

**TOWN OF SMYRNA
KENT COUNTY, DELAWARE
FINANCIAL STATEMENTS
DECEMBER 31, 2005**

TOWN OF SMYRNA
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INDEPENDENT AUDITORS' REPORT

June 6, 2006

To the 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, 2005, 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 and each major fund of the Town of Smyrna, Smyrna, Delaware, as of December 31, 2005, 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 June 6, 2006, 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 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, 2005

| | Governmental Activities | Business-type Activities | Total |
|---|----------------------------|-----------------------------|----------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and investments | \$ 4,429,602 | \$ 439,675 | \$ 4,869,277 |
| Taxes receivable | 251,006 | - | 251,006 |
| Accounts receivable | 126,224 | 1,767,449 | 1,893,673 |
| Inventory | - | 603,701 | 603,701 |
| Due from other governments | 44,896 | - | 44,896 |
| Prepaid expenses | 73,254 | 55,262 | 128,516 |
| Land held for resale | 45,080 | - | 45,080 |
| Restricted cash and cash equivalents: | | | |
| Capital projects | - | 9,179 | 9,179 |
| Meter deposits | - | 169,595 | 169,595 |
| Total Current Assets | <u>4,970,062</u> | <u>3,044,861</u> | <u>8,014,923</u> |
| Noncurrent Assets: | | | |
| Capital assets, net: | | | |
| Land | 812,568 | 45,171 | 857,739 |
| Construction-in-progress | 1,259,739 | 4,312,767 | 5,572,506 |
| Land improvements | 207,154 | - | 207,154 |
| Buildings | 1,581,384 | 715,648 | 2,297,032 |
| Infrastructure | 1,516,496 | 5,598,815 | 7,115,311 |
| Machinery and equipment | 1,390,560 | 525,669 | 1,916,229 |
| Total Noncurrent Assets | <u>6,767,901</u> | <u>11,198,070</u> | <u>17,965,971</u> |
| TOTAL ASSETS | <u>\$11,737,963</u> | <u>\$14,242,931</u> | <u>\$25,980,894</u> |
| LIABILITIES AND NET ASSETS | | | |
| LIABILITIES | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 646,248 | \$ 1,019,062 | \$ 1,665,310 |
| Accrued salaries and benefits | 20,825 | 3,153 | 23,978 |
| Developer deposits | 85,670 | 611,349 | 697,019 |
| Accrued compensated absences | 191,342 | 41,725 | 233,067 |
| Current portion of loans payable | - | 74,870 | 74,870 |
| Current Liabilities payable from Restricted Assets: | | | |
| Meter deposits | - | 169,595 | 169,595 |
| Total Current Liabilities | <u>944,085</u> | <u>1,919,754</u> | <u>2,863,839</u> |
| Noncurrent Liabilities: | | | |
| Accrued compensated absences | 374,760 | 94,243 | 469,003 |
| Bond anticipation note | - | 2,000,000 | 2,000,000 |
| Loans payable | - | 1,580,269 | 1,580,269 |
| Total Noncurrent Liabilities | <u>374,760</u> | <u>3,674,512</u> | <u>4,049,272</u> |
| TOTAL LIABILITIES | <u>1,318,845</u> | <u>5,594,266</u> | <u>6,913,111</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 6,767,901 | 7,542,931 | 14,310,832 |
| Unrestricted | 443,283 | 1,105,734 | 1,549,017 |
| Restricted for police | 58,873 | - | 58,873 |
| Restricted for public works | 242,887 | - | 242,887 |
| Restricted for capital projects | 2,906,174 | - | 2,906,174 |
| TOTAL NET ASSETS | <u>10,419,118</u> | <u>8,648,665</u> | <u>19,067,783</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$11,737,963</u> | <u>\$14,242,931</u> | <u>\$25,980,894</u> |

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

TOWN OF SMYRNA
BALANCE SHEET - GOVERNMENTAL FUNDS
DECEMBER 31, 2005

| | General Fund | Capital Reserve Funds | Nonmajor Governmental Funds | Totals |
|--|---------------------|-----------------------------|-----------------------------------|---------------------|
| ASSETS | | | | |
| Cash and investments | \$ 956,886 | \$ 3,173,368 | \$ 299,348 | \$ 4,429,602 |
| Taxes receivable | 251,006 | - | - | 251,006 |
| Accounts receivable | 126,224 | - | - | 126,224 |
| Due from other funds | - | - | 2,412 | 2,412 |
| Due from other governments | 44,896 | - | - | 44,896 |
| Prepaid expenses | 73,254 | - | - | 73,254 |
| Land held for resale, net | 45,080 | - | - | 45,080 |
| TOTAL ASSETS | \$ 1,497,346 | \$ 3,173,368 | \$ 301,760 | \$ 4,972,474 |
| LIABILITIES AND FUND BALANCES | | | | |
| LIABILITIES: | | | | |
| Accounts payable | \$ 379,054 | \$ 267,194 | - | \$ 646,248 |
| Due to other funds | 2,412 | - | - | 2,412 |
| Accrued salaries and benefits | 20,825 | - | - | 20,825 |
| Deferred revenue | 218,300 | - | - | 218,300 |
| Developer deposits | 85,670 | - | - | 85,670 |
| Accrued compensated absences | 18,096 | - | - | 18,096 |
| TOTAL LIABILITIES | 724,357 | 267,194 | - | 991,551 |
| FUND BALANCES: | | | | |
| Unreserved | 727,909 | - | - | 727,909 |
| Reserved for police | - | - | 58,873 | 58,873 |
| Reserved for public works | - | - | 242,887 | 242,887 |
| Reserved for capital projects | - | 2,906,174 | - | 2,906,174 |
| Reserved for land held for resale | 45,080 | - | - | 45,080 |
| TOTAL FUND BALANCES | 772,989 | 2,906,174 | 301,760 | 3,980,923 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 1,497,346 | \$ 3,173,368 | \$ 301,760 | \$ 4,972,474 |

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, 2005**

| | |
|---|-----------------------------|
| TOTAL GOVERNMENTAL FUND BALANCES | \$ 3,980,923 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 6,767,901 |
| Some of the Town's assets are not available soon enough to pay for current period expenditures and, therefore, are deferred in the funds. | 218,300 |
| Compensated absences that are not due and payable in the current period are not reported in the funds. | <u>(548,006)</u> |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | <u>\$ 10,419,118</u> |

See accompanying notes to financial statements and accountants' compilation report.

TOWN OF SMYRNA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005

| | General Fund | Capital Reserve Funds | Nonmajor Governmental Funds | Totals |
|--|--------------------|-----------------------------|-----------------------------------|---------------------|
| REVENUES | | | | |
| Taxes: | | | | |
| Property taxes | \$ 933,914 | - | - | \$ 933,914 |
| Transfer taxes | 1,564,109 | - | - | 1,564,109 |
| Special assessment/impact fees | 573,968 | - | - | 573,968 |
| Charges for services | 678,678 | - | - | 678,678 |
| Intergovernmental | 278,190 | - | 225,640 | 503,830 |
| Licenses, fees and permits | 446,085 | - | - | 446,085 |
| Fines and forfeits | 86,096 | - | - | 86,096 |
| Utility franchise fees | 98,004 | - | - | 98,004 |
| Investment income | 8,745 | 61,217 | - | 70,000 |
| Miscellaneous | 38,050 | - | - | 38,050 |
| TOTAL REVENUES | <u>4,705,839</u> | <u>61,217</u> | <u>238,750</u> | <u>5,005,806</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 1,624,741 | - | - | 1,624,741 |
| Public safety | 3,097,915 | - | 33,296 | 3,131,211 |
| Public works | 1,144,794 | - | - | 1,144,794 |
| Planning and inspection | 559,968 | - | - | 559,968 |
| Library | 214,588 | - | - | 214,588 |
| Culture and recreation | 288,112 | - | - | 288,112 |
| Business park | 42,994 | - | - | 42,994 |
| Capital outlay | - | 1,356,635 | - | 1,356,635 |
| TOTAL EXPENDITURES | <u>6,973,112</u> | <u>1,356,635</u> | <u>33,296</u> | <u>8,363,043</u> |
| EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES | <u>(2,267,273)</u> | <u>(1,295,418)</u> | <u>205,454</u> | <u>(3,357,237)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Proceeds from sale of capital assets | 12,551 | - | - | 12,551 |
| Transfers in | - | 506,885 | - | 506,885 |
| Transfers out | - | - | (506,885) | (506,885) |
| TOTAL OTHER FINANCING SOURCES | <u>12,551</u> | <u>506,885</u> | <u>(506,885)</u> | <u>12,551</u> |
| NET CHANGES IN FUND BALANCES | <u>(2,254,722)</u> | <u>(788,533)</u> | <u>(301,431)</u> | <u>(3,344,686)</u> |
| FUND BALANCES, BEGINNING OF YEAR | <u>3,027,711</u> | <u>3,694,707</u> | <u>603,191</u> | <u>7,325,609</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 772,989</u> | <u>\$ 2,906,174</u> | <u>\$ 301,760</u> | <u>\$ 3,980,923</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, 2005**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS **\$ (3,344,686)**

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 capital outlays (\$1,770,419) exceeded depreciation (\$418,759) in the current period. 1,351,660

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

| | | |
|-------------------|---------------|---------|
| Property taxes | \$ 108,290 | |
| Intergovernmental | <u>40,919</u> | 149,209 |

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. (66,745)

In the statement of activities, only the gain on the disposal of capital assets is reported, whereas in the governmental funds, there is no use of financial resource. As a result, the change in net assets differs from the change in fund balance by the net book value of the disposed capital assets. (7,482)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ (1,918,044)**

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, 2005

| | Original and Final Appropriated Budget | Actual Amounts (Budgetary Basis) | Variance Positive (Negative) |
|--|---|--|------------------------------------|
| REVENUES | | | |
| Taxes: | | | |
| Property taxes | \$ 1,300,000 | \$ 933,914 | (366,086) |
| Transfer taxes | 1,500,000 | 1,564,109 | 64,109 |
| Special assessment/impact fees | 760,000 | 573,968 | (186,032) |
| Charges for services | 704,000 | 678,678 | (25,322) |
| Intergovernmental | - | 278,190 | 278,190 |
| Licenses, fees and permits | 660,000 | 446,085 | (213,915) |
| Fines and forfeits | 85,000 | 86,096 | 1,096 |
| Utility franchise fees | 140,000 | 98,004 | (41,996) |
| Investment income | 85,000 | 8,745 | (76,255) |
| Miscellaneous | 5,500 | 38,050 | 32,550 |
| TOTAL REVENUES | <u>5,239,500</u> | <u>4,705,839</u> | <u>(533,661)</u> |
| EXPENDITURES | | | |
| Current: | | | |
| General government | 1,051,142 | 1,624,741 | (573,599) |
| Public safety | 2,957,270 | 3,097,915 | (140,645) |
| Public works | 1,307,386 | 1,144,794 | 162,592 |
| Planning and inspection | 758,711 | 559,968 | 198,743 |
| Library | 232,366 | 214,588 | 17,778 |
| Culture and recreation | 293,304 | 288,112 | 5,192 |
| Business park | 7,049 | 42,994 | (35,945) |
| TOTAL EXPENDITURES | <u>6,607,228</u> | <u>6,973,112</u> | <u>(365,884)</u> |
| DEFICIENCY OF REVENUES UNDER EXPENDITURES | <u>(1,367,728)</u> | <u>(2,267,273)</u> | <u>(899,545)</u> |
| OTHER FINANCING SOURCES (USES) | | | |
| Proceeds from sale of capital assets | - | 12,551 | 12,551 |
| TOTAL OTHER FINANCING SOURCES | <u>-</u> | <u>12,551</u> | <u>12,551</u> |
| NET CHANGES IN FUND BALANCES | <u>(1,367,728)</u> | <u>(2,254,722)</u> | <u>(886,994)</u> |
| FUND BALANCES, BEGINNING OF YEAR | <u>3,027,711</u> | <u>3,027,711</u> | <u>-</u> |
| FUND BALANCES, END OF YEAR | <u>\$ 1,659,983</u> | <u>\$ 772,989</u> | <u>\$ (886,994)</u> |

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

**TOWN OF SMYRNA
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
DECEMBER 31, 2005**

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|--|---------------------------|-------------------------------------|----------------------------|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | \$ 118,148 | \$ 321,527 | \$ 439,675 |
| Accounts receivable | 1,450,299 | 317,150 | 1,767,449 |
| Inventory | 527,912 | 75,789 | 603,701 |
| Prepaid expenses | 20,563 | 34,699 | 55,262 |
| Restricted cash and cash equivalents: | | | |
| Capital projects | 9,179 | - | 9,179 |
| Meter deposits | <u>169,595</u> | <u>-</u> | <u>169,595</u> |
| Total Current Assets | 2,295,696 | 749,165 | 3,044,861 |
| Noncurrent Assets: | | | |
| Capital assets, net | <u>6,931,518</u> | <u>4,266,552</u> | <u>11,198,070</u> |
| TOTAL ASSETS | <u>\$9,227,214</u> | <u>\$5,015,717</u> | <u>\$14,242,931</u> |
| LIABILITIES AND NET ASSETS | | | |
| Current Liabilities: | | | |
| Accounts payable | \$ 926,947 | \$ 92,115 | \$ 1,019,062 |
| Accrued salaries and benefits | 1,834 | 1,319 | 3,153 |
| Developer deposits | 554,661 | 56,688 | 611,349 |
| Accrued compensated absences | 28,878 | 12,847 | 41,725 |
| Current portion of loans payable | - | 74,870 | 74,870 |
| Current Liabilities Payable from | | | |
| Restricted Assets: | | | |
| Meter deposits | <u>169,595</u> | <u>-</u> | <u>169,595</u> |
| Total Current Liabilities | <u>1,681,915</u> | <u>237,839</u> | <u>1,919,754</u> |
| Noncurrent Liabilities: | | | |
| Accrued compensated absences | 29,227 | 65,016 | 94,243 |
| Bond anticipation note | 2,000,000 | - | 2,000,000 |
| Loans payable | - | <u>1,580,269</u> | <u>1,580,269</u> |
| Total Noncurrent Liabilities | <u>2,029,227</u> | <u>1,645,285</u> | <u>3,674,512</u> |
| TOTAL LIABILITIES | <u>3,711,142</u> | <u>1,883,124</u> | <u>5,594,266</u> |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 4,931,518 | 2,611,413 | 7,542,931 |
| Unrestricted | <u>584,554</u> | <u>521,180</u> | <u>1,105,734</u> |
| Total Net Assets | <u>5,516,072</u> | <u>3,132,593</u> | <u>8,648,665</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$9,227,214</u> | <u>\$5,015,717</u> | <u>\$14,242,931</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, 2005

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|--------------------------------------|---------------------------|-------------------------------------|----------------------------|
| OPERATING REVENUES | | | |
| User service charges | \$9,656,352 | \$2,530,275 | \$12,186,627 |
| Other operating revenue | <u>37,088</u> | <u>62,205</u> | <u>99,293</u> |
| Total Operating Revenues | <u>9,693,440</u> | <u>2,592,480</u> | <u>12,285,920</u> |
| OPERATING EXPENSES | | | |
| Electric purchased | 6,815,359 | - | 6,815,359 |
| Sewer charges | - | 827,418 | 827,418 |
| System maintenance | 55,785 | 140,034 | 195,819 |
| Salaries and wages | 564,295 | 418,281 | 982,576 |
| Employee benefits | 334,095 | 259,016 | 593,111 |
| Depreciation | 185,676 | 144,382 | 330,058 |
| Supplies and maintenance | 38,721 | 11,276 | 49,997 |
| Truck and vehicles | 33,656 | 14,708 | 48,364 |
| Insurance | 50,145 | 80,464 | 130,609 |
| Administrative expenses | 68,963 | 37,564 | 106,527 |
| Interest expense | - | 72,180 | 72,180 |
| Professional services | 203,805 | 77,140 | 280,945 |
| Minor capital additions | <u>1,908</u> | <u>2,658</u> | <u>4,566</u> |
| Total Operating Expenses | <u>8,352,408</u> | <u>2,085,121</u> | <u>10,437,529</u> |
| OPERATING INCOME | <u>1,341,032</u> | <u>507,359</u> | <u>1,848,391</u> |
| NONOPERATING REVENUES | | | |
| Interest income | 78,708 | 26,236 | 104,944 |
| Insurance reimbursement | 47,546 | - | 47,546 |
| Gain on sale of capital assets | <u>2,820</u> | <u>-</u> | <u>2,820</u> |
| Total Nonoperating Revenues | <u>129,074</u> | <u>26,236</u> | <u>155,310</u> |
| INCOME BEFORE CONTRIBUTIONS | 1,470,106 | 533,595 | 2,003,701 |
| Developer contributions | <u>230,715</u> | <u>-</u> | <u>230,715</u> |
| CHANGE IN NET ASSETS | 1,700,821 | 533,595 | 2,234,416 |
| NET ASSETS, BEGINNING OF YEAR | <u>3,815,251</u> | <u>2,598,998</u> | <u>6,414,249</u> |
| NET ASSETS, END OF YEAR | <u>\$5,516,072</u> | <u>\$3,132,593</u> | <u>\$ 8,648,665</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, 2005

| | <u>Electric Fund</u> | <u>Water and Sewer Fund</u> | <u>Total</u> |
|--|--------------------------|-------------------------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Received from customers | \$8,943,588 | \$2,548,375 | \$11,491,963 |
| Paid to suppliers for goods and services | (6,913,110) | (1,209,309) | (8,122,419) |
| Paid to employees for services | (890,567) | (678,128) | (1,568,695) |
| Interest paid | - | (72,180) | (72,180) |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>1,139,911</u> | <u>588,758</u> | <u>1,728,669</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | | |
| Proceeds from bond anticipation note | 2,000,000 | - | 2,000,000 |
| Repayment of loans payable | - | (73,073) | (73,073) |
| Developer contributions and repayments of escrows, net | 658,410 | 35,890 | 694,300 |
| Proceeds from sale of capital assets | 2,820 | - | 2,820 |
| Gain on insurance reimbursement | 47,546 | - | 47,546 |
| Acquisition and construction of capital assets | (4,514,717) | (359,845) | (4,874,562) |
| NET CASH USED BY CAPITAL AND RELATED FINANCING ACTIVITIES | <u>(1,805,941)</u> | <u>(397,028)</u> | <u>(2,202,969)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Interest income | 78,708 | 26,236 | 104,944 |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | <u>78,708</u> | <u>26,236</u> | <u>104,944</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (587,322) | 217,966 | (369,356) |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>884,244</u> | <u>103,561</u> | <u>987,805</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 296,922</u> | <u>\$ 321,527</u> | <u>\$ 618,449</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Operating income | \$1,341,032 | \$ 507,359 | \$ 1,848,391 |
| Adjustments to reconcile operating income to net cash provided by operating activities: | | | |
| Depreciation | 185,676 | 144,382 | 330,058 |
| Changes in assets and liabilities: | | | |
| (Increase) in accounts receivable | (643,184) | (44,105) | (687,289) |
| (Increase) Decrease in inventory | (72,001) | 5,966 | (66,035) |
| (Increase) in prepaid expenses | (20,563) | (34,699) | (55,262) |
| Increase in accounts payable | 447,796 | 10,686 | 458,482 |
| (Decrease) in accrued salaries and benefits | (31) | (14) | (45) |
| (Decrease) in meter deposits | (106,668) | - | (106,668) |
| Increase (Decrease) in compensated absences | 7,854 | (817) | 7,037 |
| NET CASH PROVIDED BY OPERATING ACTIVITIES | <u>\$1,139,911</u> | <u>\$ 588,758</u> | <u>\$ 1,728,669</u> |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO STATEMENT OF NET ASSETS: | | | |
| Cash and cash equivalents | \$ 118,148 | \$ - | \$ 118,148 |
| Capital projects, restricted | 9,179 | - | 9,179 |
| Meter deposits, restricted | 169,595 | - | 169,595 |
| TOTAL CASH AND CASH EQUIVALENTS | <u>\$ 296,922</u> | <u>\$ -</u> | <u>\$ 296,922</u> |

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

TOWN OF SMYRNA
STATEMENT OF NET ASSETS - FIDUCIARY FUNDS
DECEMBER 31, 2005

| | <u>Police Pension Trust Fund</u> | <u>Employee Pension Trust Fund</u> | <u>Total</u> |
|---|--|--|----------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 91,737 | \$ 84,015 | \$ 175,752 |
| Investments | 638,023 | 1,206,397 | 1,844,420 |
| Insurance contracts | <u>1,835,978</u> | <u>1,254,833</u> | <u>3,090,811</u> |
| TOTAL ASSETS | <u>\$ 2,565,738</u> | <u>\$ 2,545,245</u> | <u>\$ 5,110,983</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| LIABILITIES | \$ - | \$ - | \$ - |
| NET ASSETS | | | |
| Assets held in trust for employee pension benefits | <u>2,565,738</u> | <u>2,545,245</u> | <u>5,110,983</u> |
| TOTAL LIABILITIES AND NET ASSETS | <u>\$ 2,565,738</u> | <u>\$ 2,545,245</u> | <u>\$ 5,110,983</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, 2005

| | <u>Police Pension Trust Fund</u> | <u>Employee Pension Trust Fund</u> | <u>Total</u> |
|--|--|--|----------------------------|
| ADDITIONS: | | | |
| Contributions: | | | |
| Employer contributions | \$ 273,395 | \$ 289,283 | \$ 562,678 |
| State aid - police | <u>72,472</u> | <u>-</u> | <u>72,472</u> |
| Total Contributions | <u>345,867</u> | <u>289,283</u> | <u>635,150</u> |
| Investment income: | | | |
| Interest and dividends | 107,755 | 90,327 | 198,082 |
| Realized gain on sale of investments | 11,587 | 25,256 | 36,843 |
| Net appreciation in fair value of investments | <u>8,082</u> | <u>36,645</u> | <u>44,727</u> |
| Total Investment Income | <u>127,424</u> | <u>152,228</u> | <u>279,652</u> |
| TOTAL ADDITIONS | <u>473,291</u> | <u>441,511</u> | <u>914,802</u> |
| DEDUCTIONS: | | | |
| Benefits paid | 122,177 | 50,271 | 172,448 |
| Administrative expenses | <u>33,104</u> | <u>25,435</u> | <u>58,539</u> |
| TOTAL DEDUCTIONS | <u>155,281</u> | <u>75,706</u> | <u>230,987</u> |
| CHANGE IN NET ASSETS | 318,010 | 365,805 | 683,815 |
| NET ASSETS, BEGINNING OF YEAR | <u>2,247,728</u> | <u>2,179,440</u> | <u>4,427,168</u> |
| NET ASSETS, END OF YEAR | <u>\$ 2,565,738</u> | <u>\$ 2,545,245</u> | <u>\$ 5,110,983</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 Program in a trustee capacity for the employees of the Town. The Pension Program, 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 | 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, 2005, accrued compensated absences for governmental activities totaled \$566,102. This total is comprised of accrued vacation leave of \$108,712 and accrued sick leave of \$457,390. In addition, at December 31, 2005, accrued compensated absences in the business-type activities and proprietary funds totaled \$135,968. This total is comprised of accrued vacation leave of \$17,161 and accrued sick leave of \$118,807.

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 2005 was 31 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 2005, 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, 2005 as follows:

| | |
|--------------------|------------|
| General Government | \$ 573,599 |
| Public Safety | \$ 140,645 |
| Business Park | \$ 35,945 |

Expenditures in excess of appropriations in the general government function were the direct result of unbudgeted capital items and professional service purchases, whereas, expenditures in excess of appropriations in the public safety function were due to the expending of funds for unbudgeted salaries, employee benefits and capital items. All excess of expenditures over appropriations were funded by General Fund reserves.

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, 2005, the carrying amount of the Town's deposits was \$3,871,307 and the bank balance was \$4,401,951. Of the bank balance, \$121,787 was covered by federal depository insurance, and \$4,280,164 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 investments disclosed in Notes 7 and 8.

Investments

As of December 31, 2005, the Town had the following investments:

| | |
|---------------------|-------------------|
| U.S. Treasury notes | <u>\$ 997,970</u> |
|---------------------|-------------------|

U.S. Treasury notes are securities of agencies of the U.S. Government that have an implied but not explicit guarantee.

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 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, 2005, the Town's investments in U.S. Treasury notes had maturity dates of less than one year.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

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

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, 2005, 100 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, 2005 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>318,475</u> | <u>941,264</u> | <u>-</u> | <u>1,259,739</u> |
| Total Capital Assets Not Being Depreciated | <u>1,131,043</u> | <u>941,264</u> | <u>-</u> | <u>2,072,307</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 2,298,569 | - | - | 2,298,569 |
| Infrastructure | 4,258,395 | 312,746 | - | 4,571,141 |
| Land improvements | 514,679 | 12,496 | - | 527,175 |
| Machinery and equipment | <u>2,254,864</u> | <u>503,913</u> | <u>27,961</u> | <u>2,730,816</u> |
| Total Capital Assets Being Depreciated | <u>9,326,507</u> | <u>829,155</u> | <u>27,961</u> | <u>10,127,701</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 | 672,784 | 44,401 | - | 717,185 |
| Infrastructure | 2,982,505 | 72,140 | - | 3,054,645 |
| Land improvements | 301,795 | 18,226 | - | 320,021 |
| Machinery and equipment | <u>1,076,743</u> | <u>283,992</u> | <u>20,479</u> | <u>1,340,256</u> |
| Total accumulated depreciation | <u>5,033,827</u> | <u>418,759</u> | <u>20,479</u> | <u>5,432,107</u> |
| Total Capital Assets Being Depreciated, Net | <u>4,292,680</u> | <u>410,396</u> | <u>7,482</u> | <u>4,695,594</u> |
| Governmental Activities Assets, Net | <u>\$ 5,423,723</u> | <u>\$1,351,660</u> | <u>\$ 7,482</u> | <u>\$ 6,767,901</u> |
| Business-type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 45,171 | \$ - | \$ - | \$ 45,171 |
| Construction-in-progress | <u>402,887</u> | <u>3,909,880</u> | <u>-</u> | <u>4,312,767</u> |
| Total Capital Assets Not Being Depreciated | <u>448,058</u> | <u>3,909,880</u> | <u>-</u> | <u>4,357,938</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 1,122,214 | - | - | 1,122,214 |
| Infrastructure | 7,053,369 | 746,435 | - | 7,799,804 |
| Machinery and equipment | <u>958,300</u> | <u>218,247</u> | <u>33,457</u> | <u>1,143,090</u> |
| Total Capital Assets Being Depreciated | <u>9,133,883</u> | <u>964,682</u> | <u>33,457</u> | <u>10,065,108</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | 384,738 | 21,828 | - | 406,566 |
| Infrastructure | 1,975,105 | 225,884 | - | 2,200,989 |
| Machinery and equipment | <u>568,532</u> | <u>82,346</u> | <u>33,457</u> | <u>617,421</u> |
| Total accumulated depreciation | <u>2,928,375</u> | <u>330,058</u> | <u>33,457</u> | <u>3,224,976</u> |
| Total Capital Assets Being Depreciated, Net | <u>6,205,508</u> | <u>634,624</u> | <u>-</u> | <u>6,840,132</u> |
| Business-type Activities Assets, Net | <u>\$ 6,653,566</u> | <u>\$4,544,504</u> | <u>\$ -</u> | <u>\$11,198,070</u> |

Depreciation expense was charged to the functions as follows:

Governmental Activities:

| | |
|-------------------------|---------------|
| General government | \$ 28,917 |
| Public safety | 82,806 |
| Public works | 134,388 |
| Planning and inspection | 17,076 |
| Library | 144,215 |
| Culture and recreation | <u>11,357</u> |

Total Depreciation Expense - Governmental Activities \$ 418,759

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (cont'd)

Business-type Activities:

| | |
|----------|----------------|
| Electric | \$ 185,676 |
| Water | <u>144,382</u> |

Total Depreciation Expense - Business-type Activities \$ 330,058

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> | <u>Amounts Due Within One Year</u> |
|---------------------------|------------------------------|--------------------|-------------------|---------------------------|--|
| Governmental Activities: | | | | | |
| Compensated absences | <u>\$ 509,445</u> | <u>\$ 259,969</u> | <u>\$ 203,312</u> | <u>\$ 566,102</u> | <u>\$ 191,342</u> |
| Business-type Activities: | | | | | |
| Loans payable | \$1,728,212 | \$ - | \$ 73,073 | \$1,655,139 | \$ 74,869 |
| Bond anticipation note | - | 2,000,000 | - | 2,000,000 | - |
| Compensated absences | <u>128,931</u> | <u>47,839</u> | <u>40,802</u> | <u>135,968</u> | <u>41,725</u> |
| Total | <u>\$1,857,143</u> | <u>\$2,047,839</u> | <u>\$ 113,875</u> | <u>\$3,791,107</u> | <u>\$ 116,594</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.

\$ 60,000

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.

1,595,139

\$1,655,139

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> |
|-------------------------------------|---------------------|-------------------|-----------------------------|
| 2006 | \$ 74,869 | \$ 42,933 | \$ 117,802 |
| 2007 | 76,714 | 41,088 | 117,802 |
| 2008 | 78,610 | 39,192 | 117,802 |
| 2009 | 80,557 | 37,245 | 117,802 |
| 2010 | 82,558 | 35,244 | 117,802 |
| 2011 - 2015 | 429,770 | 144,241 | 574,011 |
| 2016 - 2020 | 466,175 | 85,337 | 551,512 |
| 2021 - 2024 | <u>365,886</u> | <u>20,173</u> | <u>386,059</u> |
| Total | <u>\$ 1,655,139</u> | <u>\$ 445,453</u> | <u>\$ 2,100,592</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 prime plus 1/2 percent.

\$ 2,000,000

NOTE 6 INTERFUND BALANCE AND TRANSFERS

The composition of the interfund balance as of December 31, 2005 is as follows:

| <u>Receivable to</u> | <u>Amount</u> | <u>Payable from</u> | <u>Amount</u> |
|----------------------------------|-----------------|---------------------|-----------------|
| Nonmajor Governmental Fund | <u>\$ 2,412</u> | General Fund | <u>\$ 2,412</u> |

The interfund balance represents amounts deposited in the General Fund that were not transferred to the Nonmajor Governmental Fund as of December 31, 2005.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 6 INTERFUND BALANCE AND TRANSFERS (cont'd)

The composition of interfund transfers for the year ended December 31, 2005 were as follows:

| | <u>Transfer In</u> | <u>Transfer Out</u> |
|----------------------------|--------------------|---------------------|
| Capital Reserve Fund | \$ 506,885 | \$ - |
| Nonmajor Governmental Fund | <u>-</u> | <u>506,885</u> |
| Total | <u>\$ 506,885</u> | <u>\$ 506,885</u> |

Transfers from the Nonmajor Governmental Fund to the Capital Reserve Fund were to support the original budget for street rehabilitation 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, 2005, pension plan membership consisted of the following:

| | |
|---|-----------|
| Active employees | 18 |
| Retirees and beneficiaries currently deferring benefits | 7 |
| Retirees and beneficiaries currently receiving benefits | <u>6</u> |
| | <u>31</u> |

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

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.

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 highest 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, 2005, the carrying amount and bank balance of the police pension fund deposits was \$91,737. Of this amount, \$74,974 was insured or registered and the securities held by the Town or its agent in the Town's name; and \$16,763 was equal to the deposits in a federated prime obligations fund held by the trustee of the pension plan in the Town's name.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

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, 2005, the Town of Smyrna Police Pension Plan had the following investments:

| | <u>Fair Value</u> |
|--|---------------------|
| Domestic equity mutual funds | \$ 638,023 |
| Unallocated fixed income insurance contracts | <u>1,835,978</u> |
| Total | <u>\$ 2,474,001</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.

Concentrations

At December 31, 2005, the following are investments, other than U.S. Government and U.S. Government guaranteed obligations, in any one organization that represent five percent or more of plan assets (\$2,565,738 x .05 = \$128,287):

Aetna Life Insurance Company \$ 1,835,978

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

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

NOTE 7 POLICE PENSION FUND (cont'd)

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> |
|--------------------------|----------------------------------|--------------------------------------|---------------------------------------|
| 12/31/05 | \$ 222,850 | 100.00% | \$ - |
| 12/31/04 | \$ 363,687 | 100.00% | \$ - |
| 12/31/03 | \$ 216,631 | 100.00% | \$ - |

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 2005.

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, 2005, pension plan membership consisted of the following:

| | |
|---|-----------|
| Active employees | 40 |
| Retirees and beneficiaries currently deferring benefits | 19 |
| Retirees and beneficiaries currently receiving benefits | <u>6</u> |
| | <u>65</u> |

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

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

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.

Participant benefits are based on two percent of final average compensation multiplied by benefit service not to exceed 40 years.

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

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, 2005, the carrying amount and bank balance of the full-time employee pension fund deposits was \$84,015. Of this amount, \$53,846 was insured or registered and the securities held by the Town or its agent in the Town's name; and \$30,169 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.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

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

As of December 31, 2005, the Town of Smyrna Full-time Employee Pension Plan had the following investments:

| | <u>Fair Value</u> |
|--|---------------------|
| Domestic equity mutual funds | \$ 1,206,397 |
| Unallocated fixed income insurance contracts | <u>1,254,833</u> |
| Total | <u>\$ 2,461,230</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.

Concentrations

At December 31, 2005, the following are investments, other than U.S. Government and U.S. Government guaranteed obligations, in any one organization that represent five percent or more of plan assets (\$2,545,245 x .05 = \$127,262):

| | |
|------------------------------|--------------|
| Aetna Life Insurance Company | \$ 1,254,833 |
| Amcap Fund Inc. | \$ 129,025 |
| Brandywine Blue FD Inc. | \$ 170,297 |
| Calvert Large Cap | \$ 178,472 |
| Hotchkis & Wiley FDS | \$ 185,625 |

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

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

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

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> |
|--------------------------|----------------------------------|--------------------------------------|---------------------------------------|
| 12/31/05 | \$ 238,958 | 100.00% | \$ - |
| 12/31/04 | \$ 235,818 | 100.00% | \$ - |
| 12/31/03 | \$ 149,474 | 100.00% | \$ - |

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 2005.

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.

As of December 31, 2005, 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, 2005, two employees were eligible for this benefit.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

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

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, 2005 totaled \$32,093.

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 purchases wholesale electricity from the Delaware Municipal Electric Corporation ("DEMEC") for resale. The Town along with nine other municipalities are the members of DEMEC. As of April 3, 2006, the Town renewed its power sales contract with DEMEC from June 1, 2006 through May 31, 2007.

Construction-in-Progress

Outstanding construction commitments as of December 31, 2005 for the Town are as follows:

| | <u>Contract Amount</u> | <u>Completed 12/31/05</u> | <u>Commitment 12/31/05</u> |
|---------------------|----------------------------|-------------------------------|--------------------------------|
| Electric Substation | \$4,481,925 | \$4,055,619 | \$ 426,306 |
| North Water Tower | <u>1,629,330</u> | <u>227,368</u> | <u>1,401,962</u> |
| Total | <u>\$6,111,255</u> | <u>\$4,282,987</u> | <u>\$1,828,268</u> |

An additional \$1,289,519 of construction-in-progress that was not under a formal construction commitment or placed in service as of December 31, 2005 has been reflected in the accompanying financial statements.

TOWN OF SMYRNA

NOTES TO THE FINANCIAL STATEMENTS

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, 2005, 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.

NOTE 14 SUBSEQUENT EVENT

On May 15, 2006, the Town Council approved the issuance of a loan payable in the amount of \$1,761,000 by the Delaware Department of Health and Social Services to the Town to fund the construction of a water tower. The loan will be payable over 20 years and accrue interest at 2.41 percent.

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

| | | | | | | |
|--------|-----------|-----------|--------|-----------|---------|---------|
| 1/1/01 | 1,371,152 | 1,428,869 | 95.96% | 57,717 | 424,894 | 13.58% |
| 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% |

FULL-TIME EMPLOYEE

| | | | | | | |
|--------|-----------|-----------|--------|---------|-----------|--------|
| 1/1/01 | 1,513,936 | 1,521,186 | 99.52% | 7,250 | 899,597 | 0.81% |
| 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% |

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 SMYRNA
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 DECEMBER 31, 2005

| | Municipal Street Aid Fund | S.A.L.L.E. Fund | E.I.D.E. Fund | Resource Officer Fund | Forfeiture Fund | Totals |
|--|---------------------------------|--------------------|--------------------|-----------------------------|--------------------|-------------------|
| ASSETS | | | | | | |
| Cash and investments Due from other funds | \$ 242,887 | \$ 11,277 | \$ 7,065 | \$ 14,520 | \$ 23,599 | \$ 299,348 |
| | <u> -</u> | <u> -</u> | <u> -</u> | <u> -</u> | <u>2,412</u> | <u>2,412</u> |
| TOTAL ASSETS | <u>\$ 242,887</u> | <u>\$ 11,277</u> | <u>\$ 7,065</u> | <u>\$ 14,520</u> | <u>\$ 26,011</u> | <u>\$ 301,760</u> |
| LIABILITIES AND FUND BALANCES | | | | | | |
| LIABILITIES | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| FUND BALANCES | | | | | | |
| Unreserved, designated for: | | | | | | |
| Police expenditures | <u>242,887</u> | <u>11,277</u> | <u>7,065</u> | <u>14,520</u> | <u>26,011</u> | <u>58,873</u> |
| Public works expenditures | <u> -</u> | <u> -</u> | <u> -</u> | <u> -</u> | <u> -</u> | <u>242,887</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$ 242,887</u> | <u>\$ 11,277</u> | <u>\$ 7,065</u> | <u>\$ 14,520</u> | <u>\$ 26,011</u> | <u>\$ 301,760</u> |

TOWN OF SMYRNA
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED DECEMBER 31, 2005

| | <u>Municipal Street Aid Fund</u> | <u>S.A.L.L.E. Fund</u> | <u>E.I.D.E. Fund</u> | <u>Resource Officer Fund</u> | <u>Forfeiture Fund</u> | <u>Totals</u> |
|---|--|----------------------------|--------------------------|--------------------------------------|----------------------------|-------------------|
| REVENUES | | | | | | |
| Intergovernmental | \$ 181,783 | \$ 12,474 | \$ 8,811 | \$ 15,775 | \$ 6,797 | \$ 225,640 |
| Investment income | <u>13,110</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>13,110</u> |
| TOTAL REVENUES | <u>194,893</u> | <u>12,474</u> | <u>8,811</u> | <u>15,775</u> | <u>6,797</u> | <u>238,750</u> |
| EXPENDITURES | | | | | | |
| Current: | | | | | | |
| Public safety - police | - | <u>10,176</u> | <u>6,113</u> | <u>12,386</u> | <u>4,621</u> | <u>33,296</u> |
| TOTAL EXPENDITURES | <u>-</u> | <u>10,176</u> | <u>6,113</u> | <u>12,386</u> | <u>4,621</u> | <u>33,296</u> |
| EXCESS OF REVENUES OVER EXPENDITURES | 194,893 | 2,298 | 2,698 | 3,389 | 2,176 | 205,454 |
| OTHER FINANCING USES | | | | | | |
| Transfers out | <u>(506,885)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(506,885)</u> |
| CHANGE IN FUND BALANCES | <u>(311,992)</u> | <u>2,298</u> | <u>2,698</u> | <u>3,389</u> | <u>2,176</u> | <u>(301,431)</u> |
| FUND BALANCES, BEGINNING OF YEAR | <u>554,879</u> | <u>8,979</u> | <u>4,367</u> | <u>11,131</u> | <u>23,835</u> | <u>603,191</u> |
| FUND BALANCES, END 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> |

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

June 6, 2006

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, 2005 and have issued our report thereon dated June 6, 2006.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town of Smyrna's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and recommendations as item #05-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described in the accompanying schedule of findings and recommendations to be a material weakness.

We also noted other matters involving the internal control over financial reporting that we have reported to management of the Town of Smyrna in a separate letter dated June 6, 2006.

Town Council
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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*.

This report is intended solely for the information and use of 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

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

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, 2005. 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.

Management's Response: The Town acknowledges and is in agreement with the finding regarding the inability to reconcile the general ledger to subsidiary ledger and supporting documents. The Town has failed to perform this task due to limitations imposed by a flawed accounting and utility billing system. This particular issue has been identified by Town management and staff as a continuing problem. As a result, the Mayor and the Town Council authorized the spending of over a half-million dollars during 2005 for a proven accounting and utility billing system (Sungard HTE).

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SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

The new accounting and utility billing system will allow Town management and staff to perform the identified reconciliations in a manner that will allow the Mayor and the Town Council to make more informed financial decisions. The accounting portion of the new system was placed into service for the year ended December 31, 2006. Each individual module within the accounting system (inventory, property tax, capital assets, etc.) is integrated with the general ledger which allows for reconciliation to subsidiary ledgers and supporting documents. In addition, the utility billing application, which was placed into service as of April 1, 2006, allows for the integration of the billing information into the accounting system. The implementation of the accounting and utility system to date has given Town management and staff the ability to reconcile subsidiary ledgers and supporting documents to the general ledger.

It is the Town's plan to have the new accounting and utility billing system fully implemented for the year ended December 31, 2006 so that the Mayor and the Town Council can make the financial decisions necessary to operate the Town.