

**TOWN OF SMITHFIELD
FINANCIAL STATEMENTS
SMITHFIELD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2012**

TOWN COUNCIL

Daniel Evans, Jr. - Mayor

Emery Ashley - Mayor Pro-Tem

Andy Moore - At-Large

Charles A. Williams - At-Large

Charles Williams - District 1

Perry Harris - District 2

Vic Ogburn - District 3

Zach Crocker - District 4

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FINANCIAL SECTION

PM&P

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American Institute
of Certified Public
Accountants

Medical Group
Management
Association

Independent Auditors' Report

To the Honorable Mayor
And Members of the Town Council
Town of Smithfield, North Carolina

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 Smithfield, North Carolina, as of and for the year ended June 30, 2012, 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 Smithfield's management. Our responsibility is to express opinions on these basic 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic 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.

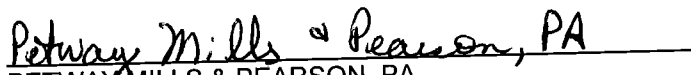
In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, North Carolina as of June 30, 2012, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund 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 November 28, 2012 on our consideration of the Town of Smithfield's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of the 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 read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions and the Health Care Plan Schedule of Funding Progress and Schedule of Employer Contributions on pages 8 through 18 and 53 through 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing

the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smithfield's basic financial statements. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The accompanying schedule of expenditures of federal and State awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, and is also not a required part of the basis financial statements. The combining and individual fund financial statements, budgetary schedules, other schedules, and the accompanying schedule of expenditures of federal and State awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and State awards are stated in all material respects in relation to the basic financial statements as a whole.


PETWAYMILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

November 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Smithfield, we offer readers of the Town of Smithfield's financial statements this narrative overview and analysis of the financial activities of the Town of Smithfield for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

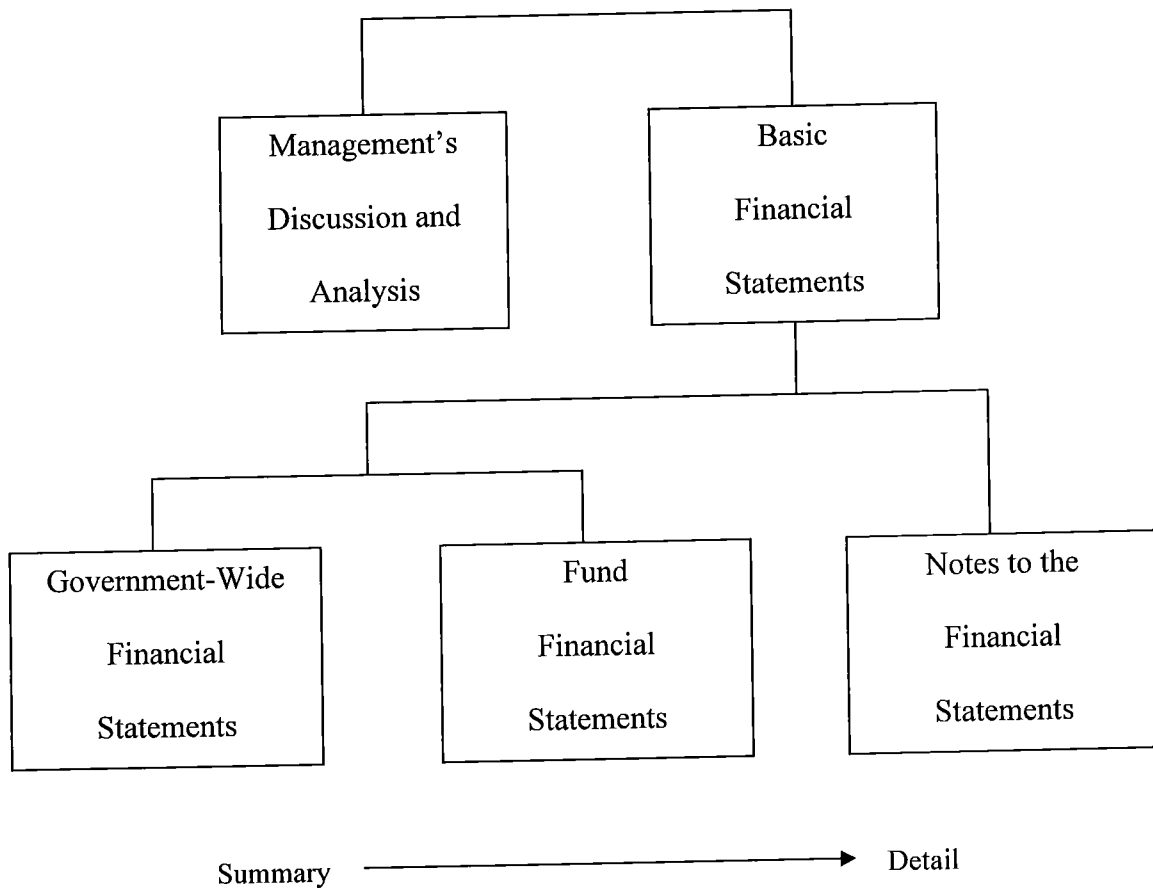
- The assets of the Town of Smithfield exceeded its liabilities at the close of the fiscal year by \$51,179,659 (*net assets*).
- The government's total net assets increased by \$2,271,564 primarily due to an increase in investments in the General Fund of capital assets.
- As of the close of the current fiscal year, the Town of Smithfield's governmental funds reported combined ending fund balances of \$6,398,942 an increase of \$5,079,944 in comparison with the prior year. Approximately 96% percent of this total amount, or \$6,148,376, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$250,566, or 1.8 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Smithfield's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Smithfield.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **Government-Wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through K) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The two government-wide statements report the Town's net assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, streets and public works, sanitation, culture and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide services. These include the water, sewer, and electric services offered by the Town of Smithfield.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Smithfield, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Smithfield can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Smithfield adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The Town of Smithfield has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Smithfield uses enterprise funds to account for its water and sewer operations and electric operations. This fund is the same as the separate activity shown in the business-type activities in the Statement of Net Assets and the Statement of Activities.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Smithfield has two fiduciary funds; the J.B. George Beautification Trust Fund and the Firemen's Relief Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow Exhibit K of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Smithfield's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on Schedule 1 of this report.

Town of Smithfield's Net Assets

Figure 2

	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Assets:						
Current and other assets	\$ 7,029,551	\$ 2,270,180	\$ 14,479,197	\$ 11,938,793	\$ 21,508,748	\$ 14,208,973
Capital assets, net	<u>38,632,801</u>	<u>40,012,080</u>	<u>17,259,050</u>	<u>17,428,924</u>	<u>55,891,851</u>	<u>57,441,004</u>
Total assets	<u>45,662,352</u>	<u>42,282,260</u>	<u>31,738,247</u>	<u>29,367,717</u>	<u>77,400,599</u>	<u>71,649,977</u>
Liabilities:						
Current liabilities	5,787,142	2,293,698	2,703,454	2,853,766	8,490,596	5,147,464
Non-current liabilities	<u>12,469,116</u>	<u>12,118,343</u>	<u>5,261,228</u>	<u>5,476,075</u>	<u>17,730,344</u>	<u>17,594,418</u>
Total liabilities	<u>18,256,258</u>	<u>14,412,041</u>	<u>7,964,682</u>	<u>8,329,841</u>	<u>26,220,940</u>	<u>22,741,882</u>
Net Assets:						
Invested in capital assets, net of related debt	24,206,179	29,196,472	12,462,258	12,320,182	36,668,437	41,516,654
Restricted for:						
USDA Payments	22,193	-	-	-	22,193	-
Public Safety	59,840	114,312	-	-	59,840	114,312
Transportation	263,887	565,019	-	-	263,887	565,019
Fire District	135,217	-	-	-	135,217	-
Stabilization by State Statute	1,649,767	1,671,736	-	-	1,649,767	1,671,736
Capital Projects	4,017,472	-	-	-	4,017,472	-
Unrestricted	<u>(2,948,461)</u>	<u>(3,677,320)</u>	<u>11,311,307</u>	<u>8,717,694</u>	<u>8,362,846</u>	<u>5,040,374</u>
Total net assets	<u>\$ 27,406,094</u>	<u>\$ 27,870,219</u>	<u>\$ 23,773,565</u>	<u>\$ 21,037,876</u>	<u>\$ 51,179,659</u>	<u>\$ 48,908,095</u>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Smithfield exceeded liabilities by \$51,179,659 as of June 30, 2012. The Town's net assets increased by \$2,271,564 for the fiscal year ended June 30, 2012. The largest portion of net assets (71%) reflects the Town's investment in capital assets (e.g. land, buildings, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Smithfield uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town's net assets \$6,148,376 (12%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,362,846 is unrestricted.

Some of the particular aspects of the Town's financial operations positively influenced the total governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.61 % and 93.32% in the Downtown and Town-Wide tax districts respectively.
- Continued low cost of debt due to the Town's bond rating.

Town of Smithfield's Changes in Net Assets

Figure 3

	Activities		Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues:						
Program revenues:						
Charges for services	\$ 3,848,275	\$ 5,524,717	\$ 25,195,639	\$ 25,158,894	\$ 29,043,914	\$ 30,683,611
Operating grants and contributions	489,539	111,751	-	-	489,539	111,751
Capital grants and contributions	239,976	674,095	-	163,872	239,976	837,967
General revenues:						
Property taxes	5,865,961	5,338,742	-	-	5,865,961	5,338,742
Other taxes	2,856,422	1,680,312	-	-	2,856,422	1,680,312
Unrestricted intergovernmental	283,363	275,222	-	-	283,363	275,222
Investment earnings, unrestricted	7,169	13,531	20,574	43,855	27,743	57,386
Miscellaneous	1,029,282	-	-	-	-	-
Loss on disposal of fixed assets	(177,702)	-	-	-	(177,702)	-
Total revenues	<u>14,442,285</u>	<u>13,618,370</u>	<u>25,216,213</u>	<u>25,366,621</u>	<u>38,629,216</u>	<u>38,984,991</u>
Expenses:						
General government	1,585,478	1,946,414	-	-	1,585,478	1,946,414
Public safety	6,818,826	6,836,435	-	-	6,818,826	6,836,435
Streets and public works	2,550,753	2,706,042	-	-	2,550,753	2,706,042
Sanitation	1,164,998	1,388,928	-	-	1,164,998	1,388,928
Cultural and recreation	2,432,059	1,913,754	-	-	2,432,059	1,913,754
Interest on long-term debt	407,269	470,504	-	-	407,269	470,504
Electric	-	-	19,101,890	20,017,694	19,101,890	20,017,694
Water and sewer	-	-	4,450,842	4,293,993	4,450,842	4,293,993
Total expenses	<u>14,959,383</u>	<u>15,262,077</u>	<u>23,552,732</u>	<u>24,311,687</u>	<u>38,512,115</u>	<u>39,573,764</u>
Change in net assets	(517,098)	(1,643,707)	1,663,481	1,054,934	1,146,383	(588,773)
Net Assets:						
Beginning of year - July 1	27,870,219	27,901,387	21,037,876	19,982,942	48,908,095	47,884,329
Prior period adjustment	52,973	1,612,539	1,072,208	-	1,125,181	1,612,539
Beginning of year, as restated	<u>27,923,192</u>	<u>29,513,926</u>	<u>22,110,084</u>	<u>19,982,942</u>	<u>50,033,276</u>	<u>49,496,868</u>
End of year - June 30	<u>\$ 27,406,094</u>	<u>\$ 27,870,219</u>	<u>\$ 23,773,565</u>	<u>\$ 21,037,876</u>	<u>\$ 51,179,659</u>	<u>\$ 48,908,095</u>

Governmental Activities. Governmental activities decreased the Town's net assets by \$517,098. Key elements of this decrease are as follows:

- Expenditure of funds on several ongoing capital projects.

Business-Type Activities. Business-type activities increased the Town's net assets by \$1,663,481. Key elements of this increase are as follows:

- An increase in water and sewer revenues combined with a decrease in expenses.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Smithfield's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources; such information is useful in assessing the Town of Smithfield's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Smithfield. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$250,566, while total fund balance reached \$2,246,253. The Town currently has an available fund balance of represents 4.5% of total General Fund expenditures, while total fund balance represents 16.8% of that same amount.

At June 30, 2012, the governmental funds of the Town of Smithfield reported a fund balance of \$6,398,942 a 485% increase over last year. The reason for this increase is the increase in capital investments.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased appropriations by \$951,959.

Proprietary Funds. The Town of Smithfield's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year totaled \$4,444,576 and those for the Electric Fund amounted to \$6,866,731. The total increase in net assets for the Water and Sewer Fund was \$1,107,401. The total increase in net assets for the Electric Fund was \$556,080.

Capital Asset and Debt Administration

Capital Assets. The Town of Smithfield's capital assets for its governmental and business-type activities as of June 30, 2012, totals \$57,441,004 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, plants and distribution systems, and construction in progress.

Major capital asset transactions during the year include:

- Continued progress on new electrical substation

Town of Smithfield's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Land	\$ 6,319,188	\$ 6,319,188	\$ 299,100	\$ 299,100	\$ 6,618,288	\$ 6,618,288
Buildings and improvements	16,754,039	16,754,039			16,754,039	16,754,039
Equipment and vehicles	6,357,438	7,069,016	3,410,179	3,410,179	9,767,617	10,479,195
Infrastructure	45,490,820	45,490,820	-	-	45,490,820	45,490,820
Plant and distribution systems	-	-	19,149,036	19,086,354	19,149,036	19,086,354
Construction in progress	<u>2,556,279</u>	<u>1,071,187</u>	<u>7,084,612</u>	<u>6,683,920</u>	<u>9,640,891</u>	<u>7,755,107</u>
Total	<u>77,477,764</u>	<u>76,704,250</u>	<u>29,942,927</u>	<u>29,479,553</u>	<u>107,420,691</u>	<u>106,183,803</u>
Accumulated depreciation	<u>(38,844,963)</u>	<u>(36,692,170)</u>	<u>(12,683,877)</u>	<u>(12,050,629)</u>	<u>(51,528,840)</u>	<u>(48,742,799)</u>
Capital assets, net	<u>\$ 38,632,801</u>	<u>\$ 40,012,080</u>	<u>\$ 17,259,050</u>	<u>\$ 17,428,924</u>	<u>\$ 55,891,851</u>	<u>\$ 57,441,004</u>

Additional information on the Town's capital assets can be found in the notes of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2012, the Town of Smithfield had total debt outstanding of \$15,484,599.

**Town of Smithfield's Outstanding Debt
Installment Purchases, Revenue Bonds, and General Obligation Bonds**

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Installment purchases	\$ 13,331,059	\$ 9,559,858	\$ 507,911	\$ 631,411	\$ 13,838,970	\$ 10,191,269
Revenue bonds	-	-	4,288,881	4,477,331	4,288,881	4,477,331
General obligation bonds	1,100,750	1,255,750	-	-	1,100,750	1,255,750
Total	<u>\$ 14,431,809</u>	<u>\$ 10,815,608</u>	<u>\$ 4,796,792</u>	<u>\$ 5,108,742</u>	<u>\$ 19,228,601</u>	<u>\$ 15,924,350</u>

The Town of Smithfield's total debt decreased by \$3,304,251 (20.75%) during the past fiscal year, primarily due to scheduled debt payments.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Smithfield is \$66,548,134.

Additional information regarding the Town of Smithfield's long-term debt can be found in the notes of this audited financial report.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities. The Town Council has focused upon rebuilding General Fund Balance by appropriating \$250,000 to reserves in the 2013 budget year. Also, revenues and expenditures are budgeted to be reduced. Revenues are expected to be reduced due to the transfer of the EMS department to Johnston Co. Expenditure decreases are due to the transfer of the EMS department as well as an overall decrease in spending.

Business-Type Activities. Water and Sewer budgets are expected to remain constant in the 2013 year. Electric Fund revenues and expenditures are expected to remain constant also.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, P.O. Box 761, 350 East Market Street, Smithfield, NC 27577.

BASIC FINANCIAL STATEMENTS

**Town of Smithfield
Statement of Net Assets
June 30, 2012**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,616,674	\$ 8,461,419	\$ 10,078,093
Restricted cash	4,084,737	560,852	4,645,589
Taxes receivables (net)	76,191	-	76,191
Accounts receivable (net)	572,236	4,142,862	4,715,098
Due from other governments	617,628	49,661	667,289
Inventories	-	1,264,403	1,264,403
Total current assets	6,967,466	14,479,197	21,446,663
Non-current assets:			
Pension asset	62,085	-	62,085
Capital assets:			
Land, non-depreciable improvements, and construction in progress	8,875,467	7,383,712	16,259,179
Other capital assets, net of depreciation	29,757,334	9,875,338	39,632,672
Total capital assets	38,632,801	17,259,050	55,891,851
Total non-current assets	38,694,886	17,259,050	55,953,936
Total assets	\$ 45,662,352	\$ 31,738,247	\$ 77,400,599
LIABILITIES			
Current liabilities:			
Accounts payable - trade	\$ 124,832	\$ 1,638,103	\$ 1,762,935
Accrued payroll and payroll liabilities	355,219	(19,922)	335,297
Accrued interest payable	-	178,671	178,671
Unearned revenue	12,282	-	12,282
Customer deposits	-	560,852	560,852
Due within one year	5,294,809	345,750	5,640,559
Total current liabilities	5,787,142	2,703,454	8,490,596
Long-term liabilities:			
Due in more than one year	12,469,116	5,261,228	17,730,344
Total long-term liabilities	12,469,116	5,261,228	17,730,344
Total liabilities	18,256,258	7,964,682	26,220,940
NET ASSETS			
Invested in capital assets, net of related debt	24,206,179	12,462,258	36,668,437
Restricted for:			
USDA debt payments	22,193	-	22,193
Public safety	59,840	-	59,840
Transportation	263,887	-	263,887
Fire district	135,217	-	135,217
Stabilization by State Statute	1,649,767	-	1,649,767
Capital projects	4,017,472	-	4,017,472
Unrestricted	(2,948,461)	11,311,307	8,362,846
Total net assets	\$ 27,406,094	\$ 23,773,565	\$ 51,179,659

The notes to the financial statements are an integral part of this statement.

Town of Smithfield
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 1,585,478	\$ 65,800	\$ 11,080	\$ -	\$ (1,508,598)	\$ -	\$ (1,508,598)
Public safety	6,818,826	1,515,952	162,753	-	(5,140,121)	-	(5,140,121)
Street and Public Works	2,550,753	-	315,706	239,976	(1,995,071)	-	(1,995,071)
Sanitation	1,164,998	1,328,759	-	-	163,761	-	163,761
Cultural and Recreational	2,432,059	937,764	-	-	(1,494,295)	-	(1,494,295)
Interest on long-term debt	407,269	-	-	-	(407,269)	-	(407,269)
Total governmental activities	14,959,383	3,848,275	489,539	239,976	(10,381,593)	-	(10,381,593)
Business-type activities:							
Electric	19,101,890	19,644,169	-	-	-	542,279	542,279
Water and Sewer	4,450,842	5,551,470	-	-	-	1,100,628	1,100,628
Total business-type activities	23,552,732	25,195,639	-	-	-	1,642,907	1,642,907
Total primary government	\$ 38,512,115	\$ 29,043,914	\$ 489,539	\$ 239,976	(10,381,593)	1,642,907	(8,738,686)
General revenues:							
Taxes:							
Ad valorem taxes					5,865,961	-	5,865,961
Local option sales taxes					2,856,422	-	2,856,422
Other taxes and licenses					283,363	-	283,363
Unrestricted investment earnings					7,169	20,574	27,743
Miscellaneous					1,029,282	-	1,029,282
Special items:							
Loss on disposal of fixed assets					(177,702)	-	(177,702)
Total general revenues, special items and transfers					9,864,495	20,574	9,885,069
Change in net assets					(517,098)	1,663,481	1,146,383
Net assets, beginning as previously stated					27,870,219	21,037,876	48,908,095
Prior period adjustment					52,973	1,072,208	1,125,181
Net assets, beginning restated					27,923,192	22,110,084	50,033,276
Net assets, ending					\$ 27,406,094	\$ 23,773,565	\$ 51,179,659

The notes to the financial statements are an integral part of this statements

**Town of Smithfield
Balance Sheets
Governmental Funds
June 30, 2012**

	Major Funds			Total Governmental Funds
	General	General Fund Capital Projects	Non-major Special Revenue Fund	
ASSETS				
Cash and cash equivalents	\$ 742,899	\$ 733,949	\$ 139,826	\$ 1,616,674
Restricted cash	345,920	3,738,817	-	4,084,737
Receivables, net:				
Taxes	76,191	-	-	76,191
Accounts	572,236	-	-	572,236
Due from other governments	594,262	23,366	-	617,628
Due from other funds	483,269	(478,660)	(4,609)	-
Inventories	-	-	-	-
Total assets	<u>\$ 2,814,777</u>	<u>\$ 4,017,472</u>	<u>\$ 135,217</u>	<u>\$ 6,967,466</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities - trade	\$ 124,832	\$ -	\$ -	\$ 124,832
Accrued payroll and payroll liabilities	355,219	-	-	355,219
Due to other funds	-	-	-	-
Deferred revenue	76,191	-	-	76,191
Unearned revenue	12,282	-	-	12,282
Total liabilities	<u>568,524</u>	<u>-</u>	<u>-</u>	<u>568,524</u>
Fund balances:				
Restricted:				
USDA debt payments	22,193	-	-	22,193
Public Safety	59,840	-	-	59,840
Stabilization by State Statute	1,649,767	-	-	1,649,767
Streets	263,887	-	-	263,887
Capital projects	-	4,017,472	-	4,017,472
Fire district	-	-	135,217	135,217
Unassigned	\$ 250,566	\$ -	\$ -	\$ 250,566
Total fund balances	<u>2,246,253</u>	<u>4,017,472</u>	<u>135,217</u>	<u>6,398,942</u>
Total liabilities and fund balances	<u>\$ 2,814,777</u>	<u>\$ 4,017,472</u>	<u>\$ 135,217</u>	

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because: Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

38,632,801

Liabilities for earned but deferred revenues in fund statements.

76,191

Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.

(17,701,840)

Net assets of governmental activities

\$ 27,406,094

The notes to the financial statements are an integral part of this statement.

Town of Smithfield
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	Major Funds		Non-major Special Revenue Fund	Total Governmental Funds
	General Fund	General Fund Capital Projects		
REVENUES				
Ad valorem taxes	\$ 5,871,919	\$ -	\$ -	\$ 5,871,919
Other taxes and licenses	283,363	-	-	283,363
Unrestricted intergovernmental	2,856,422	-	-	2,856,422
Restricted intergovernmental	349,713	239,976	139,826	729,515
Sales and services	3,848,274	-	-	3,848,274
Investment earnings	7,169	-	-	7,169
Miscellaneous	529,282	500,000	-	1,029,282
Total revenues	13,746,142	739,976	139,826	14,625,944
EXPENDITURES				
Current:				
General government	1,396,292	-	-	1,396,292
Public safety	6,120,472	-	-	6,120,472
Street and Public Works	1,089,381	-	-	1,089,381
Sanitation	1,054,173	-	-	1,054,173
Cultural and Recreational	1,645,653	-	-	1,645,653
Debt service:				
Principal	1,590,199	-	-	1,590,199
Interest and other charges	407,269	-	-	407,269
Capital outlay	22,260	1,485,092	-	1,507,352
Total expenditures	13,325,699	1,485,092	-	14,810,791
Excess (deficiency) of revenues over expenditures	420,443	(745,116)	139,826	(184,847)
OTHER FINANCING SOURCES (USES)				
Transfers from other funds	-	-	-	-
Proceeds from long-term debt	-	5,206,400	-	5,206,400
Sales of capital assets	5,418	-	-	5,418
Total other financing sources (uses)	5,418	5,206,400	-	5,211,818
Net change in fund balance	425,861	4,461,284	139,826	5,026,971
Fund balances, beginning as previously stated	1,767,419	(443,812)	(4,609)	1,318,998
Prior period adjustment	52,973	-	-	52,973
Fund balances, beginning as restated	1,820,392	(443,812)	(4,609)	1,371,971
Fund balances, ending	\$ 2,246,253	\$ 4,017,472	\$ 135,217	\$ 6,398,942

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
Reconciliation of the
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012**

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds		\$ 5,026,971
Change in fund balance due to change in reserve for inventory		-
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	1,507,352	
Depreciation expense for governmental assets	(2,703,510)	
Loss on disposal of capital assets	<u>(177,702)</u>	
		(1,373,860)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in deferred revenue for tax revenues		(5,970)
Proceeds from disposal of fixed assets		(5,418)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		(3,616,201)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		93,498
Net pension obligation		20,451
Other postemployment benefits		(656,569)
Total changes in net assets of governmental activities		<u>\$ (517,098)</u>

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2012**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 5,837,765	\$ 5,837,765	\$ 5,871,919	\$ 34,154
Other taxes and licenses	211,000	211,000	283,363	72,363
Unrestricted intergovernmental	2,746,098	2,746,098	2,856,422	110,324
Restricted intergovernmental	274,000	274,000	349,713	75,713
Sales and services	4,152,200	4,162,200	3,848,274	(313,926)
Investment earnings	20,000	20,000	7,169	(12,831)
Miscellaneous	255,689	291,180	529,282	238,102
Total revenues	<u>13,496,752</u>	<u>13,542,243</u>	<u>13,746,142</u>	<u>203,899</u>
Expenditures:				
Current:				
General government	1,168,593	1,656,216	1,396,292	259,924
Public safety	6,067,777	6,178,814	6,120,472	58,342
Street and Public Works	1,091,667	1,196,477	1,089,381	107,096
Sanitation	1,115,744	1,077,631	1,054,173	23,458
Cultural and Recreational	1,710,912	1,717,818	1,645,653	72,165
Debt service:				
Principal retirement	1,391,641	1,613,518	1,590,199	23,319
Interest and other charges	347,910	407,269	407,269	-
Capital Outlay	23,800	22,260	22,260	-
Total expenditures	<u>12,918,044</u>	<u>13,870,003</u>	<u>13,325,699</u>	<u>544,304</u>
Revenues over (under) expenditures	<u>578,708</u>	<u>(327,760)</u>	<u>420,443</u>	<u>748,203</u>
Other financing sources (uses):				
Appropriated (Unappropriated) fund balance	(583,708)	322,760	-	(322,760)
Sale of fixed assets	5,000	5,000	5,418	418
Transfers from other funds	-	-	-	-
Total other financing sources (uses)	<u>(578,708)</u>	<u>327,760</u>	<u>5,418</u>	<u>(322,342)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>425,861</u>	<u>\$ 425,861</u>
Fund balances, beginning as previously stated			1,767,419	
Prior period adjustment			<u>52,973</u>	
Fund balances, beginning restated			1,820,392	
Fund balances, ending			<u>\$ 2,246,253</u>	

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
Statement of Net Assets
Proprietary Fund
June 30, 2012**

	Water and Sewer		Total
	Electric Fund	Fund	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,487,842	\$ 3,973,577	\$ 8,461,419
Restricted cash	472,577	88,275	560,852
Accounts receivable (net)	3,186,289	956,573	4,142,862
Due from other governments	20,482	29,179	49,661
Due from other funds	-	-	-
Inventories	1,134,771	129,632	1,264,403
Total current assets	<u>9,301,961</u>	<u>5,177,236</u>	<u>14,479,197</u>
Capital assets:			
Land and other non-depreciable assets	6,769,195	614,517	7,383,712
Other capital assets, net of depreciation	3,719,336	6,156,002	9,875,338
Capital assets (net)	<u>10,488,531</u>	<u>6,770,519</u>	<u>17,259,050</u>
Total assets	<u>19,790,492</u>	<u>11,947,755</u>	<u>31,738,247</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities - trade	1,465,947	172,156	1,638,103
Accrued payroll and payroll liabilities	(15,780)	(4,142)	(19,922)
Customer deposits	472,577	88,275	560,852
Accrued interest payable	170,210	8,461	178,671
Compensated absences - current	12,753	13,452	26,205
Current portion of long-term debt	196,045	123,500	319,545
Total current liabilities	<u>2,301,752</u>	<u>401,702</u>	<u>2,703,454</u>
Non-current liabilities:			
Other non-current liabilities:			
Compensated absences	38,258	40,358	78,616
Other postemployment benefits	291,265	414,100	705,365
Non-current portion of long-term debt	4,092,836	384,411	4,477,247
Total non-current liabilities	<u>4,422,359</u>	<u>838,869</u>	<u>5,261,228</u>
Total liabilities	<u>6,724,111</u>	<u>1,240,571</u>	<u>7,964,682</u>
NET ASSETS			
Invested in capital assets, net of related debt	6,199,650	6,262,608	12,462,258
Unrestricted	6,866,731	4,444,576	11,311,307
Total net assets	<u>\$ 13,066,381</u>	<u>\$ 10,707,184</u>	<u>\$ 23,773,565</u>

The notes to the financial statements are an integral part of this statement.

Town of Smithfield
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended June 30, 2012

	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 19,096,571	\$ 5,488,292	\$ 24,584,863
Other operating revenues	547,598	63,178	610,776
Total operating revenues	<u>19,644,169</u>	<u>5,551,470</u>	<u>25,195,639</u>
OPERATING EXPENSES			
Utility operations	2,353,906	1,312,401	3,666,307
Electrical purchases	16,314,983	-	16,314,983
Water and sewer distribution	-	2,655,395	2,655,395
Administrative charges	-	81,500	81,500
Depreciation	252,564	380,684	633,248
Total operating expenses	<u>18,921,453</u>	<u>4,429,980</u>	<u>23,351,433</u>
Operating income (loss)	<u>722,716</u>	<u>1,121,490</u>	<u>1,844,206</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	13,801	6,773	20,574
Interest and other charges	(180,437)	(20,862)	(201,299)
Total non-operating revenue (expenses)	<u>(166,636)</u>	<u>(14,089)</u>	<u>(180,725)</u>
Income (loss) before contributions and transfers	556,080	1,107,401	1,663,481
Capital contribution	-	-	-
Transfers to other funds	-	-	-
Total income (loss) after contributions and transfers	<u>556,080</u>	<u>1,107,401</u>	<u>1,663,481</u>
Change in net assets	556,080	1,107,401	1,663,481
Total net assets, beginning, as previously stated	11,693,924	9,343,952	21,037,876
Prior period adjustment	816,377	255,831	1,072,208
Total net assets, beginning, restated	<u>12,510,301</u>	<u>9,599,783</u>	<u>22,110,084</u>
Total net assets, ending	<u>\$ 13,066,381</u>	<u>\$ 10,707,184</u>	<u>\$ 23,773,565</u>

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012**

	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 18,961,063	\$ 5,442,627	\$ 24,403,690
Cash paid for goods and services	(17,861,798)	(2,878,570)	(20,740,368)
Cash paid to or on behalf of employees for services	(934,980)	(1,126,786)	(2,061,766)
Net customer deposits	5,647	9,360	15,007
Other operating revenues	547,598	63,178	610,776
Net cash provided (used) by operating activities	<u>717,530</u>	<u>1,509,809</u>	<u>2,227,339</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(149,789)	(313,585)	(463,374)
Principal paid on bonds and installment purchases	(188,450)	(123,500)	(311,950)
Interest paid on bonds and installment purchases	(180,437)	(20,862)	(201,299)
Net cash provided (used) by capital and related financing activities	<u>(518,676)</u>	<u>(457,947)</u>	<u>(976,623)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	13,801	6,773	20,574
Net cash provided (used) by investing activities	<u>13,801</u>	<u>6,773</u>	<u>20,574</u>
Net increase (decrease) in cash and cash equivalents	212,655	1,058,635	1,271,290
Balances, beginning	4,747,764	3,003,217	7,750,981
Balances, ending	<u>\$ 4,960,419</u>	<u>\$ 4,061,852</u>	<u>\$ 9,022,271</u>

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
Statement of Cash Flows
Proprietary Fund
For the Fiscal Year Ended June 30, 2012**

	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 722,716	\$ 1,121,490	\$ 1,844,206
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	252,564	380,684	633,248
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(135,508)	(45,665)	(181,173)
(Increase) decrease in due from other governments	38,961	6,618	45,579
(Increase) decrease in inventory	(73,075)	11,764	(61,311)
Increase (decrease) in accounts payable and accrued liabilities	(129,657)	(19,612)	(149,269)
Increase (decrease) in accrued payroll and payroll liabilities	(15,780)	(4,142)	(19,922)
Increase (decrease) in customer deposits	5,647	9,360	15,007
Increase (decrease) in accrued vacation pay	13,040	(27,931)	(14,891)
Increase (decrease) in accrued other postemployment benefits	38,622	77,243	115,865
Total adjustments	(5,186)	388,319	383,133
Net cash provided by operating activities	<u>\$ 717,530</u>	<u>\$ 1,509,809</u>	<u>\$ 2,227,339</u>

Noncash investing, capital, and financing activities:

None.

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2012**

	Private-Purpose Trust		
	Fund	Agency Fund	Total
ASSETS			
Cash and cash equivalents	\$ 100,009	\$ 207,469	\$ 307,478
Due from other governments	242	-	242
Total assets	100,251	207,469	307,720
LIABILITIES			
Current liabilities:			
Miscellaneous liabilities	-	-	881,259
Total liabilities	-	-	881,259
NET ASSETS	\$ 100,251	\$ 207,469	\$ 307,720

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Year Ended June 30, 2012**

	Private-Purpose Trust Fund
ADDITIONS:	
Investment earnings	\$ -
DEDUCTIONS:	
Special projects	6,152
Changes in net assets	(6,152)
NET ASSETS	
Total net assets, beginning	106,403
Total net assets, ending	\$ 100,251

The notes to the financial statements are an integral part of this statement.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Smithfield (the "Town") conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation, which is governed by an elected mayor and a seven-member council. As required by generally accepted accounting principles, these financial statements include all funds that are controlled by, or financially dependent on, the town. There are no separate organizations for which the Town is financially accountable.

B. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund. This fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, sanitation, debt service, and general governmental services.

General Fund Capital Projects. This fund is the fund where all general government projects are reported.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

The Town reports the following non-major governmental fund:

Smithfield Fire Tax District Special Revenue Fund. This fund is used to account for fire district taxes.

The Town reports the following major enterprise funds:

Enterprise Funds. The enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis, be financed or recovered primarily through user charges; or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Town has two enterprise funds: the Electric Fund and the Water and Sewer Fund. For financial reporting purposes, the Electric Capital Projects Fund and the Water and Sewer Capital Projects Fund have been consolidated with the Electric Fund and the Water and Sewer Fund.

The Town reports the following fund types:

Special Revenue Fund. The Special Revenue Fund is used to account for the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. The Town of Smithfield has one special revenue fund: the Smithfield Fire Tax District Fund.

Private-Purpose Trust Fund. Private-purpose trust funds are used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The Town maintains one private-purpose trust fund: the J.B. George Beautification Trust Fund which was created to preserve for the future the beauty of the Town of Smithfield. The trust permits its earnings to be expended to support specific projects.

Agency Trust Fund. The Agency Fund is used to account for assets held as an agent for individuals, private organizations, other governments or other funds. They are custodial in nature and do not involve measurement of results or operations. The Town has one agency trust fund: the Firemen's Relief Fund.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide, Proprietary, and Fiduciary Fund Financial Statements. The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus, except for the agency funds which have no measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012

connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, 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. Long-term debt issued and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures in governmental funds.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Johnston County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Smithfield. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they became due. Therefore, taxes for vehicles registered from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Grant revenues that are unearned at year-end are recorded as unearned revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Special Revenue Fund, and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the capital project funds. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The Town Manager is authorized to reallocate departmental appropriations among the various objects of expenditures and is authorized to approve interdepartmental transfers, in the same fund, not to exceed 10 percent of the appropriated monies for the department whose allocation is affected. Any such transfer shall be reported to the Town Council at its next regular meeting and shall be entered into the minutes. During the year, several amendments to the original budget were necessary, the effects of which were not material.

E. Assets, Liabilities, and Fund Equity

1. Deposits and Investments

All deposits of the Town are made in Board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

Unexpended police drug forfeiture money is classified as restricted cash within the General Fund because their use is completely restricted to the purpose for which the funds were collected. Amounts restricted as required by USDA loan agreements are classified as restricted cash within the General Fund. Powell Bill funds are also classified as restricted cash within the General Fund because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.1. The unexpended bond proceeds issued by the Town are classified as restricted cash within the General Fund Capital Project because their use is completely restricted to the purpose for which the bonds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected and are classified as restricted cash in the enterprise funds.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

based on the assessed values as of January 1, 2010. Johnston County bills and collects property taxes on behalf of the Town. Upon collection, the County remits the funds to the Town less a 2% administrative fee.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

6. Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are recorded at original cost. Donated assets are listed at the market value at the date of donation. Also, the Town has elected not to capitalize those interest costs that are incurred during the construction period of capital assets.

Certain items acquired before July 1, 1970 are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when capital assets are considered as a whole. Capital expenditures over \$5,000 are recorded as general capital assets.

Capital assets are depreciated using the straight-line method over the following useful lives to the cost of the assets:

<u>Asset Type</u>	<u>Years</u>
Buildings	40
Improvements	20
Vehicles	5
Furniture and equipment	10
Computer equipment	5
Data handling equipment except computers	6
Heavy duty general purpose trucks	6
Tractor units-over road use	4
Trailers	6

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012

8. Long-Term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Assets.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as an other financing source.

The Town's long-term debt for electric purposes and water and sewer system improvements is carried within the Electric Fund and the Water and Sewer Fund. The debt service requirements for that debt are being met by the respective electric and water and sewer revenues, but the taxing power of the Town is pledged to make these payments if electric and water and sewer revenues should ever be insufficient.

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave, with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, and expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have an obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Assets/Fund Balances

Net Assets

Net assets in government-wide and proprietary fund financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets represent constraints on resources that are either externally imposed by creditors, grantors, contributors, laws or regulations of other governments, or imposed by law through state statutes.

Fund Balances

In the governmental fund financial statements, fund balance is composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

Non-spendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for USDA debt payments – portion of fund balance that is restricted for future debt payments.

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by State Statute.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

Restricted for Streets – Powell Bill portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpected Powell Bill funds.

Restricted for Public Safety – portion of fund balance restricted by revenue source for public safety related activities such as federal forfeiture and controlled substance funds.

Restricted for Fire District – portion of fund balance restricted by revenue source for fire district use.

Restricted for Capital Projects – portion of fund balance restricted by lender for use in capital projects.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Smithfield's governing body (highest level of decision making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance – portion of fund balance that the Town of Smithfield intends to use for specific purposes.

Unassigned Fund Balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Director has the authority to deviate from this policy if it is in the best interest of the Town.

The Town has not officially adopted a fund balance policy.

11. Use of Estimates

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. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

The Town has not maintained accurate and complete accounting records due to the failure to reconcile cash, revenues, accounts receivable and customer deposits to subsidiary ledgers in a timely manner.

B. Excess of Expenditures over Appropriations

None.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risks for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2012, the Town's deposits had a carrying amount of \$14,693,930 and a bank balance of \$15,353,303. Of the bank balance, \$1,175,197 was covered by federal depository insurance, and \$14,178,106 was covered by collateral held under the Pooling Method.

2. Investments

At June 30, 2012 the Town's investment balances were as follows:

	<u>Cost Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust Cash Portfolio	<u>\$335,901</u>	<u>\$335,901</u>

Interest Rate Risk. The Town does not have a formal investment policy that specifically limits investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates.

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the Town had no formal policy on specifically managing credit risk. As of June 30, 2012, the Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's. The Town's investments in US Government Agencies are rated AAA by Standard & Poor's.

Concentration of Credit Risk. The Town places no limit on the amount that the Town may invest in any one issuer.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

3. Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit 1 at June 30, 2012 were as follows:

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
General	\$ 572,236	\$ 128,191	\$ 566,241	\$ 1,266,668
Other governmental	-	-	51,387	51,387
Allowance for doubtful accounts	-	(52,000)	-	(52,000)
Total governmental activities	\$ 572,236	\$ 76,191	\$ 617,628	\$ 1,266,055
Business-Type Activities:				
Electric	\$ 3,592,536	\$ -	\$ 20,482	\$ 3,613,018
Water and Sewer	1,035,160	-	29,179	1,064,339
Allowance for doubtful accounts	(484,834)	-	-	(484,834)
Total business-type activities	\$ 4,142,862	\$ -	\$ 49,661	\$ 4,192,523

Due from other governments consisted of the following:

Local option sales tax	\$ 307,884
Franchise tax	228,760
PEG channel fees	29,597
Sales tax	101,048
Total	\$ 667,289

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2012 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 6,319,188	\$ -	\$ -	\$ 6,319,188
Construction in progress	1,071,187	1,485,092	-	2,556,279
Total capital assets not being depreciated	7,390,375	1,485,092	-	8,875,467
Capital assets being depreciated				
Buildings and improvements	16,754,039	-	-	16,754,039
Infrastructure	45,490,820	-	-	45,490,820
Equipment and vehicles	7,069,016	22,260	733,838	6,357,438
Total capital assets being depreciated	69,313,875	22,260	733,838	68,602,297
Less accumulated depreciation for				
Buildings and improvements	3,035,608	712,568	-	3,748,176
Infrastructure	28,782,717	1,620,773	-	30,403,490
Equipment and vehicles	4,873,845	370,169	550,717	4,693,297
Accumulated depreciation	36,692,170	\$ 2,703,510	\$ 550,717	38,844,963
Total capital assets, depreciated, net	32,621,705			29,757,334
Governmental activity capital assets, net	\$ 40,012,080			\$ 38,632,801

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 140,848
Public safety	370,847
Street and public works	1,419,610
Sanitation	67,245
Cultural and recreational	704,960
Total	\$ 2,703,510

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Electric Fund				
Capital assets not being depreciated				
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
Construction in progress	6,576,396	107,799	-	6,684,195
Total capital assets not being depreciated	6,661,396	107,799	-	6,769,195
Capital assets being depreciated				
Plant and distribution systems	6,055,540	41,990	-	6,097,530
Equipment	2,176,010	-	-	2,176,010
Total capital assets being depreciated	8,231,550	41,990	-	8,273,540
Less accumulated depreciation for				
Plant and distribution systems	3,354,747	186,138	-	3,540,885
Equipment	946,893	66,426	-	1,013,319
Accumulated Depreciation	4,301,640	\$ 252,564	\$ -	4,554,204
Capital assets, depreciated, net	3,929,910			3,719,336
Electric Fund capital assets	<u>\$ 10,591,306</u>			<u>\$ 10,488,531</u>
Water and Sewer Fund				
Capital assets not being depreciated				
Land	\$ 214,100	\$ -	\$ -	\$ 214,100
Construction in progress	107,524	292,893	-	400,417
Total capital assets not being depreciated	321,624	292,893	-	614,517
Capital assets being depreciated				
Plant and distribution systems	13,030,814	20,692	-	13,051,506
Equipment	1,234,169	-	-	1,234,169
Total capital assets being depreciated	14,264,983	20,692	-	14,285,675
Less accumulated depreciation for				
Plant and distribution systems	6,571,102	347,796	-	6,918,898
Equipment	1,177,887	32,888	-	1,210,775
Accumulated Depreciation	7,748,989	\$ 380,684	\$ -	8,129,673
Capital assets, depreciated, net	6,515,994			6,156,002
Water and Sewer Fund capital assets	<u>\$ 6,837,618</u>			<u>\$ 6,770,519</u>
Business-type Activities capital assets	<u>\$ 17,428,924</u>			<u>\$ 17,259,050</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Smithfield contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.88% and 7.36%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Smithfield are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011 and 2010 were \$477,036, \$516,517 and \$372,742, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description. The Town of Smithfield administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2010, the Separation Allowance's membership consisted of:

Retirees receiving benefits	7
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	46
Total	53

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

3. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The Town's expense for benefit payments to current retirees for the fiscal year ended June 30, 2012 was \$94,641.

The annual required contribution for the current year was determined as part of the December 31, 2010 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percent of pay on a closed basis. The remaining amortization period at December 31, 2010 was 20 years.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation (asset) to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 73,788
Interest on net pension obligation	(2,082)
Adjustment to annual required contribution	2,484
Annual pension cost	74,190
Contributions made	94,641
Increase (decrease) in net pension obligation	(20,451)
Net pension obligation beginning of year	(41,634)
Net pension obligation end of year	\$ (62,085)

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2012	\$ 73,788	128.26%	\$ (62,085)
6/30/2011	\$ 73,843	135.45%	\$ (41,634)
6/30/2010	\$ 71,063	142.69%	\$ (15,458)

4. Funded Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$816,920. The covered payroll (annual payroll of active employees covered by the plan) was \$1,955,899 and the ratio of the UAAL to the covered payroll was 41.77%. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefit.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan, administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$108,157, which consisted of \$89,013 from the Town and \$19,144 from the law enforcement officers.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

d. Firemen's and Rescue Squad Worker's Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

e. Supplemental Retirement Income Plan for Non-Law Enforcement Employees

Plan Description. The Town adopted a Supplemental Retirement Income Plan, a single-employer defined benefit plan, for non-law enforcement employees provided by Prudential Retirement 401(k) Services and administered by NC Department of State Treasurer. All employees are eligible to participate on a voluntary basis. Total contributions for the year ended June 30, 2012 were \$281,953, which consisted of \$224,633 from the Town and \$57,320 from the employees.

f. Other Postemployment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town provides post-retirement healthcare benefits through a single-employer defined benefit plan, to retirees of the Town provided they have at least twenty years of creditable service with the Town. The Town pays the full cost of coverage for these benefits. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently, 20 retirees are eligible vested in post-retirement health benefits. For the fiscal year ended June 30, 2012, the Town made payments for post-retirement health benefit premiums of \$206,011. The Town obtains healthcare coverage through private insurers. A separate report is not issued for the plan.

Membership of the Plan consisted of the following at December 31, 2009, the date of the latest actuarial valuation:

	General
	Employees:
Retirees and dependents receiving benefits	52
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	170
Total	222

Funding Policy. The Town agrees to provide medical insurance to certain retired employees as an extended benefit. Eligible retirees who elect this coverage will be enrolled in the group health plan. For members that retire with at least 30 years of service or that retire with approved disability retirement, the Town pays 100% of the cost for pre-65 healthcare coverage for the retire. Years of service are considered years of creditable service with the Local Governmental Employees' Retirement System.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012

Retirees will cease to be eligible for group health insurance at age 65. The retiree will be responsible for paying the cost of dependent coverage if dependent coverage is elected. The Town has chosen to fund healthcare benefits on a pay-as-you-go basis.

The current Annual Required Contribution (ARC) rate is 16.75% of annual covered payroll. For the current year, the Town contributed \$206,011 or 3.54% of annual covered payroll. There were no contributions by employees for the fiscal year ended June 30, 2012. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies. Post-employment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 973,342
Interest on net OPEB obligation	114,227
Adjustment to annual required contribution	(109,123)
Annual OPEB cost (expense)	978,446
Contributions made	(206,011)
Increase (decrease) in net OPEB obligation	772,435
Net OPEB obligation, beginning of year	2,855,687
Net OPEB obligation, end of year	\$ 3,628,122

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2012 were as follows:

For Year Ended June 30	Trend Information		Net OPEB Obligation
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	
2012	\$ 973,342	21.2%	\$ 3,628,122
2011	\$ 1,085,574	9.5%	\$ 2,855,687
2010	\$ 1,075,291	11.1%	\$ 1,872,879

Funded Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$8,211,690. The covered payroll (annual payroll of active employees covered by the plan) was \$5,812,092, and the ratio of the UAAL to the covered payroll was 141.3 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The annual required contribution for the current year was determined as part of the December 31, 2009 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 4.00% investment rate of return (net of administrative expenses), which included an inflation component of 3.75% and (b) a 10.50% to 5.00% medical cost trend rate with 2017 the year of ultimate trend rate. The actuarial value of assets, if any, was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at December 31, 2009 was 30 years.

2. Other Employment Benefits

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2012, the Town made contributions to the State for death benefits of \$6,682. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .08% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred / Unearned Revenues

The balance in deferred revenues on the fund statements and unearned revenues on the government-wide statements at June 30, 2012 is composed of the following elements:

	Deferred Revenue	Unearned Revenue
Prepaid taxes not yet earned (General Fund)	\$ -	\$ 12,282
Taxes receivable (net) (General Fund)	76,191	-
	\$ 76,191	\$ 12,282

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town has property, general liability, and auto liability coverage of \$23 million, \$2 million, and \$2 million per occurrence, respectively, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits, up to a \$1 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property liability in excess of \$500,00 and \$300,00 statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town does not carry flood insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Director is bonded for \$50,000. The remaining employees that have access to funds are bonded for \$5,000 per occurrence.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

5. Long-Term Obligations

a. Installment Purchases

As authorized by State law (G.S. 160A-20 and 153A-158.1), the Town financed various property and equipment acquisitions by installment purchases. Installment purchase contracts at June 30, 2012 are comprised of the following individual agreements:

Government Activities:

\$300,000 for renovations to EMS building, due in annual installments of \$17,616 through March 2037, interest at 4.125%	\$ 271,542
\$3,000,000 for construction of community center, due in annual installments of \$150,000 through January 2028, interest at 4.06%	2,400,000
\$4,500,000 for construction of community center, due in annual installments of \$225,000 through November 2027, interest at 4.06%	3,600,000
\$500,000 for street surfacing, due in annual installments of \$50,000, plus interest at 3.22% through May 2018	300,000
\$150,000 for renovations to EMS building, due in annual installments of \$8,808 through March 2037, interest at 4.125%	135,771
\$250,000 for Downtown Revitalization Project, due in annual installments of \$15,125 through 2036, interest at 4.375%	227,149
\$500,000 for street resurfacing, due in annual installments ranging from \$67,450 to \$51,745 through October 2018, interest at 3.49%	350,000
\$600,000 for equipment, due in annual installments of \$132,569 through November 2013, interest at 3.47%	251,948
\$133,000 for equipment, due in annual installments of \$46,154 through May 2013, interest at 2.04%	89,559
\$620,000 for equipment, due in annual installments of \$132,188 through November 2015, interest at 2.174%	498,690
\$1,150,000 for Smithfield Crossings Project, due in annual installments of \$164,286 plus interest at 2.65% beginning November 1, 2012; \$4,056,400 for Smithfield Crossing Project due May 1, 2012, interest at 1.13%	<u>5,206,400</u>
Total governmental activities	<u><u>\$ 13,331,059</u></u>

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012

Business-Type Activities:

<p>State Clean Water Bond Loan for construction of ammonia treatment plan and sludge handling system, authorized to borrow a total commitment of \$1,170,000. the loan has two components: a revolving loan - \$408,220, 20-year term with interest at 3.00%, and a non-revolving loan \$761,780, 20-year term with interest at 5.30% until May 1, 2003, thereafter 3.43%. Annual principal payments began May 1, 1998, semi-annual interest payments are due May 1 and November 1, with amounts due depending on total borrowings to date.</p>	\$ 312,911
<p>\$650,000 for construction of lift stations, due in annual installments of \$65,000, plus interest at 3.38% through March 2015</p>	<u>195,000</u>
<p>Total business-type activities</p>	<u><u>\$ 507,911</u></u>

Future minimum payments as of June 30, 2012 for the installment purchase contracts are as follows:

Year Ending June 30	Principal	Interest	Total
Governmental Activities:			
2013	\$ 2,244,596	\$ 304,989	\$ 2,549,585
2014	787,881	286,684	1,074,565
2015	617,963	260,129	878,092
2016	621,400	237,852	859,252
2017	492,737	215,487	708,224
2018-2022	2,125,550	799,425	2,924,975
2023-2027	1,998,612	388,633	2,387,245
2028-2032	526,968	71,002	597,970
2033-2037	171,350	26,915	198,265
	<u>\$ 9,587,057</u>	<u>\$ 2,591,116</u>	<u>\$ 12,178,173</u>
 Business-Type Activities:			
Water and Sewer Fund:			
2013	\$ 123,500	\$ 16,797	\$ 140,297
2014	123,500	10,069	133,569
2015	123,500	8,566	132,066
2016	58,500	4,450	62,950
2017	58,500	2,531	61,031
2018	20,411	612	21,023
	<u>\$ 507,911</u>	<u>\$ 43,025</u>	<u>\$ 550,936</u>

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

b. General Obligation Bonds

All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

On June 1, 2011, the Town issued \$1,275,000 of advance revenue refunding bonds which were placed in an irrevocable trust for the purpose of general resources for all future debt service payments of \$1,244,250 of Series 1997 General Obligation Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the Statement of Net Assets. The reacquisition price was lower than the net carrying amount of the old debt by \$50,000. This amount is being netted against the new debt. This advance refunding was undertaken to reduce total debt service payments over the next seven years by \$84,480 and resulted in an economic gain of \$80,145.

Annual debt service requirements to maturity for the Town's general obligation bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 195,000	\$ 26,320	\$ 221,320
2014	195,000	21,738	216,738
2015	190,000	17,155	207,155
2016	185,000	12,690	197,690
2017	180,000	4,171	184,171
2018	155,750	4,112	159,862
	<u>\$ 1,100,750</u>	<u>\$ 86,186</u>	<u>\$ 1,186,936</u>

c. Revenue Bonds

\$5,000,000 Electric System Revenue Bond, Series 2007. Dated as of August 7, 2007, will bear interest from that date, payable on August 15, 2008 and annually thereafter on each August 15. Stated to mature \$368,887 due annually.

\$ 4,288,881

The Town has pledged future electric customer revenues, net of specified operating expenses, to repay \$5 million in electric system revenue bonds issued in August 2007. Proceeds from the bonds provided financing for the construction of the improvements to the Town's electric system. The bonds are payable solely from electric customer net revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require about 74% of net revenues. Section 5.02 of the Bond Order requires the debt service coverage ratio will not be less than 120% of the debt service requirement for the year. The total principal and interest remaining to be paid on the bonds is \$5,902,188. Principal and interest paid for the current year revenue bonds and total electric customer net revenues were \$368,887 and \$2,365,974, respectively.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012

The debt service coverage ratio calculation for the year ended June 30, 2012 is as follows:

Operating revenues	\$ 19,644,169
Operating expenses	(18,921,453)
Add back:	
Investment earnings	13,801
Depreciation	252,564
Income available for debt service	<u>\$ 989,081</u>
Debt service principal and interest paid (Revenue bond only)	<u>\$ 368,887</u>
Debt service coverage ratio	268%

Annual debt service requirement to maturity for the Town's revenue bonds are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 196,045	\$ 172,842	\$ 368,887
2014	203,945	164,941	368,886
2015	212,164	156,722	368,886
2016	220,715	148,172	368,887
2017	229,610	139,277	368,887
2018 - 2022	1,294,534	549,900	1,844,434
2023 - 2027	1,577,271	267,163	1,844,434
2028 - 2032	354,597	14,290	368,887
	<u>\$ 4,288,881</u>	<u>\$ 1,613,307</u>	<u>\$ 5,902,188</u>

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

d. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 9,559,858	\$ 5,206,400	\$ 1,435,199	\$ 13,331,059	\$ 4,997,469
General obligation bonds	1,255,750	-	155,000	1,100,750	195,000
Compensated absences	502,857	-	93,498	409,359	102,340
Other postemployment benefits	2,266,187	656,569	-	2,922,756	-
Total	<u>\$ 13,584,652</u>	<u>\$ 5,862,969</u>	<u>\$ 1,683,697</u>	<u>\$ 17,763,924</u>	<u>\$ 5,294,809</u>
Business-type activities:					
Revenue bonds	\$ 4,477,331	\$ -	\$ 188,450	\$ 4,288,881	\$ 196,045
Installment purchases	631,411	-	123,500	507,911	123,500
Compensated absences	119,711	-	14,890	104,821	26,205
Other postemployment benefits	589,500	115,865	-	705,365	-
Total	<u>\$ 5,817,953</u>	<u>\$ 115,865</u>	<u>\$ 326,840</u>	<u>\$ 5,606,978</u>	<u>\$ 345,750</u>

Compensated absences and OPEB liability have typically been liquidated in the General Fund. Compensated absences are accounted for on a LIFO basis.

At June 30, 2012, the Town of Smithfield had a legal debt margin of \$ 66,548,134.

C. Interfund Balances and Activity

Due To/From Other Funds

At June 30, 2012, \$478,660 was due to the General Fund from the General Fund Capital Project Fund, which represents advances to cover various expenses. At June 30, 2012, \$4,609 was due to the General Fund from the Smithfield Fire Tax District Special Revenue Fund, which represents advances to cover various expenses.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2012, the Town recognized payments for pension contributions made by the State as a revenue and an expenditure of \$17,579 for the 30 volunteer firemen and the 16 employed firemen who perform firefighting duties for the Town's fire department and on-behalf payments of \$7,938 as a revenue and an expenditure for the 26 participating volunteers and 16 employed rescue workers who staff the Town's rescue squad. The volunteers and employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and State appropriation.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

E. Prior Period Adjustment

The June 2011 utility billings were erroneously posted to the 2011-2012 fiscal year. The effect of such error resulted in an understatement of the governmental activities revenues and net assets of \$52,973 and business-type revenues and net assets of \$1,072,208. In addition, general fund revenues and fund balance were understated by \$52,973, electric fund revenues and net assets by \$816,377, and water and sewer fund revenues and net assets by \$255,831.

F. Fund Balance

The following schedule provides management and citizens with information on the portion of General Fund balance that is available for appropriation:

Total fund balance - General Fund	\$ 2,246,253
Less restricted for:	
USDA debt payments	22,193
Public safety	59,840
Stabilization by State statute	1,649,767
Streets	263,887
Remaining Fund Balance	250,566

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, and Town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and, lastly, unassigned fund balance. The Finance Director has the authority to deviate from this policy if it is in the best interest of the Town.

The Town has not officially adopted a fund balance policy.

IV. Jointly Governed Organization – Electric Power Agency

The Town, in conjunction with thirty-two other local governments, is a member of the North Carolina Eastern Municipal Agency (the "Agency"). Each participating government appoints one Commissioner to the Agency's governing board. Under the power sales agreement, the Town has agreed, in exchange for a share of the power from the project, to take or pay for its share of project output whether or not the project is complete, operable, operating or retired, and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the project output for any reason whatsoever. The Town has also entered into a supplemental power sales agreement with the Power Agency which provides that the Town will be obligated to purchase all of its bulk power requirements from the Power Agency. The Town's obligations under the power sales agreement and the supplemental power sales agreement would be payable as an operating expense of its electrical system solely from the revenue of such a system. The Town's present share of the project output of the North Carolina Eastern Municipal Power Agency is 2.0056%. Under the agreement, the Power Agency would bill the Town each month for its project power cost, including the Town's share of the debt service on the bonds issued by the Power Agency. The agreement signed with the Power Agency, dated April 22, 1992, shall expire the later of January 1, 2032 or the final payment on the original projects. The Power Agency is currently supplying to the Town its bulk power supply. Except for the power sales purchase requirements, the Town has no obligation, entitlement or residual interest in the Agency. The Town's purchases of power for the fiscal year ended June 30, 2012 were \$16,335,274.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2012**

V. Joint Ventures

The Town, in conjunction with Riverside Extension, Inc., participates in a joint venture to improve and develop property for the expansion of Riverside Cemetery. In accordance with the joint venture agreement, the Town has agreed to purchase property from the Johnston County Board of Education in the amount of \$600,000. Riverside Extension, Inc. has agreed to obtain financing to pay the purchase price of the property in exchange for the right to improve and develop the property, to receive from the Town the proceeds for all cemetery lots sold before July 1, 2015, and to receive from the Town conveyance of a lot to Saint Paul's Episcopal Church. The Town has an ongoing financial responsibility for the joint venture because the Town is responsible for marketing and selling cemetery lots, installing and maintaining a 20 foot access road, and assuming maintenance of the cemetery once constructed. The joint venture does not issue separate financial statements.

VI. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

VII. Subsequent Events

The Town has evaluated events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The Town has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required by generally accepted accounting principles. Presentation conforms to requirements of the Local Government Commission in North Carolina.

Schedule of Funding Progress and Employer Contributions
for the Law Enforcement Officers' Special Separation Allowance

Schedule of Funding Progress and Employer Contributions
for Other Postemployment Benefits

**Town of Smithfield, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
For the Year Ended June 30, 2012**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (VAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2010	\$ -	\$ 816,920	\$ 816,920	0.00%	\$ 1,955,899	41.77%
12/31/2009	-	724,331	724,331	0.00%	1,726,146	41.96%
12/31/2008	-	701,165	701,165	0.00%	1,816,771	38.59%
12/31/2007	-	567,415	567,415	0.00%	1,593,248	35.61%
12/31/2006	-	442,591	442,591	0.00%	1,476,645	29.97%
12/31/2005	-	481,856	481,856	0.00%	1,462,073	32.96%
12/31/2004	-	471,356	471,356	0.00%	1,388,563	33.95%
12/31/2003	-	427,596	427,596	0.00%	1,295,388	33.01%
12/31/2002	-	454,247	454,247	0.00%	1,151,032	39.46%
12/31/2001	-	443,376	443,376	0.00%	979,382	45.27%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2012	\$ 73,788	128.26%
2011	73,788	135.55%
2010	70,921	142.98%
2009	56,256	140.89%
2008	46,369	170.93%
2007	48,164	164.56%
2006	50,926	155.64%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation date:	12/31/2010
Actuarial cost method:	Projected unit credit
Amortization method:	Level percent of pay closed
Remaining amortization period:	20 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25%-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	None

**Town of Smithfield, North Carolina
Other Postemployment Benefits
Required Supplementary Information
For the Year Ended June 30, 2012**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (VAAL) (b-a)			
12/31/2009	\$ -	\$ 8,211,690	\$8,211,690	0%	\$ 5,812,092	141.29%
12/31/2007	-	9,834,213	9,834,213	0%	6,894,972	142.63%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2012	\$ 973,342	21.17%
2011	1,075,291	9.56%
2010	1,075,291	11.07%
2009	1,075,291	14.75%

Notes to the Required Schedules:

The information presented above was determined as part of the actuarial valuation at the dates indicated. Additional information as of the latest valuation follows:

Valuation date:	12/31/2009
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar amount, open
Remaining amortization period:	30 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare trend rate	10.50% - 5.00%
Post-Medicare trend rate	9.00% - 5.00%
Year of ultimate trend rate	2017
*Includes inflation at	3.75%

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2012**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes			
Taxes	\$	\$ 5,741,007	\$
Downtown district tax		94,642	
Penalties and interest		36,270	
Total	<u>5,837,765</u>	<u>5,871,919</u>	<u>34,154</u>
Other taxes and licenses			
Privilege licenses		68,435	
Zoning and special use fees		16,669	
Other permits		22,288	
Occupancy Tax		149,935	
Payments in lieu of taxes		26,036	
Total	<u>211,000</u>	<u>283,363</u>	<u>72,363</u>
Unrestricted intergovernmental			
Franchise tax		837,028	
Beer and wine tax		47,859	
ABC board profit distribution		60,963	
Local option sales tax		1,641,369	
PEG channel fees		150,277	
Solid waste disposal tax		6,034	
Loan payment reimbursement		95,768	
Excise tax - rentals		17,124	
Total	<u>2,746,098</u>	<u>2,856,422</u>	<u>110,324</u>
Restricted intergovernmental			
Powell Bill allocation		315,706	
Department of Justice forfeitures		22,927	
Grant revenue		11,080	
Total	<u>274,000</u>	<u>349,713</u>	<u>75,713</u>
Sales and services			
Cemetery lot sales		65,800	
Public safety fees		201,105	
Refuse collection fees		1,328,759	
Recreation fees		58,020	
EMS fees		1,314,846	
Aquatic Center fees		879,744	
Total	<u>4,162,200</u>	<u>3,848,274</u>	<u>(313,926)</u>
Investment earnings	<u>20,000</u>	<u>7,169</u>	<u>(12,831)</u>

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2012**

	Budget	Actual	Variance Positive (Negative)
Miscellaneous			
Blount Street assessments		409	
Other		528,873	
Total	291,180	529,282	238,102
Total revenues	13,542,243	13,746,142	203,899
Expenditures:			
General Government:			
Governing Body			
Salaries and employee benefits		244,046	
Operating expenditures		174,767	
Overhead allocated to other funds		(228,768)	
Total	230,696	190,045	40,651
Administration			
Operating expenditures		1,234,197	
Overhead allocated to other funds		(403,078)	
Total	1,042,489	831,119	211,370
Finance			
Salaries and employee benefits		249,381	
Operating expenditures		17,622	
Overhead allocated to other funds		(134,982)	
Total	132,070	132,021	49
Building and Planning			
Salaries and employee benefits		224,009	
Operating expenditures		19,098	
Total	250,961	243,107	7,854
Total general government	1,656,216	1,396,292	259,924
Public safety:			
Police			
Salaries and employee benefits		2,934,530	
Operating expenditures		322,031	
Capital outlay		22,260	
Total	3,287,257	3,278,821	8,436

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2012**

	Budget	Actual	Variance Positive (Negative)
Fire			
Salaries and employee benefits		1,227,078	
Operating expenditures		137,669	
Total	1,392,329	1,364,747	27,582
Emergency Medical Services			
Salaries and employee benefits		1,261,487	
Operating expenditures		237,677	
Total	1,521,488	1,499,164	22,324
Total public safety	6,201,074	6,142,732	58,342
Street and Public Works:			
Community Appearance			
Salaries and employee benefits		414,909	
Operating expenditures		144,983	
Total	618,647	559,892	58,755
Streets			
Salaries and employee benefits		272,539	
Operating expenditures		445,051	
Overhead allocated to other funds		(211,147)	
Total	544,663	506,443	38,220
Garage			
Salaries and employee benefits		57,265	
Operating expenditures		18,725	
Overhead allocated to other funds		(52,944)	
Total	33,167	23,046	10,121
Total street and public works	1,196,477	1,089,381	107,096
Sanitation:			
Salaries and employee benefits		740,129	
Operating expenditures		314,044	
Total sanitation	1,077,631	1,054,173	23,458
Cultural and recreational:			
Salaries and employee benefits		1,174,511	
Operating expenditures		471,142	
Total cultural and recreational	1,717,818	1,645,653	72,165

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2012**

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement		1,590,199	
Interest and other charges		407,269	
Total debt service	<u>2,020,787</u>	<u>1,997,468</u>	<u>23,319</u>
Total expenditures	<u>13,870,003</u>	<u>13,325,699</u>	<u>544,304</u>
Revenues over (under) expenditures	<u>(327,760)</u>	<u>420,443</u>	<u>748,203</u>
Other financing sources (uses):			
Appropriated fund balance	322,760	-	(322,760)
Transfers from other funds		-	-
Sale of fixed assets	<u>5,000</u>	<u>5,418</u>	<u>418</u>
Total	<u>327,760</u>	<u>5,418</u>	<u>(322,342)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	425,861	<u>\$ 425,861</u>
Fund balance, beginning as previously stated		1,767,419	
Prior period adjustment		<u>52,973</u>	
Fund balance, beginning restated		1,820,392	
Fund balance, ending		<u>\$ 2,246,253</u>	

**Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Balance Sheet
June 30, 2012**

Assets

Cash and cash equivalents	\$ 139,826
	<hr/>
Total assets	\$ 139,826
	<hr/> <hr/>

Liabilities and Fund Balances

Liabilities:

Due to other funds	\$ 4,609
	<hr/>

Fund balances:

Unassigned	135,217
	<hr/>
Total liabilities and fund balances	\$ 139,826
	<hr/> <hr/>

Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2012

Revenues	
Fire district taxes	\$ 139,826
Total revenues	139,826
Expenditures	
Public safety	-
Total expenditures	-
Revenues over (under) expenses	139,826
Other financing sources (uses):	
Operating transfers out	-
Total other financing sources (uses)	-
Excess (deficiency) of revenues and other financing sources over expenditures	139,826
Fund balance, beginning	(4,609)
Fund balance, ending	\$ 135,217

Town of Smithfield
Major Capital Projects Fund - General Fund Capital Project
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2012

	Project Authorization	Prior Years	Current Year	Total Project To Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental Contributions	\$ 3,423,951	\$ 1,551,950	\$ 239,976	\$ 1,791,926	\$ (1,632,025)
Investment earnings	2,300,000	276,000	500,000	776,000	(1,524,000)
	131,012	142,387	-	142,387	11,375
Total revenues	5,854,963	1,970,337	739,976	2,710,313	(3,144,650)
Expenditures:					
Community center	9,612,967	9,614,770	-	9,614,770	(1,803)
Neuse River Theater repairs	80,000	40,695	-	40,695	39,305
Professional park	276,000	135,828	140,172	276,000	-
Peedin Road/ Venture Drive extension	7,301,000	894,664	1,344,920	2,239,584	5,061,416
Total expenditures	17,269,967	10,685,957	1,485,092	12,171,049	5,098,918
Revenues over (under) expenditures	(11,415,004)	(8,715,620)	(745,116)	(9,460,736)	1,954,268
Other financing sources (uses):					
Transfers in	537,004	537,808	-	537,808	804
Debt issued	10,878,000	7,734,000	5,206,400	12,940,400	2,062,400
Total other financing sources (uses)	11,415,004	8,271,808	5,206,400	13,478,208	2,063,204
Revenues and other financing sources over (under) expenditures	\$ -	\$ (443,812)	\$ 4,461,284	\$ 4,017,472	\$ 4,017,472

**Town of Smithfield
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Electricity sales	\$	\$ 19,096,571	\$
Connection fees		21,272	
Miscellaneous		173,175	
Penalties		353,151	
Total	<u>19,920,278</u>	<u>19,644,169</u>	<u>(276,109)</u>
Non-operating revenues:			
Interest earnings		13,772	
Total	<u>55,000</u>	<u>13,772</u>	<u>(41,228)</u>
Total revenues	<u>19,975,278</u>	<u>19,657,941</u>	<u>(317,337)</u>
Expenditures:			
Electrical purchases		16,314,983	
Electrical operations		2,302,243	
Capital outlay		41,990	
Debt service		368,887	
Total	<u>19,975,278</u>	<u>19,028,103</u>	<u>947,175</u>
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 629,838</u>	<u>\$ 629,838</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 629,838	
Reconciling items:			
Principal repayment on long-term debt		188,450	
Capital outlay		41,990	
Depreciation		(252,564)	
(Increase) decrease in compensated absences		(13,041)	
(Increase) decrease in other postemployment benefits		(38,622)	
Investment earnings from water and sewer capital project		29	
Total reconciling items		<u>(73,758)</u>	
Net income		<u>\$ 556,080</u>	

Town of Smithfield
Enterprise Fund Capital Project - Electric Capital Projects
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Non - GAAP)
From Inception and For the Year Ended June 30, 2012

	Actual			Total Project To Date	Variance Favorable (Unfavorable)
	Project Authorization	Prior Years	Current Year		
Revenues:					
Investment earnings	\$ 113,867	\$ 114,505	\$ 29	\$ 114,534	\$ 667
Total revenues	113,867	114,505	29	114,534	667
Expenditures:					
Substation	6,578,820	6,553,007	20,867	6,573,874	4,946
Pole replacement	50,000	23,389	26,438	49,827	173
Smithfield Crossings Utilities	65,000	-	60,494	60,494	4,506
Total expenditures	6,693,820	6,576,396	107,799	6,684,195	9,625
Excess (Deficit) of revenues over (under) expenditures	(6,579,953)	(6,461,891)	(107,770)	(6,569,661)	10,292
Other financing sources (uses):					
Debt issued	5,000,000	5,000,000	-	5,000,000	-
Interfund transfers in	1,579,953	1,514,952	-	1,514,952	(65,001)
Total other financing sources (uses)	6,579,953	6,514,952	-	6,514,952	(65,001)
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ 53,061	\$ (107,770)	\$ (54,709)	\$ (54,709)

Reconciliation of Modified Accrual Basis to Full Accrual Basis:

Excess (Deficit) of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (54,709)</u>
Expenditures Recorded as Construction in Progress	<u>\$ 6,684,195</u>
Net Income	<u>\$ 6,629,486</u>

**Town of Smithfield
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Ended June 30, 2012**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$	\$ 2,819,354	\$
Sewer sales		2,668,938	
Connection and tap fees		26,020	
Miscellaneous		37,158	
Total	<u>5,260,100</u>	<u>5,551,470</u>	<u>291,370</u>
Non-operating revenues:			
Interest earnings		6,773	
Total	<u>14,000</u>	<u>6,773</u>	<u>(7,227)</u>
Total revenues	<u>5,274,100</u>	<u>5,558,243</u>	<u>284,143</u>
Expenditures:			
Water treatment plan		1,181,483	
Water and sewer distribution		2,639,910	
Repairs and maintenance		97,091	
Capital outlay		20,692	
Administrative services		81,500	
Debt service		144,362	
Total	<u>5,691,070</u>	<u>4,165,038</u>	<u>1,526,032</u>
Other financing sources (uses):			
Appropriated fund balance	416,970	-	(416,970)
Total other financing sources (uses)	<u>416,970</u>	<u>-</u>	<u>(416,970)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 1,393,205</u>	<u>\$ 1,393,205</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 1,393,205	
Reconciling items:			
Principal repayment on long-term debt		123,500	
Capital outlay		20,692	
Depreciation		(380,684)	
(Increase) decrease in compensated absences		27,931	
(Increase) decrease in other postemployment benefits		(77,243)	
Investment earnings from water and sewer capital project		-	
Total reconciling items		<u>(285,804)</u>	
Net income		<u>\$ 1,107,401</u>	

Town of Smithfield
Enterprise Fund Capital Project - Water and Sewer Capital Projects
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Non - GAAP)
From Inception and For the Year Ended June 30, 2012

	Actual			Total Project To Date	Variance Favorable (Unfavorable)
	Project Authorization	Prior Years	Current Year		
Revenues:					
Restricted intergovernmental	\$ 255,000	\$ 238,872	\$ -	\$ 238,872	\$ (16,128)
Local contributions	80,600	70,350	-	70,350	(10,250)
Investment earnings	-	34,973	-	34,973	34,973
Total revenues	335,600	344,195	-	344,195	8,595
Expenditures:					
Sewer line rehab	191,000	11,230	165,288	176,518	14,482
Hospital road extension	375,900	350,811	-	350,811	25,089
Center point loop	15,000	-	-	-	15,000
Hydrant replacement	50,000	46,446	3,335	49,781	219
West Smithfield I & I	100,000	49,848	-	49,848	50,152
Bridge Replacement	217,000	-	124,270	124,270	92,730
Total expenditures	948,900	458,335	292,893	751,228	197,672
Excess (Deficit) of revenues over (under) expenditures	(613,300)	(114,140)	(292,893)	(407,033)	206,267
Other financing sources (uses):					
Interfund transfers in	613,300	306,589	-	306,589	(306,711)
Total other financing sources (uses)	613,300	306,589	-	306,589	(306,711)
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ 192,449	\$ (292,893)	\$ (100,444)	\$ (100,444)

Reconciliation of Modified Accrual Basis to Full Accrual Basis:

Excess (Deficit) of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (100,444)</u>
Expenditures Recorded as Construction in Progress	<u>\$ 400,417</u>
Net Income (Loss)	<u>\$ 299,973</u>

Town of Smithfield
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2012

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012
ASSETS				
Cash and cash equivalents	\$ 209,698	\$ 9,821	\$ 12,050	\$ 207,469
Total assets	<u>209,698</u>	<u>9,821</u>	<u>12,050</u>	<u>207,469</u>
LIABILITIES				
Current liabilities:				
Miscellaneous liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET ASSETS	<u>\$ 209,698</u>	<u>\$ 9,821</u>	<u>\$ 12,050</u>	<u>\$ 207,469</u>

OTHER SCHEDULES

This section contains additional information required
on property taxes.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy - Town-Wide

Analysis of Current Tax Levy - Downtown District

Town of Smithfield
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2012

Fiscal Year	Uncollected Balance July 1, 2011	Additions	Collections And Credits	Uncollected Balance June 30, 2012
2012	\$ -	\$ 5,859,632	\$ 5,792,203	\$ 67,429
2011	76,026	265	60,959	15,332
2010	10,629	-	2,838	7,791
2009	7,538	-	1,499	6,039
2008	6,431	-	884	5,547
2007	6,450	-	616	5,834
2006	4,586	-	4	4,582
2005	4,610	-	134	4,476
2004	5,596	-	242	5,354
2003	6,616	-	809	5,807
2002	5,677	-	5,677	-
	<u>\$ 134,159</u>	<u>\$ 5,859,897</u>	<u>\$ 5,865,865</u>	<u>\$ 128,191</u>

Less allowance for uncollectible ad valorem taxes receivable: (52,000)

Ad valorem taxes receivable, net \$ 76,191

Reconciliation with Revenues:

Ad valorem taxes:

General Fund \$ 5,871,919

Ad valorem taxes - General Fund

Penalties and interest (36,270)

Taxes written off 30,216

(6,054)

\$ 5,865,865

**Town of Smithfield
 Analysis of Current Tax Levy
 Town - Wide Levy
 For the Fiscal Year Ended June 30, 2012**

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current					
Real and personal property	\$ 996,654,998	0.57	\$ 5,680,936	\$ 5,277,560	\$ 403,376
Discoveries	20,541,850	0.57	117,089	115,840	1,249
Releases	(4,947,560)	0.57	(28,200)	(20,272)	(7,928)
Total Property Valuation	<u>\$ 1,012,249,288</u>				
Net levy			5,769,824	5,373,128	396,697
Uncollected taxes at June 30, 2012			<u>(67,415)</u>	<u>(30,722)</u>	<u>(36,693)</u>
Current year's taxes collected			<u>\$ 5,702,409</u>	<u>\$ 5,342,406</u>	<u>\$ 360,004</u>
Current levy collection percentage			<u>98.83%</u>	<u>99.43%</u>	<u>90.75%</u>

Town of Smithfield
 Analysis of Current Tax Levy - Downtown District
 Town - Wide Levy
 For the Fiscal Year Ended June 30, 2012

	Downtown District			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current					
Real and personal property	\$ 47,219,214	0.19	\$ 89,716	\$ 89,286	\$ 431
Discoveries	169,889	0.19	323	323	-
Releases	(122,306)	0.19	(230)	(156)	(76)
Total Property Valuation	<u>\$ 47,266,797</u>				
Net levy			89,808	89,453	355
Uncollected taxes at June 30, 2012			(14)	(3)	(11)
Current year's taxes collected			<u>\$ 89,794</u>	<u>\$ 89,450</u>	<u>\$ 344</u>
Current levy collection percentage			<u>99.98%</u>	<u>99.997%</u>	<u>96.90%</u>

COMPLIANCE SECTION

PM&P

Independent Auditors' Report on Compliance with Requirements That Could Have a Direct and Material Effect on a State Program and on Internal Control Over Compliance in Accordance with Applicable Sections of OMB Circular A-133 and the State Single Audit Implementation Act

**PETWAY
MILLS &
PEARSON, PA**

CERTIFIED PUBLIC ACCOUNTANTS

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Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

To the Honorable Mayor
And Members of the Town Council
Town of Smithfield, North Carolina

COMPLIANCE

We have audited the Town of Smithfield, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors of North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012. The Town of Smithfield's major State programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major State programs is the responsibility of the Town of Smithfield's management. Our responsibility is to express an opinion on the Town of Smithfield's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, applicable sections of OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Town of Smithfield's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Smithfield's compliance with those requirements.

In our opinion, the Town of Smithfield complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major State programs for the year ended June 30, 2012.

INTERNAL CONTROL OVER COMPLIANCE

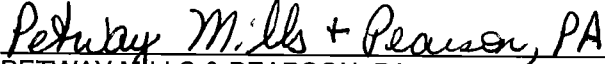
The management of the Town of Smithfield is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Town of Smithfield's internal control over compliance with the requirements that could have a direct and material effect on a major State program in order to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance with applicable sections of OMB Circular A-133 and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Smithfield's internal control over compliance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Smithfield'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 instances of noncompliance or other matters that are described in the accompanying schedule of findings and questioned costs as Findings 2012-1 and 2012-2 and are required to be reported under *Government Auditing Standards*.

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, management, others within the entity, members of the Town Council, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

November 28, 2012

PM&P

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*

**PETWAY
MILLS &
PEARSON, PA**

CERTIFIED PUBLIC ACCOUNTANTS

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Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

To the Honorable Mayor
And Members of the Town Council
Town of Smithfield, North Carolina

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 Smithfield as of and for the year ended June 30, 2012, which collectively comprise the Town of Smithfield's basic financial statements, and have issued our report thereon dated November 28, 2012. 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

Management of the Town of Smithfield is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Smithfield's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Town of Smithfield'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 the internal control over financial reporting was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control exists when the 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. Findings 2012-1 and 2012-2

A significant deficiency is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We did not identify any deficiencies in internal control over compliance that we consider to be a significant deficiency.

A deficiency in internal control over compliance exists when the 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 and correct, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of significant deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the audit committee, management, others within the entity, members of the Town Council, and federal and State awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Petway Mills & Pearson, PA
PETWAY MILLS & PEARSON, PA
Certified Public Accountants
Zebulon, North Carolina

November 28, 2012

Town of Smithfield
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X yes no

Significant deficiency(ies) identified
that are not considered to be
material weaknesses? yes X no

Noncompliance material to financial
statements noted X yes no

State Awards

Internal control over major state programs:

Material weakness(es) identified? yes X no

Significant deficiency(ies) identified
that are not considered to be
material weaknesses? yes X no

Type of auditors' report issued on compliance for major state programs: Unqualified

Any audit findings disclosed that are required
to be reported in accordance with State
Single Audit Implementation Act yes X no

Identification of major state programs:

Program Name

Powell Bill (DOT - 4)

Town of Smithfield
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Material Weakness

Finding 2012-1

Criteria:

Local Government Commission policies require units to maintain 8% of prior year expenditures as unassigned fund balance.

Condition:

In the current year, there was a violation of the Local Government Commission policy regarding minimum unassigned fund balance. Unassigned fund balance should be \$1,202,610, and actual unassigned fund balance is \$250,566.

Effect:

The Town was in violation of Local Government Commission policies.

Cause:

The Town has not controlled expenditures and generated sufficient revenues to maintain the required level of fund balance.

Recommendation:

The Town should reduce expenditures where possible and develop plans to increase revenues.

Views of responsible officials and planned corrective actions:

Town Management will review expenditures and reduce where possible. Also, Town Management will develop plans to increase revenues.

Material Weakness

Finding 2012-2

Criteria:

North Carolina General Statutes require units to maintain accurate and complete accounting records.

Condition:

In the current year, there was a violation of General Statutes regarding maintaining accurate and complete accounting records.

Effect:

Prior year adjustments were made to the financial statements to correct errors in beginning balances.

Cause:

The Town's records were not complete due to the failure to reconcile cash, recreation revenues, accounts receivable and customer deposits to subsidiary ledgers in a timely manner.

Recommendation:

The Town should reconcile cash, revenues, accounts receivable and customer deposits to subsidiary ledgers monthly.

Views of responsible officials and planned corrective actions:

The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting and to ensure that reconciliations are performed timely.

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

Town of Smithfield
Corrective Action Plan
For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2012-1

Name of contact person:
Mary Hogan, Finance Director

Corrective Action:
Town Management will review expenditures and reduce where possible. Also, Town Management will develop plans to increase revenues.

Finding 2012-2

Name of contact person:
Mary Hogan, Finance Director

Corrective Action:

The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting and to ensure that reconciliations are performed timely.

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

None Required.

Town of Smithfield
Summary Schedule of Prior Year's Findings
For the Year Ended June 30, 2012

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: 2011-1

Status: The Town has hired new staff that possess the technical expertise to draft full accrual, full disclosure financial statements. Although the auditor did assist with the drafting of current year financial statements, Town personnel possess the skill, knowledge and experience needed to review, comprehend, approve and accept responsibility for the audited financial statements.

Finding: 2011-2

Status: The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting. Town staff brought to the auditors attention the prior period adjustment made in the current year.

Finding: 2011-3

Status: The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting. Town staff continue to work on ensuring that all personnel files include signed forms required by Town policy.

Finding: 2011-4

Status: The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting. Computer rights have been reviewed and adjusted so that a limited number of staff have rights to make manual entries.

Finding: 2011-5

Status: The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting. Duties have been further segregated so that there are checks and balances to prevent disregard of Town policies.

Finding: 2011-6

Status: The Town has hired new staff that possess the technical expertise to reduce the likelihood of errors in financial reporting. Computer rights have been reviewed and adjusted so that a limited number of staff have rights to make manual entries.

Finding: 2011-7

Status: The Town eliminated all deficit fund balances however the Town's actual expenditures in the Finance Department of the General Fund exceeded budgeted expenditures by \$151 and \$1,803 in the General Fund Capital Project Fund.

Town of Smithfield, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2012

Grantor/Pass-through/ Grantor- Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal Expenditures	State Expenditures
FEDERAL AWARDS				
U.S. Department of Transportation Direct Program:				
Highway Planning and Construction	20.205		\$ 239,976	\$ -
TOTAL FEDERAL AWARDS			239,976	-
STATE AWARDS				
N.C. Department of Transportation Powell Bill				
		DOT-4	-	618,883
TOTAL STATE AWARDS				618,883
TOTAL FEDERAL AND STATE ASSISTANCE			\$ 239,976	\$ 618,883

Notes to the Schedule of Expenditures of Federal and State Financial Awards

Basis of Presentation

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town and is presented on the modified accrual basis of accounting. The information presented in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.