

# 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, 2008. 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 \$204,365,710 (net assets). Of this amount, \$30,708,261 (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 \$12,183,515.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$16,873,682, a decrease of \$7,182,686 in comparison with the prior year. Approximately 97% of this total amount, \$16,322,492, 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 \$16,053,343, or 65% of total general fund expenditures. This demonstrates the Town's fiscal discipline and places the Town in a strong financial position to meet unexpected emergencies, uncertainties at the State level or the general slowdown in the economy.
- The Town of Smyrna's total debt decreased by \$3,346,000 during the current fiscal year. This was a result of the payment of current debt owed.

## Overview of the Financial Statements

This discussion and analysis 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, stormwater, 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 eight 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 six 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 47-55 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 \$204,365,710 at the close of the most recent fiscal year.

	<b>Net Assets - Primary Government</b>					
	<b>June 30</b>					
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and Other Assets	\$ 32,508,667	\$ 39,589,307	\$ 21,263,762	\$ 24,203,432	\$ 53,772,429	\$ 63,792,739
Capital Assets	<u>98,117,242</u>	<u>85,014,484</u>	<u>108,182,318</u>	<u>103,408,585</u>	<u>206,299,560</u>	<u>188,423,069</u>
Total Assets	<u>130,625,909</u>	<u>124,603,791</u>	<u>129,446,080</u>	<u>127,612,017</u>	<u>260,071,989</u>	<u>252,215,808</u>
Long-term Liabilities Outstanding	18,726,056	19,536,930	19,942,220	22,314,218	38,668,276	41,851,148
Other Liabilities	<u>13,581,169</u>	<u>14,248,600</u>	<u>3,456,834</u>	<u>3,933,865</u>	<u>17,038,003</u>	<u>18,182,465</u>
Total Liabilities	<u>32,307,225</u>	<u>33,785,530</u>	<u>23,399,054</u>	<u>26,248,083</u>	<u>55,706,279</u>	<u>60,033,613</u>
Net Assets:						
Invested in Capital Assets, net of related debt	81,028,922	67,127,060	88,240,098	83,143,805	169,269,020	150,270,865
Restricted	4,388,429	8,749,358	-	-	4,388,429	8,749,358
Unrestricted	<u>12,901,333</u>	<u>14,941,843</u>	<u>17,806,928</u>	<u>18,220,129</u>	<u>30,708,261</u>	<u>33,161,972</u>
Total Net Assets	<u>\$ 98,318,684</u>	<u>\$ 90,818,261</u>	<u>\$ 106,047,026</u>	<u>\$ 101,363,934</u>	<u>\$ 204,365,710</u>	<u>\$ 192,182,195</u>

By far the largest portion of the Town of Smyrna's net assets (82.8 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 (2.15 percent) represents resources that are subject to external restrictions on how they may be used. These include net assets restricted for capital projects (\$3,920,073), highways and streets (\$458,202) and law enforcement (\$10,154). The remaining balance of unrestricted net assets (\$30,708,261) may be used to meet the government's ongoing obligations to citizens and creditors.

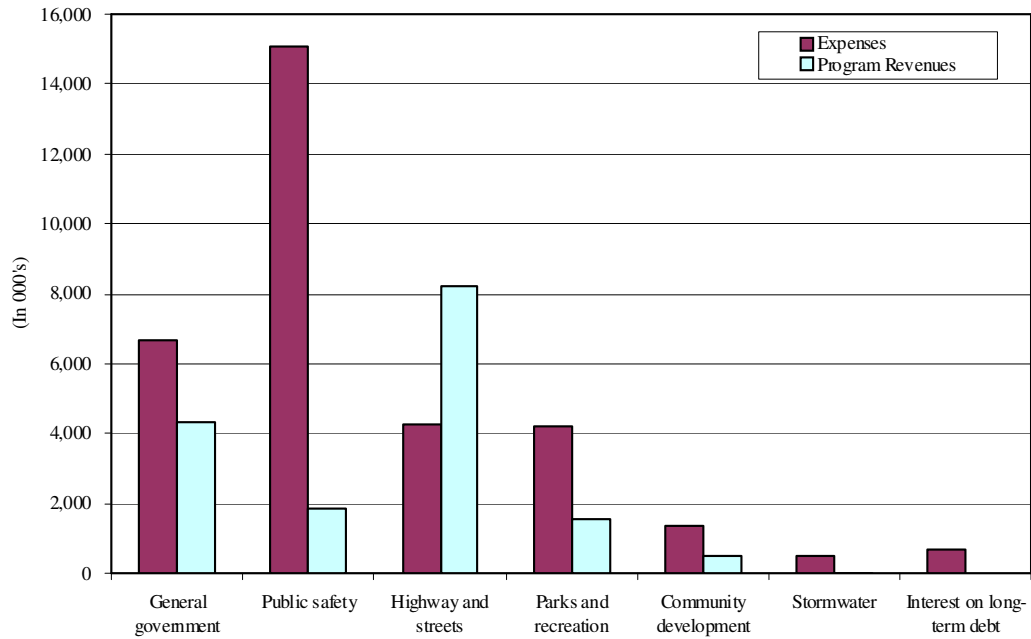
At the end of the current fiscal year, the Town of Smyrna is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

**Governmental activities.** Governmental activities increased the Town of Smyrna's net assets by \$7,500,423, thereby accounting for 61.6 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. The majority of the increase is from the contribution of donated infrastructure capital assets. Another portion of this increase is due to the increase in local option sales tax. The growth in local option sales tax is due to the increase in commercial business in the last year.

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

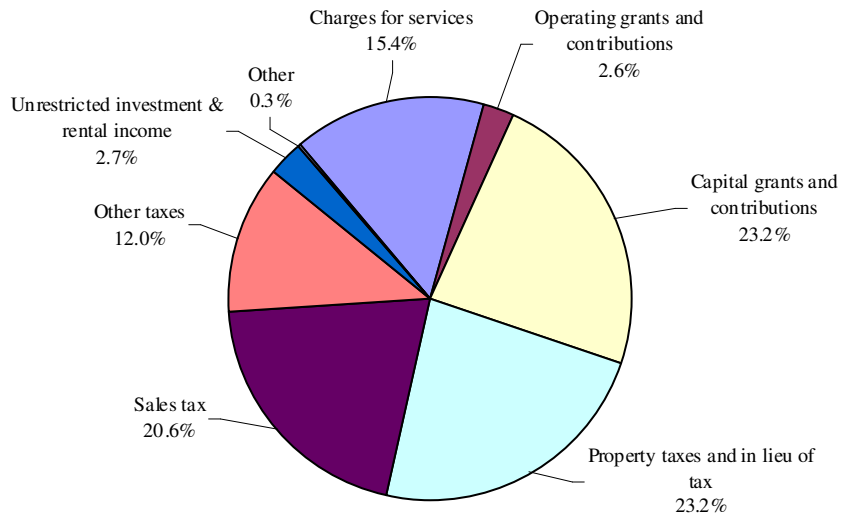
	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
<b>Revenues:</b>						
Charges for services	\$ 6,115,670	\$ 5,893,789	\$ 31,627,512	\$ 32,885,577	\$ 37,743,182	\$ 38,779,366
Operating grants and contributions	1,048,308	1,021,278	-	-	1,048,308	1,021,278
Capital grants and contributions	9,198,553	3,939,901	5,111,011	2,890,998	14,309,564	6,830,899
<b>General revenues:</b>						
Property taxes and in lieu of tax	9,195,425	8,689,991	-	-	9,195,425	8,689,991
Sales tax	8,187,025	6,478,662	-	-	8,187,025	6,478,662
Other taxes	4,746,847	4,737,292	-	-	4,746,847	4,737,292
Gain on sale of capital assets	23,367	238,504	-	-	23,367	238,504
Unrestricted investment earnings	1,058,635	1,562,488	659,593	992,158	1,718,228	2,554,646
Other	104,943	100,392	(113,745)	-	(8,802)	100,392
<b>Total Revenues</b>	<u>39,678,773</u>	<u>32,662,297</u>	<u>37,284,371</u>	<u>36,768,733</u>	<u>76,963,144</u>	<u>69,431,080</u>
<b>Expenses:</b>						
General government	6,657,254	6,768,869	-	-	6,657,254	6,768,869
Public safety	15,056,464	13,075,351	-	-	15,056,464	13,075,351
Highway and streets	4,277,621	5,064,368	-	-	4,277,621	5,064,368
Parks and recreation	4,202,662	4,124,288	-	-	4,202,662	4,124,288
Community development	1,380,316	1,385,545	-	-	1,380,316	1,385,545
Stormwater	508,715	-	-	-	508,715	-
Interest on long-term debt	669,262	556,204	-	-	669,262	556,204
Water and Sewer	-	-	11,573,972	10,556,573	11,573,972	10,556,573
Natural Gas	-	-	20,453,363	21,449,470	20,453,363	21,449,470
<b>Total expenses</b>	<u>32,752,294</u>	<u>30,974,625</u>	<u>32,027,335</u>	<u>32,006,043</u>	<u>64,779,629</u>	<u>62,980,668</u>
Increase in net assets before transfers	6,926,479	1,687,672	5,257,036	4,762,690	12,183,515	6,450,362
Transfers	573,944	548,335	(573,944)	(548,335)	-	-
<b>Increase in net assets</b>	<u>7,500,423</u>	<u>2,236,007</u>	<u>4,683,092</u>	<u>4,214,355</u>	<u>12,183,515</u>	<u>6,450,362</u>
Net assets - beginning	90,818,261	88,582,254	101,363,934	97,149,579	192,182,195	185,731,833
<b>Net assets - ending</b>	<u>\$ 98,318,684</u>	<u>\$ 90,818,261</u>	<u>\$ 106,047,026</u>	<u>\$ 101,363,934</u>	<u>\$ 204,365,710</u>	<u>\$ 192,182,195</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 and Parks and Recreation were also substantial activities reflecting the Town’s commitment to safe and adequate roads and leisure activity.

## Revenue by Source – Governmental Activities



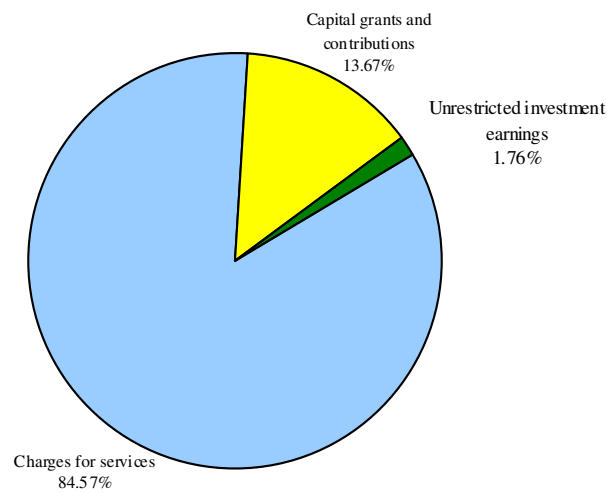
**Business-type activities.** Business-type activities increased the Town of Smyrna’s net assets by \$4,683,092, accounting for 38.4 percent of the total growth in the government’s net assets. Key elements of this increase are as follows:

- The Town's Water and Sewer Fund accounts for 85.3% of the increase in business-type net assets. The majority of the change in net assets is a result of cash and non-cash capital contributions to the Water and Sewer Fund.

**Expenses and Program Revenues – Business-type Activities**



**Revenues by Source – Business-type Activities**



## Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$16,873,682, a decrease of \$7,182,686 in comparison with the prior year. Approximately 97% of this total amount (\$16,322,492) 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 (\$197,783), project (\$288,612), and prepaid items and inventory (\$64,795).

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 \$16,053,343, while total fund balance reached \$16,375,984. 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 65 percent of total general fund expenditures, while total fund balance represents 66 percent of that same amount.

The fund balance of the Town of Smyrna's general fund increased by \$931,171 during the current fiscal year. Key factors in this growth are as follows:

- Local option sales tax collections increased by \$1,513,210 during the year, a result of the increase in population of the surrounding area, as well as, the continued growth in commercial business in the Town.
- Real estate tax revenues increased by \$544,831 during the year, a result of an increase in the real estate tax base due to growth.

The capital projects fund has a total fund balance of (\$2,791,144), of which \$197,783 is reserved for the noncurrent portion of notes receivable. The net decrease in fund balance during the current year in the capital projects fund was \$6,381,139. The key factor in this decrease was expenditures for capital projects. These capital projects were funded from cash from a previous bond issue, impact fee funds and funds from the general fund, which will be paid back from a bond issue expected in fiscal year 2009.

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

Unrestricted net assets of the Water and Sewer Fund at the end of the year amounted to \$6,269,778 and those for the Natural Gas Fund amounted to \$11,082,481. The total growth in net assets for the funds was \$3,842,700 and \$680,643, 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 \$2,500 increase in appropriations between the original and final amended general fund expenditure budget and can be summarized with the following increase:

- \$2,500 supplemental amendment to fund additional operating supplies in the highways and streets 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, 2008 amounts to \$206,299,560 (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 9.48 percent (a 15.41 percent increase for governmental activities and a 4.61 percent increase for business-type activities).

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

- Construction was completed on the headworks project at the waste water treatment plant; resulting in an increase to the utility plant of \$6,420,859 for this project.
- Construction continued on the rock springs water line, which amounted to \$1,514,968 for this project for the fiscal year.
- Engineering and design continued on Cedar Stone Community Park, which amounted to \$230,543 for this project as of the close of the fiscal year.
- Construction was completed on the Smyrna Justice Center renovation; resulting in an increase in land and buildings of \$5,061,555 for this project.
- Purchased 10 police patrol vehicles amounting to \$225,070.
- Construction was completed on widening Morton Lane; resulting in an increase in infrastructure of \$3,382,141 for this project.
- Construction continued on widening Enon Springs Road West; which amounted to \$2,440,706 for this project as of the close of the fiscal year.
- Construction was completed on the Downtown Revitalization project; resulting in an increase in improvements of \$889,416 for this project.
- Construction was completed on Fire Hall 6 on Morton Lane; resulting in an increase in land and buildings of \$1,749,384 for this project.
- Construction continued on widening Rock Springs Road; which amounted to \$929,553 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			
	2008	2007	2008	2007	2008	2007
Land	\$ 4,639,676	\$ 4,221,586	\$ 1,665,090	\$ 1,665,090	\$ 6,304,766	\$ 5,886,676
Buildings and system	12,064,806	5,217,178	102,086,800	95,413,777	114,151,606	100,630,955
Improvements other than buildings	12,052,876	11,215,301	-	-	12,052,876	11,215,301
Machinery and equipment	2,927,558	2,354,273	1,301,850	1,416,970	4,229,408	3,771,243
Infrastructure	60,437,881	53,235,365	-	-	60,437,881	53,235,365
Construction in progress	5,994,445	8,770,781	3,128,578	4,912,748	9,123,023	13,683,529
Total Assets, net	<u>\$ 98,117,242</u>	<u>\$ 85,014,484</u>	<u>\$ 108,182,318</u>	<u>\$ 103,408,585</u>	<u>\$ 206,299,560</u>	<u>\$ 188,423,069</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 \$37,064,000. Of this amount, \$17,054,808 is debt backed by the full faith and credit of the government; \$20,009,192 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	
	2008	2007	2008	2007	2008	2007
General obligation bonds	\$ 17,054,808	\$ 17,995,324	\$ -	\$ -	\$ 17,054,808	\$ 17,995,324
Revenue and tax bonds	<u>-</u>	<u>-</u>	<u>20,009,192</u>	<u>22,414,676</u>	<u>20,009,192</u>	<u>22,414,676</u>
Total	<u>\$ 17,054,808</u>	<u>\$ 17,995,324</u>	<u>\$ 20,009,192</u>	<u>\$ 22,414,676</u>	<u>\$ 37,064,000</u>	<u>\$ 40,410,000</u>

The Town of Smyrna’s total bonded debt decreased by \$3,346,000 (8.28%) during the current fiscal year. This was a result of the payment of current debt owed.

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 4.6% 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 6.4 percent or 1,280 persons, which is 3.1 percent or 600 persons more than a year ago. This compares favorably to the state’s average unemployment rate of 6.6 percent, but is 0.3 percent higher than the national average rate of 6.1 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 2009 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund increased to \$16,053,343. The Town of Smyrna appropriated \$1,202,568 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](mailto:mark.tucker@townofsmyrna.org)