

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, 2009. 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 \$204,933,966 (net assets). Of this amount, \$29,772,677 (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 \$568,256.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$18,717,508, an increase of \$1,843,826 in comparison with the prior year. Approximately 97% of this total amount, \$18,108,047, 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 \$14,666,346, or 54% 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 \$6,374,999 during the current fiscal year. This was a result of the issuance of \$18,190,000 in new debt, refunding of \$8,350,000 in 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, 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 \$204,933,966 at the close of the most recent fiscal year.

Net Assets - Primary Government

June 30

	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Current and Other Assets	\$ 34,806,692	\$ 32,508,667	\$ 18,623,402	\$ 21,263,762	\$ 53,430,094	\$ 53,772,429
Capital Assets	102,157,993	98,117,242	112,756,878	108,182,318	214,914,871	206,299,560
Total Assets	<u>136,964,685</u>	<u>130,625,909</u>	<u>131,380,280</u>	<u>129,446,080</u>	<u>268,344,965</u>	<u>260,071,989</u>
Long-term Liabilities Outstanding	23,217,166	18,726,056	22,116,756	19,942,220	45,333,922	38,668,276
Other Liabilities	14,398,742	13,581,169	3,678,335	3,456,834	18,077,077	17,038,003
Total Liabilities	<u>37,615,908</u>	<u>32,307,225</u>	<u>25,795,091</u>	<u>23,399,054</u>	<u>63,410,999</u>	<u>55,706,279</u>
Net Assets:						
Invested in Capital Assets, net of related debt	80,698,915	81,028,922	90,640,122	88,240,098	171,339,037	169,269,020
Restricted	3,822,252	4,388,429	-	-	3,822,252	4,388,429
Unrestricted	14,827,610	12,901,333	14,945,067	17,806,928	29,772,677	30,708,261
Total Net Assets	<u>\$ 99,348,777</u>	<u>\$ 98,318,684</u>	<u>\$ 105,585,189</u>	<u>\$ 106,047,026</u>	<u>\$ 204,933,966</u>	<u>\$ 204,365,710</u>

By far the largest portion of the Town of Smyrna's net assets (83.6 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 (1.87 percent) represents resources that are subject to external restrictions on how they may be used. These include net assets restricted for capital projects (\$3,254,231), highways and streets (\$277,135), stormwater (\$240,696) and law enforcement (\$50,190). The remaining balance of unrestricted net assets (\$29,772,677) may be used to meet the government's ongoing obligations to citizens and creditors.

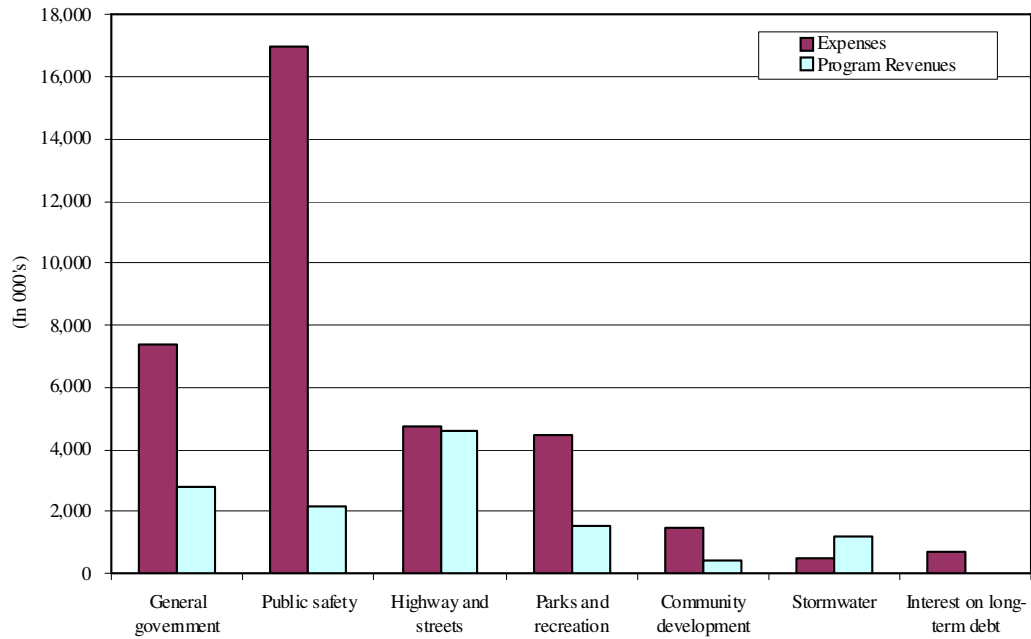
At the end of the current fiscal year, the Town of Smyrna is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Governmental activities. Governmental activities increased the Town of Smyrna's net assets by \$1,030,093, thereby accounting for 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 Town also saw an increase in property tax and in lieu of tax revenue. This increase is due to the growth of the tax base. Another portion of this increase is due to the increase in local option sales tax. The growth in local option sales tax continues to grow over the previous year due to the increase in commercial business in the Town.

Changes in Net Assets
For the year ended June 30

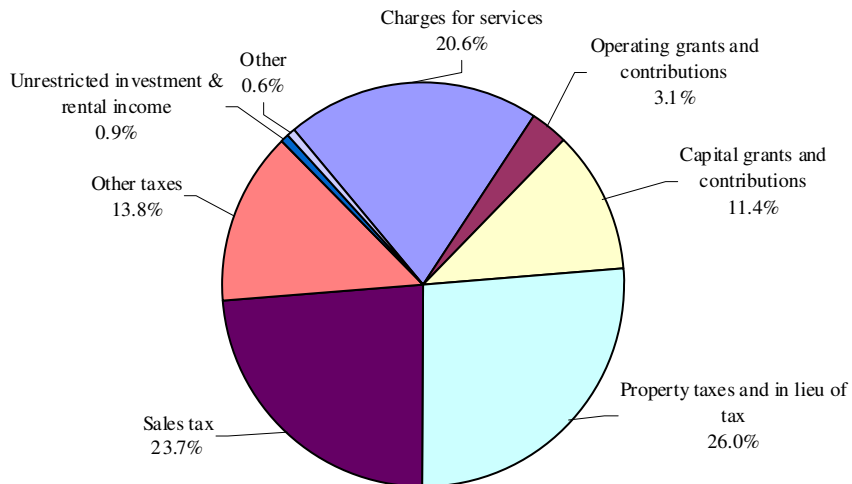
	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
Revenues:						
Charges for services	\$ 7,508,682	\$ 6,115,670	\$ 29,154,272	\$ 31,627,512	\$ 36,662,954	\$ 37,743,182
Operating grants and contributions	1,126,471	1,048,308	-	-	1,126,471	1,048,308
Capital grants and contributions	4,146,351	9,198,553	984,604	5,111,011	5,130,955	14,309,564
General revenues:						
Property taxes and in lieu of tax	9,503,939	9,195,425	-	-	9,503,939	9,195,425
Sales tax	8,648,135	8,187,025	-	-	8,648,135	8,187,025
Other taxes	5,051,879	4,746,847	-	-	5,051,879	4,746,847
Gain on sale of capital assets	182,564	23,367	-	-	182,564	23,367
Unrestricted investment earnings	316,030	1,058,635	211,977	659,593	528,007	1,718,228
Other	224,126	104,943	9,505	(113,745)	233,631	(8,802)
Total Revenues	36,708,177	39,678,773	30,360,358	37,284,371	67,068,535	76,963,144
Expenses:						
General government	7,400,713	6,657,254	-	-	7,400,713	6,657,254
Public safety	16,960,669	15,056,464	-	-	16,960,669	15,056,464
Highway and streets	4,737,861	4,277,621	-	-	4,737,861	4,277,621
Parks and recreation	4,490,983	4,202,662	-	-	4,490,983	4,202,662
Community development	1,464,050	1,380,316	-	-	1,464,050	1,380,316
Stormwater	502,108	508,715	-	-	502,108	508,715
Interest on long-term debt	701,726	669,262	-	-	701,726	669,262
Water and Sewer	-	-	13,198,485	11,573,972	13,198,485	11,573,972
Natural Gas	-	-	17,043,684	20,453,363	17,043,684	20,453,363
Total expenses	36,258,110	32,752,294	30,242,169	32,027,335	66,500,279	64,779,629
Increase in net assets before transfers	450,067	6,926,479	118,189	5,257,036	568,256	12,183,515
Transfers	580,026	573,944	(580,026)	(573,944)	-	-
Increase in net assets	1,030,093	7,500,423	(461,837)	4,683,092	568,256	12,183,515
Net assets - beginning	98,318,684	90,818,261	106,047,026	101,363,934	204,365,710	192,182,195
Net assets - ending	\$ 99,348,777	\$ 98,318,684	\$ 105,585,189	\$ 106,047,026	\$ 204,933,966	\$ 204,365,710

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.

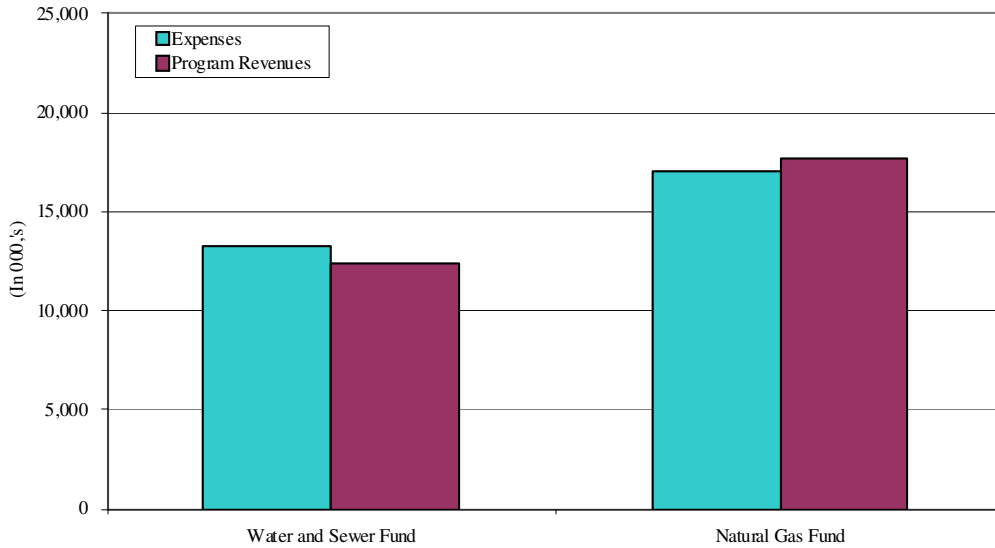
Revenue by Source – Governmental Activities



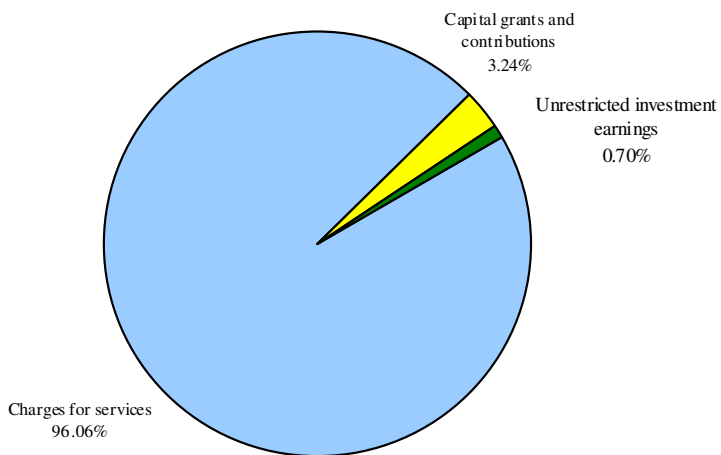
Business-type activities. Business-type activities decreased the Town of Smyrna’s net assets by \$461,837. Key elements of this decrease are as follows:

- The decrease in net assets is a result of cash and non-cash capital contributions decreasing in the Water and Sewer Fund. This is primarily a result of the slowdown in new residential construction due to the current economic conditions.

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 \$18,717,508, an increase of \$1,843,826 in comparison with the prior year. Approximately 97% of this total amount (\$18,108,047) 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 (\$189,080), project (\$337,496), and prepaid items and inventory (\$82,885).

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 \$14,666,346, while total fund balance was \$15,044,827. 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 54 percent of total general fund expenditures, while total fund balance represents 56 percent of that same amount.

The fund balance of the Town of Smyrna's general fund decreased by \$1,331,157 during the current fiscal year. Key factors in this decrease are as follows:

- At the end of the fiscal year, the General Fund transferred \$1,543,000 to three funds to negate the funds having a negative fund balance at year end. The funds were disbursed to the Golf Course Fund, \$792K, which covered deficits for fiscal years 2008 and 2009 and the budgeted deficit for fiscal year 2010, of \$232K. To the Stormwater Fund, \$214K, this covered the deficit for fiscal year 2009, which will be repaid to the General Fund by the end of calendar year 2009. This transfer was needed due to the timing of the ordinance creating the revenue source for this fund being delayed by about 5 months. To the Capital Projects Fund, \$537K, as a result of projects being started prior to bond financing being secured. This amount will be reimbursed to the General Fund from a future bond issue in accordance with a reimbursing resolution.

The capital projects fund has a total fund balance of (\$11,899), of which \$189,080 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 \$2,779,245. The key factor in this increase was funds from a 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 \$3,063,217 and those for the Natural Gas Fund amounted to \$11,583,716. The change in unrestricted net assets for the funds was a decrease of \$3,206,561 and an increase of \$501,235, 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 \$18,511 increase in appropriations between the original and final amended general fund expenditure budget and can be summarized with the following increase:

- \$18,500 supplemental amendment to fund employee education and training, membership fees, telephone services and contractual services in the attorneys office of the administration department.

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

Additional information about the budget process can be found in Note 16, 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, 2009 amounts to \$214,914,871 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways and bridges. The total increase in the Town of Smyrna's investment in capital assets for the current fiscal year was 4.18 percent (a 4.12 percent increase for governmental activities and a 4.23 percent increase for business-type activities).

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

- Engineering and design began on the water plant expansion during the fiscal year; which amounted to \$981,093 for this project for the fiscal year.
- Purchase of a replacement backhoe for the water & sewer maintenance department was completed during the year. This purchase resulted in an increase in equipment of \$67,114.
- Construction began on Mayfield Dr. sidewalks during the year, which amounted to \$43,181 for this project as of the close of the fiscal year.
- Purchase of a 100 foot mid mount platform aerial fire truck was completed during the year. This purchase resulted in an increase in equipment of \$901,526.
- Purchased 8 police patrol vehicles amounting to \$164,800 and three administrative police vehicles amounting to \$51,081.
- Purchase of a replacement rocksaw for the natural gas department was completed during the year. This purchase resulted in an increase in equipment of \$473,396.
- An automatic meter reading program was begun during the fiscal year in the water & sewer and natural gas departments. This project amounted to \$822,636 as of the close of the fiscal year.
- Sewer rehabilitation work continued during the fiscal year, which amounted to \$1,286,175 for this project as of the close of the fiscal year.
- Construction continued on widening Enon Springs Road West; which amounted to \$1,538,297 for this project as of the close of the fiscal year.
- Engineering and design began on Old Almadale Rd widening during the fiscal year; which amounted to \$160,236 for this project for the fiscal year.
- Engineering and design began on the Town Centre expansion during the fiscal year; which amounted to \$429,140 for this project for the fiscal year.
- Construction continued on widening Rock Springs Road; which amounted to \$2,170,181 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			
	2009	2008	2009	2008	2009	2008
Land	\$ 4,618,300	\$ 4,639,676	\$ 1,665,090	\$ 1,665,090	\$ 6,283,390	\$ 6,304,766
Water rights	-	-	2,350,000	-	2,350,000	-
Buildings and system	12,136,194	12,064,806	105,063,978	102,086,800	117,200,172	114,151,606
Improvements other than buildings	10,301,705	12,052,876	-	-	10,301,705	12,052,876
Machinery and equipment	6,186,186	2,927,558	1,735,240	1,301,850	7,921,426	4,229,408
Infrastructure	63,169,640	60,437,881	-	-	63,169,640	60,437,881
Construction in progress	5,745,968	5,994,445	1,942,570	3,128,578	7,688,538	9,123,023
Total Assets, net	<u>\$ 102,157,993</u>	<u>\$ 98,117,242</u>	<u>\$ 112,756,878</u>	<u>\$ 108,182,318</u>	<u>\$ 214,914,871</u>	<u>\$ 206,299,560</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 \$43,438,999. Of this amount, \$21,428,783 is debt backed by the full faith and credit of the government; \$22,010,216 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	
	2009	2008	2009	2008	2009	2008
General obligation bonds	\$ 21,428,783	\$ 17,054,808	\$ -	\$ -	\$ 21,428,783	\$ 17,054,808
Revenue and tax bonds	-	-	22,010,216	20,009,192	22,010,216	20,009,192
Total	\$ 21,428,783	\$ 17,054,808	\$ 22,010,216	\$ 20,009,192	\$ 43,438,999	\$ 37,064,000

The Town of Smyrna’s total bonded debt increased by \$6,374,999 (17.2%) during the current fiscal year. This was a result of the issuance of \$18,190,000 in new debt, refunding of \$8,350,000 in debt and the payment of current debt owed.

The Town of Smyrna maintains a “AA” rating from Standard and Poor’s and an “Aa3” 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 5.2% 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

- As discussed on page ii of the transmittal letter, the unemployment rate for the Town of Smyrna is currently higher than the national rate. We feel this trend will reverse in the future and we will see unemployment below the national rate as has been the trend over the past ten years.
- Local sales tax collections continue to come in at amounts greater than the previous year’s collections. This is due to the continued development of commercial businesses through this economic slowdown.
- Housing prices have only decreased about \$2,000 on average compared to the previous year.
- Hotel construction in Smyrna has continued along the interstate corridor, with one additional hotel opening just prior to the end of the fiscal year. Occupancy continues to be high in the nine hotels we have currently.

These factors were considered in preparing the Town of Smyrna’s budget for the 2010 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$14,666,346. The Town of Smyrna appropriated \$435,960 of this amount for spending on one time capital assets in the 2010 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