

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements

June 30, 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Entity

The Town provides the following services as authorized by its charter: public safety (police and fire departments), highways and streets, cultural and recreation, public improvements, planning and zoning, utilities (water, sewer and natural gas), and general administrative services. The Town also administers a pension plan and insurance internal service fund for the benefit of its employees.

The financial statements of the Town of Smyrna have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Town's accounting policies are described below.

Reporting Entity

The accompanying financial statements present the government and its component units. Component units are entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are required to be presented in the government's financial statements using either a "blended" or "discrete" presentation.

The Industrial Development Board was created to finance, acquire, own, lease and or dispose of properties to increase employment opportunities, housing availability and to promote industry and trade in the Town. The Board is appointed by the Town Council. The Board has issued bonds to construct housing units which will be leased to the Housing Authority. The bonds are revenue and tax bonds backed by the Town. The project is under construction at June 30, 2004. The Board is a blended component unit and reported as an enterprise fund.

Related Organizations

The Town appoints the board of Smyrna Housing Authority; however, the Town's accountability does not extend beyond making the appointments, and the related organization has not been included as part of the reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (i) charges to customers or applicants (including fines and fees) who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period, except for property taxes which are collected within 60 days of year end. Sales taxes and other shared revenues through intermediary collecting governments are considered measurable and available if received within 30 days of year end. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgements are recorded only when payment is due.

Property taxes, franchise taxes, state shared revenues, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period using the criteria specified in the paragraph above. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Town reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Capital Projects Fund is used to account for the financial resources to be used for the acquisition or construction of major government capital assets, improvements or repairs.

The Impact Fee Fund is used to account for the collection of fees restricted for certain capital requirements.

The Town reports the following major proprietary funds:

The Water & Sewer Fund accounts for the water and waste water services provided to customers of the system.

The Natural Gas Fund accounts for the provision of natural gas service to customers of the system.

Industrial Development Fund accounts for the constructing and leasing of property to promote the housing, industry and trade in the Town.

Additionally, the Town reports the following fund types:

Internal service fund, to account for costs associated with the employees' health insurance plan.

Pension trust fund to account for the activities of the pension plans maintained for employees of the Town, which accumulates resources for pension payments to qualified employees.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow private-sector guidance.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation, (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu taxes and other charges between the government's utilities and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include (i) charges to customers or applicants (including fines and fees) for goods, services, or privileges provided, (ii) operating grants and contributions, and (iii) capital grants and contributions. General revenues include all taxes and internally dedicated resources.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the various utility funds and medical benefit fund are charges to customers for sales and services. Operating expenses for enterprise funds and the internal service fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed.

Joint Venture

The Town appoints 2 of 5 members of the Smyrna/Rutherford County Airport Authority with the other members being appointed by the county and City of LaVergne. The Town has no equity interest in the joint venture; however, the Town is responsible to appropriate funds to supplement short-falls in operation. Required disclosures regarding this joint venture is included in Note 9.

Cash, Cash Equivalents and Investments

The Town of Smyrna is authorized to invest in U.S. Treasury Bills, mutual funds and certificates of deposit in local banks as well as participate in the Local Government Investment Pool administered by the State of Tennessee. The pool contains investments in certificates of deposits, U.S. Treasury securities and Repurchase Agreements, backed by the U.S. Treasury Securities. The investment pool is administered by the Treasurer of the State of Tennessee. Town policy dictates that collateral meet certain requirements, such as, be deposited in an institution which participates in the State Collateral Pool or be deposited in an escrow account in another institution for the benefit of the Town of Smyrna and must be a minimum of 105% of the value of the deposits placed in the institutions less the amount protected by federal deposit insurance. The state collateral pool is administered by the Treasurer of the State of Tennessee. Members of the pool may be required by agreement to pay an assessment to cover any deficiency.

Under this additional agreement, public fund accounts covered by the pool are considered to be classified as category one insured credit risk in accordance with GASB Statement No. 3, Deposits with Financial Institutions, Investments (including Repurchase Agreements) and Reverse Repurchase Agreements. An agent of the Town manages the investments of the Pension Fund and is authorized to make such purchases as is deemed in the best interest of the Town. All investments are stated at fair value.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash, Cash Equivalents and Investments, (Continued)

Cash and cash equivalents consist of cash, savings accounts and short-term certificates of deposit with an original maturity of three months or less. Due to liquidity, the Town considers the funds deposited in the local government investment pool as a cash equivalent for financial statement and cash flow purposes. The fair value of the position in the investment pool is the same as the value of the pool shares.

Inventory and Prepaid Items

Inventory of proprietary funds, principally materials, supplies and replacement parts, is valued using the first-in, first-out method (FIFO). Any inventories of governmental funds have been valued at cost also using the first-in, first-out method (FIFO). Inventory of governmental funds are accounted for on the consumption basis. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

All trade receivables and property tax receivables, are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 9 percent of outstanding undeferred receivable.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets consisting of certain improvements other than buildings, including roads, bridges, streets and sidewalks, and drainage systems are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$4,000 and an estimated useful life in excess of three years. Infrastructure capital assets are defined as assets with an individual cost of more than \$50,000 and an estimated life in excess of three years. All capital assets are valued at historical cost or estimated historical cost, if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest in the amount of \$247,190 was capitalized during the year.

Depreciation has been provided over estimated useful lives using the straight-line method.

The estimated useful lives are as follows:

Infrastructure (roads, bridges)	15-40 years
Buildings	25-50 years
Distribution systems	10-50 years
Equipment	3-10 years
Furniture and fixtures	3-10 years

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Claims Payable

Medical insurance claims payable are classified as accounts payable and are recorded in accordance with GASB Statement Number 10.

Appropriations

Appropriations to other funds are accounted for as inter-fund transfers in the governmental fund statements, and are eliminated in the government-wide statements. Quasi-external transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as revenues in the fund being reimbursed and expenses in the fund reimbursing.

Compensated Absences

Town policy permits the accumulation within certain limitations, of vacation and sick leave. Vacation leave may accumulate to a maximum of 30 days. Sick leave accumulation is unlimited. No amounts of sick days are vested in the event of employee termination, except in the case of retirement, at which time every 20 days of accrued sick leave counts as one month time in service towards retirement. Employees may convert a maximum of 10 days of vacation leave to cash each year.

All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee terminations or retirements. Governmental compensated absences are typically liquidated by the General and Golf Course Funds.

Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

Bond and note premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable loss on refundings. Bond issue costs are reported net of amortization in other assets and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Tax

The Town's property tax is levied each October 1 on the assessed value listed as of the prior January 1 for all real and personal property located in the Town's legal boundaries. All Town taxes on real estate are declared to be a lien on such realty from January 1 of the year assessments are made. Since the enforceable legal claim is not until the next fiscal year, these taxes are deferred. Assessed values are established by the State of Tennessee at the following rates of assessed market value:

Industrial and Commercial Property		Public Utility Property	55%
- Real	40%	Farm and Residential Property	25%
- Personal	30%		

Taxes were levied at a rate of \$.69 and .69 per \$100 of assessed valuation for fiscal years 2004 and 2003 respectively. Payments may be made during the period from October 1 through February 28. Current tax collections of \$3,475,537 for the fiscal year ended June 30, 2004 were approximately 97.5 percent of the tax levy. Delinquent taxes past due for fourteen months are turned over to the county clerk for collection.

The government-wide financial statements report taxes receivable of \$5,553,993 which is net of an allowance for doubtful collections of \$16,721. Of this receivable amount, \$182,263 represents prior year property taxes, \$3,766,321 represents the estimated net realizable 2004 property taxes and \$1,622,124 represents estimated net realizable 2004 in lieu of tax. These amounts are included in deferred revenue since the enforceable legal claim is in the next fiscal year. The receivable reported in the governmental funds balance sheet is \$5,570,714 with an offsetting deferred revenue for amounts not available at June 30, 2004. The additional amount included in taxes receivable reported in the statements of \$83,828 is for beer taxes.

2) DEPOSITS AND INVESTMENTS

The Town's deposits are categorized below to give an indication of the level of risk assumed by the Town at year end.

Primary Government:

<u>Cash Deposits</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured FDIC	\$ 200,000	200,000
Category One Collateral:		
Collateral pledged by the Town's agent in the Town's name held by a third party custodian	10,614,546	11,657,923
Multiple Institution Collateral Pool	2,450,000	2,450,000
	13,264,546	<u>14,307,923</u>
<u>Change funds</u>	3,146	
<u>Liquid Investments (cash equivalents)</u>	19,605,395	
	\$ <u>32,873,087</u>	

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

2) DEPOSITS AND INVESTMENTS, (Continued)

Investments

The Town of Smyrna's investments are categorized below to give an indication of the level of risk assumed by the Town at year end. Category one includes investments that are insured or registered or for which the securities are held by the Town or its agent in the Town's name. Category two includes uninsured and unregistered investments for which the securities are held by the institution's trust department or agent in the Town's name. Category three includes uninsured and unregistered investments for which the securities are held by the institution or its agent but not in the Town's name.

	<u>Category One</u>	<u>Category Two</u>	<u>Category Three</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Fiduciary Fund-Pension Fund:					
U.S. Treasury and Agency Securities	\$ 781,237	-	-	781,237	781,237
Corporate Bonds and Notes	<u>831,522</u>	-	-	<u>831,522</u>	<u>831,522</u>
	<u>\$ 1,612,759</u>	<u>-</u>	<u>-</u>	1,612,759	1,612,759
Primary Government:					
Local Government Investment Pool				19,605,395	19,605,395
Money Market Fund				178,205	178,205
Fiduciary Fund:					
Mutual Funds				595,755	595,755
Money Market Funds				<u>201,944</u>	<u>201,944</u>
				22,194,058	22,194,058
Liquid Investments (cash equivalents)-Primary Government				<u>(19,605,395)</u>	<u>(19,605,395)</u>
Total investments- (Fiduciary (Pension) Fund \$2,410,458) (Enterprise Fund \$178,205)				<u>\$ 2,588,663</u>	<u>2,588,663</u>

The Town's investment portfolio did not experience any significant market declines subsequent to the year end.

3) CAPITAL ASSETS

Governmental Activities

Capital assets activity for the year ended June 30, 2004 was as follows:

<u>Asset</u>	<u>Balance July 1, 2003</u>	<u>Reclasses & Increases</u>	<u>Reclasses & Decreases</u>	<u>Balance June 30, 2004</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,488,924	-	-	2,488,924
Construction in progress	1,089,210	2,632,698	-	3,721,908
<u>Capital assets being depreciated:</u>				
Buildings	15,132,204	-	-	15,132,204
Improvements other than buildings	8,333,901	297,811	-	8,631,712
Equipment	10,006,802	934,413	(362,800)	10,578,415
Infrastructure	<u>61,029,441</u>	<u>1,427,756</u>	<u>-</u>	<u>62,457,197</u>
Total	<u>\$ 98,080,482</u>	<u>5,292,678</u>	<u>(362,800)</u>	<u>103,010,360</u>

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2004

3) CAPITAL ASSETS, Continued

Governmental Activities (Continued):

	Balance <u>July 1, 2003</u>	Increases	Decreases	Balance <u>June 30, 2004</u>
<u>Accumulated Depreciation</u>				
Buildings	\$ 8,061,675	504,328	-	8,566,003
Improvements	711,116	310,374	-	1,021,490
Equipment	7,305,327	758,587	(362,800)	7,701,114
Infrastructure	<u>12,791,877</u>	<u>2,038,969</u>	<u>-</u>	<u>14,830,846</u>
Total accumulated depreciation	\$ <u>28,869,995</u>	<u>3,612,258</u>	<u>(362,800)</u>	<u>32,119,453</u>
Governmental activities capital assets - net	\$ <u>69,210,487</u>	<u>1,680,420</u>	<u>-</u>	<u>70,890,907</u>

Depreciation expense, including depreciation on assets acquired through capital leases, was charged to functions/programs of the primary government as follows:

General Government	\$ 235,505
Public Safety	
Police	251,930
Fire	330,626
Highways and street	2,193,753
Recreation	486,512
Community development	<u>113,932</u>
	<u>\$ 3,612,258</u>

Current year infrastructure additions include improvements donated from developers of \$1,085,126.

Business-Type Activities:

Capital assets of the Enterprise Funds consisted of the following at June 30, 2004:

	Balance <u>July 1, 2003</u>	Increases	Decreases	Balance <u>June 30, 2004</u>	Water and <u>Sewer Fund</u>	Natural <u>Gas Fund</u>	Industrial <u>Development Fund</u>
<u>Asset</u>							
<u>Capital assets not being depreciated</u>							
Land and land rights	\$ 1,595,536	-	-	1,595,536	1,457,106	138,430	-
Construction in progress	18,685,600	4,694,749	-	23,380,349	21,450,862	-	1,929,487
<u>Capital assets being depreciated</u>							
Utility plant and buildings	101,160,236	2,924,364	-	104,084,600	88,169,791	15,914,809	-
Machinery and equipment	4,924,769	137,576	(22,306)	5,040,039	2,531,940	2,508,099	-
Less accumulated depreciation	<u>(34,865,998)</u>	<u>(3,052,977)</u>	<u>22,306</u>	<u>(37,896,669)</u>	<u>(30,775,543)</u>	<u>(7,121,126)</u>	<u>-</u>
Total	\$ <u>91,500,143</u>	<u>4,703,712</u>	<u>-</u>	<u>96,203,855</u>	<u>82,834,156</u>	<u>11,440,212</u>	<u>1,929,487</u>
Current year depreciation			\$ <u>3,052,977</u>	<u>2,361,414</u>	<u>691,563</u>	<u>-</u>	<u>-</u>

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

4) RECEIVABLES AND DEFERRED REVENUE

A summary of receivables at June 30, 2004 is as follows:

	Enterprise Funds					Total
	General Fund	Capital Projects Fund	Water and Sewer Fund	Natural Gas Fund	Nonmajor Funds	
Property taxes	\$ 3,948,590	-	-	-	-	3,948,590
Other taxes & in-lieu taxes	1,705,952	-	-	-	-	1,705,952
Grants receivable	20,223	151,518	302,206	-	-	473,947
Customer	258,637	187,270	783,266	1,714,889	972	2,945,034
Other governments	1,262,219	-	-	-	144,277	1,406,496
Less allowance	(16,721)	-	(45,825)	(106,925)	-	(169,471)
Total	\$ 7,178,900	338,788	1,039,647	1,607,964	145,249	10,310,548

The financial statements also include two notes receivable. The Capital Projects Fund includes a note receivable from the Housing Authority in the amount of \$235,890. The note accrues interest at 4.5% and is repayable in monthly installments of \$1,452 through June 2025. The noncurrent portion of the note is reserved in the governmental funds financial statements. The Enterprise Fund includes a note receivable from the Airport Authority, a joint venture of the Town, in the amount of \$364,448, related to a construction project. The note is repayable in monthly installments of \$4,400 including interest at 6% over fourteen years.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not earned. At year end the various components of deferred revenue reported in the governmental funds were as follows:

Unlevied property taxes (unavailable)	\$ 3,766,327
Delinquent property taxes (unavailable)	146,129
Unlevied in lieu of taxes (unavailable)	1,622,124
Grant draw downs (unearned)	45,204
State and county shared taxes (unavailable)	702,604
Other (unearned)	11,360
	\$ 6,293,748

Deferred revenue in the government-wide financial statements include amounts for revenues received but unearned as well as amounts for property and state shared income taxes which the Town has no enforceable legal claim until the next fiscal year which amounted to \$5,458,140.

5) RESTRICTED ASSETS

A summary of restricted assets at June 30, 2004 is as follows:

	Enterprise Funds			Total
	Water and Sewer Fund	Natural Gas Fund	Industrial Development Fund	
Cash	\$ 2,282,553	357,550	1,877,922	4,518,025
Investments	-	-	178,205	178,205
Special assessments and other receivable	33,250	-	440	33,690
Total	\$ 2,315,803	357,550	2,056,567	4,729,920

Cash and investments are restricted for construction bonds, customer deposits and amounts for construction projects. Special assessments receivable are restricted for sewer extensions.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

6) LONG-TERM DEBT AND OTHER OBLIGATIONS PAYABLE

The government issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities for general government purposes.

The government also issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. These bonds relate to the Water and Sewer Enterprise Fund. Should water and sewer revenues be insufficient to pay the debt service, the debt is payable from the taxing authority of the Town.

The following is a summary of changes in long-term liabilities for the year ended June 30, 2004:

	Balance <u>July 1, 2003</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2004</u>	Payable Within <u>One Year</u>
Governmental Activities:					
General obligation loan	\$ 4,073,926	847,913	624,610	4,297,229	651,828
Capital Leases	270,671	-	134,749	135,922	95,351
Compensated absences	<u>452,693</u>	<u>565,826</u>	<u>548,314</u>	<u>470,205</u>	<u>470,205</u>
Total	<u>\$ 4,797,290</u>	<u>1,413,739</u>	<u>1,307,673</u>	<u>4,903,356</u>	<u>1,217,384</u>
Business-type Activities:					
Revenue and tax bonds	\$ 15,619,375	8,850,000	1,713,390	22,755,985	1,727,172
Tennessee loan program	<u>880,393</u>	-	<u>880,393</u>	-	-
Total	<u>\$ 16,499,768</u>	<u>8,850,000</u>	<u>2,593,783</u>	<u>22,755,985</u>	<u>1,727,172</u>
Deferred amount on refunding				<u>(221,996)</u>	
				<u>\$ 22,533,989</u>	

Long-term debt payable at June 30, 2004 is comprised of the following:

Governmental Activities

1998 Issue Public Building Authority Loan (general obligation) due in increasing annual installments through May 2013 at varying levels of interest based on weekly remarketing prices through the bond index. There is a 6% cap on the interest rate. \$ 3,328,015

2001 Issue Public Building Authority Loan (\$3,000,000 authorized, \$1,630,814 drawn) due in increasing annual installments through May 2004 at varying levels of interest based on weekly remarketing prices through the bond index. There is no cap on the interest rate. 969,214

\$ 4,297,229

The Town has entered into leases for the purchase of certain governmental capital assets. The leases require repayment terms and have been accounted for a financing transactions. The Town will obtain title to the leased capital assets by satisfying the minimum lease payments. The assets acquired through capital leases are as follows:

	Governmental <u>Activities</u>
Machinery and equipment	\$ 350,745
Less accumulated depreciation	<u>93,329</u>
Total	<u>\$ 257,416</u>

The future minimum lease obligations and the net present value of these lease payments at year end were as follows:

2005		\$ 99,560
2006		<u>41,845</u>
		141,405
Less amount representing interest		<u>(5,483)</u>
Present value of lease payments		<u>\$ 135,922</u>

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

6) LONG-TERM DEBT AND OTHER OBLIGATIONS PAYABLE, (Continued)

Business-type Activities

Revenue and Tax Bonds:

1998 Issue Public Building Authority Loan (general obligation) due in increasing annual installments through May 2003 at varying levels of interest, based on weekly remarketing prices through the bond index. There is a 6% cap on the interest rate.	\$ 7,910,985
2001 Water and Sewer Revenue and Tax Refunding Bonds due in annual installments through August 2014 at varying rates of interest levels of interest.	4,085,000
2002 Water and Sewer Revenue and Tax Refunding Bonds due in annual installments through August 2006 at 2% interest.	2,190,000
2003 Water and Sewer Revenue and Refunding Bonds due in annual installments through May 2018 at interest rates from 2% to 3.7%.	<u>4,470,000</u>
Total Water and Sewer	<u>18,655,985</u>
2003 Industrial Development Lease and Tax Project Bonds due in annual installments through December 2034 at 1.9% to 4.1% interest rate.	<u>4,100,000</u>
Total Business-type Activities	\$ <u>22,755,985</u>

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2004 including interest payments are as follows:

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 651,828	1,727,172	1,092,251	3,471,251
2006	679,934	1,878,066	1,008,875	3,566,875
2007	589,143	1,936,071	919,759	3,444,973
2008	349,516	2,030,484	823,345	3,203,345
2009	366,992	2,122,008	723,687	3,212,687
2010-2014	1,659,816	7,912,184	2,081,704	11,653,704
2015-2019	-	2,100,000	920,166	3,020,166
2020-2024	-	740,000	643,002	1,383,002
2025-2029	-	1,015,000	441,358	1,456,358
2030-2034	-	1,295,000	162,113	1,457,113
	<u>4,297,229</u>	<u>22,755,985</u>	<u>8,816,260</u>	<u>35,869,474</u>

Refunding

On July 15, 2003, the Town issued \$4,750,000 in Water and Sewer Revenue and Tax Refunding Bonds with an interest rate ranging from 2% to 3.7%. The Town issued the bonds to refund outstanding sewer notes from the Tennessee Loan Program. The notes were retired.

The refunding reduced total debt service payments over the next 15 years by approximately \$38,500. This results in an economic gain (present value) of approximately \$26,460. The total amount of defeased bonds outstanding from previous years advance refunding issues is \$3,950,000.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

7) PENSION PLAN AND DEFERRED COMPENSATION PLAN

Effective October 24, 1970, the Town established The Town of Smyrna Pension Plan, a single employer defined benefit pension plan, to provide benefits for employees of the Town. The Plan is administered by the Town of Smyrna Pension Plan Trustees who serve at the pleasure of the Mayor and Town Council. The Plan does not issue a stand-alone financial report nor is it included in the report of another entity. The assets of the Plan are invested at a local bank in accordance with the terms of the trust agreement. Effective June 30, 1999 the year the Town began the Retirement Choice Program which allowed participants of The Town of Smyrna Pension Plan to transfer accrued benefits in the Plan to a new Retirement Savings Plan. Many employees elected to transfer benefits and participate in the new plan. Employees hired after July 1, 1999 are not eligible to participate in the pension plan.

Benefits

The Town of Smyrna Pension Trustees establish the benefits of the plan and have the authority to amend such benefits with approval of the Town Council. The normal participant retirement is the earlier of (1) the later of the 65th birthday or the fifth year of participation and (2) the later of the 55th birthday or 30 years of service. The plan provides benefits, 1/12th of which are payable monthly over 120 months guaranteed, and for life thereafter computed as 1.5% of annual earnings multiplied by years of benefit service at normal retirement. The Plan also provides for certain benefits at early retirement and death before retirement.

Significant Accounting Policies

The pension plan fund financial statements are prepared using the accrual basis of accounting. Employer and plan member contributions are recognized in the period that the contributions are due. Plan investments are reported at fair value, based on last reported sales price. Policies require accrual basis of accounting for contributions, benefits, and refunds.

Plan Membership Data

1.	Inactive Plan Participants:	
	a.) Retirees and Beneficiaries Currently Receiving Benefits	12
	b.) Terminated Employees Entitled to Deferred Benefits	8
	c.) Total	<u>20</u>
2.	Active Plan Participants:	
	a.) Vested (Fully and Partially)	40
	b.) Non-vested	2
	c.) Total	<u>42</u>

Contributions

The Town's funding policy as set by the Town of Smyrna Pension Trustees, is to contribute the amounts calculated under the actuarial cost method used to calculate the annual required contribution. The trustees serve at the pleasure of the Mayor and Town Council. Plan members are not required to contribute. The Town is required to contribute an amount necessary to finance the coverage of the employees through annual contributions at actuarially determined rates. Administrative costs are paid by the Town. Effective July 1, 1999, the cost method is the Projected Unit Credit Method with a 25 year level dollar amortization of the unfunded liability.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

7) PENSION PLAN, (Continued)

Schedule of funding progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-see Note 1 (b)	Unfunded AAL (UAAL) (b-a)	Annual Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
10/1/94	\$ 1,565,657	1,781,140	215,483	87.9%	2,437,022	8.84%
10/1/95	1,832,238	2,029,893	197,655	90.3%	2,640,098	7.49%
10/1/96	2,171,056	2,349,543	178,487	92.4%	3,166,541	5.46%
10/1/97	2,609,787	3,222,644	612,857	81.0%	5,111,046	11.99%
10/1/98	3,143,025	3,730,112	587,087	84.3%	5,604,511	10.48%
07/1/99	1,980,857	1,865,898	(114,959)	106.8%	1,466,949	(7.48%)
07/1/00	2,017,136	2,000,025	(17,111)	100.8%	1,459,591	(1.17%)
07/1/01	2,045,907	2,204,335	158,428	92.8%	1,504,164	10.53%
07/1/02	2,103,375	2,532,468	429,093	83.1%	1,567,639	27.39%
07/1/03	2,247,052	2,740,790	493,738	82.0%	1,577,756	31.29%

Notes:

1. The Frozen Entry Age actuarial cost method does not independently calculate the Actuarial Accrued Liability (AAL). The amounts shown for AAL are the unfunded Frozen AAL plus the Actuarial Value of Assets on the actuarial valuation date for years 10/1/89 through 10/1/98. The Actuarial Cost Method was changed to Projected Unit Credit, effective July 1, 1999.
2. Actuarial assumptions have been modified periodically to reflect actual plan experience and expectations regarding future events. The most recent assumption revision was effective June 30, 1999 and changed the rate of retirement assumption. Inflation has been assumed at 3%.
3. The last plan amendment prior to July 1, 2002 was effective July 1, 1999. This plan amendment had a significant impact since it allowed participants to transfer accrued benefits in the plan to a new Retirement Savings Plan. Other plan amendments were adopted effective October 1, 1997 and 1996 to improve retirement benefits. The July 1, 2002 amendment had no impact on the liabilities of the plan.
4. The Town's contribution policy has been to amortize the unfunded Frozen AAL over twenty-five years (level dollar basis) (closed basis).

Schedule of Employer Contributions

<u>Fiscal Year End*</u>	<u>Required Contribution</u>	<u>Annual Percentage Contributed</u>
1994	\$ 194,738	100.00%
1995	199,962	100.00%
1996	207,585	100.00%
1997	241,932	100.00%
1998	445,380	100.00%
1999	322,201	100.00%
2000	97,890	100.00%
2001	109,151	100.00%
2002	129,484	100.00%
2003	158,715	100.00%
2004	165,000	100.00%

*Fiscal years 1980-1998 were September 30, year-ends. Fiscal year end became June 30 in 1999 year.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

7) **PENSION PLAN, Continued**

All actuarially determined required contributions for fiscal years beginning after June 15, 1996 have been paid to the pension trust. Therefore, the pension liability (asset) at transition is zero.

Summary of Actuarial Assumptions

	(Sample Values per 1,000 Lives)			
	AGE			
	<u>20</u>	<u>35</u>	<u>50</u>	<u>60</u>
<u>Mortality Rates</u>				
1983 Group Annuity Mortality Table				
Male	.38	.86	3.91	9.16
Female	.19	.48	1.65	4.24
<u>Withdrawal Rates</u>				
Estimated Experience (1 st Year Select)	171.00	164.70	138.50	109.70
Estimated Experience (2 nd Year Select)	70.40	68.70	61.50	53.00
Estimated Experience (Ultimate)	52.80	29.90	19.20	15.70

Disability Rates/Disabled Mortality/Recovery Rates
None Assumed.

Salary Scale

5% annual increase to age 85.

Rate of Retirement

Participants are assumed to retire: 20% at 55, 20% at 60, 30% at 62, and 30% at 65.

Rate of Investment Return

8% per annum.

Actuarial Valuation Method

Projected Unit Credit, with amortization of unfunded supplemental liability over 25 years.

Asset Valuation Method

Market Value.

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Service Code Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Town has no fiduciary responsibility under the provisions of the Plan. The Plan specifically provides that all assets under the Plan and all income attributable to those assets are solely the property of the employee.

Also, the Town established the Retirement Savings Plan which is in accordance with Internal Revenue Service Code Section 401A. The Plan is available to all Town employees with six months service with 1000 hours. The Town has no fiduciary responsibility. The Plan was established to hold assets transferred by participants who elected out of the Town of Smyrna Pension Plan and basic and matching contributions made by the Town. The Town contributes 3% of eligible employee pay for a basic contribution and match 50% of the employee 457 Plan contributions up to 6% of employee pay. Vesting of amount in the plan occurs at 20% per year until fully vested after five years. Any forfeited benefits by employees are used to reduce future contributions by the Town. During the fiscal year the Town contributed \$433,871 and the employees contributed \$407,684. Investments in both plans are managed by the Plan's trustee under a selection of mutual funds. The choice of the investment is made by the participants.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

8) COMMITMENTS AND CONTINGENCIES

Litigation:

There were several pending lawsuits in which the Town was involved, as well as certain unasserted claims and assessments. The major lawsuits relate to disputes with contractors regarding construction costs of the wastewater treatment plant. Costs of approximately \$2.8 million are in dispute. The Town contests the claims and intends to vigorously defend itself. The Town attorney is unable, at this time, to determine the probable outcome of such litigation; however, Town officials do not believe the eventual outcome will materially affect the financial condition of the Town and no provision has been made in the accompanying financial statements..

Commitments:

Golf Course and Park Leases:

The Town leases a golf course from the Smyrna/Rutherford County Airport Authority, a joint venture, under an agreement amended May 2001. The lease is through July 1, 2025, and is adjusted annually in July with the CPI. During 2004, the Town paid \$118,363 in rent to the Airport Authority.

The Town also leases a park from the Smyrna/Rutherford County Airport Authority under an agreement expiring May 2, 2009 with options for two successive terms of five years. The lease is subject to review at the end of each five year term to reflect changes in the fair market rental value of the property. During 2004, the Town paid \$10,384 in rent to the Airport Authority.

The Town has entered into an operating lease for golf course equipment, with annual payments of \$25,000 for 2005 and \$32,787 for 2006. The equipment can be purchased at fair market value at end of lease.

Contracts:

At June 30, 2004, several general government and utility construction projects were in progress. The contracts totaled approximately \$26,250,000. The projects were approximately 70% complete at year end. The major contract relates to a waste water treatment plant upgrade which is in excess of \$16,600,000 and is partially funded by a State grant.

Grant Note:

In a prior fiscal year the Town received a Department of Housing and Urban Development Home Investment Partnership Grant Note. The funds, in the amount of \$195,000, were passed through to a sub-recipient. This grant note is forgivable as long as the Town continues to meet the terms of the grant note through August 2019.

Purchase Commitment:

The Town of Smyrna periodically uses financial instruments to decrease the risk of price volatility in the natural gas market. At June 30, 2004 the Town was obligated to purchase 125,000 mmbtu of natural gas by September 2004 at rates ranging from 4.63 to 4.65 per mmbtu.

Contingency:

The Town has been contacted by the U.S. Army Corps of Engineers regarding a possible assessment for water storage in the amount of \$3,002,213, as well as certain annual maintenance fees and sinking fund requirements. The Town's position is that they should be excluded from water storage charges and accordingly no liability is recorded in the accompanying financial statements.

The Town previously participated in the Local Government Insurance Cooperative (LOGIC), a public entity risk pool that operated as a common risk management and workers' compensation insurance program for approximately one hundred governmental entities. LOGIC was self-sustaining through member premiums and also obtained specific excess and aggregate excess coverage through a commercial insurance company. The Town has learned the commercial insurance company is in bankruptcy, and the Town will be assessed by LOGIC to help cover claims incurred during the Town's participation. All known assessments have been accrued. The Town does not believe, based on current information, any potential future assessments would be material to the Town's financial statements.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

9) JOINT VENTURES WITH RUTHERFORD COUNTY

In 1991, the Metropolitan Nashville Airport Authority transferred the assets of the airport to the Smyrna/Rutherford County Airport Authority. The Smyrna/Rutherford County Airport Authority is operated through a joint operations agreement between Rutherford County and the Town of Smyrna. The agreement provides that the county and Town will share in any funding shortfalls 60% and 40% respectively. At June 30, 2004, the Authority had net assets of \$34,399,427. Net operating losses for the 2004 and 2003 fiscal years were \$1,708,462 and \$1,429,180 respectively. During the year, the Town of Smyrna paid a total of \$128,747 in rent for use of Authority property for recreational purposes. Separate financial statements for this joint venture are available at Town of Smyrna City Hall from the Town Manager. The Town does not have an explicit claim to net resources. In the past five years of operation, it has not been necessary for the Town to provide supplemental funding. The Town has loaned \$497,784 to the Authority for utility improvements. Repayment of the loan began July 1999 in monthly installments of \$4,400 for fourteen years. Interest accrues at 6.0%.

10) INTERFUND TRANSACTIONS

Interfund receivables and payables are attributable to obligations for operating transfers between funds. The actual cash transfer had not been made at June 30, 2004. The composition of interfund balances at June 30, 2004 were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	
General Fund	Industrial Development Fund	\$ 50
	Water and Sewer Fund	18,233
	Capital Projects Fund	100,000
Internal Service Fund	General Fund	183,629
	Golf Course Fund	11,855
	Water and Sewer Fund	29,075
	Gas Fund	13,208
Gas Fund	General Fund	1,207
	Water and Sewer Fund	2,047

Interfund transfers for the year ended June 30, 2004 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

	Transfer In:			Totals
	General Fund	Capital Project Fund	Nonmajor Governmental	
Transfer Out:				
Gas Fund	\$ 140,774	-	-	140,774
Water and Sewer Fund	321,672	-	-	321,672
General Fund	-	1,202,303	632,999	1,835,302
Impact Fee Fund	-	1,955,291	-	1,955,291
Nonmajor Governmental Funds	<u>50,000</u>	<u>117,852</u>	<u>272,096</u>	<u>439,948</u>
Totals	<u>\$ 512,446</u>	<u>3,275,446</u>	<u>905,095</u>	<u>4,692,987</u>

11) RELATED PARTY TRANSACTIONS

In prior years the Town has extended loans to the Housing Authority and Airport Authority which are related organizations, but do not meet the criteria for component units. During the year, repayments were made on these loans in the amounts of \$6,647 and \$32,367 plus interest respectively.

12) MAJOR CUSTOMER

The Town supplies water, sewer and natural gas services to a large manufacturing company. During the fiscal year ended June 30, 2004, services to this company accounted for the following percentages of total revenues of the water, sewer and natural gas fund customer revenues.

Gas Fund	52.6%
Water and Sewer Fund	17.0%

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

13) RISK MANAGEMENT

The Town has chosen to establish the Self Insured Medical Insurance Fund (internal service fund) for risks associated with the employees' health insurance plan. The fund is accounted for as an internal service fund where assets are set aside for claim settlements. The Town retains the risk of loss to a limit of \$50,000 per employee, and \$1,000,000 aggregate annual cap. The Town has obtained a stop/loss commercial insurance policy to cover claims beyond this liability. All full-time employees of the government are eligible to participate. A premium charge is allocated to each fund that accounts for full-time employees. This charge is based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish an amount for catastrophic losses. That amount was \$201,372 at June 30, 2004. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims that have been reported but not settled, and of claims that have been incurred but not reported. The process used to compute claims liabilities does not necessarily result in an exact amount. For the government-wide financial statements the activity and assets and liabilities of the fund have been allocated to the participating funds.

Changes in the balance of claims liabilities during the past three fiscal years are as follows:

	<u>Beginning-of- Fiscal-Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance of Fiscal Year-End</u>
2001-2002	201,853	1,759,946	(1,552,881)	408,918
2002-2003	408,918	1,825,571	(1,869,267)	365,222
2003-2004	365,222	2,771,295	(2,668,333)	468,184

The Town continues to carry commercial insurance for all other risks of loss, including general liability, property and casualty, workers' compensation and environmental. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

14) POST RETIREMENT BENEFITS

The Town provides a retiree supplemental health insurance plan whereby the Town will pay for up to 50% of the employee cost of the Town health plan. To qualify the employee must terminate employment after age 65, have been employed by the Town for 15 years and have been active in the health plan for five years. The Town is funding the plan on a pay as you go basis through the medical insurance fund. During the fiscal year there were two retired employees eligible with one electing participation. The Town paid \$9,027 for coverage of this retired employee during the year.

15) SUBSEQUENT EVENTS

Subsequent to year end the Town authorized the issuance of \$10,000,000 TN-Loan Water and Sewer bonds. The bond proceeds will be used to finance water and sewer improvements.

Also subsequent to year end, the Town received an order from the Tennessee Department of Environment and Conservation requiring the Town to pay a civil penalty of \$15,000 related to alleged exceedences of permit allowances. Additional penalties could be assessed, however, the Town has appealed the order. The Town has also self reported certain potential violations of sludge disposal requirements to the U.S. Environmental Protection Agency. The Agency has requested additional information, however, no penalties have been assessed. No provision for these matters have been made in the accompanying financial statements.