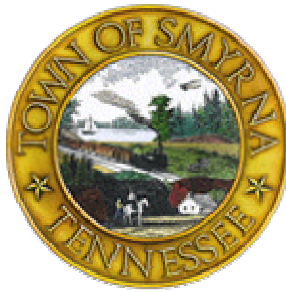


INTRODUCTORY SECTION



January 27, 2004

The Honorable Mayor, Town Council and Citizens of the Town of Smyrna, Tennessee:

The Comprehensive Annual Financial Report of the Town of Smyrna, Tennessee (the “Town” or “Town of Smyrna”) for the fiscal year ending June 30, 2003 is hereby submitted as required by state statutes. These statutes require that all general-purpose local governments publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the Town of Smyrna for the fiscal year ended June 30, 2003.

The Governmental Accounting Standards Board (GASB) established a new financial reporting model for state and local governments in GASB Statement No. 34, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments*. The requirements of these Statements represent a significant change in the financial reporting model used by the Government. In addition to fund financial statements, the Government is required to report government-wide financial statements prepared using the accrual basis of accounting and the economic measurement focus for all funds. Other changes include the establishment of new fund types, the elimination of account groups, a focus on major funds in the basic financial statements, the reporting of infrastructure, the preparation of cash flow statements using the direct method and the inclusion of Management’s Discussion and Analysis (MD&A). This new presentation provides users of the Comprehensive Annual Financial Report (CAFR) with additional information to assist in their review of financial position and results of operations. The objective of the Statement was to enhance the understandability and usefulness of the general purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The provisions of Statement No. 34 are effective in three phases based on a government’s total annual revenues. The Town is required to implement Statement No. 34 for the fiscal year ended June 30, 2003. The most notable changes to the annual financial report consist of the management’s discussion and analysis and the Government-wide financial statements, which consists of a statement of net assets and a statement of activities.

This report consists of management’s representations concerning the finances of the Town. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the Town has established a comprehensive internal control framework that is designed both to protect the government’s assets from loss, theft, or misuse

and to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The Town's financial statements have been audited by Yeary, Howell & Associates, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the Town of Smyrna for the fiscal year ended June 30, 2003, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the Town of Smyrna's financial statements for the fiscal year ended June 30, 2003, are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The Town was not required to undergo a single audit for the year ended June 30, 2003 as prescribed by the provisions of U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments and Non-Profit Organizations*.

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

Profile of the Government

The Town of Smyrna is located in middle Tennessee in the northwestern part of Rutherford County. The town is in close proximity to the southeastern boundary of Metropolitan Nashville-Davidson County and is joined by the City of Murfreesboro on the south. The City of LaVergne is immediately to the northwest of the town. The incorporated area of the town covers approximately 24 square miles and serves a population of 29,983.

The town was first incorporated in December 1869, but that incorporating charter was repealed in 1881. The town then operated under a Mayor and Commission form of government authorized by a charter dated May 5, 1915. In January 2000, the town adopted a new charter changing to a Council-Manager form of government. The new charter also changed the number of members in the governing body of the town. The governing body is made up of the Mayor and six Council, who serve four-year terms of office. The Mayor and Council appoint the Town Manager, who is the chief, non-elected administrative officer of the town.

The town provides a wide range of services characteristic of similar jurisdictions in the state. These services include police and fire protection; the maintenance of highways and streets; parks and recreation; community development; and general administrative services. The town also operates water, sewer, and natural gas utilities for its residents. Electric power is provided by the Middle Tennessee Electric Membership Cooperative.

The annual budget serves as the foundation for the Town's financial planning and control. The town maintains budgetary controls in order to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the town's governing body. The legal level of budgetary control is at the department level. Any revision to the total expenditures of any department or fund must be approved by the Town Council. Additional information concerning the Town's budgetary process can be found on page 47 of this report.

Factors Affecting Financial Condition

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

Local economy. The Town currently enjoys a favorable economic environment and local indicators point to continued stability. The town enjoys a diversified base of employment from area industries and also serves as a bedroom community to Nashville. The largest single employer is Nissan Motor Manufacturing Corporation USA, a leading manufacturer of vehicles in America. Nissan is also one of Tennessee's largest employers with approximately 6,100 employees. Subsequent to the fiscal year end, StoneCrest Medical Center, a 75-bed facility, opened to provide approximately 400 jobs.

The Town continues to see strong commercial growth within its boundaries. This growth provides jobs and sales tax revenue, which has allowed the Town to achieve a more balanced tax structure and become less dependent on the property tax to fund municipal services.

The local economy has consistently remained healthier than the national economy, with the average unemployment rate at or below the national average. Smyrna's close proximity to Nashville, while also having the advantages of a small town, has made the community a very desirable place to live and raise a family.

Cash management. Cash temporarily idle during the year was invested in demand deposits with local financial institutions and the state's local government investment pool. All investments were in accordance with the Town's Fiscal Management Policy. Additional information on the Town's cash management activity can be found in Note 1 of the notes to the financial statements and in the schedule of cash and cash equivalents on page 57.

Risk management. The Town's risk management program includes various risk control techniques, including employee accident prevention training. The Town maintains property, liability and workers' compensation insurance coverage through the Tennessee Municipal League Risk Management Pool, and meets the Pool's guidelines and complies with its rules and

regulations. The Town also has established a partially self-insured insurance plan for risks associated with employee's health. The plan includes an individual stop loss limit and an aggregate annual cap. Additional information on the Town of Smyrna's risk management activity can be found in Note 13 of the notes to the financial statements.

Pension and other postemployment benefits. In 1970, the Town established the Town of Smyrna Pension Plan, a single employer defined benefit plan. The plan is administered by plan trustees. The Town funds the plan annually based on actuarial calculations. In 1999, the town began the Retirement Savings Plan in accordance with IRS Code Section 401a, and the employee Pension Plan was closed to new participants. The Retirement Savings Plan is available to employees with 6 months of service and 1000 hours worked. The Town also offers its employees a deferred compensation plan, established in accordance with IRS Code Section 457. For detailed information on the Town's pension benefits, please refer to note 7 of the financial statements.

The Town of Smyrna also provides postretirement health care benefits for certain retirees who meet the Town's eligibility requirements. For detailed information on the Town's postretirement benefits, please refer to note 14 of the financial statements.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Town of Smyrna for its comprehensive annual financial report (CAFR) for the year ended June 30, 2002. The Certificate of Achievement is a prestigious national award that recognizes our conformance with the highest standards for preparation of a local government financial report.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized CAFR, whose content conforms to program standards. The CAFR must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The Town of Smyrna has received a Certificate of Achievement for the last fifteen consecutive years (fiscal years ended 1988-2002). We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efforts of the members of the Finance Department office staff and the cooperation of each of the Town's departments. Specific appreciation is expressed to Town Finance Manager Rex Gaither and Town Financial Analyst Connie Hollon on their preparation and thoroughness throughout the audit process, and to Town Engineer Chuck Boyett and Town Planning Technician Russ Goodrow for their expertise in determining the historical valuation of roads and infrastructure. Credit also must be given to the Mayor and Town Council and Town Manager Mark O'Neal for their unfailing support for

maintaining the highest standards of professionalism in the management of the Town of Smyrna's finances.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mark A. Tucker". The signature is written in a cursive style with a large initial "M" and "A".

Mark A. Tucker
Director of Finance

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Town of Smyrna,
Tennessee

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2002

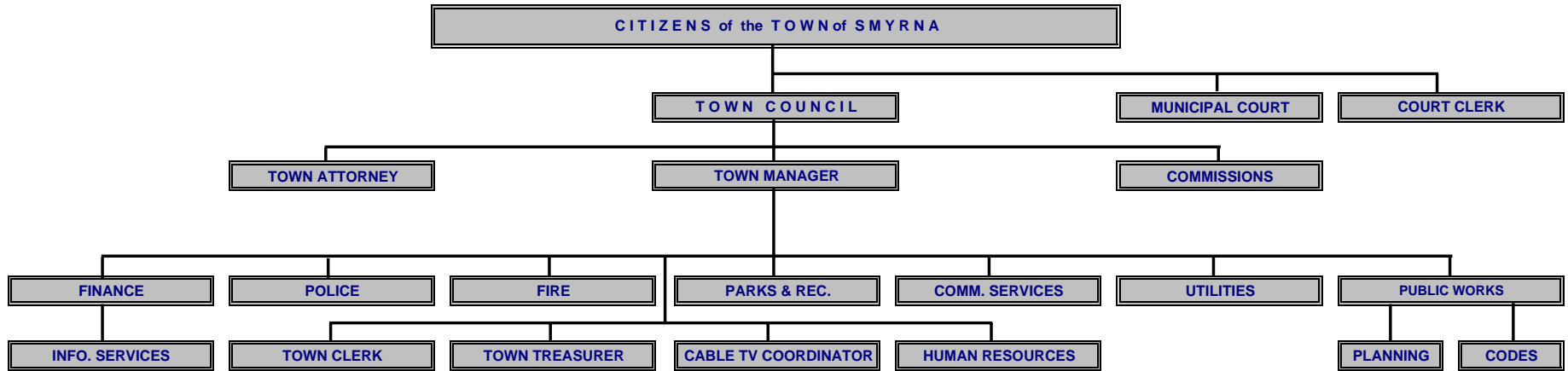
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Organizational Structure



TOWN OF SMYRNA, TENNESSEE

Town Officials

ELECTED OFFICIALS:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bob Spivey	Mayor	December 2005
Paul Johns	Vice Mayor, Councilman	December 2003
Ed Garner	Councilman	December 2005
H. G. Cole	Councilman	December 2003
Tony Dover	Councilman	December 2005
Jerry Oxsher	Councilman	December 2005
Denise Esker	Councilwoman	December 2003

APPOINTED OFFICIALS:

		<u>Date of Appointment</u>
Mark O'Neal	Town Manager	September 2002
Pat Hickey	Interim Director of Utilities	March 2003
Mark A. Tucker	Director of Finance	September 1999
Michael Beach	Chief of Police	January 1998
Bill Culbertson	Fire Chief	January 1993
Chuck Boyett	Director of Public Works	December 1996
Hal Loflin	Director of Community Services	June 1993
Tom Sage	Director of Parks and Recreation	August 1994