

BASIC FINANCIAL STATEMENTS

TOWN OF SMYRNA, TENNESSEE

Statement of Net Assets

June 30, 2006

	Primary Government		Total	Component Unit
	Governmental Activities	Business Activities		Industrial Development Fund
<u>Assets</u>				
Cash and cash equivalents	\$22,062,564	16,119,905	38,182,469	21,159
Receivables (net of allowance for uncollectibles)				
Taxes	8,689,303	-	8,689,303	-
Due from other governments	1,832,285	146,050	1,978,335	-
Accounts receivable	149,185	2,072,849	2,222,034	-
Inventories, at cost	53,590	323,388	376,978	-
Internal balances	(232,163)	232,163	-	-
Restricted assets:				
Cash and equivalents - customer and developer deposits	-	595,684	595,684	-
Investments-bond proceeds	-	4,974,108	4,974,108	-
Other	-	12,250	12,250	-
Note receivable	221,665	298,891	520,556	-
Other assets	68,546	191,261	259,807	120,717
Non-depreciable capital assets	3,626,114	2,026,538	5,652,652	-
Depreciable capital assets (net of accumulated depreciation)	73,686,575	97,142,200	170,828,775	3,651,836
 Total Assets	<u>\$110,157,664</u>	<u>124,135,287</u>	<u>234,292,951</u>	<u>3,793,712</u>
<u>Liabilities</u>				
Accounts payable	\$872,073	1,166,650	2,038,723	-
Accrued liabilities	1,200,369	449,890	1,650,259	-
Interest payable	49,451	122,630	172,081	14,971
Contracts payable	132,061	84,051	216,112	-
Deferred revenue	8,499,838	-	8,499,838	-
Liabilities payable from restricted assets	-	595,684	595,684	-
Long-term liabilities due within one year	1,584,929	2,286,071	3,871,000	50,000
Long-term liabilities due in more than one year	9,236,689	22,280,732	31,517,421	4,000,000
 Total Liabilities	<u>21,575,410</u>	<u>26,985,708</u>	<u>48,561,118</u>	<u>4,064,971</u>
<u>Net Assets</u>				
Investments in capital assets, net of related debt	68,025,896	74,793,196	142,819,092	(277,447)
Restricted for:				
Capital projects	6,330,006	-	6,330,006	-
Highways and streets	592,621	-	592,621	-
Law enforcement	100,417	-	100,417	-
Unrestricted	13,533,314	22,356,383	35,889,697	6,188
Total Net Assets	<u>\$88,582,254</u>	<u>97,149,579</u>	<u>185,731,833</u>	<u>(271,259)</u>

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE
Statement of Activities
For the Year Ended June 30, 2006

Functions / Programs:	Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Assets		Total	Component Unit Industrial Development Fund	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
Primary Government:					Governmental Activities	Business-type Activities		
Governmental Activities:								
General government	\$5,061,806	2,016,897	-	-	(3,044,909)	-	(3,044,909)	-
Public safety:								
Police	7,077,628	1,226,683	3,600	-	(5,847,345)	-	(5,847,345)	-
Fire	4,612,143	-	-	449,342	(4,162,801)	-	(4,162,801)	-
Highways and streets	4,098,322	-	1,006,132	1,660,009	(1,432,181)	-	(1,432,181)	-
Recreation	4,023,565	1,419,746	-	687,528	(1,916,291)	-	(1,916,291)	-
Community Development	1,259,350	383,774	-	-	(875,576)	-	(875,576)	-
Interest expense on long-term debt	290,279	-	-	-	(290,279)	-	(290,279)	-
Total Government Activities	<u>26,423,092</u>	<u>5,047,100</u>	<u>1,009,732</u>	<u>2,796,879</u>	<u>(17,569,381)</u>	<u>-</u>	<u>(17,569,381)</u>	<u>-</u>
Business-type Activities								
Water and Sewer	9,390,817	9,900,995	-	2,641,724	-	3,151,902	3,151,902	-
Natural Gas	29,037,668	30,046,208	-	147,802	-	1,156,342	1,156,342	-
Total Business-type Activities	<u>38,428,486</u>	<u>39,947,203</u>	<u>-</u>	<u>2,789,526</u>	<u>-</u>	<u>4,308,243</u>	<u>4,308,243</u>	<u>-</u>
Total Primary Government	<u>\$64,851,578</u>	<u>44,994,303</u>	<u>1,009,732</u>	<u>5,586,405</u>	<u>(17,569,381)</u>	<u>4,308,243</u>	<u>(13,261,138)</u>	<u>-</u>
Component Unit								
Industrial Development Fund	<u>309,032</u>	<u>205,650</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(103,382)</u>
General Revenues:								
Property taxes and in lieu of tax					\$6,196,997	-	6,196,997	-
Sales taxes					6,167,905	-	6,167,905	-
Other locally assessed taxes					1,577,908	-	1,577,908	-
Other state shared taxes					2,571,806	-	2,571,806	-
Unrestricted investment earnings					1,035,367	587,785	1,623,152	1,965
Other					133,587	1,333	134,920	-
Transfers					425,354	(425,354)	-	-
Total general revenues and transfers					<u>18,108,924</u>	<u>163,764</u>	<u>18,272,688</u>	<u>1,965</u>
Change in net assets					539,543	4,472,007	5,011,550	(101,417)
Net assets - beginning of year, as restated					88,042,711	92,677,572	180,720,283	(169,842)
Net assets - end of year					<u>\$88,582,254</u>	<u>97,149,579</u>	<u>185,731,833</u>	<u>(271,259)</u>

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE

**Balance Sheet
Governmental Funds**

June 30, 2006

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$13,630,660	2,730,603	4,702,181	21,063,444
Receivables (net of allowance for uncollectibles)				
Taxes	8,706,655	-	-	8,706,655
Due from other governments	1,646,005	24,631	161,649	1,832,285
Accounts receivable	147,695	-	425	148,120
Due from other funds	313,555	27	-	313,582
Inventory of supplies	15,798	-	37,792	53,590
Note receivable	-	221,665	-	221,665
Prepaid items	-	-	10,140	10,140
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$24,460,368</u>	<u>2,976,926</u>	<u>4,912,187</u>	<u>32,349,481</u>
<u>Liabilities and Fund Balances</u>				
Accounts payable	\$275,889	95,345	74,523	445,757
Accrued costs	1,143,463	-	56,906	1,200,369
Due to other funds	-	313,555	27	313,582
Contracts payable	-	132,061	-	132,061
Deferred revenue	9,415,526	-	82,459	9,497,985
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>10,834,878</u>	<u>540,961</u>	<u>213,915</u>	<u>11,589,754</u>
Fund Balance:				
Reserved for prepaid items and inventory	15,798	-	47,932	63,730
Reserved for project	189,485	-	-	189,485
Reserved for notes receivable	-	214,059	-	214,059
Unreserved and undesignated				
General Fund	13,420,207	-	-	13,420,207
Capital Projects Fund	-	2,221,906	-	2,221,906
Special Revenue Funds	-	-	4,650,340	4,650,340
Total Fund Balances	<u>13,625,490</u>	<u>2,435,965</u>	<u>4,698,272</u>	<u>20,759,727</u>
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Total Liabilities and Fund Balances	<u>\$24,460,368</u>	<u>2,976,926</u>	<u>4,912,187</u>	<u>32,349,481</u>

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Reconciliation of Balance Sheet to Statement of Net Assets
of Governmental Activities

June 30, 2006

Amounts reported for fund balance - total governmental funds	\$20,759,727
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore, are not reported in the funds	77,312,689
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	
State shared revenues and local option sales tax receivable	865,783
Property taxes receivable	115,012
Internal service fund is used by management to charge the costs of medical insurance to individual funds. The assets and liabilities of the internal service fund is included in governmental activities in the statement of net assets.	341,706
Interest payable on long-term obligations are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet.	(49,451)
Bond issue costs are amortized over the life of the bonds in the statement of activities.	58,406
Bond premiums are amortized as a component of interest in the statement of activities.	(39,946)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not recorded in the funds.	
Governmental bonds payable	(9,305,253)
Capital leases payable	-
Compensated absences	(1,476,419)
Net assets of governmental activities	<u>\$88,582,254</u>

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

**Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds**

For the Year Ended June 30, 2006

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>				
Taxes	\$12,043,384	-	-	12,043,384
Payment in lieu of taxes	1,866,715	-	-	1,866,715
Licenses and permits	881,010	-	1,921,996	2,803,006
Intergovernmental	2,627,446	432,588	929,810	3,989,844
Fines and forfeits	1,148,041	-	78,642	1,226,683
Uses of money and property	2,498,280	104,323	1,341,359	3,943,962
Miscellaneous	133,587	-	-	133,587
Total Revenues	<u>21,198,463</u>	<u>536,911</u>	<u>4,271,807</u>	<u>26,007,181</u>
<u>Expenditures</u>				
Current:				
General government	4,823,926	110,117	-	4,934,043
Public safety:				
Police	6,653,065	31,431	79,499	6,763,995
Fire	4,380,753	19,168	-	4,399,921
Highways and streets	975,598	5,050	432,513	1,413,161
Recreation	1,869,620	349,571	1,267,708	3,486,899
Community development	1,105,349	-	-	1,105,349
Debt service	-	-	964,331	964,331
Capital outlay	-	3,351,196	11,794	3,362,990
Total Expenditures	<u>19,808,311</u>	<u>3,866,533</u>	<u>2,755,845</u>	<u>26,430,689</u>
Excess (deficiency) revenues over expenditures	1,390,152	(3,329,622)	1,515,962	(423,508)
<u>Other Financing Sources (Uses)</u>				
Public Building Authority loan issuance	-	5,041,823	-	5,041,823
Transfers in	475,354	994,043	1,018,271	2,487,668
Transfers out	(1,013,462)	-	(1,048,852)	(2,062,314)
Total Other Financing Source (Uses)	<u>(538,108)</u>	<u>6,035,866</u>	<u>(30,581)</u>	<u>5,467,177</u>
Net change in fund balance	852,044	2,706,244	1,485,381	5,043,669
Fund balance, beginning of year, as originally reported	13,067,830	(96,802)	3,212,891	16,183,919
Restatement	(294,384)	(173,477)	-	(467,861)
Fund balance, beginning of year, as restated	<u>12,773,446</u>	<u>(270,279)</u>	<u>3,212,891</u>	<u>15,716,058</u>
Fund balance, end of year	<u>\$13,625,490</u>	<u>2,435,965</u>	<u>4,698,272</u>	<u>20,759,727</u>

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance
of Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2006

Net change in fund balances-total governmental funds: \$5,043,669

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Cost of assets acquired	3,362,990
Depreciation expense	(4,279,558)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	(1,725)
Local option sales tax	34,436
State shared taxes	24,282
Contributed capital assets	442,296

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Debt repayment	720,506
Debt issuance	(5,000,000)
Debt issuance cost	61,150
Debt premium	(41,823)
Amortization of debt related costs	(2,744)
Amortization of debt related premium	1,877

Interest is accrued on outstanding obligations in governmental activities whereas in governmental funds, an interest expenditure is reported when due:

Change in accrued interest on debt	(48,331)
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Expenses reported for governmental activities which do not require the use of financial resources and are not reported as expenditures in the governmental funds:

Compensated absences	(105,291)
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Internal service funds are used by management to charge the costs of medical insurance to individual funds. The net revenue (expenses) of certain activities of internal service funds is reported with governmental activities. (net of amount allocated to business activities of \$101,826)

327,809

Change in net assets of governmental activities

\$539,543

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Net Assets

Proprietary Funds

June 30, 2006

	Business-type Activities - Enterprise Funds			Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund	Total	
Assets				
Current Assets:				
Cash and cash equivalents	\$7,352,766	8,767,139	16,119,905	999,120
Cash and cash equivalents - restricted	114,456	481,228	595,684	-
Investments - restricted	-	-	-	-
Receivables:				
Utility customers, net of allowance for estimated uncollectible	869,012	1,203,837	2,072,849	1,065
Grant receivable	146,050	-	146,050	-
Note receivable, current portion	35,842	-	35,842	-
Total Accounts Receivable	1,050,904	1,203,837	2,254,741	1,065
Due from other funds	-	-	-	-
Inventory, at cost	138,081	185,307	323,388	-
Total Current Assets	8,656,207	10,637,511	19,293,718	1,000,185
Noncurrent Assets:				
Restricted Assets:				
Investments	4,974,108	-	4,974,108	-
Special assessments and other receivable	12,250	-	12,250	-
Total Noncurrent Restricted Assets	4,986,358	-	4,986,358	-
Property, Plant and Equipment	123,350,616	20,200,197	143,550,813	-
Less accumulated depreciation	(35,953,423)	(8,428,652)	(44,382,075)	-
Total Property, Plant and Equipment, Net	87,397,193	11,771,545	99,168,738	-
Other Assets:				
Note receivable, net of current portion	263,049	-	263,049	-
Bond issuance cost-net of amortization	191,261	-	191,261	-
Total Other Assets	454,310	-	454,310	-
Total Noncurrent Assets	92,837,861	11,771,545	104,609,406	-
Total Assets	\$101,494,068	22,409,056	123,903,124	1,000,185
Liabilities				
Liabilities:				
Current Liabilities (payable from current assets):				
Accounts payable	\$461,844	704,805	1,166,649	-
Accrued expenses	310,256	139,635	449,891	-
Contracts payable	-	84,051	84,051	426,316
Interest payable	122,630	-	122,630	-
Due to other funds	-	-	-	-
Current maturities of long-term debt	2,286,071	-	2,286,071	-
Total Current Liabilities (payable from current assets)	3,180,801	928,491	4,109,292	426,316
Current Liabilities (payable from restricted assets):				
Construction bonds	80,647	-	80,647	-
Contracts payable	-	-	-	-
Customer deposits and project assistance	33,809	481,228	515,037	-
Total Current Liabilities (payable from restricted assets)	114,456	481,228	595,684	-
Total Current Liabilities	3,295,257	1,409,719	4,704,976	426,316
Noncurrent Liabilities:				
Long-term debt, net of current maturities	22,280,732	-	22,280,732	-
Total Liabilities	25,575,989	1,409,719	26,985,708	426,316
Net Assets				
Invested in capital assets, net of related debt	63,021,651	11,771,545	74,793,196	-
Unrestricted	12,896,428	9,227,792	22,124,220	573,869
Total Net Assets	\$75,918,079	20,999,337	96,917,416	573,869
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				
	210,882	21,281	232,163	
Net assets of business-type activities	\$76,128,961	21,020,618	97,149,579	

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Revenues, Expenses and
Changes in Net Assets

Proprietary Funds

For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		Total	Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund		
Operating Revenues:				
Services	\$9,723,614	29,863,669	39,587,283	3,766,738
Other	33,370	4,889	38,259	-
Forfeited discounts	144,011	177,650	321,661	-
Total Operating Revenues	<u>9,900,995</u>	<u>30,046,208</u>	<u>39,947,203</u>	<u>3,766,738</u>
Operating Expenses:				
Gas purchases	-	26,919,449	26,919,449	-
Salaries	1,711,832	472,541	2,184,373	-
Benefits and payroll taxes	837,508	278,874	1,116,382	2,999,553
Travel	5,040	768	5,808	-
Outside services	451,924	31,535	483,459	-
Telephone and utilities	1,242,150	28,169	1,270,319	-
Maintenance and repair	515,515	53,495	569,010	-
Operating supplies	657,111	120,560	777,671	-
Insurance	120,556	83,713	204,269	375,624
Professional services	14,723	58,314	73,037	-
Depreciation and amortization	2,668,029	638,648	3,306,677	-
Administrative support services	468,580	309,544	778,124	-
Other	49,696	48,408	98,104	-
Total Operating Expenses	<u>8,742,664</u>	<u>29,044,018</u>	<u>37,786,682</u>	<u>3,375,177</u>
Operating Income (loss)	<u>1,158,331</u>	<u>1,002,190</u>	<u>2,160,521</u>	<u>391,561</u>
Non-Operating Revenues (Expenses):				
Interest income	294,022	286,500	580,522	38,074
Gain (loss) on sale of capital assets	(1,442)	2,775	1,333	-
Interest expenses	(736,367)	-	(736,367)	-
Total Non-Operating Revenues (Expenses)	<u>(443,787)</u>	<u>289,275</u>	<u>(154,512)</u>	<u>38,074</u>
Net Income (loss) Before Contributions and Transfers	714,544	1,291,465	2,006,009	429,635
Contributions:				
Capital contributions - tap fees	2,131,824	147,802	2,279,626	-
Capital grant	-	-	-	-
Contributions from developers - non cash	509,900	-	509,900	-
Transfers out	<u>(315,077)</u>	<u>(110,277)</u>	<u>(425,354)</u>	<u>-</u>
Change in Net Assets	3,041,191	1,328,990	4,370,181	429,635
Net Assets, Beginning of Year,	<u>72,876,888</u>	<u>19,670,347</u>	<u>92,547,235</u>	<u>144,234</u>
Net Assets, End of Year	<u>\$75,918,079</u>	<u>20,999,337</u>	<u>96,917,416</u>	<u>573,869</u>
Change in Net Assets shown above	3,041,191	1,328,990	4,370,181	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>93,410</u>	<u>8,417</u>	<u>101,826</u>	
Change in net assets of business-type activities	<u>\$3,134,601</u>	<u>1,337,407</u>	<u>4,472,007</u>	

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		Total	Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund		
Cash Flows from Operating Activities:				
Cash received from customers	\$9,977,803	30,512,892	40,490,695	-
Cash paid to employees for services	(1,702,282)	(473,627)	(2,175,909)	-
Cash paid to suppliers for goods and services	(3,623,812)	(27,775,560)	(31,399,372)	-
Payments for interfund administrative support services	(468,580)	(309,544)	(778,124)	-
Cash received on customer deposits	-	65,810	65,810	-
Premiums received	-	-	-	3,776,903
Medical claims and administrative expenses paid	-	-	-	(3,152,821)
Net Cash Provided (Used) by Operating Activities	<u>4,183,129</u>	<u>2,019,971</u>	<u>6,203,100</u>	<u>624,082</u>
Cash Flows from Capital and Related Financing Activities:				
Purchase of property, plant, and equipment	(6,035,652)	(739,903)	(6,775,555)	-
Sale of investments	3,611,582	-	3,611,582	-
Cash received on note receivable	33,759	-	33,759	-
Cash received on construction bonds	27,822	-	27,822	-
Interest paid on debt	(725,668)	-	(725,668)	-
Cash received on sale of capital asset	-	2,775	2,775	-
Payments on long-term debt	(2,228,066)	-	(2,228,066)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(5,316,223)</u>	<u>(737,128)</u>	<u>(6,053,351)</u>	<u>-</u>
Cash Flows from Non-Capital Financing Activities:				
Transfers	(315,077)	(110,277)	(425,354)	-
Contributed equity-from customers	<u>2,123,774</u>	<u>147,802</u>	<u>2,271,576</u>	<u>-</u>
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>1,808,697</u>	<u>37,525</u>	<u>1,846,222</u>	<u>-</u>
Cash Flows from Investing Activities:				
Interest received on investments	<u>294,022</u>	<u>286,500</u>	<u>580,522</u>	<u>38,074</u>
Net Cash Provided (Used) by Investing Activities	<u>294,022</u>	<u>286,500</u>	<u>580,522</u>	<u>38,074</u>
Net Increase (Decrease) in Cash	969,625	1,606,868	2,576,493	662,156
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	<u>6,497,597</u>	<u>7,641,499</u>	<u>14,139,096</u>	<u>336,964</u>
Cash and Cash Equivalents and Restricted Cash, End of Year	<u>\$7,467,222</u>	<u>9,248,367</u>	<u>16,715,589</u>	<u>999,120</u>

Continued on next page

TOWN OF SMYRNA, TENNESSEE

Statement of Cash Flows

Proprietary Funds, Continued

For the Year Ended June 30, 2006

	Business-type Activities - Enterprise Funds		Total	Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund		
<u>Operating Income (Loss) to Net Cash Provided by Operations</u>				
Operating income (loss)	\$1,158,331	1,002,190	2,160,521	\$391,561
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	2,668,029	638,648	3,306,677	-
(Increase) decrease in:				
Accounts receivable	76,808	466,684	543,492	10,165
Inventory	(5,564)	(62,459)	(68,023)	-
Increase (Decrease) in:				
Accounts payable	257,839	(104,680)	153,159	222,356
Accrued expenses	27,686	13,778	41,464	-
Customer deposits	-	65,810	65,810	-
Net Cash Provided (used) for Operating Activities	\$4,183,129	2,019,971	6,203,100	624,082

Supplemental Schedule of Non-Cash Capital Financing Activities

In fiscal 2006, the Town accepted \$509,900 in contributed water and sewer lines from developers and capitalized interest in the water and sewer utility in the amount of \$56,230.

In fiscal 2006, the Town liquidated contracts payable in the water and sewer utility fund in the amount of \$1,866,073 and incurred contracts payable in the natural gas fund in the amount of \$20,148 related to plant and equipment in those funds.

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Fiduciary Net Assets

Pension Fund

June 30, 2006

Assets

Investments, at fair value:

Money market funds	\$198,735
Mutual funds	880,042
Certificates of deposit	75,000
U S government securities	1,376,367
Corporate bonds	225,282
Stocks	52,300
Interest receivable	25,478

Total Assets

\$2,833,204

Liabilities

Liabilities

-

Net Assets

Held in Trust for Pension Benefits

2,833,204

Total Net Assets Held in Trust for Pension Benefits

\$2,833,204

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE
Statement of Changes in Fiduciary Net Assets
Pension Fund
For the Year Ended June 30, 2006

Additions

Contributions - employer	\$181,599
Investment earnings	
Interest, dividends and other investment income (loss)	132,378
Net increase (decrease) in fair value of investments	13,386
Net investment earnings	145,764
Total additions	327,363

Deductions

Pension benefits	105,468
Total deductions	105,468

Change in net assets	221,895
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Net assets held in trust for pension benefits beginning of year	2,611,309
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Net assets held in trust for pension benefits end of year	\$2,833,204
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See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE

Statement of Cash Flow

Proprietary Fund Type - Component Unit

Industrial Development Fund

June 30, 2006

Cash Flows from Operating Activities:	
Cash received from customers	\$208,150
Net Cash Provided (Used) by Operating Activities	<u>208,150</u>
Cash Flows from Capital and Related Financing Activities:	
Interest paid on debt	(176,211)
Payments on long-term debt	<u>(50,000)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(226,211)</u>
Cash Flows from Investing Activities:	
Interest received on investments	<u>1,965</u>
Net Cash Provided (Used) by Investing Activities	<u>1,965</u>
Net Increase (Decrease) in Cash	(16,096)
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	<u>37,255</u>
Cash and Cash Equivalents and Restricted Cash, End of Year	<u><u>\$21,159</u></u>

Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations

Operating income (loss)	\$72,749
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	132,901
(Increase) decrease in:	
Accounts receivable	2,500
	<u>-</u>
Net Cash Provided (used) for Operating Activities	<u><u>\$208,150</u></u>

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements

June 30, 2006

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 in substance, part of the government's operations. Each discretely presented component unit is presented in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. The following is a description of the discretely presented component unit.

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 are leased to the Housing Authority. The bonds are revenue and tax bonds backed by the Town. The project was completed during the fiscal year and rents began in fiscal 2006. Separate financial statements are not issued for the component unit.

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, 2006

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 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.

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, 2006

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, 2006

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 11 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 capital 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. There was \$56,230 capitalized interest 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

Other Assets

Other assets in the government wide financial statements include debt issue costs and prepaid items in the governmental activities and the noncurrent portion of a note receivable and debt issue costs in the business activities.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2006

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

The Town adopted a paid time off (PTO) policy on 10/12/2004 for its regular full-time employees. All full-time employees accrue from 144 to 224 hours of PTO per year, based on years of service, to a maximum of 480 hours. Upon implementation of this policy, excess existing vacation and sick time over 360 hours was moved to a separate sick leave bank to be used by the employee for any approved Family and Medical Leave Act event. No amount of this sick leave bank shall be paid upon employee termination and all sick leave credit is lost except in the case of retirement for participants in the Town of Smyrna Pension Plan, at which time every twenty workdays of accrued sick leave credit counts as one month time in service towards retirement. All PTO 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, 2006

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 taxes are not available 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 \$.86 and \$.69 per \$100 of assessed valuation for tax years 2006 and 2005 respectively. Payments may be made during the period from October 1 through February 28. Current tax collections of \$4,236,758 for the fiscal year ended June 30, 2006 were approximately 98 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 \$8,689,303 which is net of an allowance for doubtful collections of \$17,352. Of this receivable amount, \$157,517 represents prior year property taxes, \$6,412,180 represents the estimated net realizable 2006 property taxes and \$2,027,600 represents estimated net realizable 2006 in lieu of tax. These amounts are included in deferred revenue since they are not available until the next fiscal year. The receivable reported in the governmental funds balance sheet is \$8,706,655 with an offsetting deferred revenue for amounts not available at June 30, 2006. The additional amount included in taxes receivable reported in the statements of \$109,358 is for beer and motel taxes.

2) DEPOSITS AND INVESTMENTS

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Town's deposits may not be returned or the Town will not be able to recover collateral securities in the possession of an outside party. The Town's policy requires deposits to be 105 percent secured by collateral, less the amount of Federal Deposit Insurance Corporation insurance (FDIC) or deposited in an institution which participates in the State Collateral Pool. Deposited funds may be invested in certificates of deposit in institutions with an established record of fiscal health and service. Collateral agreements must be approved prior to deposit of funds as provided by law. The Town approves and designates a list of authorized depository institutions based on evaluation of solicited responses and certifications provided by financial institutions and recommendations of Town staff.

At June 30, 2006 there were no amounts exposed to custodial credit risk.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

June 30, 2006

2) DEPOSITS AND INVESTMENTS (Continued)

Investments

At June 30, 2006, the Town's reporting entity had the following investments:

Types of Investments:	<u>Fair Value/ Carrying Amount</u>	<u>Weighted Average Days to Maturity</u>	<u>Average Credit Quality/ Ratings</u>
Primary Government:			
Tennessee Municipal Bonds	\$ 4,000,000	10,735	AAA
Money Market Funds	974,108	N/A	N/A
Local Government Investment Pool	<u>12,725,961</u>	N/A	N/A
Total	\$ 17,700,069		
Liquid investments (Cash equivalents)			
	<u>12,725,961</u>		
	<u>\$ 4,974,108</u>		
Fiduciary Fund-Pension Fund:			
Common Stock	\$ 52,300	N/A	N/A
Government Securities:			
Federal Home Loan Bank	1,158,786	1,057	AAA
Federal Farm Credit Bank	73,199	931	AAA
Federal Farm Credit Bureau	48,748	737	AAA
FHLMC	23,428	1,719	AAA
Federal Home Loan Mortgage	48,266	603	AAA
Federal National Mortgage	23,940	788	AAA
Corporate Obligations	225,282	622	AA-A
Money Market Fund	198,735	N/A	N/A
Mutual Funds Equity	880,042	N/A	N/A
Certificate of Deposit	<u>75,000</u>	337	N/A
	<u>\$ 2,807,726</u>		

Interest Rate Risk:

The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk:

The Town's general investment policy is to apply the prudent-person rule: investments are made as a prudent person should be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital and in general, avoid speculative investments.

Concentration of Credit Risk:

The Town policy is to limit investments in the pension plan to a maximum of 40% equity classified investments. As of June 30, 2006, the Town had four investments in an organization that represents 5 per cent or more of total investments.

Federal Home Loan Bank	\$	1,158,786
ED FDG South, Inc TN EDL LN Rev		4,000,000

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

3) CAPITAL ASSETS

Governmental Activities

Capital assets activity for the year ended June 30, 2006 was as follows:

	Balance <u>July 1, 2005</u>	Increases	Reclasses & <u>Decreases</u>	Balance <u>June 30, 2006</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,488,924	-	-	2,488,924
Construction in progress	1,049,135	1,019,049	(930,994)	1,137,190
<u>Capital assets being depreciated:</u>				
Buildings	15,132,204	-	-	15,132,204
Improvements other than buildings	11,581,665	1,290,560	405,087	13,277,312
Equipment	11,339,767	757,891	(132,974)	11,964,684
Infrastructure	<u>72,539,981</u>	<u>737,786</u>	<u>525,907</u>	<u>73,803,674</u>
Total	<u>114,131,676</u>	<u>3,805,286</u>	<u>(132,974)</u>	<u>117,803,988</u>
 <u>Accumulated Depreciation</u>				
Buildings	\$ 9,070,331	504,328	-	9,574,659
Improvements	1,452,328	447,513	-	1,899,841
Equipment	8,615,773	902,419	(132,974)	9,385,218
Infrastructure	<u>17,206,283</u>	<u>2,425,298</u>	<u>-</u>	<u>19,631,581</u>
Total accumulated depreciation	<u>36,344,715</u>	<u>4,279,558</u>	<u>(132,974)</u>	<u>40,491,299</u>
Governmental activities capital assets-net	<u>\$ 77,786,961</u>			<u>77,312,689</u>

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

General Government	\$ 302,686
Public Safety	
Police	274,474
Fire	297,564
Highways and street	2,622,798
Recreation	673,813
Community development	<u>108,223</u>
	<u>\$ 4,279,558</u>

Current year additions include improvements donated from developers of \$442,296.

Business-Type Activities:

Capital assets of the Enterprise Funds consisted of the following at June 30, 2006:

<u>Asset</u>	<u>Balance July 1, 2005</u>	<u>Reclasses & Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2006</u>	<u>Water and Sewer Fund</u>	<u>Gas Fund</u>	<u>Component Unit</u>
<u>Capital assets not being depreciated</u>							
Land and land rights	\$ 1,662,340	2,750	-	1,665,090	1,457,106	207,984	-
Construction in progress	1,564,341	2,882,611	(4,085,504)	361,448	308,266	53,182	-
<u>Capital assets being depreciated</u>							
Utility plant and buildings	129,680,797	1,896,893	3,938,167 (1,441)	135,514,416	118,135,326	17,379,090	3,855,320
Machinery and equipment	5,195,645	713,505	147,337 (46,628)	6,009,859	3,449,918	2,559,941	-
<u>Less accumulated depreciation</u>							
Utility plant and buildings	(36,473,272)	(3,080,732)	-	(39,554,004)	(33,522,974)	(6,031,030)	(203,484)
Machinery and equipment	(4,673,791)	(200,908)	46,628	(4,828,071)	(2,430,449)	(2,397,622)	-
Total	<u>\$ 96,956,060</u>	<u>2,214,119</u>	<u>(1,441)</u>	<u>99,168,738</u>	<u>87,397,193</u>	<u>11,771,545</u>	<u>3,651,836</u>
Current year depreciation				<u>\$ 2,642,992</u>	<u>638,648</u>	<u>125,511</u>	

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

4) RECEIVABLES AND DEFERRED REVENUE

A summary of receivables at June 30, 2006 is as follows:

	<u>Enterprise Funds</u>					<u>Total</u>
	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	<u>Nonmajor Funds</u>	
Property taxes	\$ 6,569,697	-	-	-	-	6,569,697
Other taxes & in lieu taxes	2,136,958	-	-	-	-	2,136,958
Grants receivable	3,600	24,631	146,050	-	-	174,281
Customer	148,760	-	905,498	1,319,376	425	2,374,059
Other governments	1,642,405	-	-	-	161,649	1,804,054
Less allowance	(17,352)	-	(36,486)	(115,539)	-	(169,377)
	<u>\$ 10,484,068</u>	<u>24,631</u>	<u>1,015,062</u>	<u>1,203,837</u>	<u>162,074</u>	<u>12,889,672</u>

The financial statements also include two notes receivable. The Capital Projects Fund includes a note receivable from the Housing Authority in the amount of \$221,665. 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 \$298,891, related to a construction project. The note is repayable in monthly installments of \$4,400 including interest at 6% over fourteen years.

Deferred revenue consists of amounts that are either unearned or unavailable to liquidate liabilities of the current period. At June 30, 2006 the components of deferred revenue were as follows:

	<u>Government-wide Statements</u>	<u>Fund Statements</u>
Unlevied property taxes (unavailable)	\$ 6,412,180	6,412,180
Delinquent property taxes (unavailable)	-	132,364
Unlevied in lieu of taxes (unavailable)	2,027,600	2,027,600
State and county shared taxes (unavailable)	36,994	902,777
Other (unearned)	<u>23,064</u>	<u>23,064</u>
	<u>\$ 8,499,838</u>	<u>9,497,985</u>

5) RESTRICTED ASSETS

A summary of restricted assets at June 30, 2006 is as follows:

	<u>Enterprise Funds</u>		<u>Total</u>
	<u>Water and Sewer Fund</u>	<u>Natural Gas Fund</u>	
Cash	\$ 114,456	481,228	595,684
Investments	4,974,108	-	4,974,108
Special assessments and other receivable	<u>12,250</u>	<u>-</u>	<u>12,250</u>
Total	<u>\$ 5,100,814</u>	<u>481,228</u>	<u>5,582,042</u>

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, 2006:

	Balance <u>July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2006</u>	Payable Within <u>One Year</u>
Governmental Activities:					
General obligation loan	\$ 4,985,187	5,000,000	679,934	9,305,253	809,929
Capital Leases	40,572	-	40,572	-	-
Compensated absences	<u>1,371,128</u>	<u>1,270,559</u>	<u>1,165,268</u>	<u>1,476,419</u>	<u>775,000</u>
Total	\$ 6,396,887	<u>6,270,559</u>	<u>1,885,774</u>	10,781,672	<u>1,584,929</u>
 Bond Premium	 -	 <u>41,823</u>	 <u>1,877</u>	 <u>39,946</u>	
	<u>\$ 6,396,887</u>			<u>10,821,618</u>	
Business-type Activities:					
Revenue and tax bonds	<u>\$26,928,813</u>	<u>-</u>	<u>2,228,066</u>	24,700,747	<u>2,286,071</u>
Deferred amount on refunding				<u>(133,944)</u>	
				\$ <u>24,566,803</u>	

Long-term debt payable at June 30, 2006 is comprised of the following:

Governmental Activities

1998 Issue Public Building Authority Loan (\$3,615,625) due in increasing annual installments through May 2013 at varying levels of interest based on weekly remarketing prices through the bond index. There is no cap on the interest rate.	\$ 2,709,253
2001 Issue Public Building Authority Loan (\$3,000,000) due in increasing annual installments through May 2010 at varying levels of interest based on weekly remarketing prices through the bond index. There is no cap on the interest rate.	1,596,000
2005 General Obligation Bonds (\$5,000,000) due in annual installments through April 2020 at interest rates from 3.65% to 4.25%.	<u>5,000,000</u>
	<u>\$ 9,305,253</u>

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

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

Revenue and Tax Bonds:

1998 Issue Public Building Authority Loan (\$8,594,375) due in increasing annual installments through May 2013 at varying levels of interest, based on weekly remarketing prices through the bond index. There is no cap on the interest rate.	\$ 6,440,747
2001 Water and Sewer Revenue and Tax Refunding Bonds (\$4,120,000) due in annual installments through August 2014 at varying rates of interest levels of interest.	3,975,000
2003 Water and Sewer Revenue and Tax Refunding Bonds (\$2,220,000) due in annual installments through August 2006 at 2% interest.	745,000
2003A Water and Sewer Revenue and Refunding Bonds (\$4,750,000) due in annual installments through May 2018 at interest rates from 2% to 3.7%.	3,940,000
2004 Water and Sewer Revenue and Tax Bonds (\$10,000,000) due in annual installments through May 2024 at varying levels of interest.	<u>9,600,000</u>
Total Business-type Activities	\$ <u>24,700,747</u>
 Component Unit	
2003 Industrial Development Lease and Tax Bonds (\$4,100,000) due in annual installments through December 2034 at 1.9% to 4.1% interest rate	\$ <u>4,050,000</u>

The annual requirements to amortize all bonds and notes outstanding as of June 30, 2006 including interest payments are as follows:

<u>Year</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Interest</u>	<u>Primary Government Total</u>	<u>Component Unit</u>
2007	\$ 809,929	2,286,071	1,298,503	4,394,503	229,175
2008	840,516	2,405,484	1,176,025	4,422,025	228,075
2009	872,992	2,492,008	1,041,380	4,406,380	231,762
2010	907,356	2,580,644	899,760	4,387,760	230,250
2011	804,609	2,701,391	750,769	4,256,769	228,600
2012-2016	2,999,851	6,440,149	2,177,081	11,617,081	1,195,765
2017-2021	2,070,000	3,720,000	827,375	6,617,375	1,387,315
2022-2026	-	2,075,000	126,750	2,201,750	1,407,322
2027-2031	-	-	-	-	1,463,159
2032-2036	-	-	-	-	<u>869,657</u>
	<u>\$9,305,253</u>	<u>24,700,747</u>	<u>8,297,643</u>	<u>42,303,643</u>	<u>7,471,080</u>

Refundings

The amount of defeased bonds outstanding from prior years refundings is \$3,910,000.

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	13
	b.) Terminated Employees Entitled to Deferred Benefits	<u>10</u>
	c.) Total	<u>23</u>
2.	Active Plan Participants:	
	a.) Vested (Fully and Partially)	37
	b.) Non-vested	<u>-</u>
	c.) Total	<u>37</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:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL)-see Note 1 (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Annual Funded Ratio (a/b)</u>	<u>Annual Covered Payroll (c)</u>	<u>UAAL as a % of Covered Payroll ((b-a)/c)</u>
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%
07/1/04	2,429,582	2,914,452	484,870	83.4%	1,476,370	32.84%
07/1/05	2,610,627	3,248,282	637,655	80.4%	1,460,894	43.65%

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>
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%
2005	158,012	100.00%
2006	181,599	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			
	20	35	50	60
<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

Prior to July 1, 2005, 8% per annum. 7.5% per annum effective July 1, 2005.

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 \$585,464 and the employees contributed \$552,239. 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 Town contests all 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 2006, the Town paid \$124,408 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 2006, the Town paid \$10,800 in rent to the Airport Authority.

The Town has entered into an operating lease for golf course equipment, with annual payments of \$24,768 through 2009. The equipment can be purchased at fair market value at end of lease. Total lease expense for 2006 was \$48,622.

Contracts:

At June 30, 2006, the Town had substantially completed all construction projects except for a utility project totaling \$218,000 which was 90% complete.

Contingencies

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. Amounts received from Grantor agencies are subject to audit and adjustment by Grantor agencies, principally Federal and state governments. Any disallowed claims, including amounts already collected, could become a liability to the applicable fund.

The Town has been contacted by the U.S. Army Corps of Engineers regarding a possible assessment for water storage in the amount of \$3,509,158 as well as certain annual maintenance fees and sinking fund requirements. The Corps has threatened termination of the Town's easement for its main water supply pipeline if not paid. The Town has filed suit against the Corps and the Corps has responded that no termination will be effected without a 30 day notice. 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

8) COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies, (Continued):

The Town has received an agreed order from the Tennessee Department of Environment and Conservation (TDEC). The Town paid a penalty of \$13,500 subject to other penalties of up to \$59,400 if certain goals are not met during the monitoring period through September 2017.

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, 2006, the Authority had net assets of \$30,347,059. Net operating losses for the 2006 and 2005 fiscal years were \$1,852,199 and \$1,721,326 respectively. During the year, the Town of Smyrna paid a total of \$135,208 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% and the balance is \$298,891.

10) INTERFUND TRANSACTIONS

Interfund receivables and payables are attributable to obligations for transfers between funds. The actual cash transfer had not been made at June 30, 2006. The composition of interfund balances at June 30, 2006 were as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General Fund	\$313,555	Capital Projects Fund	\$313,555
Capital Projects Fund	27	Nonmajor Governmental Fund	27

Interfund transfers for the year ended June 30, 2006 are attributable to the budgeted allocation of resources from one fund to another and consist of the following:

	<u>Transfer In:</u>			<u>Totals</u>
	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Nonmajor Governmental</u>	
Transfer Out:				
Gas Fund	\$110,277	-	-	110,277
Water and Sewer Fund	315,077	-	-	315,077
General Fund	-	330,293	683,169	1,013,462
Nonmajor Governmental Funds	<u>50,000</u>	<u>663,750</u>	<u>335,102</u>	<u>1,048,852</u>
Totals	<u>\$ 475,354</u>	<u>994,043</u>	<u>1,018,271</u>	<u>2,487,668</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 \$7,272 and \$33,759 plus interest respectively.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

12) MAJOR CUSTOMER

The Town supplies water, sewer and natural gas services to a large manufacturing company. During the fiscal year ended June 30, 2006, services to this company accounted for the following percentages of total revenues of the water, sewer and natural gas fund customer revenues.

Gas Fund	48.0 %
Water and Sewer Fund	17.8 %

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 \$144,234 at June 30, 2006. 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>
2003-2004	\$ 365,222	2,771,295	(2,668,333)	468,184
2004-2005	468,184	3,188,601	(3,452,824)	203,961
2005-2006	203,961	3,374,072	(3,152, 821)	425,212

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 was one retired employee eligible which elected participation. The Town paid \$10,754 for coverage of this retired employee during the year.

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements, Continued

15) SUBSEQUENT EVENTS

Subsequent to year end, the Town authorized to issue not to exceed \$9,500,000 in general obligation bonds. The purpose of the bonds is for public works improvements.

Also subsequent to year end the Town authorized a loan in the amount of \$268,000 to the Smyrna/Rutherford County Airport Authority. The purpose of the loan is for airport improvements.

16) FUND DEFICIT

The component unit, Industrial Development Fund, ended the fiscal year with a net asset deficit of \$271,259. Future rents are expected to fund the deficit. The Industrial Development Board has a lease agreement with Smyrna Housing Authority, a related organization, through the Town, which provides for rentals in the amount of required debt service payments. The amounts are as follows:

2007	\$ 229,175
2008	228,075
2009	231,762
2010	230,250
2011	228,600
thereafter	<u>6,323,218</u>
	<u>\$ 7,471,080</u>

17) RESTATEMENT

During the fiscal year management determined that amounts recognized as revenues in prior years relating to grants, in the amount of \$173,477 recorded in the Capital Projects Fund and contributions from a private developer in the amount of \$294,384, recorded in the General Fund several years prior, should not have been recognized. The correction resulted in a decrease in beginning net assets in the government-wide statements and a decrease in the beginning fund balances for these funds respectively. The effect on prior years change in net assets and change in fund balance was a decrease by the same amount.