

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, 2005. 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 \$181,188,144 (net assets). Of this amount, \$30,055,480 (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 \$9,409,918.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$16,183,919, an increase of \$1,153,145 in comparison with the prior year. Approximately 97% of this total amount, \$15,752,121, 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 \$12,897,312, or 73% 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 increased by \$8,960,786 (39%) during the current fiscal year. This was a result of the issuance of \$11,339,786 in new debt and 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. Within the required supplementary information, a budget comparison statement has been provided for this fund to demonstrate compliance with the budget. Required supplementary information can be found on pages 42-46 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 48-53 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 \$181,188,144 at the close of the most recent fiscal year.

Net Assets - Primary Government June 30

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and Other Assets	\$ 26,155,396	\$ 24,619,587	\$ 26,426,027	\$ 20,071,401	\$ 52,581,423	\$ 44,690,988
Capital Assets	77,786,961	70,890,908	96,956,060	96,203,855	174,743,021	167,094,763
Total Assets	<u>103,942,357</u>	<u>95,510,495</u>	<u>123,382,087</u>	<u>116,275,256</u>	<u>227,324,444</u>	<u>211,785,751</u>
Long-term Liabilities Outstanding	6,396,887	4,903,356	26,750,843	22,533,989	33,147,730	27,437,345
Other Liabilities	9,034,898	8,606,156	3,953,672	3,964,024	12,988,570	12,570,180
Total Liabilities	<u>15,431,785</u>	<u>13,509,512</u>	<u>30,704,515</u>	<u>26,498,013</u>	<u>46,136,300</u>	<u>40,007,525</u>
Net Assets:						
Invested in Capital Assets, net of related debt	72,761,202	66,457,757	77,883,216	75,618,383	150,644,418	142,076,140
Restricted	488,246	2,296,204	-	-	488,246	2,296,204
Unrestricted	15,261,124	13,247,022	14,794,356	14,158,860	30,055,480	27,405,882
Total Net Assets	<u>\$ 88,510,572</u>	<u>\$ 82,000,983</u>	<u>\$ 92,677,572</u>	<u>\$ 89,777,243</u>	<u>\$ 181,188,144</u>	<u>\$ 171,778,226</u>

By far the largest portion of the Town of Smyrna's net assets (83.1 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 (0.27 percent) represents resources that are subject to external restrictions on how they may be used. These include net assets restricted for highways and streets (\$418,214) and law enforcement (\$70,032). The remaining balance of unrestricted net assets (\$30,055,480) 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. The same situation held true for the prior fiscal year.

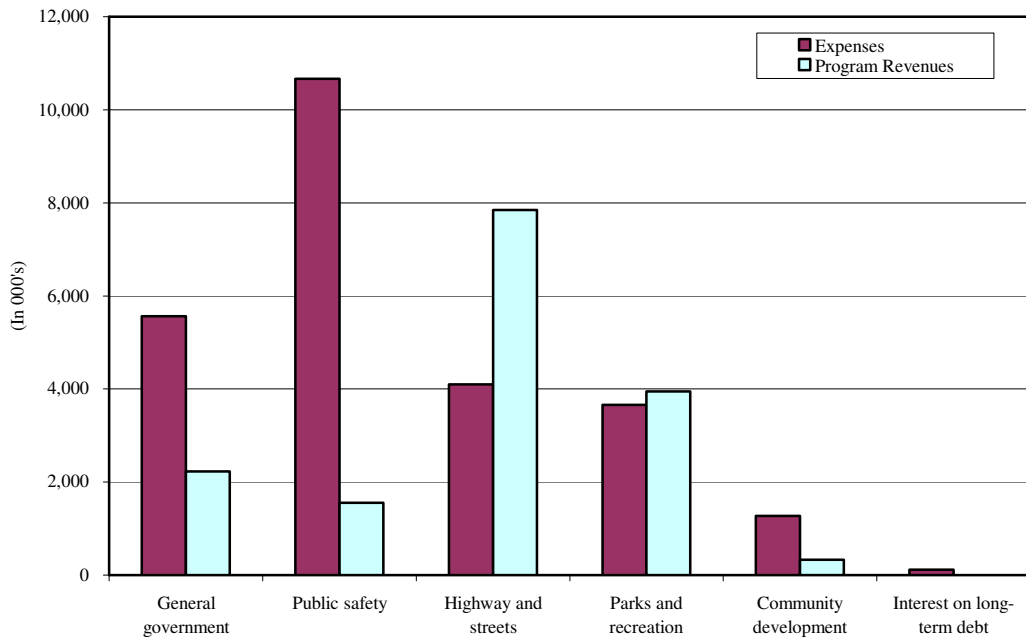
Governmental activities. Governmental activities increased the Town of Smyrna's net assets by \$6,509,589, thereby accounting for 69 percent of the total growth in the net assets of the Town of Smyrna. Key elements of this increase are as follows:

- Local option sales tax collections increased by \$391,729
- Interest earned on idle cash increased by \$182,175
- Capital grants and contributions increased by \$6,010,616

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

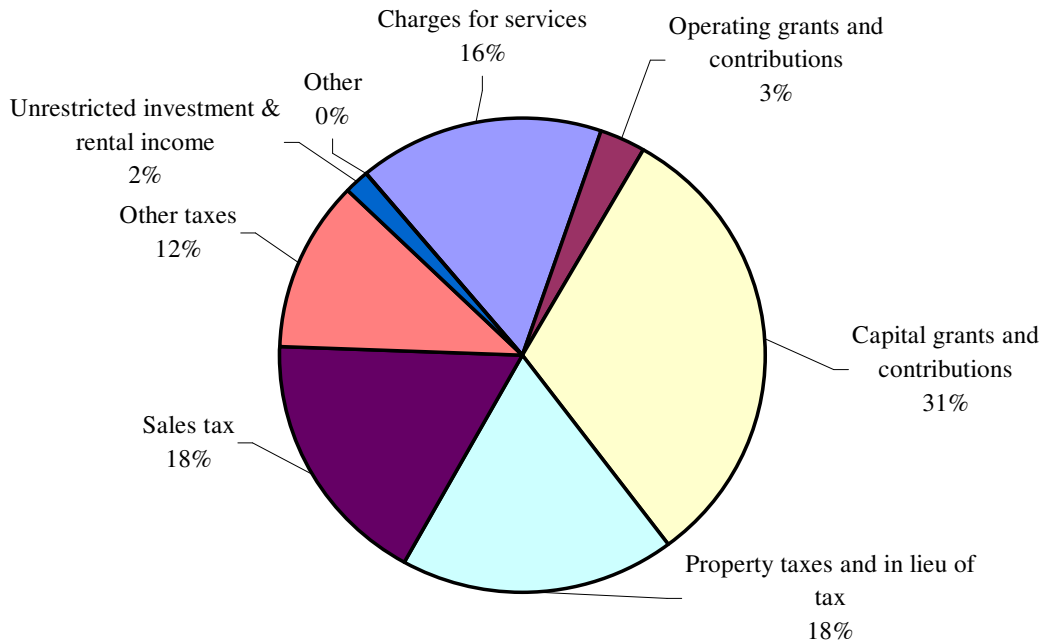
	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Revenues:						
Charges for services	\$ 5,173,117	\$ 4,703,639	\$28,082,559	\$24,992,029	\$ 33,255,676	\$ 29,695,668
Operating grants and contributions	949,548	923,309	-	-	949,548	923,309
Capital grants and contributions	9,783,930	3,773,314	3,067,064	2,665,350	12,850,994	6,438,664
General revenues:						
Property taxes and in lieu of tax	5,751,277	5,391,616	-	-	5,751,277	5,391,616
Sales tax	5,552,537	5,160,808	-	-	5,552,537	5,160,808
Other taxes	3,629,103	3,558,927	-	-	3,629,103	3,558,927
Gain on sale of capital assets	-	356,373	-	1,650	-	358,023
Unrestricted investment & rental income	494,020	313,557	211,475	146,034	705,495	459,591
Other	35,937	124,491	-	-	35,937	124,491
Total Revenues	<u>31,369,469</u>	<u>24,306,034</u>	<u>31,361,098</u>	<u>27,805,063</u>	<u>62,730,567</u>	<u>52,111,097</u>
Expenses:						
General government	5,563,874	4,987,480	-	-	5,563,874	4,987,480
Public safety	10,668,540	8,652,760	-	-	10,668,540	8,652,760
Highway and streets	4,095,570	3,759,038	-	-	4,095,570	3,759,038
Parks and recreation	3,657,874	3,309,396	-	-	3,657,874	3,309,396
Community development	1,271,640	1,238,659	-	-	1,271,640	1,238,659
Interest on long-term debt	115,232	69,359	-	-	115,232	69,359
Water and Sewer	-	-	8,356,911	7,505,093	8,356,911	7,505,093
Natural Gas	-	-	19,591,008	16,975,520	19,591,008	16,975,520
Total expenses	<u>25,372,730</u>	<u>22,016,692</u>	<u>27,947,919</u>	<u>24,480,613</u>	<u>53,320,649</u>	<u>46,497,305</u>
Increase in net assets before transfers	5,996,739	2,289,342	3,413,179	3,324,450	9,409,918	5,613,792
Transfers	512,850	462,446	(512,850)	(462,446)	-	-
Increase in net assets	6,509,589	2,751,788	2,900,329	2,862,004	9,409,918	5,613,792
Net assets - beginning	82,000,983	79,249,195	89,777,243	86,915,239	171,778,226	166,164,434
Net assets - ending	<u>\$88,510,572</u>	<u>\$82,000,983</u>	<u>\$92,677,572</u>	<u>\$89,777,243</u>	<u>\$ 181,188,144</u>	<u>\$ 171,778,226</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.

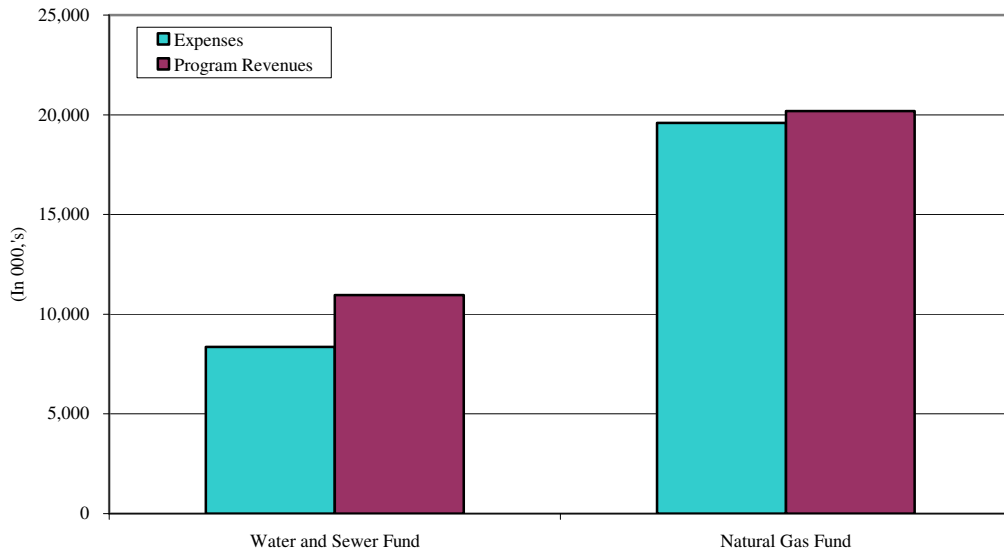
Revenue by Source – Governmental Activities



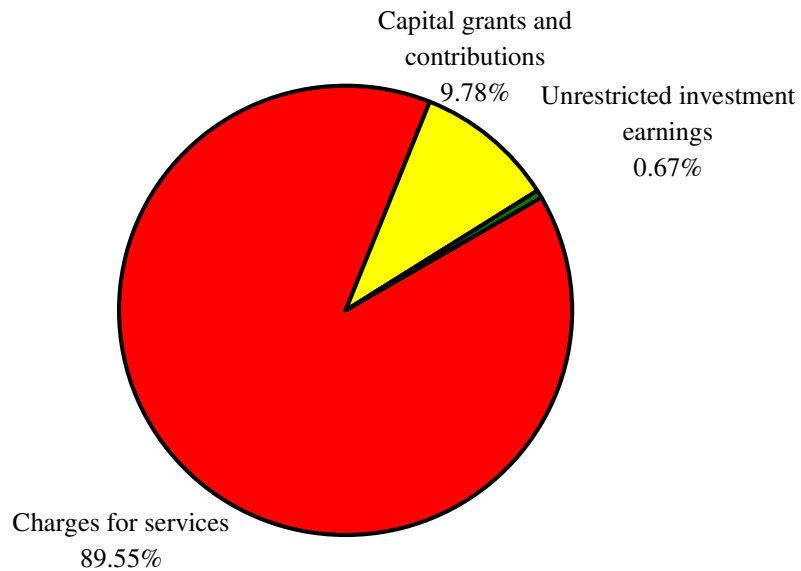
Business-type activities. Business-type activities increased the Town of Smyrna’s net assets by \$2,900,329, accounting for 31 percent of the total growth in the government’s net assets. A key element of this increase is as follows:

- The Town's Water and Sewer Fund accounts for 80% of the increase in business-type net assets. The change in net assets is a result of a growth in the customer base, an increase in contributed tap fees, an increase in contributions from developers and an increase in interest income.

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 \$16,183,919, an increase of \$1,153,145 in comparison with the prior year. Approximately 97% of this total amount (\$15,752,121) 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 (\$221,665), project (\$147,586), and prepaid items and inventory (\$62,547).

The general fund is the chief operating fund of the Town of Smyrna. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was \$12,897,312, while total fund balance reached \$13,067,830. 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 73 percent of total general fund expenditures, while total fund balance represents 74 percent of that same amount.

The fund balance of the Town of Smyrna's general fund increased by \$592,208 during the current fiscal year. Key factors in this growth are as follows:

- Local option sales tax collections increased by \$338,150 during the year, a result of the increase in population of the surrounding area, as well as, commercial business in the Town.
- Real estate tax revenues increased by \$283,683 during the year, a result of an increase in the real estate tax base.
- The general fund transfers out for capital projects decreased by \$273,231.

The capital projects fund has a total fund balance of (\$96,802), of which \$221,665 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 \$354,902. The key factor in this decrease was unfunded expenditures that are to be paid out of the \$5,000,000 bond issue that closed on November 22, 2005, as approved by Council through a reimbursement resolution.

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 \$6,643,814 and those for the Natural Gas Fund amounted to \$8,020,205. The total growth in net assets for the funds was \$2,213,155 and \$590,613, 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

During the year there was a \$386,220 increase in appropriations between the original and final amended general fund expenditure budget and can be summarized with the following increase:

- \$386,220 total increase to all departments for the implementation of the compensation study.

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, 2005 amounts to \$174,743,021 (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 4.6 percent (a 9.7 percent increase for governmental activities and a 0.8 percent increase for business-type activities).

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

- Construction was completed on the waste water treatment plant upgrades; resulting in an increase in buildings and systems of \$22,475,693 for this project.
- Various improvements to Town Parks, including Gregory Mill, Rock Springs Park and Hilltop-Rosenwald Park.
- Construction began on the Rock Springs Road Water Tank, which amounted to \$992,521 for this project as of the close of the fiscal year.
- Purchased 12 police patrol vehicles amounting to \$191,450.
- Construction began on the Greenway project, which amounted to \$1,582,013 for this project as of the close of the fiscal year.
- Construction was completed on widening Enon Springs Road East; resulting in an increase in infrastructure of \$1,730,981 for this project.
- Construction began on the Downtown Revitalization project, which amounted to \$1,357,012 for this project as of the close of the fiscal year.
- Construction was completed on StoneCrest Boulevard; resulting in an increase in infrastructure of \$2,152,160 for this project.

Capital Assets
(net of accumulated depreciation)
June 30

	Governmental		Business-type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Land	\$ 2,488,924	\$ 2,488,924	\$ 1,662,340	\$ 1,595,536	\$ 4,151,264	\$ 4,084,460
Buildings and system	6,061,873	6,566,201	92,919,176	70,349,976	98,981,049	76,916,177
Improvements other than buildings	10,129,337	7,610,222	-	-	10,129,337	7,610,222
Machinery and equipment	2,723,994	2,877,301	810,203	877,994	3,534,197	3,755,295
Infrastructure	55,333,698	47,626,352	-	-	55,333,698	47,626,352
Construction in progress	<u>1,049,135</u>	<u>3,721,908</u>	<u>1,564,341</u>	<u>23,380,349</u>	<u>2,613,476</u>	<u>27,102,257</u>
Total Assets, net	<u>\$ 77,786,961</u>	<u>\$70,890,908</u>	<u>\$ 96,956,060</u>	<u>\$96,203,855</u>	<u>\$ 174,743,021</u>	<u>\$167,094,763</u>

Additional information on the Town’s capital assets can be found in Note 3 on page 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 \$31,914,000. Of this amount, \$4,985,187 is debt backed by the full faith and credit of the government; \$26,928,813 is debt secured by specified revenue sources, but backed by the taxing authority of the Town (i.e., revenue and tax bonds).

**Outstanding Debt
General Obligation and Revenue Bonds
June 30**

	Governmental Activities		Business-type Activities		Total	
	2005	2004	2005	2004	2005	2004
General obligation bonds	\$ 4,985,187	\$ 4,297,229	\$ -	\$ -	\$ 4,985,187	\$ 4,297,229
Revenue and tax bonds	-	-	26,928,813	18,655,985	26,928,813	18,655,985
Total	<u>\$ 4,985,187</u>	<u>\$ 4,297,229</u>	<u>\$26,928,813</u>	<u>\$18,655,985</u>	<u>\$31,914,000</u>	<u>\$ 22,953,214</u>

The Town of Smyrna’s total bonded debt increased by \$8,960,786 (39%) during the current fiscal year. This was a result of the issuance of \$11,339,786 in new debt and the payment of current debt owed.

During the year, the Town issued \$10,000,000 of Water and Sewer Revenue and Tax Bonds. The bonds were issued for the purpose of funding the construction of various infrastructure improvements to the water and sewer system. The Town also made \$1,339,786 of draws on the 2001 public building authority loan for various capital improvements for the general government, public safety, highways and streets and parks and recreation. These draws completed the draw down of this loan.

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. However, the Town has established a policy that tax supported debt not exceed 10% of assessed property value. The Town’s tax supported debt is currently at 5.6% of assessed property value.

Additional information on the Town of Smyrna’s long-term debt can be found in Note 6 on pages 33 - 34 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for the Town of Smyrna is currently 4.0 percent, which is an increase from a rate of 3.8 percent a year ago. This compares favorably to the state’s average unemployment rate of 5.3 percent and the national average rate of 4.6 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 2006 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$12,897,312. The Town of Smyrna appropriated \$810,356 of this amount for spending on one time capital assets in the 2006 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:

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Smyrna, Tennessee 37167
E-mail: mark.tucker@townofsmyrna.org