

FINANCIAL SECTION

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Independent Auditor's Report

Honorable Mayor and Town Council
Town of Smyrna, Tennessee
Smyrna, Tennessee

We have audited the accompanying financial statements of the governmental activities, the business - type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Smyrna, Tennessee (the Town), as of and for the year ended June 30, 2007, which collectively comprise the Town's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Town of Smyrna's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business - type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Smyrna, Tennessee at June 30, 2007, and the respective changes in financial position and, changes in fiduciary net assets for its Pension Fund and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2007, on our consideration of the Town of Smyrna's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 2-11 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smyrna's basic financial statements. The Introductory Section (Pages i through vii), Combining and Individual Nonmajor Fund Statements and Schedules, Financial Schedules Section and Statistical Section as listed in the Table of Contents on (pages 49 through 85), inclusive are not a required part of the basic financial statements. The Combining and Individual Nonmajor Fund Statements and Schedules and, the Financial Schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are stated fairly, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Yeary Howell & Associates

October 24, 2007

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, 2007. 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 \$192,182,195 (net assets). Of this amount, \$33,161,972 (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 \$6,450,362.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$24,056,368, an increase of \$3,296,641 in comparison with the prior year. Approximately 98% of this total amount, \$23,553,110, 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 \$15,186,843, or 66% 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 \$6,404,000 during the current fiscal year. This was a result of the issuance of \$9,500,000 in new debt and the payment of current debt owed.

Overview of the Financial Statements

This discussion and analysis is 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.

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

The general fund statement of revenues, expenditures, and changes in fund balance provides additional details of the fund, as well as, a budget comparison to demonstrate compliance with the budget. This statement can be found on pages 18-21 of this report.

Individual fund data for each of the nonmajor governmental funds is provided in the form of combining and individual fund statements and schedules. The schedules provide a budget comparison to demonstrate compliance with the budget.

The combining and individual fund statements and schedules can be found on pages 47-54 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 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 22-25 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 26-27 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 28-46 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 \$192,182,195 at the close of the most recent fiscal year.

Net Assets - Primary Government June 30

	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current and Other Assets	\$ 39,589,307	\$ 32,844,975	\$ 24,203,432	\$ 24,966,549	\$ 63,792,739	\$ 57,811,524
Capital Assets	85,014,484	77,312,689	103,408,585	99,168,738	188,423,069	176,481,427
Total Assets	<u>124,603,791</u>	<u>110,157,664</u>	<u>127,612,017</u>	<u>124,135,287</u>	<u>252,215,808</u>	<u>234,292,951</u>
Long-term Liabilities Outstanding	19,536,930	10,821,618	22,314,218	24,566,803	41,851,148	35,388,421
Other Liabilities	14,248,600	10,753,792	3,933,865	2,418,905	18,182,465	13,172,697
Total Liabilities	<u>33,785,530</u>	<u>21,575,410</u>	<u>26,248,083</u>	<u>26,985,708</u>	<u>60,033,613</u>	<u>48,561,118</u>
Net Assets:						
Invested in Capital Assets, net of related debt	67,127,060	68,025,896	83,143,805	74,793,196	150,270,865	142,819,092
Restricted	8,749,358	7,023,044	-	-	8,749,358	7,023,044
Unrestricted	14,941,843	13,533,314	18,220,129	22,356,383	33,161,972	35,889,697
Total Net Assets	<u>\$ 90,818,261</u>	<u>\$ 88,582,254</u>	<u>\$ 101,363,934</u>	<u>\$ 97,149,579</u>	<u>\$ 192,182,195</u>	<u>\$ 185,731,833</u>

By far the largest portion of the Town of Smyrna's net assets (78.2 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 (4.55 percent) represents resources that are subject to external restrictions on how they may be used. These include net assets restricted for capital projects (\$8,289,938), highways and streets (\$369,905) and law enforcement (\$89,515). The remaining balance of unrestricted net assets (\$33,161,972) may be used to meet the government's ongoing obligations to citizens and creditors.

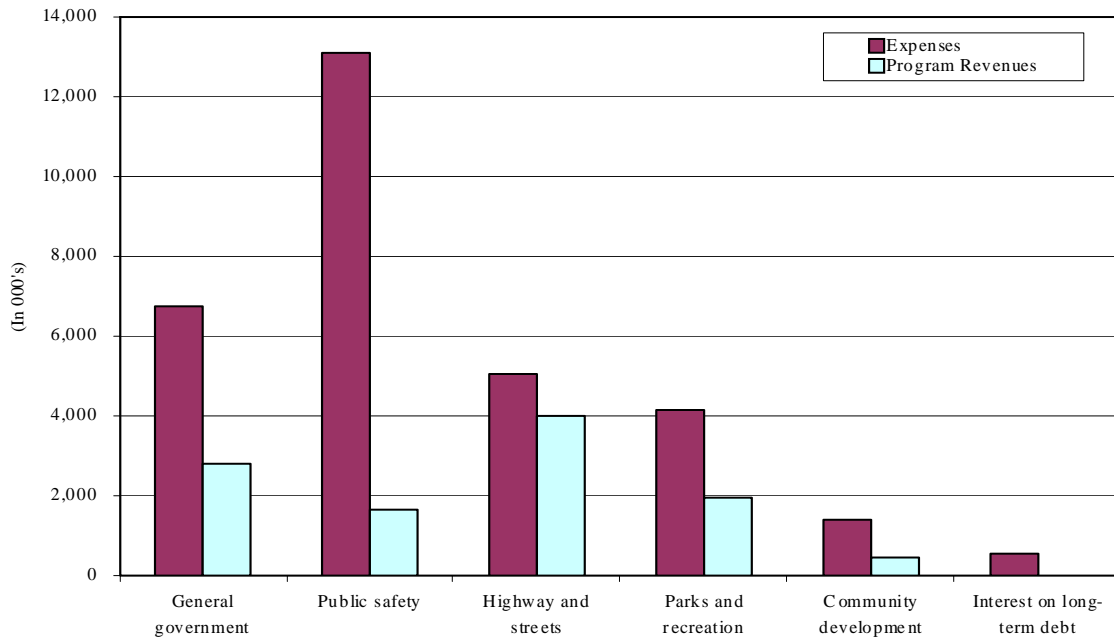
At the end of the current fiscal year, the Town of Smyrna is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the Town of Smyrna's net assets by \$2,236,007, thereby accounting for 34.7 percent of the total growth in the net assets of the Town of Smyrna. A portion of this increase is due to increases in ongoing revenues have outpaced similar increases in ongoing expenses. A portion of the increase is due to a property tax rate increase during the year. Another portion of this increase is due to the increase in interest earned on idle cash. Interest earned increased due to the Town's agreement with a local bank to increase the rate of return as the federal funds rate increases.

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

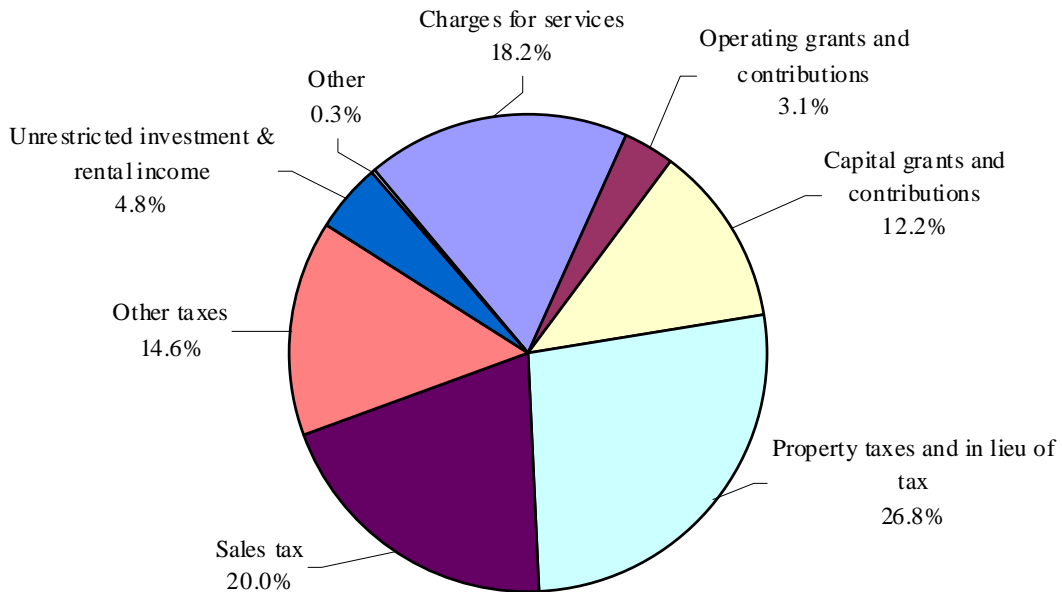
	Governmental Activities		Business-Type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Charges for services	\$ 5,893,789	\$ 5,047,100	\$ 32,885,577	\$39,947,203	\$ 38,779,366	\$ 44,994,303
Operating grants and contributions	1,021,278	1,009,732	-	-	1,021,278	1,009,732
Capital grants and contributions	3,939,901	2,796,879	2,890,998	2,789,526	6,830,899	5,586,405
General revenues:						
Property taxes and in lieu of tax	8,689,991	6,196,997	-	-	8,689,991	6,196,997
Sales tax	6,478,662	6,167,905	-	-	6,478,662	6,167,905
Other taxes	4,737,292	4,149,714	-	-	4,737,292	4,149,714
Gain on sale of capital assets	238,504	-	-	-	238,504	-
Unrestricted investment earnings	1,562,488	1,035,367	992,158	587,784	2,554,646	1,623,151
Other	100,392	133,587	-	1,333	100,392	134,920
Total Revenues	<u>32,662,297</u>	<u>26,537,281</u>	<u>36,768,733</u>	<u>43,325,846</u>	<u>69,431,030</u>	<u>69,863,127</u>
Expenses:						
General government	6,768,869	5,061,806	-	-	6,768,869	5,061,806
Public safety	13,075,351	11,689,770	-	-	13,075,351	11,689,770
Highway and streets	5,064,368	4,098,322	-	-	5,064,368	4,098,322
Parks and recreation	4,124,288	4,023,565	-	-	4,124,288	4,023,565
Community development	1,385,545	1,259,350	-	-	1,385,545	1,259,350
Interest on long-term debt	556,204	290,279	-	-	556,204	290,279
Water and Sewer	-	-	10,556,573	9,390,817	10,556,573	9,390,817
Natural Gas	-	-	21,449,470	29,037,668	21,449,470	29,037,668
Total expenses	<u>30,974,625</u>	<u>26,423,092</u>	<u>32,006,043</u>	<u>38,428,485</u>	<u>62,980,668</u>	<u>64,851,577</u>
Increase in net assets before transfers	1,687,672	114,189	4,762,690	4,897,361	6,450,362	5,011,550
Transfers	548,335	425,354	(548,335)	(425,354)	-	-
Increase in net assets	2,236,007	539,543	4,214,355	4,472,007	6,450,362	5,011,550
Net assets - beginning	88,582,254	88,042,711	97,149,579	92,677,572	185,731,833	180,720,283
Net assets - ending	<u>\$90,818,261</u>	<u>\$88,582,254</u>	<u>\$ 101,363,934</u>	<u>\$97,149,579</u>	<u>\$192,182,195</u>	<u>\$185,731,833</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.

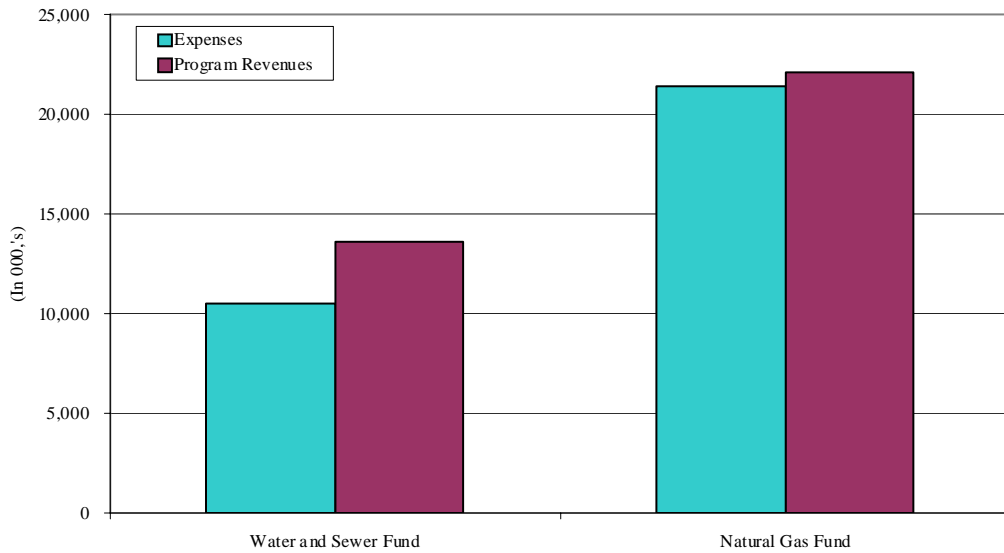
Revenue by Source – Governmental Activities



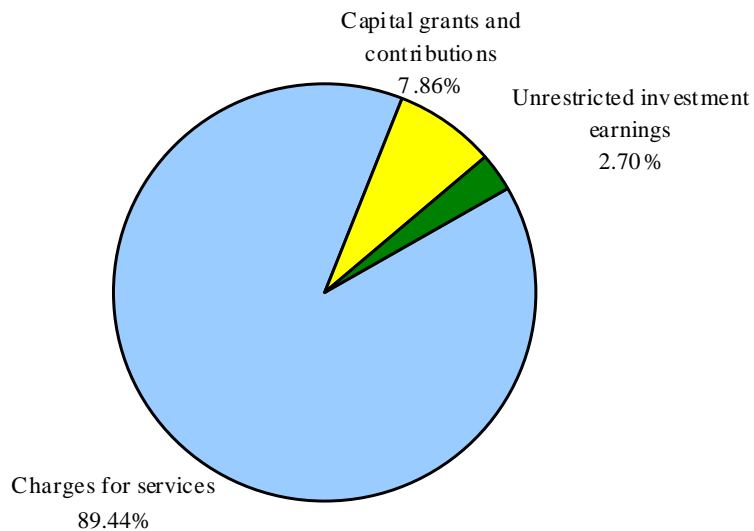
Business-type activities. Business-type activities increased the Town of Smyrna’s net assets by \$4,214,355, accounting for 65 percent of the total growth in the government’s net assets. Key elements of this increase are as follows:

- The Town's Water and Sewer Fund accounts for 77.8% 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 customer rates that was implemented in July 2006 and an increase in interest income. Interest earned increased due to the Town’s agreement with a local bank to increase the rate of return as the federal funds rate increases.

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 \$24,056,368, an increase of \$3,296,641 in comparison with the prior year. Approximately 98% of this total amount (\$23,553,110) 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 (\$206,104), project (\$233,960), and prepaid items and inventory (\$63,194).

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 \$15,186,843, while total fund balance reached \$15,444,813. 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 66 percent of total general fund expenditures, while total fund balance represents 67 percent of that same amount.

The fund balance of the Town of Smyrna's general fund increased by \$1,819,323 during the current fiscal year. Key factors in this growth are as follows:

- Local option sales tax collections increased by \$367,256 during the year, a result of the increase in population of the surrounding area, as well as, strong commercial business in the Town.
- Real estate tax revenues increased by \$2,071,385 during the year, a result of an increase in the real estate tax base due to growth and reappraisal and an increase in the tax rate.
- Interest earned on idle investments increased by \$214,568.

The capital projects fund has a total fund balance of \$3,589,995, of which \$206,104 is reserved for the noncurrent portion of notes receivable. The net increase in fund balance during the current year in the capital projects fund was \$1,154,030. The key factor in this increase was unexpended proceeds from the \$9,500,000 bond issue that closed during the fiscal year.

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 \$7,893,410 and those for the Natural Gas Fund amounted to \$10,032,063. The total growth in net assets for the funds was \$3,193,477 and \$958,121, 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 \$38,550 increase in appropriations between the original and final amended general fund expenditure budget and can be summarized with the following increase:

- \$22,000 supplemental amendment for an appropriation to a non-profit agency.
- \$16,550 supplemental amendment to fund a part time position in the community development department.

The supplemental amendments were funded from unreserved and undesignated fund balance.

Additional information about the budget process can be found in Note 17, on page 46 of this report.

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, 2007 amounts to \$188,423,069 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the Town of Smyrna's investment in capital assets for the current fiscal year was 6.77 percent (a 9.96 percent increase for governmental activities and a 4.28 percent increase for business-type activities).

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

- Construction continued on the headworks project at the waste water treatment plant; resulting in an increase to the utility plant of \$4,240,936 for this project.
- Land was purchased in the southwest portion of the town for an 80 acre park, which amounted to \$1,395,643 for this project as of the close of the fiscal year.
- Construction began on the Smyrna Justice Center renovation, which amounted to \$2,950,319 for this project as of the close of the fiscal year.
- Purchased 6 police patrol vehicles amounting to \$135,093.
- Construction began on widening Morton Lane, which amounted to \$1,594,025 for this project as of the close of the fiscal year.
- Construction continued on widening Enon Springs Road West; which amounted to \$901,367 for this project as of the close of the fiscal year.
- Construction continued on the Downtown Revitalization project, which amounted to \$758,448 for this project as of the close of the fiscal year.
- Design and construction began on Fire Hall 6 on Morton Lane, which amounted to \$240,665 for this project as of the close of the fiscal year.
- Construction continued on widening Rock Springs Road; which amounted to \$976,420 for this project as of the close of the fiscal year.

Capital Assets

(net of accumulated depreciation)

June 30

	Governmental		Business-type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
Land	\$ 4,221,586	\$ 2,488,924	\$ 1,665,090	\$ 1,665,090	\$ 5,886,676	\$ 4,154,014
Buildings and system	5,217,178	5,557,545	95,413,777	95,960,412	100,630,955	101,517,957
Improvements other than buildings	11,215,301	11,377,471	-	-	11,215,301	11,377,471
Machinery and equipment	2,354,273	2,579,466	1,416,970	1,181,788	3,771,243	3,761,254
Infrastructure	53,235,365	54,172,093	-	-	53,235,365	54,172,093
Construction in progress	8,770,781	1,137,190	4,912,748	361,448	13,683,529	1,498,638
Total Assets, net	<u>\$ 85,014,484</u>	<u>\$77,312,689</u>	<u>\$ 103,408,585</u>	<u>\$99,168,738</u>	<u>\$ 188,423,069</u>	<u>\$176,481,427</u>

Additional information on the Town's capital assets can be found in Note 3 on page 35 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Smyrna had total bonded debt outstanding of \$40,410,000. Of this amount, \$17,995,324 is debt backed by the full faith and credit of the government; \$22,414,676 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	
	2007	2006	2007	2006	2007	2006
General obligation bonds	\$17,995,324	\$ 9,305,253	\$ -	\$ -	\$17,995,324	\$ 9,305,253
Revenue and tax bonds	-	-	22,414,676	24,700,747	22,414,676	24,700,747
Total	<u>\$17,995,324</u>	<u>\$ 9,305,253</u>	<u>\$22,414,676</u>	<u>\$24,700,747</u>	<u>\$40,410,000</u>	<u>\$ 34,006,000</u>

The Town of Smyrna’s total bonded debt increased by \$6,404,000 (18.8%) during the current fiscal year. This was a result of the issuance of \$9,500,000 in new debt and the payment of current debt owed.

During the year, the Town issued \$9,500,000 of General Obligation Bonds. The bonds were issued for the purpose of funding the construction of various road improvements, the renovation to public buildings for a new justice center, the purchase of property for a new large scale park, and to purchase various pieces of machinery and equipment.

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 5.3% of assessed property value.

Additional information on the Town of Smyrna’s long-term debt can be found in Note 6 on pages 37-38 of this report.

Economic Factors and Next Year’s Budgets and Rates

- The unemployment rate for the Town of Smyrna is currently 3.3 percent, which is the same rate as a year ago. This compares favorably to the state’s average unemployment rate of 4.1 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 2008 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$15,186,843. The Town of Smyrna appropriated \$1,810,017 of this amount for spending on one time capital assets in the 2008 fiscal year budget. Should these appropriated amounts be needed for operations, some of the one time capital assets can be rescheduled for future appropriations.

Requests for Information

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

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

BASIC FINANCIAL STATEMENTS

TOWN OF SMYRNA, TENNESSEE

Statement of Net Assets

June 30, 2007

	Primary Government		Total	Component Unit
	Governmental Activities	Business Activities		Industrial Development Fund
Assets				
Cash and cash equivalents	\$27,901,911	17,266,633	45,168,544	45,250
Receivables (net of allowance for uncollectibles)				
Taxes	9,495,384	-	9,495,384	-
Due from other governments	1,868,902	-	1,868,902	-
Accounts receivable	196,125	2,640,032	2,836,157	-
Inventories, at cost	52,839	318,281	371,120	-
Internal balances	(294,897)	294,897	-	-
Restricted assets:				
Cash and equivalents - customer and developer deposits	-	1,076,292	1,076,292	-
Investments-bond proceeds	-	1,875,218	1,875,218	-
Other	-	11,550	11,550	-
Note receivable	214,059	546,309	760,368	-
Other assets	154,984	174,220	329,204	116,327
Non-depreciable capital assets	12,992,367	6,577,838	19,570,205	-
Depreciable capital assets (net of accumulated depreciation)	72,022,117	96,830,747	168,852,864	3,523,325
Total Assets	\$124,603,791	127,612,017	252,215,808	3,684,902
Liabilities				
Accounts payable	\$1,559,311	1,267,995	2,827,306	-
Accrued liabilities	1,280,525	490,352	1,770,877	-
Interest payable	138,498	116,020	254,518	14,892
Contracts payable	2,018,427	62,229	2,080,656	-
Deferred revenue	9,223,642	-	9,223,642	-
Unearned revenue	28,197	-	28,197	-
Liabilities payable from restricted assets	-	1,997,269	1,997,269	-
Long-term liabilities due within one year	2,240,516	2,405,484	4,646,000	50,000
Long-term liabilities due in more than one year	17,296,414	19,908,734	37,205,148	3,950,000
Total Liabilities	33,785,530	26,248,083	60,033,613	4,014,892
Net Assets				
Investments in capital assets, net of related debt	67,127,060	83,143,805	150,270,865	(360,348)
Restricted for:				
Capital projects	8,289,938	-	8,289,938	-
Highways and streets	369,905	-	369,905	-
Law enforcement	89,515	-	89,515	-
Unrestricted	14,941,843	18,220,129	33,161,972	30,358
Total Net Assets	\$90,818,261	101,363,934	192,182,195	(329,990)

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE

Statement of Activities

For the Year Ended June 30, 2007

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	\$6,768,869	2,818,417	-	-	(3,950,452)	-	(3,950,452)	-
Public safety:								
Police	7,654,928	1,280,633	4,995	-	(6,369,300)	-	(6,369,300)	-
Fire	5,420,422	-	-	369,602	(5,050,820)	-	(5,050,820)	-
Highways and streets	5,064,368	-	1,016,283	3,002,268	(1,045,817)	-	(1,045,817)	-
Recreation	4,124,288	1,368,034	-	568,031	(2,188,223)	-	(2,188,223)	-
Community Development	1,385,545	426,705	-	-	(958,840)	-	(958,840)	-
Interest expense on long-term debt	556,204	-	-	-	(556,204)	-	(556,204)	-
Total Government Activities	<u>30,974,625</u>	<u>5,893,789</u>	<u>1,021,278</u>	<u>3,939,901</u>	<u>(20,119,657)</u>	<u>-</u>	<u>(20,119,657)</u>	<u>-</u>
Business-type Activities								
Water and Sewer	10,556,573	10,891,300	-	2,749,231	-	3,083,958	3,083,958	-
Natural Gas	21,449,470	21,994,277	-	141,767	-	686,574	686,574	-
Total Business-type Activities	<u>32,006,043</u>	<u>32,885,577</u>	<u>-</u>	<u>2,890,998</u>	<u>-</u>	<u>3,770,532</u>	<u>3,770,532</u>	<u>-</u>
Total Primary Government	<u>\$62,980,668</u>	<u>38,779,366</u>	<u>1,021,278</u>	<u>6,830,899</u>	<u>(20,119,657)</u>	<u>3,770,532</u>	<u>(16,349,125)</u>	<u>-</u>
Component Unit								
Industrial Development Fund	<u>\$311,997</u>	<u>250,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(61,247)</u>
General Revenues:								
Property taxes and in lieu of tax					\$8,689,991	-	8,689,991	-
Sales taxes					6,478,662	-	6,478,662	-
Unrestricted other locally assessed taxes					1,725,174	-	1,725,174	-
Unrestricted other state shared taxes					3,012,118	-	3,012,118	-
Unrestricted investment earnings					1,562,488	992,158	2,554,646	2,516
Gain on sale of capital assets					238,504	-	238,504	-
Other					100,392	-	100,392	-
Transfers					548,335	(548,335)	-	-
Total general revenues and transfers					<u>22,355,664</u>	<u>443,823</u>	<u>22,799,487</u>	<u>2,516</u>
Change in net assets					2,236,007	4,214,355	6,450,362	(58,731)
Net assets - beginning of year					<u>88,582,254</u>	<u>97,149,579</u>	<u>185,731,833</u>	<u>(271,259)</u>
Net assets - end of year					<u>\$90,818,261</u>	<u>101,363,934</u>	<u>192,182,195</u>	<u>(329,990)</u>

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE

**Balance Sheet
Governmental Funds**

June 30, 2007

<u>Assets</u>	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash	\$15,581,202	6,231,795	5,041,949	26,854,946
Receivables (net of allowance for uncollectibles)				
Taxes	9,515,600	-	-	9,515,600
Due from other governments	1,691,009	2,124	175,769	1,868,902
Accounts receivable	193,558	-	67	193,625
Due from other funds	313,555	23	-	313,578
Inventory of supplies	24,010	-	28,829	52,839
Note receivable	-	214,059	-	214,059
Prepaid items	-	-	10,355	10,355
	<hr/>	<hr/>	<hr/>	<hr/>
Total Assets	<u>\$27,318,934</u>	<u>6,448,001</u>	<u>5,256,969</u>	<u>39,023,904</u>
<u>Liabilities and Fund Balances</u>				
Accounts payable	\$394,121	540,063	77,547	1,011,731
Accrued costs	1,222,628	-	57,897	1,280,525
Due to other funds	-	313,555	-	313,555
Contracts payable	-	2,004,388	14,039	2,018,427
Deferred/unearned revenue	10,257,372	-	85,926	10,343,298
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities	<u>11,874,121</u>	<u>2,858,006</u>	<u>235,409</u>	<u>14,967,536</u>
Fund Balance:				
Reserved for prepaid items and inventory	24,010	-	39,184	63,194
Reserved for project	233,960	-	-	233,960
Reserved for notes receivable	-	206,104	-	206,104
Unreserved and undesignated				
General Fund	15,186,843	-	-	15,186,843
Capital Projects Fund	-	3,383,891	-	3,383,891
Special Revenue Funds	-	-	4,982,376	4,982,376
Total Fund Balances	<u>15,444,813</u>	<u>3,589,995</u>	<u>5,021,560</u>	<u>24,056,368</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total Liabilities and Fund Balances	<u>\$27,318,934</u>	<u>6,448,001</u>	<u>5,256,969</u>	<u>39,023,904</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, 2007

Amounts reported for fund balance - total governmental funds	\$24,056,368
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	85,014,484
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	860,648
Property taxes receivable	210,595
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.	206,965
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.	(138,498)
Bond issue costs are amortized over the life of the bonds in the statement of activities.	144,629
Bond premiums are amortized as a component of interest in the statement of activities.	(36,729)
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	(17,995,324)
Compensated absences	(1,504,877)
Net assets of governmental activities	<u><u>\$90,818,261</u></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, 2007

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<u>Revenues</u>				
Taxes	\$14,629,291	-	-	14,629,291
Payment in lieu of taxes	2,191,016	-	-	2,191,016
Licenses and permits	1,419,741	-	1,895,179	3,314,920
Intergovernmental	3,083,268	-	933,200	4,016,468
Fines and forfeits	1,218,800	-	61,833	1,280,633
Uses of money and property	2,999,763	307,549	1,403,830	4,711,142
Miscellaneous	413,199	-	-	413,199
Total Revenues	25,955,078	307,549	4,294,042	30,556,669
<u>Expenditures</u>				
Current:				
General government	6,026,878	285,276	9,000	6,321,154
Public safety:				
Police	7,515,892	102,119	59,009	7,677,020
Fire	5,102,065	55,391	-	5,157,456
Highways and streets	988,711	25,914	821,673	1,836,298
Recreation	2,036,435	170,067	1,293,677	3,500,179
Community development	1,279,540	-	-	1,279,540
Debt service	-	-	1,280,303	1,280,303
Capital outlay	-	10,241,901	14,512	10,256,413
Total Expenditures	22,949,521	10,880,668	3,478,174	37,308,363
Excess (deficiency) revenues over expenditures	3,005,557	(10,573,119)	815,868	(6,751,694)
<u>Other Financing Sources (Uses)</u>				
General obligation bond issuance	-	9,500,000	-	9,500,000
Transfers in	598,335	2,227,149	1,280,303	4,105,787
Transfers out	(1,784,569)	-	(1,772,883)	(3,557,452)
Total Other Financing Source (Uses)	(1,186,234)	11,727,149	(492,580)	10,048,335
Net change in fund balance	1,819,323	1,154,030	323,288	3,296,641
Fund balance, beginning of year	13,625,490	2,435,965	4,698,272	20,759,727
Fund balance, end of year	\$15,444,813	3,589,995	5,021,560	24,056,368

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, 2007

Net change in fund balances-total governmental funds:	\$3,296,641
 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	10,556,413
Depreciation expense	(4,525,037)
Basis of capital assets disposed of	(74,303)
 Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Property taxes	95,583
Local option sales tax	(22,063)
State shared taxes	16,928
Contributed capital assets	1,744,722
 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	809,929
Debt issuance	(9,500,000)
Debt issuance cost	94,062
Amortization of debt related costs	(7,839)
Amortization of debt related premium	3,217
 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	(89,047)
 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	(28,458)
 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 (\$62,756)	
	(134,741)
Change in net assets of governmental activities	\$2,236,007

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (GAAP Basis) and Actual

General Fund

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes:				
Real estate taxes	\$6,055,760	6,055,760	6,403,392	347,632
Business tax	250,000	250,000	225,500	(24,500)
Wholesale beer tax	890,000	890,000	941,030	51,030
Local option sales tax	6,550,000	6,550,000	6,500,725	(49,275)
Other	485,500	485,500	558,644	73,144
Total Taxes	<u>14,231,260</u>	<u>14,231,260</u>	<u>14,629,291</u>	<u>398,031</u>
Payments in lieu of taxes	1,866,715	1,866,715	2,191,016	324,301
Licenses and Permits	1,147,000	1,147,000	1,419,741	272,741
Intergovernmental Revenues:				
State of Tennessee income tax	50,000	50,000	227,850	177,850
State of Tennessee beer tax	18,000	18,000	17,781	(219)
State of Tennessee sales tax	2,395,000	2,395,000	2,380,658	(14,342)
Maintenance of state roads	74,000	74,000	73,037	(963)
Federal and state grants	-	-	11,574	11,574
Other state and county shared taxes	201,530	201,530	372,368	170,838
Total Intergovernmental Revenues	<u>2,738,530</u>	<u>2,738,530</u>	<u>3,083,268</u>	<u>344,738</u>
Fines and forfeits	1,200,474	1,200,474	1,218,800	18,326
Uses of Property and Money:				
Penalties	35,200	35,200	40,571	5,371
Interest earned	787,000	787,000	966,399	179,399
Rent	65,000	65,000	112,801	47,801
Traffic school fees	191,787	191,787	140,070	(51,717)
Administrative support charges	1,057,984	1,057,984	1,057,984	-
Cemetery revenue	60,000	60,000	47,250	(12,750)
Recreation fees and community center fees	420,000	420,000	420,415	415
Food sales	225,000	225,000	214,273	(10,727)
Total Uses of Property and Money	<u>2,841,971</u>	<u>2,841,971</u>	<u>2,999,763</u>	<u>157,792</u>
Other	61,000	61,000	413,199	352,199
Total Revenues	<u>24,086,950</u>	<u>24,086,950</u>	<u>25,955,078</u>	<u>1,868,128</u>
Expenditures:				
General Government:				
Current:				
Legislative Board:				
Salaries	36,000	36,000	36,000	-
Benefits and payroll taxes	45,230	45,230	24,908	20,322
Travel	21,100	21,100	7,285	13,815
Other	32,400	32,400	32,378	22
Total Legislative Board	<u>134,730</u>	<u>134,730</u>	<u>100,571</u>	<u>34,159</u>

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TOWN OF SMYRNA, TENNESSEE
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (GAAP Basis) and Actual, Continued
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures, Continued:				
General Government, Continued:				
Current, Continued:				
City and General Sessions Court:				
Salaries	\$583,700	583,700	581,986	1,714
Benefits and payroll taxes	219,999	219,999	156,644	63,355
Contractual services	51,230	51,230	55,700	(4,470)
Other	22,480	22,480	17,972	4,508
Total City and General Sessions Court	<u>877,409</u>	<u>877,409</u>	<u>812,302</u>	<u>65,107</u>
Vehicle Maintenance:				
Salaries	138,190	138,190	138,116	74
Benefits and payroll taxes	67,990	67,990	63,172	4,818
Other	75,400	75,400	58,845	16,555
Total City Garage	<u>281,580</u>	<u>281,580</u>	<u>260,133</u>	<u>21,447</u>
Codes, Engineering and Planning:				
Salaries	699,690	699,690	678,386	21,304
Benefits and payroll taxes	321,785	321,785	269,266	52,519
Board expenditures	600	600	525	75
Insurance	7,800	7,800	7,800	-
Telephone and utilities	3,340	3,340	3,389	(49)
Supplies	19,475	19,475	18,257	1,218
Repairs and maintenance	3,300	3,300	501	2,799
Professional services	45,500	45,500	34,770	10,730
Other	38,260	38,260	23,704	14,556
Total Codes, Engineering and Planning	<u>1,139,750</u>	<u>1,139,750</u>	<u>1,036,598</u>	<u>103,152</u>
Building and Grounds:				
Salaries	500,110	500,110	387,430	112,680
Benefits and payroll taxes	252,360	252,360	211,884	40,476
Repairs and maintenance	53,000	53,000	47,843	5,157
Supplies	33,800	33,800	32,887	913
Insurance	10,350	10,350	10,350	-
Cemetery	14,800	14,800	12,753	2,047
Other	2,150	2,150	367	1,783
Total Building Maintenance	<u>866,570</u>	<u>866,570</u>	<u>703,514</u>	<u>163,056</u>
Finance and Administration:				
Salaries	1,353,030	1,353,030	1,327,377	25,653
Benefits and payroll taxes	569,955	569,955	490,331	79,624
Memberships and testing	33,326	33,326	24,970	8,356
Telephone and utilities	121,585	121,585	149,016	(27,431)
Professional services	157,500	517,500	653,109	(135,609)
Repairs and maintenance	6,060	6,060	490	5,570
Travel	22,180	22,180	16,142	6,038
Supplies	96,855	96,855	67,275	29,580
Insurance	24,775	24,775	24,475	300
Outside services	286,940	286,940	261,577	25,363
Other	87,350	87,350	98,998	(11,648)
Total Finance and Administration	<u>2,759,556</u>	<u>3,119,556</u>	<u>3,113,760</u>	<u>5,796</u>
Total Current	<u>6,059,595</u>	<u>6,419,595</u>	<u>6,026,878</u>	<u>392,717</u>
Capital Outlay	-	-	-	-
Total General Government	<u>6,059,595</u>	<u>6,419,595</u>	<u>6,026,878</u>	<u>392,717</u>

Continued on next page

TOWN OF SMYRNA, TENNESSEE

Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (GAAP Basis) and Actual, Continued

General Fund

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures, Continued:				
Public Safety:				
Police Department:				
Current:				
Salaries	\$4,979,490	4,979,490	5,000,466	(20,976)
Benefits and payroll taxes	2,250,500	2,250,500	1,862,736	387,764
Outside services	73,158	73,158	74,347	(1,189)
Memberships and testing	9,668	9,668	13,395	(3,727)
Telephone	41,438	41,438	38,047	3,391
Repairs and maintenance	57,640	57,640	95,120	(37,480)
Travel	37,475	37,475	20,137	17,338
Supplies	312,610	312,610	321,512	(8,902)
Insurance	82,200	82,200	82,586	(386)
Other	9,750	9,750	7,546	2,204
Total Current	<u>7,853,929</u>	<u>7,853,929</u>	<u>7,515,892</u>	<u>338,037</u>
Capital Outlay	-	-	-	-
Total Police Department	<u>7,853,929</u>	<u>7,853,929</u>	<u>7,515,892</u>	<u>338,037</u>
Fire Department:				
Current:				
Salaries	3,643,130	3,388,130	3,292,734	95,396
Benefits and payroll taxes	1,628,280	1,498,280	1,271,246	227,034
Memberships and testing	7,775	7,775	8,827	(1,052)
Telephone and utilities	89,929	89,929	95,178	(5,249)
Repairs and maintenance	67,600	67,600	141,284	(73,684)
Supplies	173,626	173,626	178,670	(5,044)
Insurance	43,800	43,800	43,800	-
Outside services	66,487	66,487	60,445	6,042
Other	18,110	18,110	9,881	8,229
Total Current	<u>5,738,737</u>	<u>5,353,737</u>	<u>5,102,065</u>	<u>251,672</u>
Capital Outlay	-	-	-	-
Total Fire Department	<u>5,738,737</u>	<u>5,353,737</u>	<u>5,102,065</u>	<u>251,672</u>
Total Public Safety	<u>13,592,666</u>	<u>13,207,666</u>	<u>12,617,957</u>	<u>589,709</u>
Highways and Streets:				
Current:				
Salaries	486,330	486,330	488,552	(2,222)
Benefits and payroll taxes	297,530	297,530	258,804	38,726
Telephone and utilities	22,750	22,750	16,138	6,612
Repairs and maintenance	120,000	120,000	104,633	15,367
Supplies	76,800	76,800	76,506	294
Insurance	15,400	15,400	15,400	-
Outside services	18,000	18,000	15,458	2,542
Other	32,970	32,970	13,220	19,750
Total Current	<u>1,069,780</u>	<u>1,069,780</u>	<u>988,711</u>	<u>81,069</u>
Capital Outlay	-	-	-	-
Total Highways and Streets	<u>1,069,780</u>	<u>1,069,780</u>	<u>988,711</u>	<u>81,069</u>

Continued on next page

TOWN OF SMYRNA, TENNESSEE
Statement of Revenues, Expenditures and Changes in
Fund Balance - Budget (GAAP Basis) and Actual, Continued
General Fund
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures, Continued:				
Recreation:				
Current:				
Salaries	\$1,084,670	1,084,670	1,021,947	62,723
Benefits and payroll taxes	412,688	412,688	352,813	59,875
Memberships and testing	5,501	5,501	5,737	(236)
Telephone and utilities	192,450	192,450	202,976	(10,526)
Repairs and maintenance	87,360	87,360	121,956	(34,596)
Travel	11,655	11,655	10,510	1,145
Outside services	154,766	154,766	142,122	12,644
Recreation programs	19,075	19,075	23,144	(4,069)
Advertising and promotion	4,950	4,950	2,271	2,679
Supplies	102,483	102,483	109,359	(6,876)
Insurance	22,300	22,300	22,300	-
Rent	11,800	11,800	11,850	(50)
Other	13,250	13,250	9,450	3,800
Total Current	<u>2,122,948</u>	<u>2,122,948</u>	<u>2,036,435</u>	<u>86,513</u>
Capital Outlay	-	-	-	-
Total Recreation	<u>2,122,948</u>	<u>2,122,948</u>	<u>2,036,435</u>	<u>86,513</u>
Community Development:				
Current:				
Salaries	292,610	307,210	289,394	17,816
Benefits and payroll taxes	127,150	129,100	112,896	16,204
Telephone and utilities	56,400	56,400	62,881	(6,481)
Repairs and maintenance	13,000	13,000	18,117	(5,117)
Outside services	9,651	9,651	10,078	(427)
Advertising and promotion	2,250	2,250	881	1,369
Food purchase	101,500	126,500	145,528	(19,028)
Supplies	32,900	32,900	36,507	(3,607)
Insurance	2,000	2,000	2,000	-
Contributions to non-profits	578,983	600,983	596,223	4,760
Other	2,900	2,900	5,035	(2,135)
Total Current	<u>1,219,344</u>	<u>1,282,894</u>	<u>1,279,540</u>	<u>3,354</u>
Capital Outlay	-	-	-	-
Total Community Development	<u>1,219,344</u>	<u>1,282,894</u>	<u>1,279,540</u>	<u>3,354</u>
Total Expenditures	<u>24,064,333</u>	<u>24,102,883</u>	<u>22,949,521</u>	<u>1,153,362</u>
Excess Revenues Over Expenditures	<u>22,617</u>	<u>(15,933)</u>	<u>3,005,557</u>	<u>3,021,490</u>
Other Financing Sources (Uses):				
Transfer to Capital Projects Fund	(883,930)	(883,930)	(858,258)	25,672
Transfer to Drug Fund	-	-	-	-
Transfer to Debt Service Fund	(1,144,694)	(1,144,694)	(926,311)	218,383
Transfer from Gas Fund	129,318	129,318	144,211	14,893
Transfer from Water and Sewer Fund	296,044	296,044	404,124	108,080
Transfer from Golf Course Fund	50,000	50,000	50,000	-
Total Other Financing Sources (Uses)	<u>(1,553,262)</u>	<u>(1,553,262)</u>	<u>(1,186,234)</u>	<u>367,028</u>
Net change in fund balance	<u>(1,530,645)</u>	<u>(1,569,195)</u>	<u>1,819,323</u>	<u>3,388,518</u>
Fund Balance, beginning of year	<u>13,625,490</u>	<u>13,625,490</u>	<u>13,625,490</u>	<u>-</u>
Fund Balance, end of year	<u>\$12,094,845</u>	<u>12,056,295</u>	<u>15,444,813</u>	<u>3,388,518</u>

See accompanying notes to general purpose financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Net Assets

Proprietary Funds

June 30, 2007

	Business-type Activities - Enterprise Funds			Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund	Total	
<u>Assets</u>				
Current Assets:				
Cash and cash equivalents	\$7,899,943	9,366,690	17,266,633	1,046,965
Cash and cash equivalents - restricted	215,590	550,697	766,287	-
Receivables:				
Utility customers, net of allowance for estimated uncollectible	1,206,620	1,433,412	2,640,032	2,500
Note receivable, current portion	20,581	-	20,581	-
Total Accounts Receivable	1,227,201	1,433,412	2,660,613	2,500
Due from other funds	-	-	-	-
Inventory, at cost	134,218	184,063	318,281	-
Total Current Assets	9,476,952	11,534,862	21,011,814	1,049,465
Noncurrent Assets:				
Restricted Assets:				
Cash	310,005	-	310,005	-
Investments	1,875,218	-	1,875,218	-
Special assessments and other receivable	11,550	-	11,550	-
Total Noncurrent Restricted Assets	2,196,773	-	2,196,773	-
Property, Plant and Equipment	130,345,923	21,041,744	151,387,667	-
Less accumulated depreciation	(38,862,733)	(9,116,349)	(47,979,082)	-
Total Property, Plant and Equipment, Net	91,483,190	11,925,395	103,408,585	-
Other Assets:				
Note receivable, net of current portion	525,728	-	525,728	-
Bond issuance cost-net of amortization	174,220	-	174,220	-
Total Other Assets	699,948	-	699,948	-
Total Noncurrent Assets	94,379,911	11,925,395	106,305,306	-
Total Assets	<u>\$103,856,863</u>	<u>23,460,257</u>	<u>127,317,120</u>	<u>1,049,465</u>
<u>Liabilities</u>				
Liabilities:				
Current Liabilities (payable from current assets):				
Accounts payable	\$510,264	757,730	1,267,994	-
Accrued expenses	356,738	133,615	490,353	-
Contracts payable	-	62,229	62,229	547,580
Interest payable	116,020	-	116,020	-
Due to other funds	23	-	23	-
Current maturities of long-term debt	2,405,484	-	2,405,484	-
Total Current Liabilities (payable from current assets)	3,388,529	953,574	4,342,103	547,580
Current Liabilities (payable from restricted assets):				
Construction bonds	174,524	-	174,524	-
Contracts payable	1,232,454	-	1,232,454	-
Customer deposits and project assistance	41,066	549,225	590,291	-
Total Current Liabilities (payable from restricted assets)	1,448,044	549,225	1,997,269	-
Total Current Liabilities	4,836,573	1,502,799	6,339,372	547,580
Noncurrent Liabilities:				
Long-term debt, net of current maturities	19,908,734	-	19,908,734	-
Total Liabilities	24,745,307	1,502,799	26,248,106	547,580
<u>Net Assets</u>				
Invested in capital assets, net of related debt	71,218,410	11,925,395	83,143,805	-
Unrestricted	7,893,146	10,032,063	17,925,209	501,885
Total Net Assets	<u>\$79,111,556</u>	<u>21,957,458</u>	<u>101,069,014</u>	<u>501,885</u>
ent to reflect the consolidation of internal service fund activities related to enterprise funds	297,042	(2,122)	294,920	
Net assets of business-type activities	<u>\$79,408,598</u>	<u>21,955,336</u>	<u>101,363,934</u>	

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, 2007

	Business-type Activities - Enterprise Funds		Total	Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund		
Operating Revenues:				
Services	\$10,741,283	21,834,445	32,575,728	5,180,802
Other	10,036	17,467	27,503	-
Forfeited discounts	139,981	142,365	282,346	-
Total Operating Revenues	10,891,300	21,994,277	32,885,577	5,180,802
Operating Expenses:				
Gas/ water purchases	50,203	18,961,883	19,012,086	-
Salaries	1,979,518	524,837	2,504,355	-
Benefits and payroll taxes	985,739	295,488	1,281,227	4,372,677
Travel	13,093	7,501	20,594	-
Outside services	517,164	40,913	558,077	-
Telephone and utilities	1,338,969	28,478	1,367,447	-
Maintenance and repair	366,572	102,434	469,006	1,734
Operating supplies	725,699	141,666	867,365	-
Insurance	124,750	86,300	211,050	934,036
Professional services	24,766	12,926	37,692	-
Depreciation and amortization	2,926,352	687,697	3,614,049	-
Administrative support services	611,883	446,101	1,057,984	-
Other	54,814	86,890	141,704	-
Total Operating Expenses	9,719,522	21,423,114	31,142,636	5,308,447
Operating Income (loss)	1,171,778	571,163	1,742,941	(127,645)
Non-Operating Revenues (Expenses):				
Interest income	591,855	389,402	981,257	55,661
Interest expenses	(915,263)	-	(915,263)	-
Total Non-Operating Revenues (Expenses)	(323,408)	389,402	65,994	55,661
Net Income (loss) Before Contributions and Transfers	848,370	960,565	1,808,935	(71,984)
Contributions:				
Capital contributions - tap fees	2,440,346	141,767	2,582,113	-
Contributions from developers - non cash	308,885	-	308,885	-
Transfers out	(404,124)	(144,211)	(548,335)	-
Change in Net Assets	3,193,477	958,121	4,151,598	(71,984)
Net Assets, Beginning of Year,	75,918,079	20,999,337	96,917,416	573,869
Net Assets, End of Year	\$79,111,556	21,957,458	101,069,014	501,885
Change in Net Assets shown above	3,193,477	958,121	4,151,598	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	86,160	(23,403)	62,757	
Change in net assets of business-type activities	\$3,279,637	934,718	4,214,355	

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Cash Flows

Proprietary Funds

For the Year Ended June 30, 2007

	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	\$10,553,692	21,764,702	32,318,394	-
Cash paid to employees for services	(1,969,761)	(527,510)	(2,497,271)	-
Cash paid to suppliers for goods and services	(4,105,505)	(19,713,657)	(23,819,162)	-
Payments for interfund administrative support services	(611,883)	(446,101)	(1,057,984)	-
Cash received on interfund payable	23	-	23	-
Cash received on customer deposits	-	67,997	67,997	-
Premiums received	-	-	-	5,179,367
Medical claims and administrative expenses paid	-	-	-	(5,187,183)
Net Cash Provided (Used) by Operating Activities	3,866,566	1,145,431	5,011,997	(7,816)
Cash Flows from Capital and Related Financing Activities:				
Purchase of property, plant, and equipment	(5,427,868)	(863,369)	(6,291,237)	-
Cash received on note receivable	38,461	-	38,461	-
Cash loaned	(285,879)	-	(285,879)	-
Cash received on construction bonds	93,877	-	93,877	-
Interest paid on debt	(914,487)	-	(914,487)	-
Cash received from grant	146,050	-	146,050	-
Payments on long-term debt	(2,286,071)	-	(2,286,071)	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(8,635,917)	(863,369)	(9,499,286)	-
Cash Flows from Non-Capital Financing Activities:				
Transfers	(404,124)	(144,211)	(548,335)	-
Contributed equity-from customers	2,441,046	141,767	2,582,813	-
Net Cash Provided (Used) by Non-Capital Financing Activities	2,036,922	(2,444)	2,034,478	-
Cash Flows from Investing Activities:				
Sale of investments	3,098,890	-	3,098,890	-
Interest received on investments	591,855	389,402	981,257	55,661
Net Cash Provided (Used) by Investing Activities	3,690,745	389,402	4,080,147	55,661
Net Increase (Decrease) in Cash	958,316	669,020	1,627,336	47,845
Cash and Cash Equivalents and Restricted Cash, Beginning of Year	7,467,222	9,248,367	16,715,589	999,120
Cash and Cash Equivalents and Restricted Cash, End of Year	\$8,425,538	9,917,387	18,342,925	1,046,965

Continued on next page

TOWN OF SMYRNA, TENNESSEE

Statement of Cash Flows

Proprietary Funds, Continued

For the Year Ended June 30, 2007

	Business-type Activities - Enterprise Funds		Total	Internal Service Fund
	Water and Sewer Fund	Natural Gas Fund		
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by Operations</u>				
Operating income (loss)	\$1,171,778	571,163	1,742,941	(\$127,645)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and amortization	2,926,352	687,697	3,614,049	-
(Increase) decrease in:				
Accounts receivable	(337,608)	(229,575)	(567,183)	(1,435)
Inventory	3,863	1,244	5,107	-
Increase (Decrease) in:				
Accounts payable	48,420	52,925	101,345	121,264
Accrued expenses	53,738	(6,020)	47,718	-
Due to/ Due from	23	-	23	-
Customer deposits	-	67,997	67,997	-
	<u>\$3,866,566</u>	<u>1,145,431</u>	<u>5,011,997</u>	<u>(7,816)</u>
Net Cash Provided (used) for Operating Activities	<u>\$3,866,566</u>	<u>1,145,431</u>	<u>5,011,997</u>	<u>(7,816)</u>

Supplemental Schedule of Non-Cash Capital Financing Activities

In fiscal 2007, the Town accepted \$308,885 in contributed water and sewer lines from developers and capitalized interest in the water and sewer utility in the amount of \$26,100.

In fiscal 2007, the Town utilized contracts payable in the water and sewer utility fund in the amount of \$1,232,454 and \$67,997 in the natural gas fund to acquire plant and equipment.

See accompanying notes to financial statements.

TOWN OF SMYRNA, TENNESSEE

Statement of Fiduciary Net Assets

Pension Fund

June 30, 2007

Assets

Investments, at fair value:

Money market funds	\$225,091
Mutual funds	1,101,958
Certificates of deposit	50,000
U S government securities	1,647,569
Corporate bonds	175,439
Interest receivable	28,446

Total Assets

\$3,228,503

Liabilities

Liabilities

-

Net Assets

Held in Trust for Pension Benefits

3,228,503

Total Net Assets Held in Trust for Pension Benefits

\$3,228,503

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, 2007

<u>Additions</u>	
Contributions - employer	\$194,816
Investment earnings	
Interest, dividends and other investment income (loss)	163,675
Net increase (decrease) in fair value of investments	<u>141,823</u>
Net investment earnings	<u>305,498</u>
 Total additions	 <u>500,314</u>
<u>Deductions</u>	
Pension benefits	<u>105,015</u>
 Total deductions	 <u>105,015</u>
 Change in net assets	 395,299
Net assets held in trust for pension benefits beginning of year	<u>2,833,204</u>
Net assets held in trust for pension benefits end of year	<u><u>\$3,228,503</u></u>

See accompanying notes to financial statements

TOWN OF SMYRNA, TENNESSEE

Notes to Financial Statements

June 30, 2007

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

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 judgments 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 as well as property insurance for Town assets.

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

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 non-operating 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 non-operating 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

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 7 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 \$26,100 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 non-current portion of a note receivable and debt issue costs in the business activities.

TOWN OF SMYRNA, TENNESSEE

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. 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

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 per \$100 of assessed valuation for tax years 2007 and 2006. Payments may be made during the period from October 1 through February 28. Current tax collections of \$6,275,145 for the fiscal year ended June 30, 2007 were approximately 96.5 percent of the tax levy. Delinquent taxes past due for fourteen months are turned over to the county clerk for collection.

The government-wide financial statements report taxes receivable of \$9,495,384 which is net of an allowance for doubtful collections of \$20,216. Of this receivable amount, \$290,673 represents prior year property taxes, \$6,917,271 represents the estimated net realizable 2007 property taxes and \$2,191,000 represents estimated net realizable 2007 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 \$9,515,600 with an offsetting deferred revenue for amounts not available at June 30, 2007. The additional amount included in taxes receivable reported in the statements of \$116,656 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, 2007 there were no amounts exposed to custodial credit risk.

TOWN OF SMYRNA, TENNESSEE

2) DEPOSITS AND INVESTMENTS (Continued)

Investments

At June 30, 2007, 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:			
Money Market Funds	\$ 1,875,218	N/A	N/A
Local Government Investment Pool	<u>13,345,000</u>	N/A	N/A
Total	\$ 15,220,218		
Liquid investments (Cash equivalents)	(13,345,000) \$ <u>1,875,218</u>		
Fiduciary Fund-Pension Fund:			
Government Securities:			
Federal Home Loan Bank	\$ 1,327,566	1,012	AAA
Federal Farm Credit Bank	49,484	358	AAA
Federal Farm Credit Bureau	172,816	1,377	AAA
FHLMC	24,464	423	AAA
Federal Home Loan Mortgage	73,239	603	AAA
Federal National Mortgage			
Corporate Obligations	175,439	405	AA-A
Money Market Fund	225,091	N/A	N/A
Mutual Funds Equity	1,101,958	N/A	N/A
Certificate of Deposit	<u>50,000</u>	401	N/A
	\$ <u>3,200,057</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, 2007, the Town had one investment in an organization that represents 5 per cent or more of total investments.

Federal Home Loan Bank	\$ 1,327,566
Federal Farm Credit Bureau	172,816

TOWN OF SMYRNA, TENNESSEE

3) CAPITAL ASSETS

Governmental Activities

Capital assets activity for the year ended June 30, 2007 was as follows:

	Balance <u>July 1, 2006</u>	Reclasses & <u>Increases</u>	<u>Decreases</u>	Balance <u>June 30, 2007</u>
<u>Capital assets not being depreciated:</u>				
Land	\$ 2,525,943	1,780,852	85,209	4,221,586
Construction in progress	1,137,190	7,633,591	-	8,770,781
<u>Capital assets being depreciated:</u>				
Buildings	15,132,204	169,615	-	15,301,819
Improvements other than buildings	13,277,312	295,182	-	13,572,494
Equipment	11,964,684	685,650	214,991	12,435,343
Infrastructure	<u>73,766,655</u>	<u>1,736,245</u>	<u>-</u>	<u>75,502,900</u>
Total	<u>117,803,988</u>	<u>12,301,135</u>	<u>300,200</u>	<u>129,804,923</u>
 <u>Accumulated Depreciation</u>				
Buildings	\$ 9,574,659	509,982	-	10,084,641
Improvements	1,899,841	457,352	-	2,357,193
Equipment	9,385,218	904,540	208,688	10,081,070
Infrastructure	<u>19,631,581</u>	<u>2,653,163</u>	<u>17,209</u>	<u>22,267,535</u>
Total accumulated depreciation	<u>40,491,299</u>	<u>4,525,037</u>	<u>225,897</u>	<u>44,790,439</u>
 Governmental activities capital assets-net	 \$ <u>77,312,689</u>			 <u>85,014,484</u>

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

General Government	\$ 306,263
Public Safety	
Police	273,008
Fire	302,870
Highways and street	2,845,469
Recreation	689,204
Community development	<u>108,223</u>
	\$ <u>4,525,037</u>

Current year additions include improvements donated from developers of \$2,044,722.

Business-Type Activities:

Capital assets of the Enterprise Funds consisted of the following at June 30, 2007:

<u>Asset</u>	<u>Balance July 1, 2006</u>	<u>Reclasses & Increases</u>	<u>Reclasses & Decreases</u>	<u>Balance June 30, 2007</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	\$ 1,665,090	-	-	1,665,090	1,457,106	207,984	-
Construction in progress	361,448	4,625,838	(74,538)	4,912,748	4,804,003	108,745	-
<u>Capital assets being depreciated</u>							
Utility plant and buildings	135,514,416	2,892,840	-	138,407,256	120,510,076	17,897,180	3,855,320
Machinery and equipment	6,009,859	392,714	-	6,402,573	3,574,738	2,827,835	-
<u>Less accumulated depreciation</u>							
Utility plant and buildings	(39,554,004)	(3,439,475)	-	(42,993,479)	(36,364,468)	(6,629,011)	(331,995)
Machinery and equipment	(4,828,071)	(157,532)	-	(4,985,603)	(2,498,265)	(2,487,338)	-
Total	\$ <u>99,168,738</u>	<u>4,314,385</u>	<u>(74,538)</u>	<u>103,408,585</u>	<u>91,483,190</u>	<u>11,925,395</u>	<u>3,523,325</u>
Current year depreciation					<u>2,909,310</u>	<u>687,697</u>	<u>128,511</u>

TOWN OF SMYRNA, TENNESSEE

4) RECEIVABLES AND DEFERRED REVENUE

A summary of receivables at June 30, 2007 is as follows:

	General Fund	Capital Projects Fund	Enterprise Funds		Nonmajor Funds	Total
			Water and Sewer Fund	Natural Gas Fund		
Property taxes	\$ 7,207,944	-	-	-	-	7,207,944
Other taxes & in lieu taxes	2,307,656	-	-	-	-	2,307,656
Grants receivable	4,995	-	-	-	-	4,995
Customer	196,058	-	1,259,514	1,540,804	67	2,996,443
Other governments	1,686,014	2,124	-	-	175,769	1,863,907
Less allowance	<u>(20,216)</u>	<u>-</u>	<u>(52,894)</u>	<u>(107,392)</u>	<u>-</u>	<u>(180,502)</u>
	<u>\$11,382,451</u>	<u>2,124</u>	<u>1,206,620</u>	<u>1,433,412</u>	<u>175,836</u>	<u>14,200,443</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 \$214,059. 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 \$546,309, related to a construction project. The note is repayable in monthly installments of \$4,400 including interest at 6% over seventeen years.

Deferred and unearned revenue consists of amounts that are either unearned or unavailable to liquidate liabilities of the current period. At June 30, 2007 the components of deferred revenue were as follows:

	Government-wide Statements	Fund Statements
Unlevied property taxes (unavailable)	\$ 6,917,271	6,917,271
Delinquent property taxes (unavailable)	-	230,811
Unlevied in lieu of taxes (unavailable)	2,191,000	2,191,000
State and county shared taxes (unavailable)	115,371	976,019
Other (unearned)	<u>28,197</u>	<u>28,197</u>
	<u>\$ 9,251,839</u>	<u>10,343,298</u>

5) RESTRICTED ASSETS

A summary of restricted assets at June 30, 2007 is as follows:

	Enterprise Funds		Total
	Water and Sewer Fund	Natural Gas Fund	
Cash	\$ 525,595	550,697	1,076,292
Investments	1,875,218	-	1,875,218
Special assessments and other receivable	<u>11,550</u>	<u>-</u>	<u>11,550</u>
Total	<u>\$ 2,412,363</u>	<u>550,697</u>	<u>2,963,060</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

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. Service of this debt is paid from the General Fund and State Street Aid Fund (nonmajor fund).

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, 2007:

	Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	Balance <u>June 30, 2007</u>	Payable Within <u>One Year</u>
Governmental Activities:					
General obligation debt	\$ 9,305,253	9,500,000	809,929	17,995,324	940,516
Compensated absences	<u>1,476,419</u>	<u>1,281,003</u>	<u>1,252,545</u>	<u>1,504,877</u>	<u>1,300,000</u>
Total	10,781,672	<u>10,781,003</u>	<u>2,062,474</u>	19,500,201	<u>2,240,516</u>
 Bond Premium	 39,946	 -	 <u>3,217</u>	 <u>36,729</u>	
	<u>\$ 10,821,618</u>			<u>19,536,930</u>	
Business-type Activities:					
Revenue and tax bonds	24,700,747	-	<u>2,286,071</u>	22,414,676	<u>2,405,484</u>
Deferred amount on refunding	 (133,944)			 <u>(100,458)</u>	
	<u>\$ 24,566,803</u>			<u>22,314,218</u>	

Long-term debt payable at June 30, 2007 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.	\$ 2,376,324
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.	1,219,000
2005 General Obligation Bonds (\$5,000,000) due in annual installments through April 2020 at interest rates from 3.65% to 4.25%.	4,900,000
2006 General Obligation Bonds (\$9,500,000) due in annual installments through June 2022 at interest rates from 3.65% to 3.875%.	<u>9,500,000</u>
	<u>\$ 17,995,324</u>

TOWN OF SMYRNA, TENNESSEE

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.	\$	5,649,676
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.		3,900,000
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%.		3,665,000
2004 Water and Sewer Revenue and Tax Bonds (\$10,000,000) due in annual installments through May 2024 at varying levels of interest.		<u>9,200,000</u>
Total Business-type Activities	\$	<u>22,414,676</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>4,000,000</u>
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The annual requirements to amortize all bonds and notes outstanding as of June 30, 2007 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>
2008	\$ 940,516	2,405,484	1,536,213	4,882,213	228,075
2009	972,992	2,492,008	1,397,693	4,862,693	231,762
2010	1,057,356	2,580,644	1,255,199	4,893,199	230,250
2011	1,054,609	2,701,391	1,097,395	4,853,395	228,600
2012	1,099,751	1,829,249	959,496	3,888,496	231,725
2013-2017	6,325,100	5,540,900	3,211,135	15,077,135	1,241,095
2018-2022	6,545,000	3,440,000	1,217,538	11,202,538	1,384,235
2023-2027	-	1,425,000	64,500	1,489,500	1,422,074
2028-2032	-	-	-	-	1,467,411
2033-2036	-	-	-	-	<u>564,675</u>
	<u>\$ 17,995,324</u>	<u>22,414,676</u>	<u>10,739,169</u>	<u>51,149,169</u>	<u>7,229,902</u>

Refundings

The amount of defeased bonds outstanding from prior years refundings is \$3,870,000.

TOWN OF SMYRNA, TENNESSEE

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 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>11</u>
	c.) Total	<u>24</u>
2.	Active Plan Participants:	
	a.) Vested (Fully and Partially)	36
	b.) Non-vested	-
	c.) Total	<u>36</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

7) PENSION PLAN AND DEFERRED COMPENSATION 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>
10/1/97	\$ 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%
07/1/06	2,833,204	3,564,593	731,389	79.5%	1,526,635	47.9%

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>
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%
2007	194,816	100.00%

*Fiscal years 1997-1998 were September 30, year-ends. Fiscal year end became June 30 in 1999 year.

TOWN OF SMYRNA, TENNESSEE

7) PENSION PLAN AND DEFERRED COMPENSATION 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 \$679,075 and the employees contributed \$676,054. 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

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 2007, the Town paid \$128,638 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 2007, the Town paid \$10,882 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 2010. The equipment can be purchased at fair market value at end of lease. Total lease expense for 2007 was \$49,350.

Contracts:

At June 30, 2007, the Town had approximately \$11,077,000 in general government construction projects in process which were 38% complete. The Town also had \$6,048,700 in water and sewer projects which were 68% 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 filed suit against the Corps and received a favorable judgment which may be appealed. Termination will not 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.

TOWN OF SMYRNA, TENNESSEE

8) COMMITMENTS AND CONTINGENCIES (Continued)

Contingencies, (Continued):

The Town does not believe, based on current information, any potential future assessments would be material to the Town’s financial statements.

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, 2007, the Authority had net assets of \$34,710,577. Net operating losses for the 2007 and 2006 fiscal years were \$1,386,152 and \$1,852,199 respectively. During the year, the Town of Smyrna paid a total of \$139,520 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 originally loaned the Authority \$497,784 in 1999 and increased the loan amount by \$285,879 in fiscal year 2007. The loan is being repaid in monthly installments of \$4,400 for approximately seventeen years. Interest accrues at 6% and the balance is \$546,309.

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, 2007. The composition of interfund balances at June 30, 2007 were as follows:

<u>Receivable Fund</u>		<u>Payable Fund</u>	
General Fund	\$313,555	Capital Projects Fund	\$313,555
Capital Projects Fund	23	Water and Sewer Fund	23

Internal balances also include \$294,920 related to the consolidation of the internal service fund.

Interfund transfers for the year ended June 30, 2007 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	\$ 144,211	-	-	144,211
Water and Sewer Fund	404,124	-	-	404,124
General Fund	-	858,258	926,311	1,784,569
Nonmajor				
Governmental Funds	<u>50,000</u>	<u>1,368,891</u>	<u>353,992</u>	<u>1,772,883</u>
Totals	\$ <u>598,335</u>	<u>2,227,149</u>	<u>1,280,303</u>	<u>4,105,787</u>

TOWN OF SMYRNA, TENNESSEE

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 \$7,606 and \$38,461 plus interest respectively.

12) MAJOR CUSTOMER

The Town supplies water, sewer and natural gas services to a large manufacturing company. During the fiscal year ended June 30, 2007, services to this company accounted for the following percentages of total revenues of the water, sewer and natural gas fund customer revenues.

Gas Fund	41.8%
Water and Sewer Fund	18.7%

13) RISK MANAGEMENT

The Town has chosen to establish the Self Insurance Fund (internal service fund) for risks associated with the employees' health insurance plan and liability risks. The fund is accounted for as an internal service fund where assets are set aside for claim settlements.

Employee Health Insurance Plan

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 \$500,151 at June 30, 2007.

Liability Insurance Plan

The Town is self insured to a limit of \$50,000 per claim for liability claims and \$25,000 per claim for property and crime claims. The Town obtained commercial insurance for claims beyond the above noted amounts. The maximum liability the Town can incur is \$697,500 for all claims during the policy year. Amounts charged departments during the year exceeded claims by \$1,734.

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>
2004-2005	\$ 468,184	3,188,601	(3,452,824)	203,961
2005-2006	203,961	3,374,072	(3,152, 821)	425,212
2006-2007	425,212	4,183,457	(4,061,089)	547,580

TOWN OF SMYRNA, TENNESSEE

13) RISK MANAGEMENT (Continued)

The Town continues to carry commercial insurance for all other risks of loss, including 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 \$12,494 for coverage of this retired employee during the year.

15) SUBSEQUENT EVENTS

Subsequent to year end the Town entered into a contract for utility improvements. The amount of the contract is approximately \$599,000 and will be paid from funds on hand.

16) FUND DEFICIT

The Golf Course Fund, a nonmajor governmental fund ended the fiscal year with a fund deficit of \$24,021.

The ultimate funding responsibility of any deficit is the General Fund.

The component unit, Industrial Development Fund, ended the fiscal year with a net asset deficit of \$329,990. 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:

2008	\$ 228,075
2009	231,762
2010	230,250
2011	228,600
2012	231,725
thereafter	<u>6,079,490</u>
	\$ <u>7,229,902</u>

17) BUDGET COMPLIANCE AND ACCOUNTABILITY

The Town of Smyrna is required by State statute to adopt an annual budget. The Town legally adopts budgets for all governmental funds except the Debt Service Fund, because effective budgetary control is achieved through transfers from other funds. These budgets are prepared on the basis that current available funds must be sufficient to meet current expenditures. Expenditures may not legally exceed appropriations authorized by the Town Council. The Town's budgetary basis is consistent with generally accepted accounting principles. The legal level of budgetary control is at the department level. Any changes to departmental total budgets must be approved by the council.

TOWN OF SMYRNA, TENNESSEE

17) BUDGET COMPLIANCE AND ACCOUNTABILITY (Continued)

The Town follows these procedures in establishing the budgetary data reflected in the financial statements.

1. Prior to May 15, the Town Manager submits to the Town Council a proposed operating budget for the fiscal year commencing the following July 1. The operating departmental budget establishes the budgetary level of control for the proposed expenditures and the means of financing them.
2. Public hearings are conducted at the Town Hall to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an ordinance. In no event shall the total appropriations for any fund included in the budget exceed the estimated revenues and unappropriated fund balance.
4. The Town Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions that alter the total expenditures of any department or fund must be approved by the Town Council.
5. Formal budgetary integration is employed as a management control device during the year for all governmental fund types, except the Debt Service Fund, a nonmajor governmental fund.
6. Budgets are adopted on a basis generally consistent with generally accepted accounting principles (GAAP). These budget appropriations lapse at year end.

During the fiscal year, the General Fund expenditures and other uses budget was increased by \$38,550 and the Capital Projects Funds expenditure budget was increased by \$537,000. Nonmajor governmental fund expenditures budgets were increased by \$164,000.