

Comprehensive Annual
Financial Report

Morristown Utility Commission
(An Administrative Unit Accounted for
as Enterprise Funds of the
City of Morristown, Tennessee)

Year ended June 30, 2008

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Finance Department
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Morristown Utility Commission
Comprehensive Annual Financial Report

Year ended June 30, 2008

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Report of Independent Auditors

Board of Commissioners
Morristown Utility Commission

We have audited the accompanying financial statements of the Morristown Power System, the Morristown Water System, and the Morristown Telecom System (collectively, the “Systems”), enterprise funds of the City of Morristown, Tennessee, as of and for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the Systems’ management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of America. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Systems and do not purport to, and do not, present fairly the financial position of the City of Morristown, Tennessee, as of June 30, 2008 and 2007, and the changes in its financial position, or, where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Morristown Power System, Morristown Water System, and Morristown Telecom System of the City of Morristown, Tennessee, as of June 30, 2008 and 2007, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2008, on our consideration of the Systems’ internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.



Board of Commissioners
Morristown Utility Commission

The management's discussion and analysis on pages 3 through 7 are not a required part of the basic financial statements but are 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 audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Morristown Power System's, Morristown Water System's, and Morristown Telecom System's basic financial statements. The statistical section is presented for purposes of additional analysis and is not a required part of the basic financial statements and has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Coulter & Justus, P. C.

Knoxville, Tennessee
December 29, 2008

Morristown Utility Commission

Management's Discussion and Analysis

June 30, 2008

This discussion and analysis is intended to be an introduction to the financial statements and notes that follow this section and should be read in conjunction with them. This section will provide narrative discussion and analysis of the financial activities of Morristown Utility Commission (the "Commission"). The Commission is responsible for the operation of three major funds of the City of Morristown, Tennessee. These funds are the Power System, the Water System, and the Telecom System. This discussion and analysis is reported at the Commission level. The financial performance of the Commission is discussed and analyzed within the context of the accompanying financial statements and notes following this section.

Financial Statement Overview

The financial statements herein are comprised of the Balance Sheets, the Statements of Revenues, Expenses and Changes in Net Assets, the Statements of Cash Flows and the accompanying Notes to Financial Statements.

The Commission is an administrative unit of the City of Morristown, Tennessee (the "City") operated under the general supervision and control of a five-member Board of Commissioners. The Commission issues a comprehensive annual financial report which is incorporated in the City's comprehensive annual financial report.

Operating Highlights

Net Assets and Capital Assets

As indicated in Table 1, net assets were \$63,340,054 in 2008, compared to \$63,271,616 in 2007 and \$60,868,100 in 2006. Over 85% of the 2008 net assets are invested in capital assets. With the exception of \$301,423 restricted under various debt agreements, the remaining net assets are unrestricted and may be used for on-going operations.

Table 1

	Morristown Utility Commission Condensed Balance Sheets		
	June 30, 2008	June 30, 2007	June 30, 2006
Assets and liabilities:			
Current and other assets	\$24,343,816	\$22,007,488	\$23,506,921
Capital assets	88,142,918	87,030,855	81,584,923
Total assets	112,486,734	109,038,343	105,091,844
Current liabilities	16,861,969	12,525,053	10,531,444
Non-current liabilities	32,284,711	33,241,674	31,380,382
Total liabilities	49,146,680	45,766,727	41,911,826
Net assets:			
Invested in capital assets	54,089,479	52,268,850	51,360,701
Restricted	301,423	557,111	535,004
Unrestricted	8,949,152	10,445,655	11,284,313
Total net assets	\$63,340,054	\$63,271,616	\$63,180,018

Morristown Utility Commission

Management's Discussion and Analysis (continued)

As indicated in Table 2, net capital assets increased by \$1,112,063 or 1% during fiscal year 2008, primarily as a result of various construction projects within each system. Refer to the notes to the financial statements for more information regarding capital assets.

Table 2	Balance July 1, 2007	Net Change	Balance June 30, 2008
Capital assets not being depreciated:			
Land	\$ 958,298	\$ -	\$ 958,298
Construction in progress	2,878,061	1,262,814	4,140,875
Total capital assets not being depreciated	3,836,359	1,262,814	5,099,173
Capital assets being depreciated (net):			
Transmission equipment, fixtures, and devices	10,938,146	(637,330)	10,300,816
Distribution transformers, meters, fixtures, and devices	54,897,561	857,946	55,755,507
Buildings and improvements	15,491,712	(2,876)	15,488,836
Furniture, fixtures, and equipment	1,867,077	(368,491)	1,498,586
Capital assets being depreciated (net)	83,194,496	(150,751)	83,043,745
Total net capital assets	\$87,030,855	\$1,112,063	\$88,142,918

Results of Operations

As indicated in Table 3, operating revenues of the Commission increased by \$6,706,078 from fiscal year 2007 to 2008 and \$5,252,810 from fiscal year 2006 to 2007. These were increases of 10.0% and 8.6%, respectively. Approximately 84% of fiscal year 2008 revenues were derived from the sale of electricity while 7% was derived from the sale of water, 6% from the sale of broadband and 3% from other sources. Net assets of the Commission at the end of fiscal 2008 were \$63,340,054 which was an increase of \$68,438 over fiscal 2007. Fiscal 2007 net assets were \$63,271,616 which was an increase of \$91,598 over fiscal 2006, which saw net assets end at 63,180,018. Over 71% of electric revenues are derived from sales to industrial customers, while 21% comes from sales to residential customers and 7% from commercial customers, with the remaining sales coming from outdoor lighting.

Morristown Utility Commission

Management's Discussion and Analysis (continued)

Table 3

**Morristown Utility Commission
Condensed Statement of Revenues, Expenses and Changes in Net
Assets**

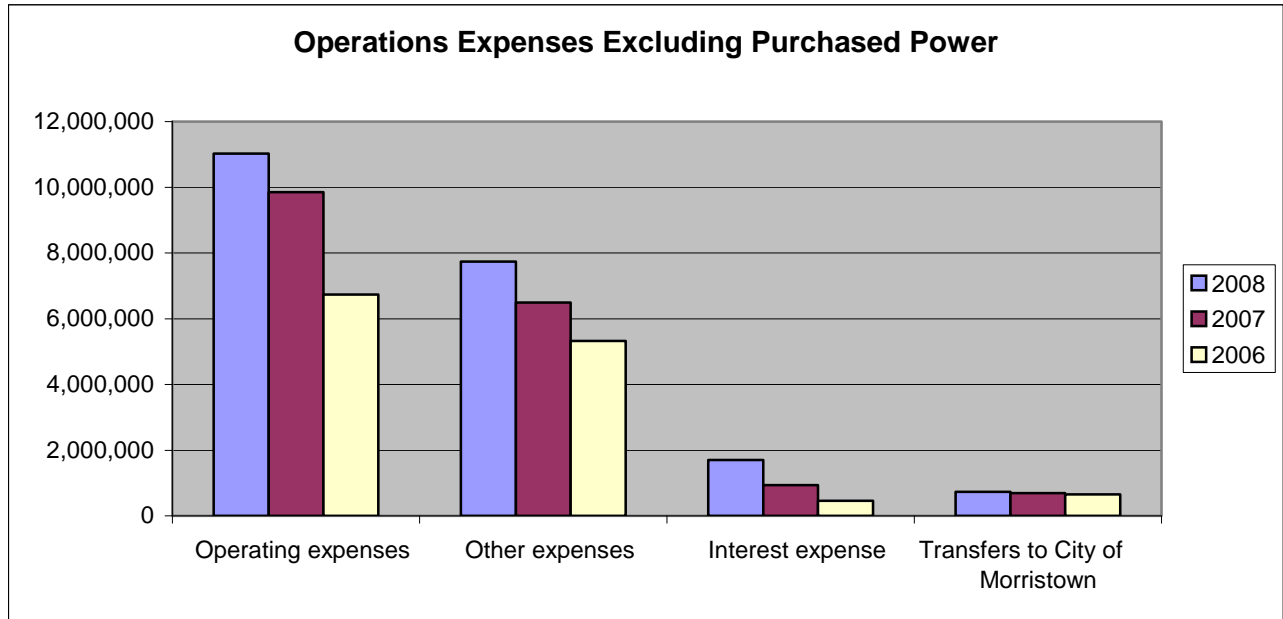
	Years ended June 30		
	2008	2007	2006
Revenues:			
Operating revenues	\$73,428,075	\$66,516,101	\$61,263,291
Non-operating revenues	440,228	646,124	481,839
Total revenues	<u>73,868,303</u>	<u>67,162,225</u>	<u>\$61,745,130</u>
Expenses:			
Purchased power	52,593,697	49,108,223	46,256,090
Operating expenses	11,057,387	9,847,941	6,739,140
Other expenses	7,733,916	6,490,456	5,324,628
Interest expense	1,683,851	936,166	460,055
Total expenses	<u>73,068,851</u>	<u>66,382,786</u>	<u>58,779,913</u>
Excess revenues over expenses	799,452	779,439	2,965,217
Transfers to the City	(731,014)	(687,841)	(653,299)
Changes in net assets	68,438	91,598	2,311,918
Beginning net assets	<u>63,271,616</u>	<u>63,180,018</u>	<u>60,868,100</u>
Ending net assets	<u>\$63,340,054</u>	<u>\$63,271,616</u>	<u>\$63,180,018</u>

Operating expenses, not including purchased power, increased from 2008 to 2007, as indicated in Figure 1. This increase is primarily due to the addition of customers for the Telecom System as well as increases in overall operation and maintenance expenses for the electric and water systems from ongoing maintenance projects. This amount was \$11,057,387 in 2008 compared to \$9,847,941 in 2007, resulting in a 12% increase. Overall interest expense increased due to the combined effect of construction interest capitalized in the Telecom System in 2007 (and not in 2008) and an increase in the interest rate associated with our swap agreement in 2008 which resulted from the downgrading of certain counter party credit ratings.

Morristown Utility Commission

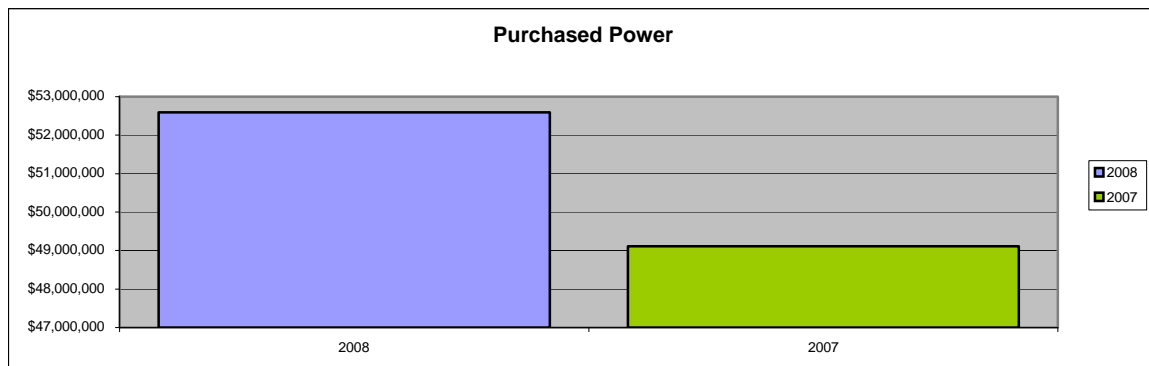
Management's Discussion and Analysis (continued)

Figure 1



As indicated in Figure 2, purchased power costs were \$52,593,697 in 2008 as compared to \$49,108,223 in 2007, resulting in an increase of 7.10%. This increase resulted primarily from the implementation of a fuel cost adjustment charge by TVA, plus an additional rate increase by TVA effective April 1, 2008.

Figure 2



Morristown Utility Commission

Management's Discussion and Analysis (continued)

Debt

As indicated in Table 4 below, total debt outstanding at June 30, 2008, was \$32,210,976 compared to \$33,952,401 in 2007.

Table 4	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Power System:				
Bonds	\$ 2,075,000	\$ -	\$ 125,000	\$1,950,000
Notes	384,188	222,219	68,284	538,123
Water system:				
Bonds	950,000	-	220,000	730,000
Notes	11,043,213	-	558,928	10,484,285
Telecom System bonds	18,000,000	-	-	18,000,000
Telecom System Note to City	1,500,000	-	-	1,500,000
Total debt outstanding	33,952,401	\$222,219	\$972,212	33,202,408
Less current portion	758,104			796,413
Long-term portion	\$ 33,194,297			\$32,405,995

On September 11, 2008, the swap agreement associated with series D-1-A bonds was terminated with an exit value of \$480,000 and the series D-1-A \$18,000,000 as well as the series D-10-C \$1,500,000 promissory note with the City of Morristown were refinanced with the Tennessee Municipal Bond Fund using a daily valued variable interest rate and a total debt value of \$20,115,000 which included debt issue costs of approximately \$135,000.

The Electric System has interfund receivables due from the Telecom System of approximately \$5,992,000. The Commission has requested approval from the Tennessee Valley Authority to increase the authorized amount from \$3,000,000 to \$6,000,000. In the event approval is not granted, the Commission plans to finance the inter-fund balance with funding from external sources.

Additional information on the Commission's long-term debt can be found in Note 7 of this report.

Non-Operating Revenue

Interest from deposits and investments decreased from \$535,118 in 2007 to \$384,728 in 2008 due principally to decreased overall balances of unspent bond proceeds related to the Telecom System infrastructure projects in progress throughout the year.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the Assistant General Manager, P.O. Box 667, Morristown, Tennessee 37815.

Morristown Utility Commission
Balance Sheets
June 30, 2008 and 2007

	Power System		Water System		Telecom System	
	June 30		June 30		June 30	
	2008	2007	2008	2007	2008	2007
Assets						
Current assets:						
Cash and cash equivalents	\$ 3,086,303	\$ 5,994,822	\$ 1,666,250	\$ 1,679,797	\$ 1,113,058	\$ 1,002,610
Accounts receivable:						
Trade, net of allowance for doubtful accounts of \$204,500 for 2008	7,419,522	5,930,632	-	-	-	-
Due from other fund	5,384,754	2,197,281	607,591	304,752	-	-
Due from others	312,763	178,360	-	-	16,692	-
Accrual for unbilled revenue	1,479,491	1,170,052	203,722	171,128	-	-
Current portion of discounted energy units	104,848	99,205	-	-	-	-
Other current assets	-	-	-	-	4,485	62,771
Advances from Tennessee Valley Authority Home Weatherization Loan Program, net of advances to customers	48,278	-	-	-	-	-
Materials and supplies inventories	802,235	796,905	402,259	388,197	-	-
Total current assets	18,638,194	16,367,257	2,879,822	2,543,874	1,134,235	1,065,381
Restricted investments	-	-	301,423	557,111	-	-
Capital assets:						
Plant and equipment in service	58,121,974	56,094,690	49,415,282	48,801,917	21,126,157	19,160,002
Less accumulated depreciation	(25,338,254)	(23,402,775)	(16,905,786)	(15,699,509)	(2,417,330)	(801,531)
	<u>32,783,720</u>	<u>32,691,915</u>	<u>32,509,496</u>	<u>33,102,408</u>	<u>18,708,827</u>	<u>18,358,471</u>
Construction in progress	1,618,004	1,708,742	1,046,530	688,904	1,476,341	480,415
Net capital assets	34,401,724	34,400,657	33,556,026	33,791,312	20,185,168	18,838,886
Plant acquisition adjustments, net of accumulated amortization	541,840	391,547	148,515	176,804	-	-
Discounted energy units, less current portion	407,057	511,450	-	-	-	-
Other assets	25,483	97,141	71,167	118,670	196,080	178,253
Total assets	\$ 54,014,298	\$ 51,768,052	\$ 36,956,953	\$ 37,187,771	\$ 21,515,483	\$ 20,082,520

Morristown Utility Commission
Balance Sheets (continued)
June 30, 2008 and 2007

	Power System		Water System		Telecom System	
	June 30 2008	2007	June 30 2008	2007	June 30 2008	2007
Liabilities and net assets						
Current liabilities:						
Accounts payable:						
Trade	\$ 4,393,076	\$ 3,951,475	\$ 67,576	\$ 108,409	\$ 187,420	\$ 246,454
Due to other fund	-	-	-	-	5,992,345	2,502,033
City of Morristown	585,198	439,280	-	-	-	-
Deferred revenues	-	-	-	-	240,093	170,000
Customer deposits	1,771,910	1,752,384	-	-	73,557	31,870
Accrued payroll related liabilities	1,410,269	1,526,475	566,227	615,955	100,842	66,165
Other accrued liabilities	241,924	264,486	-	-	213,145	24,052
Current portion of capital lease obligations	-	-	1,058	14,000	25,896	11,981
Current portion of long-term debt	215,505	193,284	580,908	564,820	-	-
Advances from Tennessee Valley Authority Home Weatherization Loan Program, net of advances to customers	-	41,930	-	-	-	-
Total current liabilities	<u>8,617,882</u>	<u>8,169,314</u>	<u>1,215,769</u>	<u>1,303,184</u>	<u>6,833,298</u>	<u>3,052,555</u>
Capital lease obligations, less current portion	-	-	-	-	73,736	47,377
Long-term debt, less current portion	2,272,618	2,265,904	10,633,377	11,428,393	19,500,000	19,500,000
Total liabilities	<u>10,890,500</u>	<u>10,435,218</u>	<u>11,849,146</u>	<u>12,731,577</u>	<u>26,407,034</u>	<u>22,599,932</u>
Net assets (deficit):						
Invested in capital assets, net of related debt	31,913,601	31,941,469	22,356,081	21,811,728	(180,203)	(1,484,347)
Restricted	-	-	301,423	557,111	-	-
Unrestricted	11,210,197	9,391,365	2,450,303	2,087,355	(4,711,348)	(1,033,065)
Total net assets (deficit)	<u>43,123,798</u>	<u>41,332,834</u>	<u>25,107,807</u>	<u>24,456,194</u>	<u>(4,891,551)</u>	<u>(2,517,412)</u>
Total liabilities and net assets	<u>\$ 54,014,298</u>	<u>\$ 51,768,052</u>	<u>\$ 36,956,953</u>	<u>\$ 37,187,771</u>	<u>\$ 21,515,483</u>	<u>\$ 20,082,520</u>

See accompanying Notes to Financial Statements.

Morristown Utility Commission
Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Years ended June 30, 2008 and 2007

	Power System		Water System		Telecom System	
	Year ended June 30		Year ended June 30		Year ended June 30	
	2008	2007	2008	2007	2008	2007
Operating revenues:						
Metered sales	\$ 62,213,981	\$ 57,538,710	\$ 5,508,181	\$ 5,276,340	\$ -	\$ -
Broadband sales	-	-	-	-	4,424,700	2,515,823
Other operating revenues	1,137,428	1,093,223	64,813	59,238	78,972	32,767
Total operating revenues	63,351,409	58,631,933	5,572,994	5,335,578	4,503,672	2,548,590
Operating expenses:						
Power purchased	52,593,697	49,108,223	-	-	-	-
Operations	4,291,530	4,056,519	2,872,271	2,729,877	3,893,586	3,061,545
Maintenance	1,596,362	1,486,619	567,957	434,228	197,596	94,265
Depreciation and amortization	2,309,990	2,259,968	1,219,756	1,155,171	1,488,938	740,945
Taxes	204,529	190,494	-	-	72,620	54,560
Miscellaneous	21,632	25,327	40,361	48,879	14,175	-
Total operating expenses	61,017,740	57,127,150	4,700,345	4,368,155	5,666,915	3,951,315
Operating income (loss)	2,333,669	1,504,783	872,649	967,423	(1,163,243)	(1,402,725)
Other income (expense):						
Interest income	243,825	412,506	111,168	122,612	29,735	-
Interest expense	(87,536)	(86,064)	(355,684)	(351,578)	(1,240,631)	(498,524)
Net other income (expense)	156,289	326,442	(244,516)	(228,966)	(1,210,896)	(498,524)
Income (loss) before contributions and transfers	2,489,958	1,831,225	628,133	738,457	(2,374,139)	(1,901,249)
Contributions from developers	-	-	55,500	111,006	-	-
Transfers out (tax equivalent payments to City of Morristown)	(698,994)	(655,890)	(32,020)	(31,951)	-	-
Changes in net assets	1,790,964	1,175,335	651,613	817,512	(2,374,139)	(1,901,249)
Net assets (deficit) at beginning of year	41,332,834	40,157,499	24,456,194	23,638,682	(2,517,412)	(616,163)
Net assets (deficit) at end of year	\$ 43,123,798	\$ 41,332,834	\$ 25,107,807	\$ 24,456,194	\$ (4,891,551)	\$ (2,517,412)

See accompanying Notes to Financial Statements.

Morristown Utility Commission
 Statements of Cash Flows
 Years ended June 30, 2008 and 2007

	Power System		Water System		Telecom System	
	Year ended June 30		Year ended June 30		Year ended June 30	
	2008	2007	2008	2007	2008	2007
Cash flows from operating activities						
Cash received from customers	\$ 60,388,811	\$ 57,679,957	\$ 5,540,401	\$ 5,326,322	\$ 4,615,452	\$ 2,715,860
Cash received from City of Morristown, Tennessee	1,266,968	978,875	-	-	-	-
Cash paid to suppliers and vendors	(54,445,131)	(50,493,175)	(2,455,142)	(2,016,585)	(3,322,242)	(2,691,235)
Cash paid to employees for services	(3,956,574)	(3,709,422)	(1,082,567)	(1,099,007)	(667,232)	(552,000)
Net cash flows from operating activities	<u>3,254,074</u>	<u>4,456,235</u>	<u>2,002,692</u>	<u>2,210,730</u>	<u>625,978</u>	<u>(527,375)</u>
Cash flows from noncapital financing activities						
Transfers to City of Morristown (tax equivalent payments)	(698,994)	(655,890)	(32,020)	(31,951)	-	-
Cash flows from investing activities						
Interest received on investments	243,825	412,506	111,167	122,612	29,735	-
Sale (purchase) of investments	-	-	255,688	(22,107)	-	300,000
Net cash flows from investing activities	<u>243,825</u>	<u>412,506</u>	<u>366,855</u>	<u>100,505</u>	<u>29,735</u>	<u>300,000</u>
Cash flows from capital and related financing activities						
Payments on capital lease obligations	-	-	(12,942)	(12,319)	(33,026)	(3,042)
Net additions to plant acquisition adjustments	(234,721)	(154,697)	-	-	-	-
Net additions to capital assets	(2,004,410)	(4,134,462)	(956,181)	(2,297,733)	(2,835,220)	(3,318,506)
Interfund (repayments) advances	(3,187,473)	(905,877)	(302,839)	(333,199)	3,490,312	1,239,076
Contributions from developers	-	-	55,500	111,006	-	-
Principal payments on long-term debt	(193,284)	(47,845)	(778,928)	(923,968)	-	-
Interest paid on long-term debt	(87,536)	(86,064)	(355,684)	(351,578)	(1,240,631)	(498,524)
Proceeds from long-term borrowings	-	-	-	1,377,312	73,300	1,562,400
Net cash flows from capital and related financing activities	<u>(5,707,424)</u>	<u>(5,328,945)</u>	<u>(2,351,074)</u>	<u>(2,430,479)</u>	<u>(545,265)</u>	<u>(1,018,596)</u>
(Decrease) increase in cash and cash equivalents	(2,908,519)	(1,116,094)	(13,547)	(151,195)	110,448	(1,245,971)
Cash and cash equivalents at beginning of year	5,994,822	7,110,916	1,679,797	1,830,992	1,002,610	2,248,581
Cash and cash equivalents at end of year	<u>\$ 3,086,303</u>	<u>\$ 5,994,822</u>	<u>\$ 1,666,250</u>	<u>\$ 1,679,797</u>	<u>\$ 1,113,058</u>	<u>\$ 1,002,610</u>

Morristown Utility Commission
Statements of Cash Flows (continued)
Years ended June 30, 2008 and 2007

	Power System		Water System		Telecom System	
	Year ended June 30		Year ended June 30		Year ended June 30	
	2008	2007	2008	2007	2008	2007
Reconciliation of operating income (loss) to net cash flows from operating activities						
Operating income (loss)	\$ 2,333,669	\$ 1,504,783	\$ 872,649	\$ 967,423	\$ (1,163,243)	\$ (1,402,725)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:						
Depreciation and amortization	2,309,990	2,379,121	1,219,756	1,265,318	1,488,938	775,092
Provision for losses on accounts receivable	391,528	153,532	-	-	-	-
Redemption of discounted energy units	98,750	93,435	-	-	-	-
Changes in operating assets and liabilities:						
Accounts receivable	(1,880,418)	(428,067)	-	-	-	-
Accrual for unbilled revenue	(309,439)	65,156	(32,593)	(9,256)	-	-
Materials and supplies inventories	(5,330)	63,559	(14,062)	(80,862)	-	-
Other assets	(62,745)	138,666	47,503	23,370	93,860	(60,689)
Trade accounts payable	441,601	314,159	(40,836)	17,165	(59,034)	(37,181)
Customer deposits and prepayments	19,526	8,458	-	-	41,687	28,270
Other liabilities	(83,058)	163,433	(49,725)	27,572	223,770	169,858
Net cash flows from operating activities	<u>\$ 3,254,074</u>	<u>\$ 4,456,235</u>	<u>\$ 2,002,692</u>	<u>\$ 2,210,730</u>	<u>\$ 625,978</u>	<u>\$ (527,375)</u>
Supplemental schedule of noncash financing activities						
Acquisition of utility properties through issuance of notes payable	\$ 222,219	\$ -	\$ -	\$ -	\$ -	\$ -

See accompanying Notes to Financial Statements.

Morristown Utility Commission

Notes to Financial Statements

June 30, 2008 and 2007

1. Significant Accounting Policies

General

The Morristown Utility Commission (the “Commission”) is an administrative unit of the City of Morristown, Tennessee (the “City”). The Commission is comprised of the Power System, Water System and Telecom System (the “Systems”) which are reported as separate enterprise funds of the City.

The Telecom System provides internet, cable, and telephone (collectively referred to as “broadband”) services to their customers. As required by Section 7-52-603 of the Tennessee Code Annotated, the Power System may not subsidize the operation of the Telecom System with revenue from its operations.

An enterprise fund is used to account for the financing of services to the general public on a continuing basis with costs recovered primarily through user charges. The Commission is managed and controlled by commissioners who are appointed for five year terms by the mayor and aldermen of the City. The Commission manages, operates and maintains the electric, water, and telecom systems servicing the citizens of the City and surrounding areas. The Commission issues a comprehensive annual financial report which is combined with other proprietary funds in the City’s comprehensive annual financial report.

The financial statements are presented on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America and general practices in the power, water, and broadband industries. Operating revenues and expenses generally result from providing power, water, and broadband services in connection with the Systems’ ongoing operations. Operating expenses include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Systems apply Financial Accounting Standards Board (“FASB”) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict Governmental Accounting Standards Board (“GASB”) pronouncements, in which case, GASB prevails. The Systems have elected not to adopt the FASB Board statements and interpretations issued after November 30, 1989, in accordance with GASB Statement No. 20, “Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that use Proprietary Fund Accounting”.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

1. Significant Accounting Policies (continued)

General (continued)

Net assets are classified into the following three components:

- Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds is not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds.
- Restricted – This component of net assets consists of constraints placed on net assets use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted – This component of net assets consists of net assets that do not meet the definition of restricted or invested in capital assets, net of related debt.

Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The System's operations are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of the enterprise fund are included in the balance sheets. Fund equity (i.e. total net assets) consists of capital contributed by the City, contributions in aid of construction and retained earnings. Operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in total net assets.

Fiscal Year-End

The Systems operate on a fiscal year ending June 30. All references in these notes refer to the fiscal year-end unless otherwise specified.

Cash and Cash Equivalents

The Systems consider all demand deposits, nonnegotiable certificates of deposit and short-term, highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

1. Significant Accounting Policies (continued)

Investments

Investments are recorded at fair value as determined by quoted market prices at the balance sheet date. The Systems have not formally adopted an investment policy and places no limit on the amount that may be invested in any one issuer. As of June 30, 2008 and 2007, the Water System's investments consisted of certificates of deposit, which are stated at cost which also approximates fair value.

As authorized by state statutes, it is the Systems' policy to only invest in obligations of the United States Treasury, its agencies and instrumentalities; money market funds; the Local Government Investment Pool ("LGIP") or in obligations which are rated in either of the two highest rated categories by a nationally recognized rating agency.

Material and Supplies Inventories

Materials and supplies inventories are valued at the lower of cost or market, utilizing the moving average method of determining cost.

Income Taxes

The Systems are exempt from federal and state income taxes since it is comprised of funds of the City, a nontaxable entity. Accordingly, no provision for income taxes has been recorded for the Systems in the accompanying financial statements.

Capital Assets

Capital assets are carried at historical cost, including applicable general and administrative costs and payroll related costs such as pensions, taxes and other employee benefits. All material renewals and betterments are capitalized in accordance with the Systems' capitalization policy. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed, if material. The Telecom System capitalized \$274,274 of interest costs in 2007 and none in 2008. When property is retired or otherwise disposed of, its average cost, together with its cost of removal less salvage, is charged to accumulated depreciation; no gain or loss is recognized.

Capital assets, excluding land and construction in progress, are depreciated using the straight-line method at rates which will amortize costs over the estimated useful lives of the assets. The estimated useful lives of capital assets are as follows:

Transmission equipment, fixtures and devices	25 to 50 years
Distribution transformers, meters, fixtures and devices	15 to 50 years
Buildings and improvements	50 years
Furniture, fixtures and equipment	5 to 25 years

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

1. Significant Accounting Policies (continued)

Plant Acquisition Adjustments

Plant acquisition adjustments represent the excess of cost over net book value of utility properties acquired from other utility districts. Such excess is amortized over the estimated useful life of the related property (periods of up to 20 years).

Compensated Absences

The Systems recognize the cost of both vacation pay and sick leave benefits as earned. In the event of termination or retirement, an employee is reimbursed for accumulated vacation days. In general, accumulated vacation days are limited to thirty days. Employees are reimbursed for accumulated sick leave upon retirement or termination at an equivalent salary rate of 100%, 50% or 33-1/3% depending on the date earned. There is no limitation on the number of days employees can accumulate for sick leave.

Use of Estimates

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 reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Deposits and Investments

Deposits, which are included in the accompanying financial statements as “cash and cash equivalents were as follows as of June 30, 2008:

Power System	\$3,086,303
Water System	1,666,250
Telecom System	1,113,058

As of June 30, 2008, the Telecom System had 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 Systems’ deposits as of June 30, 2008 and 2007, were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee (the “State”); the remaining insured portion was covered by bank collateralization or FDIC insurance. Banks participating in the pool report the aggregate balance of their public fund accounts to the State. Collateral to secure these deposits must be pledged to the State Treasurer on behalf of the bank collateral pool. The securities pledged to protect these accounts are pledged in aggregate rather than against each individual account. Public fund accounts covered by the pool are considered entirely insured or collateralized.

As of June 30, 2008, the Water System had investments in certificates of deposit with a fair value of \$301,423, a weighted average interest rate of 3.4% and a weighted average maturity of 5 months.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

3. Power Contract

The Power System has a power contract with the Tennessee Valley Authority (“TVA”) whereby the Power System purchases all its electric power from TVA and is subject to certain restrictions and conditions as provided in the contract. The contract with TVA expires in 2014.

4. Discounted Energy Units

During 2003, the Power System purchased \$1,000,000 in discounted energy units from TVA which are redeemable on a straight-line basis over ten years. The units bear a discount of 5.5% and amounted to \$511,905 and \$610,655 as of June 30, 2008 and 2007, respectively.

5. 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 requirements.

Power System:

	Total Payroll	Covered Payroll	Employer Contributions	% of Covered Payroll	Employee Contributions	% of Covered Payroll
2008	\$3,840,368	\$3,563,342	\$531,775	15%	\$263,977	7%
2007	3,845,704	3,677,893	547,146	15	275,003	7

Water System:

	Total Payroll	Covered Payroll	Employer Contributions	% of Covered Payroll	Employee Contributions	% of Covered Payroll
2008	\$1,149,462	\$1,142,852	\$170,793	15%	\$83,028	7%
2007	1,126,579	1,097,075	164,561	15	86,905	8

Telecom System:

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

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

5. Retirement Plan (continued)

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.

6. Capital Assets

The following is a schedule of changes in major classes of the Power System plant for the year ended June 30, 2008:

	Balance July 1, 2007	Increases/ Transfers-In	Decreases/ Transfers-Out	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 556,548	\$ -	\$ -	\$ 556,548
Construction in progress	1,708,742	2,390,594	2,481,333	1,618,004
Total capital assets not being depreciated	2,265,290	2,390,594	2,481,333	2,174,552
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	8,099,904	25,246	11,635	8,113,515
Distribution transformers, meters, fixtures and devices	37,097,481	1,906,872	265,733	38,738,620
Buildings and improvements	4,963,311	143,108	-	5,106,419
Furniture, fixtures and equipment	5,377,446	406,107	176,681	5,606,872
Total capital assets being depreciated	55,538,142	2,481,333	454,049	57,565,426
Less accumulated depreciation:				
Transmission equipment, fixtures and devices	3,753,977	223,216	13,645	3,963,548
Distribution transformers, meters, fixtures and devices	14,594,251	1,476,685	362,066	15,708,870
Buildings and improvements	959,158	92,828	-	1,051,986
Furniture, fixtures and equipment	4,095,389	604,114	85,653	4,613,850
Total accumulated depreciation	23,402,775	2,396,843	461,364	25,338,254
Net capital assets being depreciated	32,135,367	84,490	(7,315)	32,227,172
Total net capital assets	\$34,400,657	\$2,475,084	\$2,474,018	\$34,401,724

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

6. Capital Assets (continued)

The following is a schedule of changes in major classes of the Water System plant for the year ended June 30, 2008:

	Balance July 1, 2007	Increases/ Transfers-In	Decreases/ Transfers-Out	Balance June 30, 2008
Capital assets not being depreciated:				
Land	\$ 401,750	\$ –	\$ –	\$ 401,750
Construction in progress	688,904	1,081,367	723,741	1,046,530
Total capital assets not being depreciated	1,090,654	1,081,367	723,741	1,448,280
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	6,987,110	–	–	6,987,110
Distribution meters, fixtures and devices	26,575,170	377,888	30,119	26,922,939
Buildings and improvements	13,521,458	283,151	–	13,804,609
Furniture, fixtures and equipment	1,316,429	62,702	80,257	1,298,874
Total capital assets being depreciated	48,400,167	723,741	110,376	49,013,532
Less accumulated depreciation:				
Transmission equipment, fixtures and devices	2,626,562	181,009	–	2,807,571
Distribution meters, fixtures and devices	9,949,882	666,617	33,333	10,583,166
Buildings and improvements	2,033,899	336,306	–	2,370,205
Furniture, fixtures and equipment	1,089,166	135,935	80,257	1,144,844
Total accumulated depreciation	15,699,509	1,319,867	113,590	16,905,786
Net capital assets being depreciated	32,700,658	(596,126)	(3,214)	32,107,746
Total net capital assets	\$33,791,312	\$ 485,241	\$720,527	\$33,556,026

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

6. Capital Assets (continued)

The following is a schedule of changes in major classes of the Telecom System plant for the year ended June 30, 2008:

	Balance July 1, 2007	Increases/ Transfers-In	Decreases/ Transfers-Out	Balance June 30, 2008
Capital assets not being depreciated:				
Construction in progress	\$ 480,415	\$3,107,794	\$2,111,868	\$1,476,341
Total capital assets not being depreciated	480,415	3,107,794	2,111,868	1,476,341
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,399,086	66,095	57,243	2,407,938
Distribution fixtures and devices	16,338,177	1,979,373	88,470	18,229,080
Furniture, fixtures and equipment	422,739	66,400	-	489,139
Total capital assets being depreciated	19,160,002	2,111,368	145,713	21,126,157
Less accumulated depreciation:				
Transmission equipment, fixtures and devices	167,415	269,213	-	436,628
Distribution fixtures and devices	569,134	1,276,568	2,606	1,843,096
Furniture, fixtures and equipment	64,982	72,624	-	137,606
Total accumulated depreciation	801,531	1,618,405	2,606	2,417,330
Net capital assets being depreciated	18,358,471	493,463	143,107	18,708,827
Total net capital assets	\$18,838,886	\$3,601,257	\$2,254,975	\$20,185,168

The provision for depreciation does not include depreciation on transportation equipment. Those amounts are reported as operations expenses and are included in the Statements of Revenues, Expenses and Changes in Net Assets. The cost of maintenance and repairs is charged to expense as incurred. The following represents the depreciation on transportation equipment not included in depreciation expense as noted above:

	Power System	Water System	Telecom System
2008	\$171,282	\$100,111	\$44,415
2007	119,154	81,858	42,423

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

7. Long-Term Debt

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

	Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008
Power System:				
Series V-A-2 Bonds	\$ 2,075,000	\$ -	\$125,000	\$1,950,000
Notes payable due to Appalachian Electric Cooperative, non-interest bearing, due in annual installments ranging from \$90,505 in 2009 to \$22,222 in 2018	384,188	222,219	68,284	538,123
	2,459,188	<u>222,219</u>	<u>\$193,284</u>	2,488,123
Less current portion	193,284			215,505
Long-term portion	<u>\$2,265,904</u>			<u>\$2,272,618</u>
Water System:				
Water System Revenue Bonds, Series 1996	\$ 950,000	-	220,000	\$ 730,000
Water System Promissory Note	565,500	-	85,000	480,500
Water System Promissory Note	380,000	-	60,000	320,000
DWSRF Promissory Note	10,097,713	-	413,928	9,683,785
	11,993,213	<u>-</u>	<u>778,928</u>	11,214,285
Less current portion	564,820			580,908
Long-term portion	<u>\$11,428,393</u>			<u>\$10,633,377</u>
Telecom System:				
Telecom System Series D-1-A Bond	\$18,000,000	-	-	\$18,000,000
Note payable to the City of Morristown	1,500,000	-	-	1,500,000
Long-term portion	<u>\$19,500,000</u>	<u>-</u>	<u>-</u>	<u>\$19,500,000</u>

Power System Series V-A-2 Bonds

During 2003, the City issued variable rate \$2,500,000 Public Building Authority of Sevier County Bonds (Series V-A-2), on behalf of the Power System. The bonds were issued for the purpose of financing capital improvements in the Power System. The bonds are payable in annual installments ranging from \$125,000 to \$250,000 through 2018. Interest is payable quarterly at variable rates (2.905% as of June 30, 2008). The City determines the rate to charge the Power System, based on required interest rates of the related bonds. The bonds are secured by the taxing authority of the City.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

7. Long-Term Debt (continued)

Power System Series V-A-2 Bonds (continued)

Maturities of Power System long-term debt as of June 30, 2008, are as follows:

	Series V-A-2 Bonds		Plant	Total
	Interest	Principal	Acquisition	Power System
			Notes	Requirements
2009	\$ 57,408	\$ 125,000	\$ 90,505	\$ 272,913
2010	53,728	125,000	90,505	269,233
2011	50,048	150,000	77,424	277,472
2012	45,632	150,000	77,424	273,056
2013	41,216	175,000	36,009	252,225
2014 – 2018	109,664	1,225,000	166,256	1,500,920
Total	<u>\$357,696</u>	<u>\$1,950,000</u>	<u>\$538,123</u>	<u>\$2,845,819</u>

Water System Revenue Bonds--Series 1996

During 1997, the City issued \$2,800,000 of Water System Revenue Bonds, Series 1996, on behalf of the Water System. The bonds were issued for the purpose of financing the costs of constructing, improving and extending the Water System. The bonds consist of serial maturities that mature in increasing amounts ranging from \$220,000 on July 1, 2008, to \$255,000 on July 1, 2011. Interest is payable semi-annually at rates ranging from 5.05% to 5.25%. The City determines the rate to charge the Water System, based on required interest rates of the related bonds. The bonds are subject to redemption at the direction of the City prior to maturity. The redemption may be in whole or in part, in integral multiples of \$5,000. The bonds are payable from and secured by income and revenues from the operation of the Water System.

The 1996 bond resolution provides, among other things, that a Sinking Fund Reserve Account be established equal to the lesser of (a) 10% of the stated principal amount of the bonds, (b) the maximum amount payable with respect to aggregate of the principal and interest on all bonds (including other issues) outstanding for the current or any succeeding fiscal year or (c) 125% of the average annual amount payable with respect to the principal and interest on the bonds for the current or any succeeding fiscal year. As of June 30, 2008, the balance in this restricted fund was \$301,423.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

7. Long-Term Debt (continued)

Water System Promissory Notes

During 2001, the Water System entered into a promissory note with the City in the principal amount of \$995,500 (\$480,500 outstanding as of June 30, 2008). The note was issued to the Water System with proceeds from the City's loan agreement with the Public Building Authority of Sevier County, Tennessee. Interest is payable semi-annually at variable rates (4.66% as of June 30, 2008) as determined by the City. Principal is payable in varying amounts from \$90,000 on June 1, 2009, to \$100,500 on June 1, 2013. Interest recognized on this note totaled \$24,852 in 2008 and \$24,960 in 2007.

In 2004, the Water System entered into an additional promissory note with the City in the principal amount of \$600,000 (\$320,000 outstanding as of June 30, 2008). The note was issued to the Commission with proceeds from the City's loan agreement with the Public Building Authority of Blount County, Tennessee. Interest is payable semi-annually at variable rates (4.61% as of June 30, 2008) as determined by the City. Principal is payable in varying amounts from \$60,000 on June 1, 2009, to \$70,000 on June 1, 2013. Interest recognized on this note totaled \$16,473 in 2008 and \$13,689 in 2007.

During 2002, the Water System entered into an agreement with the City for the repayment of a principal amount up to \$10.5 million for the purpose of expanding an existing water treatment facility. The agreement was issued to the Commission with proceeds from the City's revolving fund loan agreement with the State of Tennessee. The Water System drew a total of \$10,492,582 (\$9,683,785 outstanding as of June 30, 2008) before closing out the project during 2007. Interest is payable monthly at 2.61% of the outstanding balance. Principal is also payable monthly in varying amounts from \$35,909 in July 2008 to \$55,815 in April 2026. Interest recognized on this note totaled \$263,892 in 2008 and \$234,930 in 2007.

The notes are payable from revenue derived from the operation of the Water System and is secondary to the prior pledge of such revenues in favor of the Water System Revenue Bonds, Series 1996 and all bonds, notes or other obligations issued on a parity with such bonds.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

7. Long-Term Debt (continued)

Water System Promissory Notes (continued)

The future debt service requirements on Water System long-term debt as of June 30, 2008, are as follows:

	Water System Revenue Bonds Series 1996		Water System Promissory Note Series 2001		Water System Promissory Note Series 2004		DWSRF Promissory Note		Total Water System Requirements
	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	
2009	\$ 43,527	\$ -	\$21,539	\$ 90,000	\$11,200	\$ 60,000	\$ 257,988	\$ 430,908	\$ 915,162
2010	32,050	230,000	14,886	95,000	9,100	60,000	235,524	442,296	1,118,856
2011	19,758	245,000	11,306	95,000	7,000	65,000	223,836	453,984	1,120,884
2012	6,694	255,000	7,747	100,000	4,738	65,000	211,848	465,972	1,116,999
2013	-	-	3,957	100,500	2,450	70,000	199,536	478,284	854,727
2014-2018	-	-	-	-	-	-	801,372	2,587,704	3,389,076
2019-2023	-	-	-	-	-	-	441,060	2,947,992	3,389,052
2024-2026	-	-	-	-	-	-	71,224	1,876,645	1,947,869
Total	<u>\$102,029</u>	<u>\$730,000</u>	<u>\$56,172</u>	<u>\$480,500</u>	<u>\$34,488</u>	<u>\$320,000</u>	<u>\$2,431,300</u>	<u>\$9,683,785</u>	<u>\$13,838,274</u>

The debt service payments due on July 1, 2008 and 2007, for the Water System Revenue Bonds, Series 1996, were made prior to June 30, 2008 and 2007, respectively.

The Water System has agreed to establish and revise rates such that revenues will be sufficient to pay all costs of maintaining, operating, repairing and ensuring the Water System and the amounts necessary for the payment of principal and interest on the bonds.

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 the broadband infrastructure of the Telecom System. The bonds were secured by the taxing authority of the City.

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

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

7. Long-Term Debt (continued)

Telecom System Series D-1-A Bond (continued)

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 D-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 paid the counterparty a fixed payment of 3.31% and received a variable payment computed as 59% of the one-month London Interbank Offered Rate ("LIBOR") plus 35 basis points (0.35%). The swap had a notional amount of \$18 million and the associated variable-rate bond had an \$18 million principal amount. The interest rate swap agreement was based on the same amortization schedule as the outstanding principal of the Series D-1-A Bonds. The bonds' variable-rates had historically approximated the Bond Market Association Municipal Index™ (the "BMA").

As of June 30, 2008 and 2007, rates under this agreement were as follows:

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

The swap agreement yielded additional interest expense 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 a 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.

As discussed below, subsequent to June 30, 2008, the City terminated the Swap Agreement with Ambac.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

7. Long-Term Debt (continued)

Telecom System Promissory Note

During 2007, the Telecom System entered into a promissory note with the City of Morristown in the principal amount of \$1,500,000. The note was issued to the Telecom System with proceeds from the City's Local Government Public Improvement Bonds, Series D-10-C.

Adjustable Rate Financing Revenue Bonds, Series 2008

Subsequent to year-end, the City entered into a loan agreement between the City and the Public Building Authority of the City of Clarksville, Tennessee, for an initial amount of \$20,115,000 at a variable interest rate as defined in the agreement payable annually through May 2035. The proceeds of the loan were applied as follows: (a) prepayment of the City's outstanding indebtedness of the Series D-1-A Bond and the Series D-10-C Bond of \$18,000,000 and \$1,500,000, respectively; (b) termination of the City's swap agreement referred to above in the amount of \$480,000; and (c) \$135,000 to be deposited into a fund to pay issuance costs.

As of June 30, 2008, debt service requirements on Telecom System long-term debt (considering the above refunding) are as follows:

	Interest	Principal	Debt Service Requirement
2009	\$ 709,613	\$ -	\$ 709,613
2010	1,005,750	-	1,005,750
2011	1,005,750	420,000	1,425,750
2012	984,750	440,000	1,424,750
2013	962,750	465,000	1,427,750
2014 – 2018	4,441,250	2,695,000	7,136,250
2019 – 2023	3,696,000	3,440,000	7,136,000
2024 – 2028	2,746,000	4,390,000	7,136,000
2029 – 2033	1,532,750	5,610,000	7,142,750
2034 – 2035	200,750	2,655,000	2,855,750
	\$17,285,363	\$20,115,000	\$37,400,363

During 2008, the Telecom System entered into two line of credit agreements. The significant terms of the agreements are as follows as of June 30, 2008:

Amount Available	Amount Outstanding	Interest Rate	Maturity Date
\$1,000,000	\$-	4.35%	June 30, 2008
1,000,000	-	3.99%	July 4, 2008

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

8. Leases

The Telecom System currently leases certain equipment under capital lease agreements expiring in 2012. Assets under these capital leases totaled \$72,200. Accumulated amortization on these assets amounted to \$26,184 and \$11,744 at June 30, 2008 and 2007, respectively. Amortization of these assets is included with depreciation expense in the accompanying financial statements.

The following is a schedule of future minimum lease payments under the capital lease, together with the net present value of these minimum lease payments, as of June 30, 2008:

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)	\$ 99,632

9. Tennessee Valley Authority Home Insulation Program

The Power System participated in TVA’s Heat Pump Program and Revised Home Insulation Program through September 1997, which provided interest-bearing loans to the Power System’s customers for heat pump and insulation costs. Effective October 1997, the Power System and TVA terminated the previous agreement and entered into the *energy right*® Residential Program which provides interest-bearing loans to the Power System’s customers for energy-efficient equipment and other weatherization measures. Under the program, the Power System collects payments on new and previously existing loans and forwards payments to a financial institution pursuant to guidelines established by TVA.

10. Concentration of Credit Risk

The Systems provides electric, water, and broadband services to customers in the City of Morristown and Hamblen County. Customers include residential and heavy industrial service. Residential customers are required to place deposits with the Systems that approximate one month’s account balance. Interest accrues annually on these deposits based on current rates in effect and totaled \$28,115 in 2008 and \$13,384 in 2007. Loss experience has not been significant to the Systems’ operations.

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

11. Related Party and Interfund Transactions

As described in Note 1, the Commission is an administrative unit of the City. The Systems provide electrical and water service to the City which generated revenues of \$821,220 in 2008 and \$749,415 in 2007. The Water System also bills and collects sewer charges for the City. Administrative charges for this service were \$2.46 per customer per month in 2008 and \$1.12 per customer per month in 2007 and totaled \$299,830 in 2008 and \$140,306 in 2007. As of June 30, 2008 and 2007, \$92,217 and \$23,343, respectively, was receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

Interfund receivables and payables consisted of the following as of June 30:

Power System:	2008	2007
Due from Telecom System	\$5,992,345	\$2,502,033
Due to Water System	(607,591)	(304,752)
	\$5,384,754	\$2,197,281
Water System:		
Due from Power System	\$607,591	\$304,752
Telecom System:		
Due to Power System	\$5,992,345	\$2,502,033

In accordance with Tennessee Code Annotated 7-52-603(b) on July 5, 2008 a short term demand note was executed allowing the Telecom System to borrow up to \$3,000,000 from the Power System. The note agreement was approved by TVA as required by the Power Contract between the Power System and TVA. The Power System has requested authority to advance up to \$6,000,000. In the event the Power System does not receive such approval, the Telecom System intends to refinance the obligation with external resources.

Other amounts reflected as due to/from other fund in the accompanying balance sheets represent temporary operating cash advances between the Power System, Water System and Telecom Systems.

The tax equivalent payments made to the City based on the System's capital assets along with average operating revenue, less power costs are as follows:

	Power System	Water System
2008	\$698,994	\$32,020
2007	655,890	31,951

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

12. Postretirement Healthcare Benefits

The 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 Postemployment Benefits Other Than Pensions*, was issued which provides for employers to account for and report the annual cost of other postemployment 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 Systems' financial statements.

13. Risk Management

The Systems are 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 Systems carry commercial insurance purchased from independent third parties. The Systems have not experienced an insurance settlement in excess of insurance coverage in any of the past three fiscal years. The Systems bears the risk of loss up to the deductible amounts which are disclosed in the accompanying Statistical Section.

14. Net Assets

Net assets for the Power System consist of the following as of June 30:

	2008	2007
Invested in capital assets, net of related debt		
consists of the following:		
Net capital assets	\$34,401,724	\$34,400,657
Less related liabilities:		
Current portion of long-term debt	212,505	193,284
Long-term debt, less current portion	2,275,618	2,265,904
Total related liabilities	2,488,123	2,459,188
Invested in capital assets, net of related debt	\$31,913,601	\$31,941,469

Morristown Utility Commission
Notes to Financial Statements (continued)
June 30, 2008 and 2007

14. Net Assets (continued)

Net assets for the Water System consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Invested in capital assets, net of related debt		
consists of the following:		
Net capital assets	\$33,556,026	\$33,791,312
Other assets—bond issue costs	15,398	27,964
Less related liabilities:		
Capital lease obligations	1,058	14,000
Current portion of long-term debt	778,928	564,820
Long-term debt, less current portion	10,435,357	11,428,728
Total related liabilities	11,215,343	12,007,548
Invested in capital assets, net of related debt	<u>\$22,356,081</u>	<u>\$21,811,728</u>

Restricted net assets for the Water System consist of the bond sinking fund requirements, which totaled \$301,423 as of June 30, 2008 and \$557,111 as of June 30, 2007.

Net assets for the Telecom System consist of the following as of June 30:

	<u>2008</u>	<u>2007</u>
Invested in capital assets, net of related debt		
consists of the following:		
Net capital assets	\$20,185,168	\$18,838,886
Other assets—bond issue costs	173,084	170,758
Less related liabilities:		
Due to other fund - for capital	938,823	934,632
Current portion of capital lease obligations	25,896	11,981
Capital lease obligations, less current portion	73,736	47,377
Long-term debt	19,500,000	19,500,000
Total related liabilities	20,538,455	20,493,991
Invested in capital assets, net of related debt	<u>\$ (180,203)</u>	<u>\$ (1,484,347)</u>

Unrestricted net assets consist of all other items in the balance sheets not reflected above.

Morristown Utility Commission

Schedule of Net Assets (Deficit) by Fund (Last Seven Years)

Fiscal Years 2008 - 2003 (in thousands)

	2008	2007	2006	2005	2004	2003	2002
Power System:							
Invested in capital assets, net of related debt	\$ 31,914	\$ 31,941	\$ 30,052	\$ 29,008	\$ 28,109	\$ 27,833	\$ 26,253
Unrestricted	11,210	9,391	10,106	9,291	8,836	7,654	8,325
Total net assets	\$ 43,124	\$ 41,332	\$ 40,158	\$ 38,299	\$ 36,945	\$ 35,487	\$ 34,578
Water System:							
Invested in capital assets, net of related debt	\$ 22,356	\$ 21,812	\$ 21,164	\$ 20,581	\$ 19,009	\$ 19,729	\$ 18,495
Restricted	301	557	532	531	554	555	658
Unrestricted	2,450	2,087	1,942	1,460	1,364	272	640
Total net assets	\$ 25,107	\$ 24,456	\$ 23,638	\$ 22,572	\$ 20,927	\$ 20,556	\$ 19,793
Telecom System:							
Invested in capital assets, net of related debt	(180)	(1,484)	144	1	-	-	-
Unrestricted deficit	(4,711)	(1,033)	(760)	(5)	-	-	-
Total deficit	\$ (4,891)	\$ (2,517)	\$ (616)	\$ (4)	\$ -	\$ -	\$ -

Note 1: Information is summarized from the audited financial statements for the year indicated.

Note 2: Net assets by system are reported beginning in 2002, the beginning of the year when GASB 34 was adopted through 2008.

Note 3: Telecom organization began in 2005 and operations commenced in 2006.

Morristown Utility Commission

Schedule of Power System Revenues and Expenses (Last Ten Years)

Fiscal Years 2008 - 1999 (in thousands)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Operating revenues:										
Residential	\$ 13,418	\$ 12,177	\$ 11,304	\$ 10,099	\$ 10,150	\$ 9,568	\$ 8,865	\$ 9,456	\$ 8,937	\$ 8,907
Commercial	4,746	4,604	4,246	3,890	3,760	3,536	3,307	3,328	3,169	3,099
Industrial	42,996	39,757	38,306	34,485	33,043	32,937	32,960	32,864	33,090	31,542
Street and security lighting	1,054	1,001	962	916	869	774	758	741	735	721
Total metered revenue	62,214	57,539	54,818	49,390	47,822	46,815	45,890	46,389	45,931	44,269
Other revenues	1,137	1,093	1,003	76	1,489	696	568	491	699	474
Total operating revenues	63,351	58,632	55,821	49,466	49,311	47,511	46,458	46,880	46,630	44,743
Operating expenses:										
Power purchased from Tennessee Valley Authority	52,594	49,108	46,256	40,879	41,031	40,034	38,889	39,469	39,156	37,485
Operations	4,292	4,057	3,672	3,332	3,212	3,100	2,783	2,635	2,434	2,219
Maintenance	1,596	1,487	1,313	1,291	1,147	1,036	1,331	1,318	1,279	1,221
Depreciation	2,226	2,174	1,957	1,803	1,618	1,607	1,453	1,249	1,179	1,123
Amortization of plant acquisition adjustments	84	86	160	127	123	180	211	277	279	291
Taxes	204	190	187	180	189	167	700	680	633	652
Miscellaneous	21	25	41	19	29	46	45	3	53	43
Total operating expenses	61,017	57,127	53,586	47,631	47,349	46,170	45,412	45,631	45,013	43,034
Operating income	2,334	1,505	2,235	1,835	1,962	1,341	1,046	1,249	1,617	1,709
Other income	156	326	244	138	87	136	175	386	361	301
Income before transfers	2,490	1,831	2,479	1,973	2,049	1,477	1,221	1,635	1,978	2,010
Transfers out (tax equivalent payments to City of Morristown)	(699)	(656)	(621)	(619)	(592)	(571)	-	-	-	-
Increase in net assets	\$ 1,791	\$ 1,175	\$ 1,858	\$ 1,354	\$ 1,457	\$ 906	\$ 1,221	\$ 1,635	\$ 1,978	\$ 2,010

Note 1: Information is summarized from the audited financial statements for the years indicated.

Note 2: The Commission adopted GASB 34 in fiscal year 2003, which changed its classification of tax equivalent payments to the City of Morristown.

Morristown Utility Commission

Schedule of Water System Revenue and Expenses (Last Ten Years)

Fiscal Years 2008 - 1999 (in thousands)

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Operating revenues:										
General	\$ 5,261	\$ 5,029	\$ 5,038	\$ 4,643	\$ 4,090	\$ 4,201	\$ 3,979	\$ 3,931	\$ 3,736	\$ 3,623
Public authorities	52	54	54	54	57	56	61	42	43	42
Private fire protection	161	160	157	152	149	146	136	128	125	109
Public fire protection	33	33	33	31	32	32	32	32	32	32
Total metered sales	5,507	5,276	5,282	4,880	4,328	4,435	4,208	4,133	3,936	3,806
Other revenue	65	59	57	63	60	61	18	20	21	17
Total operating revenues	5,572	5,335	5,339	4,943	4,388	4,496	4,226	4,153	3,957	3,823
Operating expenses:										
Operations	2,872	2,730	2,465	2,551	2,453	2,304	2,149	2,069	2,042	1,826
Maintenance	568	434	446	343	431	426	408	405	452	377
Depreciation and amortization	1,220	1,155	1,078	957	928	900	852	826	959	830
Taxes	-	-	-	-	28	25	32	32	32	31
Miscellaneous	40	49	50	43	34	13	45	14	12	11
Total operating expenses	4,700	4,368	4,039	3,894	3,874	3,668	3,486	3,346	3,497	3,075
Operating income	872	967	1,300	1,049	514	828	740	807	460	748
Other income (expense):										
Interest income	111	123	78	37	18	37	64	112	101	100
Interest expense	(355)	(352)	(359)	(16)	(215)	(148)	(186)	(202)	(199)	(211)
Total other income (expense)	(244)	(229)	(281)	21	(197)	(111)	(122)	(90)	(98)	(111)
Income before contributions and transfers	628	738	1,019	1,070	317	717	618	717	362	637
Contributions from developers	56	111	78	108	86	77	90	226	103	-
Appalachian Regional Commission grant	-	-	-	500	-	-	-	-	-	-
Transfers out (tax equivalent payments to City of Morristown)	(32)	(32)	(32)	(32)	(32)	(32)	-	-	-	-
Increase in net assets	\$ 652	\$ 817	\$ 1,065	\$ 1,646	\$ 371	\$ 762	\$ 708	\$ 943	\$ 465	\$ 637

Note 1: Information is summarized from the audited financial statements for the years indicated.

Note 2: The Commission changed its method of accounting for contributions from developers in fiscal year 2000.

Note 3: The System adopted GASB 34 in fiscal year 2003, which changed its classification for tax equivalent payments to the City of Morristown.

Morristown Utility Commission

Schedule of Telecom System Revenue and Expenses (Last Three Years)

Fiscal Years 2008 - 2006 (in thousands)

	2008	2007	2006
Operating revenues:			
Video	\$ 1,790	\$ 1,137	\$ 45
Internet	1,124	575	23
Voice	1,511	798	35
Total broadband sales	4,425	2,510	103
Other revenue	79	39	-
Total operating revenues	4,504	2,549	103
Operating expenses:			
Operations	3,908	3,062	603
Maintenance	197	94	84
Depreciation and amortization	1,489	741	5,467
Taxes	73	55	2
Total operating expenses	5,667	3,952	6,156
Operating income	(1,163)	(1,403)	(6,053)
Other income (expense):			
Interest income	30	-	-
Interest expense	(1,241)	(498)	(20)
Total other expense	(1,211)	(498)	(20)
Decrease in net assets	\$ (2,374)	\$ (1,901)	\$ (6,073)

Note 1: Information is summarized from the audited financial statements for the years indicated.

Note 2: The Telecom System began operations in 2006.

Morristown Utility Commission

Schedule of Purchased Power, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2008 - 1999

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
PURCHASED POWER - (Megawatt Hours)										
Purchased from TVA	926,326	911,991	905,815	890,732	879,836	875,299	865,998	884,112	890,741	860,306
CONSUMPTION - (Megawatt Hours)										
Residential	165,828	162,131	159,997	151,445	155,813	157,645	144,098	154,644	145,453	145,019
Commercial	53,632	54,414	53,075	52,042	51,445	61,475	47,768	48,398	46,103	45,412
Industrial	674,587	661,511	660,791	654,958	628,752	630,120	633,282	645,163	661,392	636,260
Street and athletic	4,892	4,916	4,907	4,902	4,707	4,710	4,694	4,698	4,689	4,674
Outdoor lighting	4,960	4,922	4,940	4,869	4,929	4,858	4,760	4,697	4,648	4,516
Internal use	1,092	1,161	1,120	1,049	1,152	1,216	1,172	1,212	1,081	1,070
Total consumption	904,991	889,055	884,830	869,265	846,798	860,024	835,774	858,812	863,366	836,951
Line losses and megawatt hours unaccounted for	21,335	22,936	20,985	21,467	33,038	15,275	30,224	25,300	27,375	23,355
Percentage of line losses and megawatt hours unaccounted for to purchased power	2.30%	2.51%	2.32%	2.41%	3.76%	1.75%	3.49%	2.86%	3.07%	2.71%
ACTIVE SERVICE (number of customers)										
Residential	11,687	11,191	11,098	11,070	11,056	10,978	10,934	10,914	10,966	10,965
Commercial	2,210	2,707	2,619	2,551	2,511	2,494	2,565	2,461	2,320	2,196
Industrial	265	462	464	461	455	459	442	439	418	415
Street and athletic	70	69	67	64	64	66	66	66	66	62
Outdoor lighting	37	36	37	36	36	37	4	4	4	4
Total	14,269	14,465	14,285	14,182	14,122	14,034	14,011	13,884	13,774	13,642

Note 1: Information is compiled from internally generated statistical reports.

Morristown Utility Commission

Schedule of Water Production, Consumption and Active Service Statistics (Last Ten Years)

Fiscal Years 2008 -1999

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
PRODUCTION - (Thousands of gallons)										
Produced	3,391,690	3,249,146	3,111,291	3,236,972	3,375,291	3,561,614	3,311,904	3,353,676	3,160,030	3,154,048
CONSUMPTION - (Thousands of gallons)										
General	3,082,407	2,902,235	2,958,023	2,863,791	2,894,912	2,979,713	2,802,702	2,872,470	2,810,071	2,717,304
Public authorities	37,057	37,571	39,365	42,289	47,786	46,347	51,724	34,392	35,425	34,322
Public fire protection	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Internal use	21,382	20,224	19,933	78,338	73,690	101,815	73,671	80,109	64,838	66,461
Total consumption	3,145,846	2,965,030	3,022,321	2,989,418	3,021,388	3,132,875	2,933,097	2,991,971	2,915,334	2,823,087
Gallons unaccounted for	245,844	284,116	88,970	247,554	353,903	428,739	378,807	361,705	244,696	330,961
Percent of gallons unaccounted for to production	7.25%	8.74%	2.86%	7.65%	10.49%	12.04%	11.44%	10.78%	7.74%	10.49%
ACTIVE SERVICE (number of customers)										
General	12,617	12,368	12,199	12,137	12,076	11,880	11,758	11,726	11,702	11,607
Public authorities	43	44	45	46	34	34	35	35	36	36
Private fire protection	276	271	272	269	252	249	240	222	222	223
Public fire protection	1	1	1	1	1	1	1	1	1	1
Total	12,937	12,684	12,517	12,453	12,363	12,164	12,034	11,984	11,961	11,867

Note 1: Information is compiled from internally generated statistical reports.

Morristown Utility Commission

Schedule of Telecom Active Service Statistics (Last Three Years)

Fiscal Years 2008 - 2006

	2008	2007	2006
ACTIVE SERVICE (number of customers)			
Video	3,525	2,594	711
Internet	2,757	1,976	515
Voice	2,741	1,985	568
Total	9,023	6,555	1,794

Note 1: Information is compiled from internally generated statistical reports.

Note 2: The Telecom System began operations in 2006.

Morristown Utility Commission

Schedule of Outstanding Long-Term Debt by Type (Last Ten Years)

Fiscal Years 2008 - 1999

Power:					
Fiscal Year	Revenue Bonds/Notes	Promissory Notes	Total	Per Customer	
2008	\$ 1,950,000	\$ 538,123	\$ 2,488,123	\$	174
2007	2,075,000	384,188	2,459,188		170
2006	2,200,000	307,033	2,507,033		176
2005	2,300,000	400,194	2,700,194		190
2004	2,400,000	493,357	2,893,357		205
2003	2,500,000	600,568	3,100,568		221
2002	-	777,036	777,036		55
2001	305,000	586,057	891,057		64
2000	595,000	814,873	1,409,873		102
1999	870,000	899,795	1,769,795		130

Water:					
Fiscal Year	Revenue Bonds	Promissory Notes	Total	Per Customer	
2008	\$ 730,000	\$ 10,484,285	\$ 11,214,285	\$	866
2007	950,000	11,043,213	11,993,213		946
2006	1,380,000	10,159,869	11,539,869		922
2005	1,805,000	10,107,320	11,912,320		957
2004	2,200,000	7,812,258	10,012,258		810
2003	2,560,000	1,369,496	3,929,496		323
2002	2,955,000	1,116,500	4,071,500		338
2001	3,295,000	995,500	4,290,500		358
2000	3,630,000	-	3,630,000		303
1999	3,930,000	-	3,930,000		331

Telecom:					
Fiscal Year	Bond	Promissory Note	Total	Per Customer	
2008	\$ 18,000,000	\$ 1,500,000	\$ 19,500,000	\$	4,501
2007	18,000,000	1,500,000	19,500,000		7,517
2006	18,000,000	-	18,000,000		31,690

Note:1 Telecom operations commenced in 2006

Morristown Utility Commission

Schedule of Power System Revenue Note Coverage (Last Ten Years)

Fiscal years 2008 - 1999

(dollar amounts in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2008	\$ 63,351	\$ 58,707	\$ 4,644	-	-	-	-
2007	58,632	54,867	3,765	-	-	-	-
2006	55,822	51,469	4,353	-	-	-	-
2005	49,467	45,701	3,766	-	-	-	-
2004	49,311	46,200	3,111	-	-	-	-
2003	47,511	44,953	2,558	-	-	-	-
2002	46,458	43,748	2,710	305	15	320	8.47
2001	46,881	44,105	2,776	290	30	320	8.68
2000	46,630	43,555	3,075	275	50	325	9.46
1999	44,743	41,620	3,123	260	57	317	9.85

Note: The Commission issued \$1,380,000 in Power System Revenue Notes in fiscal year 1997. During 2002, these notes were paid in full.

Note: During 2003, the City issued \$2,500,000 in Public Building Authority of Sevier County Bonds (Series V-A-2) which are secured by the taxing authority of the City. Accordingly, these bonds are excluded from the revenue coverage calculation.

- (1) Total Power System revenues (excluding interest) including tap fees.
- (2) Total Power System operating expenses excluding depreciation and amortization.

Morristown Utility Commission

Schedule of Water System Revenue Bond and Note Coverage (Last Ten Years)

Fiscal years 2007 – 1998

(dollar amounts in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2008	\$ 5,573	\$ 3,213	\$ 2,360	\$ 778	\$ 354	\$ 1,132	\$ 2.08
2007	5,335	3,213	2,122	703	342	1,045	2.03
2006	5,339	2,961	2,378	555	110	665	3.58
2005	4,943	2,938	2,005	520	122	642	3.12
2004	4,388	2,891	1,497	490	141	631	2.37
2003	4,435	2,800	1,635	460	139	599	2.73
2002	4,226	2,634	1,592	405	182	587	2.71
2001	4,153	2,520	1,633	335	200	535	3.05
2000	3,957	2,538	1,419	300	192	492	2.88
1999	3,823	2,245	1,578	295	212	507	3.11

Note: The Commission issued \$2,800,000 and \$830,000 in Water System revenue bonds in fiscal year 1997 and 2002, respectively. The 2002 revenue bonds were paid off during fiscal year 2007. The Commission also entered into promissory notes with the City of Morristown for \$995,500 in 2001, up to \$10,500,000 in 2002 and \$600,000 in 2004.

- (1) Total Water System revenues (excluding interest) including tap fees.
- (2) Total Water System operating expenses excluding depreciation and amortization.

Morristown Utility Commission

Schedule of Property, Casualty and Other Insurance

June 30, 2008

Company	Type of Coverage	Limits	Deductible	Period of Coverage
Distributor's Insurance	Workers' Compensation	\$1,000,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Commercial General Liability	250,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Excess General Liability	750,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Automobile Liability	1,000,000	\$1,000	07/01/07 to 06/30/08
Distributor's Insurance	Umbrella Liability	2,000,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Property Damage	82,720,012	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Boiler & Machinery	10,000,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Commercial Crime	1,000,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Public Officials and Employees' Liability	5,000,000	N/A	07/01/07 to 06/30/08
Distributor's Insurance	Fiduciary Liability	1,000,000	N/A	07/01/07 to 06/30/08

NOTE: All policies are owned by the Morristown Utility Commission and represent combined single limit coverage of all systems, where applicable.

Morristown Utility Commission

Schedule of Electric Rates (Last Ten Years)

Fiscal Years 2008 - 1999

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Residential										
Customer charge per month	\$ 11.50	\$ 8.40	\$ 8.40	\$ 8.27	\$ 8.27	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.50
Energy charge:										
First 2,000 kWh	0.07943	0.07189	0.06735	0.05961	0.05961	0.05663	0.05663	0.05663	0.05663	0.05663
Additional kWh per month	0.00736	0.07002	0.06548	0.05777	0.05777	0.05479	0.05479	0.05479	0.05479	0.05479
Commercial, Industrial, Governmental and Institutional										
GSA-1 (demand of up to 1,000 kW through 2002, 50 kW thereafter)										
Customer charge per month	\$ 21.50	\$ 15.25	\$ 15.25	\$ 15.00	\$ 15.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00
Energy charge per kWh per month	0.08787	0.07902	0.07453	0.06576	0.06576	0.06162	0.06162	0.06162	0.06162	0.06162
GSA-2 (demand of 1,001 to 2,500 kW through 2002, 51 to 1,000kW thereafter)										
Customer charge per month	\$ 127.00	\$ 127.00	\$ 127.00	\$ 125.00	\$ 125.00	\$ 135.00	\$ 135.00	\$ 135.00	\$ 135.00	\$ 135.00
Demand charge:										
First 50 kW per month		-	-	-	-	-	-	-	-	-
Excess over 50 kW per month	12.52	11.48	11.48	10.26	10.26	9.55	9.55	9.55	9.55	9.55
Energy charge:										
First 15,000 kWh per month	0.0822	0.07404	0.06955	0.06086	0.06086	0.05672	0.05672	0.05672	0.05672	0.05672
Additional kWh per month	0.04904	0.04378	0.03935	0.03445	0.03445	0.03211	0.03211	0.03211	0.03211	0.03211
GSA-3 (demand of 2,501 to 5,000 through 2002, 1,001 to 5,000 kW)										
Customer charge per month	\$ 266.00	\$ 205.00	\$ 205.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00
Demand charge:										
First 1,000kW per month	12.54	11.49	11.49	10.22	10.22	9.56	9.56	9.56	9.56	9.56
Excess over 1,000 kW per month	13.87	12.64	12.64	11.15	11.15	10.11	10.11	10.11	10.11	10.11
Energy charge:										
Per kWh per month	0.04946	0.04380	0.03937	0.03477	0.03477	0.03213	0.03213	0.03213	0.03213	0.03213
MSB (demand of 5,001 to 15,000 kW)										
Customer charge per month	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00
Demand charge:										
Per kWh per month	11.89	10.61	10.61	11.58	11.58	10.85	10.85	10.85	10.85	10.85
Energy charge:										
First 620 kWh per Kw per month	0.0307	0.03216	0.02771	0.03035	0.03035	0.02825	0.02825	0.02825	0.02825	0.02825
Additional kWh per month	0.03113	0.02707	0.02262	0.02477	0.02477	0.02306	0.02306	0.02306	0.02306	0.02306

Morristown Utility Commission

Schedule of Electric Rates (Last Ten Years) (continued)

Fiscal Years 2008 - 1999

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Commercial, Industrial, Governmental and Institutional (continued)										
GSB (non-manufacturing) (demand of 15,001 to 25,000 kW)										
Customer charge per month	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00	\$ 1,500.00
Demand charge:										
Per kWh per month	13.78	12.95	12.95	11.07	11.07	10.34	10.34	10.34	10.34	10.34
Energy charge:										
First 620 kWh per Kw per month	0.04234	0.03872	0.03427	0.03035	0.03035	0.02825	0.02825	0.02825	0.02825	0.02825
Additional kWh per month	0.03559	0.03241	0.02796	0.02477	0.02477	0.02306	0.02306	0.02306	0.02306	0.02306
Part F (demand greater than 25,000 kW)										
Customer charge per month	n/a	n/a	n/a	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00	\$1,500.00
Demand charge:										
Per kWh per month	n/a	n/a	n/a	13.5	13.5	12.6	12.6	12.6	12.6	12.6
Energy charge:										
Per kWh per month	n/a	n/a	n/a	0.02433	0.02433	0.02265	0.02265	0.02265	0.02265	0.02265

Note 1: Compiled from internal records

Morristown Utility Commission

Schedule of Water Rates (Last Ten Years)

Fiscal years 2008 - 1999

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Inside City Rate										
Customer charge per month	\$ 4.65	\$ 4.65	\$ 4.65	\$ 4.65	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commodity charge (per 1,000 gallons)										
First 25,000 gallons	-	-	-	-	1.25	1.25	1.25	1.25	1.25	1.25
Over 25,000 gallons	-	-	-	-	1.10	1.10	1.10	1.10	1.10	1.10
First 50,000 gallons	1.55	1.55	1.55	1.55	n/a	n/a	n/a	n/a	n/a	n/a
Next 50,000 gallons	1.30	1.30	1.30	1.30	n/a	n/a	n/a	n/a	n/a	n/a
Over 100,000 gallons	1.10	1.10	1.10	1.10	n/a	n/a	n/a	n/a	n/a	n/a
Minimum bill										
5/8" meter	7.75	7.75	7.75	7.75	6.50	6.50	6.50	6.50	4.50	4.50
3/4" meter	8.25	8.25	8.25	8.25	7.00	7.00	7.00	7.00	5.00	5.00
1" meter	9.25	9.25	9.25	9.25	8.00	8.00	8.00	8.00	6.75	6.75
1 1/2" meter	10.75	10.75	10.75	10.75	9.50	9.50	9.50	9.50	9.00	9.00
2" meter	15.25	15.25	15.25	15.25	14.00	14.00	14.00	14.00	13.50	13.50
3" meter	52.00	52.00	52.00	52.00	49.50	49.50	49.50	49.50	49.50	49.50
4" meter	70.00	70.00	70.00	70.00	63.00	63.00	63.00	63.00	63.00	63.00
6" meter	100.00	100.00	100.00	100.00	94.50	94.50	94.50	94.50	94.50	94.50
Outside City Rate										
Customer charge per month	4.65	4.65	4.65	4.65	4.65	4.65	4.65	4.65	-	-
Commodity charge (per 1,000 gallons)										
First 25,000 gallons	-	-	-	-	2.50	2.50	2.50	2.50	2.50	2.50
Over 25,000 gallons	-	-	-	-	2.20	2.20	2.20	2.20	2.20	2.20
First 50,000 gallons	3.10	3.10	3.10	3.10	n/a	n/a	n/a	n/a	n/a	n/a
Next 50,000 gallons	2.60	2.60	2.60	2.60	n/a	n/a	n/a	n/a	n/a	n/a
Over 100,000 gallons	2.20	2.20	2.20	2.20	n/a	n/a	n/a	n/a	n/a	n/a

Morristown Utility Commission

Schedule of Water Rates (Last Ten Years) (continued)

Fiscal years 2008 - 1999

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999
Outside City Rate (continued)										
Minimum bill										
5/8" meter	\$ 10.85	\$ 10.85	\$ 10.85	\$ 10.85	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
3/4" meter	11.35	11.35	11.35	11.35	9.50	9.50	9.50	9.50	10.00	10.00
1" meter	12.10	12.10	12.10	12.10	10.50	10.50	10.50	10.50	13.50	13.50
1 1/2" meter	13.60	13.60	13.60	13.60	12.00	12.00	12.00	12.00	18.00	18.00
2" meter	18.10	18.10	18.10	18.10	16.50	16.50	16.50	16.50	27.00	27.00
3" meter	63.10	63.10	63.10	63.10	52.00	52.00	52.00	52.00	99.00	99.00
4" meter	73.10	73.10	73.10	73.10	65.50	65.50	65.50	65.50	126.00	126.00
6" meter	103.10	103.10	103.10	103.10	97.00	97.00	97.00	97.00	189.00	189.00
Monthly private fire protection service charge										
4"	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00	25.00
6"	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00	40.00
8"	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00	50.00
10"	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
12"	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00	125.00

Note 1: Compiled from internal records

Morristown Utility Commission

Schedule of Monthly Telecom Rates (Last Three Years)

Fiscal years 2008 - 2006

Service	2008	2007	2006
Standard Cable:			
Expanded basic	\$ 41.95	\$ 41.95	\$ 41.95
Digital basic	49.95	49.95	49.95
Digital bronze	59.95	59.95	59.95
Digital silver	67.95	67.95	67.95
Digital gold	80.95	80.95	80.95
Premium channels	9.95-11.95	9.95 - 11.95	9.95 - 11.95
Internet:			
Residential			
Tier 1	29.95	29.95	29.95
Tier 2	39.95	39.95	39.95
Tier 3	59.95	59.95	59.95
Tier 4	99.95	99.95	99.95
Commercial			
Tier 1	39.95	39.95	39.95
Tier 2	74.95	74.95	74.95
Tier 3	99.95	99.95	99.95
Tier 4	149.95	149.95	149.95
Tier 5	199.95	-	-
Telephone:			
Residential			
BasicPack	22.95	22.95	22.95
PreferredPack	25.00	25.00	27.95
Additional services	3.75-8.95	3.75 - 8.95	6.95 - 8.95
Long distance rate per minute	0.05	0.05	0.05
Commercial			
Access Line	25.95	25.95	26.95
Business Local Telephone Service	36.95	36.95	39.95
Additional services	6.95-25.95	6.95 - 25.95	6.95 - 7.95
Long distance rate per minute	0.05	0.05	0.05

Note 1: The Telecom System began operations in 2006.

Morristown Utility Commission

Schedule of Power System Principal Customers

Current Year and Nine Years Ago

Name	2008			1999		
	Annual Revenues	Rank	Percentage of Gross Revenues	Annual Revenues	Rank	Percentage of Gross Revenues
Mahle Manufacturing Co.	\$3,037,085	1	4.82%	\$2,982,140	1	6.70%
JTEKT Automotive Morristown-Tennessee Inc	2,183,271	2	3.46%	1,334,069	5	3.00%
Vifan USA Inc.	2,133,612	3	3.38%	1,693,548	3	3.80%
Arvin Meritor	1,909,149	4	3.02%	2,032,981	2	4.50%
Howmet Corp.	1,475,452	5	2.33%			
Macdermid Graphic Arts	1,141,312	6	1.80%			
J W Allen Co	1,062,191	7	1.68%			
Lear Seigler, Inc.	991,659	8	1.57%	1,118,076	7	2.5%
Vacumet Corp	893,319	9	1.41%			
Berkline Benchcraft, LLC	816,019	10	1.30%	954,312	8	2.10%
Mall Industries				1,464,273	4	3.30%
Universal Corporation				1,254,924	6	2.80%
Lea Industries				908,724	9	2.00%
Hamblen County Board of Education				711,564	10	1.6%

Note 1: Compiled from internal records

Morristown Utility Commission

Schedule of Water System Principal Customers

Current Year and Nine Years Ago

Name	2008			1999		
	Annual Revenues	Rank	Percentage of Gross Revenues	Annual Revenues	Rank	Percentage of Gross Revenues
Alpha Talbott Utility District	\$520,437	1	9.22%	\$568,656	1	14.90%
Russellville-Whitesburg Utility District	506,829	2	8.98%	460,118	2	12.00%
Koch's Food	367,525	3	6.51%	260,703	3	6.80%
Bean Station Utility District	315,870	4	5.60%	215,162	4	5.60%
South Morristown Witt Utility District	108,366	5	1.92%	93,527	5	2.40%
J.W. Allen	62,071	6	1.06%			
Mahle Manufacturing	53,959	7	0.92%	72,493	6	1.9
Colgate-Palmolive	44,727	8	0.76%			
Morristown Housing Authority	30,873	9	0.52%			
JTEKT Automotive Morristow-Tennessee, Inc.	27,207	10	0.47%			
Heritage Center				27,022	7	0.70%
General Electric				22,212	8	0.60%
The County Club				17,027	9	0.40%
NCR				16,800	10	0.40%

Note 1: Compiled from internal records

Morristown Utility Commission

Schedule of Employees by System (Last Ten Years)

Fiscal years 2008 - 1999

Fiscal Year	Power	Water	Telecom	Total
2008	69	19	14	102
2007	73	18	13	104
2006	73	20	9	102
2005	73	20	1	94
2004	73	20	–	93
2003	74	20	–	94
2002	68	20	–	88
2001	69	20	–	89
2000	70	21	–	91
1999	70	21	–	91

Note 1: Compiled from internal records

Note 2: Telecom operations commenced in 2006.



Report of Independent Auditors 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*

Board of Commissioners
Morristown Utility Commission

We have audited the financial statements of the Morristown Power System, the Morristown Water System, and the Morristown Telecom System (collectively the “Systems”), enterprise funds of the City of Morristown, Tennessee, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 29, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

Internal Control Over Financial Reporting

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

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 Systems’ ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the Systems’ financial statements that is more than inconsequential will not be prevented or detected by the Systems’ internal control.

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 Systems’ internal control.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Systems in a separate letter dated December 29, 2008.

This report is intended solely for the information of the Morristown Utility Commission, management, others within the Commission and the State of Tennessee Comptroller of the Treasury and is not intended to be and should not be used by any one other than these specified parties.

Coulter & Justus, P. C.

Knoxville, Tennessee
December 29, 2008