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April 29, 2010

FILED ELECTRONICALLY

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Ms. Sharla Dillon, Docket Manager
Dockets and Records Office
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

RE: Application of Morristown Utilities Commission for a Certificate of Convenience
and Necessity to Provide Competing Telecommunications Services
Docket No. 1000084

Dear Ms. Dillon:

Enclosed please find an original and five (5) copies of the Application of Morristown Utilities Commission for a Certificate of Convenience and Necessity to Provide Competing Telecommunications Services. We would appreciate your stamping one copy and returning it to us. Copies of the enclosed Petition are being provided to those persons listed in Exhibit H.

Also enclosed with the hard copy of this letter is our firm's check in the amount of \$25.00 in payment of the filing fees.

If you have any questions about the attached, please do not hesitate to give us a call.

Sincerely,



Mark W. Smith

MWS:cbm
Enclosures

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE: APPLICATION OF MORRISTOWN	:	
UTILITIES COMMISSION FOR A	:	
CERTIFICATE OF CONVENIENCE AND	:	Docket No. _____
NECESSITY TO PROVIDE COMPETING	:	
TELECOMMUNICATIONS SERVICES	:	

**APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND NECESSITY TO
PROVIDE COMPETING TELECOMMUNICATIONS SERVICES**

Pursuant to applicable Tennessee Statutes, the Rules and Regulations of the Tennessee Regulatory Authority (“TRA”), Section 253 of the Federal Telecommunications Act of 1996 (“Act”) and Tennessee Code Annotated Section 7-52-401, Morristown Utilities Commission, d/b/a MUS, Morristown Utility Systems, Morristown Utility Systems FiberNet, and MUS FiberNet (“MUS”) respectfully requests that the TRA grant to MUS authority to provide a full array of competing local telecommunications services, including exchange access telecommunications services, within the State of Tennessee. MUS is willing and able to comply with all applicable rules and regulations in Tennessee pertaining to the provision of competing local telecommunications services.

As set forth herein, MUS has the managerial, financial, and technical fitness to provide the applied-for services in the State of Tennessee. As demonstrated below, the granting of this *Application* will provide significant benefits to Tennessee consumers and thereby serve the public interest. In order to serve the public interest in a timely manner, MUS requests expedited consideration and approval of this *Application*.

In support of its Application, MUS submits the following:

I. DESCRIPTION OF THE APPLICANT

1. The full name and address of the Applicant is:

Morristown Utility Systems
441 West Main Street
Morristown, TN 37815
Telephone: (423) 586-4121
Fax: (423) 587-6590

Questions regarding this application should be directed to:

Richard C. Jessee
Bacon, Jessee & Perkins
Georgian Court
1135 West Third North Street
Morristown, Tennessee 37814-3891
Telephone: (423) 586-5291
Facsimile: (423) 581-6883

and to:

Melvin J. Malone
Mark W. Smith
MILLER & MARTIN PLLC
150 Fourth Avenue North
1200 One Nashville Place
Nashville, Tennessee 37219-2433
Telephone: (615) 244-9270
Facsimile: (615) 256-8197
mmalone@millermartin.com
msmith@millermartin.com

Following regulatory approval, the contact name and address at the company is:

George Benjamin
Morristown Utilities Commission
441 West Main Street
Morristown, TN 37815
Telephone: (423) 586-4121
Fax: (423) 587-6590

2. Organizational chart of corporate structure.

A current Organizational Chart for MUS is included in **Exhibit A.**

3. Corporate information:

MUS is a municipal utility system and was formed by a private act of the State Legislature in 1901 under the legal name "The Board of Electric Lights and Water Works Commissioners of The City of Morristown." MUS provides water and power services within the municipal boundaries of the City of Morristown to approximately 14,500 customers. MUS also provides cable and Internet services within the municipal boundaries and provides network access and connectivity to Norlight Communications which, in turn, provides retail telephone services over MUS' fiber network.

MUS has installed a fiber optic system throughout its electric system service area, using a fiber to the home architecture. A fiber-to-the-home system is sometimes shortened to "FTTH" and is sometimes called "fiber-to-the-business" or "FTTB" for business configurations. A fiber-to-the-home architecture is one that provides end to end fiber optic connectivity to each residential, commercial and industrial user located on the network.

The benefits of a FTTH network are numerous but are most immediately recognized in two areas; reliability and capacity. First, the backbone of the FTTH network supports the ability to automatically re-route signal in the event of a physical cut in the network. This capability is provided by the fiber optic equipment used to generate the signal across the strands of fiber optic facility. Upon sensing a loss of signal from equipment on the far end of the network, the equipment automatically reverses the direction of the signal to traverse the network from another direction. The benefit of this capability is realized by the subscriber in the form of fewer service interruptions, shorter mean time to repair intervals and a higher overall quality of service.

Second, the bandwidth available for the delivery of service is dramatically greater than that available from traditional copper-based transport media. The benefit of greater bandwidth is

realized by the subscriber in the form of greater choices in service offerings.

MUS will provide telephone and regulated telecommunications services through a separate business unit within MUS. The Telephone Business Unit will be operated in a manner that is financially distinct from the Electric Business Unit, the Water Business Unit and the Cable/Internet Business Unit of MUS. MUS has established cost allocation and affiliate transaction guidelines that will apply to the entire organization and, specifically to this Application, the MUS Telephone Business Unit. A copy of the current MUS Cost Allocation Manual, including affiliate transaction guidelines, is attached as **Exhibit B**.

II. QUALIFICATIONS

MUS possesses the managerial, technical, and financial ability to provide telecommunications service, as demonstrated below:

1. Financial Qualifications.

MUS has the financial capability to provide the applied-for services. Total capital expenditures for installation will be approximately \$850,000 over a twelve month period. Initial expenditures will be covered with either an interdivisional loan or a lease purchase agreement. A copy of MUS' 2009 Annual Report is attached as **Exhibit C**, demonstrating MUS' financial ability.

Collective Exhibit D contains a capital expenditures budget along with pro forma balance sheet, income statement and statement of cash flows for the first three years of the Telephone Business Unit's operations. The capital expenditures budget indicates the type of equipment to be purchased, the anticipated costs and sources for funding of projected capital expenditures.

MUS' financials and projected financials do not reflect any revenues or expenses associated with reciprocal compensation.

A corporate surety bond is provided as **Exhibit E**.

Thus, MUS asserts that it has the financial resources necessary to operate as a competitive local service provider in Tennessee.

2. **Managerial Ability.**

Since 2006, MUS has provided retail cable television and Internet services and has provided wholesale broadband services to Norlight Communications which, in turn, has provided retail telephone and Internet services to end use customers in Hamblen County, Tennessee. In connection with its wholesale arrangement, MUS has provided (1) billing and customer records management for telephony and data services, (2) payment collection at various payment locations of MUS; (3) customer sales at various locations of MUS; and (4) customer service and help desk support for end use customers of certain customers of Norlight Communications.

This experience provides MUS with the foundation necessary to provide the proposed telecommunications services and to serve retail telecommunications consumers in Tennessee. MUS is managerially qualified to provide telecommunications services statewide. Attached hereto as **Exhibit F** is a list of the names of the Applicant's principal company officers and a description of each officer's background and experience. As shown in **Exhibit F**, these officers of the company have substantial managerial experience in all aspects of broadband service along with the areas of utility engineering, utility operations, utility finance and customer service as well as utility marketing.

Thus, MUS is qualified from a managerial standpoint to provide local exchange service in Tennessee.

3. Technical Qualifications.

MUS has substantial experience with and expertise in broadband services along with other facilities-based utility services. As shown in **Collective Exhibit F** to this Application, MUS has the technical expertise to successfully operate a telecommunications enterprise in Tennessee. As described in the attached biographical information, MUS' management team has extensive technical experience with broadband services and other facilities-based utility services.

To supplement the experience and expertise of its internal technical team, MUS has retained Alan D. Ellison to consult with the MUS team during the start-up phase of MUS' telephone operations. Biographical data for three members of the Five Inc firm is included in **Exhibit F**.

The MUS team and its consultants will work to ensure that MUS' telecommunications services will satisfy the minimum standards established by the TRA. MUS will file and maintain tariffs in the manner prescribed by the TRA and will meet minimum basic local standards, including quality of service and billing standards required of all local exchange carriers regulated by the TRA. In addition, the services of Alan Ellison will be available to supplement MUS' internal experience and expertise during the start-phase of MUS' operations.

Thus, MUS is technically qualified to provide local exchange service in Tennessee.

III. PROPOSED SERVICES

1. In addition to its current broadband offerings, MUS intends to offer a full range of telecommunications services, including, but not limited to, dedicated and switched access services, private line services, local dial tone, 911 and E911 emergency services, enhanced services and all other Authority-required Rule 1220-4-8-.04(3)(b) services in its authorized service area. In providing such services, MUS will utilize capacity on its broadband network

and, where appropriate and necessary, supplement its services by leasing the facilities of third party carriers and/or by reselling certain services.

2. MUS is authorized to provide certain broadband services, and it desires to expand upon such services, as set forth herein, to offer more consumers with increased carrier choices, competitive pricing, increased reliability, responsiveness, and innovation.

3. MUS understands the importance of effective customer service for local service customers. Upon obtaining the requested certification, MUS will establish a toll free customer service number, which will be printed on the customers' monthly billing statements. Additionally, customers may write to MUS at its main office address in Morristown.

IV. REGULATORY MATTERS

1. MUS is familiar with and will adhere to all applicable Authority policies, rules, and orders governing the provision of local exchange telecommunications services in the State of Tennessee.

2. The Applicant's Small and Minority Owned Business Plan is attached as **Exhibit G**.

3. The Applicant has served notice of this application to the eighteen (18) incumbent local exchange telephone companies in Tennessee with a statement regarding the company's intention of operating geographically. See **Exhibit H** for the listing of ILECs notified.

4. The Applicant's Toll Dialing Parity Plan is attached hereto as **Exhibit I**.

5. Numbering Issues are outlined in **Exhibit J**.

6. Tennessee Specific Operational Issues are outlined in **Exhibit K**.

7. Subsequent to the approval of its *Application*, MUS will file any necessary tariffs or tariff revisions prior to providing the proposed service covered by this *Application*.

8. As set forth in **Exhibit K**, MUS is aware of its obligation to comply with the requirements of county-wide calling, as set forth in Tenn. Code Ann. § 65-21-114.

9. MUS does not currently collect deposits from first time customers. To the extent that MUS requires a deposit for the establishment of service, the same shall be implemented in compliance with the Authority's rules and regulations and as properly provided in and consistent with tariffs.

V. PUBLIC INTEREST STATEMENT

1. MUS is a seasoned competitive broadband provider, and the Federal Communications Commission ("FCC") has determined that Tenn. Code. Ann. § 65-4-201(d) is preempted by federal law.¹ The Attorney General for the State of Tennessee has issued an opinion that § 65-4-201(d) is not enforceable.²

2. The grant of this *Application* will further the public interest by expanding the availability of telecommunications services throughout the State of Tennessee. Specifically, Tennessee consumers will benefit directly through the use of the competitive local services to be offered by MUS. MUS will provide more choices for consumers. Further, the public will benefit indirectly because the competitive presence of MUS will increase the incentives for telecommunications providers to operate more efficiently, offer more innovative services, reduce prices, improve the quality and coverage of their services, and increase investment in broadband infrastructure.

3. The granting of this *Application* would be consistent with the public policy of the State of Tennessee, as set forth at Tenn. Code Ann. § 65-4-123, "to foster the development of an

¹ See *In the Matter of AVR, L.P. d/b/a Hyperion of Tennessee, L.P. Petition for Preemption of Tennessee Code Annotated § 65-4-201(d) and Tennessee Regulatory Authority Decision Denying Hyperion's Application Requesting Authority to Provide Service in Tennessee Rural LEC Areas*, Memorandum Opinion and Order, FCC 99-100, 14 F.C.C.R. 11,064 (rel. May 27, 1999), *aff'd* 16 F.C.C.R. 1247 (Jan. 8, 2001).

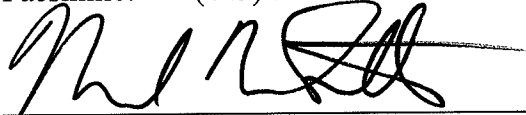
efficient, technologically advanced statewide system of telecommunications services by permitting competition in all telecommunications services market[.]”

VI. CONCLUSION

For the foregoing reasons, MUS. respectfully requests the Authority to grant its Certificate of Public Convenience and Necessity on an expedited basis and authorize it to provide telecommunications services, as requested herein, throughout the State of Tennessee.

Respectfully submitted,

Richard C. Jessee
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Attorneys for Morristown Utilities Commission

² See Office of the Attorney General, Opinion No. 01-036, 2001 Tenn. AG Lexis 36 (Mar. 19, 2001).

EXHIBITS

- A.** MUS organizational chart
- B.** Cost Allocation Manual
- C.** Audited financial statements for year ending June 30, 2009
- D.** Pro forma financials for Telephone Business Unit
- E.** Corporate surety bond
- F.** Biographical data for MUS management team and consultants
- G.** Small and minority owned business plan
- H.** ILEC notice
- I.** Toll dialing parity plan
- J.** Numbering issues
- K.** Tennessee specific operational issues
- L.** Pre-filed testimony

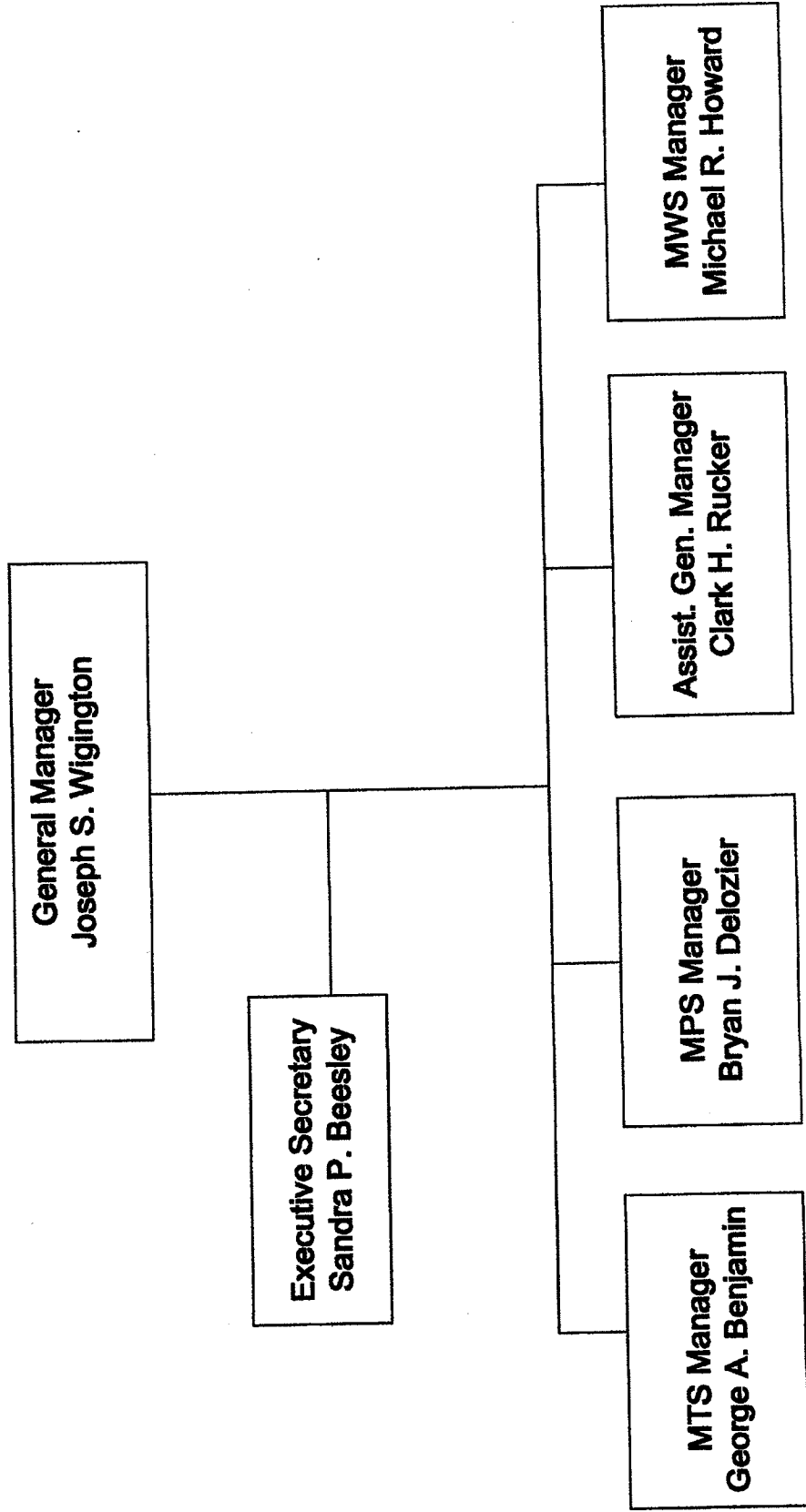
EXHIBIT A

MUS

Organizational

Chart

MORRISTOWN UTILITY SYSTEMS - STAFF



MORRISTOWN UTILITY SYSTEMS TELECOM OPERATIONS

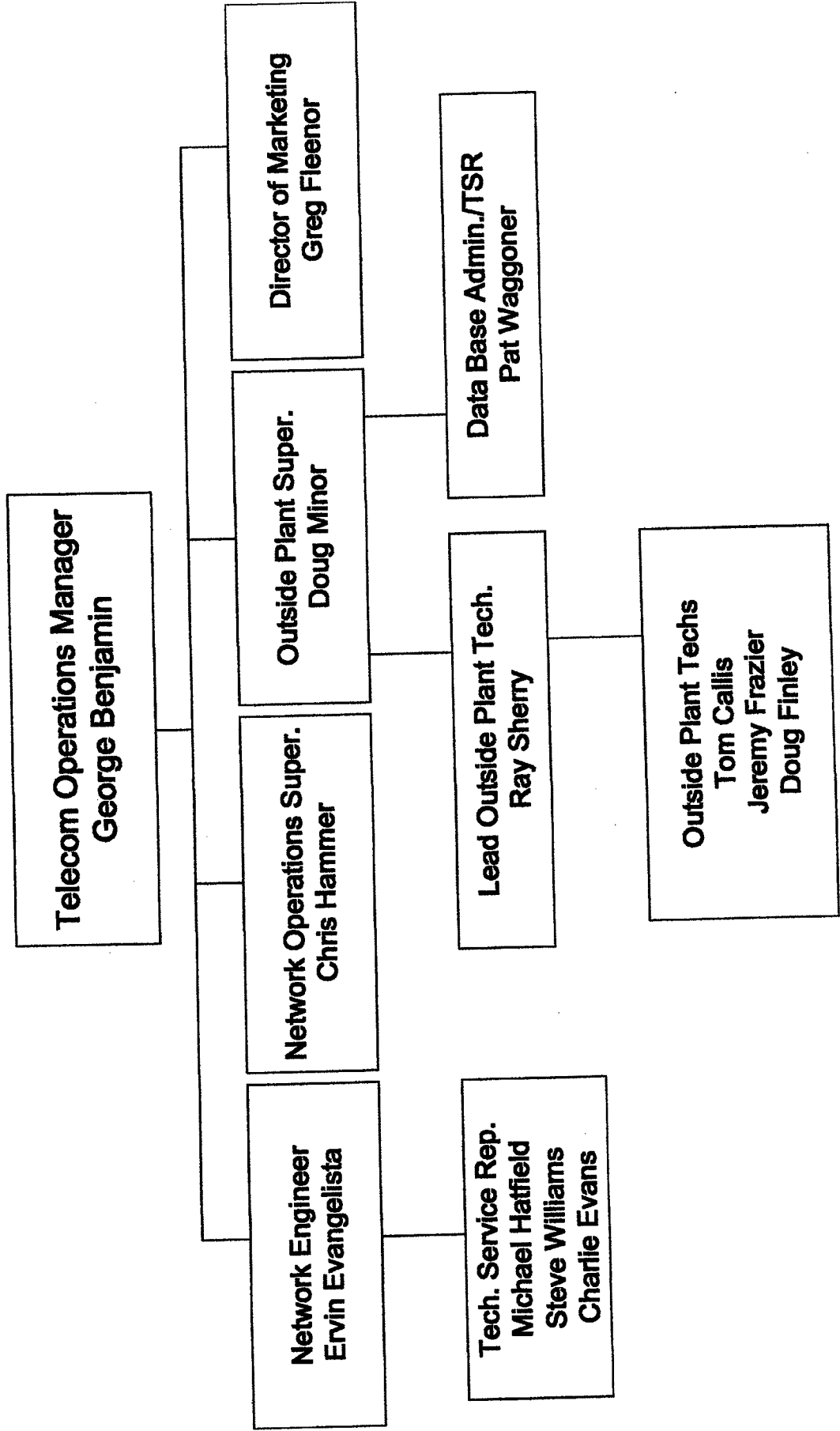


EXHIBIT B

Cost Allocation Manual

EXHIBIT B

Cost Allocation Manual

MORRISTOWN UTILITY SYSTEMS

COST ALLOCATION MANUAL

2009

Joseph S. Wigington, General Manager

Clark H. Rucker, Assistant General Manager

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INTRODUCTION

Morristown Utilities Commission, doing business as Morristown Utility Systems (MUS) is a governmental utility system created by a private act of the Tennessee General Assembly, which provides utility services to customers located in the City of Morristown, Tennessee and Hamblen County, Tennessee. MUS receives its authority to provide these services from Chapter 392 of the Private Acts of 1901 and from generally applicable state municipal utility statutes. MUS' private act enabling legislation, the state municipal utility statutes and the authorization of the State Comptroller dated July 15, 2004, enable MUS to provide cable television, internet, telecommunications, and other similar services to the citizens of both The City of Morristown and Hamblen County.

Currently, MUS provides electric and water services to its customers. These services are regulated monopoly or non-competitive type services. MUS provides these services through two divisions: Electric and Water.

MUS also provides cable and Internet service directly to customers, and plans to provide service as a Competitive Local Exchange Carrier ("CLEC"). These services are provided through a Telecommunications Division, which was MUS formed to achieve organizational and accounting separation from its monopoly services. MUS has established business units within the Telecommunications Division for cable television / Internet, and voice. Cable / Internet and voice are competitive services.

PURPOSE

MUS developed this Cost Allocation Manual ("CAM") due to its expansion into the competitive service market. The CAM describes the cost allocation concepts adopted by MUS as well as the methodology used to allocate costs. The CAM provides MUS management with an equitable process to reduce the potential for cross-subsidization of services and to present a reasonable financial record of each utility service. MUS will review the methodology employed in this manual on a periodic basis. Changes in this manual must receive prior approval from MUS management through written justification and documentation.

The goals of the allocation methodology included in this manual are to:

1. Provide just and reasonable rates for the ratepayers of the monopoly services.
2. Prevent or limit, to the extent possible, any cross-subsidization between the monopoly services and the Telecommunications Division.
3. Minimize the time and expense necessary to record and audit the transactions.

The CAM recognizes that MUS' divisions may share use of certain employees and assets on an allocated cost basis and recognizes that one division may alternatively enter into discrete service arrangements, leases or similar transactions for goods or services with another MUS division. In order to meet the previously stated goals, this manual discusses the allocation of costs between business units to minimize any cross-subsidization from the Electric and Water Divisions to the Telecommunications Division. MUS maintains a separate system of accounts for each of the services it provides. This allows MUS to identify and record transactions related to each service. Using this information, MUS can prepare financial statements showing the financial position and results of operations for each division and/or business unit.

Costs assigned to and allocated to each division shall be at fully allocated costs. In the case of facilities or assets, the fully allocated costs should include, depreciation expense, maintenance expense, and insurance expense. In the case of personnel, the fully allocated cost should

include salaries/wages, all employee benefits, payroll taxes, insurance, and retirement benefits. Within the Telecommunications division, MUS will directly assign costs to a specific division whenever possible. Costs that cannot be directly assigned to a specific division will be described as common costs. MUS will group common costs into cost centers designed to facilitate the proper allocation of costs among divisions. MUS will allocate, whenever possible, common cost categories based on direct analysis of the origin of the costs themselves. When direct analysis is not possible, MUS will allocate common cost categories based on an indirect, cost-causative linkage to another category (or group of cost categories) for which a direct assignment or allocation is available. When neither direct nor indirect measures of cost causation can be identified, MUS will allocate the cost category using a general allocator.

ALLOCATION OF COSTS

The general concepts followed in this manual are discussed below.

- MUS will directly assign costs to a specific division and/or business unit whenever possible.
- Costs that cannot be directly assigned to a specific division and/or business unit will be described as common costs. MUS will group common costs into homogeneous cost categories designed to facilitate the proper allocation of costs among divisions and/or business units in accordance with the following hierarchy:
 - MUS will allocate, whenever possible, common cost categories based on direct analysis of the origin of the costs themselves.
 - When direct analysis is not possible, MUS will allocate common cost categories based on an indirect, cost-causative linkage to another category (or group of cost categories) for which a direct assignment or allocation is available.
 - When neither direct nor indirect measures of cost causation can be identified, MUS will allocate the cost category using a general allocator. The numerator of the general allocator is all operation and maintenance expenses directly assigned or attributed to each service, excluding cost of electricity and programming, and the denominator is the total operation and maintenance expense of MUS, excluding cost of electricity and programming.
- For loans made by one division and/or business unit to another, MUS will charge the highest rate of interest earned on invested funds of the divisions and/or business unit making the loan.
- The Voice Business Unit of the Telecommunications Division will make in lieu of tax payments and will allocate state, local, and federal taxes for regulatory purposes in accordance with TCA section 7-52-404.

- The Cable Business Unit and Internet Business Unit of the Telecommunications Division will make tax payments in accordance with TCA section 7-52-606.

DEFINITIONS

Affiliates – a branch, division, or subsidiary of a company. A company effectively controlled by another company.

Audit Engagement – an attestation engagement in which a certified public accountant who is in the practice of public accounting is contracted to issue a written communication that expresses a conclusion about the reliability of a written assertion that is the responsibility of another party.

Cost Allocation Manual (“CAM”) – an indexed compilation and documentation of a company’s cost allocation policies and related procedures.

Cost Allocations – the methods or ratios used to apportion costs. A cost allocator can be based on the origin of costs, as in the case of cost drivers; cost-causative linkage of an indirect nature; or one or more overall factors (also known as General Allocators).

Common Costs – costs associated with services or products that benefit more than one division.

Cost Driver – a measurable event or quantity that influences the level of costs incurred and that can be directly traced to the origin of the costs themselves.

Cross-Subsidization – The transfer of assets or services from the regulated operations of a utility to its unregulated affiliates in order to produce an unfair competitive advantage.

Direct Costs – costs that can be specifically identified with a particular service or product.

Division – as used in this manual means the Electric Division, the Telecommunications Division, or the Water Division.

Fully Allocated Costs – the sum of the direct costs plus an appropriate share of indirect costs.

Indirect Costs – costs that cannot be identified with a particular service or product. This includes overhead costs and administrative and general costs.

Non-Regulated – that which is not subject to regulation by regulatory authorities. A good or service may be non-regulated because it has never been regulated. Or, a good or service may cease to be regulated for different causes. Examples include the following:

- Deregulation
- A change in the regulator's approach to setting rates from cost-based rate making to another form of regulation.
- Increasing competition that limits the enterprise's ability to sell utility services or products at rates that will recover costs.
- Regulatory actions resulting from resistance to rate increases that limit the enterprise's ability to sell utility services or products at rates that will recover costs if the enterprise is unable to obtain (or chooses not to seek) relief from prior regulatory actions through appeals to the regulator or the courts.

The Telecommunications Division and the business units under it are considered non-regulated (unregulated) in this manual.

Prevailing Market Price – a generally accepted market value that can be substantiated by auction, appraisal, or clearly comparable transactions.

Regulated – the operations of an enterprise are regulated if all of the following conditions are met:

- the enterprise's rates for regulated services or products provided to its customers are established by or are subject to approval by an independent, third-party regulator or by its own governing board empowered by statute or contract to establish rates that bind customers.

- the regulated rates are designed to recover the specific enterprise's costs of providing the regulated services or products.
- in view of the demand for the regulated services or products and the level of competition, direct and indirect, it is reasonable to assume that rates set at levels that will recover the enterprise's costs can be charged to and collected from customers.

The Electric Division and the Water Division are considered regulated in this manual.

TRANSACTIONS WITH AFFILIATES

One division of MUS may provide goods or services pursuant to a tariff to another division of MUS. If this occurs, MUS will record the goods and services provided in the appropriate revenue and expense accounts at the tariffed rate. One division of MUS may transfer or sell non-tariffed goods or services to another division. If MUS also provides these non-tariffed goods or services to unaffiliated outside parties, then MUS will record this transfer or sale at the market rate. If MUS does not provide these non-tariffed goods or services to unaffiliated outside parties, then MUS will record this transfer or sale at fully distributed cost.

One division of MUS may sell or transfer assets pursuant to a tariff to another division of MUS. If this occurs, MUS will record this sale or transfer in the appropriate accounts at the tariffed rate. One division of MUS may sell or transfer non-tariffed assets to another division of MUS. MUS will record charges for assets purchased or transferred between divisions in the appropriate accounts at the invoice price if that price is determined by a prevailing price held out to the general public in the normal course of business. If a tariff or a prevailing price is not available, MUS will record assets sold or transferred among regulated divisions at net book cost. If a tariff or prevailing price is not available, MUS will record assets sold or transferred from a non-regulated affiliate to a regulated affiliate at the lower of net book value or estimated fair market value. If a tariff or prevailing price is not available, MUS will record assets sold or transferred from a regulated affiliate to a non-regulated affiliate at the higher of net book value or estimated fair market value of the asset.

BALANCE SHEET ACCOUNTING

Cash

MUS will maintain a cash account in its general ledger for each division and business unit. MUS will record all monies collected by a division or business unit to the appropriate general ledger account. MUS will record all payments applicable to a division or business unit in the appropriate general ledger account.

Accounts Receivable

All customer accounts receivable will be maintained in the Electric System with an interdivisional payable established for Water and Telecommunications. These payable accounts will be reconciled and reimbursed on a monthly basis.

Payables

Each division and business unit will maintain its own accounts payable. MUS will record both invoices received and payments made in the appropriate payable account.

Materials

Each division and business unit will maintain its own inventory accounts. MUS will record the receipt and disbursement of inventory items in the appropriate accounts.

Plant Assets

Each division and business unit will maintain its own plant accounting system. MUS will record utility plant in the appropriate plant account when it places plant in service.

Plant Leased to/from Telecommunications Division

One division of MUS may lease poles for pole attachments to another division of MUS. If this occurs, MUS will charge the highest rate paid by an outside party for comparable pole attachments. One division of MUS may lease other items to another division. If MUS currently leases these items to outside parties, then MUS will charge the highest rate paid by an outside party for the comparable leased item. One division of MUS may lease items to another division that are not currently leased to outside parties. If this occurs, MUS will develop a rate or an annual amount for other leased plant that fully recovers the depreciation, maintenance and other loaded costs of the asset(s) used.

Construction Work in Progress

MUS uses a comprehensive work order system that captures the cost of materials, labor, vehicles, heavy equipment, benefits, and other items related to construction activities. MUS will identify construction activity by division and business unit and will record the activity to the appropriate account.

Depreciation

MUS will record depreciation by division and business unit. Depreciation rates will reflect industry normal life spans.

Amortization

MUS will amortize non-tangible assets and assets such as capitalized software over industry normal life spans.

Accounting for Revenues and Expenses

Revenues

MUS will record revenues for each division and business unit to the appropriate revenue accounts using the accrual basis of accounting.

Cost Centers

MUS utilizes cost centers to assign their employees work activities and other costs. The cost centers and associated functions are:

- Administration
 - Accounting
 - Information Systems
 - Purchasing / Materials / Fleet Mgt
 - Meter Reading
 - Billing
 - Customer Service
 - Marketing
 - Management
- Electric Operations
 - Construction Crews
 - Maintenance Crews
 - Engineering
- Water Operations
 - Construction Crews
 - Maintenance Crews
 - Engineering
 - Water Treatment
- Telecom Operations
 - Construction Crews
 - Maintenance Crews
 - Marketing
 - Technical Service

MUS employs approximately 100 people. Of this amount, approximately 75 employees directly assign their time as worked to a division and/or business unit using daily time sheets or fixed distribution. The remaining 25 employees work with more than one division and/or business unit on a daily basis. Using time sheets for these employees is impracticable. MUS has developed

percentages to allocate the time of these employees. These percentages were developed by time studies and other appropriate indicators. MUS will update these percentages and revise the labor allocations whenever work assignments or other pertinent circumstances change.

MUS will charge the expense for time spent away from work due to sick leave, holidays, vacations weather related unassigned time, etc to the divisions and/or business units using the same percentages as the straight time labor dollars of each cost center. MUS will directly assign payroll taxes, employee insurance and other payroll expenses to the appropriate division or business unit wherever possible. When this is not possible, MUS will allocate these payroll expenses to each division or business unit using the same percentages as the labor dollars for that department.

MUS will expense property and liability insurance costs on the basis of ownership of the insured item as allocated by the insurance provider. As examples, MUS will allocate property insurance based on the ownership of the property insured (ie property owned by electric is insured and paid for by the electric system). MUS will allocate insurance on vehicles based on vehicle ownership. Some insurance premiums will have no directly assignable basis. MUS will use the General Allocator for these items.

Administration Cost Center

For those costs not directly assigned, MUS will allocate administrative costs (Billing and Customer Services excluded) using the General Allocator. For Billing and Customer Service, MUS will use the Utility Services Allocator.

Electric Operations Cost Center

For costs not directly assigned, MUS will allocate costs based on the General Allocator.

Water Operations Cost Center

For those costs not directly assigned, MUS will allocate costs based on the General allocator.

Telecom Operations Cost Center

For costs not directly assigned, MUS will allocate the costs based on the General allocator.

CODE OF CONDUCT

Regulatory Compliance

The Voice Business Unit of MUS will be subject to all rules and regulations of the TRA in the same manner and to the same extent as other similar telecommunications providers, including without limitation, rules and orders governing anti-competitive practices.

Treatment of Similarly Situated Parties

MUS will process all similar requests for the retail services of its non-competitive business units in the same manner and within the same time-period whether requested on behalf of a business unit of MUS or a third party.

Anti-Competitive Inducements

MUS shall not state in any advertising, promotional materials, or sales efforts, that consumers who purchase products or services from its competitive business units will receive preferential treatment in the provision of services from its non-competitive business unit or that any benefits will inure to customers receiving services from its non-competitive business units resulting from their dealings with its competitive business units.

Loans and Credit Guarantees

The voice business unit may not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of MUS' non-competitive business unit.

General Code of Conduct Provisions

MUS may not discriminate between the voice business unit and any other entity in the provision or procurement of information and retail goods and services from its non-competitive business units, or in the establishment of standards. MUS shall account for all transactions with the voice

business unit in accordance with generally accepted accounting principles or accounting principles established and/or adopted by the TRA.

MORRISTOWN UTILITIES COMMISSION

Definition of Allocators

General Allocator – percentage derived from a fraction the numerator of which is all operation and maintenance expense directly assigned, indirectly assigned, or attributed to each division and/or business unit, excluding the cost of electricity and/or programming, and the denominator of which is the total operation and maintenance expense of MUS, excluding the cost of electricity and/or programming.

Employee Ratio – percentage derived from a fraction the numerator of which is the number of employees for each division and/or business unit and the denominator of which is the total number of employees of MUS. Used to allocate general asset use as well as human resource and general administration function costs.

Utility Services – percentage derived from a fraction the numerator of which is the number of services billed by each division and/or business unit and the denominator of which is the total services billed by MUS. This allocator approximates lines of billing and is used to allocate customer service personnel time and use of assets.

Payroll – percentages determined by the ratio of time worked in each division or business units over total time worked.

**Morristown Utility Systems
Cost Allocators**

General Allocator				
	O&M Electric \$ 57,127,150 87%	O&M Water \$ 4,368,155 7%	O&M Telecom \$ 3,951,315 6%	O&M Total \$ 65,446,620 100%
Employee Ratio				
	Electric 72 69%	Water 21 20%	Telecom 12 11%	Total 105 100%
Utility Services-Total Cust Count				
	Electric % of projected 14,465 48%	Water % of projected 12,684 42%	Telecom % of projected 3,100 10%	Total % of projected 30,249 100%
Number of uses				
EL	WT	TC	VO	Total
4,200 39%	- 0%	3,800 36%	2,670 25%	10,670 100%
Payroll				
	Electric \$3,230,960.00 65%	Water \$ 1,198,880.00 25%	Telecom \$ 509,640.00 10%	Total \$ 4,939,480.00

O&M for electric excludes purchased pwr cost

O&M for water has no exclusions

O&M for telecom excludes program and internet transport costs and comes from the business plan

O&M dollars for electric and water are as of June 30, 2007

EXHIBIT C

Audited financial statements for year ending June 30, 2009

**Comprehensive Annual
Financial Report**

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

Year ended June 30, 2009

Prepared by: Jenny Ketterman

Finance Department
Clark Rucker, Assistant General Manager

Morristown Utilities Commission
Comprehensive Annual Financial Report

Year ended June 30, 2009

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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, 2009 and 2008, as listed in the table of contents. 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, 2009 and 2008, 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, 2009 and 2008, 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 November 24, 2009, 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 and schedule of funding progress on pages 3 through 6 and 39 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
November 24, 2009

Morristown Utilities Commission
Management's Discussion and Analysis

June 30, 2009

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 Utilities 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 Statements of Net Assets include the assets and liabilities of MUC that represent the available resources and required obligations, with the difference reported as net assets. The change in net assets is a potential indicator of the improving or deteriorating financial position of MUC. The change in net assets is a function of the revenues and expenses, which are recorded in the Statements of Revenues, Expenses, and Changes in Net Assets. Revenues are recorded as they are earned and expenses are recorded when incurred (regardless of cash requirements). Cash activity for the period is presented in the Statements of Cash Flows and the activity is segmented between operating, investing, and financing activities. In addition, the Notes to the Financial Statements provides additional information to provide a full understanding of the financial activity and position of MUC.

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.

Morristown Utilities Commission
Management's Discussion and Analysis (continued)
June 30, 2009

Financial Position

The primary indicator of financial position is net assets. The change in net assets for the Power System increased by \$2.2 million, Water System increased by \$1.2 million and Telecom System decreased by \$600,000 as a result of operations discussed later. This overall net increase has been used to acquire additional capital assets in the current year.

Table 1

Morristown Utilities Commission			
Condensed Balance Sheets			
	June 30, 2009	June 30, 2008	June 30, 2007
Assets and liabilities:			
Current and other assets	\$27,302,704	\$24,343,816	\$22,007,488
Capital assets	88,431,105	88,142,918	87,030,855
Total assets	115,733,809	112,486,734	109,038,343
Current liabilities	17,596,405	16,861,969	12,525,053
Non-current liabilities	32,018,959	32,284,711	33,241,674
Total liabilities	49,615,364	49,146,680	45,766,727
Net assets:			
Invested in capital assets, net of related debt	55,174,176	54,089,479	52,268,850
Restricted	308,502	301,423	557,111
Unrestricted	10,635,767	8,949,152	10,445,655
Total net assets	\$66,118,445	\$63,340,054	\$63,271,616

As indicated in Table 1, net capital assets have remained consistent over the past three years. This is a result of construction during the periods being offset before depreciation expense. Refer to the notes to the financial statements for more information regarding capital assets.

Morristown Utilities Commission
Management's Discussion and Analysis (continued)

Results of Operations

As indicated in Table 2, operating revenues of the Commission increased by \$11.5 million from fiscal year 2008 to 2009. The increase is primarily a result of a \$9 million increase in the Power System due to a 20% increase in power rates that were implemented in October 2008 in addition to other rate adjustments during 2009. This is due to rate increases imposed by TVA. In addition, the Telecom System revenues increased by \$1.8 million due to a continued increase in its subscriber base. The change from 2007 to 2008 had similar increases as a result of \$4.7 million in the rate increases for the Power System and \$2 million increase in the Telecom System due to an increase in its subscriber base.

Table 2

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

	Years ended June 30		
	2009	2008	2007
Revenues:			
Operating revenues	\$ 84,908,994	\$73,428,075	\$66,516,101
Non-operating revenues	214,922	440,228	646,124
Total revenues	85,123,916	73,868,303	67,162,225
Expenses:			
Purchased power	60,369,658	52,593,697	49,108,223
Operating expenses	12,148,324	11,057,387	9,847,941
Other expenses	8,163,629	7,733,916	6,490,456
Interest expense	928,407	1,683,851	936,166
Total expenses	81,610,018	73,068,851	66,382,786
Excess revenues over expenses	3,513,898	799,452	779,439
Transfers to the City	(735,507)	(731,014)	(687,841)
Changes in net assets	2,778,391	68,438	91,598
Beginning net assets	63,340,054	63,271,616	63,180,018
Ending net assets	\$66,118,445	\$63,340,054	\$63,271,616

Operating expenses, not including purchased power, increased from 2008 to 2009. 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 Power and Water systems from ongoing maintenance projects. Overall interest expense decreased due to the effect of refinancing the Telecom System's swap agreement to a variable rate bond with resulting rates in the below 1%.

The increase in purchased power was due primarily to the increase in a fuel cost adjustment charge by TVA as well as base rate increases by TVA effective October 1, 2008.

Morristown Utilities Commission
Management's Discussion and Analysis (continued)

Debt

During the current year the Telecom System refinanced debt as a result of interest rate increases related to our swap agreement. Additional information on the Commission's long-term debt can be found in Note 7 of this comprehensive annual financial report.

Non-Operating Revenue

Interest from deposits and investments decreased in the current year due principally to lower interest rates earned on our investments.

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, 2009 and 2008

	Power System		Water System		Telecom System	
	2009	June 30 2008	2009	June 30 2008	2009	June 30 2008
Assets						
Current assets:						
Cash and cash equivalents	\$ 6,198,344	\$ 3,086,303	\$ 2,320,492	\$ 1,666,250	\$ 734,540	\$ 1,113,058
Accounts receivable:						
Trade, net of allowance for doubtful accounts of \$168,962 for 2009 and \$204,500 for 2008	6,558,114	7,419,522	-	-	-	-
Due from other funds	-	-	48,147	607,591	-	-
Due from others	175,403	312,763	-	-	-	16,692
Accrual for unbilled revenue	1,356,410	1,479,491	192,561	203,722	-	-
Current portion of discounted energy units	110,812	104,848	-	-	-	-
Other current assets	-	-	-	-	51,775	4,485
Advances from Tennessee Valley Authority Home Weatherization Loan Program, net of advances to customers	-	48,278	-	-	-	-
Materials and supplies inventories	762,824	802,235	472,844	402,259	-	-
Total current assets	15,161,907	13,253,440	3,034,044	2,879,822	786,315	1,134,235
Restricted investments	-	-	308,502	301,423	-	-
Capital assets:						
Plant and equipment in service	60,195,262	58,121,974	51,374,376	49,415,282	23,996,770	21,126,157
Less accumulated depreciation	(27,028,584)	(25,338,254)	(18,074,574)	(16,905,786)	(3,978,721)	(2,417,330)
	33,166,678	32,783,720	33,608,304	32,810,919	20,018,049	18,708,827
Construction in progress	1,128,581	1,618,004	676,829	1,046,530	141,166	1,476,341
Net capital assets	34,295,259	34,401,724	34,285,133	33,857,449	20,159,215	20,185,168
Due from other funds	6,354,668	5,992,345	-	-	-	-
Plant acquisition adjustments, net of accumulated amortization	445,679	541,840	120,226	148,515	-	-
Discounted energy units, less current portion	296,727	407,057	-	-	-	-
Other assets	17,877	25,483	67,694	71,167	757,212	196,080
Total assets	\$ 56,572,117	\$ 54,621,889	\$ 37,507,097	\$ 36,956,953	\$ 21,702,742	\$ 21,515,483

Morristown Utility Commission
Balance Sheets (continued)
June 30, 2009 and 2008

	Power System		Water System		Telecom System	
	June 30	June 30	June 30	June 30	June 30	June 30
	2009	2008	2009	2008	2009	2008
Liabilities and net assets						
Current liabilities:						
Accounts payable:						
Trade	\$ 4,604,120	\$ 4,393,076	\$ 63,066	\$ 67,576	\$ 136,111	\$ 187,420
Due to other funds	48,147	607,591	-	-	-	-
City of Morristown	560,714	585,198	-	-	-	-
Deferred revenues	-	-	-	-	247,970	240,093
Customer deposits	2,109,774	1,771,910	-	-	65,502	73,557
Accrued payroll related liabilities	1,371,218	1,410,269	461,382	566,227	93,465	100,842
Other accrued liabilities	253,189	241,924	28,350	-	122,034	213,145
Current portion of capital lease obligations	-	-	-	1,058	27,415	25,896
Current portion of long-term debt	215,509	215,505	827,296	580,908	-	-
Advances from Tennessee Valley Authority Home Weatherization Loan Program, net of advances to customers	54,622	-	-	-	-	-
Total current liabilities	9,217,293	9,225,473	1,380,094	1,215,769	692,497	840,953
Due to other funds	-	-	-	-	6,354,668	5,992,345
Capital lease obligations, less current portion	-	-	-	-	45,883	73,736
Long-term debt, less current portion	2,057,109	2,272,618	9,800,967	10,633,377	20,115,000	19,500,000
Total liabilities	11,274,402	11,498,091	11,181,061	11,849,146	27,208,048	26,407,034
Net assets (deficit):						
Invested in capital assets, net of related debt	32,022,641	31,913,601	23,359,034	22,356,081	(207,499)	(180,203)
Restricted	-	-	308,502	301,423	-	-
Unrestricted	13,275,074	11,210,197	2,658,500	2,450,303	(5,297,807)	(4,711,348)
Total net assets (deficit)	45,297,715	43,123,798	26,326,036	25,107,807	(5,505,306)	(4,891,551)
Total liabilities and net assets	\$ 56,572,117	\$ 54,621,889	\$ 37,507,097	\$ 36,956,953	\$ 21,702,742	\$ 21,515,483

See accompanying Notes to Financial Statements.

Morristown Utility Commission
Statements of Revenues, Expenses and Changes in Net Assets (Deficit)
Years ended June 30, 2009 and 2008

	Power System		Water System		Telecom System	
	Year ended June 30	Year ended June 30	Year ended June 30	Year ended June 30	Year ended June 30	Year ended June 30
	2009	2008	2009	2008	2009	2008
Operating revenues:						
Metered sales	\$ 71,139,201	\$ 62,213,981	\$ 6,271,647	\$ 5,508,181	\$ -	\$ -
Broadband sales	-	-	-	-	5,470,822	4,424,700
Interfund services provided	-	-	-	-	737,184	-
Other operating revenues	1,144,508	1,137,428	60,204	64,813	85,428	78,972
Total operating revenues	72,283,709	63,351,409	6,331,851	5,572,994	6,293,434	4,503,672
Operating expenses:						
Power purchased	60,369,658	52,593,697	-	-	-	-
Operations	4,414,620	4,291,530	3,165,323	2,872,271	4,568,381	3,893,586
Maintenance	1,709,297	1,596,362	487,875	567,957	204,183	197,596
Interfund services used	737,184	-	-	-	-	-
Depreciation and amortization	1,973,308	2,309,990	1,157,415	1,219,756	1,531,502	1,488,938
Taxes	204,238	204,529	-	-	65,368	72,620
Miscellaneous	52,307	21,632	40,952	40,361	-	14,175
Total operating expenses	69,460,612	61,017,740	4,851,565	4,700,345	6,369,434	5,666,915
Operating income (loss)	2,823,097	2,333,669	1,480,286	872,649	(76,000)	(1,163,243)
Other income (expense):						
Interest income	116,211	243,825	36,995	111,168	7,716	29,735
Interest expense	(61,904)	(87,536)	(321,032)	(355,684)	(545,471)	(1,240,631)
Net other income (expense)	54,307	156,289	(284,037)	(244,516)	(537,755)	(1,210,896)
Income (loss) before contributions and transfers	2,877,404	2,489,958	1,196,249	628,133	(613,755)	(2,374,139)
Contributions from developers	-	-	54,000	55,500	-	-
Transfers out (tax equivalent payments to City of Morristown)	(703,487)	(698,994)	(32,020)	(32,020)	-	-
Changes in net assets	2,173,917	1,790,964	1,218,229	651,613	(613,755)	(2,374,139)
Net assets (deficit) at beginning of year	43,123,798	41,332,834	25,107,807	24,456,194	(4,891,551)	(2,517,412)
Net assets (deficit) at end of year	\$ 45,297,715	\$ 43,123,798	\$ 26,326,036	\$ 25,107,807	\$ (5,505,306)	\$ (4,891,551)

See accompanying Notes to Financial Statements.

Morristown Utility Commission
Statements of Cash Flows
Years ended June 30, 2009 and 2008

	Power System		Water System		Telecom System	
	Year ended June 30	2008	Year ended June 30	2008	Year ended June 30	2008
	2009		2009		2009	
Cash flows from operating activities						
Cash received from customers	\$ 72,482,728	\$ 60,388,811	\$ 6,343,012	\$ 5,540,401	\$ 6,293,256	\$ 4,615,452
Cash received from City of Morristown, Tennessee	1,243,817	1,266,968	-	-	-	-
Cash paid to suppliers and vendors	(63,216,874)	(54,445,131)	(2,447,554)	(2,455,142)	(4,798,657)	(3,322,242)
Cash paid to employees for services	(3,840,496)	(3,956,574)	(1,366,424)	(1,082,567)	(780,802)	(667,232)
Net cash flows from operating activities	6,669,175	3,254,074	2,529,034	2,002,692	713,797	625,978
Cash flows from noncapital financing activities						
Transfers to City of Morristown (tax equivalent payments)	(703,487)	(698,994)	(32,020)	(32,020)	-	-
Cash flows from investing activities						
Interest received on investments	116,211	243,825	36,995	111,167	7,716	29,735
(Purchase) sale of investments	-	-	(7,079)	255,688	-	-
Net cash flows from investing activities	116,211	243,825	29,916	366,855	7,716	29,735
Cash flows from capital and related financing activities						
Payments on capital lease obligations	-	-	(1,058)	(12,942)	(26,334)	(33,026)
Net additions to plant acquisition adjustments	-	(234,721)	-	-	-	-
Net additions to capital assets	(1,770,682)	(2,004,410)	(1,578,020)	(956,181)	(1,505,549)	(2,835,220)
Interfund repayments (advances)	(921,767)	(3,187,473)	559,444	(302,839)	362,323	3,490,312
Contributions from developers	-	-	54,000	55,500	-	-
Principal payments on long-term debt	(215,505)	(193,284)	(586,022)	(778,928)	-	-
Interest paid on long-term debt	(61,904)	(87,536)	(321,032)	(355,684)	(545,471)	(1,240,631)
Proceeds from long-term borrowings	-	-	-	-	615,000	73,300
Net cash flows from capital and related financing activities	(2,969,858)	(5,707,424)	(1,872,688)	(2,351,074)	(1,100,031)	(545,265)
Increase (decrease) in cash and cash equivalents	3,112,041	(2,908,519)	654,242	(13,547)	(378,518)	110,448
Cash and cash equivalents at beginning of year	3,086,303	5,994,822	1,666,250	1,679,797	1,113,058	1,002,610
Cash and cash equivalents at end of year	\$ 6,198,344	\$ 3,086,303	\$ 2,320,492	\$ 1,666,250	\$ 734,540	\$ 1,113,058

Morristown Utility Commission
Statements of Cash Flows (continued)
Years ended June 30, 2009 and 2008

	Power System		Water System		Telecom System	
	Year ended June 30	Year ended June 30	Year ended June 30	Year ended June 30	Year ended June 30	Year ended June 30
	2009	2008	2009	2008	2009	2008
Reconciliation of operating income (loss) to net cash flows from operating activities						
Operating income (loss)	\$ 2,823,097	\$ 2,333,669	\$ 1,480,286	\$ 872,649	\$ (76,000)	\$ (1,163,243)
Adjustments to reconcile operating income (loss) to net cash flows from operating activities:						
Depreciation and amortization	1,973,308	2,309,990	1,157,415	1,219,756	1,531,502	1,488,938
Provision for losses on accounts receivable	384,028	391,528	-	-	-	-
Redemption of discounted energy units	104,366	98,750	-	-	-	-
Changes in operating assets and liabilities:						
Accounts receivable	477,380	(1,880,418)	-	-	-	-
Accrual for unbilled revenue	123,081	(309,439)	11,161	(32,593)	-	-
Materials and supplies inventories	39,411	(5,330)	(70,585)	(14,062)	-	-
Other assets	144,966	(62,745)	31,762	47,503	(591,730)	93,860
Trade accounts payable	186,560	441,601	(4,510)	(40,836)	(51,309)	(59,034)
Customer deposits and prepayments	337,864	19,526	-	-	(8,055)	41,687
Other liabilities	75,114	(83,058)	(76,495)	(49,725)	(90,611)	223,770
Net cash flows from operating activities	\$ 6,669,175	\$ 3,254,074	\$ 2,529,034	\$ 2,002,692	\$ 713,797	\$ 625,978

Supplemental schedule of noncash financing activities
Acquisition of utility properties through issuance of notes payable

\$	-	\$	222,219	\$	-	\$	-	\$	-	\$	-
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See Accompanying Notes to Financial Statements.

Morristown Utilities Commission

Notes to Financial Statements

June 30, 2009 and 2008

1. Significant Accounting Policies

General

The Morristown Utilities 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.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

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.

Reclassifications

Certain amounts in the prior year have been reclassified to conform with 2009 classifications.

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 Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

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, 2009 and 2008, the Water System's investments consisted of certificates of deposit, which are stated at cost which also approximates fair value.

The Systems have no formal policy regarding interest rate risk. Investments are structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the Systems in order to avoid the forced redemption of investments prior to maturity. All investments as of June 30, 2009 met these requirements.

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 Power and Water 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 in the accompanying financial statements. The Telecom System is required by TCA 7-52-606 to pay franchise and excise tax to the State of Tennessee.

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. 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.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

1. Significant Accounting Policies (continued)

Capital Assets (continued)

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

Plant Acquisition Adjustments

Plant acquisition adjustments represent the excess of cost over net book value of utilities properties acquired from other utilities 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. Sick leave accumulation is limited to ninety days effective January 2008.

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, 2009:

Power System	\$6,198,344
Water System	2,320,492
Telecom System	734,540

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

2. Deposits and Investments (continued)

All of the Systems' deposits as of June 30, 2009 were covered by the bank collateral pool administered by the Treasurer of the State of Tennessee (the "State"). 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, 2009, the Water System had investments in certificates of deposit with a fair value of \$308,502, a weighted average interest rate of 1.98% and a weighted average maturity of 5 months.

3. Power Contract

The Power System has a power contract with the Tennessee Valley Authority ("TVA") whereby the Power System purchases all of 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 \$407,539 and \$511,905 as of June 30, 2009 and 2008, respectively.

5. Retirement Plan

The Systems share in a defined contribution retirement plan, Morristown Utilities Commission Employee Retirement 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
2009	\$3,801,445	\$3,683,466	\$ 559,884	15%	\$ 260,598	7%
2008	3,840,368	3,563,342	531,775	15%	263,977	7%

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

5. Retirement Plan (continued)

Water System:

	Total Payroll	Covered Payroll	Employer Contributions	% of Covered Payroll	Employee Contributions	% of Covered Payroll
2009	\$1,289,929	\$1,156,596	\$171,201	15%	\$100,004	9%
2008	1,149,462	1,142,852	170,793	15%	83,028	7%

Telecom System:

	Total Payroll	Covered Payroll	Employer Contributions	% of Covered Payroll	Employee Contributions	% of Covered Payroll
2009	\$773,425	\$650,033	\$97,504	15%	\$41,008	6%
2008	701,910	607,256	91,088	15%	31,781	5%

Under the Plan terms, the Systems will match participant contributions up to 3% of the participant's salary and may also contribute an additional amount to the Plan at its discretion. During 2009 and 2008, 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.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

6. Capital Assets

The following is a schedule of changes in major classes of the Power System plant for the year ended June 30, 2009:

	Balance July 1, 2008	Increases/ Transfers-In	Decreases/ Transfers-Out	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 566,548	\$ -	\$ -	\$ 566,548
Construction in progress	1,618,004	2,056,780	2,546,203	1,128,581
Total capital assets not being depreciated	2,184,552	2,056,780	2,546,203	1,695,129
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	8,542,752	566,460	24,393	9,084,819
Distribution transformers, meters, fixtures and devices	38,728,620	1,455,073	323,711	39,859,982
Buildings and improvements	4,677,182	62,845	-	4,740,027
Furniture, fixtures and equipment	5,606,872	337,014	-	5,943,886
Total capital assets being depreciated	57,555,426	2,421,392	348,104	59,628,714
Less accumulated depreciation:				
Transmission equipment, fixtures and devices	3,963,548	233,589	24,485	4,172,652
Distribution transformers, meters, fixtures and devices	15,708,870	1,275,519	396,516	16,587,873
Buildings and improvements	1,051,985	93,963	-	1,145,948
Furniture, fixtures and equipment	4,613,851	508,260	-	5,122,111
Total accumulated depreciation	25,338,254	2,111,331	421,001	27,028,584
Net capital assets being depreciated	32,217,172	310,061	(72,897)	32,600,130
Total net capital assets	\$34,401,724	\$2,366,841	\$2,473,306	\$34,295,259

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

6. Capital Assets (continued)

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 Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

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, 2009:

	Balance July 1, 2008	Increases/ Transfers-In	Decreases/ Transfers-Out	Balance June 30, 2009
Capital assets not being depreciated:				
Land	\$ 401,750	\$ -	\$ -	\$ 401,750
Construction in progress	1,046,530	1,782,603	2,152,304	676,829
Total capital assets not being depreciated	1,448,280	1,782,603	2,152,304	1,078,579
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	6,987,110	229,398	-	7,216,508
Distribution meters, fixtures and devices	26,922,939	1,063,274	37,647	27,948,566
Buildings and improvements	13,804,609	629,894	-	14,434,503
Furniture, fixtures and equipment	1,298,874	136,290	62,115	1,373,049
Total capital assets being depreciated	49,013,532	2,058,856	99,762	50,972,626
Less accumulated depreciation:				
Transmission equipment, fixtures and devices	2,807,572	182,959	-	2,990,531
Distribution meters, fixtures and devices	10,583,165	682,410	47,821	11,217,754
Buildings and improvements	2,370,206	253,860	-	2,624,066
Furniture, fixtures and equipment	1,144,843	128,955	31,575	1,242,223
Total accumulated depreciation	16,905,786	1,248,184	79,396	18,074,574
Net capital assets being depreciated	32,107,746	810,672	20,366	32,898,052
Total net capital assets	\$33,556,026	\$2,593,275	\$2,172,670	\$3,976,631

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

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 Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

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, 2009:

	Balance July 1, 2008	Increases/ Transfers-In	Decreases/ Transfers-Out	Balance June 30, 2009
Capital assets not being depreciated:				
Construction in progress	\$ 1,476,341	\$1,535,262	\$2,870,437	\$ 141,166
Total capital assets not being depreciated	1,476,341	1,535,262	2,870,437	141,166
Capital assets being depreciated:				
Transmission equipment, fixtures and devices	2,177,179	56,182	1,746	2,231,615
Distribution fixtures and devices	18,459,839	2,783,200	25,954	21,217,085
Furniture, fixtures and equipment	489,139	58,932	—	548,071
Total capital assets being depreciated	21,126,157	2,898,314	27,700	23,996,771
Less accumulated depreciation:				
Transmission equipment, fixtures and devices	350,396	88,496	1,746	437,146
Distribution fixtures and devices	1,929,329	1,408,197	25,727	3,311,799
Furniture, fixtures and equipment	137,606	92,171	—	229,777
Total accumulated depreciation	2,417,331	1,588,864	27,473	3,978,722
Net capital assets being depreciated	18,708,826	1,309,450	227	20,018,049
Total net capital assets	\$20,185,167	\$2,844,712	\$2,870,664	\$20,159,215

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

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
2009	\$202,607	\$ 90,769	\$57,361
2008	171,282	100,111	44,415

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt

The following is a summary of long-term debt for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Power System:				
Series V-A-2 Bonds	\$ 1,950,000	\$ -	\$ 125,000	\$ 1,825,000
Notes payable due to Appalachian Electric Cooperative, non-interest bearing, due in annual installments ranging from \$90,509 in 2010 to \$22,221 in 2018	538,123	-	90,505	447,618
	<u>2,488,123</u>	<u>\$ -</u>	<u>\$ 215,505</u>	<u>2,272,618</u>
Less current portion	215,505			215,509
Long-term portion	<u>\$ 2,272,618</u>			<u>\$ 2,057,109</u>
Water System:				
Water System Revenue Bonds, Series 1996	\$ 730,000	\$ -	\$ -	\$730,000
Water System Promissory Note	480,500	-	90,000	390,500
Water System Promissory Note	320,000	-	60,000	260,000
DWSRF Promissory Note	9,683,785	-	436,022	9,247,763
	<u>11,214,285</u>	<u>\$ -</u>	<u>\$ 586,022</u>	<u>10,628,263</u>
Less current portion	580,908			827,296
Long-term portion	<u>\$10,633,377</u>			<u>\$ 9,800,967</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	-
Telecom System 2008 TML Bonds	-	20,115,000	-	20,115,000
Long-term portion	<u>\$19,500,000</u>	<u>\$20,115,000</u>	<u>\$19,500,000</u>	<u>\$20,115,000</u>

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt (continued)

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 \$90,509 in 2009 to \$22,221 in 2018	384,188	222,219	68,284	538,123
	2,459,188	\$222,219	\$193,284	2,488,123
	193,284			215,505
Less current portion	\$2,265,904			\$2,272,618
Long-term portion				
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	\$ -	\$778,928	11,214,285
	564,820			580,908
Less current portion	\$11,428,393			\$10,633,377
Long-term portion				
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	\$19,500,000	\$ -	\$ -	\$19,500,000

Power System

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 (2.38% per annual as of June 30, 2009). The bonds are secured by the taxing authority of the City.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt (continued)

Power System (continued)

Maturities of Power System long-term debt as of June 30, 2009, are as follows:

	Series V-A-2 Bonds Interest Principal	Plant Acquisition Notes	Total Power System Requirements
2010	\$ 43,912	\$ 125,000	\$ 90,509
2011	40,904	150,000	77,424
2012	37,295	150,000	77,424
2013	33,686	175,000	36,009
2014	29,475	225,000	36,009
2015 – 2019	60,153	1,000,000	130,243
Total	<u>\$245,425</u>	<u>\$1,825,000</u>	<u>\$447,618</u>
			<u>\$2,518,043</u>

The Power System has a line of credit agreement with a local bank which provides for advances of up to \$1,000,000 at an annual interest rate of 4% and matures in January 2010. There are no amounts outstanding under this arrangement as of June 30, 2009.

Subsequent to year end the Power System acquired 115 customers and the related electric plant from Appalachian Electric Cooperative ("AEC") which had been annexed by the City of Morristown resulting in a note payable to AEC in the amount of \$439,740.

Water System

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 \$230,000 on July 1, 2009, to \$255,000 on July 1, 2011. Interest is payable semi-annually at rates ranging from 3.75% to 5.25%. 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, 2009, the balance in this restricted fund was \$308,502.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt (continued)

Water System (continued)

During 2001, the Water System entered into a promissory note with the City in the principal amount of \$995,500 (\$390,500 outstanding as of June 30, 2009). 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 (2.53% as of June 30, 2009) as determined by the City. Principal is payable in varying amounts from \$95,000 on June 1, 2010, to \$100,500 on June 1, 2013. Interest recognized on this note totaled \$6,157 in 2009 and \$24,852 in 2008.

In 2004, the Water System entered into an additional promissory note with the City in the principal amount of \$600,000 (\$260,000 outstanding as of June 30, 2009). 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 (3.93% as of June 30, 2009) as determined by the City. Principal is payable in varying amounts from \$60,000 on June 1, 2010, to \$70,000 on June 1, 2013. Interest recognized on this note totaled \$13,010 in 2009 and \$16,473 in 2008.

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 (\$9,247,763 outstanding as of June 30, 2009) 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 \$37,832 in July 2009 to \$55,815 in April 2026. Interest recognized on this note totaled \$263,892 in 2009 and 2008.

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 Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt (continued)

Water System (continued)

The future debt service requirements on Water System long-term debt as of June 30, 2009, 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	
2010	\$ 26,127	\$230,000	\$3,000	\$ 95,000	\$11,400	\$ 60,000	\$ 235,524	\$ 442,296	\$ 1,103,347
2011	13,388	245,000	2,500	95,000	9,000	65,000	223,836	453,984	1,107,708
2012	-	255,000	2,000	100,000	6,400	65,000	211,848	465,972	1,106,220
2013	-	-	1,500	100,500	3,800	70,000	199,536	478,284	853,620
2014	-	-	-	-	-	-	186,900	490,908	677,808
2015-									
2019	-	-	-	-	-	-	733,020	2,656,056	3,389,076
2020-									
2024	-	-	-	-	-	-	363,192	3,025,872	3,389,064
2025-									
2026	-	-	-	-	-	-	30,544	1,234,391	1,264,935
Total	<u>\$39,515</u>	<u>\$730,000</u>	<u>\$9,000</u>	<u>\$390,500</u>	<u>\$30,600</u>	<u>\$260,000</u>	<u>\$2,184,400</u>	<u>\$9,247,763</u>	<u>\$12,891,778</u>

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.

Subsequent to fiscal year end, the Water System entered into a \$2,000,000 low interest loan agreement between the City of Morristown, the Tennessee Department of Environment and Conservation and the Tennessee Local Development Authority. These funds will be used to purchase remote-read water meters for the Water System. Of the proceeds, \$800,000 will be provided as a grant via loan forgiveness through the State of Tennessee.

In addition subsequent to fiscal year end, the Water System has received final approval for the issuance of \$7,500,000 in bonds for infrastructure needs. The bonds are expected to have a fixed interest rate of 3.48% and be payable over seven years with a 25 year amortization schedule. At the end of seven years, there will be a balloon payment.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt (continued)

Telecom System

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.

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, rates under this agreement were as follows:

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

Commensurate with the October 2008 loan agreement discussed below, the Swap Agreement was terminated during 2009 at a cost of \$480,000 which will be amortized along with other debt issue costs over the term of the agreement.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

7. Long-Term Debt (continued)

Telecom System (continued)

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.

In October 2008, 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.

The new loan agreement carries a variable rate, which is determined by the Remarketing Agent for the securities. In its sole discretion, the Remarketing Agent resets the minimum rate of interest that is necessary to remarket all of the outstanding bonds at par plus accrued interest if settled on a non-interest payment date, based on market conditions. Many factors are considered when determining the interest rates, and there is no standard formula used to determine them.

As of June 30, 2009, debt service requirements on Telecom System long-term debt are as follows:

	Interest	Principal	Debt Service Requirement
2010	\$ 64,471	\$ -	\$ 64,471
2011	64,471	420,000	484,471
2012	63,298	440,000	503,298
2013	61,714	465,000	526,714
2014	60,224	490,000	550,224
2015 - 2019	276,213	2,830,000	3,106,213
2020 - 2024	226,144	3,610,000	3,836,144
2025 - 2029	162,035	4,610,000	4,772,035
2030 - 2034	80,317	5,890,000	5,970,317
2035	4,359	1,360,000	1,364,359
	<u>\$1,063,246</u>	<u>\$20,115,000</u>	<u>\$21,178,246</u>

The Telecom System currently leases certain equipment under capital lease agreements expiring in 2012. Assets under these capital leases totaled \$134,600. Accumulated amortization on these assets amounted to \$61,300 and \$35,400 at June 30, 2009 and 2008, respectively. Amortization of these assets is included with depreciation expense in the accompanying financial statements.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

8. Leases

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, 2009:

2010	\$31,014
2011	31,014
2012	15,764
Total future minimum lease payments	<u>77,792</u>
Less amounts representing interest	<u>(4,494)</u>
Present value of future minimum lease payments (including \$27,415 classified as current)	<u>\$73,298</u>

9. Tennessee Valley Authority Home Insulation Program

The Power System participates in the TVA *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, commercial, 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 \$37,345 in 2009 and \$28,115 in 2008. Loss experience has not been significant to the Systems' operations.

11. 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 \$952,575 in 2009 and \$821,220 in 2008. 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 2009 and 2008 and totaled \$315,726 in 2009 and \$299,830 in 2008. As of June 30, 2009 and 2008, \$38,803 and \$92,217, respectively, was receivable from the City for these revenues. Payment is due within approximately 30 days of the billing.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

11. Interfund Transactions (continued)

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

	<u>2009</u>	<u>2008</u>
Power System		
Due from Telecom System	\$ 6,354,668	\$ 5,992,345
Due to Water System	(48,147)	(607,591)
	<u>\$ 6,306,521</u>	<u>\$ 5,384,754</u>
Water System		
Due from Power System	<u>\$ 48,147</u>	<u>\$ 607,591</u>
Telecom System		
Due to Power System	<u>\$(6,354,668)</u>	<u>\$(5,992,345)</u>

In accordance with Tennessee Code Annotated 7-52-603(b) on July 5, 2005, and amended subsequent to June 30, 2009, a line of credit was executed allowing the Telecom System to borrow up to \$7,000,000 from the Power System. The agreement was approved by TVA as required by the Power Contract and provides for repayment of all advances along with accumulated interest in September 2024.

During 2009, the Telecom System allocated operating and maintenance costs to the Power System based on the usage of the fiber lines. This amount is reflected in the interfund services and totaled \$737,184. There was no cost allocation relating to fiber lines prior to 2009.

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:

	<u>Power System</u>	<u>Water System</u>
2009	\$703,487	\$32,020
2008	698,994	32,020

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

12. Post Employment Benefits

The Systems provide post-employment benefits ("OPEB"), in accordance with its employee benefits plan, to all eligible retirees. Expenses for the benefits have previously been recognized as premiums have been incurred and are as follows for the past two fiscal years.

	2009		2008	
	Eligible Retirees	Premiums	Eligible Retirees	Premiums
Power System	5	\$21,527	5	\$18,310
Water System	2	15,356	2	13,436
Telecom System	—	—	—	—

During the year ended June 30, 2009, the Systems implemented the Provisions of GASB Statement No. 45 ("GASB 45") *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. GASB 45 requires the accrual of liabilities for OPEB generally over the employment of participants rather than as premiums are paid. The total expense recognized under these new requirements during 2009 totaled \$93,301, \$8,602 and \$28,839 for the Power, Water, and Telecom Systems, respectively.

The Systems' OPEB is a single employee defined benefit plan and is not required to issue a separate financial report.

Plan Description

The Systems provide medical, dental, and life insurance benefits to retirees. Employees who retire at age 55 with 10 years of service or at age 65 with five years of service are eligible to participate. The Systems pay 100% of the retiree's medical, dental and life insurance premiums. In addition, the Systems pay 50% of the retiree's dependent's medical premiums. The retiree's spouse is also eligible for medical benefits (same as retiree) as long as the retiree is eligible (there are no surviving spouse benefits). The life insurance benefit available to retirees is \$5,000. The average annual medical and dental premium is \$4,300 and \$276, respectively.

Funding Policy

The Systems fund the Plan on a "pay as you go" basis and do not intend to contribute in excess of the annual premiums. The annual required contribution ("ARC") is an actuarially determined amount that represents a level of funding which, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

12. Post Employment Benefits (continued)

Annual OPEB and Net OPEB Obligation

For the year ended June 30, 2009:

	Power	Water	Telecom
Annual required contribution	\$133,229	\$37,403	\$28,866
Interest on net OPEB obligation	1,861	198	558
Adjustment to ARC	(1,952)	(207)	(586)
Annual OPEB cost	133,138	37,394	28,838
Contribution made	(39,837)	(28,792)	—
Increase in net OPEB obligation	93,301	8,602	28,838
Net OPEB obligation, beginning of year	—	—	—
Net OPEB obligation, end of year	\$ 93,301	\$ 8,602	\$28,838

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for 2009 is as follows:

Fund	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligations
Power System	\$133,138	30%	\$93,301
Water System	37,394	77%	8,602
Telecom System	28,838	0%	28,838

Funding Status and Funding Progress

System	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of covered payroll
Power	11/01/07	\$—	\$605,476	\$605,476	0%	N/A	N/A
Water	11/01/07	\$—	213,085	213,085	0%	N/A	N/A
Telecom	11/01/07	\$—	24,914	24,914	0%	N/A	N/A

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

12. Post Employment Benefits (continued)

Actuarial Methods and Assumptions

The actuarial methods and assumptions used were applied consistently for the Power, Water and Telecom Systems. The assumptions were as follows:

Funding Interest Rate	4.0%
2007 Medical Trend Rate	10.0%
Ultimate Trend Rate	5.0%
Year Ultimate Trend Rate Reached	2012
Actuarial Cost Method	Entry Age Normal
Annual Payroll Growth Rate	2.5%
Remaining Amortization Period at June 30, 2009	28 years

The mortality rates are from the RP-2000 Combined Mortality Table projected to 2007 with projection scale AA. It was assumed that the following percentages of eligible employees would retire each year:

Age	Rate
55-59	3%
60-64	20%
65-69	15%
70+	100%

It was also assumed that employees would terminate employment with the rate in the following table:

Age	Male	Female
20	6.3%	7.5%
25	5.0%	6.0%
30	3.6%	4.4%
35	2.3%	2.9%
40	1.0%	1.4%
45	0.9%	1.2%
50	0.8%	1.0%
55	0.6%	0.7%

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

12. Post Employment Benefits (continued)

Actuarial Methods and Assumptions (continued)

It was assumed that health care cost would increase in accordance with the trend rates in the following table:

Year	Medical Rates	Vision and Dental Rates
2010	7.0%	5.0%
2011	6.0%	5.0%
2012+	5.0%	5.0%

It was assumed that 100% of the current active employees covered under the active plan on the day before retirement would enroll in the Retiree Modified Plan Upon Retirement. It was also assumed that 10% of the male and 10% of the female employees who elect retiree health coverage for themselves would also elect coverage for their spouse upon retirement. It was assumed that male spouses are three years older than their wives and female spouses are three years younger than the retiree. For current retirees, actual census information was used.

The preparation of the actuarial liabilities calculated requires management to make assumptions discussed above. Due to the use of these assumptions, actual results may differ from the estimates. As this is the first year for which calculations have been made, there were no changes in estimates.

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.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

14. Net Assets

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

	2009	2008
Invested in capital assets, net of related debt consists of the following:		
Net capital assets	\$34,295,259	\$34,401,724
Less related liabilities:		
Current portion of long-term debt	215,509	212,505
Long-term debt, less current portion	2,057,109	2,275,618
Total related liabilities	2,272,618	2,488,123
Invested in capital assets, net of related debt	\$32,022,641	\$31,913,601

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

	2009	2008
Invested in capital assets, net of related debt consists of the following:		
Net capital assets	\$33,976,631	\$33,556,026
Other assets—bond issue costs	10,666	15,398
Less related liabilities:		
Capital lease obligations	—	1,058
Current portion of long-term debt	827,296	778,928
Long-term debt, less current portion	9,800,967	10,435,357
Total related liabilities	10,628,257	11,215,343
Invested in capital assets, net of related debt	\$23,359,034	\$22,356,081

Restricted net assets for the Water System consist of the bond sinking fund requirements, which totaled \$308,502 as of June 30, 2009 and \$301,423 as of June 30, 2008.

Morristown Utilities Commission
Notes to Financial Statements (continued)
June 30, 2009 and 2008

14. Net Assets (continued)

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

	<u>2009</u>	<u>2008</u>
Invested in capital assets, net of related debt consists of the following:		
Net capital assets	\$20,159,215	\$20,185,168
Other assets - bond issue costs	757,212	173,084
Less related liabilities:		
Due to other fund - for capital	935,628	938,823
Current portion of capital lease obligations	27,415	25,896
Capital lease obligations, less current portion	45,883	73,736
Long-term debt	20,115,000	19,500,000
Total related liabilities	<u>21,123,926</u>	<u>20,538,455</u>
Invested in capital assets, net of related debt	<u>\$ (207,499)</u>	<u>\$ (180,203)</u>

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

Morristown Utility Commission

Required Supplemental Information

June 30, 2009

Schedule of Funding Progress for
Morristown Utilities Retiree Benefit Plan

Schedule of Funding Progress

Actuarial Valuation Date November 1, 2007

	<u>Power System</u>	<u>Water System</u>	<u>Telecom System</u>
Actuarial Accrued Liability	\$ 605,476	\$ 213,085	\$ 24,914
Actuarial Value of Assets	-	-	-
Unfunded Actuarial Accrued Liability	\$ 605,476	\$ 213,085	\$ 24,914
Funded Ratio	0%	0%	0%

	<u>Annual Required Contribution</u>	<u>Contribution Made</u>	<u>Percentage Contributed</u>
Power System	\$ 133,138	\$ 39,837	30%
Water System	37,394	28,792	77%
Telecom System	28,838	-	0%

Note: The historical trend information about the Morristown Utilities Retiree Benefit Plan is presented as required supplementary information. The information is intended to help users assess the funding status on a going-concern basis and to assess progress made in accumulating assets to pay benefits when due.

Morristown Utility Commission

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

Fiscal Years 2009 - 2002 (in thousands)

	2009	2008	2007	2006	2005	2004	2003	2002
Power System:								
Invested in capital assets, net of related debt	\$ 32,023	\$ 31,914	\$ 31,941	\$ 30,052	\$ 29,008	\$ 28,109	\$ 27,833	\$ 26,253
Unrestricted	13,275	11,210	9,391	10,106	9,291	8,836	7,654	8,325
	<u>\$ 45,298</u>	<u>\$ 43,124</u>	<u>\$ 41,332</u>	<u>\$ 40,158</u>	<u>\$ 38,299</u>	<u>\$ 36,945</u>	<u>\$ 35,487</u>	<u>\$ 34,578</u>
Water System:								
Invested in capital assets, net of related debt	\$ 23,359	\$ 22,356	\$ 21,812	\$ 21,164	\$ 20,581	\$ 19,009	\$ 19,729	\$ 18,495
Restricted	308	301	557	532	531	554	555	658
Unrestricted	2,659	2,450	2,087	1,942	1,460	1,364	272	640
Total net assets	<u>\$ 26,326</u>	<u>\$ 25,107</u>	<u>\$ 24,456</u>	<u>\$ 23,638</u>	<u>\$ 22,572</u>	<u>\$ 20,927</u>	<u>\$ 20,556</u>	<u>\$ 19,793</u>
Telecom System:								
Invested in capital assets, net of related debt	(208)	(180)	(1,484)	144	1	-	-	-
Unrestricted deficit	(5,297)	(4,711)	(1,033)	(760)	(5)	-	-	-
Total deficit	<u>\$ (5,505)</u>	<u>\$ (4,891)</u>	<u>\$ (2,517)</u>	<u>\$ (616)</u>	<u>\$ (4)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 first year GASB 34 was adopted.

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 2009 - 2000 (in thousands)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating revenues:										
Residential	\$ 15,941	\$ 13,418	\$ 12,177	\$ 11,304	\$ 10,099	\$ 10,150	\$ 9,568	\$ 8,865	\$ 9,456	\$ 8,937
Commercial	5,450	4,746	4,604	4,246	3,890	3,760	3,536	3,307	3,328	3,169
Industrial	48,565	42,996	39,757	38,306	34,485	33,043	32,937	32,960	32,864	33,090
Street and security lighting	1,183	1,054	1,001	962	916	869	774	758	741	735
Total metered revenue	71,139	62,214	57,539	54,818	49,390	47,822	46,815	45,890	46,389	45,931
Other revenues	1,144	1,137	1,093	1,003	76	1,489	696	568	491	699
Total operating revenues	72,283	63,351	58,632	55,821	49,466	49,311	47,511	46,458	46,880	46,630
Operating expenses:										
Power purchased from Tennessee Valley Authority	60,370	52,594	49,108	46,256	40,879	41,031	40,034	38,889	39,469	39,156
Operations	4,415	4,292	4,057	3,672	3,332	3,212	3,100	2,783	2,635	2,434
Maintenance	1,709	1,596	1,487	1,313	1,291	1,147	1,036	1,331	1,318	1,279
Interfund services provided	737	-	-	-	-	-	-	-	-	-
Depreciation	1,877	2,226	2,174	1,957	1,803	1,618	1,607	1,453	1,249	1,179
Amortization of plant acquisition adjustments	96	84	86	160	127	123	180	211	277	279
Taxes	204	204	190	187	180	189	167	700	680	633
Miscellaneous	52	21	25	41	19	29	46	45	3	53
Total operating expenses	69,460	61,017	57,127	53,586	47,631	47,349	46,170	45,412	45,631	45,013
Operating income	2,823	2,334	1,505	2,235	1,835	1,962	1,341	1,046	1,249	1,617
Other income	54	156	326	244	138	87	136	175	386	361
Income before transfers	2,877	2,490	1,831	2,479	1,973	2,049	1,477	1,221	1,635	1,978
Transfers out (tax equivalent payments to City of Morristown)	(703)	(699)	(656)	(621)	(619)	(592)	(571)	-	-	-
Increase in net assets	\$ 2,174	\$ 1,791	\$ 1,175	\$ 1,858	\$ 1,354	\$ 1,457	\$ 906	\$ 1,221	\$ 1,635	\$ 1,978

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.

Note 3: In 2009 the Telecom System began charging the Power System for outage and system management.

Morristown Utility Commission

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

Fiscal Years 2009 - 2000 (in thousands)

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Operating revenues:										
General	\$ 6,015	\$ 5,261	\$ 5,029	\$ 5,038	\$ 4,643	\$ 4,090	\$ 4,201	\$ 3,979	\$ 3,931	\$ 3,736
Public authorities	61	52	54	54	54	57	56	61	42	43
Private fire protection	161	161	160	157	152	149	146	136	128	125
Public fire protection	34	33	33	33	31	32	32	32	32	32
Total metered sales	6,271	5,507	5,276	5,282	4,880	4,328	4,435	4,208	4,133	3,936
Other revenue	60	65	59	57	63	60	61	18	20	21
Total operating revenues	6,331	5,572	5,335	5,339	4,943	4,388	4,496	4,226	4,153	3,957
Operating expenses:										
Operations	3,165	2,872	2,730	2,465	2,551	2,453	2,304	2,149	2,069	2,042
Maintenance	488	568	434	446	343	431	426	408	405	452
Depreciation and amortization	1,157	1,220	1,155	1,078	957	928	900	852	826	959
Taxes	-	-	-	-	-	28	25	32	32	32
Miscellaneous	41	40	49	50	43	34	13	45	14	12
Total operating expenses	4,851	4,700	4,368	4,039	3,894	3,874	3,668	3,486	3,346	3,497
Operating income	1,480	872	967	1,300	1,049	514	828	740	807	460
Other income (expense):										
Interest income	37	111	123	78	37	18	37	64	112	101
Interest expense	(321)	(355)	(352)	(359)	(16)	(215)	(148)	(186)	(202)	(199)
Total other income (expense)	(284)	(244)	(229)	(281)	21	(197)	(111)	(122)	(90)	(98)
Income before contributions and transfers	1,196	628	738	1,019	1,070	317	717	618	717	362
Contributions from developers	54	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)	(32)	-	-	-
Increase in net assets	\$ 1,218	\$ 652	\$ 817	\$ 1,065	\$ 1,646	\$ 371	\$ 762	\$ 708	\$ 943	\$ 465

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

Note 2: 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 Four Years)

Fiscal Years 2009 - 2006 (in thousands)

	2009	2008	2007	2006
Operating revenues:				
Video	\$ 2,214	\$ 1,790	\$ 1,137	\$ 45
Internet	1,390	1,124	575	23
Voice	1,867	1,511	798	35
Total broadband sales	5,471	4,425	2,510	103
Interfund services provided	737	-	-	-
Other revenue	85	79	39	-
Total operating revenues	6,293	4,504	2,549	103
Operating expenses:				
Operations	4,568	3,908	3,062	603
Maintenance	204	197	94	84
Depreciation and amortization	1,532	1,489	741	5,467
Taxes	65	73	55	2
Total operating expenses	6,369	5,667	3,952	6,156
Operating Income	(76)	(1,163)	(1,403)	(6,053)
Other income (expense):				
Interest income	8	30	-	-
Interest expense	(545)	(1,241)	(498)	(20)
Total other expense	(537)	(1,211)	(498)	(20)
Decrease in net assets	\$ (613)	\$ (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.

Note 3: In 2009 the Telecom System began charging the Power system for outage and System management.

Morristown Utility Commission

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

Fiscal Years 2009 - 2000

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
PURCHASED POWER - (Megawatt Hours)										
Purchased from TVA	851,958	926,326	911,991	905,815	890,732	879,836	875,299	865,998	884,112	890,741
CONSUMPTION - (Megawatt Hours)										
Residential	164,160	165,828	162,131	159,997	151,445	155,813	157,645	144,098	154,644	145,453
Commercial	50,978	53,632	54,414	53,075	52,042	51,445	61,475	47,768	48,398	46,103
Industrial	605,244	674,587	661,511	660,791	654,958	628,752	630,120	633,282	645,163	661,392
Street and athletic	4,790	4,892	4,916	4,907	4,902	4,707	4,710	4,694	4,698	4,689
Outdoor lighting	4,825	4,960	4,922	4,940	4,869	4,929	4,858	4,760	4,697	4,648
Internal use	1,205	1,092	1,161	1,120	1,049	1,152	1,216	1,172	1,212	1,081
Total consumption	831,202	904,991	889,055	884,830	869,265	846,798	860,024	835,774	858,812	863,366
Line losses and megawatt hours unaccounted for	20,756	21,335	22,936	20,985	21,467	33,038	15,275	30,224	25,300	27,375
Percentage of line losses and megawatt hours unaccounted for to purchased power	2.44%	2.30%	2.51%	2.32%	2.41%	3.76%	1.75%	3.49%	2.86%	3.07%
ACTIVE SERVICE (number of customers)										
Residential	11,545	11,687	11,191	11,098	11,070	11,056	10,978	10,934	10,914	10,966
Commercial	2,166	2,210	2,707	2,619	2,551	2,511	2,494	2,565	2,461	2,320
Industrial	455	465	462	464	461	455	459	442	439	418
Street and athletic	69	70	69	67	64	64	66	66	66	66
Outdoor lighting	35	37	36	37	36	36	37	4	4	4
Total	14,270	14,469	14,465	14,285	14,182	14,122	14,034	14,011	13,884	13,774

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 2009 -2000

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
PRODUCTION - (Thousands of gallons)										
Produced	3,249,905	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
CONSUMPTION - (Thousands of gallons)										
General	2,927,487	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
Public authorities	35,207	37,057	37,571	39,365	42,289	47,786	46,347	51,724	34,392	35,425
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	20,922	21,382	20,224	19,933	78,338	73,690	101,815	73,671	80,109	64,838
Total consumption	2,988,616	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
Gallons unaccounted for	261,289	245,844	284,116	88,970	247,554	353,903	428,739	378,807	361,705	244,696
Percent of gallons unaccounted for to production	8.04%	7.25%	8.74%	2.86%	7.65%	10.49%	12.04%	11.44%	10.78%	7.74%
ACTIVE SERVICE (number of customers)										
General	12,183	12,617	12,368	12,199	12,137	12,076	11,880	11,758	11,726	11,702
Public authorities	44	43	44	45	46	34	34	35	35	36
Private fire protection	278	276	271	272	269	252	249	240	222	222
Public fire protection	1	1	1	1	1	1	1	1	1	1
Total	12,506	12,937	12,684	12,517	12,453	12,363	12,164	12,034	11,984	11,961

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

Morristown Utility Commission

Schedule of Telecom Active Service Statistics (Last Four Years)

Fiscal Years 2009 - 2006

	2009	2008	2007	2006
ACTIVE SERVICE (number of customers)				
Video	3,771	3,525	2,594	711
Internet	3,100	2,757	1,976	515
Voice	2,881	2,741	1,985	568
Total	9,752	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 2009 - 2000

Fiscal Year	Power			
	Revenue Bonds/Notes	Promissory Notes	Total	Per Customer
2009	\$ 1,825,000	\$ 447,618	\$ 2,272,618	\$ 159
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

Fiscal Year	Water			
	Revenue Bonds	Promissory Notes	Total	Per Customer
2009	\$ 730,000	\$ 9,898,263	\$ 10,628,263	\$ 850
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

Fiscal Year	Telecom			
	Bond	Promissory Note	Total	Per Customer
2009	\$ 20,115,000	\$ -	\$ 20,115,000	\$ 5,334
2008	18,000,000	1,500,000	19,500,000	5,531
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 2009 - 2000

(dollar amounts in thousands)

Fiscal Year	Gross Revenues Operating	Operating Expenses (2)	Net Revenue For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2009	\$ 72,283	\$ 67,487	\$ 4,796	\$ -	\$ -	\$ -	\$ -
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

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 2009 – 2000

(dollar amounts in thousands)

Fiscal Year	Gross Revenues (1)	Operating Expenses (2)	Net Revenue For Debt Service	Debt Service Requirements			
				Principal	Interest	Total	Coverage
2009	\$ 6,332	\$ 3,694	\$ 2,638	\$ 816	\$ 321	\$ 1,137	\$ 2.32
2008	5,573	3,480	2,093	778	354	1,132	1.85
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

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, 2009

Company	Type of Coverage	Limits	Deductible	Period of Coverage
Distributor's Insurance	Workers' Compensation	\$ 1,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Commercial General Liability	750,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Excess General Liability	750,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Automobile Liability	1,000,000	\$1,000	07/01/08 to 06/30/09
Distributor's Insurance	Umbrella Liability	2,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Property Damage	68,947,109	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Boiler & Machinery	50,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Commercial Crime	1,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Public Officials and Employees' Liability	5,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Fiduciary Liability	1,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Pollution Liability	1,000,000	N/A	07/01/08 to 06/30/09
Distributor's Insurance	Cyber and Privacy Protection	1,000,000	N/A	07/01/08 to 06/30/09

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 2009 - 2000

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Residential										
Customer charge per month	\$ 13.21	\$ 11.50	\$ 8.40	\$ 8.40	\$ 8.27	\$ 8.27	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.50
Energy charge:										
First 2,000 kWh	0.07582	0.07943	0.07189	0.06735	0.05961	0.05961	0.05663	0.05663	0.05663	0.05663
Additional kWh per month	0.07375	0.00736	0.07002	0.06548	0.05777	0.05777	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	\$ 21.50	\$ 15.25	\$ 15.25	\$ 15.00	\$ 15.00	\$ 12.00	\$ 12.00	\$ 12.00	\$ 12.00
Energy charge per kWh per month	0.08463	0.08787	0.07902	0.07453	0.06576	0.06576	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	\$ 127.00	\$ 125.00	\$ 125.00	\$ 135.00	\$ 135.00	\$ 135.00	\$ 135.00
Demand charge:										
First 50 kW per month	12.86	12.52	11.48	11.48	10.26	10.26	9.55	9.55	9.55	9.55
Excess over 50 kW per month										
Energy charge:										
First 15,000 kWh per month	0.07896	0.0822	0.07404	0.06955	0.06086	0.06086	0.05672	0.05672	0.05672	0.05672
Additional kWh per month	0.04480	0.04904	0.04378	0.03935	0.03445	0.03445	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	\$ 266.00	\$ 205.00	\$ 205.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00	\$ 200.00
Demand charge:										
First 1,000kW per month	12.90	12.54	11.49	11.49	10.22	10.22	9.56	9.56	9.56	9.56
Excess over 1,000 kW per month	14.29	13.87	12.64	12.64	11.15	11.15	10.11	10.11	10.11	10.11
Energy charge:										
Per kWh per month	0.04522	0.04946	0.04380	0.03937	0.03477	0.03477	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	11.63	11.89	10.61	10.61	11.58	11.58	10.85	10.85	10.85	10.85
Energy charge:										
First 620 kWh per Kw per month	0.03899	0.0307	0.03216	0.02771	0.03035	0.03035	0.02825	0.02825	0.02825	0.02825
Additional kWh per month	0.03337	0.03113	0.02707	0.02262	0.02477	0.02477	0.02306	0.02306	0.02306	0.02306

Morristown Utility Commission

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

Fiscal Years 2009 - 2000

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Commercial, Industrial, Governmental and Institutional (continued)										
GSB (non-manufacturing) (demand of 15,001 to 25,000 kW)	\$ 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
Customer charge per month:										
Demand charge:										
Per kWh per month	14.21	13.78	12.95	12.95	11.07	11.07	10.34	10.34	10.34	10.34
Energy charge:										
First 620 kWh per Kw per month	0.04625	0.04234	0.03872	0.03427	0.03035	0.03035	0.02825	0.02825	0.02825	0.02825
Additional kWh per month	0.03928	0.03559	0.03241	0.02796	0.02477	0.02477	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	n/a	\$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	n/a	13.5	13.5	12.6	12.6	12.6	12.6
Energy charge:										
Per kWh per month	n/a	n/a	n/a	n/a	0.02433	0.02433	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 2009 - 2000

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Inside City Rate										
Customer charge per month	\$ 4.65	\$ 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
Over 25,000 gallons	-	-	-	-	-	1.10	1.10	1.10	1.10	1.10
First 50,000 gallons	1.90	1.55	1.55	1.55	1.55	n/a	n/a	n/a	n/a	n/a
Next 50,000 gallons	1.65	1.30	1.30	1.30	1.30	n/a	n/a	n/a	n/a	n/a
Over 100,000 gallons	1.45	1.10	1.10	1.10	1.10	n/a	n/a	n/a	n/a	n/a
Minimum bill										
5/8" meter	8.45	7.75	7.75	7.75	7.75	6.50	6.50	6.50	6.50	4.50
3/4" meter	8.95	8.25	8.25	8.25	8.25	7.00	7.00	7.00	7.00	5.00
1" meter	9.70	9.25	9.25	9.25	9.25	8.00	8.00	8.00	8.00	6.75
1 1/2" meter	11.20	10.75	10.75	10.75	10.75	9.50	9.50	9.50	9.50	9.00
2" meter	15.70	15.25	15.25	15.25	15.25	14.00	14.00	14.00	14.00	13.50
3" meter	60.70	52.00	52.00	52.00	52.00	49.50	49.50	49.50	49.50	49.50
4" meter	70.70	70.00	70.00	70.00	70.00	63.00	63.00	63.00	63.00	63.00
6" meter	100.70	100.00	100.00	100.00	100.00	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	4.65	-
Commodity charge (per 1,000 gallons)										
First 25,000 gallons	-	-	-	-	-	2.50	2.50	2.50	2.50	2.50
Over 25,000 gallons	-	-	-	-	-	2.20	2.20	2.20	2.20	2.20
First 50,000 gallons	3.80	3.10	3.10	3.10	3.10	n/a	n/a	n/a	n/a	n/a
Next 50,000 gallons	3.30	2.60	2.60	2.60	2.60	n/a	n/a	n/a	n/a	n/a
Over 100,000 gallons	2.90	2.20	2.20	2.20	2.20	n/a	n/a	n/a	n/a	n/a

Morristown Utility Commission

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

Fiscal years 2009 - 2000

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
Outside City Rate (continued)										
Minimum bill										
5/8" meter	\$ 12.25	\$ 10.85	\$ 10.85	\$ 10.85	\$ 10.85	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00	\$ 9.00
3/4" meter	12.75	11.35	11.35	11.35	11.35	9.50	9.50	9.50	9.50	10.00
1" meter	13.50	12.10	12.10	12.10	12.10	10.50	10.50	10.50	10.50	13.50
1 1/2" meter	15.00	13.60	13.60	13.60	13.60	12.00	12.00	12.00	12.00	18.00
2" meter	19.50	18.10	18.10	18.10	18.10	16.50	16.50	16.50	16.50	27.00
3" meter	64.50	63.10	63.10	63.10	63.10	52.00	52.00	52.00	52.00	99.00
4" meter	74.50	73.10	73.10	73.10	73.10	65.50	65.50	65.50	65.50	126.00
6" meter	104.50	103.10	103.10	103.10	103.10	97.00	97.00	97.00	97.00	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 Four Years)

Fiscal years 2009 - 2006

Service	2009	2008	2007	2006
Standard Cable:				
Expanded basic	\$ 41.95	\$ 41.95	\$ 41.95	\$ 41.95
Digital basic	49.95	49.95	49.95	49.95
Digital bronze	59.95	59.95	59.95	59.95
Digital silver	67.95	67.95	67.95	67.95
Digital gold	80.95	80.95	80.95	80.95
Premium channels	9.95-11.95	9.95-11.95	9.95-11.95	9.95-11.95
Internet:				
Residential				
Tier 1	29.95	29.95	29.95	29.95
Tier 2	39.95	39.95	39.95	39.95
Tier 3	59.95	59.95	59.95	59.95
Tier 4	99.95	99.95	99.95	99.95
Commercial				
Tier 1	39.95	39.95	39.95	39.95
Tier 2	74.95	74.95	74.95	74.95
Tier 3	99.95	99.95	99.95	99.95
Tier 4	149.95	149.95	149.95	149.95
Tier 5	199.95	199.95	-	-
Telephone:				
Residential				
BasicPack	22.95	22.95	22.95	22.95
PreferredPack	25.00	25.00	25.00	27.95
Additional services	3.75-8.95	3.75-8.95	3.75-8.95	6.95-8.95
Long distance rate per minute	0.05	0.05	0.05	0.05
Commercial				
Access Line	25.95	25.95	25.95	26.95
Business Local Telephone Service	36.95	36.95	36.95	39.95
Additional services	6.95-25.95	6.95-25.95	6.95-25.95	6.95-7.95
Long distance rate per minute	0.05	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 Prior

Name	2009			2000		
	Annual Revenues	Rank	Percentage of Gross Revenues	Annual Revenues	Rank	Percentage of Gross Revenues
Mahle Manufacturing Co.	\$3,096,177	1	4.35%	\$3,178,876	1	6.80%
Vifan USA, Inc.	2,704,806	2	3.80%	1,904,886	4	4.10%
J W Allen Co	2,352,584	3	3.31%			
JTEKT Automotive Morristown-Tennessee Inc	2,057,054	4	2.89%	1,596,329	5	3.40%
Arvin Meritor	2,039,269	5	2.87%	2,285,821	3	4.90%
Howmet Corp.	1,492,201	6	2.10%			
Macdermid Graphic Arts	1,235,105	7	1.74%			
Vacumet Corp	1,100,657	8	1.55%			
Berkline Benchcraft, LLC	981,476	9	1.38%	263,596	10	0.60%
Lear Seigler, Inc.	919,881	10	1.29%	1,087,509	6	2.30%
Moll Industries				927,666	8	2.00%
Universal Corporation				1,041,386	7	2.20%
Lea Industries				838,653	9	1.80%
Hamblen County Board of Education				2,478,015	2	5.30%

Note 1: Compiled from internal records

Morristown Utility Commission
Schedule of Water System Principal Customers
Current Year and Nine Years Prior

Name	2009			2000		
	Annual 32023	Rank	Percentage of Gross Revenues	Annual Revenues	Rank	Percentage of Gross Revenues
Alpha Talbott Utility District	\$689,352	1	10.99%	\$585,848	1	14.80%
Russellville-Whitesburg Utility District	641,151	2	10.22%	456,106	2	11.50%
Bean Station Utility District	393,879	3	6.28%	227,179	4	5.70%
Koch Foods	392,209	4	6.25%	342,518	3	8.60%
South Morristown Witt Utility District	149,571	5	2.38%	106,484	5	2.70%
J.W. Allen	78,881	6	1.06%	24,848	8	0.60%
Colgate	77,537	7	0.92%			
Mahle	59,276	8	0.76%	73,229	6	1.80%
Morristown Housing Authority	42,454	9	0.52%			
Morristown Hamblen Hospital	27,946	10	0.47%			
Lenzig Fibers				26,184	7	0.70%
Lear Seigler				12,636	9	0.30%
Meritor Inc.				11,624	10	0.30%

Note 1: Compiled from internal records

Morristown Utility Commission

Schedule of Employees by System (Last Ten Years)

Fiscal years 2009 - 2000

Fiscal Year	Power	Water	Telecom	Total
2009	67	19	14	100
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

Note 1: Compiled from internal records.

Note 2: Telecom operations commenced in 2006.

Morristown Utility Systems
Schedule of Unaccounted For Water

June 30, 2009

(All amounts in gallons)

A	Water Treated and Produced		
B	Water Pumped (potable)	3,249,905,900	
C	Water Purchased	0	
D	Total Water Treated and Purchased		3,249,905,900
	(Sum Lines B and C)		
E	Accounted for Water		
F	Water Sold	2,962,694,600	
G	Metered for Consumption (in house usage)	20,921,600	
H	Fire Department Usage	0	
I	Flushing	0	
J	Tank Cleaning/Filling	0	
K	Street Cleaning	5,000,400	
L	Bulk Sales	0	
M	Water Bill Adjustments	0	
N	Total Accounted for Water		2,988,616,600
	(Sum Lines F thru M)		
O	Unaccounted for Water		261,289,300
	(Line D minus Line N)		
P	Percent Unaccounted for Water		8.04%
	(Line O divided by Line D times 100)		
Q	Other (explain)		n/a

All amounts included in this schedule are supported by documentation on file at the water system. If no support is on file for a line item or if the line item is not applicable, a "0" is shown.



**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, 2009, and have issued our report thereon dated November 24, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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.

Board of Commissioners
Morristown Utility Commission

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*.

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

Coulter & Justus, P.C.

Knoxville, Tennessee
November 24, 2009

EXHIBIT D

Pro forma financials for Telephone Business Unit

Morristown Utility Systems

Balance Sheet Facility Based Model

	Mos. 1 - 12	Mos. 13 - 24	Mos. 25 - 36
ASSETS			
Current Assets			
Cash and Cash Equivalents	\$ 380,630	\$ 1,187,584	\$ 2,772,477
Accounts Receivable, Net	\$ 25,602	\$ 76,807	\$ 121,786
Other Receivables	\$ -	\$ -	\$ -
Other Current Assets	\$ -	\$ -	\$ -
Total Current Assets	\$ 406,232	\$ 1,264,391	\$ 2,894,263
Property, Plant and Equipment			
Machinery & Equipment	\$ 856,398	\$ 856,398	\$ 856,398
Total	\$ 856,398	\$ 856,398	\$ 856,398
Less Accum. Depreciation	\$ (49,581)	\$ (139,678)	\$ (229,774)
Net Property, Plant and Equipment	\$ 806,817	\$ 716,720	\$ 626,624
Deposits and Other Assets	\$ -	\$ -	\$ -
Other Non-current Assets, Net	\$ -	\$ -	\$ -
Total Other Assets	\$ -	\$ -	\$ -
TOTAL ASSETS	\$ 1,213,049	\$ 1,981,111	\$ 3,520,886
LIABILITIES & NET ASSETS			
Current Liabilities			
Accounts Payable & Accrued Expenses	\$ 25,602	\$ 76,807	\$ 121,786
Current Portion Capitalized Leases	\$ -	\$ -	\$ -
Total Current Liabilities	\$ 25,602	\$ 76,807	\$ 121,786
Other Liabilities			
Business Unit Line of Credit	\$ 856,398	\$ 856,398	\$ 856,398
Total Other Liabilities	\$ 856,398	\$ 856,398	\$ 856,398
TOTAL LIABILITIES	\$ 882,000	\$ 933,205	\$ 978,184
Net Assets			
Unrestricted	\$ 331,049	\$ 1,047,906	\$ 2,542,702
TOTAL NET ASSETS	\$ 331,049	\$ 1,047,906	\$ 2,542,702
TOTAL LIABILITIES & NET ASSETS	\$ 1,213,049	\$ 1,981,111	\$ 3,520,886

Morristown Utility Systems
Annual Profit / Loss Forecast
Facility Based Model

	Months 1 - 12	Months 13 - 24	Months 25 - 36
Revenues:			
Local service	\$ 1,415,129	\$ 2,032,203	\$ 2,649,277
Local service features	\$ -	\$ -	\$ -
Long distance service	\$ 161,286	\$ 231,788	\$ 302,289
Churn	\$ (39,410)	\$ (56,600)	\$ (73,789)
Net revenues	\$ 1,537,004	\$ 2,207,391	\$ 2,877,778
Operating Expenses:			
Cynergy revenue share	\$ 998,502	\$ 549,262	\$ -
Cost of local service	\$ -	\$ 39,312	\$ 111,888
Network Cost Allocation	\$ -	\$ 295,238	\$ 624,225
Cost of long distance service	\$ -	\$ 15,275	\$ 43,476
Network interconnection expense	\$ 50,398	\$ 151,878	\$ 182,961
Operation and maintenance expense	\$ 86,250	\$ 314,217	\$ 301,144
Depreciation & Amortization expense	\$ 49,581	\$ 90,097	\$ 90,097
Taxes other than income taxes	\$ 2,209	\$ 20,241	\$ 38,785
State excise tax	\$ 21,898	\$ 47,148	\$ 97,189
Federal income tax	\$ 96,988	\$ 226,368	\$ 471,104
Total operating expense	\$ 1,305,826	\$ 1,749,037	\$ 1,960,869
Net operating income	\$ 231,178	\$ 458,354	\$ 916,909
Nonoperating Revenues (Expense):			
Interest income	\$ -	\$ 3,278	\$ 9,341
Interest expense	\$ (21,224)	\$ (38,532)	\$ (38,532)
Taxes other than income taxes	\$ 2,209	\$ 20,241	\$ 38,785
State excise tax	\$ 21,898	\$ 47,148	\$ 97,189
Federal income tax	\$ 96,988	\$ 226,368	\$ 471,104
Total nonoperating revenue (expense)	\$ 99,871	\$ 258,503	\$ 577,887
Change in net assets	\$ 331,049	\$ 716,857	\$ 1,494,796

Morristown Utility Systems
Statement of Cash Flows
Facility Based Model

	Mos. 1 - 12	Mos. 13 - 24	Mos. 25 - 36
Cash Flows From Operating Activities			
Cash Received from Customers	\$ 1,537,004	\$ 2,207,391	\$ 2,877,778
Cash Paid to Suppliers and Vendors	\$(1,077,025)	\$(1,145,939)	\$(1,037,925)
Cash Paid to Employees for Services	\$ (58,125)	\$ (219,244)	\$ (225,769)
	<u>\$ 401,854</u>	<u>\$ 842,208</u>	<u>\$ 1,614,084</u>
Cash Flows from Noncapital Financing Activities			
Draws of Credit Facility	\$ 856,398	\$ -	\$ -
Interest Paid on Credit Facility	\$ (21,224)	\$ (38,532)	\$ (38,532)
Payment of Credit Facility	\$ -	\$ -	\$ -
	<u>\$ 835,174</u>	<u>\$ (38,532)</u>	<u>\$ (38,532)</u>
Cash Flows from Investing Activities			
Interest Received on Investments	\$ -	\$ 3,278	\$ 9,341
	<u>\$ -</u>	<u>\$ 3,278</u>	<u>\$ 9,341</u>
Cash Flows from Capital Financing Activities			
Net Additions to Property, Plant and Equipment	\$ (856,398)	\$ -	\$ -
	<u>\$ (856,398)</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in cash	<u>\$ 380,630</u>	<u>\$ 806,954</u>	<u>\$ 1,584,893</u>
Cash beginning of period	<u>\$ -</u>	<u>\$ 380,630</u>	<u>\$ 1,187,584</u>
Cash ending of period	<u><u>\$ 380,630</u></u>	<u><u>\$ 1,187,584</u></u>	<u><u>\$ 2,772,477</u></u>

Market / Position	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	Total
Network Equipment													
Voice Switching Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 228,635	\$ -	\$ -	\$ -	\$ 152,424	\$ 381,059
Voice Transport Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,203	\$ -	\$ -	\$ -	\$ -	\$ 60,339
Sub-total Network Equipment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 264,839	\$ -	\$ -	\$ -	\$ 176,559	\$ 441,398
ILEC Collocation Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Operational Support Systems													
Five line OSS Platform	\$ 186,600	\$ -	\$ 124,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 311,000
	\$ 186,600	\$ -	\$ 124,400	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 311,000
Capitalized Start-up Expenditures	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 104,000
Capitalized Installation Charges	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Capital Expenditures	\$ 195,267	\$ 8,667	\$ 133,067	\$ 8,667	\$ 8,667	\$ 8,667	\$ 8,667	\$ 273,505	\$ 8,667	\$ 8,667	\$ 8,667	\$ 185,226	\$ 856,398

[illegible][illegible]

EXHIBIT E

Corporate Surety Bond

TENNESSEE REGULATORY AUTHORITY

TENNESSEE TELECOMMUNICATIONS SERVICE PROVIDER'S SURETY BOND

Bond #: 2105032

WHEREAS, Morristown Utilities Commission (the "Principal"), has applied to the Tennessee Regulatory Authority for authority to provide telecommunications services in the State of Tennessee; and

WHEREAS, under the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated, as amended, the Principal is required to file this bond in order to obtain such authority and to secure the payment of any monetary sanction imposed in any enforcement proceeding brought under Title 65 of the Tennessee Code Annotated or the Consumer Telemarketing Act of 1990 by or on behalf of the Tennessee Regulatory Authority (the "TRA"); and

WHEREAS, North American Specialty Insurance Company (the "Surety"), a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, has agreed to issue this bond in order to permit the Principal to comply with the provisions of Title 65, Chapter 4, Section 125(j) of the Tennessee Code Annotated;

NOW THEREFORE, BE IT KNOWN, that we the Principal and the Surety are held and firmly bound to the STATE OF TENNESSEE, in accordance with the provisions of Tennessee Code Annotated, Title 65, Chapter 4, Section 125(j), in the full amount of twenty thousand dollars (\$20,000.00) lawful money of the United States of America to be used for the full and prompt payment of any monetary sanction imposed against the Principal, its representatives, successors or assigns, in any enforcement proceeding brought under Title 65 of Tennessee Code Annotated or the Consumer Telemarketing Act of 1990, by or on behalf of the TRA, for which obligation we bind ourselves, our representatives, successors and assigns, each jointly and severally, firmly and unequivocally by these presents.

This bond shall become effective on the 27th day of April, 2010, and shall be continuous; provided, however, that each annual renewal period or portion thereof shall constitute a new bond term. Regardless of the number of years this bond may remain in force, the liability of the Surety shall not be cumulative, and the aggregate liability of the Surety for any and all claims, suits or actions under this bond shall not exceed Twenty Thousand Dollars (\$20,000.00). The Surety may cancel this bond by giving thirty (30) days written notice of such cancellation to the TRA and Principal by certified mail, it being understood that the Surety shall not be relieved of liability that may have accrued under this bond prior to the date of cancellation.

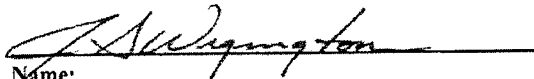
PRINCIPAL

Morristown Utilities Commission

Name of Company authorized by the TRA

Company ID # as assigned by TRA

SIGNATURE OF PRINCIPAL



Name:
Title:

SURETY

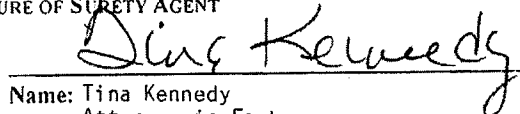
North American Specialty Insurance Company

Name of Surety

6000 Fairview Rd., #1200, Charlotte, NC 28210

Address of Surety

SIGNATURE OF SURETY AGENT



Name: Tina Kennedy
Title: Attorney-in-Fact

Address of Surety Agent:
1100 Johnson Ferry Road, NE
Suite 250
Atlanta, GA 30342

THIS BOND IS ISSUED IN ACCORDANCE WITH THE PROVISIONS OF SECTION 125, CHAPTER 4, TITLE 65 OF THE TENNESSEE CODE ANNOTATED AS AMENDED BY CHAPTER NO. 586, 2000 PUBLIC ACTS. SHOULD THERE BE ANY CONFLICT WITH THE TERMS HEREOF AND THE STATUTE OR REGULATIONS PROMULGATED THEREUNDER, THE STATUTE OR REGULATIONS SHALL PREVAIL. (POWER OF ATTORNEY FROM AN APPROVED INSURANCE COMPANY MUST BE ATTACHED.)

ACKNOWLEDGMENT OF PRINCIPAL

STATE OF TENNESSEE

COUNTY OF Hamblev

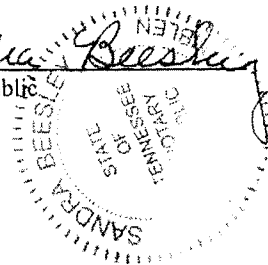
Before me, a Notary Public of the State and County aforesaid, personally appeared Joseph Wisington with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of Maristeen Unities, and he acknowledged to me that he executed the same.

WITNESS my hand and seal this 28 day of April, 2010.

My Commission Expires:

March, 2013

Sandra Beesley
Notary Public



ACKNOWLEDGMENT OF SURETY

STATE OF ~~TENNESSEE~~ GEORGIA

COUNTY OF WINNETT

Before me, a Notary Public of the State and County aforesaid, personally appeared Tina Kennedy with whom I am personally acquainted and who, upon oath, acknowledged himself to be the individual who executed the foregoing bond on behalf of ** see below, the within named Surety, a corporation licensed to do business in the State of Tennessee and duly authorized by the Tennessee Commissioner of Insurance to engage in the surety business in this state pursuant to Title 56, Chapter 2 of the Tennessee Code Annotated, and that he as such an individual being authorized to do so, executed the foregoing bond, by signing the name of the corporation by himself and as such individual.

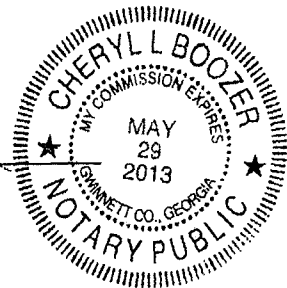
WITNESS my hand and seal this 27th day of April, 2010.

**** North American Specialty Insurance Company**

My Commission Expires:

May 29, 2013, 2000

Cheryl Booser
Notary Public



APPROVAL AND INDORSEMENT

This is to certify that I have examined the foregoing bond and found the same to be sufficient and in conformity to law, that the sureties on the same are good and worth the penalty thereof, and that the same has been filed with the Tennessee Regulatory Authority, State of Tennessee, this _____ day of _____, 20____.

Name:

Title:

NAS SURETY GROUP

NORTH AMERICAN SPECIALTY INSURANCE COMPANY
WASHINGTON INTERNATIONAL INSURANCE COMPANY

GENERAL POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, THAT North American Specialty Insurance Company, a corporation duly organized and existing under laws of the State of New Hampshire, and having its principal office in the City of Manchester, New Hampshire, and Washington International Insurance Company, a corporation organized and existing under the laws of the State of New Hampshire and having its principal office in the City of Itasca, Illinois, each docs hereby make, constitute and appoint:

TINA KENNEDY, CHRISTOPHER SLACK

and STEVEN L. SWORDS

jointly or severally

Its true and lawful Attorney(s)-in-Fact, to make, execute, seal and deliver, for and on its behalf and as its act and deed, bonds or other writings obligatory in the nature of a bond on behalf of each of said Companies, as surety, on contracts of suretyship as are or may be required or permitted by law, regulation, contract or otherwise, provided that no bond or undertaking or contract or suretyship executed under this authority shall exceed the amount of:

TEN MILLION (\$10,000,000.00) DOLLARS

This Power of Attorney is granted and is signed by facsimile under and by the authority of the following Resolutions adopted by the Boards of Directors of both North American Specialty Insurance Company and Washington International Insurance Company at meetings duly called and held on the 24th of March, 2000:

"RESOLVED, that any two of the Presidents, any Managing Director, any Senior Vice President, any Vice President, any Assistant Vice President, the Secretary or any Assistant Secretary be, and each or any of them hereby is authorized to execute a Power of Attorney qualifying the attorney named in the given Power of Attorney to execute on behalf of the Company bonds, undertakings and all contracts of surety, and that each or any of them hereby is authorized to attest to the execution of any such Power of Attorney and to attach therein the seal of the Company; and it is

FURTHER RESOLVED, that the signature of such officers and the seal of the Company may be affixed to any such Power of Attorney or to any certificate relating thereto by facsimile, and any such Power of Attorney or certificate bearing such facsimile signatures or facsimile seal shall be binding upon the Company when so affixed and in the future with regard to any bond, undertaking or contract of surety to which it is attached."



By

Steven P. Anderson, President & Chief Executive Officer of Washington International Insurance Company
& Senior Vice President of North American Specialty Insurance Company



By

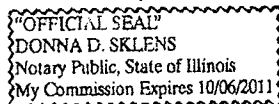
David M. Layman, Senior Vice President of Washington International Insurance Company
& Vice President of North American Specialty Insurance Company

IN WITNESS WHEREOF, North American Specialty Insurance Company and Washington International Insurance Company have caused their official seals to be hereunto affixed, and these presents to be signed by their authorized officers this 28th day of May, 2009.

North American Specialty Insurance Company
Washington International Insurance Company

State of Illinois ss:
County of Du Page

On this 28th day of May, 2009, before me, a Notary Public personally appeared Steven P. Anderson, President and CEO of Washington International Insurance Company and Senior Vice President of North American Specialty Insurance Company and David M. Layman, Senior Vice President of Washington International Insurance Company and Vice President of North American Specialty Insurance Company, personally known to me, who being by me duly sworn, acknowledged that they signed the above Power of Attorney as officers of and acknowledged said instrument to be the voluntary act and deed of their respective companies.



Donna D. Sklens, Notary Public

I, James A. Carpenter, the duly elected Assistant Secretary of North American Specialty Insurance Company and Washington International Insurance Company, do hereby certify that the above and foregoing is a true and correct copy of a Power of Attorney given by said North American Specialty Insurance Company and Washington International Insurance Company, which is still in full force and effect.

IN WITNESS WHEREOF, I have set my hand and affixed the seals of the Companies this 27th day of April, 2010.

James A. Carpenter, Vice President & Assistant Secretary of Washington International Insurance Company & North American Specialty Insurance Company

EXHIBIT F

Biographical data for MUS management team and consultants

BIOGRAPHICAL DATA OF PRINCIPAL OFFICERS
{AND CONSULTING TEAM}

General Manager

Joseph S. Wigington, P.E.

Mr. Wigington received a Bachelor of Electrical Engineering in 1978 from the University of Tennessee at Knoxville. He is an active Professional Engineer, registered in the State of Tennessee with over 31 years of experience. Mr. Wigington has been employed by MUS for 13 years since February 1996, serving as Engineering Director and Power System Manager before assuming the position of General Manager effective August 1, 2007. Mr. Wigington was instrumental in the technical evaluation, vendor selection and business plan processes during the MUS decision to enter the telecommunications business. Mr. Wigington has served as Manager as MUS has expanded the customer base to its present level.

Assistant General Manager & Controller

Clark H. Rucker, MBA

Mr. Rucker received a Bachelor of Business Administration in 1987 from Carson Newman College and a Masters in Business Administration with a concentration in Finance from The University of Tennessee at Knoxville in 2001. Mr. Rucker has been employed by MUS for 22 years since June 1987, serving as Controller and Director of Finance and Administration before assuming the position of Assistant General Manager in 2007. Mr. Rucker was instrumental in the process of financial analysis and business plan processes during the MUS decision to enter the telecommunications business. Mr. Rucker has exercised financial control over all processes as MUS expanded its customer base.

Telecommunications Manager

George A. Benjamin

Mr. Benjamin has twenty-eight (28) years in the Cable communications industry in a role of responsibility and accountability. Prior to employment at MUS in 2005, Mr. Benjamin held the role as Area Technical Operations Manager for Charter Communications in Maryville, TN during 2002-03 where he was responsible for operations covering 170,000 subscribers in Eastern Tennessee, Northern Georgia and Northern Alabama. Following Mr. Benjamin held the role of Technical Operations Manager for Adelphia Communications in Delray Beach, Florida in 2005-05 where was responsible for 150,000 subscribers.

Mr. Benjamin was employed by MUS in April 2005 as Telecommunications Manager with responsibilities to start up of the new MUS Telecommunications business unit marketed at FiberNET. Mr. Benjamin has overseen growth and operations whereby today MUS has over 4700 accounts receiving either video cable TV, high speed Internet or telephone service.

Technical Consultant Support

Alan D. Ellison

Mr. Ellison is a business professional with sixteen years experience in the field of telecommunications and technology. Mr. Ellison is currently the President and Founder of Five Incorporated, a comprehensive provider of A comprehensive provider of advanced Operational Support Systems (OSS) systems and services designed to facilitate the telecommunications and utility operations of small service providers with particular emphasis on municipal and cooperative owned entities. He is responsible for providing executive leadership, strategic planning and operational guidance.

MUC has a professional services agreement with Mr. Ellison for assistance in the design and implementation of a local voice service platform the MUC will deploy for the City of Morristown. He will provide ongoing operational assistance and technical expertise to assure a seamless and successful transfer to MUC as the CLEC.

Craig Uptagrafft

Served for 13 years with the Alabama Army National Guard as a Manager of Communications Specialists. As Vice-President of WebShoppe Communications, I was responsible for all CLEC operations and support for ISP operations. As Director of Engineering and founding member of Actel Integrated Communications, responsible for all aspects of a \$50 million, 35 city network build-out designed to deliver state of the art voice and data services. While serving on the Senior Operations staff for e.spire Communications, I deployed the first competitive PSTN switch in the southeastern United States.

EDUCATION:

- Associates in Electronics Engineering Technology, A.S.E.E.T.
RETS Electronic Institute, Birmingham, Alabama
- U.S. Army Signal Center, Fort Gordon Georgia.

RELEVANT EXPERIENCE:

2001 to present TLFG-Network Consultants, Inc
President and Founder

- TLFG- Network Consultants is a telecommunications consulting firm that provides CLECs and IOC's the advice, knowledge, project management, and engineering experience to expand and enhance their company and service offerings.

2001 to present WebShoppe Communications, Inc.
Vice-President

- First and only company to implement Remote Site Collocation and remote site Line-Sharing and Splitting with BellSouth.
- Remote Site Line Sharing and Splitting product development and rollout.

1998 to 2001 Actel Integrated Communications, Inc.

Director, Network Engineering

- Engineered the network, from concept to implementation and service ready. To support Local, LD switching, access, transport and data services to include: ATM, FR, IP and DSL.
- Deployed own SS7 STP's, LNP SMS system, SCP's, and Soft Switch to support IN/AIN applications

1996 to 1998 e.spire Communications, Inc.

Regional Operations Manager

- Managed and directed the entire operations process of multiple cities for e.spire. This included the integration and management of Lucent 5ESS switches and SONET based transport equipment.
- Deployed the first competitive PSTN switch in the Southeast.
- Assisted in the implementation and turn up of other switches throughout the Southeast.
- Served as test bed for all new planned PSTN services.

Senior Technician

- Responsible for the supervision and performance of the installation, turn-up, test, maintenance and repair of SONET based communications equipment.

1994 to 1996 MCI Telecommunications, Inc.

Field Engineer

- Duties included all maintenance and repair of digital microwave radio and associated communications equipment.

1990 to 1994 ITC/DeltaCom, Inc.

Field Technician

- Responsible for the installation, turn-up, test, maintenance and repair of digital microwave radio, fiber optic and associated communications equipment.

1986 to 1999 Alabama Army National Guard

Team Chief, SGT. E-5

- Duties and responsibilities included supervision and performance of the installation, maintenance, repair and operations of mobile combat communications equipment

Jerry Cherne
Five, Inc.

Professional Services 2006 to current

As a member of five INCORPORATED, I assist multiple clients with all aspects of regulatory application and reporting. Also assist clients with virtually all aspects in entering the CLEC market. Among other areas this includes ILEC/Vendor interaction and contracts, Carrier Access Billing (CABS), various processes implementation, obtaining necessary operating codes, and many other areas necessary to operate as a successful CLEC or other competitive provider.

Director of Regulatory & Client Services 2002 to 2005

One of several founders of Harbor Communications. Developed and filed all necessary applications and tariffs with state and federal authorities. Developed products, created and implemented procedures, and hired staff for provisioning, customer service, regulatory, and network audit. Also provided product cost analysis and negotiated carrier contracts. Together with staff and a strong president, grew the company from infancy to a company with over four thousand lines in two markets within a few years.

Vice President of Carrier Services 1998 to 2002

Played a major role in assisting Actel Integrated Communications in getting off the ground and growing to a presence in five states in three years. Developed, implemented and managed all long distance products and services. Established and managed network audit as well as the tariff process including the writing of all tariffs, monitoring competitor rates, regulatory maintenance and reporting, and internal rate administration. Established and maintained network/carrier vendor relations including negotiation of rates and terms.

Director of Operations and Regulatory Affairs 1995 to 1998

While at Touch 1 Communications, implemented and managed network audit/analysis procedures resulting in annual operational savings of several million dollars while increasing network efficiency. Coordinated the activities, monitored the results and supervised the personnel of Network Audit, Network Analyst, Regulatory Affairs and Network Management teams. Selected network vendors and negotiated contracts. Managed complete regulatory process for 48 states and the FCC. Ensured compliance with federal and state regulations.

Prior to being promoted to the above position, was Manager of Customer Relations. This included establishment of new call center for the purpose of proactive customer contact thus increasing customer retention. Supervised a staff of 51 employees including interviewing, hiring, training, performance monitoring, coaching, goal setting, and disciplinary actions. This center lead the company in retention percentages by a considerable margin.

Product Manager 1993 to 1995

Created an operator services line of products at Gulf Long Distance/Gulf Telephone that exceeded sales projections by 40% and revenue projections by 50%. Developed operator services tariff for three states and the FCC. Trained sales and support personnel on new products. Successfully delivered presentations to perspective clients while more than doubling close ratios. Prior to serving in this position was a successful Sales Manager. Established new sales and support office in Pensacola, Florida. Hired, trained and supported sales personnel. My success resulted in promotion to Area Sales Manager.

Technical Service Consultant/Major Account Sales 1990 to 1993

At MCI/Telecom*USA trained sales and support personnel in new products and basic telephony. Acted as technical liaison for major accounts by assisting customers with their network configuration and options. Coordinated circuit installation for major accounts.

Operations Manager 1989 to 1990

At Long Distance Systems, Inc. successfully managed customer service, provisioning, billing, and technical staff/functions.

Telecommunications Manager, U.S. Marines 1968 to 1988

Held several positions at many locations during a successful twenty year career in the Marine Corps. Promoted nine times, applied for and was accepted to move from the enlisted ranks to the warrant officer ranks. Received numerous awards including the Meritorious Service Medal for effective leadership, management and technical achievements while supervising over 100 employees and serving as officer in charge of telecommunications facilities for nine military camps in Japan. Responsibilities included planning, inside and outside plant operations for nine PBX's and one tandem switch, telephone installation and maintenance for over 11,000 subscribers, cable repair and installation, switchboard operations, customer service, record keeping, engineering, billing, equipment, contracts, vendor relations, network planing, general administration, and budget forecasting/compliance. Other assignments included four years as a telecommunications instructor.

Education: Graduate of Central Texas University. Attended numerous telecommunications and leadership schools and courses.

EXHIBIT G

Small and minority owned business plan

EXHIBIT G

SMALL AND MINORITY-OWNED BUSINESS PLAN

Pursuant to T.C.A. §65-5-112, as amended, Morristown Utilities Commission (“MUS”) submits this small and minority-owned Telecommunications business participation plan (the “Plan”) along with its Application for a Certificate of Public Convenience and Necessity to provide competing intrastate and local exchange services in Tennessee.

I. PURPOSE

The purpose of §65-5-112 is to provide opportunities for small and minority-owned businesses to provide goods and services to Telecommunications service providers. MUS is committed to the goals of §65-5-112 and to taking steps to support the participation of small and minority-owned telecommunications businesses in the telecommunications industry. MUS will endeavor to provide opportunities for small and minority-owned telecommunications businesses to compete for contracts and subcontracts for goods and services. As part of its procurement process, MUS will make efforts to identify and inform minority-owned and small businesses that are qualified and capable of providing goods and services to MUS of such opportunities. MUS’ representatives have already contacted the Department of Economic and Community Development and the administrator of the Small and Minority-Owned Telecommunications Assistance Program, to obtain a list of qualified vendors. Moreover, MUS will seek to increase awareness of such opportunities so that companies not otherwise identified will have sufficient information to participate in the procurement process.

II. DEFINITIONS

As defined in §65-5-112.

Minority-Owned Business. Minority-owned business shall mean a business which is solely owned, or at least fifty-one percent (51%) of the assets or outstanding stock of which is

owned, by an individual who personally manages and controls daily operations of such business, and who is impeded from normal entry into the economic mainstream because of race, religion, sex or national origin and such business has annual gross receipts of less than four million dollars (\$4,000,000).

Small Business. Small Business shall mean a business with annual gross receipts of less than four million dollars (\$4,000,000).

III. ADMINISTRATION

MUS' Plan will be overseen and administered by the individual named below, hereinafter referred to as the Administrator, who will be responsible for carrying out and promoting MUS' full efforts to provide equal opportunities for small and minority-owned businesses. The Administrator of the Plan will be:

Marie Morgan
Administrator
Morristown Utility Systems
441 West Main Street
Morristown, Tennessee 37815
Telephone: (423) 586-4121
Fax: (423) 587-6590

The Administrator's responsibilities will include:

- (1) Maintaining an updated Plan in full compliance with §65-5-112 and the rules and orders of the Tennessee Regulatory Authority.
- (2) Establishing and developing policies and procedures necessary for the successful implementation of the Plan.
- (3) Preparing and submitting such forms as may be required by the Tennessee Regulatory Authority, including the filing of required annual updates.
- (4) Serving as the primary liaison to and cooperating with the Tennessee Regulatory Authority, other agencies of the State of Tennessee, and small and minority-

owned businesses to locate and use qualified small and minority-owned businesses as defined in §65-5-112.

- (5) Searching for and developing opportunities to use small and minority-owned businesses and encouraging such businesses to participate in and bid on contracts and subcontracts.
- (6) Providing records and reports and cooperating in any authorized surveys as required by the Tennessee Regulatory Authority.
- (7) Establishing a record-keeping system to track qualified small and minority-owned businesses and efforts to use such businesses.
- (8) Providing information and educational activities to persons within MUS and training such persons to seek out, encourage, and promote the use of small and minority-owned businesses.

In performance of these duties, the Administrator will utilize a number of resources, including:

Chambers of Commerce
The Tennessee Department of Economic and Community Development
The United States Department of Commerce
Small Business Administration
Office of Minority Business
The National Minority Supplier Development Counsel
The National Association of Women Business Owners
The National Association of Minority Contractors
Historically Black Colleges, Universities, and Minority Institutions

The efforts to promote and ensure equal opportunities for small and minority-owned businesses are primarily spelled out in the Administrator's duties above. Additional efforts to provide opportunities to small and minority-owned businesses will include offering, where appropriate and feasible, small and minority-owned businesses assistance with technical, insurance, bonding, licensing, production, and deadline requirements.

IV. RECORDS AND COMPLIANCE REPORTS

MUS will maintain records of qualified small and minority-owned business and efforts to use the goods and services of such businesses. In addition, MUS will maintain records of educational and training activities conducted or attended and of the internal procurement procedures adopted to support this plan. MUS will submit records and reports required by the Tennessee Regulatory Authority concerning the Plan. Moreover, MUS will cooperate fully with any surveys and studies required by the Tennessee Regulatory Authority.

EXHIBIT H

ILEC Notice

EXHIBIT H

ILEC NOTICE

I hereby certify that a true and correct copy has been forwarded via U.S. Mail to the following on this the 21st day of April, 2010.

Ardmore Telephone Company, Inc.
P.O. Box 547
517 Ardmore Avenue
Ardmore, TN 38449

AT&T
333 Commerce Street
Nashville, TN 37201-3300

Century Telephone of Adamsville
P.O. Box 405
116 N. Oak Street
Adamsville, TN 38310

Century Telephone of Claiborne
P.O. Box 100
507 Main Street
New Tazewell, TN 37825

Century Telephone of Ooltewah-Collegedale,
Inc.
P.O. Box 782
5616 Main Street
Ooltewah, TN 37363

Citizens Communications Company of Tennessee
P.O. Box 770
300 Bland Street
Bluefield, WV 24701

Citizens Communications Company of the
Volunteer State
P.O. Box 770
300 Bland Street
Bluefield, WV 24701

Loretto Telephone Company, Inc.
P.O. Box 130
Loretto, TN 38469

Millington Telephone Company, Inc.
4880 Navy Road
Millington, TN 38053

Sprint-United
112 Sixth Street
Bristol, TN 37620

TDS Telecom-Concord Telephone Exchange,
Inc.
P.O. Box 22610
701 Concord Road
Knoxville, TN 37933-0610

TDS Telecom-Humphreys County Telephone
Company
P.O. Box 552
203 Long Street
New Johnsonville, TN 37134-0552

TDS Telecom-Tellico Telephone Company, Inc.
P.O. Box 9
102 Spence Street
Tellico Plains, TN 37385-0009

TDS Telecom-Tennessee Telephone Company
P.O. Box 22995
Knoxville, TN 37933-0995

TEC-Crockett Telephone Company, Inc.
P.O. Box 7
Friendship, TN 38034

TEC-People's Telephone Company, Inc.
P.O. Box 310
Enn, TN 37061

TEC-West Tennessee Telephone Company, Inc.
P.O. Box 10
244 E. Main Street
Bradford, TN 38316

United Telephone Company
P.O. Box 38
120 Taylor Street
Chapel Hill, TN 37034

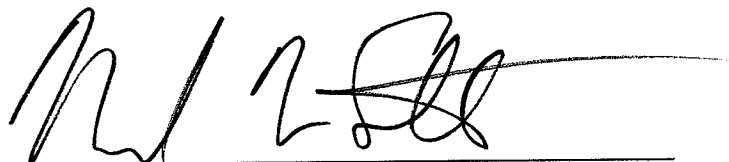
A handwritten signature in black ink, appearing to be "RJ 2-58", is written over a horizontal line.

EXHIBIT I

Toll dialing parity plan

EXHIBIT I

TOLL DIALING PARITY PLAN

I. INTRODUCTION

Morristown Utilities Commission ("MUS") will initiate the process that will give end user customers the opportunity to designate a carrier for their intraLATA and interLATA toll call traffic in those market areas where MUS is a facilities-based local exchange service provider. IntraLATA toll calls will automatically be directed to the designated carrier without the customer having to dial an access code.

MUS will comply with all rules of the Federal Communications Commission and the Tennessee Regulatory Authority.

Implementation Schedule: MUS will provide intraLATA and interLATA toll dialing parity in Tennessee at the time customer service is available.

Cost Recovery: MUS has no plans at this time to seek cost recovery associated with the implementation of this plan.

II. POLICIES

MUS will deploy two-PIC (Primary Interexchange Carrier) technology in its switches. This technology will enable the customer to presubscribe to the same or a different carrier for their intraLATA and/or interLATA service.

Appropriate tariffs will be filed in accordance with this plan.

MUS will offer customers the ability to access all participating carriers by dialing the appropriate access code (101XXXX).

All eligible MUS end user telephone line numbers will be presubscribed and must have a PIC associated with them.

III. CARRIER INFORMATION

Interexchange carriers will have the option of offering intraLATA service only or intraLATA and interLATA service.

Interexchange carriers will have the option of participating in all market areas or in a specific market area.

Interexchange carriers will be required to return a completed Non-Disclosure Agreement and Participation Agreement(s).

MUS will not participate in billing disputes for intraLATA service between alternative competing interexchange carriers and their customers.

MUS representatives will not initiate or accept three-way calls from alternative interexchange carriers to discuss presubscription.

Carriers wishing to participate will be requested to submit Access Service Requests/Translation Questionnaires to the Access Tandem owner and to MUS.

IV. CALL ELIGIBILITY/TOLL DIALING PLAN

A local service customer of MUS will have calls routed according to the following plan:

If a MUS Customer Dials:	The Call is Handled By/Routed To:
911	PSAP on originating line number
411/555-1212	MUS Directory Assistance Operator
0-	MUS Operator IntraLATA Toll
0 + intraexchange number	Provider IntraLATA Toll
1 + 10 digits	Provider InterLATA Toll
0 + 7 or 10 digits interexchange number 101XXXX + 0-	Provider XXXX
101XXXX + 0 + 10 digits	Carrier
101XXXX + 10 digits	XXXX Carrier
	XXXX Carrier

If a MUS customer originates a call to a carrier Operator by dialing 00-, the call will be routed to the PIC on that customer's line. If the customer originates a call to a carrier Operator by dialing an access code (e.g., 101XXXX + 0-), the call will be routed to the XXXX carrier. In both cases, the carrier's switch is responsible for routing this call to the carrier's Operator or to an announcement.

V. NETWORK INFORMATION.

All originating intraLATA and interLATA traffic will initially be routed via the incumbent Local Exchange Carrier (LEC) Access Tandem(s). Direct trunks between the MUS switch and the interexchange carrier location(s) may be provisioned where traffic volumes warrant.

Interexchange carriers must have Feature Group D trunks in place (or ordered) between their point of presence and the incumbent LEC Access Tandem(s).

MUS will route all originating intraLATA and interLATA traffic to the designated carrier and will only block traffic at the request of the end user customer and/or in compliance with regulatory requirements. Requests from carriers to block traffic or to remove customers from their network will not be honored. Calls that cannot be completed to a carrier will be routed to an announcement.

VI. CUSTOMER CONTACT INFORMATION

MUS customer contact representatives will process customer initiated PIC selections to MUS or to an alternative intraLATA or interLATA carrier. Carriers will have the option of allowing the MUS representative to process PIC requests on their behalf.

MUS customer contact representatives will not comment on a customer's choice of its intraLATA or interLATA PIC when the customer contacts MUS to change the PIC. MUS customer contact representatives will respond to customer inquiries about intraLATA or interLATA carriers in a competitively neutral fashion. If a customer requests information relating to carriers other than MUS, a list of participating carriers will be read to that customer in random order by MUS representatives.

If the intraLATA or interLATA toll carrier selected by the customer permits MUS to process orders on its behalf, MUS will accept the PIC change request. If the customer selects an intraLATA or interLATA toll carrier that does not allow MUS to process PIC changes on its behalf, MUS will provide the customer with the carrier's toll-free number (if provided by the carrier).

MUS representatives will not discuss alternative carrier rates or services and will not provide customers with Carrier Identification Codes or access code dialing instructions.

VII. PRESUBSCRIPTION INFORMATION

A PIC change charge will be incurred and billed to a MUS customer for each eligible line where a PIC change is made. MUS offers interexchange carriers the option of having the PIC charge billed to the carrier or to the customer.

New line customers, including customers adding lines, will have the opportunity to select a participating carrier, or they will be assigned a NO PIC designation. If a customer cannot decide upon an intraLATA carrier at the time of order will be assigned a NO PIC designation. Customers assigned a NO PIC designation as set forth in this paragraph will be required to dial an access code to reach an intraLATA or interLATA carrier's network.

If a MUS customer denies requesting a change in intraLATA or interLATA toll providers as submitted by a carrier, and the carrier is unable to produce a Letter of Agency signed by the customer, the carrier will be assessed a \$30.00 charge for the unauthorized PIC change and the PIC will be changed as per the customer's request, in addition to any other penalties authorized by law.

Alternative interexchange carriers may submit PIC changes to MUS via a fax/paper interface.

MUS will process intraLATA and interLATA PIC selections as will be described in its applicable tariffs subsequently filed to the authority for its approval.

Carriers will be required to submit PIC changes using the Customer Account Record Exchange (CARE) format via paper medium. MUS will provide carriers with PIC order confirmation and reject information using the CARE format. Specific details regarding CARE will be provided to participating carriers.

EXHIBIT J

Numbering issues

EXHIBIT J

Numbering Issues

- A. What is your company's expected demand for NXX's per NPA within a year of approval of your application?

Response: By taking advantage of local number portability (LNP), MUS expects to utilize the customers existing telephone number assignments. Therefore, MUS believes the following table to represent a reasonable approximation of the new telephone number requirements within one year of approval of this application.

Morristown, TN	MRTWTNMADSO	1,000

- B. How many NXX's do you estimate that you will request from NANPA when you establish your service footprint?

Response: As stated earlier, MUS initially plans to offer its local telephone service to its existing customer base. It is anticipated, and reasonable to assume, that the overwhelming majority of these customers already subscribe to wire-line, local telephone service provided by the ILEC. By taking advantage of local number portability (LNP), MUS expects to utilize the customers existing telephone number assignments whenever possible.

Pursuant to the International Numbering Committee's (INC) "*Central Office Code (NXX) Assignment Guidelines, Section 4.1.3*" dated February 4, 2005, MUS will initially request one NXX assignment for the establishment of an initial Location Routing Number (LRN) in the 474 LATA since MUS presently has no existing resources available for LRN assignment.

Additionally, since the 474 LATA has been designated as a number pooling area, MUS is committed to compliance with the pooling requirements established in FCC Report and Order No. 00-104.

- C. When and in what NPA do you expect to establish your service footprint?

Response: Immediately upon the Tennessee Regulatory Authority's granting of a certificate to MUS and MUS's satisfaction of all other requirements such as tariff filing and E-911 call routing, the company plans offer service in the 423 NXX.

- D. Will the company sequentially assign telephone numbers within NXX's?

Response: In order to conserve telephone numbering resources, MUS will, in all cases possible, assign telephone numbers on a sequential basis. Specific attention will be given

to maintaining contiguous thousand block groups of numbers in order to support applicable number pooling guidelines.

- E. What measures does the company intend to take to conserve Tennessee numbering resources?

Response: As previously stated, in order to conserve telephone numbering resources, MUS will, in all cases possible, assign telephone numbers on a sequential basis. Specific attention will be given to maintaining contiguous thousand block groups of numbers in order to support applicable number pooling guidelines. Additionally, MUS will take advantage of local number portability in order to maintain utilization of existing telephone number assignments and ensure a high level of customer satisfaction.

- F. When ordering new NXX's for growth, what percentage fill of an existing NXX does the company use to determine when a request for a new NXX will be initiated?

Response: Pursuant to the International Numbering Committee's (INC) "*Central Office Code (NXX) Assignment Guidelines, Section 4.3.1*" dated February 4, 2005, when ordering new NXX's for growth, MUS will ensure that a minimum of seventy-five percent (75%) of an assigned NXX is exhausted prior to application for an additional NXX. Additionally, MUS will apply for additional codes only when it expects the existing codes in a given rate center will exhaust within a six month period.

EXHIBIT K

Tennessee specific operational issues

EXHIBIT K

TENNESSEE SPECIFIC OPERATIONAL ISSUES

- A. How does the company intend to comply with T.C.A. §65-21-114? In its description, please explain technically how the company will not bill for countywide calls within Tennessee.

Response: In compliance with T.C.A. §65-21-114, Morristown Utilities Commission ("MUS") will provide customers county wide calling at no charge. In order to do so, MUS will periodically update database entries in the BellSouth/AT&T County Wide Calling (CWC) system. These updates will occur, at a minimum, on a bi-monthly basis in order to ensure that MUS customer telephone numbers are flagged with the appropriate Taxing Area (TAR) Code as all carriers are required to do.

Additionally, on a bi-monthly basis, MUS will process the TAR Master File provided by BellSouth/AT&T. In doing so, terminating numbers in call records originated by MUS customers will be matched against the TAR Master File in order to determine, based on TAR, whether or not the terminating numbers is within the same county as the originating number. If so, the MUS billing system will ensure that the call is "zero-rated" and the customer is not charged in any way for the call.

- B. Is the company aware of the Tennessee County Wide Calling database maintained by BellSouth/AT&T and the procedures to enter your telephone numbers on the database?

Response: MUS is aware of the Tennessee County Wide Calling database maintained by BellSouth/AT&T. This database is maintained by BellSouth/AT&T in order to support county wide calling to residents of Tennessee at no charge. MUS is aware of the process to update the database entries with the appropriately assigned TAR code in a timely manner.

- C. Is your company aware of the local calling areas provided by the Incumbent Local Exchange Carriers in your proposed service areas?

Response: Yes. MUS will offer a local calling area that overlays the ILEC provider's local calling area. This is intended to ensure the transition to MUS provided telephone service is without inconvenience for the customer or perceived interruption of service.

Additionally, MUS will provide local and long distance service in a manner consistent with the rules and intent of the Tennessee Regulatory Authority specifically including access to E-911 services and access to County Wide Calling (CWC) service at no additional charge to MUS' customer base.

- D. Explain the procedures that will be implemented to assure that your customers will not be billed long distance charges for calls within the metro calling areas.

Response: MUS will utilize a combination of NPA-NXX screening and database filtering processes to prevent customers from receiving long distance charges for calls

made within the metro area. These processes will be utilized in both the network switching equipment originating the calls and the back-office billing systems used to process and rate the calls.

- E. Please provide the name and telephone number of an employee of your company that will be responsible to work with the TRA on resolving customer complaints.

Response: Although MUS anticipates no complaints from customers significant enough to warrant TRA involvement, MUS is committed to resolving any complaints that may arise and will do so in the best interest of the customer. As such, MUS has identified one of its officers to work with the TRA on resolving any customer complaints that may arise. This officer is:

George Benjamin
Morristown Utilities Commission
441 West Main Street
Morristown, TN 37815
Telephone: (423) 586-4121
Fax: (423) 587-6590

- F. Does the company intend to telemarket its services in Tennessee? If yes, is the company aware of the telemarketing statutes and regulations found in T.C.A. §65-4-401 *et seq.* And Chapter 1220-4-11?

Response: Presently, MUS plans to offer telephone service only to current MUS customers. While telemarketing is not considered by MUS to be a critical part of its sales and marketing strategy, MUS may engage in the solicitation of business from its current customer base. As such, MUS is aware of, understands, and is committed to abiding by the statutes and regulations found in T.C.A. §65-4-401 *et seq.* regarding the telemarketing of products and services to consumers.

Additionally, MUS is committed to following the guidelines set forth in the Rules of the Tennessee Regulatory Authority – Consumer Services Division Chapter 1220-4-11 concerning telephone solicitation and the Tennessee Do Not Call Register. MUS is also aware of the registration requirements and associated fees required by the Tennessee Regulatory Authority and is committed to paying any, and all, appropriate fees required by TRA for telephone solicitor registration.

EXHIBIT L

Pre-filed testimony

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE: APPLICATION OF MORRISTOWN :
UTILITIES COMMISSION FOR A :
CERTIFICATE OF CONVENIENCE AND : Docket No. _____
NECESSITY TO PROVIDE COMPETING :
TELECOMMUNICATIONS SERVICES :

PRE-FILED DIRECT TESTIMONY

OF

JOSEPH S. WIGINGTON, P.E.,

GENERAL MANAGER, MORRISTOWN UTILITIES COMMISSION

1 I, Joseph S. Wigington, P.E., do hereby testify as follows in support of the Application of
2 Morristown Utilities Commission ("MUS") for a Certificate of Convenience and Necessity to
3 Provide Competing Telecommunications Services (the "Application") to provide
4 telecommunications services in the State of Tennessee:

5 **Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

6 A: My name is Joseph S. Wigington, P.E., and I am the General Manager of MUS. MUS'
7 principal office is located at 441 West Main Street, Morristown, Tennessee 37815.

8
9 **Q: PLEASE BRIEFLY DESCRIBE YOUR DUTIES.**

10 A: As General Manager, I have the responsibility for managing and overseeing all the
11 operations of MUS, subject to the ultimate oversight of the MUS Board of Directors.
12 MUS' operations presently include electric, water, cable and Internet operations. MUS
13 also provides broadband connectivity to Cinergy Communications (dba Norlight Inc)
14 who provides retail telephone service. I will also be responsible for managing and
15 overseeing MUS' telephone activities following certification of MUS' telephone
16 operations.

17
18 **Q: PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL**
19 **BACKGROUND.**

20 A: I have been employed by MUS since February of 1996. I served as Engineering Director
21 and Power System Manager before assuming the position of General Manager as of
22 August 1, 2007. I received a Bachelor of Electrical Engineering degree from the
23 University of Tennessee at Knoxville in 1978, and I have over 31 years of experience as
24 an active registered professional engineer. I have received TVPPA Certification as a
25 Utility Executive and as a Telecommunications System Administrator.

1

2 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

3 A: The purpose of my testimony is to support MUS' Application. In my testimony, I will
4 provide the TRA with background information regarding MUS. I will then address
5 MUS' Application in greater detail in order to show that MUS meets all applicable
6 requirements for certification, and I will conclude with testimony showing that granting
7 MUS' Application is in the public interest. I have asked Mr. Clark Rucker to address the
8 steps MUS has taken and will take in order to implement cost allocation procedures and
9 affiliate transaction guidelines for providing retail telephone operations.

10

11 **Q. PLEASE DESCRIBE MUS.**

12 A. MUS is a municipal utility system created in 1903 by Private Act of the Tennessee
13 General Assembly. MUS presently provides electric and water service to approximately
14 14,500 residential, commercial and industrial customers within the municipal boundaries
15 of the City of Morristown, Tennessee. Since 2006, MUS has also provided cable and
16 Internet services within the municipal boundaries of the City of Morristown. MUS also
17 provides broadband connectivity to Norlight which, in turn, provides retail telephone
18 services over MUS' fiber optic network.

19

20 **Q: TURNING NOW TO THE APPLICATION, ARE ALL THE STATEMENTS IN**
21 **MUS' APPLICATION TRUE AND CORRECT TO THE BEST OF YOUR**
22 **KNOWLEDGE, INFORMATION AND BELIEF?**

23 A: Yes.

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Q: PLEASE DESCRIBE THE AUTHORITY THAT MUS SEEKS IN THE APPLICATION.

A: In the Application, MUS has asked that the TRA grant MUS a certificate of convenience and necessity to provide retail telecommunications services.

Q: WHAT SERVICES DOES MUS PLAN TO OFFER?

A: As a competing local service provider, MUS will offer a full range of reliable services to the consumers and businesses in its service area. These services include, but are not limited to, dedicated and switched access services, private line services, local dial tone, 911 and E911 emergency services, enhanced services and all other services required under the Authority's Rule 1220-4-8-.04(3)(b).

Q: DOES MUS POSSESS THE REQUISITE MANAGERIAL, FINANCIAL, AND TECHNICAL ABILITIES TO PROVIDE THE SERVICES FOR WHICH IT HAS APPLIED FOR AUTHORITY?

A: Yes.

Q: PLEASE DESCRIBE MUS' FINANCIAL QUALIFICATIONS.

A: MUS has the financial qualifications necessary to provide telephone services over its fiber network. To provide for the required working capital and capital expenditures for its telephone operations, MUS will make an inter-division loan in the approximate amount of \$850,000 from its Electric Business Unit to its Telephone Business Unit or

1 may alternatively secure conventional financing and or leasing arrangements.
2 Conventional financing would consist of debt issuance backed by the revenues of the
3 system. The financial stability of MUS is strong as evidenced by the audited financial
4 statements for the year ending June 30, 2009 attached as **Collective Exhibit C** to the
5 Application.

6
7 **Q: PLEASE DESCRIBE MUS' MANAGERIAL AND TECHNICAL QUALIFICA-**
8 **TIONS.**

9 A: MUS has the managerial and technical qualifications necessary to provide telephone
10 services. As indicated in the Application, the members of MUS' management team have
11 extensive managerial and technical expertise in the provision of facilities-based utility
12 services. The MUS team has successfully managed electric, water, cable, and Internet
13 businesses. The team has also successfully provided connectivity to Norlight for
14 wholesale dial tone services. MUS has been responsible for hardware and software
15 provisioning to turn up dial tone across our fiber network to residential and business
16 customers. Further, MUS provides all maintenance within our network to insure ongoing
17 quality of service. This same knowledge and expertise will apply in the phone business
18 and will be supplemented by outside experts. **Collective Exhibit F** to the Application
19 details the management and technical expertise of MUS' management team and
20 demonstrates MUS' managerial and technical expertise to provide the applied for
21 services.

1 To supplement its internal managerial and technical qualifications, MUS has also retained
2 Five Incorporated to provide consulting services to MUS' telephone operations.
3 Resumes for members of this firm are included in Collective Exhibit F to the
4 Application.

5
6 **Q: DOES MUS PLAN TO OFFER TELECOMMUNICATIONS SERVICES IN**
7 **AREAS SERVED BY ANY INCUMBENT LOCAL EXCHANGE TELEPHONE**
8 **COMPANY WITH FEWER THAN 100,000 TOTAL ACCESS LINES?**

9 A: No, not at this time.

10
11 **Q: DOES MUS INTEND TO COMPLY WITH ALL TRA RULES, STATUTES, AND**
12 **ORDERS PERTAINING TO THE PROVISION OF TELECOMMUNICATIONS**
13 **SERVICES IN TENNESSEE, INCLUDING THOSE FOR DISCONNECTION**
14 **AND RECONNECTION OF SERVICE?**

15 A: Yes.

16
17 **Q: HAS ANY STATE EVER DENIED MUS OR ONE OF ITS AFFILIATES**
18 **AUTHORIZATION TO PROVIDE INTRASTATE SERVICE?**

19 A: No. MUS is not providing telecommunications services in any other state and, therefore,
20 has not been subject to complaints of any other states. MUS does not have any affiliates
21 that provide telecommunications services.

1 **Q: HAS ANY STATE EVER REVOKED THE CERTIFICATION OF MUS OR ONE**
2 **OF ITS AFFILIATES?**

3 A: No.

4
5 **Q: HAS MUS OR ONE OF ITS AFFILIATES EVER BEEN INVESTIGATED OR**
6 **SANCTIONED BY ANY REGULATORY AUTHORITY FOR SERVICE OR**
7 **BILLING IRREGULARITIES?**

8 A: No.

9
10 **Q: WHO IS KNOWLEDGEABLE ABOUT MUS' OPERATIONS AND WILL SERVE**
11 **AS MUS' REGULATORY AND CUSTOMER SERVICE CONTACT?**

12 A: Mr. George Benjamin will serve as MUS' regulatory contact with the TRA for any
13 matters arising after approval.

14
15 **Q: PLEASE EXPLAIN IN DETAIL MUS' PROPOSED PROCEDURES FOR**
16 **RESPONDING TO INFORMATION REQUESTS FROM THE TRA AND ITS**
17 **STAFF.**

18 A: Mr. Benjamin is aware of the need for timely and accurate responses to data requests and
19 other requests from the TRA and its staff. Mr. Benjamin will be responsible for
20 coordinating the preparation of responses and for submitting those responses in a timely
21 manner.

22

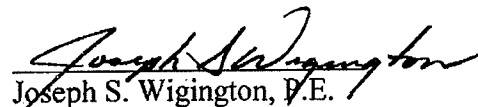
1 **Q: WILL THE GRANTING OF A CERTIFICATE OF CONVENIENCE AND**
2 **NECESSITY TO MUS SERVE THE PUBLIC INTEREST?**

3 A. Yes. The granting of MUS' application will serve the public interest in several important
4 ways. First, MUS' network will provide true facilities-based competition in the MUS
5 service area, including true facilities-based competition for the residential as well as
6 business customers in this area. Second, because the MUS network will make available
7 end to end fiber optic connections to these residential and business customers, the
8 network will address the "last mile" problem that has historically hindered the
9 development of new bandwidth intensive services in the telecommunications sector.
10 Each of these factors will contribute towards the goals of the TRA and the Tennessee
11 General Assembly to expand the availability of competitive services in Tennessee. The
12 TRA's approval of the Application should further serve the public interest by allowing
13 additional service offerings, higher quality service, lower cost service, or some
14 combination of these competitive market benefits.

15
16 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

17 A: Yes.

I swear that the foregoing testimony is true and correct to the best of my knowledge, information and belief.


Joseph S. Wigington, P.E.
General Manager
Morristown Utilities Commission

BEFORE THE TENNESSEE REGULATORY AUTHORITY

IN RE: APPLICATION OF MORRISTOWN :
UTILITIES COMMISSION FOR A :
CERTIFICATE OF CONVENIENCE AND : Docket No. _____
NECESSITY TO PROVIDE COMPETING :
TELECOMMUNICATIONS SERVICES :

PRE-FILED DIRECT TESTIMONY

OF

CLARK H. RUCKER

**ASSISTANT GENERAL MANAGER & CHIEF FINANCIAL OFFICER,
MORRISTOWN UTILITIES COMMISSION**

1 I, Clark H. Rucker, do hereby testify as follows in support of the Application of Morristown
2 Utilities Commission ("MUS") for a Certificate of Convenience and Necessity to Provide
3 Competing Telecommunications Services (the "Application") to provide telecommunications
4 services in the State of Tennessee: :

5 **Q: PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.**

6 A: My name is Clark H. Rucker, and I am the Assistant General Manager and Chief
7 Financial Officer of MUS. MUS' principal office is located at 441 West Main Street,
8 Morristown, Tennessee 37815.

9
10 **Q: PLEASE BRIEFLY DESCRIBE YOUR DUTIES.**

11 A: As Assistant General Manager and CFO of MUS, I have the responsibility for managing
12 and overseeing the administrative and financial functions of MUS. I will also be
13 responsible for administrative and financial functions of MUS' telephone activities
14 following certification of MUS' telephone operations. I have been actively involved in
15 the development of the MUS Cable/Internet Business Plan and the implementation of
16 these services, and I have had the primary responsibility for exercising financial control
17 over all processes as MUS has expanded into broadband services. I will also have similar
18 responsibilities for telephone services following certification of MUS' telephone
19 operations.

20
21 **Q: PLEASE DESCRIBE YOUR BUSINESS EXPERIENCE AND EDUCATIONAL**
22 **BACKGROUND.**

23 A: I have worked for MUS since June of 1987. I served as Controller and Director of
24 Finance and Administration before assuming the position of Assistant General Manager
25 and CFO in August 2007. I received a Bachelor of Business Administration from Carson

1 Newman College in 1987, and I received a Masters of Business Administration with a
2 concentration in Finance from the University of Tennessee at Knoxville in 2001.
3

4 **Q: WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

5 A: The purpose of my testimony is to support MUS' financial qualifications as outlined in
6 the Application and to address the development and implementation of MUS' cost
7 allocation manual.
8

9 **Q: PLEASE DESCRIBE THE STRUCTURE OF MUS' TELEPHONE BUSINESS**
10 **UNIT FROM AN ACCOUNTING AND COST ALLOCATION STANDPOINT.**

11 A: MUS has created a new Telephone Business Unit separate from its Electric Business
12 Unit, its Water Business Unit and its Cable and Internet Business Unit. The purposes of
13 the Telephone Business Unit are to allocate costs and to separately account for MUS'
14 telephone operations. Regulated services described in the Application will be provided
15 through the MUS Telephone Business Unit.
16

17 **Q: HAS MUS DEVELOPED ACCOUNTING AND COST ALLOCATION**
18 **METHODS TO ACCOMMODATE THE TELEPHONE BUSINESS UNIT?**

19 A. Yes. MUS' Cost Allocation Manual is attached as Exhibit B to the Application, and I
20 have been responsible within MUS for supervising and internally coordinating the
21 development of the Cost Allocation Manual. I am also responsible for working with
22 MUS' various departments on matters relating to the Cost Allocation Manual and its
23 implementation.

1

2 **Q. HAS MUS MODIFIED ITS EXISTING ACCOUNTING SYSTEM TO**
3 **ACCOMMODATE THE TELEPHONE BUSINESS UNIT AND TO IMPLEMENT**
4 **THE COST ALLOCATION MANUAL?**

5 A. Yes. We will be able to designate each account with a code to specify the business unit,
6 in order to print separate financial statements.

7

8 **Q: TURNING NOW TO THE APPLICATION, ARE ALL OF THE STATEMENTS**
9 **IN MUS' APPLICATION CONCERNING THE FINANCIAL ABILITY OF MUS**
10 **TO PROVIDE THE APPLIED FOR SERVICES TRUE AND CORRECT TO THE**
11 **BEST OF YOUR KNOWLEDGE, INFORMATION AND BELIEF?**

12 A: Yes.

13

14 **Q: DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A: Yes.

I swear that the foregoing testimony is true and correct to the best of my knowledge, information and belief.

A handwritten signature in black ink, appearing to read "Clark H. Rucker". The signature is fluid and cursive, with a long horizontal stroke at the end.

Clark H. Rucker
Assistant General Manager and Chief Financial Officer
Morristown Utilities Commission