

TOWN OF SMITHFIELD

Financial Statements

Smithfield, North Carolina

For the Year Ended June 30, 2017

Town of Smithfield, North Carolina
Financial Statements
June 30, 2017

Mayor

M. Andy Moore

Town Council

Emery Ashley - Mayor Pro-Tem

John A Dunn - At-Large

Perry Harris - District 2

Stephen Rabil - At-Large

Travis Scott - District 3

Marlon Lee - District 1

Roger A Wood - District 4

Finance Director

Greg Siler

Town Manager

Michael Scott

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Independent Auditors' Report

To the Honorable Mayor and Members of the Town Council
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 then ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town'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 the financial statements are free of 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 auditors' 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 financial statement 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 upon 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, 2017, and the respective changes in financial position and cash flows, where applicable, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 11, the Other Postemployment Benefits Schedules of Funding Progress and Schedules of Employer Contributions on page 52, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 53 through 54, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 55 through 56, be presented to supplement the basic financial statements. Such information, although not a required 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 Town of Smithfield's basic financial statements. The combining and individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S.Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates 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 by us. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund financial statements, budgetary schedules, Schedule of Expenditures of Federal and State Awards, and other schedules 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 10, 2018 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, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Town of Smithfield's internal control over financial reporting and compliance.

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC
January 10, 2018

FINANCIAL SECTION

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, 2017. 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

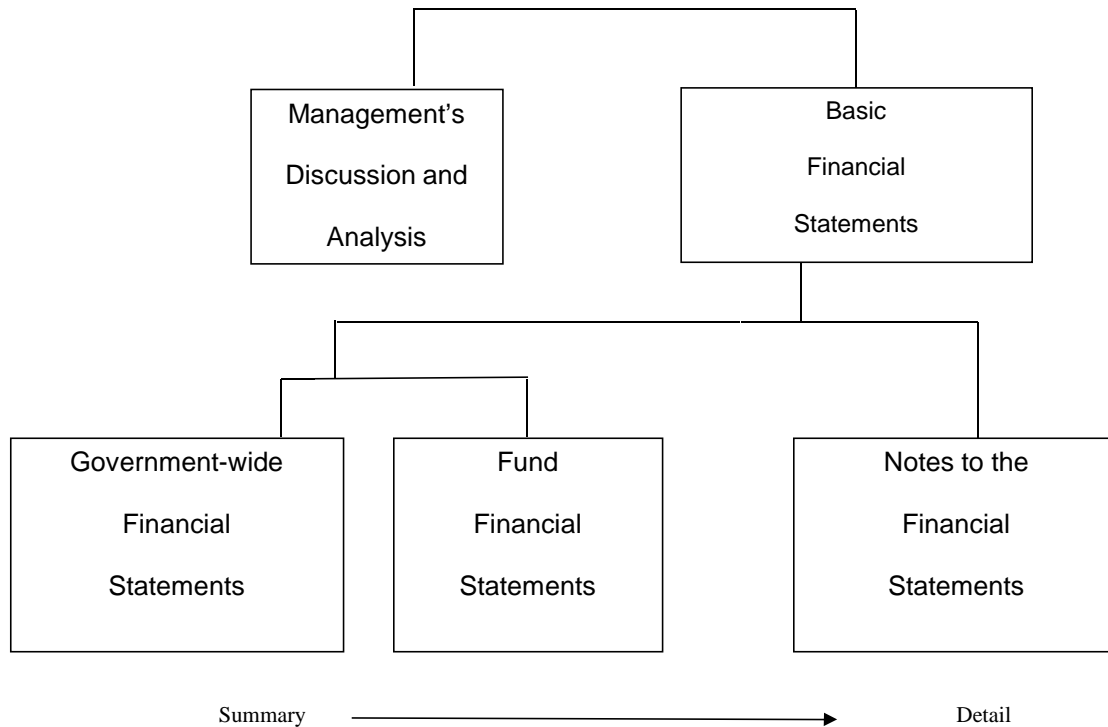
- The assets of the Town of Smithfield exceeded its liabilities at the close of the fiscal year by \$54,948,223 (net position).
- Total governments total net position increased by \$3,364,433, primarily due to increases in the business -types activities net position. In addition, prior period adjustments and restatements were made that increased beginning net position in the governmental activities by \$45,562, and decreased beginning net position in the business-type activities by \$1,031,422.
- As of the close of the current fiscal year, the Town of Smithfield's governmental funds reported combined ending fund balances of \$9,447,100, an increase of \$501,816 in comparison with the prior year. Approximately \$1,971,507 (20.87 percent) is unavailable (nonspendable or restricted by state statute); Approximately 75.81 percent is unassigned or available for spending at the government's discretion.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,848,135 or 62.72 percent of total general fund expenditures for the fiscal year; compared to \$6,664,258, or 55.5 percent the prior fiscal year.
- The Town of Smithfield's total debt (excluding compensated absences, net pension liability, total pension liability, and OPEB) decreased by \$435,111 (2.83 percent) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to 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. As an overview, the following chart outlines the required components of the annual financial report.

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 three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary 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 and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

Government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. 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 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 (see Figure 1) 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 Town of Smithfield can be divided into two categories: governmental funds and proprietary 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* which provides a short-term spending 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.

An annual budget is adopted for the Town of Smithfield General Fund, as required by the General Statutes. The budget is 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 prior 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 legal budget document. This statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Boards; 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. Town of Smithfield uses enterprise funds to account for its water and sewer operations and electric operations. This funds is the same as the separate activity shown in the business-type activities in the Statement of Net Asset 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./J.P. 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 are included in this report after 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 Exhibit A-1 of this report.

Town of Smithfield's Net Position
Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 9,966,921	\$ 9,653,350	\$ 20,366,247	\$ 19,110,837	\$ 30,333,168	\$ 28,764,187
Capital assets	33,550,416	33,215,922	18,212,617	15,961,806	51,763,033	49,177,728
Deferred outflows of resources	1,473,680	297,177	493,434	101,916	1,967,114	399,093
Total assets and deferred outflows of resources	<u>44,991,017</u>	<u>43,166,449</u>	<u>39,072,298</u>	<u>35,174,559</u>	<u>84,063,315</u>	<u>78,341,008</u>
Current liabilities	1,520,780	1,510,100	3,310,147	3,330,046	4,830,927	4,840,146
Non-current liabilities	15,016,026	13,301,341	9,004,762	7,243,253	24,020,788	20,544,594
Deferred inflows of resources	201,924	293,830	61,453	92,788	263,377	386,618
Total liabilities and deferred inflows of resources	<u>16,738,730</u>	<u>15,105,271</u>	<u>12,376,362</u>	<u>10,666,087</u>	<u>29,115,092</u>	<u>25,771,358</u>
Net position:						
Invested in capital assets, net of related debt	25,634,541	24,376,543	11,961,009	9,491,157	37,595,550	33,867,700
Restricted	2,031,428	1,613,974	-	102,718	2,031,428	1,716,692
Unrestricted	586,318	2,070,661	14,734,927	14,914,597	15,321,245	16,985,258
Total net position	<u>\$ 28,252,287</u>	<u>\$ 28,061,178</u>	<u>\$ 26,695,936</u>	<u>\$ 24,508,472</u>	<u>\$ 54,948,223</u>	<u>\$ 52,569,650</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by \$54,948,223 as of June 30, 2017. The Town's net position increased by \$3,364,433 for the fiscal year ended June 30, 2017. The largest portion of net position \$37,595,550 (68.42%) 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 \$2,031,428 (.037%) represents resources that are subject to external restriction on how they may be used. The remaining balance of \$15,321,245 (27.88%) 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 99.89% and 99.99% in the Town-Wide and Downtown tax districts respectively.
- Continued low cost of debt due to the Town's credit rating.

Town of Smithfield' Changes in Net Position

Figure 3

	Governmental		Business-type		Total	
	Activities		Activities			
	2017	2016	2017	2016	2017	2016
Revenues						
Program revenues:						
Charges for services	\$ 2,667,858	\$ 2,549,526	\$ 24,343,720	\$ 23,854,032	\$ 27,011,578	\$ 26,403,558
Operating grants and contributions	702,318	509,402	-	-	702,318	509,402
Capital grants and contributions	134,072	447,107	168,147	-	302,219	447,107
General revenues:						
Property taxes	6,218,330	6,165,224	-	-	6,218,330	6,165,224
Unrestricted intergovernmental	3,699,920	3,503,212	-	-	3,699,920	3,503,212
Other taxes and licenses	298,455	263,905	-	-	298,455	263,905
Investment earnings, unrestricted	13,628	37,604	36,773	27,452	50,401	65,056
Miscellaneous	395,511	327,477	-	-	395,511	327,477
Gain/Loss on disposal of fixed assets	3,055	25,905	-	-	3,055	25,905
Total revenues	14,133,147	13,829,362	24,548,640	23,881,484	38,681,787	37,710,846
Expenses						
General government	1,716,081	1,689,718	-	-	1,716,081	1,689,718
Public safety	5,351,669	4,688,075	-	-	5,351,669	4,688,075
Streets and public works	3,141,826	2,784,939	-	-	3,141,826	2,784,939
Sanitation	1,079,338	1,052,842	-	-	1,079,338	1,052,842
Cultural and recreation	2,435,476	2,374,016	-	-	2,435,476	2,374,016
Interest on long-term debt	263,210	306,619	-	-	263,210	306,619
Electric	-	-	15,462,504	15,550,820	15,462,504	15,550,820
Water and sewer	-	-	5,867,250	6,005,638	5,867,250	6,005,638
Total expenses	13,987,600	12,896,209	21,329,754	21,556,458	35,317,354	34,452,667
Change in net position	145,547	933,153	3,218,886	2,325,026	3,364,433	3,258,179
Net Position						
Beginning of year - July 1	28,061,178	26,906,064	24,508,472	22,183,446	52,569,650	49,089,510
Prior period adjustment/change in accounting principle	45,562	221,961	(1,031,422)	-	(985,860)	221,961
Beginning of year, as restated	28,106,740	27,128,025	23,477,050	22,183,446	51,583,790	49,311,471
End of year - June 30	\$ 28,252,287	\$ 28,061,178	\$ 26,695,936	\$ 24,508,472	\$ 54,948,223	\$ 52,569,650

Governmental activities. Governmental activities increased the Town's net position by \$145,547. Key elements of this increase are as follows:

- Increase in charges for services
- Increased sales tax revenues

Business-type activities: Business-type activities increased the Town's net position by \$3,218,886. Key elements of this increase are as follows:

- Decreased cost for electric, water, and sewer
- Increased in revenues for services

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Smithfield. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$7,848,135, while total fund balance reached \$10,130,869. The Town currently has an available fund balance of 62.72% of total General Fund expenditures, while total fund balance represents 80.96% of that same amount.

At June 30, 2017, the governmental funds of the Town of Smithfield reported a combined fund balance of \$9,447,100, a 5.61% 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. Total amendments were made during the year to increase the General Fund budget by \$303,256.

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 \$4,741,662 and those for the Electric Fund amounted to \$9,993,265. The total increase in net position for the Water and Sewer Fund was \$1,347,918 whereas the Electric Fund had a total increase in net position of \$1,870,968.

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, 2017 totals \$451,763,033 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, plants and distributions systems, and construction in progress.

Major capital asset transactions during the year include:

- police and recreation equipment
- purchase of garbage truck
- improvements on water and sewer lines
- substation upgrades

Town of Smithfield's Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 6,309,890	\$ 6,284,188	\$ 10,000	\$ 10,000	\$ 6,319,890	\$ 6,294,188
Construction in progress	640,458	7,751,801	2,807,796	1,075,924	3,448,254	8,827,725
Building and improvements	17,215,508	16,794,734	-	-	17,215,508	16,794,734
Plant and distribution systems		-	28,400,795	27,138,137	28,400,795	27,138,137
Infrastructure	54,254,577	45,760,336	-	-	54,254,577	45,760,336
Equipment and vehicles	5,923,185	5,762,476	4,862,972	4,507,014	10,786,157	10,269,490
Total	84,343,618	82,353,535	36,081,563	32,731,075	120,425,181	115,084,610
Accumulated depreciation	(50,793,202)	(47,894,773)	(17,868,946)	(16,714,925)	(68,662,148)	(64,609,698)
Capital assets, net	\$ 33,550,416	\$ 34,458,762	\$ 18,212,617	\$ 16,016,150	\$ 51,763,033	\$ 50,474,912

Long-term Debt. As of June 30, 2017, the Town of Smithfield had total debt outstanding of \$15,784,221 as noted in the following table.

Town of Smithfield's Capital Assets

Installment Purchases, Revenue Bonds, and General Obligation Bonds

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Installment purchases	\$ 7,708,922	\$ 8,458,591	\$ 4,686,755	\$ 3,037,685	\$ 12,395,677	\$ 11,496,276
Capital leases	31,953	64,870	-	-	31,953	64,870
Revenue bonds	-	-	3,181,591	3,432,964	3,181,591	3,432,964
General obligation bonds	175,000	355,000	-	-	175,000	355,000
Total	\$ 7,915,875	\$ 8,878,461	\$ 7,868,346	\$ 6,470,649	\$ 15,784,221	\$ 15,349,110

The Town of Smithfield's total debt increased by \$435,111 during the past fiscal year, primarily due to the additional loan of \$2,037,249 for water and sewer improvements.

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 approximately \$78,566,721.

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, 2018

Governmental Activities: As occurred in Fiscal Year 2017, the budget forecast for the Town's primary sources of revenue (e.g. property and sales tax) were calculated using little to no growth factor. The Town is experiencing its first new residential subdivision since before 2007. Confidence in continued residential growth is moderate; however, the overall state of the economy for the Town of Smithfield continues to improve. The budget was guided by these principles:

1. Maintain adequate Fund Balances in all Funds;
2. Continue to evaluate rates and fees to our consumers in an effort to spur both economic and residential growth;
3. While remaining financially responsible, be proactive by following approved capital improvement plans and best practices for employee retention.

Budgeted expenditures in the General Fund are expected to decrease by 5.4% to \$12,795,114. This reduction is primarily due to fund balance that was appropriated for a road reconstruction in FY 17.

Other budget highlights in brief include:

- Property tax rate to remain at \$.57 per 100 evaluations
- Average 2% salary adjustment for full time employees
- \$24,864 budgeted to take advantage of AFG Safer Grant for three additional full time firefighters.

Business-Type Activities: Water, Sewer and Electric rates were budgets as status quo. However, following a decrease in the wholesale rate of electricity, the electric rate was reduced an average of 4.5%. Following this reduction, a rate stabilization fund was created to assist with future wholesale electric rate increases.

Budgeted expenditures in the Water/Sewer Fund are expected to increase by 1.4% to \$7,001,500 over FY 2017 original budget. The FY 2018 budget continues the Town's conversion to Automated Metering Infrastructure (AMI) technology.

Budgeted expenditures in the Electric Fund are expected to decrease by 3.4% to \$16,761,000 or \$576,747 under the FY 2017 approved budget. The FY 2018 budget will continue to fund the Town's commitment to its conversion to Automated Metering Infrastructure (AMI) technology. The FY 2018 budget also continues to fund the Brogden Road Electric Voltage Conversion to assist with future economic growth.

This upcoming fiscal year the Town will continue its commitment to adhere to its departmental capital improvement plans - both in the general fund and enterprise funds. This will be accomplished by replacing equipment consistent with its Capital Improvement Plan, while evaluating its rolling stock inventory on a regular basis. The budget proposes over \$598,000 in general fund capital expenditures, \$120,000 at the water plant, \$810,833 in water/sewer system capital improvements, and \$910,834 in the electric department.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Town of Smithfield, North Carolina
Statement of Net Position
June 30, 2017

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 8,528,459	\$ 13,601,049	\$ 22,129,508
Restricted cash	83,952	2,311,722	2,395,674
Taxes receivables (net)	23,368	-	23,368
Accounts receivable (net)	272,021	3,054,416	3,326,437
Due from other governments	816,972	128,867	945,839
Inventories	-	1,189,772	1,189,772
Prepaid Expenses	38,211	80,421	118,632
Total current assets	9,762,983	20,366,247	30,129,230
Non-Current assets:			
Note Receivable	203,938	-	203,938
Capital Assets:			
Land, non-depreciable, improvements, and construction in process	6,950,348	2,817,796	9,768,144
Other capital assets, net of depreciation	26,600,068	15,394,821	41,994,889
Total capital assets	33,550,416	18,212,617	51,763,033
Total non-current assets	33,754,354	18,212,617	51,966,971
Total assets	43,517,337	38,578,864	82,096,201
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan	390,284	121,884	512,168
Pension related deferrals	1,083,396	371,550	1,454,946
Total Deferred Outflows of Resources	1,473,680	493,434	1,967,114
LIABILITIES			
Current liabilities:			
Accounts payable - trade	199,828	1,519,348	1,719,176
Accrued payroll and payroll liabilities	92,687	74,862	167,549
Accrued interest payable	170,564	115,823	286,387
Customer deposits	-	687,362	687,362
Due within one year	1,057,701	912,752	1,970,453
Total current liabilities	1,520,780	3,310,147	4,830,927
Long-term liabilities:			
Net pension liability (LGERS)	1,692,402	580,407	2,272,809
Total pension obligation (LEOSSA)	1,094,022	-	1,094,022
Due within one year	12,229,602	8,424,355	20,653,957
Total long-term liabilities	15,016,026	9,004,762	24,020,788
Total liabilities	16,536,806	12,314,909	28,851,715
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	201,924	61,453	263,377
NET POSITION			
Net investment in capital assets	25,634,541	11,961,009	37,595,550
Restricted for:			
USDA debt payments	54,724	-	54,724
Public safety	36,449	-	36,449
Transportation	4,054	-	4,054
Fire district	2,905	-	2,905
Stabilization by State Statute	1,933,296	-	1,933,296
Unrestricted	586,318	14,734,927	15,321,245
Total net position	\$ 28,252,287	\$ 26,695,936	\$ 54,948,223

**Town of Smithfield, North Carolina
Statement of Activities
For the Year Ended June 30, 2017**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 1,716,081	\$ -	\$ -	\$ -	\$ (1,716,081)	\$ -	\$ (1,716,081)
Public safety	5,351,669	407,291	366,828	-	(4,577,550)	-	(4,577,550)
Street and Public Works	3,141,826	104,215	322,308	134,072	(2,581,231)	-	(2,581,231)
Sanitation	1,079,338	1,363,552	-	-	284,214	-	284,214
Cultural and Recreational	2,435,476	792,800	13,182	-	(1,629,494)	-	(1,629,494)
Interest on long-term debt	263,210	-	-	-	(263,210)	-	(263,210)
Total governmental activities	13,987,600	2,667,858	702,318	134,072	(10,483,352)	-	(10,483,352)
Business-type activities:							
Electric	15,462,504	17,252,978	-	53,922	-	1,844,396	1,844,396
Water and Sewer	5,867,250	7,090,742	-	114,225	-	1,337,717	1,337,717
Total business-type activities	21,329,754	24,343,720	-	168,147	-	3,182,113	3,182,113
Total primary government	\$ 35,317,354	\$ 27,011,578	\$ 702,318	\$ 302,219	(10,483,352)	3,182,113	(7,301,239)
General revenues:							
Taxes:							
Ad valorem taxes					6,218,330	-	6,218,330
Unrestricted intergovernmental					3,699,920	-	3,699,920
Other taxes and licenses					298,455	-	298,455
Unrestricted investment earnings					13,628	36,773	50,401
Miscellaneous					395,511	-	395,511
Special items:							
Gain on disposal of fixed assets					3,055	-	3,055
Transfers					-	-	-
Total general revenues, special items, and transfers					10,628,899	36,773	10,665,672
Change in net position					145,547	3,218,886	3,364,433
Net position, beginning, as previously reported					28,061,178	24,508,472	52,569,650
Prior period adjustment					996,129	(1,031,422)	(35,293)
Restatement					(950,567)	-	(950,567)
Net position beginning, as restated					28,106,740	23,477,050	51,583,790
Net position, ending					\$ 28,252,287	\$ 26,695,936	\$ 54,948,223

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

**Town of Smithfield
Balance Sheet
Governmental Funds
June 30, 2017**

	Major Funds			Total Governmental Funds
	General	General Fund Capital Projects	Non-major Special Revenue Fund	
ASSETS				
Cash and investments	\$ 8,520,945	\$ -	\$ 7,514	\$ 8,528,459
Restricted Cash	83,952	-	-	83,952
Receivables, net:				
Taxes	23,368	-	-	23,368
Accounts	272,021	-	-	272,021
Due from other governments	819,789	(2,817)	-	816,972
Due from other funds	630,903	-	-	630,903
Prepaid Expenses	38,211	-	-	38,211
Total assets	<u>\$ 10,389,189</u>	<u>\$ (2,817)</u>	<u>\$ 7,514</u>	<u>\$ 10,393,886</u>
LIABILITIES				
Accounts payable and accrued liabilities - trade	\$ 142,265	\$ 57,563	\$ -	\$ 199,828
Accrued payroll and payroll liabilities	92,687	-	-	92,687
Due to other funds	-	626,294	4,609	630,903
Total liabilities	<u>234,952</u>	<u>683,857</u>	<u>4,609</u>	<u>923,418</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	23,368	-	-	23,368
Total deferred inflows of resources	<u>23,368</u>	<u>-</u>	<u>-</u>	<u>23,368</u>
Fund balances:				
Nonspendable:				
Prepaid expenses	38,211	-	-	38,211
Restricted:				
USDA debt payments	54,724	-	-	54,724
Public safety	36,449	-	-	36,449
Stabilization by State Statute	1,933,296	-	-	1,933,296
Streets	4,054	-	-	4,054
Fire district	-	-	2,905	2,905
Assigned:				
Recreation development	188,500	-	-	188,500
Subsequent year's expenditures	27,500	-	-	27,500
Unassigned	7,848,135	(686,674)	-	7,161,461
Total fund balances	<u>10,130,869</u>	<u>(686,674)</u>	<u>2,905</u>	<u>9,447,100</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,389,189</u>	<u>\$ (2,817)</u>	<u>\$ 7,514</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.	33,550,416
Notes receivable	203,938
Earned revenues considered deferred inflows of resources in fund statements.	23,368
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	355,399
Benefit payments and pension administration costs for LEOSSA	34,885
Deferred outflows of resources related to pensions are not recorded on the fund statements	1,083,396
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.	(13,287,303)
Net pension liability (LGERS)	(1,692,402)
Total pension liability (LEOSSA)	(1,094,022)
Pension related deferrals	(201,924)
Accrued interest payable	(170,564)
Net position of governmental activities	<u>\$ 28,252,287</u>

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, 2017

	Major Funds			Total Governmental Funds
	General Fund	General Funds Capital Projects	Non-major Special Revenue Fund	
REVENUES				
Ad valorem taxes	\$ 6,232,366	\$ -	\$ -	\$ 6,232,366
Other taxes and licenses	298,455	-	-	298,455
Unrestricted intergovernmental	3,699,920	-	-	3,699,920
Restricted intergovernmental	510,955	134,072	178,181	823,208
Sales and services	2,681,040	-	-	2,681,040
Investment earnings	13,628	-	-	13,628
Miscellaneous	126,761	268,750	-	395,511
Total revenues	13,563,125	402,822	178,181	14,144,128
EXPENDITURES				
Current:				
General government	1,552,265	-	-	1,552,265
Public safety	4,754,200	-	-	4,754,200
Street and Public Works	1,381,381	-	-	1,381,381
Sanitation	997,160	-	-	997,160
Cultural and recreation	1,754,115	-	-	1,754,115
Debt service:				
Principal	962,586	-	-	962,586
Interest and other charges	272,820	-	-	272,820
Capital outlay	-	1,970,840	-	1,970,840
Total expenditures	11,674,527	1,970,840	-	13,645,367
Excess (deficiency) of revenues over expenditures	1,888,598	(1,568,018)	178,181	498,761
OTHER FINANCING SOURCES (USES)				
Transfers (to) other funds	(838,224)	838,224	(175,400)	(175,400)
Transfers from other funds	175,400	-	-	175,400
Loan proceeds	-	-	-	-
Sales of capital assets	3,055	-	-	3,055
Total other financing sources (uses)	(659,769)	838,224	(175,400)	3,055
Net Change in fund balance	1,228,829	(729,794)	2,781	501,816
Fund balances, beginning	8,913,863	43,120	124	8,957,107
Prior Period Adjustment	(11,823)	-	-	(11,823)
Fund balances, ending	\$ 10,130,869	\$ (686,674)	\$ 2,905	\$ 9,447,100

Town of Smithfield
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2017

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

Net changes in fund balances - total governmental funds	\$	501,816
<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 depreciation exceeded capital outlays in the current period.</p>		
Capital outlay expenditures which were capitalized	2,028,578	
Depreciation expense for governmental assets	<u>(2,936,924)</u>	(908,346)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		355,399
Benefit payments and pension administration costs for LEOSSA are deferred outflows of resources on the Statement of Net Position		34,885
Principal payments on note receivable		-
<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		(14,036)
<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>		
		962,586
Difference in interest expense between fund statements (modified accrual) and government-wide statements (full accrual)		9,610
<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		(20,628)
Pension expense		(488,413)
Other postemployment benefits		<u>(287,326)</u>
Total changes in net position of governmental activities	<u>\$</u>	<u>145,547</u>

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 -
Annual Budget and Actual
General Fund
For the Year Ended June 30, 2017

General Fund				
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 5,998,779	\$ 6,035,779	\$ 6,232,366	\$ 196,587
Other taxes and licenses	78,244	291,500	298,455	6,955
Unrestricted intergovernmental	3,192,700	3,282,700	3,699,920	417,220
Restricted intergovernmental	547,000	418,949	510,955	92,006
Sales and services	2,316,520	2,515,510	2,681,040	165,530
Investment earnings	6,000	6,000	13,274	7,274
Miscellaneous	553,475	79,500	126,761	47,261
Total revenues	12,692,718	12,629,938	13,562,771	932,833
Expenditures:				
Current:				
General government	2,289,678	1,731,422	1,552,265	179,157
Public safety	5,102,508	5,187,875	4,754,200	433,675
Street and Public Works	1,691,709	1,513,449	1,381,381	132,068
Sanitation	1,237,219	1,079,736	997,160	82,576
Cultural and recreation	1,744,925	1,841,313	1,754,115	87,198
Debt service:				
Principal retirement	1,008,352	1,008,352	962,586	45,766
Interest and other charges	275,000	275,000	272,820	2,180
Total expenditures	13,349,391	12,637,147	11,674,527	962,620
Revenues over (under) expenditures	(656,673)	(7,209)	1,888,244	1,895,453
Other financing sources (uses):				
Appropriated (Unappropriated) fund balance	552,673	728,309	-	(728,309)
Sale of fixed assets	-	15,000	3,055	(11,945)
Loan proceeds	104,000	104,000	-	(104,000)
Transfers to other funds	-	(1,015,500)	(1,013,224)	2,276
Transfer from other funds	-	175,400	175,400	-
Total other financing sources (uses)	656,673	7,209	(834,769)	(841,978)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	1,053,475	\$ 1,053,475
Fund balances, beginning			8,913,863	
Prior Period Adjustment			(11,823)	
Fund balances, ending			\$ 9,955,515	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment Earnings			\$ 354	
Transfer from General Fund			175,000	
Fund balance, beginning of year			-	
Fund balance, ending (Exhibit 4)			\$ 10,130,869	

**Town of Smithfield
Statement of Net Position
Proprietary Funds
June 30, 2017**

	Major		Total
	Electric Fund	Water and Sewer Fund	
ASSETS			
Current assets:			
Cash and investments	\$ 8,722,644	\$ 4,878,405	\$ 13,601,049
Restricted cash	560,187	1,751,535	2,311,722
Accounts receivable (net)	2,073,561	980,855	3,054,416
Due from other governments	39,153	89,714	128,867
Due from other funds	150,000	-	150,000
Inventories	1,097,689	92,083	1,189,772
Prepaid Expenses	42,210	38,211	80,421
Total current assets	<u>12,685,444</u>	<u>7,830,803</u>	<u>20,516,247</u>
Non-current assets:			
Capital assets:			
Land and other non-depreciable assets	118,423	2,699,373	2,817,796
Other capital assets, net of depreciation	8,970,562	6,424,259	15,394,821
Capital assets (net)	<u>9,088,985</u>	<u>9,123,632</u>	<u>18,212,617</u>
Total noncurrent assets	<u>9,088,985</u>	<u>9,123,632</u>	<u>18,212,617</u>
Total assets	<u>21,774,429</u>	<u>16,954,435</u>	<u>38,728,864</u>
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan	61,248	60,636	121,884
Deferred outflows related to pensions	186,708	184,842	371,550
Total Deferred Outflows of Resources	<u>247,956</u>	<u>245,478</u>	<u>493,434</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	1,179,276	340,072	1,519,348
Accrued payroll and payroll liabilities	34,789	40,073	74,862
Due to other funds	-	150,000	150,000
Customer deposits	560,187	127,175	687,362
Accrued interest payable	84,395	31,428	115,823
Compensated absences - current	16,920	14,325	31,245
Current portion of long-term debt	267,165	614,342	881,507
Total current liabilities	<u>2,142,732</u>	<u>1,317,415</u>	<u>3,460,147</u>
Noncurrent liabilities:			
Other non-current liabilities:			
Compensated absences	50,760	42,976	93,736
Net pension liability	291,661	288,746	580,407
Other postemployment benefits	691,266	644,892	1,336,158
Non-current portion of long-term debt	2,964,550	4,029,911	6,994,461
Total non-current liabilities	<u>3,998,237</u>	<u>5,006,525</u>	<u>9,004,762</u>
Total liabilities	<u>6,140,969</u>	<u>6,323,940</u>	<u>12,464,909</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	<u>30,881</u>	<u>30,572</u>	<u>61,453</u>
NET POSITION			
Net Investment in capital assets	5,857,270	6,103,739	11,961,009
Other restrictions	-	-	-
Unrestricted	9,993,265	4,741,662	14,734,927
Total net position	<u>\$ 15,850,535</u>	<u>\$ 10,845,401</u>	<u>\$ 26,695,936</u>

Town of Smithfield
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 16,763,569	\$ 7,053,270	\$ 23,816,839
Other operating revenues	489,409	37,472	526,881
Total operating revenues	<u>17,252,978</u>	<u>7,090,742</u>	<u>24,343,720</u>
OPERATING EXPENSES			
Utility Operations	1,407,050	1,659,124	3,066,174
Electrical purchases	13,383,011	-	13,383,011
Water and sewer distributions	-	3,560,587	3,560,587
Depreciation	586,175	567,847	1,154,022
Total operating expenses	<u>15,376,236</u>	<u>5,787,558</u>	<u>21,163,794</u>
Operating income (loss)	<u>1,876,742</u>	<u>1,303,184</u>	<u>3,179,926</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	26,572	10,201	36,773
Interest and other charges	<u>(86,268)</u>	<u>(79,692)</u>	<u>(165,960)</u>
Total nonoperating revenues (expenses)	<u>(59,696)</u>	<u>(69,491)</u>	<u>(129,187)</u>
Income (loss) before contributions and transfers	1,817,046	1,233,693	3,050,739
Capital contributions	53,922	114,225	168,147
Transfer in (out)	<u>-</u>	<u>-</u>	<u>-</u>
Total income (loss) after contributions and transfers	<u>1,870,968</u>	<u>1,347,918</u>	<u>3,218,886</u>
Change in net position	1,870,968	1,347,918	3,218,886
Total net position , beginning	14,924,575	9,583,897	24,508,472
Prior Period Adjustment (see Note X)	<u>(945,008)</u>	<u>(86,414)</u>	<u>(1,031,422)</u>
Total net position, ending	<u>\$ 15,850,535</u>	<u>\$ 10,845,401</u>	<u>\$ 26,695,936</u>

Town of Smithfield
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 16,350,561	\$ 6,667,850	\$ 23,018,411
Cash paid for goods and services	(13,751,172)	(4,001,146)	(17,752,318)
Cash paid to or on behalf of employees for services	(1,212,152)	(1,188,623)	(2,400,775)
Net customer deposits	26,946	(4,698)	22,248
Other operating revenues	489,409	37,472	526,881
Net cash provided (used) by operating activities	<u>1,903,592</u>	<u>1,510,855</u>	<u>3,414,447</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Increase in due from other funds	-	-	-
Increase in due to other funds	-	-	-
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(1,157,948)	(2,192,539)	(3,350,488)
Capital contributions	53,922	114,225	168,147
Proceeds from debt	-	2,037,249	2,037,249
Principal paid on bonds and installment purchases	(260,286)	(371,644)	(631,930)
Interest paid on bonds and installment purchases	(99,685)	(71,070)	(170,755)
Net cash provided (used) by capital and related financing activities	<u>(1,463,997)</u>	<u>(483,779)</u>	<u>(1,947,777)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	26,572	10,201	36,773
Net cash provided (used) by investing activities	<u>26,572</u>	<u>10,201</u>	<u>36,773</u>
Net increase (decrease) in cash and investments	466,167	1,037,277	1,503,443
Balances, beginning	8,816,664	5,592,664	14,409,328
Balances, ending	<u>\$ 9,282,831</u>	<u>\$ 6,629,941</u>	<u>\$ 15,912,771</u>

Town of Smithfield
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2017

	Major		
	Electric Fund	Water and Sewer Fund	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,876,742	\$ 1,303,184	\$ 3,179,926
Adjustments to reconcile operating income to net cash provided by operating activities			
Depreciation	586,175	567,847	1,154,022
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(402,064)	(372,197)	(774,261)
(Increase) decrease in due from other governments	(10,944)	(13,225)	(24,169)
(Increase) decrease in inventory	4,637	52,093	56,730
(Increase) decrease in prepaid expenses	(42,210)	(38,211)	(80,421)
(Increase) in deferred outflows of resources - pensions	(196,742)	(194,776)	(391,518)
Increase (decrease) in net pension liability	230,879	226,799	457,678
Increase (decrease) in deferred inflows of resources - pension	(15,513)	(25,500)	(41,013)
Increase (decrease) in accounts payable and accrued	(214,262)	(58,008)	(272,270)
Increase (decrease) in accrued payroll and payroll	198	(17,074)	(16,876)
Increase (decrease) in customer deposits	26,946	(4,698)	22,248
Increase (decrease) in accrued vacation pay	5,607	16,802	22,409
Increase (decrease) in accrued other postemployment Total adjustments	54,143	67,819	121,962
Net cash provided by operating activities	<u>\$ 1,903,592</u>	<u>\$ 1,510,855</u>	<u>\$ 3,414,447</u>

**Town of Smithfield
Statement of Cash Flows
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017**

	Private-Purpose		
	Trust Fund	Agency Fund	Total
ASSETS			
Cash and investments	\$ 131,269	\$ 156,814	\$ 288,083
Due from other governments	854	-	854
Total assets	<u>132,123</u>	<u>156,814</u>	<u>288,937</u>
LIABILITIES			
Current liabilities:			
Miscellaneous liabilities	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION	<u>\$ 132,123</u>	<u>\$ 156,814</u>	<u>\$ 288,937</u>

Town of Smithfield
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Fiscal Year Ended June 30, 2017

	Private-Purpose Trust Fund
ADDITIONS:	
Investment earnings	\$ 1,515
DEDUCTIONS:	
Special projects	3,285
Changes in net assets	(1,770)
NET POSITION	
Total net position, beginning	133,893
Total net position, ending	\$ 132,123

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2017

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 account policies:

A. Reporting Entity

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

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. 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. Nonoperating 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. The General 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 which all general government projects are reported.

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 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, the Water and Sewer Capital Projects Fund, and the Booker Dairy Capital Project 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 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 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 and Proprietary 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.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Johnston County and then remitted to and distributed by the State. 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.

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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in 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 water and sewer 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 nonoperating 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. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, 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, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in 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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net 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 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 and the ABC Board may establish time deposit accounts such as NOW and Super NOW 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 are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

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 because they can be expended only for the purposes of maintaining, repairing, constructing, 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, as are unexpended loan proceeds.

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 1st, 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. Smithfield County bills and collects property taxes on behalf of the Town. Upon collection, the County remits the funds to the Town less a 2% administrative fee.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting period 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 capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. Also, the Town has elected not to capitalized 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 cost of the assets:

<u>Asset Class</u>	<u>Years</u>
Buildings	40
Improvements	20
Vehicles	5
Furniture & 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 two items that meets this criterion; contributions made to the pension plan in the current fiscal year and pension related deferrals. 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 two items that meet the criterion for this category - property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

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.

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

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. The amount represents the balance of the total unexpected Powell Bill

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

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

 Restricted for Capital Reserves - 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). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Committed for Bingham Park - portion of fund balance committed for future projects at the community park

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

Assigned for Recreation Development - portion of fund balance assigned for acquisition and development of recreation, park, an open space sites to serve the residents of the development and the residents of the immediate neighborhood within the development is located.

Assigned for subsequent year's expenditures - portion of fund balance assigned for encumbrances at year end.

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

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

The Town has not officially adopted a fund balance policy.

12. Pensions

For the purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the LGERS. Investments are reported as fair value.

13. Use of Estimates

The preparation of financial statements in conformity with general 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 area 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 Bond Covenants

None.

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, 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 property secured.

At June 30, 2017, the Town's deposits had a carrying amount of \$22,375,292 and a bank balance of \$23,597,582. Of the bank balance, \$1,000,000 was covered by federal depository insurance, and \$22,597,582 was covered by collateral held under the Pooling Method. The Town's petty cash totaled \$941 at June 30, 2017.

2. Investments

At June 30, 2017, the Town's investment balances were as follows:

Investment by Type	Valuation Measurement Method	Book Value at 06/30/2017	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$2,437,973	N/A	AAAm

All Investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets. Level of fair value hierarchy: Level 1: Debt securities using directly observable, quoted prices (unadjusted) in active markets for identical assets.

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, 2017, the Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard and Poor's. The Town's investments in US Government Agencies are rated AAA by Standard and Poor's.

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

3. Receivables – Allowance for Doubtful Accounts

The receivables shown in Exhibit 1 at June 30, 2017, were as follows:

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
General	\$ 405,078	\$ 44,874	\$ 819,789	\$ 1,269,741
Other Governmental	-	-	(2,817)	(2,817)
Allowance for doubtful accounts	(133,057)	(21,506)	-	(154,563)
Total governmental activities	\$ 272,021	\$ 23,368	\$ 816,972	\$ 1,112,361
Business-Type Activities:				
Electric	\$ 3,105,653	\$ -	\$ 39,153	\$ 3,144,806
Water and Sewer	1,551,567	-	89,714	1,641,281
Allowance for doubtful accounts	(1,602,804)	-	-	(1,602,804)
Total business-type activities	\$ 3,054,416	\$ -	\$ 128,867	\$ 3,183,283

Due from other governments consisted of the following:

Local option sales tax	\$ 413,083
Franchise tax	248,272
Sales tax	284,484
Motor Vehicle - Due from the County	94,388
Total	\$ 1,040,227

Note Receivable

In 2007, the Town loaned Downtown Smithfield Development Corporation \$250,000 for special projects. The loan is due in annual installments of \$12,757 through 2039, with an interest rate of 2.75%.

Future maturities of the note are as follows:

	Principal	Interest	Total
2018	\$ 7,149	\$ 5,608	\$ 12,757
2019	7,345	5,412	12,757
2020	7,533	5,224	12,757
2021	7,754	5,003	12,757
2022	7,968	4,789	12,757
2023-2027	43,236	20,549	63,785
2028-2032	49,511	14,274	63,785
2032-2038	56,719	7,066	63,785
2038-2039	16,723	582	17,305
Total	\$ 203,938	\$ 68,507	\$ 272,445

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2017 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 6,284,188	\$ 25,702	\$ -	\$ 6,309,890
Construction in Progress	7,751,801	1,970,840	9,082,183	640,458
Total capital assets not being depreciated	<u>14,035,989</u>	<u>1,996,542</u>	<u>9,082,183</u>	<u>6,950,348</u>
Capital assets being depreciated:				
Buildings and improvements	16,794,734	420,774	-	17,215,508
Infrastructure	45,760,336	8,494,241	-	54,254,577
Equipment and vehicles	5,762,476	199,204	38,495	5,923,185
Total capital assets being depreciated	<u>68,317,546</u>	<u>9,114,219</u>	<u>38,495</u>	<u>77,393,270</u>
Less accumulated depreciation for:				
Buildings and improvements	6,263,390	713,963	-	6,977,353
Infrastructure	36,952,392	2,011,514	-	38,963,906
Equipment and vehicles	4,678,991	211,447	38,495	4,851,943
Total accumulated depreciation	<u>47,894,773</u>	<u>\$ 2,936,924</u>	<u>\$ 38,495</u>	<u>50,793,202</u>
Total capital assets being depreciated, net	<u>20,422,773</u>			<u>26,600,068</u>
Governmental activity capital assets, net	<u>\$ 34,458,762</u>			<u>\$ 33,550,416</u>

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

General government	\$ 133,095
Public safety	291,746
Street and public works	1,766,434
Sanitation	59,567
Cultural and recreational	686,081
	<u>\$ 2,936,923</u>

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Business-type activities:				
Electric Fund				
Capital assets not being depreciated:				
Land	\$ -	\$ -	\$ -	\$ -
Construction in Progress	158,721	1,105,539	1,145,837	118,423
Total capital assets not being depreciated	<u>158,721</u>	<u>1,105,539</u>	<u>1,145,837</u>	<u>118,423</u>
Capital assets being depreciated:				
Plant and distribution systems	12,957,125	1,145,837	-	14,102,962
Equipment	2,333,819	52,410	-	2,386,229
Total capital assets being depreciated	<u>15,290,944</u>	<u>1,198,247</u>	<u>-</u>	<u>16,489,191</u>
Less accumulated depreciation for:				
Plant and distribution systems	4,884,526	514,323	-	5,398,849
Equipment	2,047,928	71,852	-	2,119,780
Total accumulated depreciation	<u>6,932,454</u>	<u>\$ 586,175</u>	<u>\$ -</u>	<u>7,518,629</u>
Total capital assets being depreciated, net	<u>8,358,490</u>			<u>8,970,562</u>
Electric fund capital assets, net	<u>\$ 8,517,211</u>			<u>\$ 9,088,985</u>

Water and Sewer Fund**Capital assets not being depreciated:**

Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	917,203	1,946,427	174,257	2,689,373
Total capital assets not being depreciated	<u>927,203</u>	<u>1,946,427</u>	<u>174,257</u>	<u>2,699,373</u>

Capital assets being depreciated:

Plant and distribution systems	14,181,012	116,821	-	14,297,833
Furniture and maintenance equipment	2,173,195	303,548	-	2,476,743
Total capital assets being depreciated	<u>16,354,207</u>	<u>420,369</u>	<u>-</u>	<u>16,774,576</u>

Less accumulated depreciation for:

Plant and distribution systems	8,526,393	383,417	-	8,909,810
Equipment	1,256,078	184,429	-	1,440,507
Total accumulated depreciation	<u>9,782,471</u>	<u>\$ 567,846</u>	<u>\$ -</u>	<u>10,350,317</u>

Total capital assets being depreciated, net	<u>6,571,736</u>			<u>6,424,259</u>
Water and Sewer fund capital assets, net	<u>\$ 7,498,939</u>			<u>\$ 9,123,632</u>

Business-type activities capital assets, net	<u>\$ 16,016,150</u>			<u>\$ 18,212,617</u>
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B. Liabilities**1. Pension Plan Obligations****a. Local Governmental Employees' Retirement System**

Plan Description. The Town of Smithfield is a participating employer in 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 membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service of within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Stature 128-30 and may be amended only by the North Carolina General Assembly. Town of Smithfield employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Smithfield contractually required contribution rate for the year ended June 30, 2017, was 8.0% of compensation for law enforcement officers and 7.34% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Smithfield were \$477,283 for the year ended June 30, 2017.

Refunds of Contributions - Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to

At June 30, 2017, the Town reported a liability of \$2,272,809 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.1071%, which was a decrease of 0.0071% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of \$558,501. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 42,702	\$ 79,642
Changes of assumptions	155,667	-
Net difference between projected and actual earnings on pension plan investments	1,256,577	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	161,003
Employer contributions subsequent to the measurement date	477,283	-
Total	<u>\$ 1,932,229</u>	<u>\$ 240,645</u>

\$477,283 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 153,067
2019	153,442
2020	563,845
2021	343,947
2022	
	\$ 1,214,301

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods in the measurement:

Inflation	3.0 percent
Salary Increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income expectations of forward yields projected and interpolated for multiple tenor and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates for each major asset class as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$ 5,394,435	\$ 2,272,809	\$ (334,606)

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	40
Total	43

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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB

- contributions to the pension plan and earning on those contributions are irrevocable
- pension plan assets are dedicated to providing benefits to plan members
- pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016.

Mortality Rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. 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, 2017 was \$62,094.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to

At June 30, 2017, the Town reported a total pension liability of \$1,094,022. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$86,623.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	22,733
County benefit payments and plan administrative expense made subsequent to the measurement date	34,885	-
Total	\$ 34,885	\$ 22,733

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$ 4,060
2019	4,060
2020	4,060
2021	4,060
2022	4,060
Thereafter	2,433

\$34,885 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the City's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) and 1-percentage-point higher (4.86 percent) than the current rate:

	1% Decrease (2.86%)	Discount Rate (3.86%)	1% Increase (4.86%)
Total pension liability	\$ 1,189,411	\$ 1,094,022	\$ 1,006,926

**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance**

	<u>2017</u>
Beginning balance	\$ 1,084,775
Service Cost	52,703
Interest on the total pension liability	37,755
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(26,793)
Benefit payments	(54,418)
Other changes	-
Net Change	<u>9,247</u>
Ending balance of the total pension liability	<u><u>\$ 1,094,022</u></u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$112,668, which consisted of \$86,578 from the Town and \$26,090 from the law enforcement officers.

d. Supplemental Retirement Income Plan for Employees not Engaged in Law Enforcement

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 Town employees not engaged in law enforcement. 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 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. The Town's employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$274,649, which consisted of \$115,708 from the Town and \$158,942 from the employees.

e. 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, 2017, the Town made payments for post-retirement health benefits premiums of \$323,467. 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, 2016, the date of the last actuarial valuation:

	General Employees:
Retirees and dependents receiving benefits	54
Active plan members	63
Total	<u>117</u>

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 of pre-65 healthcare coverage for the retiree. Years of service are considered years of creditable service with the Local Governmental Employees' Retirement System.

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 343.2% of annual covered payroll. For the current year, the Town contributed \$323,467 or 10.84% of annual covered payroll. There were no contributions by employees for the fiscal year ended June 30, 2017. 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 other postemployment benefit (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 the changes in the Town's net OPEB obligation for the healthcare benefits:

Annual required contribution	\$ 824,012
Interest on net OPEB	233,900
Adjustment to annual required contribution	<u>(325,156)</u>
Annual OPEB cost	732,756
Contributions made	<u>(323,467)</u>
Increase (decrease) in net OPEB obligation	409,289
Net OPEB obligation, beginning of year	<u>5,847,505</u>
Net OPEB obligation, end of year	<u><u>\$ 6,256,794</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year ended June 30, 2017 were as follows:

For Year June 30	Trend Information		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 732,756	44.10%	\$ 6,256,794
2016	\$ 704,112	44.80%	\$ 5,847,505
2015	\$ 710,999	37.90%	\$ 5,458,940

Funded Status and Funding Progress . As of December 31, 2015, 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 \$10,240,123. The covered payroll (annual payroll of active employees covered by the plan) was \$2,983,507, and the ratio of the UAAL to the covered payroll was 343.22%. 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 actuarial value of plan assets is increasing or decreasing over times 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, 2015 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 7.75% to 5.00% medical cost trend rate with 2022 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, 2016, 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 Government 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 of 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 benefits 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, 2017, 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 benefits amount and the other benefit amount.

3. Deferred Outflows and Inflows of Resources

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Pensions - difference between expected and actual experience		
LGERS	\$ 42,702	\$ 79,642
Changes of assumptions		
LGERS	155,667	-
LEOSSA	-	22,733
Pensions - difference between projected and actual investment		
LGERS	1,256,577	-
Pensions - change in proportion and difference between employer		
LGERS	-	161,003
Contributions to pension plan in current fiscal year		
LGERS	477,283	-
Benefit payments/administration costs paid subsequent to the measurement date (LEOSSA)	34,885	-
Taxes receivable, net (General)	-	23,368
Total	<u>\$ 1,967,114</u>	<u>\$ 286,746</u>

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 three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, worker's compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contracting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior 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 \$165,000. The remaining employees that have access to funds are bonded for \$10,000 per occurrence.

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, 2017 were comprised of the following individual

Governmental Activities:

\$3,000,000 for construction of community center, due in fixed annual installments of \$150,000 plus interest at 4.06% through January 2028. Loan balance of \$2,250,000 refinanced by 2.92% in FY 2014. All other terms remain the same. Loan issued by First Citizens Bank.	\$ 1,650,000
\$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 refinanced at 2.92% in FY 2013. All other terms remain the same. Loan issued by First Citizens Bank.	2,475,000
\$500,000 for street resurfacing, 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. Loan issued by First Citizens Bank.	50,000
\$150,000 for renovations to EMS building due in annual installments of \$8,808 through March 2037, interest at 4.125%. The issue date was March 2017 from USDA.	118,355
\$1,150,000 for Smithfield Crossings Project, due in annual installments of \$164,286 plus interest at 2.65%. The issue date was November 2011 from Wells Fargo.	328,571
\$376,928 for various equipment due in annual installment of \$78,069 through October 2020, interest rate at 1.42%. The issue date was April 2016 from First Citizens Bank.	301,498
\$2,806,400 for Smithfield Crossing Project, due in annual installments of \$157,411 through July 2044, interest at 3.75%. The issue date was July 2014 from USDA.	2,700,102
\$140,000 for vehicles and equipment, due in semi-annual installments of \$14,604.73 through May 2020, interest at 1.55%. The issue date was May 2015 from Kansas State Bank.	85,296
	85,296
Total governmental activities	\$ 7,708,822

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 of \$408,220, 20-year term with interest at 3.00%, and non-revolving loan of \$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.

\$ 20,411

\$1,181,500 for various water/sewer projects due in semi-annual installments of \$65,671 through April 2026, interest 2.06%. The issue date April 2016 from Branch Banking & Trust.

1,073,945

\$1,430,000 for various water/sewer projects due in semi-annual installments of \$83,053 through February 2026, interest 2.90%. The issue date was March 2016 from Four Oaks Bank.

1,305,139

\$491,185 for equipment due in semi-annual installments of \$51,133 through November 2019, interest 1.55%. The issue date was December 2014 from Kansas State Bank.

250,011

\$2,037,249 for Booker Dairy Road Water Line Relocation/Extension project due in semi-annual installments of \$156,838 through March 2024, interest 2.03%. The issue date was March 2017 from BB&T.

2,037,249

Total business-type activities

\$ 4,686,755

Future minimum payments as of June 30, 2017 for the installment purchase contracts are as follows:

Year Ending June 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 737,086	\$ 242,813	\$ 631,090	\$ 103,324
2019	690,519	223,034	623,825	89,564
2020	529,750	204,062	587,276	76,121
2021	533,386	189,567	547,923	63,200
2022	459,050	174,488	560,506	50,617
2023-2027	2,279,346	663,517	1,736,135	81,012
2028-2032	844,220	432,977	-	-
2033-2037	564,899	266,422	-	-
2038-2043	631,978	155,077	-	-
2044-2045	438,588	33,285	-	-
Total	<u>\$ 7,708,822</u>	<u>\$ 2,585,242</u>	<u>\$ 4,686,755</u>	<u>\$ 463,838</u>

b. General Obligation Indebtedness

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 deceased 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 requirement to maturity for the Town's general obligation bonds are as follows:

Year Ending June 30	Principal	Interest	Total
2018	\$ 175,000	\$ 4,113	\$ 179,113

c. Revenue Bonds

\$5,000,000 Electric System Revenue Bond, Series 2007, dated 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. The balance of this loan at August 2014, in the amount of \$3,668,555 was refinanced at 3.25% through August 2027. Annual payments are \$350,491.

\$ 3,189,213

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 \$3,768,438. Principal and interest paid for the current year revenue bonds and total electric customer net revenues were \$350,491 and \$1,876,742, respectively.

The debt service coverage ratio calculation for the year ended June 30, 2017 is as follows:

Operating revenues	\$ 17,252,978
Operating expenses	(15,376,236)
Add back:	
Investment earnings	26,572
Depreciation	586,175
Income available for debt service	<u>\$ 2,489,489</u>
Debt service principal and interest paid (Revenue bond only)	<u>\$ 350,491</u>
Debt service coverage ratio	710%

The Town's debt service coverage ratio is greater than 120% of the debt service requirement for the year ended June 30, 2017.

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

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 250,417	\$ 92,168	\$ 342,585
2019	257,654	84,931	342,585
2020	265,100	77,485	342,585
2021	272,762	69,824	342,585
2022	280,645	61,941	342,586
2023-2027	1,529,673	183,254	1,712,927
2028	332,962	9,622	685,539
	<u>\$ 3,189,213</u>	<u>\$ 579,225</u>	<u>\$ 4,111,392</u>

d. Capital Leases

The Town has entered into an agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the date of its inception.

The agreement was executed on May 1, 2015 to lease gym equipment for the Smithfield Recreation and Aquatics Center, and requires 36 monthly payments of \$2,993. In the agreement, title passes to the Town at the end of the lease term.

The following is an analysis of the asset recorded under capital lease at June 30, 2017:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 98,377	\$ 42,630	\$ 55,747

The future minimum lease obligations as of June 30, 2017 were as follows:

Year Ending June 30	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 31,953	\$ 966	\$ 32,919
	<u>\$ 31,953</u>	<u>\$ 966</u>	<u>\$ 32,919</u>

e. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 8,458,591	\$ -	\$ 749,669	\$ 7,708,922	\$ 737,086
General obligation bonds	355,000	-	180,000	175,000	175,000
Capitalized leases	64,870	-	32,917	31,953	32,917
Compensated absences	430,164	20,628	-	450,792	112,698
Net pension liability (LGERS)	389,753	1,302,649	-	1,692,402	-
Total pension liability (LEOSSA)	1,084,775	9,247	-	1,094,022	-
Other postemployment benefits	4,633,310	287,326	-	4,920,636	-
Total	\$ 15,416,463	\$ 1,619,850	\$ 962,586	\$ 16,073,727	\$ 1,057,701
Business-type activities:					
Revenue bonds	\$ 3,432,964	\$ -	\$ 251,373	\$ 3,181,591	\$ 250,417
Installment purchases	3,037,685	2,037,249	380,557	4,694,377	631,090
Compensated absences	102,572	22,409	-	124,981	31,245
Net pension liability (LGERS)	122,729	457,678	-	580,407	-
Other postemployment benefits	1,214,196	121,962	-	\$ 1,336,158	-
Total	\$ 7,910,146	\$ 2,639,298	\$ 631,930	\$ 9,917,514	\$ 912,752

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, 2017, the Town of Smithfield had a legal debt margin of \$78,566,721.

C. Interfund Balances and Activity

Due To/From Other Funds

	From	To
General Fund	\$ -	\$ 630,903
General Fund Capital Project Fund	626,294	-
Smithfield Fire Tax District	4,609	-
Electric Fund	-	150,000
Water/Sewer Fund	150,000	-
Total Interfund Balances	<u>\$ 630,903</u>	<u>\$ 630,903</u>

The balances between the General Fund, Capital Project, Fund, and Fire Tax District Fund were to advance funds for various expenses.

The balance between the Electric Fund and Water and Sewer Fund is to share the cost of a substation that is currently under construction. Once the funds have been spent to construct the substation, the interfund loan will be dissolved.

Transfers

Transfers to/from other funds at June 30, 2017, consists of the following:

Governmental Funds:

From the General fund to the General Fund Capital Project Fund to accumulate resources for the various projects and capital purchases. \$ 838,224

From the General fund to the Capital Reserve Fund to accumulate resources for future capital expenses. 175,000

From the Fire District Fund to the General Fund to support the expenses related to the fire department. This is a standard transfer that occurs annually. 175,400

Total Transfers - Governmental Funds \$ 1,188,624

Enterprise Funds:

From the Electric Fund to the Electric Fund Capital Project fund to provide resources for a capital project. \$ 675,000

From the Water Sewer Fund to the Water Sewer Fund Capital Project fund to provide resources for a capital project. 630,000

Total Transfers - Enterprise Funds \$ 1,305,000

IV. On-Behalf Payments for Fringe Benefits and Salaries

The Town has recognized as revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$17,854 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2017. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

V. Net Investment in Capital Assets

	<u>Business-Type</u>		
	<u>Governmental</u>	<u>Water/Sewer</u>	<u>Electric</u>
Capital Assets	\$ 33,550,416	\$ 9,123,632	\$ 9,088,985
less: long-term debt	(7,915,875)	(4,644,253)	(3,231,715)
add: unexpended debt proceeds	-	1,624,360	-
Net Investment in Capital Assets	\$ 25,634,541	\$ 6,103,739	\$ 5,857,270

VI. 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	\$ 10,130,869
Less restricted for:	
USDA debt Payments	54,724
Public safety	36,449
Stabilization by State statute	1,933,296
Streets	4,054
Bingham Park	-
Recreation development	188,500
Subsequent year's expenditures	27,500
Remaining Fund Balance	\$ 7,886,346

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, lock non-Town funds, and Town funds. For purpose 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.

The outstanding encumbrances are amounts needed to pay any commitments related to purchase orders and contracts that remain unperformed at year-end.

<u>Encumbrances</u>	<u>General Fund</u>	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>
	\$ 210,583	\$ 111,566	\$ 99,017

VII. Jointly Governed Organization

The Town, in conjunction with thirty-two other local governments, is a member of the North Carolina Eastern Municipal Agency (the Agency). The Electric Agency was formed to enable municipalities that own electric distributions systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except from the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2017 were \$12,552,089.

VIII. Joint Ventures

The Town, in conjunction with Riverside Extension, Inc., participates in a joint venture to improve and development 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 right to improve and develop the property, to receive from the 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 ventures does not issue separate financial statements.

The Public Library of Johnston County and Smithfield (the Library) is a nonprofit organization governed by a 12-member board of trustees with 6 positions appointed by the Town of Smithfield and 6 positions appointed by Johnston County. The Town and Johnston County are in agreement with the Library to help with unbudgeted costs. For unbudgeted expenditures over \$4,000, the Town of Smithfield is required to pay 40% of costs over the \$4,000. The remaining 60% is covered by Johnston County. In addition, the Town contributes \$250,000 to the Library annually for operations.

The Ava Gardner Museum of a private, nonprofit organization that houses the Ava Gardner Collection. The Collection is owned by the Town of Smithfield. The Town contributes to the funding of a full-time executive director that acts as a steward of the collection and the museum. In 2017, the Town paid \$23,431 to the Ava Gardner Museum.

IX. 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.

X. Significant Effects of 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.

XI. Prior Period Adjustments

Accrued vacation balances should include the respective percentages for FICA and Retirement, which had not previously been recorded as part of the compensated absences total. A prior period adjustment was made to account for those balances as of June 30, 2016 as follows: \$54,714 decrease in net position of governmental activities, \$5,101 decrease in the net position of the Water Sewer Fund, and \$7,818 decrease in net position in the electric fund.

In addition, Town officials discovered an asset that should have been added to the fixed asset schedules in the previous year, but was inadvertently left off. That asset has been added to the fixed asset schedules, resulting in an increase in net position for the Water Sewer Fund of \$54,344.

Accrued interest payable at June 30, 2016, was incorrectly reflected on the financial statements. An adjustment was needed to correct beginning balances of accrued interest payable that decreased net position in the Water Sewer Fund by \$14,345 and increased net position in the Electric Fund by \$72,398. In addition, accrued interest payable was not recorded at all for governmental activities. An adjustment was made to post the beginning accrued interest payable, resulting in a decrease in net position of the governmental activities of \$180,174.

The receivable for franchise tax had not been adjusted in several years. A prior period adjustment of \$11,706 was recorded to adjust the beginning receivable balance as of June 30, 2016, thereby decreasing fund balance by this amount.

Accounts receivable, allowance for doubtful accounts, and unbilled receivables were not adjusted in prior years resulting in adjustments to beginning balances as follows: Sanitation (General Fund) decrease of \$79,557; Electric Fund decrease of \$963,642; Water Sewer Fund decrease of \$106,510.

Refunds payable were recorded on the balance sheet and were not cleared out when payments were issued to the customers. A prior period adjustment was posted to clean up those account balances at June 30, 2016. Adjustments were as follows: General Fund fund balance decreased \$29,544; Water Fund net position decreased \$5,124; Electric Fund net position decreased by \$45,946.

Deferred Inflows of Resources in the Water Sewer Fund on the general ledger at June 30, 2016, did not agree with the amounts posted on the audit report. An adjustment was required that decreased fund balance by \$9,678.

Beginning Construction in Process had to be adjusted on the government-wide statements that resulted in an increase in net position of \$1,242,840 for government-wide activities.

A beginning receivable amount was not reflected in the prior year to include amounts owed from the County for motor vehicle collections received prior to year end. This adjustment resulted in increasing fund balance in the General Fund by \$85,572.

XII: Change in Accounting Principles/ Restatement

In accordance with Governmental Accounting Standards Board (GASB) No. Statement 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on the net position of the benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period. As a result, net position for the governmental activities decreased by \$950,567. The Town will implement GASB Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans for the Healthcare Benefits Plan effective for the year ending June 30, 2018. The implementation of this statement will have no effect on net position.

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 Employers Contributions for Other Postemployment Benefits

Schedule of Proportionate Share of the Net Pension Asset - Local Government Employee's Retirement System

Schedule of Contributions - Local Government Employees' Retirement System

Schedule of Changes in Total Pension Liability - Law Enforcement Officers' Special Separation Allowance

Schedule of Total Pension Liability as a Percentage of Covered Payroll - Law Enforcement Officers' Special Separation Allowance

Town of Smithfield, North Carolina
Health Care Plan Allowance (Other Postemployment Benefits)
Required Supplementary Information
For the Year Ended June 30, 2017

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a% of Covered Payroll ((b-a)/c)
12/31/2015	\$ -	\$ 10,240,123	\$ 10,240,123	0.00%	\$ 2,983,507	343.22%
12/31/2012	-	8,592,701	8,592,701	0.00%	4,126,669	208.22%
12/31/2009	-	8,211,690	8,211,690	0.00%	5,812,092	141.29%

Schedule of Employers Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2017	\$ 732,756	44.10%
2016	704,112	44.80%
2015	710,999	37.99%

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:	12/31/2015
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	7.75-5.00%
Post-Medicare trend rate	5.75 -5.00%
Year of ultimate trend rate	2022
*Includes inflation at:	3.00%

Town of Smithfield
Town of Smithfield's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Smithfield's proportion of the net liability (asset) (%)	0.10709%	0.11419%	0.11846%	0.12370%
Smithfield's proportion of the net pension liability (asset) (\$)	\$ 2,272,809	\$ 512,482	\$ (698,613)	\$ 1,491,060
Smithfield's covered-employee payroll	\$ 5,795,276	\$ 5,977,396	\$ 6,030,168	\$ 6,162,658
Smithfield's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.22%	8.57%	-11.59%	24.20%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

Town of Smithfield
Town of Smithfield's Contributions
Required Supplementary Information
Last Four Fiscal Years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 477,283	\$ 399,093	\$ 382,494	\$ 429,916
Contributions in relation to the contractually required contribution	<u>477,283</u>	<u>399,093</u>	<u>382,494</u>	<u>429,916</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Smithfield's coverage-employee payroll	\$ 6,332,100	\$ 5,795,276	\$ 5,977,396	\$ 6,030,168
Contributions as a percentage of covered-employee payroll	7.54%	6.89%	6.40%	7.13%

Town of Smithfield, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2017

	<u>2017</u>
Beginning balance	\$ 1,084,775
Service Cost	52,703
Interest on the total pension liability	37,755
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(26,793)
Benefit payments	(54,418)
Other changes	-
Ending balance of the total pension liability	<u>\$ 1,094,022</u>

Town of Smithfield, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2017

	<u>2017</u>
Total pension liability	\$1,094,022
Covered Payroll	2,029,054
Total pension liability as a percentage of covered payroll	53.92%

Notes to the schedules:

The Town of Smithfield has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

SUPPLEMENTARY STATEMENTS
AND SCHEDULES

This section contains additional information required by the
Local Government Commission in North Carolina

Town of Smithfield, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes			
Taxes		\$ 6,125,836	
Downtown district tax		88,155	
Penalties and interest		18,375	
Total	<u>6,035,779</u>	<u>6,232,366</u>	<u>196,587</u>
Other taxes and licenses			
Zoning permits		19,543	
Other permits and license		31,400	
Occupancy tax		247,512	
Total	<u>291,500</u>	<u>298,455</u>	<u>6,955</u>
Unrestricted intergovernmental			
Franchise tax		988,872	
Beer and wine tax		50,250	
ABC board profit distribution		77,589	
Local option sales tax		2,452,267	
PEG channel fees		100,643	
Solid waste disposal tax		7,450	
Excise tax - rentals		22,849	
Total	<u>3,282,700</u>	<u>3,699,920</u>	<u>417,220</u>
Restricted intergovernmental			
Powell Bill allocation		322,308	
Department of Justice forfeitures		5,587	
JAG grant		687	
Grant revenue		182,373	
Total	<u>418,949</u>	<u>510,955</u>	<u>92,006</u>
Permits and fees			
Cemetery lot sales and grave openings		90,500	
DSDC loan repayment		12,757	
Public safety fees		358,782	
Refuse collection fees		1,363,552	
Recreation fees		55,276	
EMS fees		61,654	
Aquatic Center fees		738,519	
Total	<u>2,515,510</u>	<u>2,681,040</u>	<u>165,530</u>
Investment earnings	<u>6,000</u>	<u>13,274</u>	<u>7,274</u>

Town of Smithfield, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Miscellaneous			
Street assessments		1,914	
Cell tower rental		59,853	
Other		64,994	
Total	<u>79,500</u>	<u>126,761</u>	<u>47,261</u>
Total Revenues	<u>12,629,938</u>	<u>13,562,771</u>	<u>932,833</u>
Expenditures:			
General Government:			
Governing Body			
Salaries and employee benefits		192,750	
Operating expenditures		184,116	
Overhead allocated to other funds		(24,474)	
Total	<u>376,331</u>	<u>352,392</u>	<u>23,939</u>
Administration			
Operating expenditures		856,084	
Overhead allocated to other funds		(55,595)	
Total	<u>889,246</u>	<u>800,489</u>	<u>88,757</u>
Finance			
Salaries and employee benefits		77,340	
Operating expenditures		17,277	
Overhead allocated to other funds		(6,145)	
Total	<u>98,147</u>	<u>88,472</u>	<u>9,675</u>
Building and Planning			
Salaries and employee benefits		229,761	
Operating expenditures		81,151	
Total	<u>367,698</u>	<u>310,912</u>	<u>56,786</u>
Total general government	<u>1,731,422</u>	<u>1,552,265</u>	<u>179,157</u>
Public Safety:			
Police			
Salaries and employee benefits		2,769,025	
Operating expenditures		316,153	
Capital outlay		163,420	
Total	<u>3,608,768</u>	<u>3,248,598</u>	<u>360,170</u>

Town of Smithfield, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Fire			
Salaries and employee benefits		1,285,668	
Operating expenditures		219,934	
Total	1,579,107	1,505,602	73,505
Total public safety	5,187,875	4,754,200	433,675
Street and Public Works:			
Community Appearance			
Salaries and employee benefits		249,029	
Operating expenditures		208,670	
Total	505,440	457,699	47,741
Streets			
Salaries and employee benefits		262,229	
Operating expenditures		224,228	
Total	550,904	486,457	64,447
Powell Bill			
Operating expenditures		351,068	
Total	361,225	351,068	10,157
Garage			
Salaries and employee benefits		62,640	
Operating expenditures		23,517	
Total	95,880	86,157	9,723
Total Street and Public Works	1,513,449	1,381,381	132,068
Sanitation:			
Salaries and employee benefits		674,443	
Operating expenditures		322,717	
Capital outlay		-	
Total Sanitation	1,079,736	997,160	82,576
Cultural and recreational:			
Salaries and employee benefits		1,044,456	
Operating expenditures		709,659	
Total Cultural and Recreational	1,841,313	1,754,115	87,198

Town of Smithfield, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Debt service:			
Principal retirement		962,586	
Interest and other charges		272,820	
Total debt service	<u>1,283,352</u>	<u>1,235,406</u>	<u>47,946</u>
Total expenditures	<u>12,637,147</u>	<u>11,674,527</u>	<u>962,620</u>
Revenues over (under) expenditures	<u>(7,209)</u>	<u>1,888,244</u>	<u>(29,787)</u>
Other financing sources (uses):			
Appropriated fund balance	728,309	-	(728,309)
Transfers from other funds	175,400	175,400	-
Transfers to other funds	(1,015,500)	(1,013,224)	(2,276)
Loan proceeds	104,000	-	(104,000)
Sale of fixed assets	15,000	3,055	(11,945)
Total	<u>7,209</u>	<u>(834,769)</u>	<u>(846,530)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	1,053,475	<u>\$ (876,317)</u>
Fund balance, beginning		8,913,863	
Prior Period Adjustment		(11,823)	
Fund balance, ending		<u>\$ 9,955,515</u>	

Town of Smithfield, North Carolina
General Fund Capital Reserve Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2017

	Budget	Actual	Variance
Revenues			
Investment Earnings	\$ -	\$ 354	\$ 354
Total revenues	-	354	354
Revenues over (under) expenses	-	354	354
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Transfers to other funds	(175,000)	-	-
Transfers from other funds	175,000	175,000	-
Total other financing sources (uses)	-	175,000	-
Excess (deficiency) of revenues and other financing sources over expenditures	\$ -	175,354	\$ 354
Fund balance, beginning		-	
Prior Period Adjustment (See Note X)		-	
Fund balance, ending		\$ 175,354	

Town of Smithfield, North Carolina
Smithfield Fire Tax District Special Revenue Fund
Balance Sheet
For the Fiscal Year Ended June 30, 2017

Assets

Cash and cash equivalents	\$ 7,514
	<hr/>
Total Assets	\$ 7,514
	<hr/> <hr/>

Liabilities and Fund Balances

Liabilities:

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

Fund balances:

Unassigned	2,905
	<hr/>

Total liabilities and fund balances	\$ 7,514
	<hr/> <hr/>

Town of Smithfield, North Carolina
Smithfield Fire Tax District Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2017

Revenues	
Fire district taxes	\$ 167,313
Supplemental Funding	<u>10,868</u>
Total Revenues	<u>178,181</u>
Expenditures	
Public Safety	<u>-</u>
Total expenditures	<u>-</u>
Revenues over (under) expenditures	178,181
Other financing sources (uses):	
Operating transfers out	<u>(175,400)</u>
Total other financing sources (uses)	<u>(175,400)</u>
Excess (deficiency) of revenues and other financing sources over expenditures	2,781
Fund balance, beginning	<u>124</u>
Fund balance, ending	<u><u>\$ 2,905</u></u>

Town of Smithfield, North Carolina
Smithfield Fire Tax District Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2017

	Budget	Actual	Variance
Revenues			
Fire district taxes	\$ 166,000	\$ 167,313	\$ 1,313
Other Income	9,400	10,868	1,468
Total revenues	<u>175,400</u>	<u>178,181</u>	<u>2,781</u>
Expenditures			
Public Safety	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Revenues over (under) expenses	175,400	178,181	2,781
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Operating transfers out	<u>(175,400)</u>	<u>(175,400)</u>	<u>-</u>
Total other financing sources (uses)	<u>(175,400)</u>	<u>(175,400)</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over expenditures	<u>\$ 350,800</u>	2,781	<u>\$ 2,781</u>
Fund balance, beginning		<u>124</u>	
Fund balance, ending		<u>\$ 2,905</u>	

Town of Smithfield, North Carolina
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 Year Ended June 30, 2017

	Project Authorization	Prior Years	Current Year	Completed Project	Total Project to Date	Variance Favorable (Unfavorable)
Revenues						
Restricted intergovernmental	\$ 1,909,807	\$ 1,575,807	\$ 134,072	\$ -	\$ 1,709,879	\$ (199,928)
Contributions	883,250	727,555	268,750	-	996,305	113,055
Investment earnings	12,588	12,649	-	-	12,649	61
Total revenues	<u>2,805,645</u>	<u>2,316,011</u>	<u>402,822</u>	<u>-</u>	<u>2,718,833</u>	<u>(86,812)</u>
Expenditures						
Neuse River Theater repairs	80,000	40,695	-	(40,695)	-	80,000
Briar Harbour Professional Park	-	276,000	-	(276,000)	-	-
Miracle Park	901,000	830	318,975	-	319,805	581,195
Revitalization Market St	113,107	6,224	104,606	-	110,830	2,277
Knuckleboom loader	140,000	129,529	-	(129,529)	-	140,000
Fire engine #3	530,000	-	-	-	-	530,000
Flatbed	90,000	65,395	-	(65,395)	-	90,000
Smithfield Crossings Area "A"	1,483,319	1,483,319	-	(1,483,319)	-	1,483,319
Smithfield Crossings Area "B"	6,426,283	6,261,427	71,288	(6,332,715)	-	6,426,283
Garbage Truck	170,000	-	166,018	(166,018)	-	170,000
Financial Software	57,500	-	67,001	-	67,001	(9,501)
Venture Drive	700,000	-	678,206	(678,206)	-	700,000
Building Reuse	197,250	-	142,822	-	142,822	54,428
JAS Building Purchase	425,750	-	421,924	(421,924)	-	425,750
Total expenditures	<u>11,314,209</u>	<u>8,263,419</u>	<u>1,970,840</u>	<u>(9,593,801)</u>	<u>640,458</u>	<u>10,673,751</u>
Revenues over (under) expenditures	<u>(8,508,564)</u>	<u>(5,947,408)</u>	<u>(1,568,018)</u>	<u>9,593,801</u>	<u>2,078,375</u>	<u>(10,760,563)</u>
Other financing sources (uses)						
Transfers in	2,170,250	590,000	838,224	-	1,428,224	(742,026)
Debt issued	6,338,314	5,400,528	-	-	5,400,528	(937,786)
Total other financing sources (uses)	<u>8,508,564</u>	<u>5,990,528</u>	<u>838,224</u>	<u>-</u>	<u>6,828,752</u>	<u>(1,679,812)</u>
Revenues and other financing sources over (under expenditures)	<u>\$ -</u>	<u>\$ 43,120</u>	<u>\$ (729,794)</u>	<u>\$ 9,593,801</u>	<u>\$ 8,907,127</u>	<u>\$(12,440,375)</u>

Town of Smithfield, North Carolina
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2017

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Electricity sales		\$ 16,763,569	
Connection fees		21,641	
Miscellaneous		13,781	
Penalties		453,987	
Total	<u>\$ 17,321,747</u>	<u>17,252,978</u>	<u>\$ (68,769)</u>
Non-operating revenues:			
Interest earnings		26,572	
Total	<u>16,000</u>	<u>26,572</u>	<u>10,572</u>
Total revenues	<u>17,337,747</u>	<u>17,279,550</u>	<u>(58,197)</u>
Expenditures:			
Electrical purchases		12,552,089	
Electrical operations		830,922	
Salaries and employee benefits		1,212,350	
Capital outlay		168,736	
Debt service		346,554	
Total expenditures	<u>16,662,965</u>	<u>15,110,651</u>	<u>(1,552,314)</u>
Other financing sources (uses):			
Appropriated fund balance	218	-	(218)
Capital Contributions	-	53,922	53,922
Transfer to Capital Project Fund	<u>(675,000)</u>	<u>(675,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(674,782)</u>	<u>(621,078)</u>	<u>53,704</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 1,547,821</u>	<u>\$ 1,547,821</u>
Reconciliation from budgetary basis (modified accrual to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 1,547,821	
Reconciling items:			
Principal repayment on long-term debt		260,286	
Capital outlay		52,410	
Depreciation		(586,175)	
Increase (Decrease) in deferred outflows of resources - pensions		196,742	
(Increase) Decrease in net pension liability		(230,879)	
(Increase) Decrease in deferred inflows of resources - pension		15,513	
(Increase) Decrease in compensated absences		(5,607)	
(Increase) Decrease in other postemployment benefits		(54,143)	
Transfer to Capital Project (Ex D-1A)		675,000	
Total reconciling items		<u>323,147</u>	
Net income		<u>\$ 1,870,968</u>	

Town of Smithfield, North Carolina
Electric Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2017

	Project Authorization	Prior Years	Current Years	Closed Projects	Total to Date	Variance Positive (Negative)
Expenditures						
Substation 2nd Transformer	\$ 1,231,515	\$ 158,721	\$ 987,116	\$(1,145,837)	\$ -	\$ 1,231,515
Voltage Conversion	400,000	-	93,504	-	93,504	306,496
Booker Dairy Power Line	275,000	-	24,919	-	24,919	250,081
Total	<u>1,906,515</u>	<u>158,721</u>	<u>1,105,539</u>	<u>(1,145,837)</u>	<u>118,423</u>	<u>1,788,092</u>
Other financing sources (uses):						
Transfer from Electric Fund	<u>1,906,515</u>	<u>1,200,000</u>	<u>675,000</u>	<u>-</u>	<u>1,875,000</u>	<u>(31,515)</u>
Total financing sources (uses)	<u>1,906,515</u>	<u>1,200,000</u>	<u>675,000</u>	<u>-</u>	<u>1,875,000</u>	<u>(31,515)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 1,041,279</u>	<u>\$ (430,539)</u>	<u>\$ 1,145,837</u>	<u>\$ 1,756,577</u>	<u>\$ 1,756,577</u>

Town of Smithfield, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year end June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales		\$ 3,573,036	
Sewer sales		3,480,234	
Connection and tap fees		37,194	
Miscellaneous		278	
Total	\$ 6,898,210	7,090,742	\$ 192,532
Non-operating revenues:			
Interest earnings		10,201	
Total	9,000	10,201	1,201
Total revenues	6,907,210	7,100,943	193,733
Expenditures:			
Water treatment plant			
Salaries and employee benefits		613,752	
Other operating expenditures		1,105,673	
Water and sewer distribution			
Salaries and employee benefits		749,763	
Other operating expenditures		2,672,972	
Capital outlay		424,488	
Debt Service		451,336	
Total expenditures	6,277,210	6,017,984	(259,226)
Other financing sources (uses):			
Loan proceeds	-	-	-
Transfer to project fund	(930,000)	(630,000)	300,000
Appropriated fund balance	300,000	-	(300,000)
Total other financing sources (uses)	(630,000)	(630,000)	-
Revenues over (under) expenditures and other uses	\$ -	\$ 452,959	\$ 452,959
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 452,959	
Reconciling items:			
Principal repayment on long-term debt		371,644	
Capital outlay		246,113	
Depreciation		(567,847)	
(Increase) in deferred outflows of resources - pensions		(194,776)	
Increase (Decrease) in net pension liability		226,799	
Increase (Decrease) in deferred inflows of resources - pensions		(15,822)	
Increase (Decrease) in compensated absences		16,802	
Increase (Decrease) in other postemployment benefits		67,819	
Restricted Intergovernmental (Ex D-2a)		114,225	
Transfer from operating fund (Ex D-2a)		630,000	
Total reconciling items		\$ 894,957	
Net income (loss)		\$ 1,347,916	

Town of Smithfield, North Carolina
Water Sewer Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2017

	Project Authorization	Prior Years	Current Years	Capitalized Projects	Total to Date	Variance Positive (Negative)
Restricted Intergovernmental						
AIA Grant - Water	\$ -	\$ -	\$ 43,507	\$ -	\$ 43,507	\$ 43,507
AIA Grant - Sewer	-	-	70,718	-	70,718	70,718
Total Revenue	-	-	114,225	-	114,225	114,225
Expenditures						
Elevate Transformers & Panels	100,000	43,233	26,261		69,494	30,506
Generator / VFDs	99,000	97,700	-	(97,700)	-	99,000
Chlorine Dioxide System	141,000	134,344	-	(134,344)	-	141,000
Intake Sand Removal System	464,852	441,719	17,368		459,087	5,765
Sludge Dewatering	369,848	22,774	345,492	(98,617)	269,649	100,199
Water AIA	165,000	-	72,104	-	72,104	92,896
Grid Bee Mixers	65,000	-	61,729	-	61,729	3,271
I&I S&W Smithfield	1,000,000	306,673	563,599	-	870,272	129,728
NC 210 Sewer Line & PS3 Upgrade	415,000	31,704	353,091	(75,640)	309,155	105,845
Booker Dairy Rd Ext	123,700	71,100	52,020	-	123,120	580
Upgrade Lift Station	210,000	-	74,402	-	74,402	135,598
16 In Water Line - Frank Jones Rd	200,000	-	-	-	-	200,000
Sewer AIA	165,000	-	107,917	-	107,917	57,083
Total	3,518,400	1,149,247	1,673,983	(406,301)	2,416,929	1,101,471
Other financing sources (uses):						
Loan Proceeds	2,035,000	1,995,000	-	-	1,995,000	(40,000)
Transfer from Electric Fund	150,000	-	-	-	-	(150,000)
Transfer from Water Sewer Fund	1,333,400	279,700	630,000	-	909,700	(423,700)
Total financing sources (uses)	3,518,400	2,274,700	630,000	-	2,904,700	(613,700)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ 1,125,453	\$ (929,758)	\$ 406,301	\$ 601,996	\$ 601,996

Town of Smithfield, North Carolina
Booker Dairy Road Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2017

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Years</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Expenditures					
Engineering	\$ 101,621	\$ -	\$ 6,758	\$ 6,758	\$ 94,863
Construction	1,935,628	-	265,686	265,686	1,669,942
Total	<u>2,037,249</u>	<u>-</u>	<u>272,444</u>	<u>272,444</u>	<u>1,764,805</u>
Other financing sources (uses):					
Loan Proceeds	<u>2,037,249</u>	<u>-</u>	<u>2,037,249</u>	<u>2,037,249</u>	<u>-</u>
Total financing sources (uses)	<u>2,037,249</u>	<u>-</u>	<u>2,037,249</u>	<u>2,037,249</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,764,805</u>	<u>\$ 1,764,805</u>	<u>\$ 1,764,805</u>

Town of Smithfield, North Carolina
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2017

	<u>Balance</u> <u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2017</u>
ASSETS				
Cash and cash equivalents	\$ 169,723	\$ 9,911	\$ 22,820	\$ 156,814
Total assets	<u>169,723</u>	<u>9,911</u>	<u>22,820</u>	<u>156,814</u>
 LIABILITIES				
Current liabilities:				
Miscellaneous liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 NET POSITION				
	<u>\$ 169,723</u>	<u>\$ 9,911</u>	<u>\$ 22,820</u>	<u>\$ 156,814</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, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
For the Fiscal Year Ended June 30, 2017

Fiscal Year	Uncollected Balance July 1, 2016	Additions	Collections and Credits	Uncollected Balance June 30, 2017
2016	\$ -	\$ 6,283,261	\$ 6,276,246	\$ 7,015
2015	9,445	-	7,619	1,826
2014	9,567	-	2,997	6,570
2013	5,980	-	2,497	3,483
2012	5,962	-	380	5,582
2011	7,769	-	142	7,627
2010	3,730	-	134	3,596
2009	5,178	-	488	4,690
2008	4,259	-	56	4,203
2007	307	-	10	297
2006	703	-	703	-
	<u>\$ 52,900</u>	<u>\$ 6,283,261</u>	<u>\$ 6,291,272</u>	<u>\$ 44,889</u>
Downtown District Taxes Receivable				(16)
Less allowance for uncollectible ad valorem taxes receivable:				(21,506)
Ad valorem taxes receivable, net				<u>\$ 23,367</u>
Reconciliation with Revenues:				
Ad valorem taxes:				
General Fund				6,232,366
Interest Collected				(18,375)
MV Fees				17,095
Taxes written off / adjusted / released				60,186
Total adjustments				<u>58,906</u>
				<u>\$ 6,291,272</u>

Town of Smithfield, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2017

	Town-Wide Levy			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	\$ 1,063,378,070	0.57	\$ 6,061,255	\$ 5,545,335	\$ 515,920
Discoveries	21,249,649	0.57	121,123	121,123	-
Releases	<u>(3,595,263)</u>	<u>0.57</u>	<u>(20,493)</u>	<u>(14,201)</u>	<u>(6,292)</u>
Total Property Valuation	<u>\$ 1,081,032,456</u>				
Net levy			6,161,885	5,652,257	509,628
Uncollected taxes at June 30, 2017			<u>6,999</u>	<u>6,999</u>	<u>-</u>
Current year's taxes collected			<u>\$ 6,154,886</u>	<u>\$ 5,645,258</u>	<u>\$ 509,628</u>
Current levy collection percentage			<u>99.89%</u>	<u>99.88%</u>	<u>100.00%</u>

Town of Smithfield, North Carolina
Analysis of Current Tax Levy - Downtown District
Town - Wide Levy
For the Fiscal Year Ended June 30, 2017

	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	\$ 64,354,211	0.19	\$ 122,273	\$ 89,429	\$ 32,844
Discoveries	-	0.19	-	-	-
Releases	<u>(472,105)</u>	<u>0.19</u>	<u>(897)</u>	<u>-</u>	<u>(897)</u>
Total Property Valuation	<u><u>\$ 63,882,105</u></u>				
Net levy			121,376	89,429	31,947
Uncollected taxes at June 30, 2017			<u>16</u>	<u>16</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 121,360</u></u>	<u><u>\$ 89,413</u></u>	<u><u>\$ 31,947</u></u>
Current levy collection percentage			<u><u>99.99%</u></u>	<u><u>99.98%</u></u>	<u><u>100.00%</u></u>

Compliance Section



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Alan W. Thompson, CPA

R. Bryon Scott, CPA

Gregory S. Adams, CPA

**Report on Internal Control Over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with *Government
Auditing Standards***

To the Honorable Mayor and
Members of the Town Council
Town of 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 financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, 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, 2017, and the related notes to the financial statements, which collectively comprises the Town of Smithfield's basic financial statements, and have issued our report thereon dated January 10, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the 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 the internal control was for the limited purpose described in the preceding paragraph 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 Town'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 [2017-01, 2017-02].

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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. All of the items identified were considered material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Smithfield's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Smithfield's Response to Findings

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

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 Town'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.

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC

January 10, 2018



Thompson, Price, Scott, Adams & Co, P.A.

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Alan W. Thompson, CPA

R. Bryon Scott, CPA

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Report On Compliance With Requirements Applicable To Each Major State Program and Internal Control Over Compliance In Accordance with OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditors' Report

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

Report on Compliance for Each Major State Program

We have audited the Town of Smithfield, North Carolina's, compliance with the types of compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Smithfield's major state programs for the year ended June 30, 2017. Town of Smithfield's major state programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Smithfield's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by Comptroller General of the United States; and the audit requirements of Title 2 U.S Code of Federal Regulations Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Smithfield's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

Members

American Institute of CPAs - N.C. Association of CPAs - AICPA Division of Firms

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Town of Smithfield's compliance.

Opinion on Each Major State Program

In our opinion, Town of Smithfield complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2017.

Report on Internal Control Over Compliance

Management of Town of Smithfield is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Smithfield's internal control over compliance with the types of requirements that could have a direct and material effect on major federal program to determine the auditing procedures that are appropriate in the circumstance for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with type of compliance requirement of a federal program that is less severe than material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weakness may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Thompson, Rice, Scott, Adams & Co., P.A.

Whiteville, NC

January 10, 2018

**Town of Smithfield, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2017**

SECTION 1 - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditor's report issued:

Internal control over financial reporting:

Material weakness(es) identified?	<input checked="" type="checkbox"/> Yes	<input type="checkbox"/> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Noncompliance material to financial statements noted	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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State Awards

Internal control over major State programs:

• Material Weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
• Significant Deficiency(s) identified that are not considered to be material weaknesses	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Noncompliance material to State awards	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Type of auditor's report issued on compliance for major State programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
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Identification of major State programs:

Program Name

Powell Bill

**Town of Smithfield, North Carolina
Schedule of Findings and Responses
For the Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2017-01 Reconciliation of Records

MATERIAL WEAKNESS

Criteria: AU-C 260 requires communication of certain matters related to internal control over financial reporting.

Condition: In reviewing records and testing certain account balances, we noted that several accounts were not reconciled and adjusted. Several adjustments had to be proposed to correct the financial statements.

Effect: Management may not receive accurate information to base decisions appropriately for planning and budgeting purposes.

Cause: The finance staff has been involved with a software conversion that has consumed much of their available time.

Recommendation: The finance office should make sure that timely reconciliations are prepared for all accounts. Year end entries should be made by the finance staff prior to year-end closing for receivables, etc.

Views of responsible officials: The Town agrees with this finding.

Finding 2017-02 Prior Period Adjustments

MATERIAL WEAKNESS

Criteria: AU-C 260 requires communication of certain matters related to internal control over financial reporting.

Condition: The Town recorded several prior period adjustments to correct beginning balances.

Effect: This is an indicator of a control deficiency that is regarded as a material weakness.

Cause: Prior year balances were adjusted for several accounts to correct beginning balances. See Note IX for a description of the adjustments posted.

Recommendation: The Town should implement internal control procedures that will require periodic reviews of balance sheet accounts to ensure that balances are correct.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. Efforts will be made to ensure timely reviews in the future.

SECTION III. STATE AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

**Town of Smithfield, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: 2017-01

Name of contact person: Greg Siler, Finance Officer

Corrective Action: The Town recognizes the importance of timely reconciliations and will make all efforts to reconcile all accounts and bank accounts earlier in the future.

Proposed Completion Date: June 30, 2018

Finding: 2017-02

Name of contact person: Greg Siler, Finance Officer

Corrective Action: The Town recognizes the importance of reviewing the financial statements (to include the balance sheet) and will make all efforts to reconcile all accounts prior to the beginning of audit procedures in the future.

Proposed Completion Date: June 30, 2018

SECTION III. STATE AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

**Town of Smithfield, North Carolina
Summary Schedule of Prior Year's Findings
For the Fiscal Year Ended June 30, 2017**

SECTION II - FINANCIAL STATEMENT FINDINGS

2016-1 Unrecorded note receivable

Repeated as 2017-2 (prior period adjustments)

SECTION III. STATE AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

Town of Smithfield, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2017

Pass-through/Grantor Program Title	CFDA Number	Pass-through Grantor's Number	Federal Expenditures	State Expenditures
FEDERAL AWARDS				
<u>U.S. Department of Homeland Security</u>				
Federal Emergency Management Agency				
Passed through N.C. Department of Public Safety				
Disaster Grants - Public Assistance	97.036		\$ 214,043	\$ -
<u>US Department of Justice</u>				
Justice Assistance Grant (JAG) Program	16.738		687	-
TOTAL FEDERAL AWARDS			\$ 214,730	\$ -
STATE AWARDS				
N.C. Department of Commerce				
Rural Infrastructure Authority			\$ -	\$ 134,072
N.C. Department of Environmental Quality				
CW Asset Inv & Assessment		E-AIA-W-16-0024	-	70,718
DW Asset Inv & Assessment		H-AIA-D-16-0018	-	43,507
N.C Department of Transportation				
Revitalization Grant		DOT-18	-	250,000
Powell Bill		DOT-4	-	351,068
TOTAL STATE AWARDS			\$ -	\$ 849,365
TOTAL FEDERAL AND STATE ASSISTANCE AWARDS			\$ 214,730	\$ 849,365

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

Basis of Presentation

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the Federal and State grant activity of the Town of Smithfield under the programs of Federal governmental and the State of North Carolina for the year ended June 30, 2017. The information in this Schedule of Expenditures of Federal and State Awards is presented with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Smithfield, it is not to and does not present the financial position, changes in net position, or cash flows of the Town of Smithfield.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town has elected not to use the 10-percent de minimis indirect cost rate as allowed under Uniform Guidance.