

Management's Discussion and Analysis

As management of the Town of Smyrna, Tennessee (the "Town" or the "Town of Smyrna"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2003. This being the initial year of adoption, comparative information is not presented. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Town. Please consider the information presented here in conjunction with our Letter of Transmittal (page i) and the Town's financial statements (beginning on page 12).

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$166,164,434 (net assets). Of this amount, \$24,754,443 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$9,346,480.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$13,748,533, an increase of \$57 in comparison with the prior year. Approximately 97% of this total amount, \$13,365,843, is available for spending at the government's discretion (unreserved fund balance).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$11,835,363, or 83% of total general fund expenditures. This demonstrates the Town's fiscal discipline and places the Town in a strong financial position to meet unexpected emergencies, uncertainties at the State level or the general slowdown in the economy.
- The Town of Smyrna's total debt decreased by \$1,659,665 (7.2%) during the current fiscal year. This was a result of the payment of current debt owed.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction of the Town of Smyrna's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, recreation and community development. The business-type activities of the Town include the Water and Sewer Fund and the Natural Gas Fund.

The government-wide financial statements can be found on pages 12-13 of this report.

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

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

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

The Town maintains seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the capital projects fund, both of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

Proprietary funds. The Town maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its Water and Sewer Fund and Natural Gas Fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Town's various functions. The Town uses an internal service fund to account for its self-insured health insurance. Because this service benefits both governmental and business-type functions, it has been allocated between both governmental activities and business-type activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund and the Natural Gas Fund, both of which are considered to be major funds of the Town. The internal service fund is also presented in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 18-21 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages 22-23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24-41 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The Town of Smyrna adopts an annual appropriated budget for its general fund and capital projects fund. Within the required supplementary information, a budget comparison statement has been provided for these funds to demonstrate compliance with the budget. Required supplementary information can be found on pages 42-47 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 48-54 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town of Smyrna, assets exceeded liabilities by \$166,164,434 at the close of the most recent fiscal year.

Net Assets - Primary Government June 30, 2003

	Governmental Activities	Business-Type Activities	Total
Current and Other Assets	\$ 22,355,783	\$ 14,247,761	\$ 36,603,544
Capital Assets	69,210,487	91,500,143	160,710,630
Total Assets	<u>91,566,270</u>	<u>105,747,904</u>	<u>197,314,174</u>
Long-term Liabilities Outstanding	4,797,290	16,233,745	21,031,035
Other Liabilities	7,519,785	2,598,920	10,118,705
Total Liabilities	<u>12,317,075</u>	<u>18,832,665</u>	<u>31,149,740</u>
Net Assets:			
Invested in Capital Assets, net of related debt	64,865,890	75,266,398	140,132,288
Restricted	1,277,703	-	1,277,703
Unrestricted	13,105,602	11,648,841	24,754,443
Total Net Assets	<u>\$ 79,249,195</u>	<u>\$ 86,915,239</u>	<u>\$ 166,164,434</u>

By far the largest portion of the Town of Smyrna's net assets (84.3 percent) reflects its investment in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town of Smyrna uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Smyrna's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the Town's net assets (0.77 percent) represents resources that are subject to external restrictions on how they may be used. These include net assets restricted for capital projects (\$1,130,031), highways and streets (\$121,185) and law enforcement (\$26,487). The remaining balance of unrestricted net assets (\$24,754,443) may be used to meet the government's ongoing obligations to citizens and creditors.

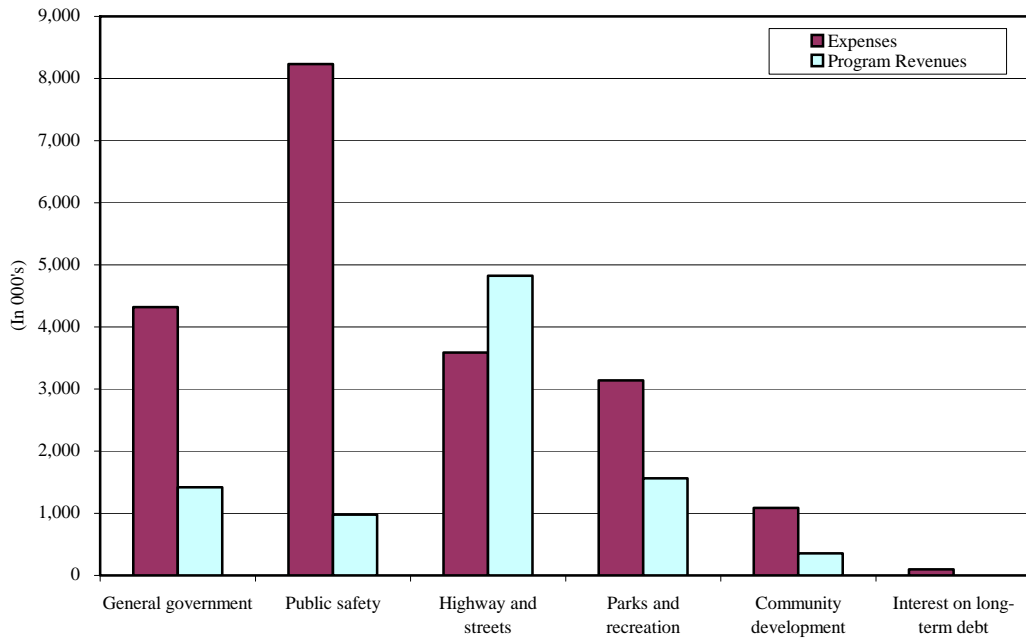
At the end of the current fiscal year, the Town of Smyrna is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

Governmental activities. Governmental activities increased the Town of Smyrna's net assets by \$4,034,396, thereby accounting for 43 percent of the total growth in the net assets of the Town of Smyrna. Key elements of this increase are as follows:

**Changes in Net Assets
For the year ended June 30, 2003**

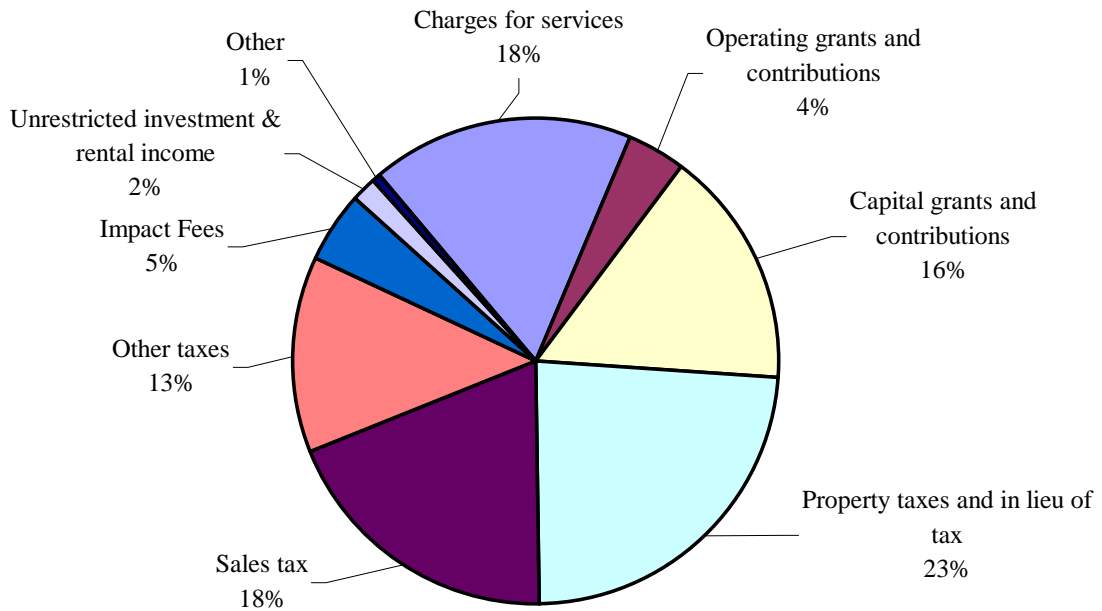
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Charges for services	\$ 4,311,288	\$ 21,978,104	\$ 26,289,392
Operating grants and contributions	905,469	-	905,469
Capital grants and contributions	3,920,756	5,728,329	9,649,085
General revenues:			
Property taxes and in lieu of tax	5,795,745	-	5,795,745
Sales tax	4,671,656	-	4,671,656
Other taxes	3,225,773	-	3,225,773
Impact Fees	1,123,885	-	1,123,885
Unrestricted investment & rental income	411,219	226,202	637,421
Other	136,889	-	136,889
Total Revenues	<u>24,502,680</u>	<u>27,932,635</u>	<u>52,435,315</u>
Expenses:			
General government	4,320,424	-	4,320,424
Public safety	8,231,385	-	8,231,385
Highway and streets	3,589,552	-	3,589,552
Parks and recreation	3,140,252	-	3,140,252
Community development	1,086,288	-	1,086,288
Interest on long-term debt	100,383	-	100,383
Water and Sewer	-	7,542,168	7,542,168
Natural Gas	-	15,078,383	15,078,383
Total expenses	<u>20,468,284</u>	<u>22,620,551</u>	<u>43,088,835</u>
Increase in net assets	4,034,396	5,312,084	9,346,480
Net assets - beginning	<u>75,214,799</u>	<u>81,603,155</u>	<u>156,817,954</u>
Net assets - ending	<u>\$ 79,249,195</u>	<u>\$ 86,915,239</u>	<u>\$ 166,164,434</u>

Expenses and Program Revenues – Governmental Activities



As the above graph shows, Public Safety is the largest activity, reflecting the Town’s commitment to a safe community. General Government is the next largest activity, which is responsible for the administration of the government. Highways and Streets was also a substantial activity reflecting the Town’s commitment to safe and adequate roads.

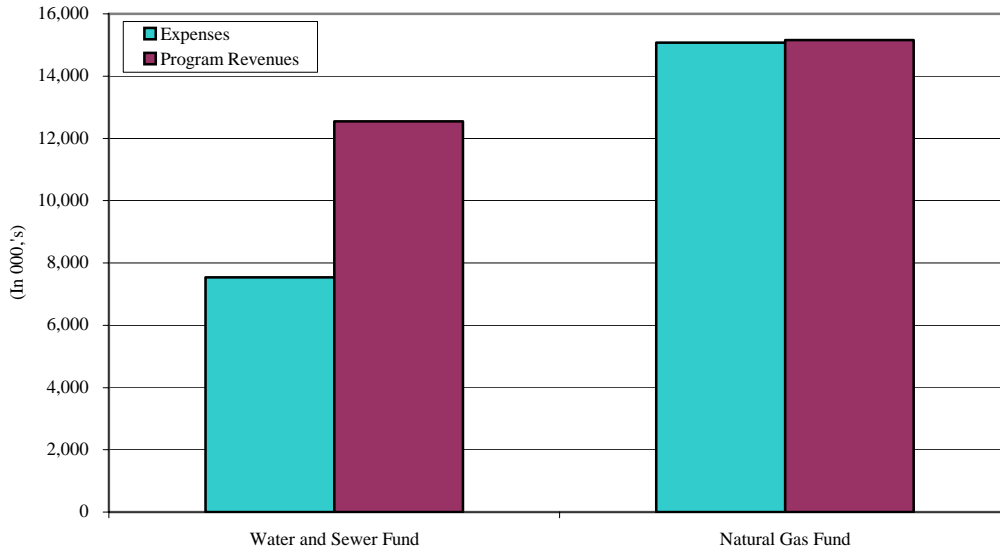
Revenue by Source – Governmental Activities



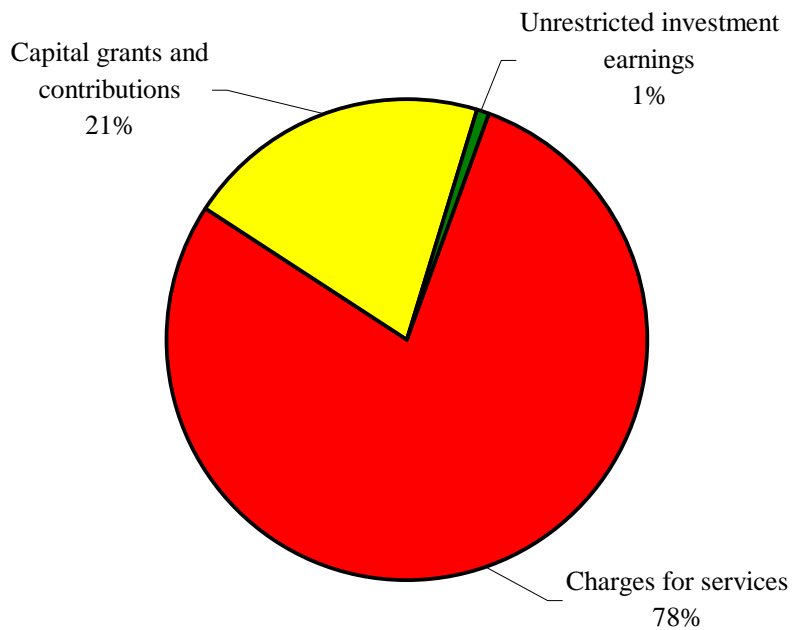
Business-type activities. Business-type activities increased the Town of Smyrna’s net assets by \$5,312,084, accounting for 57 percent of the total growth in the government’s net assets. A key element of this increase is as follows:

- The Town's Water and Sewer Fund accounts for 96% of the increase in business-type net assets. The change in net assets is primarily a result of capital grants and contributions.

Expenses and Program Revenues – Business-type Activities



Revenues by Source – Business-type Activities



Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$13,748,533 an increase of \$57 in comparison with the prior year. Approximately 97% of this total amount (\$13,363,843) constitutes unreserved fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for notes receivable (\$235,890), project (\$75,373), and prepaid items and inventory (\$71,427).

The general fund is the chief operating fund of the Town of Smyrna. At the end of the current fiscal year, unreserved fund balance of the general fund was \$11,835,363, while total fund balance reached \$11,927,376. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 82.3 percent of total general fund expenditures, while total fund balance represents 83.2 percent of that same amount.

The fund balance of the Town of Smyrna's general fund increased by \$780,667 during the current fiscal year. Key factors in this growth are as follows:

- Local option sales taxes increased by \$452,291 (10.9%) during the year, a result of the increase in population, as well as, commercial business in the Town.
- The general fund transfers out for capital projects decreased.

The capital projects fund has a total fund balance of \$261,560, of which \$235,890 is reserved for the noncurrent portion of notes receivable. The net decrease in fund balance during the current year in the capital projects fund was \$969.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$4,133,128 and those for the Natural Gas Fund amounted to \$7,396,257. The total growth in net assets for the funds was \$5,094,757 and \$215,768, respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

General Fund Budgetary Highlights

Differences between the original and final amended general fund budget (\$459,000 increase in appropriations) can be summarized with the following increases and decreases:

- \$5,330 decrease to the general government budget
- \$243,700 increase to the public safety-police budget for higher worker's compensation insurance cost, repairs to police vehicles, increase in the cost of fuel and a new position
- \$56,250 decrease to the public safety-fire budget
- \$51,500 increase to the highways and streets budget for additional overtime worked, higher insurance costs and additional funding for pension plan
- \$71,000 decrease to the recreation budget
- \$296,380 increase in the transfer to the capital projects fund for renovations to buildings, purchase of machinery and equipment and park improvements

Of this increase, \$12,000 was to be funded out of an increase to other revenue. The remaining \$447,000 was to be budgeted from available fund balance. During the year, however, revenues exceeded budgetary estimates, and expenditures and other financing sources and uses, were less than budgetary estimates, thus eliminating the need to draw upon fund balance.

Capital Asset and Debt Administration

Capital assets. The Town of Smyrna's investment in capital assets for its governmental and business type activities as of June 30, 2003 amounts to \$160,710,630 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the Town of Smyrna's investment in capital assets for the current fiscal year was 6.5 percent (a 5.9 percent increase for governmental activities and a 7 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the following:

- Construction continued on the waste water treatment plant upgrades; construction in progress as of the close of the fiscal year amounted to \$17,576,924 for this project.
- Various improvements to Town Parks, including Sharp Springs Natural Area and Recreation Park.
- Construction continued on Hilltop-Rosenwald Park; construction in progress as of the close of the fiscal year amounted to \$109,898 for this project.
- A new service company apparatus was purchased for the fire department to assist other apparatus on the incident scene with extrication, lighting and various other support functions.
- Construction continued on widening Chaney Road; construction in progress as of the close of the fiscal year amounted to \$723,815 for this project.

Capital Assets
(net of accumulated depreciation)
June 30, 2003

	Governmental Activities	Business-type Activities	Total
Land	\$ 2,288,417	\$ 1,595,536	\$ 3,883,953
Buildings and system	7,088,638	70,423,431	77,512,069
Improvements other than buildings	7,716,763	-	7,716,763
Machinery and equipment	1,366,663	795,576	2,162,239
Infrastructure	49,660,795	-	49,660,795
Construction in progress	1,089,211	18,685,600	19,774,811
Total Assets, net	<u>\$ 69,210,487</u>	<u>\$ 91,500,143</u>	<u>\$ 160,710,630</u>

Additional information on the Town's capital assets can be found in Note 3 on pages 30 - 31 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Smyrna had total bonded debt outstanding of \$20,573,694. Of this amount, \$4,073,926 comprises debt backed by the full faith and credit of the government; \$15,619,375 are bonds secured by specified revenue sources, but backed by the taxing authority of the Town (i.e., revenue and tax bonds); and \$880,393 are bonds secured solely by specified revenue sources (i.e., revenue bonds).

Outstanding Debt
General Obligation and Revenue Bonds
June 30, 2003

	Governmental Activities	Business-type Activities	Total
General obligation bonds	\$ 4,073,926	\$ -	\$ 4,073,926
Revenue and tax bonds	-	15,619,375	15,619,375
State of Tennessee loan revenue bonds	-	880,393	880,393
Total	<u>\$ 4,073,926</u>	<u>\$ 16,499,768</u>	<u>\$ 20,573,694</u>

The Town of Smyrna's total bonded debt decreased by \$1,846,352 (8.2 percent) during the current fiscal year. The key factor in this decrease was the payment of current amounts of long-term liabilities.

During the year, the Town issued \$2,220,000 of Water and Sewer Revenue and Tax Refunding Bonds. The bonds were issued for the purpose of refunding \$2,160,000 of previously issued Water and Sewer Revenue and Tax Bonds. The result is expected to decrease future debt service payments by \$86,877. Please refer to Note 6 (page 33) for additional information on the bond refunding.

The Town of Smyrna maintains an “A1” rating from Moody’s Investors Service for its general obligation and revenue and tax bonds debt.

State statutes set no limit for the amount of general obligation debt a governmental entity may issue. The total general obligation debt outstanding for the Town of Smyrna of \$4,073,926 translates to approximately \$136 per capita using the 2003 special census population.

Additional information on the Town of Smyrna’s long-term debt can be found in Note 6 on pages 33 - 35 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for the Town of Smyrna is currently 4.5 percent, which is an increase from a rate of 4.3 percent a year ago. This compares favorably to the state’s average unemployment rate of 5.7 percent and the national average rate of 5.9 percent.
- Inflationary trends in the region compare favorably to national indices.

These factors were considered in preparing the Town of Smyrna’s budget for the 2004 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$11,835,363. The Town of Smyrna appropriated \$1,178,998 of this amount for spending on one time capital assets in the 2004 fiscal year budget. Should these appropriated amounts be needed for operations, some of the one time capital assets can be rescheduled for future appropriations.

Requests for Information

This financial report is designed to provide a general overview of the Town of Smyrna’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Smyrna
Office of the Finance Director
315 South Lowry
Smyrna, Tennessee 37167
E-mail: mark.tucker@townofsmyrna.org