

CITY
OF
MORRISTOWN, TENNESSEE



COMPREHENSIVE ANNUAL FINANCIAL REPORT

June 30, 2003

CRAINE, THOMPSON & JONES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Morristown, Tennessee

City of Morristown, Tennessee
Comprehensive Annual Financial Report
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To the Honorable Mayor, Members of the City Council, and Citizens of the City of Morristown:

State law requires that all general-purpose local governments publish within twelve months of the close of each year a complete set of financial statements presented in conformity with generally accepted accounting principals (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accounts. 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, 2003.

This report consists of management's representations concerning the finances of the City of Morristown. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Morristown has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and compile sufficient reliable information for the preparation of the City of Morristown's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Morristown's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Morristown's financial statements have been audited by Craine, Thompson, and Jones, 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, 2003, 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, 2003, 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 with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available on pages 66-69 of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Morristown's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Morristown was incorporated in 1855 and operates under a council-administrator form of government. It is located in upper East Tennessee. The City currently occupies a land area of approximately 22 square miles and has a population of approximately 25,000. The City is authorized by state statutes to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the Board of Mayor and Aldermen.

Policy-making and legislative authority are vested in the Mayor and six Council members. The Council is responsible, among other things, for passing ordinances, resolutions, adopting the budget, appointing committees, and hiring the City Administrator, City Attorney, Police Chief, and Fire Chief. The City's Administrator is responsible for carrying out the policies and ordinances of the Council, for overseeing the day-to-day operations of the City and for appointing the heads of various departments.

The City of Morristown provides a full range of services, including police, fire, street construction and maintenance, planning and zoning, parks and recreation, cultural events and general administrative services. In addition, water, electric and sewer service and solid waste collection are provided under an Enterprise fund concept with user charges established by the Council to ensure adequate coverage of operating expenses and payments on outstanding debt.

The annual budget serves as the foundation for the City of Morristown's financial planning and control. All departments of the City of Morristown are required to submit requests for appropriation to the City Administrator. The City Administrator uses these requests as the starting point for developing a proposed budget. The City Administrator then presents this proposed budget to the Council for review by May 15. The Council is required to hold a public hearing on the proposed budget and to adopt a final budget no later than June 30, the close of the City of Morristown's fiscal year. The appropriated budget is prepared by fund, function, and department. The City Administrator may make transfers of appropriations within a department. Budget-to-actual comparisons are provided in this report. The general fund comparison is presented on pages 27-28 as part of the basic financial statements for the City's funds.

Factors Affecting Financial Condition

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

Local economy. A clearly stated goal of the Morristown City Council is to be the catalyst for providing jobs for the region. Over 28,100 jobs exist in the Hamblen County work place. This is not a recent phenomenon. Since the early 1960's, Morristown has been active in recruiting business and jobs of all types to the area. However, manufacturing has been and continues to be a successful strategy for promoting Hamblen County. The better incomes from manufacturing employment, the property tax base to support schools and other government functions and the spin-off of retail, service and other jobs has led Morristown to placing unique efforts on maintaining and growing its manufacturing prominence. Over 36% of the jobs in the county are involved with manufacturing (that compares to only 18.9% of jobs statewide and 14% nationally). To do this, a tremendous amount of public education (and political capital) has been utilized to convince people that investment in infrastructure to recruit manufacturing (industrial districts, landfills, sewers, parks, roads, etc) is a good thing.

With two successful industrial districts developed and filled during the 1960's, 1970's and 1980's, the need for a third industrial area became evident. The East Tennessee Progress Center (ETPC) is Morristown's answer for the need of space designed and tailored to meet the needs of manufacturing business. During the late 1990's, Morristown acquired approximately 975 acres and began the transformation of the raw land adjacent to Interstate 81 Exit 8 from farmland to industrial district. At City expense, streets were roughed in and some grading of lots occurred in Phase One of ETPC. Over \$15.7 million dollars of the City of Morristown's funds have been expended to date.

The Federal government, through the Economic Development Administration, has assisted the City by committing \$1.5 million dollars to prepare graded lots for sale to businesses in the first Phase of the district and to rough in the roadway system to Phase Two.

The State Department of Transportation completed the bridge over the Norfolk Southern Railroad on Progress Parkway from US 25-E into the park and paved the roads previously roughed in by the City. The contract was let to Blaylock Construction Company of Sevierville for slightly over \$1,642,000.

The City successfully sold the first land to TechPak, a French company. TechPak constructed a 45,000 square foot building and employed 85 people during the late summer of 2001. An expansion of an additional 30,000 square feet and another 40 jobs was completed in the spring of 2003.

The next industry successfully recruited was OTICS, USA, a Japanese manufacturer of automobile engine parts in early 2001. With an investment of over \$32 million and 80 jobs, the City is able to secure \$750,000 in Tennessee Industrial Infrastructure Program (TIIP) funds for sewer construction and site development from the Department of Economic and Community Development (E&CD). OTICS has announced an 86,000 square foot expansion and an additional 40 jobs. This project is scheduled for completion in early 2005.

The success of OTICS, USA was the deciding factor for the location of three other Japanese owned businesses. Announced in September 2002, Mizuno USA Corporation, Kawasaki Tennessee Inc., and Ohashi Iron Works Co. Ltd., have invested over \$30 million dollars and began work in late 2003 with 150 new jobs. Again, the TIIP's program assisted with the provision of up to \$500,000 in site preparation, utility extensions and job training funding.

In November 2002, Morristown learned that the Morristown Metropolitan Statistical Area (MSA) would likely be announced by May 2003. The general concept of a metropolitan area is one of a large population nucleus, together with adjacent communities that have a high degree of economic and social integration with that nucleus.

The Office of Management and Budget (OMB) defines metropolitan areas for purposes of collecting, tabulating, and publishing federal data. Metropolitan area definitions result from applying published standards to Census Bureau data. Each MSA must contain either a place with a minimum population of 50,000 or a Census Bureau-defined urbanized area. A MSA may also include one or more outlying counties that have close economic and social relationships with the central county as defined by the level of commuting to the central county.

The Morristown MSA consists of four counties: Hamblen as the Central County and Cocke, Grainger and Jefferson as outlying counties based on the commuting patterns. Population of the four county area exceeds 156,000 people. Initial data indicates that more than 25% of the Cocke County workforce commutes to Hamblen County daily. Over 15% of the Grainger and Jefferson County workforces commute to Hamblen County daily.

Central cities of MSA's, as designated by OMB are defined as entitlement communities for the award of Community Development Block Grants (CDBG). Prior to OMB declaring Morristown an MSA, the City competed with all other Tennessee cities and counties for funding from the State's share of CDBG funding. Because of Morristown's demographics, the City was successful on average every third year for housing rehabilitation funding.

Morristown has been declared an entitlement City for federal fiscal year 2004 and beyond. Initially, Morristown will receive \$349,000 annually for use in projects and services benefiting low and moderate income people. Eligible activities include acquisition/disposition of real property; public improvements and facilities (e.g. senior citizens center, recreation centers, day care center); clearance; public services (e.g. child care, health care, job training/education programs, recreation programs, drug abuse counseling/treatment, and services for homeless

persons); interim assistance; relocation payments/assistance; rehabilitation of residential, commercial/industrial; other nonprofit owned, nonresidential buildings; historic preservation lead based paint hazard evaluation and reduction; code enforcement; special economic development; assistance to micro enterprises; homeownership assistance; urban renewal completion; technical assistance to increase capacity of public/private nonprofits; assistance to institutions of higher education; and program administration costs related to planning and execution of CDBG assisted activities. Eligible activities may be carried out by the grantee, or through the use of contractors or sub recipients, or through the use of Community Based Development.

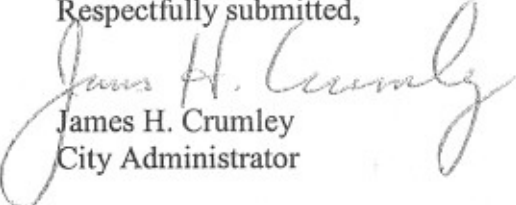
Cash management policies and practices. The City's investment policy is to minimize market risks while maintaining a competitive yield on its portfolio. Accordingly, deposits were either insured by Federal Depository Insurance or collateralized. Cash was invested in certificates of deposit, repurchase agreements, and the State Treasurer's investment pool. The government held all collateral, on deposit, during the fiscal year ended June 30, 2003 in the category of lowest risk as defined by Governmental Accounting Standards Board.

Risk management. The Risk Management Program includes all lines of loss exposure. These exposure areas include: Workers' compensation, Property Damage, General Liability, Error and Omission; Crime; and Accidental Death and Dismemberments. Please see pages 64 and 65 for more information.

Pension and other post employment benefits. The City of Morristown provides pension and benefits for all of the employees through the Tennessee Consolidated Retirement System. The City of Morristown also provides post retirement health care benefits for certain retirees and their dependents. Additional information on the City's pension arrangements and post employment benefits can be found in Note IV and V (D & E) to the financial statements.

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, Tennessee
List of Principal Officials
June 30, 2003

Elected and Appointed Officials

Gary R. Johnson	Mayor
Kay Senter	Alderman
William Rooney	Alderman
William Thompson	Alderman
Claude Jinks	Alderman
Rick Trent	Alderman
Frank McGuffin	Alderman
James Crumley	City Administrator
John C. Kennerly	Assistant City Administrator
Richard C. Jessee	City Attorney
Bryan Fowler	City Engineer
Ralph Fielder	Public Works Director
Roger Overholt	Chief of Police
William Honeycutt, Jr.	Fire Chief
Alan Hartman	Community and Economic Affairs Director
Craig Price	Recreation Director
Anita Hyde	Purchasing Director
Dynise Robertson	Finance Director
Brian Janish	Human Resources Director
Hugh J. Moore	Chief Building Official

Board of Electric Lights and Water Works

Max Biery	Commissioner
George McGuffin	Commissioner
Herbert Bacon	Commissioner
Harold Nichols	Commissioner
Lynn Elkins	Commissioner
William G. Swann	General Manager