

**TOWN OF SMYRNA
KENT COUNTY, DELAWARE
FINANCIAL STATEMENTS
DECEMBER 31, 2006**

TOWN OF SMYRNA
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August 6, 2007

To the Honorable Mayor and Town Council
Town of Smyrna
Smyrna, Delaware

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Smyrna, Smyrna, Delaware, as of and for the year ended December 31, 2006, 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 an opinion 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 the 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 opinion.

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, each major fund and the aggregate remaining fund information of the Town of Smyrna, Smyrna, Delaware, as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable thereof, 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 August 6, 2007, on our consideration of the Town of Smyrna's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 *Government Auditing Standards* and should be considered in assessing the results of our audit.

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 combining nonmajor governmental fund financial statements on pages 37 and 38 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor governmental fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

To the Honorable Mayor and Town Council
Town of Smyrna

The schedule of funding progress - pension plans on page 36 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the schedule of funding progress - pension plans, 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 schedule of funding progress - pension plans and express no opinion on it.

The Town of Smyrna has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

TOWN OF SMYRNA
STATEMENT OF NET ASSETS
DECEMBER 31, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 130,913	\$ 767,444	\$ 898,357
Investments	4,137,713	-	4,137,713
Taxes receivable	193,488	-	193,488
Accounts receivable	294,942	2,479,976	2,774,918
Inventory	940	715,305	716,245
Due from other governments	10,212	-	10,212
Prepaid expenses	100,723	20,678	121,401
Land held for resale	45,080	-	45,080
Restricted Assets:			
Meter deposits	-	189,165	189,165
Total Current Assets	<u>4,914,011</u>	<u>4,172,568</u>	<u>9,086,579</u>
Noncurrent Assets:			
Capital assets, net:			
Land	812,568	45,171	857,739
Construction-in-progress	1,315,084	1,009,747	2,324,831
Land improvements	194,149	-	194,149
Buildings and improvements	1,536,982	2,260,127	3,797,109
Infrastructure	1,656,848	13,293,097	14,949,945
Machinery and equipment	1,212,723	472,902	1,685,625
Total Noncurrent Assets	<u>6,728,354</u>	<u>17,081,044</u>	<u>23,809,398</u>
TOTAL ASSETS	<u>\$11,642,365</u>	<u>\$21,253,612</u>	<u>\$32,895,977</u>
LIABILITIES AND NET ASSETS			
LIABILITIES			
Current Liabilities:			
Accounts payable	\$ 312,526	\$ 1,026,068	\$ 1,338,594
Accrued salaries and benefits	36,310	6,290	42,600
Accrued interest	-	10,170	10,170
Developer deposits	87,830	865,425	953,255
Deferred revenue	12,760	4,749	17,509
Accrued compensated absences	245,953	40,963	286,916
Current portion of loans payable	-	1,035,826	1,035,826
Bond anticipation note	-	4,644,000	4,644,000
Current Liabilities Payable from Restricted Assets:			
Meter deposits	-	189,165	189,165
Total Current Liabilities	<u>695,379</u>	<u>7,822,656</u>	<u>8,518,035</u>
Noncurrent Liabilities:			
Accrued compensated absences	396,725	107,722	504,447
Loans payable	396,725	1,503,555	1,900,280
Total Noncurrent Liabilities	<u>793,450</u>	<u>1,611,277</u>	<u>2,404,727</u>
TOTAL LIABILITIES	<u>1,092,104</u>	<u>9,433,933</u>	<u>10,526,037</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,728,354	9,897,663	16,626,017
Unrestricted	432,887	1,922,016	2,354,903
Restricted for police	47,285	-	47,285
Restricted for public works	171,833	-	171,833
Restricted for capital projects	3,169,902	-	3,169,902
TOTAL NET ASSETS	<u>10,550,261</u>	<u>11,819,679</u>	<u>22,369,940</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$11,642,365</u>	<u>\$21,253,612</u>	<u>\$32,895,977</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2006

	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Totals
GOVERNMENTAL ACTIVITIES							
General government	\$ 857,943	\$ 614,997	-	-	\$ (242,946)	-	\$ (242,946)
Public safety	3,163,053	129,169	255,601	48,277	(2,730,006)	-	(2,730,006)
Public works	1,723,522	731,504	205,918	-	(766,100)	-	(766,100)
Planning and inspection	753,951	531,552	-	-	(222,399)	-	(222,399)
Library	381,555	26,867	92,330	-	(262,358)	-	(262,358)
Culture and recreation	269,896	-	5,000	-	(264,896)	-	(264,896)
Business park	13,906	-	-	-	(13,906)	-	(13,906)
Neighborhood housing rehabilitation	50,106	-	-	-	(50,106)	-	(50,106)
TOTAL GOVERNMENTAL ACTIVITIES	<u>7,213,932</u>	<u>2,054,089</u>	<u>558,849</u>	<u>48,277</u>	<u>(4,552,717)</u>	<u>-</u>	<u>(4,552,717)</u>
BUSINESS-TYPE ACTIVITIES							
Electric	9,778,074	12,584,841	-	-	-	2,806,767	2,806,767
Water/sewer	2,135,690	2,754,992	-	30,960	-	650,262	650,262
TOTAL BUSINESS-TYPE ACTIVITIES	<u>11,913,764</u>	<u>15,339,833</u>	<u>-</u>	<u>30,960</u>	<u>-</u>	<u>3,457,029</u>	<u>3,457,029</u>
TOTAL PRIMARY GOVERNMENT	<u>\$19,127,696</u>	<u>\$17,393,922</u>	<u>\$ 558,849</u>	<u>\$ 79,237</u>	<u>(4,552,717)</u>	<u>3,457,029</u>	<u>(1,095,688)</u>
GENERAL REVENUES							
Taxes:							
Real estate taxes					1,092,855	-	1,092,855
Real estate transfer taxes					1,534,963	-	1,534,963
Utility franchise fees					105,001	-	105,001
Investment earnings					222,231	2,949	225,180
Miscellaneous					44,257	-	44,257
Gain on sale of capital assets					3,382	5,837	9,219
Developer contributions					-	1,214,728	1,214,728
Transfers					1,628,923	(1,628,923)	-
TOTAL GENERAL REVENUES AND TRANSFERS					<u>4,631,612</u>	<u>(405,409)</u>	<u>4,226,203</u>
CHANGE IN NET ASSETS					<u>78,895</u>	<u>3,051,620</u>	<u>3,130,515</u>
NET ASSETS, BEGINNING OF YEAR					<u>10,419,118</u>	<u>8,648,665</u>	<u>19,067,783</u>
Prior period adjustment (Note 15)					<u>52,248</u>	<u>119,394</u>	<u>171,642</u>
Net assets, beginning of year, restated					<u>10,471,366</u>	<u>8,768,059</u>	<u>19,239,425</u>
NET ASSETS, END OF YEAR					<u>\$11,550,261</u>	<u>\$11,819,679</u>	<u>\$22,369,940</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2006

	General Fund	Capital Reserve Funds	Nonmajor Governmental Funds	Totals
ASSETS				
Cash and cash equivalents	\$ 83,628	-	\$ 47,285	\$ 130,913
Investments	535,030	-	341,429	4,137,713
Taxes receivable	193,488	-	-	193,488
Accounts receivable	294,942	-	-	294,942
Due from other funds	169,596	-	-	169,596
Due from other governments	10,212	-	-	10,212
Prepaid expenditures	100,723	-	-	100,723
Inventory	940	-	-	940
Land held for resale, net	45,080	-	-	45,080
TOTAL ASSETS	\$ 1,433,639	\$ 3,261,254	\$ 388,714	\$ 5,083,607
LIABILITIES AND FUND BALANCES				
LIABILITIES:				
Accounts payable	\$ 221,174	\$ 91,352	-	\$ 312,526
Due to other funds	-	-	169,596	169,596
Accrued salaries and benefits	36,310	-	-	36,310
Deferred revenue	171,974	-	-	171,974
Developer deposits	87,830	-	-	87,830
Accrued compensated absences	28,636	-	-	28,636
TOTAL LIABILITIES	545,924	91,352	169,596	806,872
FUND BALANCES:				
Unreserved	842,635	-	-	842,635
Reserved for police	-	-	47,285	47,285
Reserved for public works	-	-	171,833	171,833
Reserved for capital projects	-	3,169,902	-	3,169,902
Reserved for land held for resale	45,080	-	-	45,080
TOTAL FUND BALANCES	887,715	3,169,902	219,118	4,276,735
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,433,639	\$ 3,261,254	\$ 388,714	\$ 5,083,607

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO STATEMENT OF NET ASSETS
DECEMBER 31, 2006

TOTAL GOVERNMENTAL FUND BALANCES	\$ 4,276,735
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.	6,728,354
Some of the Town's assets are not available soon enough to pay for current period expenditures and, therefore, are deferred in the funds.	159,214
Compensated absences that are not due and payable in the current period are not reported in the funds.	<u>(614,042)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>\$ 10,550,261</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	General Fund	Capital Reserve Funds	Nonmajor Governmental Funds	Totals
REVENUES				
Taxes:				
Property taxes	\$ 1,157,148	-	-	\$ 1,157,148
Transfer taxes	1,534,963	-	-	1,534,963
Special assessment/impact fees	614,997	-	-	614,997
Charges for services	774,234	-	-	774,234
Intergovernmental	406,775	-	241,683	648,458
Licenses, fees and permits	528,649	-	-	528,649
Fines and forfeits	86,770	-	-	86,770
Utility franchise fees	105,001	-	-	105,001
Investment income	74,662	135,949	11,620	222,231
Miscellaneous	35,515	11,645	-	47,160
TOTAL REVENUES	<u>5,318,714</u>	<u>147,594</u>	<u>253,303</u>	<u>5,719,611</u>
EXPENDITURES				
Current:				
General government	792,141	-	-	792,141
Public safety	3,073,315	-	50,953	3,124,268
Public works	1,274,826	-	275,736	1,550,562
Planning and inspection	743,044	-	-	743,044
Library	233,489	-	-	233,489
Culture and recreation	256,940	-	-	256,940
Business park	221,936	-	-	221,936
Neighborhood housing rehabilitation	50,106	-	-	50,106
Capital outlay	-	135,866	-	135,866
TOTAL EXPENDITURES	<u>6,645,797</u>	<u>135,866</u>	<u>326,689</u>	<u>7,108,352</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(1,327,083)</u>	<u>11,728</u>	<u>(73,386)</u>	<u>(1,388,741)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	3,382	-	-	3,382
Transfers in	1,386,179	298,421	-	1,684,600
Transfers out	-	(46,421)	(9,256)	(55,677)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,389,561</u>	<u>252,000</u>	<u>(9,256)</u>	<u>1,632,305</u>
NET CHANGES IN FUND BALANCES	<u>62,478</u>	<u>263,728</u>	<u>(82,642)</u>	<u>243,564</u>
FUND BALANCES, BEGINNING OF YEAR	772,989	2,906,174	301,760	3,980,923
Prior period adjustment (Note 15)	52,248	-	-	52,248
Fund balances, beginning of year, restated	<u>825,237</u>	<u>2,906,174</u>	<u>301,760</u>	<u>4,033,171</u>
FUND BALANCES, END OF YEAR	<u>\$ 887,715</u>	<u>\$ 3,169,902</u>	<u>\$ 219,118</u>	<u>\$ 4,276,735</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
 RECONCILIATION OF STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
 OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED DECEMBER 31, 2006

NET CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 243,564

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 as depreciation expense. This is the amount by which depreciation (\$448,881) exceeded capital outlays (\$409,334) in the current period. (39,547)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Deferred revenues changed by these amounts this year:

Property taxes	\$ (64,289)	
Intergovernmental	<u>5,203</u>	(59,086)

Expenses accrued for compensated absences reported in the statement of activities that do not require the use of current financial resources are not reported as expenditures in the governmental funds. (66,036)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 78,895

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
BUDGETARY COMPARISON STATEMENT - GENERAL FUND
FOR THE YEAR ENDED DECEMBER 31, 2006

	Original and Final Appropriated Budget	Actual Amounts (Budgetary Basis)	Variance Positive (Negative)
REVENUES			
Taxes:			
Property taxes	\$ 1,065,000	\$ 1,157,148	92,148
Transfer taxes	1,600,000	1,534,963	(65,037)
Special assessment/impact fees	690,000	614,997	(75,003)
Charges for services	676,000	774,234	98,234
Intergovernmental	285,000	406,775	121,775
Licenses, fees and permits	552,000	528,649	(23,351)
Fines and forfeits	85,000	86,770	1,770
Utility franchise fees	100,000	105,001	5,001
Investment income	85,000	74,662	(10,338)
Miscellaneous	40,000	35,515	(4,485)
TOTAL REVENUES	<u>5,178,000</u>	<u>5,318,714</u>	<u>140,714</u>
EXPENDITURES			
Current:			
General government	859,925	792,141	67,784
Public safety	3,027,711	3,073,315	(45,604)
Public works	1,253,131	1,274,826	(21,695)
Planning and inspection	674,108	743,044	(68,936)
Library	261,576	233,489	28,087
Culture and recreation	293,941	256,940	37,001
Business park	30,000	221,936	(191,936)
Neighborhood housing rehabilitation	-	50,106	(50,106)
TOTAL EXPENDITURES	<u>6,400,392</u>	<u>6,645,797</u>	<u>(245,405)</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,222,392)</u>	<u>(1,327,083)</u>	<u>(104,691)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from sale of capital assets	-	3,382	3,382
Transfers in	1,364,000	1,386,179	22,179
TOTAL OTHER FINANCING SOURCES	<u>1,364,000</u>	<u>1,389,561</u>	<u>25,561</u>
NET CHANGES IN FUND BALANCE	<u>141,608</u>	<u>62,478</u>	<u>(79,130)</u>
FUND BALANCE, BEGINNING OF YEAR	772,989	772,989	-
Prior period adjustment (Note 15)	52,248	52,248	-
Fund balance, beginning of year, restated	<u>825,237</u>	<u>825,237</u>	<u>-</u>
FUND BALANCE, END OF YEAR	<u>\$ 966,845</u>	<u>\$ 887,715</u>	<u>\$ (79,130)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2006

	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 577,889	\$ 189,555	\$ 767,444
Accounts receivable	2,045,734	434,242	2,479,976
Inventory	653,998	61,307	715,305
Prepaid expenses	14,361	6,317	20,678
Restricted Assets:			
Meter deposits	<u>189,165</u>	-	<u>189,165</u>
Total Current Assets	3,481,147	691,421	4,172,568
Noncurrent Assets:			
Capital assets, net	<u>11,531,790</u>	<u>5,549,254</u>	<u>17,081,044</u>
TOTAL ASSETS	<u>\$15,012,937</u>	<u>\$ 6,240,675</u>	<u>\$21,253,612</u>
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Accounts payable	\$ 948,500	\$ 77,568	\$ 1,026,068
Accrued salaries and benefits	4,264	2,026	6,290
Accrued interest	-	10,170	10,170
Developer deposits	865,425	-	865,425
Deferred revenue	3,807	942	4,749
Accrued compensated absences	23,161	17,802	40,963
Current portion of loans payable	-	1,035,826	1,035,826
Bond anticipation note	4,644,000	-	4,644,000
Current Liabilities Payable From			
Restricted Assets:			
Meter deposits	<u>189,165</u>	-	<u>189,165</u>
Total Current Liabilities	<u>6,678,322</u>	<u>1,144,334</u>	<u>7,822,656</u>
Noncurrent Liabilities:			
Accrued compensated absences	31,335	76,387	107,722
Loans payable	-	<u>1,503,555</u>	<u>1,503,555</u>
Total Noncurrent Liabilities	<u>31,335</u>	<u>1,579,942</u>	<u>1,611,277</u>
TOTAL LIABILITIES	<u>6,709,657</u>	<u>2,724,276</u>	<u>9,433,933</u>
NET ASSETS			
Invested in capital assets, net of			
related debt	6,887,790	3,009,873	9,897,663
Unrestricted	<u>1,415,490</u>	<u>506,526</u>	<u>1,922,016</u>
Total Net Assets	<u>8,303,280</u>	<u>3,516,399</u>	<u>11,819,679</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$15,012,937</u>	<u>\$ 6,240,675</u>	<u>\$21,253,612</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
User service charges	\$12,526,581	\$ 2,703,513	\$15,230,094
Other operating revenue	<u>58,260</u>	<u>51,479</u>	<u>109,739</u>
Total Operating Revenues	<u>12,584,841</u>	<u>2,754,992</u>	<u>15,339,833</u>
OPERATING EXPENSES			
Electric purchased	7,697,921	-	7,697,921
Sewer charges	-	899,060	899,060
System maintenance	57,362	75,614	132,976
Salaries and wages	602,259	392,974	995,233
Employee benefits	426,405	283,464	709,869
Depreciation	319,774	155,917	475,691
Supplies and maintenance	46,125	72,608	118,733
Truck and vehicles	41,754	14,835	56,589
Insurance	31,150	39,695	70,845
Administrative expenses	98,380	70,723	169,103
Professional services	292,422	77,051	369,473
Minor capital additions	<u>5,863</u>	<u>646</u>	<u>6,509</u>
Total Operating Expenses	<u>9,619,415</u>	<u>2,082,587</u>	<u>11,702,002</u>
OPERATING INCOME	<u>2,965,426</u>	<u>672,405</u>	<u>3,637,831</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	2,903	46	2,949
Interest expense	(158,659)	(53,103)	(211,762)
Intergovernmental	-	30,960	30,960
Gain on sale of capital assets	<u>5,837</u>	<u>-</u>	<u>5,837</u>
Total Nonoperating Expenses	<u>(149,919)</u>	<u>(22,097)</u>	<u>(172,016)</u>
INCOME BEFORE CONTRIBUTIONS AND TRANSFERS	<u>2,815,507</u>	<u>650,308</u>	<u>3,465,815</u>
Transfers in	-	33,498	33,498
Transfers out	(1,362,421)	(300,000)	(1,662,421)
Developer contributions	<u>1,214,728</u>	<u>-</u>	<u>1,214,728</u>
CHANGE IN NET ASSETS	<u>2,667,814</u>	<u>383,806</u>	<u>3,051,620</u>
NET ASSETS, BEGINNING OF YEAR	<u>5,516,072</u>	<u>3,132,593</u>	<u>8,648,665</u>
Prior period adjustment (Note 15)	<u>119,394</u>	<u>-</u>	<u>119,394</u>
Net assets, beginning of year, restated	<u>5,635,466</u>	<u>3,132,593</u>	<u>8,768,059</u>
NET ASSETS, END OF YEAR	<u>\$ 8,303,280</u>	<u>\$ 3,516,399</u>	<u>\$11,819,679</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Received from customers	\$11,993,213	\$2,638,842	\$14,632,055
Paid to suppliers for goods and services	(8,349,738)	(1,221,915)	(9,571,653)
Paid to employees for services	(1,029,843)	(659,405)	(1,689,248)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,613,632</u>	<u>757,522</u>	<u>3,371,154</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers in	-	33,498	33,498
Transfers out	(1,362,421)	(300,000)	(1,662,421)
NET CASH USED BY NONCAPITAL FINANCING ACTIVITIES	<u>(1,362,421)</u>	<u>(266,502)</u>	<u>(1,628,923)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Proceeds from bond anticipation note	2,644,000	-	2,644,000
Proceeds from loan payable	-	959,112	959,112
Repayment of loans payable	-	(74,870)	(74,870)
Developer contributions and repayments of escrows, net	1,644,886	(56,688)	1,588,198
Proceeds from sale of capital assets	5,837	-	5,837
Acquisition and construction of capital assets	(4,920,046)	(1,438,619)	(6,358,665)
Interest paid	(158,659)	(42,933)	(201,592)
Proceeds from capital grant	-	30,960	30,960
NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(783,982)</u>	<u>(623,038)</u>	<u>(1,407,020)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income	2,903	46	2,949
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,903</u>	<u>46</u>	<u>2,949</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	470,132	(131,972)	338,160
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>296,922</u>	<u>321,527</u>	<u>618,449</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 767,054</u>	<u>\$ 189,555</u>	<u>\$ 956,609</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ 2,965,426	\$ 672,405	\$ 3,637,831
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	319,774	155,917	475,691
Changes in assets and liabilities:			
(Increase) in accounts receivable	(595,435)	(117,092)	(712,527)
(Increase) Decrease in inventory	(126,086)	14,482	(111,604)
Decrease in prepaid expenses	6,202	28,382	34,584
Increase (Decrease) in accounts payable	21,553	(14,547)	7,006
Increase in accrued salaries and benefits	2,430	707	3,137
Increase in deferred revenue	3,807	942	4,749
Increase in meter deposit liability	19,570	-	19,570
(Decrease) Increase in compensated absences	(3,609)	16,326	12,717
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 2,613,632</u>	<u>\$ 757,522</u>	<u>\$ 3,371,154</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS:			
Cash and cash equivalents	\$ 577,889	\$ 189,555	\$ 767,444
Meter deposits, restricted	189,165	-	189,165
TOTAL CASH AND CASH EQUIVALENTS	<u>\$ 767,054</u>	<u>\$ 189,555</u>	<u>\$ 956,609</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Police Pension Trust Fund</u>	<u>Employee Pension Trust Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 84,346	\$ 90,476	\$ 174,822
Investments	1,027,090	1,682,760	2,709,850
Insurance contracts	<u>1,820,841</u>	<u>1,294,336</u>	<u>3,115,177</u>
TOTAL ASSETS	<u>\$ 2,932,277</u>	<u>\$ 3,067,572</u>	<u>\$ 5,999,849</u>
<u>LIABILITIES AND NET ASSETS</u>			
LIABILITIES	\$ -	\$ -	\$ -
NET ASSETS			
Assets held in trust for employee pension benefits	<u>2,932,277</u>	<u>3,067,572</u>	<u>5,999,849</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,932,277</u>	<u>\$ 3,067,572</u>	<u>\$ 5,999,849</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA
STATEMENT OF CHANGES IN NET ASSETS - FIDUCIARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	Police Pension Trust Fund	Employee Pension Trust Fund	Total
ADDITIONS:			
Contributions:			
Employer contributions	\$ 227,461	\$ 359,574	\$ 587,035
State aid - police	<u>98,445</u>	<u>-</u>	<u>98,445</u>
Total Contributions	<u>325,906</u>	<u>359,574</u>	<u>685,480</u>
Investment income:			
Interest and dividends	124,734	104,829	229,563
Realized gain on sale of investments	22,921	44,009	66,930
Net appreciation in fair value of investments	<u>62,470</u>	<u>109,501</u>	<u>171,971</u>
Total Investment Income	<u>210,125</u>	<u>258,339</u>	<u>468,464</u>
TOTAL ADDITIONS	<u>536,031</u>	<u>617,913</u>	<u>1,153,944</u>
DEDUCTIONS:			
Benefits paid	137,316	67,775	205,091
Administrative expenses	<u>32,177</u>	<u>27,811</u>	<u>59,988</u>
TOTAL DEDUCTIONS	<u>169,493</u>	<u>95,586</u>	<u>265,079</u>
CHANGE IN NET ASSETS	366,538	522,327	888,865
NET ASSETS, BEGINNING OF YEAR	<u>2,565,739</u>	<u>2,545,245</u>	<u>5,110,984</u>
NET ASSETS, END OF YEAR	<u>\$ 2,932,277</u>	<u>\$ 3,067,572</u>	<u>\$ 5,999,849</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Smyrna complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent subsections of this Note.

Financial Reporting Entity

The Town of Smyrna, Delaware (the "Town") was incorporated in 1817, under the provisions of the State of Delaware. The Town operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, public works, utilities, culture and recreation, planning and inspection, and general government.

The Government Accounting Standards Board established the criteria for determining the activities, organizations and functions of government to be included in the financial statements of the reporting entity. The criteria used in determining whether such organizations should be included in the Town's financial reporting entity are financial interdependences, selection of governing authority, designation of management, ability to significantly influence operations, accountability for fiscal matters, scope of public service and special financing relationships.

The Town has determined that no other outside agency meets the above criteria and, therefore, no other agency has been included as a component unit in the Town's financial statements. In addition, the Town is not aware of any entity which would exercise such oversight which would result in the Town being considered a component unit of the entity.

Entity-Wide And Fund Financial Statements

The entity-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 Town. Governmental activities, which normally are supported by taxes and inter-governmental 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 1) charges to customers who purchase, use or directly benefit from goods, services or privileges provided by a function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the last are excluded from the entity-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor funds. In addition, the fund financial statements present fiduciary funds by fund type.

Measurement Focus, Basis Of Accounting, And Financial Statement Presentation

The entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items (nonexchange transactions) are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

The entity-wide financial statements report net assets in one of three components. Invested in net assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowing attributable to acquiring, constructing or improving those assets. Net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. Those restrictions affect net assets arising from special revenue and capital funds. Unrestricted net assets consist of net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

Except for interfund activity and balances between the funds that underlie governmental activities and the funds that underlie business-type activities, which are reported as transfers and internal balances, the effect of interfund activity has been removed from these statements.

The government 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 become both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers property tax revenue to be available if collected within 60 days of the end of the fiscal period. Revenue from federal, state and other grants designated for payment of specific Town expenditures is recognized when the related expenditures are incurred; accordingly, when such funds are received, they are reported as deferred revenues until earned. Other revenues, including charges for services and miscellaneous revenues, are recorded as revenue when received in cash because they generally are not measurable until actually received.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Expenditures are recorded when the related fund liability is incurred (upon receipt of goods or services), except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital assets acquisitions are reported as expenditures in governmental funds. Long-term debt issues and acquisitions under capital leases are reported as other financing sources.

The Town reports the following major governmental funds:

General Fund – This fund is used to account for the general operating activities of the Town. General government, library, public safety, public works, culture and recreation, planning and inspections, and the business park are financed through this fund with receipts from general property taxes, transfer taxes, licenses and permits, investment interest, fines, charges for current services, intergovernmental and other revenue.

Capital Reserve Fund – This fund is used to account for the design, construction and improvement of Town buildings, land improvements, and the purchase and replacement of vehicles and machinery and equipment.

Proprietary funds are accounted for using the accrual basis of accounting. These funds account for operations that are financed primarily by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when they are earned and expenses are recognized when they are incurred.

These funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods or services in connection with the proprietary fund's principal ongoing operations. The principal operating revenues of the Town's proprietary funds are electric and water/sewer charges. Operating expenses for the Town's proprietary funds include salaries, employee benefits, production costs, supplies and administrative costs. All revenues or expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

Electric Fund - Used to account for the operation of an electric distribution system.

Water and Sewer Fund - Used to account for the operation of a water supply and sewage collection system.

Fiduciary funds account for assets held by the Town as a trustee for individuals, private organizations and/or governmental units and are, therefore, not available to support the Town's operations. The measurement focus and basis of accounting for fiduciary funds is the same as for proprietary funds.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

The Town also reports the following fund type:

Pension Trust Funds - These funds are used to account for the assets held by the Pension Plan in a trustee capacity for the employees of the Town. The Pension Plan, which is part of the Town's legal entity, is a single-employer defined benefit pension plan that provides benefits to Town employees.

All entity-wide and business-type activities and proprietary funds of the Town follow Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements. The Town also has the option to follow subsequent private-sector guidance for its business-type activities and proprietary funds with certain limitations, but has elected not to do so.

Cash And Cash Equivalents

For the purpose of the statement of cash flows, the proprietary funds consider all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Allowance For Doubtful Accounts

The Town of Smyrna's water, sewer and electric utilities experience very small losses from uncollectible accounts. Water and sewer fees constitute a lien against real property and usually can be collected in full when title transfers. Only balances that remain after tax sales are written off each year. Electric fees do not constitute a lien; however, maintenance of adequate customer deposits, monthly billing and diligent collection procedures minimize losses from uncollectible accounts. Accordingly, an allowance for doubtful accounts has not been established by the Town for its proprietary funds.

Inventories And Prepaid Expenses

Inventories of business-type activities and proprietary fund types are valued at average cost. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses.

Capital Assets

Capital assets, including property, plant and equipment, are reported in the applicable governmental or business-type activities columns in the entity-wide financial statements. The Town has defined capital assets as assets with an initial, individual cost of more than \$5,000; capital projects, inclusive of ancillary costs, in excess of \$100,000; and an estimated useful life in excess of one year. Capital assets may be purchased or constructed and are recorded at cost. Donated capital assets are recorded at estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Capital assets of the Town are depreciated using the straight-line method over the estimated useful lives of the related assets as follows:

Buildings and Improvements	50 years
Infrastructure	20-50 years
Land Improvements	20-50 years
Machinery and Equipment	5-20 years

Compensated Absences

Regular, full-time employees begin to accrue vacation and sick leave when they are hired; however, they are not eligible to use vacation and sick leave until they have completed their first six months of employment. Sick leave is accrued at the rate of 12 days per completed year prorated at the rate of one day for each completed month of service. Employees may accumulate an unlimited number of sick leave days. One-half of the full amount accumulated up to 45 days maximum is paid if termination is through retirement or death. Vacation is accrued for each month of work performed. The accrual rate increases with years of service up to a maximum of 24 days per year for 20 years of service and over. Accrued vacation is paid to the employees upon termination of employment for employees who have completed at least six months of continuous service.

Accumulated vacation and sick leave is accrued when incurred in the entity-wide financial statements and proprietary fund types. A liability is reported in the governmental funds only if it is expendable from available financial resources. Historically, the General Fund has been responsible for liquidation of compensated absences associated with governmental fund activities. Compensated absences associated with proprietary funds are liquidated from the fund in which the liability was generated.

At December 31, 2006, accrued compensated absences for governmental activities totaled \$642,678. This total is comprised of accrued vacation leave of \$125,323 and accrued sick leave of \$517,355. In addition, at December 31, 2006, accrued compensated absences in the business-type activities and proprietary funds totaled \$148,685. This total is comprised of accrued vacation leave of \$20,883 and accrued sick leave of \$127,802.

Long-Term Obligations

In the entity-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities, business-type activities or proprietary fund type statement of net assets. Bond 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 bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

In the fund financial statements, governmental fund types recognize bond premiums, discounts and bond issuance costs during the current financial period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances 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.

Payments of long-term obligations are to be funded by the fund that incurred the debt.

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 purpose. The proprietary funds report the same three components of net assets as do the entity-wide financial statements. When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first and then unrestricted resources as they are needed.

Property Taxes

Property taxes attach as an enforceable lien on property when levied. All liens continue until property taxes are paid in full. Taxes are levied on May 1 and are payable on or before September 30. Taxes paid before May 31 are given a six percent discount. Taxes paid after the payable date are assessed interest at 1-1/2 percent per month after the due date. The Town bills and collects its own property taxes. Town property tax revenues are recognized on a pro rata basis. Delinquent taxes are considered fully collectible and, therefore, no allowance for uncollectible taxes is provided. The property tax rate for 2006 was 17.26 cents per \$100 of assessed value.

Use Of Estimates In The Preparation Of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

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

- a. Formal budgetary integration is employed as a management control device during the year for the General Fund. This budget is adopted on a basis consistent with generally accepted accounting principles.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (cont'd)

- b. The Town Council adopts legal annual budgets for the General Fund and Proprietary Funds. The Town Council also adopts legal project length budgets for its Capital Reserve Fund and certain nonmajor governmental funds. Since project periods may differ from the Town's fiscal year, a comparison of budgetary information for the combined Capital Reserve Fund and certain nonmajor governmental funds would not be meaningful and has not been presented in the accompanying financial statements.
- c. The Town Manager is authorized to transfer budget amounts between departments within any fund; however, any revisions that alter the total appropriations of any fund must be approved by the Town Council. Therefore, the level of budgetary responsibility is by total appropriations; however, for report purposes, this level has been expanded to a functional basis.
- d. Unused appropriations for all of the above annually budgeted funds lapse at year end.
- e. For 2006, there were no revisions to any legally adopted budgets.

Excess of Expenditures Over Appropriations

The General Fund incurred expenditures in excess of appropriations in the following functions for the year ended December 31, 2006 as follows:

Public safety	\$ 45,604
Public works	\$ 21,695
Planning and inspection	\$ 68,936
Business park	\$ 191,936
Neighborhood housing rehabilitation	\$ 50,106

All excess of expenditures over appropriations were funded by greater than anticipated revenues in the General Fund and budgeted transfers from the Town's proprietary funds.

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS

The Town of Smyrna as a depositor and an investor generally requires full and continuous collateralization based upon fair value in the form of:

- Obligations of or guaranteed by the United States of America, or
- Obligations of the Federal National Mortgage Association, the Federal Home Mortgage Corporation, Public Housing Authority or an agency or instrumentality of the United States of America, or

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

- General or revenue obligations of the State of Delaware or its municipalities, subdivisions, public housing authorities or any agency or instrumentality of the State of Delaware.

As an investor, the Town of Smyrna may invest in any of the above cited instruments and/or certificates of deposit or repurchase agreements fully collateralized by one or more of the above-cited instruments.

The Town maintains a cash and investment pool that is available for use by all funds. This pool is displayed on the balance sheet and the statement of net assets as either cash or investments. Deposits and investments of governmental, proprietary and fiduciary funds are reported at fair value.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2006, the carrying amount of the Town's deposits was \$1,087,522 and the bank balance was \$1,705,455. Of the bank balance, \$121,898 was covered by federal depository insurance, and \$1,583,557 was insured or registered and the securities held by the Town or its agent in the Town's name.

The above does not include pension fund deposits disclosed in Notes 7 and 8.

Investments

As of December 31, 2006, the Town had the following investments:

U.S. Treasury notes	\$2,764,990
Money market mutual funds	<u>1,372,723</u>
	<u>\$4,137,713</u>

U.S. Treasury notes are securities of agencies of the U.S. Government that have an implied but not explicit guarantee. Investments in external investment pools, such as those in mutual funds, are disclosed but not subject to interest rate, custodial, credit or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk

The Township has an investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Investments under the Town's investment policy are limited to a maximum maturity at

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 3 CASH, CASH EQUIVALENTS AND INVESTMENTS (cont'd)

time of purchase of four years. The Town may, for purposes of the Capital Reserve Fund only, invest in instruments having a maximum maturity at the time of purchase of 10 years; provided, however, that the maximum average maturity of the portfolio of the Capital Reserve Fund shall be seven years. At December 31, 2006, the Town's investments in U.S. Treasury notes had maturity dates of less than one year.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The Town has no investments subject to custodial credit risk.

Credit Risk

The Town has an investment policy which limits investment choices to those which are backed by the full faith and credit of the U.S. Government through either an explicit or implied manner; obligations of a state, county or city or institutional investment pools with a Moody's Investor Services rating of "A" or better or an equivalent rating from other industry-recognized rating agencies; and investments in corporate bonds and debentures with a Moody's Investor Services or Standard and Poors rating of at least "AA." The Town has no investments subject to credit risk.

Concentration Risk

The investment policy of the Town does not limit amounts invested in U.S. Government guaranteed obligations. At December 31, 2006, 67 percent of the Town's investments were in U.S. Treasury notes.

The above does not include pension fund investments disclosed in Notes 7 and 8.

NOTE 4 CAPITAL ASSETS

The capital asset activity for the year ended December 31, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 812,568	\$ -	\$ -	\$ 812,568
Construction-in-progress	<u>1,259,739</u>	<u>55,345</u>	<u>-</u>	<u>1,315,084</u>
Total Capital Assets Not Being Depreciated	<u>2,072,307</u>	<u>55,345</u>	<u>-</u>	<u>2,127,652</u>
Capital assets being depreciated:				
Buildings and improvements	2,298,569	-	-	2,298,569
Infrastructure	4,571,141	208,030	-	4,779,171
Land improvements	527,175	-	-	527,175
Machinery and equipment	<u>2,730,816</u>	<u>145,959</u>	<u>32,398</u>	<u>2,844,377</u>
Total Capital Assets Being Depreciated	<u>10,127,701</u>	<u>353,989</u>	<u>32,398</u>	<u>10,449,292</u>

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Accumulated depreciation:				
Buildings and improvements	717,185	44,402	-	761,587
Infrastructure	3,054,645	67,678	-	3,122,323
Land improvements	320,021	13,005	-	333,026
Machinery and equipment	<u>1,340,256</u>	<u>323,796</u>	<u>32,398</u>	<u>1,631,654</u>
Total accumulated depreciation	<u>5,432,107</u>	<u>448,881</u>	<u>32,398</u>	<u>5,848,590</u>
Total Capital Assets Being Depreciated, Net	<u>4,695,594</u>	<u>(94,892)</u>	<u>-</u>	<u>4,600,702</u>
Governmental Activities Assets, Net	<u>\$ 6,767,901</u>	<u>\$ (39,547)</u>	<u>\$ -</u>	<u>\$ 6,728,354</u>
Business-type Activities:				
Capital assets not being depreciated:				
Land	\$ 45,171	\$ -	\$ -	\$ 45,171
Construction-in-progress	<u>4,312,767</u>	<u>985,247</u>	<u>4,288,267</u>	<u>1,009,747</u>
Total Capital Assets Not Being Depreciated	<u>4,357,938</u>	<u>985,247</u>	<u>4,288,267</u>	<u>1,054,918</u>
Capital assets being depreciated:				
Buildings and improvements	1,122,214	1,580,009	-	2,702,223
Infrastructure	7,799,804	8,044,526	-	15,844,330
Machinery and equipment	<u>1,143,090</u>	<u>37,150</u>	<u>-</u>	<u>1,180,240</u>
Total Capital Assets Being Depreciated	<u>10,065,108</u>	<u>9,661,685</u>	<u>-</u>	<u>19,726,793</u>
Accumulated depreciation:				
Buildings and improvements	406,566	35,530	-	442,096
Infrastructure	2,200,989	350,244	-	2,551,233
Machinery and equipment	<u>617,421</u>	<u>89,917</u>	<u>-</u>	<u>707,338</u>
Total accumulated depreciation	<u>3,224,976</u>	<u>475,691</u>	<u>-</u>	<u>3,700,667</u>
Total Capital Assets Being Depreciated, Net	<u>6,840,132</u>	<u>9,185,994</u>	<u>-</u>	<u>16,026,126</u>
Business-type Activities Assets, Net	<u>\$11,198,070</u>	<u>\$10,171,241</u>	<u>\$4,288,267</u>	<u>\$17,081,044</u>

Depreciation expense was charged to the functions as follows:

Governmental Activities:	
General government	\$ 57,088
Public safety	105,678
Public works	122,624
Planning and inspection	7,153
Library	144,215
Culture and recreation	<u>12,123</u>
Total Depreciation Expense - Governmental Activities	<u>\$ 448,881</u>

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

Business-type Activities:	
Electric	\$ 319,774
Water	<u>155,917</u>
Total Depreciation Expense - Business-type Activities	<u>\$ 475,691</u>

NOTE 5 LONG-TERM DEBT

A schedule of changes in long-term debt is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Compensated absences	<u>\$ 566,102</u>	<u>\$ 293,262</u>	<u>\$ 216,686</u>	<u>\$ 642,678</u>
Business-type Activities:				
Loans payable	\$1,655,139	\$ 959,112	\$ 74,870	\$2,539,381
Bond anticipation note	2,000,000	2,644,000	-	4,644,000
Compensated absences	<u>135,968</u>	<u>52,217</u>	<u>39,500</u>	<u>148,685</u>
Total	<u>\$3,791,107</u>	<u>\$3,655,329</u>	<u>\$ 114,370</u>	<u>\$7,332,066</u>

Loans Payable

Loan payable issued by the Delaware Economic Development Authority to fund the Town's water main expansion which will serve the WalMart Distribution Center on Route 300. The loan matures on May 1, 2013 and bears no interest. Annual principal payments in the amount of \$7,500 are due on May 1.

\$ 52,500

Loan payable issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to fund a drinking water well located on Carter Road. The loan matures on May 1, 2024 and bears interest at 2.72% payable on May 1 and November 1.

1,527,769

Loan payable issued by the Delaware Department of Natural Resources and Environmental Control and administered by the Delaware Department of Health and Social Services to fund the North Water Tower. The revolving loan will be converted to permanent financing upon completion of the project. The loan bears interest at 2.41% payable on May 15 and November 15.

959,112

\$2,539,381

TOWN OF SMYRNA
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5 LONG-TERM DEBT (cont'd)

An analysis of debt service requirements to maturity on the loans is as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Maturities</u>
2007	\$ 1,035,826	\$ 41,088	\$ 1,076,914
2008	78,610	39,192	117,802
2009	80,557	37,245	117,802
2010	82,558	35,245	117,803
2011	84,613	33,189	117,802
2012 - 2016	433,423	133,088	566,511
2017 - 2021	478,941	72,570	551,511
2022 - 2024	<u>264,853</u>	<u>10,903</u>	<u>275,756</u>
Total	<u>\$ 2,539,381</u>	<u>\$ 402,520</u>	<u>\$ 2,941,901</u>

Bond Anticipation Note

The Town has issued a Bond Anticipation Note in the amount of \$4,644,000 to finance the development and construction of an electric substation. The Bond Anticipation Note was issued for a two-year period in anticipation of issuing permanent bond financing at a future date. The Bond Anticipation Note matures on April 27, 2007 with interest payable monthly at 4.55%.

\$ 4,644,000

NOTE 6 INTERFUND BALANCE AND TRANSFERS

The composition of the interfund balance as of December 31, 2006 is as follows:

<u>Receivable to</u>	<u>Amount</u>	<u>Payable from</u>	<u>Amount</u>
General Fund	<u>\$ 169,596</u>	Nonmajor Governmental Fund	<u>\$ 169,596</u>

The interfund balance represents amounts owed to the General Fund that were paid for eligible municipal street aid projects that were not reimbursed as of December 31, 2006.

The composition of interfund transfers for the year ended December 31, 2006 were as follows:

	<u>Transfers In</u>		<u>Transfers Out</u>
General Fund	\$ 1,064,000	Electric Fund	\$ 1,064,000
General Fund	300,000	Water and Sewer Fund	300,000
General Fund	9,256	Nonmajor Governmental Fund	9,256
General Fund	12,923	Capital Reserve Fund	12,923
Water and Sewer Fund	33,498	Capital Reserve Fund	33,498
Capital Reserve Fund	<u>298,421</u>	Electric Fund	<u>298,421</u>
Total	<u>\$ 1,718,098</u>		<u>\$ 1,718,098</u>

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INTERFUND BALANCE AND TRANSFERS (cont'd)

Transfers from the proprietary funds to the General Fund represent Board-approved transfers to subsidize the operations of the Town's primary government. All other transfers represent the flow of resources to accommodate the costs of certain capital projects.

NOTE 7 POLICE PENSION FUND

Plan Description and Provisions

The Town's Police Pension Fund is a single-employer defined benefit pension plan established to provide a retirement income to supplement the benefits payable under Social Security. The full cost of the plan is assumed by the Town. Contributions are not required of the Town's police officers.

The plan was established as of January 1, 1996, spun off in 1975 to create the current plans revised as of January 1994. The financial records are maintained on a plan year which begins each January 1 and ends on December 31.

The plans are administered by the Committee (Plan Administration) which is comprised of the Mayor and Town Council. The Committee is fully responsible for the plan's administration, including eligibility for participation and determination of benefits. The Town Council has delegated the authority to manage certain plan assets to Linsco/Private Ledger Financial Services and Aetna Life Insurance Company.

As of January 1, 2006, pension plan membership consisted of the following:

Active employees	19
Retirees and beneficiaries currently deferring benefits	4
Retirees and beneficiaries currently receiving benefits	<u>8</u>
	<u>31</u>

Police Pension Fund plan benefit provisions are as follows:

All police officers are eligible to participate in the plan after completing one year of service, if they have attained their 21st birthday and 1,000 hours of continuous employment during the plan year.

Effective January 1, 1993, employees who are discharged or resign before qualifying for retirement benefits will be entitled to 100 percent vested interest in their accrued pension benefits, payable as of the first day of the month following their normal retirement date provided that they have completed at least five full years of service to the Town.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

The pension plan provides for normal retirement at the earlier of attainment of age 50 and completion of 10 years of participation or completion of 20 years of vesting service.

Participant benefits are based on 2-1/2 percent of the three highest years of average compensation multiplied by benefit service not to exceed 40 years.

There is no provision for early retirement.

Basis of Accounting

The plan's policy is to prepare its financial statements on the accrual basis of accounting.

Valuation of Investments

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the company.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2006, the carrying amount and bank balance of the police pension fund deposits was \$84,346. Of this amount, \$58,918 was insured or registered and the securities held by the Town or its agent in the Town's name; and \$25,428 was equal to the deposits in a federated prime obligations fund held by the trustee of the pension plan in the Town's name.

Investments

The investment objective of the Town of Smyrna Police Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income and cash equivalent securities and, as such, is intended to be structured less aggressively than speculative portfolios.

As of December 31, 2006, the Town of Smyrna Police Pension Plan had the following investments:

	<u>Fair Value</u>
Domestic equity mutual funds	\$ 1,027,090
Unallocated fixed income insurance contracts	<u>1,821,841</u>
Total	<u>\$ 2,848,931</u>

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

Investments in external investment pools, such as those in mutual funds and fixed income insurance contracts, are disclosed but not subject to interest rate, custodial, credit or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged and paid by short-term assets of the plan.

Annual Pension Cost

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal method assuming an investment return of seven percent and a compensation increase of 4.5 percent per year. Prior to the 2004 fiscal year, employer contributions were determined on an actuarial basis using the frozen age entry method. The change in the Town's funding policy from the frozen age entry method to the entry age normal method was implemented to eliminate the plan's unfunded actuarial liability at the end of 15 years from January 1, 2004.

The entry age normal method determines a projected benefit at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of compensation each year, it would accumulate at the valuation interest rate over the total prior and future years of service to the assumed retirement date into an amount sufficient to fund the projected benefit. The plan's accrued liability is the sum of the accumulation of each active participant's normal costs attributable to all prior years of service plus the present value of each inactive participant's future benefits.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/06	\$ 355,321	91.70%	\$ (98,442)
12/31/05	\$ 363,687	95.10%	\$ (127,857)
12/31/04	\$ 216,631	167.20%	\$ (145,677)

The above information regarding the Police Pension Fund was taken from the January 1, 2005 Actuarial Valuation presented by Millman USA, Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA dated December 2006.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND

Plan Description and Provisions

The Town's Full-Time Employee Pension Fund is a single-employer defined benefit pension plan established to provide a retirement income to supplement the benefits payable under Social Security. The full cost of the plan is assumed by the Town. Contributions are not required of the Town's employees.

The plan was established as of January 1, 1996, spun off in 1975 to create the current plans revised as of January 1994. The financial records are maintained on a plan year which begins each January 1 and ends on December 31.

The plans are administered by the Committee (Plan Administration) which is comprised of the Mayor and Town Council. The Committee is fully responsible for the plan's administration, including eligibility for participation and determination of benefits. The Town Council has delegated the authority to manage certain plan assets to Linsco/Private Ledger Financial Services and Aetna Life Insurance Company.

As of January 1, 2006, pension plan membership consisted of the following:

Active employees	43
Retirees and beneficiaries currently deferring benefits	20
Retirees and beneficiaries currently receiving benefits	<u>5</u>
	<u>68</u>

Full-Time Employee Pension Fund plan benefit provisions are as follows:

All full-time employees are eligible to participate in the plan after completing one year of service, if they have attained their 21st birthday and 1,000 hours of continuous employment during the plan year.

Effective January 1, 1993, employees who are discharged or resign before qualifying for retirement benefits will be entitled to 100 percent vested interest in their accrued pension benefits, payable as of the first day of the month following their normal retirement date provided that they have completed at least five full years of service to the Town.

The pension plan provides for normal retirement at age 65 and completion of 10 years of participation, or completion of 25 years of vesting service.

Effective January 1, 2006, participant benefits are based on 2-1/2 percent of the three highest years of average compensation multiplied by benefit service not to exceed 40 years. Benefits for service prior to January 1, 2006 were based on a two percent benefit multiplier.

Eligibility for early retirement benefit is age 55 and 10 years of vesting service.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND (cont'd)

Valuation of Investments

In accordance with GASB No. 25, investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates.

The pension plan's unallocated insurance contracts are valued at contract value. Contract value represents contributions made under the contract, plus interest at the contract rate, less funds used to purchase annuities and pay administrative expenses charged by the company.

Deposits

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned. At December 31, 2006, the carrying amount and bank balance of the full-time employee pension fund deposits was \$90,476. Of this amount, \$64,874 was insured or registered and the securities held by the Town or its agent in the Town's name; and \$25,602 was equal to the deposits in a federated prime obligations fund held by the trustee of the pension plan in the Town's name.

Investments

The investment objective of the Town of Smyrna Full-time Employee Pension Plan is to maintain a balanced portfolio comprised of equity, fixed income and cash equivalent securities and, as such, is intended to be structured less aggressively than speculative portfolios.

As of December 31, 2006, the Town of Smyrna Full-time Employee Pension Plan had the following investments:

	<u>Fair Value</u>
Domestic equity mutual funds	\$ 1,682,760
Unallocated fixed income insurance contracts	<u>1,294,336</u>
Total	<u>\$ 2,977,096</u>

Investments in external investment pools, such as those in mutual funds and fixed income insurance contracts, are disclosed but not subject to interest rate, custodial, credit or concentration risks because they are not evidenced by securities that exist in physical or book entry form.

Administrative Costs

Administrative costs, including the investment manager, custodial trustee and actuarial services, are charged and paid by short-term assets of the plan.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 8 FULL-TIME EMPLOYEES PENSION FUND (cont'd)

Annual Pension Cost

Periodic employer contributions to the pension plan are determined on an actuarial basis using the entry age normal method assuming an investment return of seven percent and a compensation increase of 4.5 percent per year. Prior to the 2004 fiscal year, employer contributions were determined on an actuarial basis using the frozen age entry method. The change in the Town's funding policy from the frozen age entry method to the entry age normal method was implemented to eliminate the plan's unfunded actuarial liability at the end of 15 years from January 1, 2004.

The entry age normal method determines a projected benefit at each active participant's assumed retirement age assuming future compensation increases. The plan's normal cost is the sum of each active participant's annual cost for the current year of service determined such that, if it were calculated as a level percentage of compensation each year, it would accumulate at the valuation interest rate over the total prior and future years of service to the assumed retirement date into an amount sufficient to fund the projected benefit. The plan's accrued liability is the sum of the accumulation of each active participant's normal costs attributable to all prior years of service plus the present value of each inactive participant's future benefits.

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation (Asset)</u>
12/31/06	\$ 238,958	150.40%	\$ (313,129)
12/31/05	\$ 235,818	122.60%	\$ (192,513)
12/31/04	\$ 149,474	193.00%	\$ (139,048)

The above information regarding the Police Pension Fund was taken from the January 1, 2005 Actuarial Valuation presented by Milliman USA, Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA dated December 2006.

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS

In addition to the pension benefits described in Notes 7 and 8, the Town provides post-employment retirement healthcare benefits for employees that meet eligibility requirements. The benefit allows employees to continue under the Town health insurance group plan with coverage being provided only to the retired employee and his or her spouse with the following limits:

Employees retiring prior to September 15, 1997

1. The retired employee shall pay 15 percent of the total premium costs.
2. Employees must meet the service time and age schedule at the time they retire from the Town to be eligible for participation in the plan.
3. Upon the death of the retired employee, spouses are permitted to maintain individual coverage on the plan, but shall pay 100 percent of the cost.
4. The Town's cost for the spouse's coverage shall not exceed the cost of the retired employee's coverage.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 9 POST-EMPLOYMENT RETIREMENT BENEFITS (cont'd)

As of December 31, 2006, two employees were eligible for this benefit.

Employees retiring on September 15, 1997 and thereafter

1. The Town will pay 100 percent of the total premium cost for the retired employee. In addition, as of December 31, 2004, the Town will pay 85 percent of the health insurance contract of the spouse and all eligible dependents for eligible retired police employees, with the retired police employee responsible for the remaining 15 percent.
2. Employees must meet the service time and age schedule at the time they retire from the Town to be eligible for participation in the plan.

As of December 31, 2006, two employees were eligible for this benefit.

Union Employees

Union employees are excluded from all post-employment retirement benefits.

Post-employment retirement benefits are recognized when paid. Post-employment retirement benefits for the year ended December 31, 2006 totaled \$32,766.

NOTE 10 DEFERRED COMPENSATION PLAN

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all Town employees, permits them to defer a portion of their salary until future years. The plan is available to all employees until termination, retirement, death or unforeseeable emergency. The assets of the plan are held for the exclusive benefit of the plan participants and their beneficiaries, and the assets shall not be diverted for any other purpose. Each participant directs the investments in his/her respective accounts, and the Town has no liability for any losses that may be incurred.

NOTE 11 COMMITMENTS AND CONTINGENCIES

The Town participates in state and county assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. The Town is potentially liable for any expenditures which may be disallowed pursuant to the terms of these grant programs. Management is not aware of any material items of noncompliance which would result in the disallowance of program expenditures.

The Town is a member of the Delaware Municipal Electric Corporation (DEMEC). DEMEC is a public corporation constituted as a joint action agency and a wholesale electric utility. DEMEC was established in 1979 and represents nine municipal electric distribution utilities located in the State of Delaware. DEMEC provides full requirements wholesale electric power supply service to seven of the nine members, including the Town, through the operation of owned generation assets and various contractual wholesale supply contracts with external parties.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 11 COMMITMENTS AND CONTINGENCIES (cont'd)

The Town purchases 100 percent of its electric supply requirements from DEMEC under a full requirements service contract that became effective June 1, 2004 and which will remain in effect unless terminated upon one year's written notice by either party. The obligation of the Town to purchase and pay for full requirements service, including its allocated costs under any then current forward contract for capacity and energy between DEMEC and a third party in effect as of the date of notice of termination, shall survive the termination of this agreement.

The Town has entered into a separate power sales agreement effective May 1, 2001 to purchase an interest in the capacity produced by Unit No. 1 of the Warrant F. "Sam" Beasley Power Station located in Smyrna, Delaware, owned by DEMEC. The Town is entitled to a percentage of all power supply and ancillary products generated from the existing nominal 45 MW natural gas-fired combustion turbine generator for the useful life of the facility.

Under the terms of the various agreements, DEMEC is authorized to act as agent for the Town in all matters relating to the acquisition and delivery of its wholesale power supply and management of energy cost risk on behalf of the Town in the deregulated energy markets.

NOTE 12 LAND HELD FOR RESALE

On October 24, 1995, the Town entered into an agreement with the Delaware Economic Development Office to obtain funding for the purchase of property to be used for the development of the Smyrna Industrial Park. On July 25, 1996, the Town purchased 95.8286 acres for one million dollars with funds supplied by the State of Delaware Economic Development Office. In accordance with the agreement, the Town has provided matching funds equal to the purchase price of the property. The matching funds were used for infrastructure, consulting and marketing associated with the project.

The Town designated 50.69 acres of the Smyrna Industrial Park as land held for resale. The Town recorded these parcels of land held for resale in its financial records. The properties held for resale are recorded at the lower of cost or net realizable value. At December 31, 2006, remaining land held for resale totaled \$45,080 (4.32 acres), with this amount offset by a reservation of fund balance in the governmental funds financial statements.

NOTE 13 RISK MANAGEMENT

The Town maintains commercial insurance coverage for risk of losses relating to general, automotive, police professional, public officials and crime. There has been no significant change in coverage and there have been no losses above insurance limits during the past year.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 14 SUBSEQUENT EVENT

On May 7, 2007, the Town Council approved a resolution authorizing the borrowing of a sum not to exceed \$8 million for the purpose of (1) refinancing the Town's existing bond anticipation note in the amount of \$4,644,000 and (2) to pay a portion of the costs of certain municipal improvements.

NOTE 15 PRIOR PERIOD ADJUSTMENTS

Developer contributions received under electrical escrow agreements were not correctly recognized in fiscal year 2005 for expenditures of capital items related to the construction of electrical infrastructure for new development within the Town limits. As a result, the net assets of the electric fund and the business-type activities were understated by \$119,394 as of December 31, 2005. A prior period adjustment has been reflected in the financial statements to correct this error.

Amounts received for franchise fees in fiscal year 2006 related to gross revenues for the year ended December 31, 2005 were not correctly recognized in fiscal year 2005, resulting in an understatement of \$52,248 in the General Fund fund balance and the net assets of the governmental activities as of December 31, 2005. A prior period adjustment has been reflected in the financial statements to correct this error.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF SMYRNA, DELAWARE

SCHEDULE OF FUNDING PROGRESS - PENSION PLANS

REQUIRED SUPPLEMENTARY INFORMATION

	(1)	(2)	(3)	(4)	(5)	
Calendar Year	Actuarial Value of Assets	Actuarial Accrued Liability	Percentage Funded (1)/(2)	Unfunded (assets in excess of) Accrued Liability (2)-(1)	Annual Covered Payroll	Unfunded (assets in excess of) Accrued Liability as a % of Payroll (4)/(5)

POLICE

1/1/02	1,435,399	1,746,058	82.21%	310,659	578,322	53.72%
1/1/03	1,404,522	1,862,529	75.41%	458,007	654,884	69.94%
1/1/04	2,125,582	2,979,009	71.35%	853,427	850,731	100.32%
1/1/05	2,470,563	4,283,237	57.68%	1,812,674	888,480	204.02%
1/1/06	2,798,043	4,781,778	58.51%	1,983,735	1,033,220	191.99%

FULL-TIME EMPLOYEE

1/1/02	1,548,106	1,875,841	82.53%	327,735	1,174,217	27.91%
1/1/03	1,514,451	2,005,501	75.51%	491,050	910,072	53.96%
1/1/04	2,053,994	2,626,331	78.21%	572,337	1,319,652	43.37%
1/1/05	2,415,258	2,807,982	86.01%	392,724	1,495,680	26.26%
1/1/06	2,730,679	3,846,596	70.99%	1,115,917	1,699,532	65.66%

Effective for the year beginning January 1, 2004, actuarial valuations were calculated using the entry age normal actuarial cost method. Prior year actuarial valuations were calculated using the frozen age entry actuarial cost method.

The above information regarding the Police and Full-time Employee Pension Funds was taken from Actuarial Valuations presented by Milliman, USA Inc., signed by Graham A. Harrison, FSA and Jill M. Stanulis, EA.

COMBINING NONMAJOR FUND STATEMENTS

TOWN OF SIMYRNA
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2006

	Municipal Street Aid Fund	S.A.L.L.E. Fund	E.I.D.E. Fund	Resource Officer Fund	Forfeiture Fund	Totals
ASSETS						
Cash and cash equivalents	\$ -	\$ 3,825	\$ 4,490	\$ 18,723	\$ 20,247	\$ 47,285
Investments	<u>341,429</u>	-	-	-	-	<u>341,429</u>
TOTAL ASSETS	<u>\$ 341,429</u>	<u>\$ 3,825</u>	<u>\$ 4,490</u>	<u>\$ 18,723</u>	<u>\$ 20,247</u>	<u>\$ 388,714</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Due to other funds	\$ 169,596	\$ -	\$ -	\$ -	\$ -	\$ 169,596
TOTAL LIABILITIES	<u>169,596</u>	-	-	-	-	<u>169,596</u>
FUND BALANCES:						
Reserved for:						
Police expenditures	-	3,825	4,490	18,723	20,247	47,285
Public works expenditures	<u>171,833</u>	-	-	-	-	<u>171,833</u>
TOTAL FUND BALANCES	<u>171,833</u>	<u>3,825</u>	<u>4,490</u>	<u>18,723</u>	<u>20,247</u>	<u>219,118</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 341,429</u>	<u>\$ 3,825</u>	<u>\$ 4,490</u>	<u>\$ 18,723</u>	<u>\$ 20,247</u>	<u>\$ 388,714</u>

TOWN OF SMYRNA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2006

	Municipal Street Aid Fund	S.A.L.I.E. Fund	E.I.D.E. Fund	Resource Officer Fund	Forfeiture Fund	Totals
REVENUES						
Intergovernmental	\$ 202,318	\$ 13,291	\$ 8,359	\$ 15,755	\$ 1,960	\$ 241,683
Investment income	<u>11,620</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,620</u>
TOTAL REVENUES	<u>213,938</u>	<u>13,291</u>	<u>8,359</u>	<u>15,755</u>	<u>1,960</u>	<u>253,303</u>
EXPENDITURES						
Current:						
Public safety - police	-	20,722	10,955	11,552	7,724	50,953
Public works	<u>275,736</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>275,736</u>
TOTAL EXPENDITURES	<u>275,736</u>	<u>20,722</u>	<u>10,955</u>	<u>11,552</u>	<u>7,724</u>	<u>326,689</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(61,798)</u>	<u>(7,431)</u>	<u>(2,596)</u>	<u>4,203</u>	<u>(5,764)</u>	<u>(73,386)</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	21	-	-	21
Transfers out	<u>(9,256)</u>	<u>(21)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,277)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(9,256)</u>	<u>(21)</u>	<u>21</u>	<u>-</u>	<u>-</u>	<u>(9,256)</u>
CHANGE IN FUND BALANCES	<u>(71,054)</u>	<u>(7,452)</u>	<u>(2,575)</u>	<u>4,203</u>	<u>(5,764)</u>	<u>(82,642)</u>
FUND BALANCES, BEGINNING OF YEAR	<u>242,887</u>	<u>11,277</u>	<u>7,065</u>	<u>14,520</u>	<u>26,011</u>	<u>301,760</u>
FUND BALANCES, END OF YEAR	<u>\$ 171,833</u>	<u>\$ 3,825</u>	<u>\$ 4,490</u>	<u>\$ 18,723</u>	<u>\$ 20,247</u>	<u>\$ 219,118</u>

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INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

August 6, 2007

To the Honorable Mayor and Town Council
Town of Smyrna
Smyrna, Delaware

We have audited the financial statements of the Town of Smyrna, Smyrna, Delaware as of and for the year ended December 31, 2006 and have issued our report thereon dated August 6, 2007.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Smyrna's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Smyrna's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when a design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Town's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Town's financial statements that is more than inconsequential will not be prevented or detected by the Town's internal control. We consider the deficiency described in the accompanying schedule of findings and recommendations as item #05-1 to be a significant deficiency in internal control over financial reporting.

To the Honorable Mayor and Town Council
Town of Smyrna

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Town's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, the significant deficiency described in the accompanying schedule of findings and recommendations is considered to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Smyrna's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

We also noted other matters that we have reported to management of the Town of Smyrna in a separate letter dated August 6, 2007.

This report is intended solely for the information and use of the Mayor, the Town Council and management, and is not intended to be and should not be used by anyone other than these specified parties.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

TOWN OF SMYRNA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

05-1 RECONCILIATION OF GENERAL LEDGER TO SUBSIDIARY LEDGERS AND SUPPORTING DOCUMENTS

Condition: General ledger accounts were not reconciled to subsidiary ledgers and supporting documents for the year ended December 31, 2006. As a result, many transactions were not summarized in the general ledger, nor were all transactions recorded on the books. The following critical reconciliations for the purposes of our audit procedures were not in agreement with general ledger accounts upon commencement of the audit.

- A cash reconciliation that reconciles from the bank balance to the general ledger to verify that all cash transactions have been recorded properly.
- A reconciliation of accounts receivable from the general ledger to the accounts receivable detail ledger to substantiate the recording of transactions is accurate and proper and that any adjustments or write-offs have been documented.
- A reconciliation of accounts payable from the general ledger to the outstanding accounts payable register to substantiate that all additions to, and payments of, accounts payable are correctly recorded.
- Reconciliations of other general ledger account balances such as loan balances, capital assets, etc., to subsidiary ledgers and supporting documents.

Effect: The Town does not maintain an adequate set of financial records that allow for the preparation of accurate and reliable information. As a result, management and the Town Council are making financial decisions on incomplete and/or inaccurate information during the year, and excessive time is spent at year end preparing and auditing the Town's financial records.

Recommendation: The Town cannot continue to operate with inadequate financial recordkeeping given the state of growth the Town is experiencing. We recommend that management and the Town Council take immediate action to remedy the above-noted deficiencies to ensure that the Town is demonstrating fiscal responsibility.

Status: Based on our prior year finding, management implemented a new accounting and utility billing system to replace the previous system which was flawed and made it difficult for management to reconcile the Town's general ledger. Our assessment of the new system has determined that it will allow management to reconcile the general ledger accurately and in a timely manner. During our current year audit, we noted that the full implementation of the new accounting billing system was not complete for the entire year, and monthly reconciliation to the general ledger was not consistently performed. As a result, year-end reconciliations of general ledger accounts were prepared at year end by management with the assistance of the independent auditors during the audit fieldwork. This finding is still applicable for the current year.

TOWN OF SMYRNA

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

Management's Response: The Town acknowledges and is in agreement with the finding regarding the reconciliation of the general ledger to subsidiary ledger and supporting documents. The Town has had several difficulties with the timing of the new billing and accounting software. The accounting software was online on January 1, 2006 but the Town was still using the prior flawed billing system until April 1, 2006. The prior system made reconciliation of the general ledger to subsidiary ledgers very difficult.

Additionally, the Town authorized and hired another accounting clerk position that will free up time from an administrative accountant to perform the necessary reconciliations. It is the Town's plan to have the reconciliations performed on a monthly basis so that the Mayor and the Town Council can make the financial decisions necessary to operate the Town in a fiscally sound manner.