

TOWN OF SMITHFIELD
FINANCIAL STATEMENTS
SMITHFIELD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2013

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

Independent Auditor's Report

PETWAY
MILLS &
PEARSON, PA

CERTIFIED PUBLIC ACCOUNTANTS

C. Briggs Petway, Jr.
Roger G. Mills
Phyllis M. Pearson

Zebulon Office
P.O. Box 1036
806 N. Arendell Ave.
Zebulon, NC 27597
919.269.7405
919.269.8728 Fax

Raleigh Office
5116 Bur Oak Cr.
Raleigh, NC 27612
919.781.1047
919.781.1052 Fax

www.pmpcpa.com

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Smithfield's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, North Carolina as of June 30, 2013, 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 accordance with accounting principles generally accepted in the United States of America.

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the 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 generally 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Smithfield, North Carolina. The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of State Awards, as required by *Government Auditing Standards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has 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 individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2014 on our consideration of the Town of Smithfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Smithfield's internal control over financial reporting and compliance.


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

January 14, 2014

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, 2013. 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

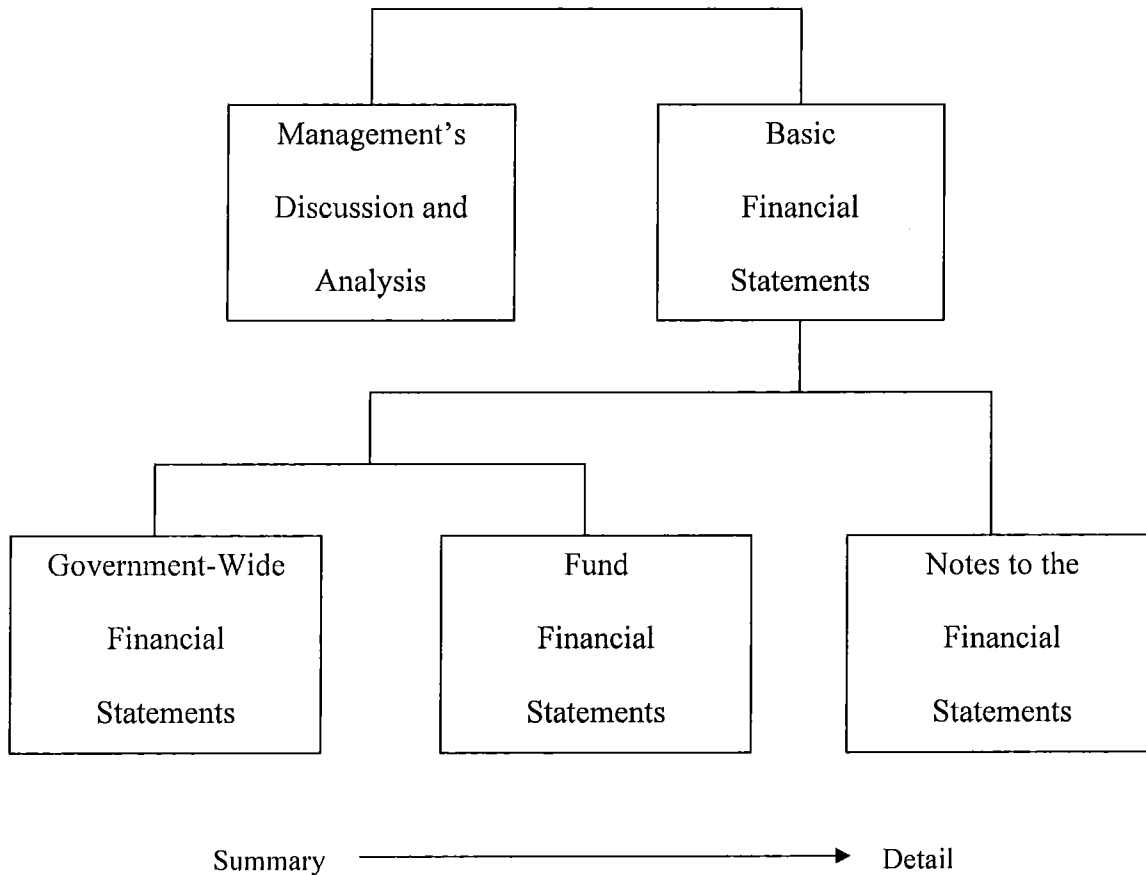
- The assets of the Town of Smithfield exceeded its liabilities at the close of the fiscal year by \$49,424,339 (*net position*).
- The government's total net position decreased by \$1,755,320 mostly due to prior period adjustments that were made to correct various balance sheet accounts, primarily receivables and payables; however the change in net position related to current year activity is a decrease of \$118,673.
- As of the close of the current fiscal year, the Town of Smithfield's governmental funds reported combined ending fund balances of \$6,401,535 an increase of \$2,593 in comparison with the prior year. Approximately 65% of this total amount, or \$4,157,947, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,243,588 or 20.4 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is 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 1 and 2) 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 3 through 11) 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 position and how it has changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position 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 1 and 2 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 Position 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. These funds are the same as the separate activity shown in the business-type activities in the Statement of Net Position 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 11 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 page 54 of this report.

Town of Smithfield's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 6,955,183	\$ 7,029,551	\$ 14,145,744	\$ 14,479,197	\$ 21,100,927	\$ 21,508,748
Capital assets, net	37,536,000	38,632,801	16,499,220	17,259,050	54,035,220	55,891,851
Total assets	44,491,183	45,662,352	30,644,964	31,738,247	75,136,147	77,400,599
Liabilities:						
Current liabilities	5,721,583	5,787,142	3,036,827	2,703,454	8,758,410	8,490,596
Non-current liabilities	11,842,504	12,469,116	5,110,894	5,261,228	16,953,398	17,730,344
Total liabilities	17,564,087	18,256,258	8,147,721	7,964,682	25,711,808	26,220,940
Net Position:						
Invested in capital assets, net of related debt	24,221,432	24,206,179	12,021,973	12,462,258	36,243,405	36,668,437
Restricted for:						
USDA Payments	26,348	22,193	-	-	26,348	22,193
Public Safety	26,005	59,840	-	-	26,005	59,840
Transportation	264,000	263,887	-	-	264,000	263,887
Fire District	-	135,217	-	-	-	135,217
Stabilization by State Statute	1,331,850	1,649,767	-	-	1,331,850	1,649,767
Capital Projects	2,509,744	4,017,472	-	-	2,509,744	4,017,472
Unrestricted	(1,452,283)	(2,948,461)	10,475,270	11,311,307	9,022,987	8,362,846
Total net position	\$ 26,927,096	\$ 27,406,094	\$ 22,497,243	\$ 23,773,565	\$ 49,424,339	\$ 51,179,659

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Smithfield exceeded liabilities by \$49,424,339 as of June 30, 2013. The Town's net position decreased by \$1,755,320 for the fiscal year ended June 30, 2013 mostly due to prior period adjustments that were made to correct various balance sheet accounts, primarily receivables and payables; however, the change in net position is a decrease of \$118,673. The largest portion of net position (73.33%) 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 position \$4,157,947 (8.41%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,022,987 (18.26%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.00 % and 99.99% 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 Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 2,792,477	\$ 3,848,275	\$ 24,424,043	\$ 25,195,639	\$ 27,216,520	\$ 29,043,914
Operating grants and contributions	494,798	489,539	-	-	494,798	489,539
Capital grants and contributions	-	239,976	-	-	-	239,976
General revenues:						
Property taxes	5,863,358	5,865,961	-	-	5,863,358	5,865,961
Other taxes	2,971,262	2,856,422	-	-	2,971,262	2,856,422
Unrestricted intergovernmental	283,006	283,363	-	-	283,006	283,363
Investment earnings, unrestricted	4,746	7,169	10,650	20,574	15,396	27,743
Miscellaneous	364,412	1,029,282	-	-	364,412	1,029,282
Loss on disposal of fixed assets	(18,328)	(177,702)	(9,593)	-	(27,921)	(177,702)
Total revenues	12,755,731	14,442,285	24,425,100	25,216,213	37,180,831	39,658,498
Expenses:						
General government	1,532,295	1,585,478	-	-	1,532,295	1,585,478
Public safety	5,072,183	6,818,826	-	-	5,072,183	6,818,826
Streets and public works	2,536,422	2,550,753	-	-	2,536,422	2,550,753
Sanitation	1,113,650	1,164,998	-	-	1,113,650	1,164,998
Cultural and recreation	2,441,304	2,432,059	-	-	2,441,304	2,432,059
Interest on long-term debt	557,871	407,269	-	-	557,871	407,269
Electric	-	-	19,559,461	19,101,890	19,559,461	19,101,890
Water and sewer	-	-	4,486,318	4,450,842	4,486,318	4,450,842
Total expenses	13,253,725	14,959,383	24,045,779	23,552,732	37,299,504	38,512,115
Change in net position	(497,994)	(517,098)	379,321	1,663,481	(118,673)	1,146,383
Net Position:						
Beginning of year - July 1	27,406,094	27,870,219	23,773,565	21,037,876	51,179,659	48,908,095
Prior period adjustment	18,996	52,973	(1,655,643)	1,072,208	(1,636,647)	1,125,181
Beginning of year, as restated	27,425,090	27,923,192	22,117,922	22,110,084	49,543,012	50,033,276
End of year - June 30	\$ 26,927,096	\$ 27,406,094	\$ 22,497,243	\$ 23,773,565	\$ 49,424,339	\$ 51,179,659

Governmental Activities. Governmental activities decreased the Town's net position by \$497,994. Key elements of this decrease are as follows:

- Significant drop in charges for services.

Business-Type Activities. Business-type activities increased the Town's net position by \$379,321. Key elements of this increase are as follows:

- No key elements contributed to the increase

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, unassigned 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. At the end of the current fiscal year, the Town of Smithfield's fund balance available in the General Fund was \$2,243,588, while total fund balance reached \$3,891,791. The Town currently has fund balance available for appropriation of 23.30% of total General Fund expenditures, while total fund balance represents 34.44% of the same amount.

At June 30, 2013, the governmental funds of the Town of Smithfield reported a fund balance of \$6,401,535, less than one half of one percent increase over last year.

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. The difference between the original budget and the final budget is attributed in part to the following:

- \$92,400 to fund rate increase from Johnston County for sewage treatment
- \$181,500 to fund EMS expenditures after transfer of department to Johnston County
- \$35,750 to fund reimbursements to volunteer rescue workers
- \$28,175 to fund Police Separation Allowance/Retirement
- \$27,000 to fund group insurance
- \$26,700 to fund Public Works contracted services

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 position of the Water and Sewer Fund at the end of the fiscal year totaled \$5,155,482 and that of the Electric Fund amounted to \$5,319,788. The total increase in net position for the Water and Sewer Fund was \$666,509. The total decrease in net position for the Electric Fund was \$1,942,831.

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, 2013, totals \$54,035,220 (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	
	2013	2012	2013	2012	2013	2012
Land	\$ 6,284,188	\$ 6,319,188	\$ 299,100	\$ 299,100	\$ 6,583,288	\$ 6,618,288
Construction in progress	4,068,007	2,556,279	714,234	7,084,612	4,782,241	9,640,891
Buildings and improvements	16,754,039	16,754,039	-	-	16,754,039	16,754,039
Plant and distribution systems	-	-	25,693,693	19,149,036	25,693,693	19,149,036
Infrastructure	45,484,336	45,490,820	-	-	45,484,336	45,490,820
Equipment and vehicles	5,445,910	6,357,438	3,401,404	3,410,179	8,847,314	9,767,617
Total	78,036,480	77,477,764	30,108,431	29,942,927	108,144,911	107,420,691
Accumulated depreciation	(40,500,480)	(38,844,963)	(13,609,211)	(12,683,877)	(54,109,691)	(51,528,840)
Capital assets, net	<u>\$ 37,536,000</u>	<u>\$ 38,632,801</u>	<u>\$ 16,499,220</u>	<u>\$ 17,259,050</u>	<u>\$ 54,035,220</u>	<u>\$ 55,891,851</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, 2013, the Town of Smithfield had total debt outstanding of \$17,791,815.

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

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Installment purchases	\$ 12,389,568	\$ 13,331,059	\$ 384,411	\$ 507,911	\$ 12,773,979	\$ 13,838,970
Revenue bonds	-	-	4,092,836	4,288,881	4,092,836	4,288,881
General obligation bonds	925,000	1,100,750	-	-	925,000	1,100,750
Total	<u>\$ 13,314,568</u>	<u>\$ 14,431,809</u>	<u>\$ 4,477,247</u>	<u>\$ 4,796,792</u>	<u>\$ 17,791,815</u>	<u>\$ 19,228,601</u>

The Town of Smithfield's total debt decreased by \$1,436,786 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 \$68,644,756.

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, 2014

Governmental Activities. With no new development occurring in FY13 and more of the same expected for FY14, forecast for the primary sources of revenue (e.g. property and sales tax) were calculated using little or no growth factor. Additionally, Public Safety revenues were down in FY13 due to the transfer of the EMS department to Johnston County and are expected to bottom out in FY14.

Budgeted operational expenditures in the General Fund are expected to decrease by 4% to \$13,073,878 under FY13 original budget.

Town Council has focused upon rebuilding General Fund Balance by appropriating \$250,000 to reserves in the 2014 budget year.

Business-Type Activities. Water and Sewer budgets are expected to remain constant in the 2014 year. Electric Fund revenues and expenditures are expected to remain constant also. The Town will begin substantial maintenance programs in 2014 and 2015 to update aging infrastructure.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

**Town of Smithfield
Statement of Net Position
June 30, 2013**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,318,203	\$ 9,851,006	\$ 13,169,209
Restricted cash	2,644,655	642,250	3,286,905
Taxes receivables (net)	104,051	-	104,051
Accounts receivable (net)	168,008	2,351,013	2,519,021
Due from other governments	686,160	55,573	741,733
Inventories	-	1,245,902	1,245,902
Total current assets	6,921,077	14,145,744	21,066,821
Non-current assets:			
Pension asset	34,106	-	34,106
Capital assets:			
Land, non-depreciable improvements, and construction in progress	10,352,195	1,013,334	11,365,529
Other capital assets, net of depreciation	27,183,805	15,485,886	42,669,691
Total capital assets	37,536,000	16,499,220	54,035,220
Total non-current assets	37,570,106	16,499,220	54,069,326
Total assets	\$ 44,491,183	\$ 30,644,964	\$ 75,136,147
LIABILITIES			
Current liabilities:			
Accounts payable - trade	\$ 214,035	\$ 1,810,313	\$ 2,024,348
Accrued payroll and payroll liabilities	201,456	48,430	249,886
Accrued interest payable	-	178,671	178,671
Customer deposits	-	642,250	642,250
Due within one year	5,306,092	357,163	5,663,255
Total current liabilities	5,721,583	3,036,827	8,758,410
Long-term liabilities:			
Due in more than one year	11,842,504	5,110,894	16,953,398
Total long-term liabilities	11,842,504	5,110,894	16,953,398
Total liabilities	17,564,087	8,147,721	25,711,808
NET POSITION			
Net investment in capital assets	24,221,432	12,021,973	36,243,405
Restricted for:			
USDA debt payments	26,348	-	26,348
Public safety	26,005	-	26,005
Transportation	264,000	-	264,000
Fire district	-	-	-
Stabilization by State Statute	1,331,850	-	1,331,850
Capital projects	2,509,744	-	2,509,744
Unrestricted	(1,452,283)	10,475,270	9,022,987
Total net position	\$ 26,927,096	\$ 22,497,243	\$ 49,424,339

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, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 1,532,295	\$ -	\$ 3,005	\$ -	\$ (1,529,290)	\$ -	\$ (1,529,290)
Public safety	5,072,183	644,480	167,465	-	(4,260,238)	-	(4,260,238)
Street and Public Works	2,536,422	76,550	324,328	-	(2,135,544)	-	(2,135,544)
Sanitation	1,113,650	1,294,598	-	-	180,948	-	180,948
Cultural and Recreational	2,441,304	776,849	-	-	(1,664,455)	-	(1,664,455)
Interest on long-term debt	557,871	-	-	-	(557,871)	-	(557,871)
Total governmental activities	13,253,725	2,792,477	494,798	-	(9,966,450)	-	(9,966,450)
Business-type activities:							
Electric	19,559,461	18,907,116	-	-	-	(652,345)	(652,345)
Water and Sewer	4,486,318	5,516,927	-	-	-	1,030,609	1,030,609
Total business-type activities	24,045,779	24,424,043	-	-	-	378,264	378,264
Total primary government	\$ 37,299,504	\$ 27,216,520	\$ 494,798	\$ -	(9,966,450)	378,264	(9,588,186)
General revenues:							
Taxes:							
Ad valorem taxes					5,863,358	-	5,863,358
Local option sales taxes					2,971,262	-	2,971,262
Other taxes and licenses					283,006	-	283,006
Unrestricted investment earnings					4,746	10,650	15,396
Miscellaneous					364,412	-	364,412
Special items:							
Loss on disposal of fixed assets					(18,328)	(9,593)	(27,921)
Total general revenues, special items and transfers					9,468,456	1,057	9,469,513
Change in net position					(497,994)	379,321	(118,673)
Net position, beginning as previously stated					27,406,094	23,773,565	51,179,659
Prior period adjustment					18,996	(1,655,643)	(1,636,647)
Net position, beginning as restated					27,425,090	22,117,922	49,543,012
Net position, ending					\$ 26,927,096	\$ 22,497,243	\$ 49,424,339

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

**Town of Smithfield
Balance Sheets
Governmental Funds
June 30, 2013**

	Major Funds			Total Governmental Funds
	General	General Fund Capital Projects	Non-major Special Revenue Fund	
ASSETS				
Cash and cash equivalents	\$ 2,676,892	\$ 636,702	\$ 4,609	\$ 3,318,203
Restricted cash	262,835	2,381,820	-	2,644,655
Receivables, net:				
Taxes	104,051	-	-	104,051
Accounts	168,008	-	-	168,008
Due from other governments	680,578	5,582	-	686,160
Due from other funds	483,269	-	-	483,269
Inventories	-	-	-	-
Total assets	<u>\$ 4,375,633</u>	<u>\$ 3,024,104</u>	<u>\$ 4,609</u>	<u>\$ 7,404,346</u>
LIABILITIES				
Accounts payable and accrued liabilities - trade	\$ 178,335	\$ 35,700	\$ -	\$ 214,035
Accrued payroll and payroll liabilities	201,456	-	-	201,456
Due to other funds	-	478,660	4,609	483,269
Total liabilities	<u>379,791</u>	<u>514,360</u>	<u>4,609</u>	<u>898,760</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	104,051	-	-	104,051
Total deferred inflows of resources	<u>104,051</u>	<u>-</u>	<u>-</u>	<u>104,051</u>
FUND BALANCES				
Restricted:				
USDA debt payments	26,348	-	-	26,348
Public Safety	26,005	-	-	26,005
Stabilization by State Statute	1,331,850	-	-	1,331,850
Streets	264,000	-	-	264,000
Capital projects	-	2,509,744	-	2,509,744
Fire district	-	-	-	-
Unassigned	2,243,588	-	-	2,243,588
Total fund balances	<u>3,891,791</u>	<u>2,509,744</u>	<u>-</u>	<u>6,401,535</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,375,633</u>	<u>\$ 3,024,104</u>	<u>\$ 4,609</u>	

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

37,536,000

Liabilities for earned revenues considered deferred inflows of resources in fund statements.

104,051

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.

(17,114,490)

Net position of governmental activities

\$ 26,927,096

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, 2013

	Major Funds		Non-major Special Revenue Fund	Total Governmental Funds
	General Fund	General Fund Capital Projects		
REVENUES				
Ad valorem taxes	\$ 5,835,498	\$ -	\$ -	\$ 5,835,498
Other taxes and licenses	283,006	-	-	283,006
Unrestricted intergovernmental	2,971,262	-	-	2,971,262
Restricted intergovernmental	342,797	3,005	148,997	494,799
Sales and services	2,792,478	-	-	2,792,478
Investment earnings	4,108	638	-	4,746
Miscellaneous	364,412	-	-	364,412
Total revenues	12,593,561	3,643	148,997	12,746,201
EXPENDITURES				
Current:				
General government	1,336,975	-	-	1,336,975
Public safety	4,487,769	-	-	4,487,769
Street and Public Works	1,067,039	-	-	1,067,039
Sanitation	1,011,286	-	-	1,011,286
Cultural and Recreational	1,648,251	-	-	1,648,251
Debt service:				
Principal	1,117,241	-	-	1,117,241
Interest and other charges	557,871	-	-	557,871
Capital outlay	73,906	1,511,728	-	1,585,634
Total expenditures	11,300,338	1,511,728	-	12,812,066
Excess (deficiency) of revenues over expenditures	1,293,223	(1,508,085)	148,997	(65,865)
OTHER FINANCING SOURCES (USES)				
Transfers (to) from other funds	284,214	-	(284,214)	-
Proceeds from long-term debt	-	-	-	-
Sales of capital assets	49,462	-	-	49,462
Total other financing sources (uses)	333,676	-	(284,214)	49,462
Net change in fund balance	1,626,899	(1,508,085)	(135,217)	(16,403)
Fund balances, beginning as previously stated	2,246,253	4,017,472	135,217	6,398,942
Prior period adjustment	18,639	357	-	18,996
Fund balances, beginning as restated	2,264,892	4,017,829	135,217	6,417,938
Fund balances, ending	\$ 3,891,791	\$ 2,509,744	\$ -	\$ 6,401,535

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, 2013**

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

Net changes in fund balances - total governmental funds	\$	(16,403)
<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	1,585,634	
Depreciation expense for governmental assets	(2,614,644)	
Proceeds from sale of capital assets	(49,462)	
Loss on disposal of capital assets	<u>(18,328)</u>	
		(1,096,800)
<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 unavailable revenue for tax revenues		27,860
<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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		1,117,241
<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		(1,344)
Net pension obligation		(27,979)
Other postemployment benefits		(500,569)
Total changes in net position of governmental activities	<u>\$</u>	<u>(497,994)</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, 2013**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 5,893,575	\$ 5,899,900	\$ 5,835,498	\$ (64,402)
Other taxes and licenses	231,500	271,800	283,006	11,206
Unrestricted intergovernmental	2,895,000	2,929,325	2,971,262	41,937
Restricted intergovernmental	361,929	377,411	342,797	(34,614)
Sales and services	2,580,250	3,006,345	2,792,478	(213,867)
Investment earnings	7,000	7,000	4,108	(2,892)
Miscellaneous	141,500	266,425	364,412	97,987
Total revenues	<u>12,110,754</u>	<u>12,758,206</u>	<u>12,593,561</u>	<u>(164,645)</u>
Expenditures:				
Current:				
General government	2,125,505	2,084,853	1,336,975	747,878
Public safety	4,351,732	4,784,200	4,487,769	296,431
Street and Public Works	1,144,051	1,185,836	1,067,039	118,797
Sanitation	1,074,389	1,094,989	1,011,286	83,703
Cultural and Recreational	1,343,597	1,826,847	1,648,251	178,596
Debt service:				
Principal retirement	1,045,116	1,117,241	1,117,241	-
Interest and other charges	550,213	550,213	557,871	(7,658)
Capital Outlay	185,845	280,421	73,906	206,515
Total expenditures	<u>11,820,448</u>	<u>12,924,600</u>	<u>11,300,338</u>	<u>1,624,262</u>
Revenues over (under) expenditures	<u>290,306</u>	<u>(166,394)</u>	<u>1,293,223</u>	<u>1,459,617</u>
Other financing sources (uses):				
Appropriated (Unappropriated) fund balance	(423,475)	-	-	-
Sale of fixed assets	3,000	36,225	49,462	13,237
Transfers from other funds	130,169	130,169	284,214	154,045
Total other financing sources (uses)	<u>(290,306)</u>	<u>166,394</u>	<u>333,676</u>	<u>167,282</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>1,626,899</u>	<u>\$ 1,626,899</u>
Fund balances, beginning as previously stated			2,246,253	
Prior period adjustment			18,639	
Fund balances, beginning as restated			<u>2,264,892</u>	
Fund balances, ending			<u>\$ 3,891,791</u>	

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

**Town of Smithfield
Statement of Net Position
Proprietary Funds
June 30, 2013**

	Water and Sewer		
	Electric Fund	Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 4,652,610	\$ 5,198,396	\$ 9,851,006
Restricted cash	537,520	104,730	642,250
Accounts receivable (net)	1,778,236	572,777	2,351,013
Due from other governments	19,533	36,040	55,573
Due from other funds	-	-	-
Inventories	1,115,318	130,584	1,245,902
Total current assets	<u>8,103,217</u>	<u>6,042,527</u>	<u>14,145,744</u>
Capital assets:			
Land and other non-depreciable assets	274,547	738,787	1,013,334
Other capital assets, net of depreciation	9,622,051	5,863,835	15,485,886
Capital assets (net)	<u>9,896,598</u>	<u>6,602,622</u>	<u>16,499,220</u>
Total assets	<u>17,999,815</u>	<u>12,645,149</u>	<u>30,644,964</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities - trade	1,533,301	277,012	1,810,313
Accrued payroll and payroll liabilities	25,710	22,720	48,430
Customer deposits	537,520	104,730	642,250
Accrued interest payable	170,210	8,461	178,671
Compensated absences - current	16,314	13,404	29,718
Current portion of long-term debt	203,945	123,500	327,445
Total current liabilities	<u>2,487,000</u>	<u>549,827</u>	<u>3,036,827</u>
Non-current liabilities:			
Other non-current liabilities:			
Compensated absences	48,942	40,212	89,154
Other postemployment benefits	451,432	420,506	871,938
Non-current portion of long-term debt	3,888,891	260,911	4,149,802
Total non-current liabilities	<u>4,389,265</u>	<u>721,629</u>	<u>5,110,894</u>
Total liabilities	<u>6,876,265</u>	<u>1,271,456</u>	<u>8,147,721</u>
NET POSITION			
Net investment in capital assets	5,803,762	6,218,211	12,021,973
Unrestricted	5,319,788	5,155,482	10,475,270
Total net position	<u>\$ 11,123,550</u>	<u>\$ 11,373,693</u>	<u>\$ 22,497,243</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 Position
Proprietary Funds
For the Year Ended June 30, 2013

	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 18,503,724	\$ 5,485,836	\$ 23,989,560
Other operating revenues	403,392	31,091	434,483
Total operating revenues	<u>18,907,116</u>	<u>5,516,927</u>	<u>24,424,043</u>
OPERATING EXPENSES			
Utility operations	2,433,682	1,242,932	3,676,614
Electrical purchases	16,248,453	-	16,248,453
Water and sewer distribution	-	2,757,293	2,757,293
Administrative charges	-	84,931	84,931
Depreciation	704,484	384,446	1,088,930
Total operating expenses	<u>19,386,619</u>	<u>4,469,602</u>	<u>23,856,221</u>
Operating income (loss)	<u>(479,503)</u>	<u>1,047,325</u>	<u>567,822</u>
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	5,833	4,817	10,650
Interest and other charges	(172,842)	(16,716)	(189,558)
Total non-operating revenue (expenses)	<u>(167,009)</u>	<u>(11,899)</u>	<u>(178,908)</u>
Income (loss) before contributions and transfers	<u>(646,512)</u>	<u>1,035,426</u>	<u>388,914</u>
Loss on disposal of fixed assets	-	(9,593)	(9,593)
Transfers to other funds	-	-	-
Total income (loss) after contributions and transfers	<u>(646,512)</u>	<u>1,025,833</u>	<u>379,321</u>
Change in net position	<u>(646,512)</u>	<u>1,025,833</u>	<u>379,321</u>
Total net position, beginning, as previously stated	13,066,381	10,707,184	23,773,565
Prior period adjustment	(1,296,319)	(359,324)	(1,655,643)
Total net position, beginning, as restated	<u>11,770,062</u>	<u>10,347,860</u>	<u>22,117,922</u>
Total net position, ending	<u>\$ 11,123,550</u>	<u>\$ 11,373,693</u>	<u>\$ 22,497,243</u>

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

**Town of Smithfield
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013**

	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 18,441,047	\$ 5,504,096	\$ 23,945,143
Cash paid for goods and services	(17,747,850)	(3,074,346)	(20,822,196)
Cash paid to or on behalf of employees for services	(456,216)	(874,481)	(1,330,697)
Net customer deposits	64,943	16,455	81,398
Other operating revenues	403,392	31,091	434,483
Net cash provided (used) by operating activities	<u>705,316</u>	<u>1,602,815</u>	<u>2,308,131</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(112,551)	(226,142)	(338,693)
Principal paid on bonds and installment purchases	(196,045)	(123,500)	(319,545)
Interest paid on bonds and installment purchases	(172,842)	(16,716)	(189,558)
Net cash provided (used) by capital and related financing activities	<u>(481,438)</u>	<u>(366,358)</u>	<u>(847,796)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	5,833	4,817	10,650
Net cash provided (used) by investing activities	<u>5,833</u>	<u>4,817</u>	<u>10,650</u>
Net increase (decrease) in cash and cash equivalents	229,711	1,241,274	1,470,985
Balances, beginning	4,960,419	4,061,852	9,022,271
Balances, ending	<u>\$ 5,190,130</u>	<u>\$ 5,303,126</u>	<u>\$ 10,493,256</u>

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

**Town of Smithfield
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013**

	<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	\$ (479,503)	\$ 1,047,325	\$ 567,822
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	704,484	384,446	1,088,930
Changes in assets and liabilities:			-
(Increase) decrease in accounts receivable	189,049	24,472	213,521
(Increase) decrease in due from other governments	949	(6,861)	(5,912)
(Increase) decrease in inventory	19,453	(952)	18,501
Increase (decrease) in accounts payable and accrued liabilities	3,596	104,856	108,452
Increase (decrease) in accrued payroll and payroll liabilities	27,933	26,862	54,795
Increase (decrease) in customer deposits	64,943	16,455	81,398
Increase (decrease) in accrued vacation pay	14,245	(194)	14,051
Increase (decrease) in accrued other postemployment benefits	160,167	6,406	166,573
Total adjustments	<u>1,184,819</u>	<u>555,490</u>	<u>1,740,309</u>
Net cash provided by operating activities	<u>\$ 705,316</u>	<u>\$ 1,602,815</u>	<u>\$ 2,308,131</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 Position
Fiduciary Funds
June 30, 2013**

	<u>Private-Purpose Trust</u>		
	<u>Fund</u>	<u>Agency Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 88,270	\$ 204,815	\$ 293,085
Due from other governments	858	-	858
Total assets	<u>89,128</u>	<u>204,815</u>	<u>293,943</u>
LIABILITIES			
Current liabilities:			
Miscellaneous liabilities	-	-	-
Total liabilities	-	-	-
NET POSITION	<u>\$ 89,128</u>	<u>\$ 204,815</u>	<u>\$ 293,943</u>

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

Exhibit 11

**Town of Smithfield
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2013**

	Private-Purpose Trust Fund
ADDITIONS:	
Investment earnings	\$ -
DEDUCTIONS:	
Special projects	11,123
Changes in net assets	(11,123)
NET POSITION	
Total net position, beginning	100,251
Total net position, ending	\$ 89,128

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, 2013

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 position 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, 2013**

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, 2013

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 registered under the staggered system, 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, the Town's vehicle taxes for vehicles registered in Johnston County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2014. Uncollected taxes that were billed during this period are shown as a receivable on these financial statements and are offset by deferred inflows of resources.

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 is both restricted and unrestricted net position 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.

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.

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

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

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, Deferred Outflows/Inflows of Resources, 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 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.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has no items that meet this criterion. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has one item that meets this criterion for this category – property taxes receivable.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

9. 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 Position.

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.

10. 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, an 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.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents 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.

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.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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 – 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's debt service expenditures in the General Fund exceeded budgeted amounts. This overage is considered immaterial.

Finding 2013-2 - The Town's failed to meet the debt service coverage ratio requirements for its revenue bonds due to the Electric Fund's failure to generate sufficient operating income to cover operating expenses and debt service costs. Insufficient operating income resulted from the Town's failure to increase electric rates to ensure the electric fund could meet its obligations.

Finding 2013-1 - The Town recorded prior year adjustments to its prior financial statements due to implementation of internal control procedures to reconcile subsidiary documentation to the general ledgers. In prior years, subsidiary ledgers and documentation for cash, fixed assets, utility accounts receivable and utility billings were not reconciled to the general ledger accounts which created overstatements and understatements in operating results.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

B. Excess of Expenditures over Appropriations

None.

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, 2013, the Town's deposits had a carrying amount of \$16,749,199 and a bank balance of \$16,301,560. Of the bank balance, \$1,115,490 was covered by federal depository insurance, and \$15,186,070 was covered by collateral held under the Pooling Method. The Town's petty cash totaled \$1,443 at June 30, 2013.

2. Investments

At June 30, 2013 the Town's investment balances were as follows:

	<u>Cost Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust Cash Portfolio	<u>\$1,229,805</u>	<u>\$1,229,805</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, 2013**

3. Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit 1 at June 30, 2013 were as follows:

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
General	\$ 279,608	\$ 110,851	\$ 525,362	\$ 915,821
Other governmental	-	-	160,798	160,798
Allowance for doubtful accounts	(111,600)	(6,800)	-	(118,400)
Total governmental activities	\$ 168,008	\$ 104,051	\$ 686,160	\$ 958,219
Business-Type Activities:				
Electric	\$ 2,941,436	\$ -	\$ 19,533	\$ 2,960,969
Water and Sewer	1,053,977	-	36,040	1,090,017
Allowance for doubtful accounts	(1,644,400)	-	-	(1,644,400)
Total business-type activities	\$ 2,351,013	\$ -	\$ 55,573	\$ 2,406,586

Due from other governments consisted of the following:

Local option sales tax	\$ 325,362
Franchise tax	200,000
Medicaid reimbursement	116,813
Sales tax	38,403
	\$ 680,578

4. Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 6,319,188	\$ -	\$ 35,000	\$ 6,284,188
Construction in progress	2,556,279	1,511,728	-	4,068,007
Total capital assets not being depreciated	8,875,467	1,511,728	35,000	10,352,195
Capital assets being depreciated				
Buildings and improvements	16,754,039	-	-	16,754,039
Infrastructure	45,490,820	-	6,484	45,484,336
Equipment and vehicles	6,357,438	73,905	985,433	5,445,910
Total capital assets being depreciated	68,602,297	73,905	991,917	67,684,285
Less accumulated depreciation for				
Buildings and improvements	3,748,176	710,175	-	4,458,351
Infrastructure	30,403,490	1,620,342	3,242	32,020,590
Equipment and vehicles	4,693,297	284,127	955,885	4,021,539
Accumulated depreciation	38,844,963	\$ 2,614,644	\$ 959,127	40,500,480
Total capital assets, depreciated, net	29,757,334			27,183,805
Governmental activity capital assets, net	\$ 38,632,801			\$ 37,536,000

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

General government	\$ 137,569
Public safety	293,584
Street and public works	1,418,775
Sanitation	58,745
Cultural and recreational	705,971
	\$ 2,614,644

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Electric Fund				
Capital assets not being depreciated				
Land	\$ 85,000	\$ -	\$ -	\$ 85,000
Construction in progress	6,684,195	79,225	6,573,873	189,547
Total capital assets not being depreciated	6,769,195	79,225	6,573,873	274,547
Capital assets being depreciated				
Plant and distribution systems	6,097,530	6,573,873	-	12,671,403
Equipment	2,176,010	33,326	30,000	2,179,336
Total capital assets being depreciated	8,273,540	6,607,199	30,000	14,850,739
Less accumulated depreciation for				
Plant and distribution systems	3,540,885	631,071	-	4,171,956
Equipment	1,013,319	73,413	30,000	1,056,732
Accumulated Depreciation	4,554,204	\$ 704,484	\$ 30,000	5,228,688
Capital assets, depreciated, net	3,719,336			9,622,051
Electric Fund capital assets	<u>\$ 10,488,531</u>			<u>\$ 9,896,598</u>
Water and Sewer Fund				
Capital assets not being depreciated				
Land	\$ 214,100	\$ -	\$ -	\$ 214,100
Construction in progress	400,417	124,270	-	524,687
Total capital assets not being depreciated	614,517	124,270	-	738,787
Capital assets being depreciated				
Plant and distribution systems	13,051,506	-	29,216	13,022,290
Equipment	1,269,773	101,872	149,577	1,222,068
Total capital assets being depreciated	14,321,279	101,872	178,793	14,244,358
Less accumulated depreciation for				
Plant and distribution systems	6,918,898	336,807	-	7,255,705
Equipment	1,246,379	47,640	169,201	1,124,818
Accumulated Depreciation	8,165,277	\$ 384,447	\$ 169,201	8,380,523
Capital assets, depreciated, net	6,156,002			5,863,835
Water and Sewer Fund capital assets	<u>\$ 6,770,519</u>			<u>\$ 6,602,622</u>
Business-type Activities capital assets	<u>\$ 17,259,050</u>			<u>\$ 16,499,220</u>

A fully depreciated truck was (original cost \$35,604) was transferred to the Water and Sewer Fund from the General Fund. This is reflected in Water and Sewer Fund beginning balances and General Fund decreases.

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

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

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.

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 7.07% and 7.28%, 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, 2013, 2012 and 2011 were \$415,877, \$477,036 and \$516,517, 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, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	5
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	43
Total	48

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, 2013 was \$78,923.

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

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, 2012 was 20 years.

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	\$ 82,695
Interest on net pension obligation	(1,917)
Adjustment to annual required contribution	2,386
Annual pension cost	83,164
Contributions made	78,923
Increase (decrease) in net pension obligation	4,241
Net pension obligation beginning of year	(38,347)
Net pension obligation end of year	\$ (34,106)

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2013	\$ 83,164	94.90%	\$ (34,106)
6/30/2012	\$ 83,097	96.04%	\$ (38,347)
6/30/2011	\$ 73,843	135.45%	\$ (41,634)

4. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the Separation Allowance was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$738,432. The covered payroll (annual payroll of active employees covered by the Separation Allowance) was \$1,862,394 and the ratio of the UAAL to the covered payroll was 39.65%. 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 Separation Allowance 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

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

ended June 30, 2013 were \$127,669, which consisted of \$91,423 from the Town and \$36,246 from the law enforcement officers.

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, 2013 were \$220,061, which consisted of \$99,615 from the Town and \$120,446 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, 54 retirees are eligible vested in post-retirement health benefits. For the fiscal year ended June 30, 2013, the Town made payments for post-retirement health benefit premiums of \$249,580. 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, 2012, the date of the latest actuarial valuation:

	General Employees:
Retirees and dependents receiving benefits	54
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	95
Total	149

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 retiree. 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, 2013

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 7.55% of annual covered payroll. For the current year, the Town contributed \$249,580 or 6.05% of annual covered payroll. There were no contributions by employees for the fiscal year ended June 30, 2013. 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	145,125
Adjustment to annual required contribution	<u>(201,745)</u>
Annual OPEB cost (expense)	916,722
Contributions made	<u>(249,580)</u>
Increase (decrease) in net OPEB obligation	667,142
Net OPEB obligation, beginning of year	<u>3,628,122</u>
Net OPEB obligation, end of year	<u><u>\$ 4,295,264</u></u>

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, 2013 were as follows:

Trend Information			
For Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2013	\$ 916,722	27.2%	\$ 4,295,264
2012	\$ 978,446	21.1%	\$ 3,628,122
2011	\$ 1,085,574	9.5%	\$ 2,855,687

Funded Status and Funding Progress. As of December 31, 2012, 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 \$8,592,701. The covered payroll (annual payroll of active employees covered by the plan) was \$4,126,669, and the ratio of the UAAL to the covered payroll was 208.2 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, 2013

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, 2012 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 3.00% and (b) a 8.50% to 5.00% medical cost trend rate with 2018 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, 2012 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, 2013, the Town made contributions to the State for death benefits of \$0. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred Inflows of Resources

Deferred inflows of resources at year-end is comprised of property taxes receivable in the amount of \$104,051.

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 \$500,000 and \$300,000 statutory limits for workers'

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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, 2013**

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, 2013 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%	\$ 265,127
\$3,000,000 for construction of community center, due in fixed annual principal installments of \$150,000 plus interest at 4.06% through January 2028. Loan balance of \$2,250,000 refinanced at 2.92% in FY 2013. All other terms remain the same.	2,250,000
\$4,500,000 for construction of community center, due in fixed annual principal installments of \$225,000 plus interest at 4.06% through November 2027. Loan balance of \$3,375,000 refinance at 2.92% in FY 2013. All other terms remain the same.	3,375,000
\$500,000 for street surfacing, due in annual installments of \$50,000, plus interest at 3.22% through May 2018. Loan balance of \$250,000 refinanced at 1.78% during FY 2013. All other terms remain the same.	250,000
\$150,000 for renovations to EMS building, due in annual installments of \$8,808 through March 2037, interest at 4.125%	132,563
\$250,000 for Downtown Revitalization Project, due in annual installments of \$15,125 through 2036, interest at 4.375%	221,961
\$500,000 for street resurfacing, due in fixed annual installments of \$50,000 plus interest at 3.49% through October 2018	300,000
\$600,000 for equipment, due in annual installments of \$132,569 through November 2013, interest at 3.47%	128,123
\$133,000 for equipment, due in annual installments of \$46,154 through May 2014, interest at 2.04%	45,232
\$620,000 for equipment, due in annual installments of \$132,188 through November 2015, interest at 2.174%	379,956
\$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 December 31, 2013, interest at 1.13%	5,041,606
Total governmental activities	<u><u>\$ 12,389,568</u></u>

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Business-Type Activities:

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.	\$ 254,411
\$650,000 for construction of lift stations, due in annual installments of \$65,000, plus interest at 3.38% through March 2015	<u>130,000</u>
Total business-type activities	<u><u>\$ 384,411</u></u>

Future minimum payments as of June 30, 2013 for the installment purchase contracts are as follows:

Year Ending June 30	Principal	Interest	Total
Governmental Activities:			
2014	\$ 5,008,416	\$ 315,586	\$ 5,324,002
2015	782,002	243,591	1,025,593
2016	785,427	220,426	1,005,853
2017	656,753	197,391	854,144
2018	657,489	176,697	834,186
2019-2023	2,191,966	620,851	2,812,817
2024-2028	2,001,841	272,246	2,274,087
2029-2033	155,920	51,825	207,745
2034-2038	149,754	22,087	171,841
	<u>\$ 12,389,568</u>	<u>\$ 2,120,700</u>	<u>\$ 14,510,268</u>
 Business-Type Activities:			
Water and Sewer Fund:			
2014	\$ 123,500	\$ 12,681	\$ 136,181
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>\$ 384,411</u>	<u>\$ 28,840</u>	<u>\$ 413,251</u>

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

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 Position. 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>
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	175,000	4,112	179,112
	<u>\$ 925,000</u>	<u>\$ 59,866</u>	<u>\$ 984,866</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.

\$ 4,092,836

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 \$5,533,301. Principal and interest paid for the current year revenue bonds and total electric customer net revenues were \$368,887 and \$230,814, respectively.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

The debt service coverage ratio calculation for the year ended June 30, 2013 is as follows:

Operating revenues	\$ 18,907,116
Operating expenses	(19,386,619)
Add back:	
Investment earnings	5,833
Depreciation	704,484
Income available for debt service	<u>\$ 230,814</u>
Debt service principal and interest paid (Revenue bond only)	<u>\$ 368,887</u>
Debt service coverage ratio	63%

The Town's debt service coverage ratio is less than 120% of the debt service requirement for the year ended June 30, 2013.

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>
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	238,863	130,024	368,887
2019-2023	1,346,703	497,731	1,844,434
2024-2028	1,640,835	203,599	1,844,434
	<u>\$ 4,092,835</u>	<u>\$ 1,440,466</u>	<u>\$ 5,533,301</u>

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

d. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	Balance July 1, 2012	Increases	Decreases	Balance June 30, 2013	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 13,331,059	\$ -	\$ 941,491	\$ 12,389,568	\$ 5,008,416
General obligation bonds	1,100,750	-	175,750	925,000	195,000
Compensated absences	409,359	1,344	-	410,703	102,676
Other postemployment benefits	2,922,756	500,569	-	3,423,325	-
Total	<u>\$ 17,763,924</u>	<u>\$ 501,913</u>	<u>\$ 1,117,241</u>	<u>\$ 17,148,596</u>	<u>\$ 5,306,092</u>
Business-type activities:					
Revenue bonds	\$ 4,288,881	\$ -	\$ 196,045	\$ 4,092,836	\$ 203,945
Installment purchases	507,911	-	123,500	384,411	123,500
Compensated absences	104,821	14,051	-	118,872	29,718
Other postemployment benefits	705,365	166,573	-	871,938	-
Total	<u>\$ 5,606,978</u>	<u>\$ 180,624</u>	<u>\$ 319,545</u>	<u>\$ 5,468,057</u>	<u>\$ 357,163</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, 2013, the Town of Smithfield had a legal debt margin of \$ 68,644,756.

C. Interfund Balances and Activity

Due To/From Other Funds

At June 30, 2013, \$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, 2013, \$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, 2013, the Town recognized payments for pension contributions made by the State as a revenue and an expenditure of \$15,129 for the 28 volunteer firemen and the 13 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. 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, 2013**

E. Prior Period Adjustment

Prior period adjustments were posted to the books to reconcile general ledger accounts to subsidiary ledgers due to the implementation of procedures to reconcile general ledger accounts to supporting documentation and ledgers. As a result, general fund beginning fund balance was increased by \$18,639, general fund capital projects beginning fund balance was decreased by \$1,356,997, and governmental activities beginning net position was decreased by \$1,338,358. Also, electric fund beginning net position was decreased by \$1,296,319 and water and sewer fund beginning net position was decreased by \$359,324. In prior years, subsidiary ledgers and documentation for cash, fixed assets, utility accounts receivable and utility billings were not reconciled to the general ledger accounts which created overstatements and understatements in operating results.

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	\$ 3,891,791
Less restricted for:	
USDA debt payments	26,348
Public safety	26,005
Stabilization by State statute	1,331,850
Streets	264,000
Remaining Fund Balance	2,243,588

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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, 2013 were \$16,245,645.

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.

VIII. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously reports as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Net Position.

IX. Interfund Transfers

During the year ended June 30, 2013, \$284,214 was transferred from the Smithfield Fire Tax District Special Revenue Fund to the General Fund to cover operating expenses.

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, 2013**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued 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)
12/31/2012	\$ -	\$ 738,432	\$ 738,432	0.00%	\$ 1,862,394	39.65%
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
2013	\$ 82,695	95.44%
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:	12/31/2012
Actuarial cost method:	Projected unit credit
Amortization method:	Level percent of pay closed
Remaining amortization period:	18 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, 2013**

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)			
12/31/2012	\$ -	\$ 8,592,701	\$8,592,701	0%	\$ 4,126,669	208.22%
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
2013	\$ 973,342	25.64%
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:	12/31/2012
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	8.50% - 5.00%
Post-Medicare trend rate	6.25% - 5.00%
Year of ultimate trend rate	2018
*Includes inflation at	3.00%

**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, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes			
Taxes	\$	\$ 5,726,802	\$
Downtown district tax		90,835	
Penalties and interest		17,861	
Total	<u>5,899,900</u>	<u>5,835,498</u>	<u>(64,402)</u>
Other taxes and licenses			
Privilege licenses		78,010	
Zoning permits		18,155	
Other permits		26,765	
Occupancy Tax		160,076	
Total	<u>271,800</u>	<u>283,006</u>	<u>11,206</u>
Unrestricted intergovernmental			
Franchise tax		800,248	
Beer and wine tax		44,477	
ABC board profit distribution		58,192	
Local option sales tax		1,922,769	
PEG channel fees		89,216	
Solid waste disposal tax		6,933	
Excise tax - rentals		49,427	
Total	<u>2,929,325</u>	<u>2,971,262</u>	<u>41,937</u>
Restricted intergovernmental			
Powell Bill allocation		321,969	
Department of Justice forfeitures		9,421	
JAG grant		9,047	
Cemetery grant		2,360	
Total	<u>377,411</u>	<u>342,797</u>	<u>(34,614)</u>
Sales and services			
Cemetery lot sales and grave openings		76,550	
Public safety fees		228,777	
Refuse collection fees		1,294,598	
Recreation fees		64,870	
EMS fees		415,703	
Aquatic Center fees		711,980	
Total	<u>3,006,345</u>	<u>2,792,478</u>	<u>(213,867)</u>
Investment earnings	<u>7,000</u>	<u>4,108</u>	<u>(2,892)</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, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Miscellaneous			
Blount Street assessments		4,036	
Medicaid reimbursements		116,813	
Cell tower rental		51,442	
Other		192,121	
Total	<u>266,425</u>	<u>364,412</u>	<u>97,987</u>
Total revenues	<u>12,758,206</u>	<u>12,593,561</u>	<u>(164,645)</u>
Expenditures:			
General Government:			
Governing Body			
Salaries and employee benefits		368,093	
Operating expenditures		55,893	
Capital outlay		28,375	
Overhead allocated to other funds		(214,375)	
Total	<u>336,484</u>	<u>237,986</u>	<u>98,498</u>
Administration			
Operating expenditures		1,088,886	
Overhead allocated to other funds		(377,717)	
Total	<u>1,322,987</u>	<u>711,169</u>	<u>611,818</u>
Finance			
Salaries and employee benefits		227,322	
Operating expenditures		27,841	
Capital outlay		1,488	
Overhead allocated to other funds		(126,489)	
Total	<u>144,822</u>	<u>130,162</u>	<u>14,660</u>
Building and Planning			
Salaries and employee benefits		252,713	
Operating expenditures		34,808	
Capital outlay		876	
Total	<u>343,460</u>	<u>288,397</u>	<u>55,063</u>
Total general government	<u>2,147,753</u>	<u>1,367,714</u>	<u>780,039</u>
Public safety:			
Police			
Salaries and employee benefits		2,695,212	
Operating expenditures		366,140	
Capital outlay		40,767	
Total	<u>3,295,329</u>	<u>3,102,119</u>	<u>193,210</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, 2013**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire			
Salaries and employee benefits		1,141,367	
Operating expenditures		171,977	
Total	<u>1,430,922</u>	<u>1,313,344</u>	<u>117,578</u>
Emergency Medical Services			
Salaries and employee benefits		51,239	
Operating expenditures		61,834	
Total	<u>181,500</u>	<u>113,073</u>	<u>68,427</u>
Total public safety	<u>4,907,751</u>	<u>4,528,536</u>	<u>379,215</u>
Street and Public Works:			
Community Appearance			
Salaries and employee benefits		336,487	
Operating expenditures		141,356	
Capital outlay		180	
Total	<u>564,112</u>	<u>478,023</u>	<u>86,089</u>
Streets			
Salaries and employee benefits		251,126	
Operating expenditures		502,291	
Capital outlay		720	
Overhead allocated to other funds		(197,862)	
Total	<u>598,782</u>	<u>556,275</u>	<u>42,507</u>
Garage			
Salaries and employee benefits		52,525	
Operating expenditures		30,729	
Capital outlay		660	
Overhead allocated to other funds		(49,613)	
Total	<u>40,192</u>	<u>34,301</u>	<u>5,891</u>
Total street and public works	<u>1,203,086</u>	<u>1,068,599</u>	<u>134,487</u>
Sanitation:			
Salaries and employee benefits		682,255	
Operating expenditures		329,031	
Capital outlay		840	
Total sanitation	<u>1,103,489</u>	<u>1,012,126</u>	<u>91,363</u>
Cultural and recreational:			
Salaries and employee benefits		1,116,415	
Operating expenditures		531,836	
Total cultural and recreational	<u>1,895,067</u>	<u>1,648,251</u>	<u>246,816</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, 2013**

	Budget	Actual	Variance Positive (Negative)
Debt service:			
Principal retirement		1,117,241	
Interest and other charges		557,871	
Total debt service	<u>1,667,454</u>	<u>1,675,112</u>	<u>(7,658)</u>
Total expenditures	<u>12,924,600</u>	<u>11,300,338</u>	<u>1,624,262</u>
Revenues over (under) expenditures	<u>(166,394)</u>	<u>1,293,223</u>	<u>1,459,617</u>
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Transfers from other funds	130,169	284,214	154,045
Sale of fixed assets	36,225	49,462	13,237
Total	<u>166,394</u>	<u>333,676</u>	<u>167,282</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>1,626,899</u>	<u>\$ 1,626,899</u>
Fund balance, beginning as previously stated		2,246,253	
Prior period adjustment		18,639	
Fund balance, beginning as restated		<u>2,264,892</u>	
Fund balance, ending		<u>\$ 3,891,791</u>	

**Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Balance Sheet
June 30, 2013**

Assets

Cash and cash equivalents	\$ <u>4,609</u>
Total assets	\$ <u><u>4,609</u></u>

Liabilities and Fund Balances

Liabilities:

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

Fund balances:

Unassigned	<u>-</u>
Total liabilities and fund balances	\$ <u><u>4,609</u></u>

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, 2013

Revenues	
Fire district taxes	\$ 148,997
Total revenues	148,997
Expenditures	
Public safety	-
Total expenditures	-
Revenues over (under) expenses	148,997
Other financing sources (uses):	
Operating transfers out	(284,214)
Total other financing sources (uses)	(284,214)
Excess (deficiency) of revenues and other financing sources over expenditures	(135,217)
Fund balance, beginning	135,217
Fund balance, ending	\$ -

Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended June 30, 2013

	Budget	Actual	Variance
Revenues			
Fire district taxes	\$ 130,169	\$ 148,997	\$ 18,828
Total revenues	130,169	148,997	18,828
Expenditures			
Public safety	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenses	130,169	148,997	18,828
Other financing sources (uses):			
Appropriated fund balance	(135,217)	-	135,217
Operating transfers out	(130,169)	(284,214)	(135,217)
Total other financing sources (uses)	(284,214)	(284,214)	-
Excess (deficiency) of revenues and other financing sources over expenditures	\$ -	(135,217)	\$ -
Fund balance, beginning		135,217	
Fund balance, ending		\$ -	

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, 2013

	Project Authorization	Prior Years	Current Year	Total Project To Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 1,700,400	\$ 739,976	\$ 3,005	\$ 742,981	\$ (957,419)
Contributions	776,000	276,000	-	276,000	(500,000)
Investment earnings	-	11,374	638	12,012	12,012
Total revenues	<u>2,476,400</u>	<u>1,027,350</u>	<u>3,643</u>	<u>1,030,993</u>	<u>(1,445,407)</u>
Expenditures:					
Neuse River Theater repairs	80,000	40,695	-	40,695	39,305
Professional park	276,000	276,000	-	276,000	-
Smithfield Crossings Area "A"	950,400	1,219,204	192,719	1,411,923	(461,523)
Smithfield Crossings Area "B"	5,206,400	1,020,380	1,319,009	2,339,389	2,867,011
Total expenditures	<u>6,512,800</u>	<u>2,556,279</u>	<u>1,511,728</u>	<u>4,068,007</u>	<u>2,444,793</u>
Revenues over (under) expenditures	<u>(4,036,400)</u>	<u>(1,528,929)</u>	<u>(1,508,085)</u>	<u>(3,037,014)</u>	<u>999,386</u>
Other financing sources (uses):					
Transfers in	80,000	340,000	-	340,000	260,000
Debt issued	3,956,400	5,206,400	-	5,206,400	1,250,000
Total other financing sources (uses)	<u>4,036,400</u>	<u>5,546,400</u>	<u>-</u>	<u>5,546,400</u>	<u>1,510,000</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 4,017,471</u>	<u>\$(1,508,085)</u>	<u>\$ 2,509,386</u>	<u>\$ 2,509,386</u>

**Town of Smithfield
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Ended June 30, 2013**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Electricity sales	\$	\$ 18,503,724	\$
Connection fees		22,219	
Miscellaneous		16,349	
Penalties		364,824	
Total	<u>20,061,750</u>	<u>18,907,116</u>	<u>(1,154,634)</u>
Non-operating revenues:			
Interest earnings		5,772	
Total	<u>14,000</u>	<u>5,772</u>	<u>(8,228)</u>
Total revenues	<u>20,075,750</u>	<u>18,912,888</u>	<u>(1,162,862)</u>
Expenditures:			
Electrical purchases		16,248,453	
Electrical operations		2,259,270	
Capital outlay		33,326	
Debt service		368,887	
Total	<u>20,075,750</u>	<u>18,909,936</u>	<u>1,165,814</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>\$ 2,952</u>	<u>\$ 2,952</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 2,952	
Reconciling items:			
Principal repayment on long-term debt		196,045	
Capital outlay		33,326	
Depreciation		(704,484)	
(Increase) decrease in compensated absences		(14,245)	
(Increase) decrease in other postemployment benefits		(160,167)	
Investment earnings from water and sewer capital project		61	
Total reconciling items		<u>(649,464)</u>	
Net income		<u>\$ (646,512)</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, 2013

	Actual			Total Project To Date	Variance Favorable (Unfavorable)
	Project Authorization	Prior Years	Current Year		
Revenues:					
Investment earnings	\$ -	\$ -	\$ 61	\$ 61	\$ 61
Total revenues	-	-	61	61	61
Expenditures:					
Pole replacement	50,000	49,827	75,095	124,922	(74,922)
Smithfield Crossings Utilities	65,000	60,494	4,131	64,625	375
Total expenditures	115,000	110,321	79,226	189,547	(74,547)
Excess (Deficit) of revenues over (under) expenditures	(115,000)	(110,321)	(79,165)	(189,486)	(74,486)
Other financing sources (uses):					
Interfund transfers in	115,000	-	-	-	(115,000)
Total other financing sources (uses)	115,000	-	-	-	(115,000)
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	<u>\$ -</u>	<u>\$ (110,321)</u>	<u>\$ (79,165)</u>	<u>\$ (189,486)</u>	<u>\$ (189,486)</u>

Reconciliation of Modified Accrual Basis to Full Accrual Basis:

Excess (Deficit) of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses	<u>\$ (189,486)</u>
Expenditures Recorded as Construction in Progress	<u>\$ 189,547</u>
Net Income	<u>\$ 61</u>

**Town of Smithfield
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Ended June 30, 2013**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$	\$ 2,773,173	\$
Sewer sales		2,712,663	
Connection and tap fees		30,055	
Miscellaneous		1,036	
Total	<u>5,537,754</u>	<u>5,516,927</u>	<u>(20,827)</u>
Non-operating revenues:			
Interest earnings		4,636	
Total	<u>4,300</u>	<u>4,636</u>	<u>336</u>
Total revenues	<u>5,542,054</u>	<u>5,521,563</u>	<u>(20,491)</u>
Expenditures:			
Water treatment plan		1,204,481	
Water and sewer distribution		2,716,309	
Repairs and maintenance		73,223	
Capital outlay		101,872	
Administrative services		84,931	
Debt service		140,216	
Total	<u>5,542,054</u>	<u>4,321,032</u>	<u>1,221,022</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>\$ 1,200,531</u>	<u>\$ 1,200,531</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 1,200,531	
Reconciling items:			
Principal repayment on long-term debt		123,500	
Capital outlay		101,872	
Depreciation		(384,446)	
Loss on disposal of fixed assets		(9,593)	
(Increase) decrease in compensated absences		194	
(Increase) decrease in other postemployment benefits		(6,406)	
Investment earnings from water and sewer capital project		181	
Total reconciling items		<u>(174,698)</u>	
Net income		<u>\$ 1,025,833</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, 2013

	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	181	35,154	35,154
Total revenues	335,600	344,195	181	344,376	8,776
Expenditures:					
Sewer line rehab	191,000	176,518	-	176,518	14,482
Center point loop	15,000	-	-	-	15,000
Hydrant replacement	50,000	49,781	-	49,781	219
West Smithfield I & I	100,000	49,848	-	49,848	50,152
Bridge Replacement	217,000	124,270	124,270	248,540	(31,540)
Total expenditures	573,000	400,417	124,270	524,687	48,313
Excess (Deficit) of revenues over (under) expenditures	(237,400)	(56,222)	(124,089)	(180,311)	57,089
Other financing sources (uses):					
Interfund transfers in	237,400	265,000	-	265,000	27,600
Total other financing sources (uses)	237,400	265,000	-	265,000	27,600
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ 208,778	\$ (124,089)	\$ 84,689	\$ 84,689
Reconciliation of Modified Accrual Basis to Full Accrual Basis:					
Excess (Deficit) of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses				<u>\$ 84,689</u>	
Expenditures Recorded as Construction in Progress				<u>\$ 524,687</u>	
Net Income (Loss)				<u>\$ 609,376</u>	

Town of Smithfield
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2013

	Balance				Balance
	July 1, 2012	Additions	Deductions		June 30, 2013
ASSETS					
Cash and cash equivalents	\$ 207,469	\$ 9,198	\$ 11,852	\$	204,815
Total assets	<u>207,469</u>	<u>9,198</u>	<u>11,852</u>		<u>204,815</u>
LIABILITIES					
Current liabilities:					
Miscellaneous liabilities	-	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION	<u>\$ 207,469</u>	<u>\$ 9,198</u>	<u>\$ 11,852</u>	<u>\$</u>	<u>204,815</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, 2013

Fiscal Year	Uncollected Balance July 1, 2012	Additions	Collections And Credits	Uncollected Balance June 30, 2013
2013	\$ -	\$ 5,931,144	\$ 5,872,859	\$ 58,285
2012	67,429	-	44,979	22,450
2011	15,332	-	3,953	11,379
2010	7,791	-	980	6,811
2009	6,039	-	913	5,126
2008	5,547	-	903	4,644
2007	5,834	-	5,131	703
2006	4,582	-	4,379	203
2005	4,476	-	4,329	147
2004	5,354	-	5,097	257
2003	5,807	-	4,961	846
	<u>\$ 128,191</u>	<u>\$ 5,931,144</u>	<u>\$ 5,948,484</u>	<u>\$ 110,851</u>

Less allowance for uncollectible ad valorem taxes receivable: (6,800)

Ad valorem taxes receivable, net \$ 104,051

Reconciliation with Revenues:

Ad valorem taxes:

General Fund \$ 5,835,498

Ad valorem taxes - General Fund

Penalties and interest (17,861)

Taxes written off 130,847

112,986

\$ 5,948,484

**Town of Smithfield
 Analysis of Current Tax Levy
 Town - Wide Levy
 For the Fiscal Year Ended June 30, 2013**

	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	\$ 1,012,179,370	0.57	\$ 5,769,425	\$ 5,320,534	\$ 448,891
Discoveries	25,936,848	0.57	147,840	145,956	1,884
Releases	(13,624,668)	0.57	(77,660)	(28,423)	(49,237)
Total Property Valuation	<u>\$ 1,024,491,550</u>				
Net levy			5,839,605	5,438,067	401,538
Uncollected taxes at June 30, 2013			<u>(58,278)</u>	<u>(18,798)</u>	<u>(39,480)</u>
Current year's taxes collected			<u>\$ 5,781,327</u>	<u>\$ 5,419,269</u>	<u>\$ 362,058</u>
Current levy collection percentage			<u>99.00%</u>	<u>99.65%</u>	<u>90.17%</u>

**Town of Smithfield
 Analysis of Current Tax Levy - Downtown District
 Town - Wide Levy
 For the Fiscal Year Ended June 30, 2013**

	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	\$ 47,656,967	0.19	\$ 90,548	\$ 89,876	\$ 672
Discoveries	753,205	0.19	1,431	1,431	-
Releases	(232,156)	0.19	(441)	(253)	(188)
Total Property Valuation	<u>\$ 48,178,016</u>				
Net levy			91,538	91,054	484
Uncollected taxes at June 30, 2013			<u>(7)</u>	<u>(7)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 91,531</u>	<u>\$ 91,047</u>	<u>\$ 484</u>
Current levy collection percentage			<u>99.99%</u>	<u>99.992%</u>	<u>100.00%</u>

COMPLIANCE SECTION

PETWAY**MILLS &****PEARSON, PA***CERTIFIED PUBLIC ACCOUNTANTS*

C. Briggs Petway, Jr.
 Roger G. Mills
 Phyllis M. Pearson

Zebulon Office
 P.O. Box 1036
 806 N. Arendell Ave.
 Zebulon, NC 27597
 919.269.7405
 919.269.8728 Fax

Raleigh Office
 5116 Bur Oak Cr.
 Raleigh, NC 27612
 919.781.1047
 919.781.1052 Fax

www.pmpcpa.com

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Smithfield, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Town of Smithfield's basic financial statements, and have issued our report thereon dated January 14, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Town of Smithfield's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Smithfield's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 a 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 2013-1 and 2013-2.

Memberships:

North Carolina
 Association of
 Certified Public
 Accountants

American Institute
 of Certified Public
 Accountants

Medical Group
 Management
 Association

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 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Smithfield's financial statements are free from 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 required to be reported

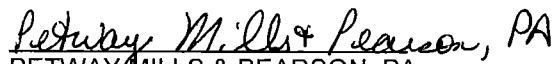
under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2013-1 and 2013-2.

Town of Smithfield's Responses to Findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


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

January 14, 2014

Town of Smithfield
Schedule of Findings and Responses
For the Year Ended June 30, 2013

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Modified

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

Town of Smithfield
Schedule of Findings and Responses
For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

**Material Weakness
Finding 2013-1**

Criteria:

North Carolina General Statute 159-26.a requires units to maintain accurate and complete accounting records. The accounting system should be designed to show in detail the Town's assets, liabilities, equities, revenues and expenditures.

Condition:

In the current year, there was violations of General Statutes 159-26.a due to incomplete and inaccurate accounting records which resulted in adjustments to beginning balances because prior year balances were either overstated or understated.

Effect:

Prior year adjustments were made to the financial statements to correct errors in beginning balances. The general fund beginning fund balance was increased by \$18,639, general fund capital projects beginning fund balance was decreased by \$1,356,997, the electric fund beginning net positions was decreased by \$1,296,319 and the water and sewer fund beginning net position was decreased by \$359,324. The governmental activities beginning net position was decreased by \$1,338,358.

Cause:

The Town's records were not complete due to the failure to reconcile cash, fixed assets, revenues, accounts receivable and customer deposits to subsidiary ledgers in a timely manner in 2012. In 2012, the auditors' recommended the establishment of internal controls to reconcile subsidiary ledgers. In 2013, prior year adjustments were required to adjust balances to correct amounts as a result of applying appropriate reconciliation procedures.

Recommendation:

The Town should continue to reconcile fixed assets, 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, to monitor compliance with debt covenants and to ensure that reconciliations are performed timely.

**Material Weakness
Finding 2013-2**

Criteria:

The Town is required to comply with the terms and conditions of debt agreements.

Condition:

The Town failed to comply with the terms and conditions of the debt agreement for its Electric Fund revenue bonds by not maintaining a 120% debt service coverage ratio.

Effect:

The Town is in default on its debt agreement.

Cause:

The Town failed to properly monitor its operating revenues and operating expenses to ensure that the debt service coverage ratio was met. The Town also failed to increase electric rates to ensure sufficient revenues were available to fund operations.

Recommendation:

The Town should implement procedures to monitor fund operations more closely and consider electric rate increases.

Views of responsible officials and planned corrective actions:

The Town will monitor operations more closely and consider rate increases.

Town of Smithfield
Corrective Action Plan
For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2013-1

Name of contact person:
Greg Siler, 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.

Completion date:
Immediately

Finding 2013-2

Name of contact person:
Greg Siler, Finance Director

Corrective Action:
The Town is considering increasing electric rates to provide additional operating income to the the Electric Fund to ensure debt covenants are met and monitor fund operations more closely.

Completion date:
Immediately

Town of Smithfield
Summary Schedule of Prior Year's Findings
For the Year Ended June 30, 2013

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: 2012-1

Status: The Town's unassigned fund balance is greater than 8% of prior year expenditures.

Finding: 2012-2

Status: The Town has reconciled cash, revenues, accounts receivables and customer deposits to subsidiary ledgers monthly.

Town of Smithfield, North Carolina
 Schedule of Expenditures of State Awards
 For the Year Ended June 30, 2013

Grantor/Pass-through/ Grantor- Program Title	State/ Pass-through Grantor's Number	State Expenditures
STATE AWARDS		
N.C. Department of Transportation Powell Bill	DOT-4	\$ 375,374
TOTAL STATE AWARDS		<u>375,374</u>
TOTAL STATE ASSISTANCE		<u>\$ 375,374</u>

Notes to the Schedule of Expenditures of State Financial Awards

Basis of Presentation

The accompanying Schedule of Expenditures of State Awards includes the 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 *Government Auditing Standards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial