It is improper for a fund to be in a deficit position.

CAUSE OF CONDITION: Expenditures for the fund exceeded revenues.

City of Morristown, Tennessee
Schedule of Findings and Questioned Costs
June 30, 2008

Internal Control Matters (Continued):

RECOMMENDATION: Management should take steps to ensure that fees are sufficient to cover expenses.

Management Response – We concur. This is the first year of operations of the new fund. Projections indicated that it would take a period of three years for the fund to become self-supporting.

Section III – Federal Award Findings and Questioned Costs

No matters were reported

