

**TOWN OF SMITHFIELD
FINANCIAL STATEMENTS
SMITHFIELD, NORTH CAROLINA
FOR THE YEAR ENDED JUNE 30, 2014**

TOWN COUNCIL

John H. Lampe, II - Mayor

Andy Moore - Mayor Pro-Tem

Emery Ashley - At-Large

Charles A. Williams - At-Large

Marlon Lee - District 1

Perry Harris - District 2

Travis Scott - District 3

Roger A. Wood - District 4

TOWN OF SMITHFIELD
FINANCIAL STATEMENTS
TABLE OF CONTENTS
JUNE 30, 2014

	<u>EXHIBIT</u>	<u>PAGE</u>
FINANCIAL SECTION		
Independent Auditors' Report		5
Management's Discussion and Analysis		8
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	19
Statement of Activities	2	20
Fund Financial Statements:		
Balance Sheets - Governmental Funds	3	21
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Position	3	21
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	4	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds to the Statement of Activities	5	23
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	6	24
Statement of Net Position - Proprietary Funds	7	25
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Funds	8	26

TOWN OF SMITHFIELD
 FINANCIAL STATEMENTS
 TABLE OF CONTENTS
 JUNE 30, 2014

	EXHIBIT	PAGE
Statement of Cash Flows - Proprietary Funds	9	27
Statement of Fiduciary Net Position - Fiduciary Funds	10	29
Statement of Changes in Fiduciary Net Position - Fiduciary Funds	11	30
Notes to the Basic Financial Statements		31
SUPPLEMENTARY STATEMENTS AND SCHEDULES		
REQUIRED SUPPLEMENTAL FINANCIAL DATA		
Law Enforcement Officers' Special Separation Allowance - Schedule of Funding Progress and Employer Contributions		54
Health Care Plan Allowance - Schedule of Funding Progress and Employer Contributions		55
INDIVIDUAL FUND FINANCIAL STATEMENTS AND SCHEDULES		
Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual - General Fund		56
Balance Sheet - Non-major Governmental Fund		60
Statement of Revenues, Expenditures and Changes in Fund Balance - Non-major Governmental Fund		61
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Smithfield Fire Tax District		61a
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Street Improvement - Capital Project Fund		62

TOWN OF SMITHFIELD
FINANCIAL STATEMENTS
TABLE OF CONTENTS
JUNE 30, 2014

	<u>PAGE</u>
Schedule of Revenues and Expenditures Budget and Actual - Electric Fund	63
Schedule of Revenues and Expenditures Budget and Actual - Water and Sewer Fund	64
Schedule of Revenues, Expenditures and Changes in Fund Balance - Water and Sewer Capital Project Fund	65
Statement of Changes in Assets and Liabilities - Agency Fund	66
OTHER SCHEDULES	
Schedule of Ad Valorem Taxes Receivable	67
Analysis of Current Tax Levy (Town - Wide Levy)	68
Analysis of Current Tax Levy (Downtown District)	69
COMPLIANCE SECTION	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	70
Independent Auditors' Report on Compliance for Each Major State Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 and the State Single Audit Implementation Act	72
Schedule of Findings and Questioned Costs	74
Corrective Action Plan	76
Summary Schedule of Prior Year's Findings	77
Schedule of Expenditures of Federal and State Awards	78

FINANCIAL SECTION

Independent Auditor's Report

PETWAY
MILLS &
PEARSON, PA

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

Report on the Financial Statements

CERTIFIED PUBLIC ACCOUNTANTS

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Town of Smithfield's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

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

www.pmpcpa.com

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

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

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, North Carolina as of June 30, 2014, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Medical Group
Management
Association

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions and the Health Care Plan Schedule of Funding Progress and Schedule of Employer Contributions on pages 8 through 18 and 53 through 55, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2014 on our consideration of the Town of Smithfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Smithfield's internal control over financial reporting and compliance.


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

November 6, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

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, 2014. 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 \$50,144,220(*net position*).
- The government's total assets increased by \$719,881, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, the Town of Smithfield's governmental funds reported combined ending fund balances of \$5,682,868 a decrease of \$718,667 in comparison with the prior year. Approximately 24.77 percent of this total amount, or \$1,407,437, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,275,431 or 39.72 percent of total general fund expenditures for the fiscal year; compared to \$2,243,588 or 20.4 percent the prior year.
- The Town of Smithfield experienced record high cost of \$2,711,886 or \$905,792 (50 percent) increase over the prior year for wastewater treatment during the current fiscal year. This is attributable to higher than usual rainfalls which led to high infiltration and inflow related to age and condition of the wastewater collection system.
- The Town of Smithfield's total debt decreased by \$1,482,520 (8.3 percent) during the current fiscal year.

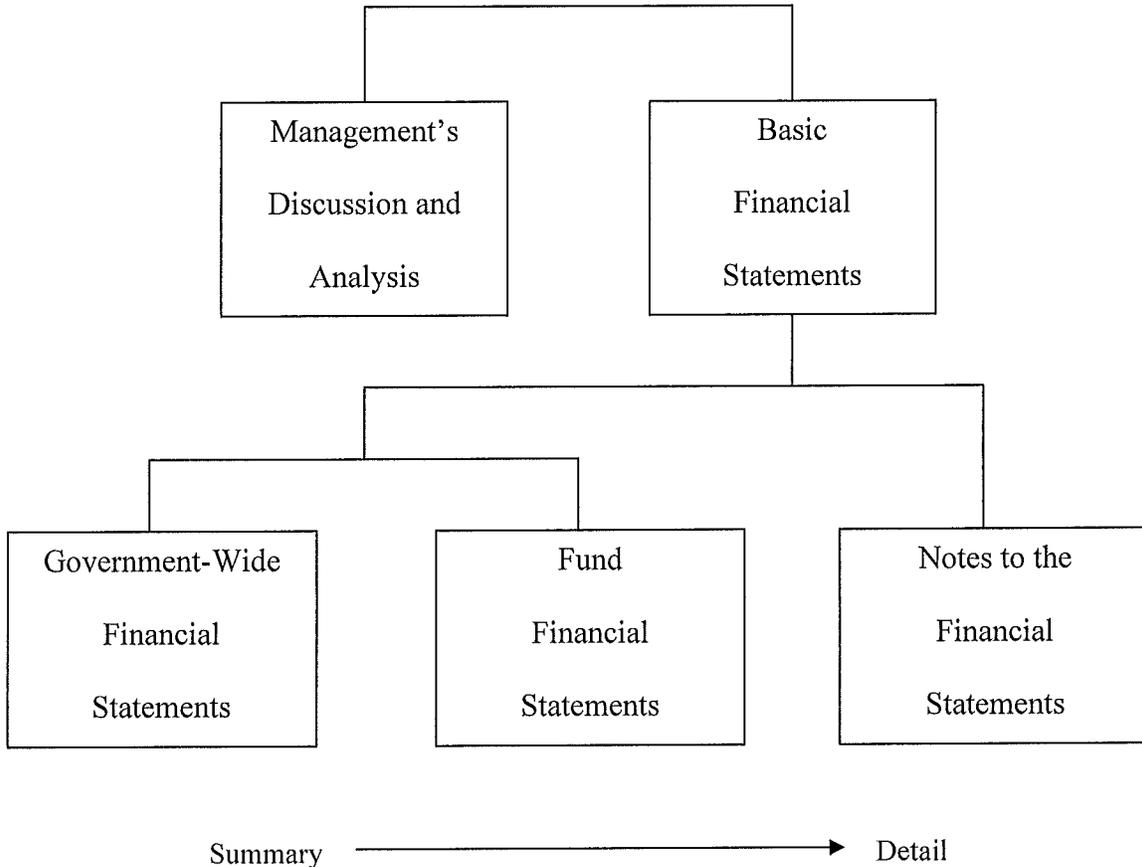
Overview of the Financial Statements

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

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

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

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

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

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

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

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

Town of Smithfield's Net Assets

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 6,285,391	\$ 6,955,183	\$ 14,840,881	\$ 14,145,744	\$ 21,126,272	\$ 21,100,927
Capital assets, net	38,244,646	37,536,000	15,788,652	16,499,220	54,033,298	54,035,220
Total assets	44,530,037	44,491,183	30,629,533	30,644,964	75,159,570	75,136,147
Liabilities:						
Current liabilities	5,634,951	5,721,583	3,010,083	3,036,827	8,645,034	8,758,410
Non-current liabilities	11,469,326	11,842,504	4,900,990	5,110,894	16,370,316	16,953,398
Total liabilities	17,104,277	17,564,087	7,911,073	8,147,721	25,015,350	25,711,808
Net Assets:						
Invested in capital assets, net of related debt	26,085,041	24,221,432	11,638,962	12,021,973	37,724,003	36,243,405
Restricted for:						
USDA Payments	30,503	26,348	-	-	30,503	26,348
Public Safety	39,802	26,005	-	-	39,802	26,005
Transportation	164,843	264,000	-	-	164,843	264,000
Fire District	6,759	-	-	-	6,759	-
Stabilization by State Statute	1,286,460	1,331,850	-	-	1,286,460	1,331,850
Capital Projects	(120,930)	2,509,744	-	-	(120,930)	2,509,744
Unrestricted	(66,718)	(1,452,283)	11,079,498	10,475,270	11,012,780	9,022,987
Total net assets	\$ 27,425,760	\$ 26,927,096	\$ 22,718,460	\$ 22,497,243	\$ 50,144,220	\$ 49,424,339

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Smithfield exceeded liabilities by \$50,144,220 as of June 30, 2014. The Town's net assets increased by \$719,881 for the fiscal year ended June 30, 2014. The largest portion of net assets (74.16%) reflects the Town's investment in capital assets (e.g. land, buildings, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Smithfield uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town's net assets \$1,407,437 (2.77%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$11,012,780 (23.07%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.38 % and 99.69% in the Town-Wide and Downtown tax districts respectively.
- Continued low cost of debt due to the Town's credit rating.

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

Town of Smithfield's Changes in Net Assets

Figure 3

	Governmental		Business-Type		Total	
	Governmental Activities		Business-Type Activities			
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,538,634	\$ 2,792,477	\$ 25,588,708	\$ 24,424,043	\$ 28,127,342	\$ 27,216,520
Operating grants and contributions	1,219,789	494,798	-	-	1,219,789	494,798
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	6,183,765	5,863,358	-	-	6,183,765	5,863,358
Other taxes	2,996,132	2,971,262	-	-	2,996,132	2,971,262
Unrestricted intergovernmental	318,690	283,006	-	-	318,690	283,006
Investment earnings, unrestricted	1,798	4,746	4,747	10,650	6,545	15,396
Miscellaneous	196,129	364,412	-	-	-	-
Gain/Loss on disposal of fixed assets	11,077	(18,328)	-	(9,593)	11,077	(27,921)
Total revenues	<u>13,466,014</u>	<u>12,755,731</u>	<u>25,593,455</u>	<u>24,425,100</u>	<u>38,863,340</u>	<u>36,816,419</u>
Expenses:						
General government	1,279,325	1,532,295	-	-	1,279,325	1,532,295
Public safety	4,967,189	5,072,183	-	-	4,967,189	5,072,183
Streets and public works	2,784,894	2,536,422	-	-	2,784,894	2,536,422
Sanitation	1,096,653	1,113,650	-	-	1,096,653	1,113,650
Cultural and recreation	2,482,395	2,441,304	-	-	2,482,395	2,441,304
Interest on long-term debt	356,894	557,871	-	-	356,894	557,871
Electric	-	-	19,619,163	19,559,461	19,619,163	19,559,461
Water and sewer	-	-	5,753,075	4,486,318	5,753,075	4,486,318
Total expenses	<u>12,967,350</u>	<u>13,253,725</u>	<u>25,372,238</u>	<u>24,045,779</u>	<u>38,339,588</u>	<u>37,299,504</u>
Change in net assets	498,664	(497,994)	221,217	379,321	719,881	(118,673)
Net Assets:						
Beginning of year - July 1	26,927,096	27,406,094	22,497,243	23,773,565	49,424,339	51,179,659
Prior period adjustment	-	18,996	-	(1,655,643)	-	(1,636,647)
Beginning of year, as restated	<u>26,927,096</u>	<u>27,425,090</u>	<u>22,497,243</u>	<u>22,117,922</u>	<u>49,424,339</u>	<u>49,543,012</u>

Governmental Activities. Governmental activities increased the Town's net assets by \$498,664. Key elements of this increase are as follows:

- Drop in primary government expenses.
- Improved collection efforts on past due accounts.

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

Business-Type Activities. Business-type activities increased the Town's net assets by \$221,217. Key elements of this increase are as follows:

- No key elements contributed to the increase

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Smithfield's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources; such information is useful in assessing the Town of Smithfield's financing requirements. Specifically, 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. At the end of the current fiscal year, the Town of Smithfield's fund balance available in the General Fund was \$4,509,918, while total fund balance reached \$5,797,039. The Town currently has fund balance available for appropriation of 41.22% of total General Fund expenditures, while total fund balance represents 53.85% of the same amount.

At June 30, 2014, the governmental funds of the Town of Smithfield reported a fund balance of \$5,682,868, an 11% decrease from last year.

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

- \$19,887 to fund the aquatics center pool heaters
- \$20,000 to fund Smith-Collins Park improvements
- \$23,898 to fund the Spring Branch Drainage Study
- \$25,200 to fund damaged police car replacement
- \$32,489 to fund the Raleigh Area Development Authority Grant
- \$48,718 to fund police officer at Neuse Charter School

Proprietary Funds. The Town of Smithfield's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year totaled \$5,006,845 and those for the Electric Fund amounted to \$6,072,653. The total decrease in net assets for the Water and Sewer Fund was \$148,637, whereas the Electric Fund had a total increase in net assets of \$752,865.

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

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, 2014, totals \$54,033,298 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, plants and distribution systems, and construction in progress.

Major capital asset transactions during the year include:

- No major capital asset transactions took place during this fiscal year.

Town of Smithfield's Capital Assets

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 6,284,188	\$ 6,284,188	\$ 10,000	\$ 299,100	\$ 6,294,188	\$ 6,583,288
Construction in progress	7,017,984	4,068,007	-	714,234	7,017,984	4,782,241
Buildings and improvements	16,794,734	16,754,039	-	-	16,794,734	16,754,039
Plant and distribution systems	-	-	26,897,719	25,693,693	26,897,719	25,693,693
Infrastructure	45,760,336	45,484,336	-	-	45,760,336	45,484,336
Equipment and vehicles	<u>5,304,750</u>	<u>5,445,910</u>	<u>3,461,306</u>	<u>3,401,404</u>	<u>8,766,056</u>	<u>8,847,314</u>
Total	81,161,992	78,036,480	30,369,025	30,108,431	111,531,017	108,144,911
Accumulated depreciation	<u>(42,917,346)</u>	<u>(40,500,480)</u>	<u>(14,580,373)</u>	<u>(13,609,211)</u>	<u>(57,497,719)</u>	<u>(54,109,691)</u>
Capital assets, net	<u>\$ 38,244,646</u>	<u>\$ 37,536,000</u>	<u>\$ 15,788,652</u>	<u>\$ 16,499,220</u>	<u>\$ 54,033,298</u>	<u>\$ 54,035,220</u>

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

Long-Term Debt. As of June 30, 2014, the Town of Smithfield had total debt outstanding of \$16,309,295.

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

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

Figure 5

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Installment purchases	\$ 11,429,605	\$ 12,389,568	\$ 260,911	\$ 384,411	\$ 11,690,516	\$ 12,773,979
Revenue bonds	-	-	3,888,779	4,092,836	3,888,779	4,092,836
General obligation bonds	<u>730,000</u>	<u>925,000</u>	-	-	<u>730,000</u>	<u>925,000</u>
Total	<u>\$ 12,159,605</u>	<u>\$ 13,314,568</u>	<u>\$ 4,149,690</u>	<u>\$ 4,477,247</u>	<u>\$ 16,309,295</u>	<u>\$ 17,791,815</u>

The Town of Smithfield's total debt decreased by \$1,482,520 during the past fiscal year, primarily due to scheduled debt payments.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Smithfield is \$69,328,808.

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, 2015

Governmental Activities. With no new development occurring in FY14 and more of the same expected for FY15, forecast for the primary sources of revenue (e.g. property and sales tax) were calculated using little or no growth factor. Thus, in order to hold the line and minimize the cost of services to citizens, expenses again will be tightly controlled. With improved fund balance, this budget included necessary capital expenditures in many departments that had been delayed for several years. While the Town was able to cut spending again this year, the budget was guided by two principles: (1) Take care of what we have; and (2) Keep rates to citizens/customers as low as possible.

The Town is expecting to replace five full time positions with contract services. The positions being eliminated are janitorial and grounds maintenance.

Budgeted operational expenditures in the General Fund are expected to decrease by 1.3% to \$12,899,369 under FY14 original budget.

Town Council has focused upon rebuilding General Fund Balance by appropriating \$250,000 to reserves in the 2015 budget year.

Other budget highlights in brief:

- No cost-of-living allowance for employees.
- Merit system budgeted at 2% cap raise for employees.

TOWN OF SMITHFIELD, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2014

Business-Type Activities. Water, sewer and electric rates will remain unchanged.

Budgeted operational expenditures in the Water/Sewer Fund are expected to increase by 8.36% to \$4,328,438 over FY 2014 original budget. The Town will begin substantial maintenance programs in 2014 and 2015 to update aging infrastructure and to continue to prepare for Automated Metering Infrastructure (AMI) technology.

The Town is expected to correct sewer inflow and infiltration problems (\$50,000 annually). This project is critical, as inflow and infiltration create a variety of serious issues, such as pump station overflows and increased wastewater treatment cost.

Budgeted operational expenditures in the Electric Fund are expected to decrease by 1.59% to \$19,377,353 under FY 2014 budget. Multiple capital purchases are scheduled, including a contribution to the AMI system and a backup generator to one of the central lift stations.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

Town of Smithfield
Statement of Net Position
June 30, 2014

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 5,126,321	\$ 9,752,044	\$ 14,878,365
Restricted cash	235,148	597,925	833,073
Taxes receivables (net)	86,220	-	86,220
Accounts receivable (net)	204,509	3,254,253	3,458,762
Due from other governments	623,456	58,241	681,697
Prepaid expenses	660	-	660
Inventories	-	1,178,418	1,178,418
Total current assets	6,276,314	14,840,881	21,117,195
Non-current assets:			
Pension asset	9,077	-	9,077
Capital assets:			
Land, non-depreciable improvements, and construction in progress	13,302,172	10,000	13,312,172
Other capital assets, net of depreciation	24,942,474	15,778,652	40,721,126
Total capital assets	38,244,646	15,788,652	54,033,298
Total non-current assets	38,253,723	15,788,652	54,042,375
Total assets	44,530,037	30,629,533	75,159,570
LIABILITIES			
Current liabilities:			
Accounts payable - trade	248,769	1,800,953	2,049,722
Accrued payroll and payroll liabilities	258,457	60,044	318,501
Accrued interest payable	-	178,671	178,671
Customer deposits	-	597,925	597,925
Due within one year	5,127,725	372,490	5,500,215
Total current liabilities	5,634,951	3,010,083	8,645,034
Long-term liabilities:			
Due in more than one year	11,469,326	4,900,990	16,370,316
Total long-term liabilities	11,469,326	4,900,990	16,370,316
Total liabilities	17,104,277	7,911,073	25,015,350
NET POSITION			
Net investment in capital assets	26,085,041	11,638,962	37,724,003
Restricted for:			
USDA debt payments	30,503	-	30,503
Public safety	39,802	-	39,802
Transportation	164,843	-	164,843
Fire district	6,759	-	6,759
Stabilization by State Statute	1,286,460	-	1,286,460
Capital projects	(120,930)	-	(120,930)
Unrestricted	(66,718)	11,079,498	11,012,780
Total net position	\$ 27,425,760	\$ 22,718,460	\$ 50,144,220

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

**Town of Smithfield
Statement of Activities
For the Year Ended June 30, 2014**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business-type Activities	Total
Primary government:						
Governmental Activities:						
General government	\$ 1,279,325	\$ -	\$ 635,719	\$ -	\$ (643,606)	\$ (643,606)
Public safety	4,967,189	320,601	256,456	-	(4,390,132)	(4,390,132)
Street and Public Works	2,784,894	83,200	327,614	-	(2,374,080)	(2,374,080)
Sanitation	1,096,653	1,328,322	-	-	231,669	231,669
Cultural and Recreational	2,482,395	806,511	-	-	(1,675,884)	(1,675,884)
Interest on long-term debt	356,894	-	-	-	(356,894)	(356,894)
Total governmental activities	12,967,350	2,538,634	1,219,789	-	(9,208,927)	(9,208,927)
Business-type activities:						
Electric	19,619,163	20,006,779	-	-	387,616	387,616
Water and Sewer	5,753,075	5,581,929	-	-	(171,146)	(171,146)
Total business-type activities	25,372,238	25,588,708	-	-	216,470	216,470
Total primary government	\$ 38,339,588	\$ 28,127,342	\$ 1,219,789	\$ -	(9,208,927)	(8,992,457)
General revenues:						
Taxes:						
Ad valorem taxes					6,183,765	6,183,765
Local option sales taxes					2,996,132	2,996,132
Other taxes and licenses					318,690	318,690
Unrestricted investment earnings					1,798	1,798
Miscellaneous					196,129	196,129
Special items:						
Gain on disposal of fixed assets					11,077	11,077
Total general revenues, special items and transfers					9,707,591	9,712,338
Change in net position					498,664	221,217
Net position, beginning					26,927,096	22,497,243
Net position, ending					\$ 27,425,760	\$ 22,718,460
					\$ 50,144,220	\$ 50,144,220

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

**Town of Smithfield
Balance Sheets
Governmental Funds
June 30, 2014**

	Major Funds			Total Governmental Funds
	General	General Fund Capital Projects	Non-major Special Revenue Fund	
ASSETS				
Cash and investments	\$ 4,721,260	\$ 393,693	\$ 11,368	\$ 5,126,321
Restricted cash	235,148	-	-	235,148
Receivables, net:				
Taxes	86,220	-	-	86,220
Accounts	204,509	-	-	204,509
Due from other governments	598,683	24,773	-	623,456
Due from other funds	483,269	-	-	483,269
Prepaid Expenses	660	-	-	660
Inventories	-	-	-	-
Total assets	<u>\$ 6,329,749</u>	<u>\$ 418,466</u>	<u>\$ 11,368</u>	<u>\$ 6,759,583</u>
LIABILITIES				
Accounts payable and accrued liabilities - trade	\$ 188,033	\$ 60,736	\$ -	\$ 248,769
Accrued payroll and payroll liabilities	258,457	-	-	258,457
Due to other funds	-	478,660	4,609	483,269
Total liabilities	<u>446,490</u>	<u>539,396</u>	<u>4,609</u>	<u>990,495</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	86,220	-	-	86,220
Total deferred inflows of resources	<u>86,220</u>	<u>-</u>	<u>-</u>	<u>86,220</u>
FUND BALANCES				
Nonspendable				
Prepaid items	660	-	-	660
Restricted:				
USDA debt payments	30,503	-	-	30,503
Public Safety	39,802	-	-	39,802
Stabilization by State Statute	1,286,460	-	-	1,286,460
Streets	164,843	-	-	164,843
Capital projects	-	(120,930)	-	(120,930)
Fire district	-	-	6,759	6,759
Unassigned	4,274,771	-	-	4,274,771
Total fund balances	<u>5,797,039</u>	<u>(120,930)</u>	<u>6,759</u>	<u>5,682,868</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,329,749</u>	<u>\$ 418,466</u>	<u>\$ 11,368</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.

38,244,646

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

86,220

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.

(16,587,974)

Net position of governmental activities

\$ 27,425,760

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, 2014

	Major Funds		Non-major Special Revenue Fund	Total Governmental Funds
	General Fund	General Fund Capital Projects		
REVENUES				
Ad valorem taxes	\$ 6,201,597	\$ -	\$ -	\$ 6,201,597
Other taxes and licenses	318,690	-	-	318,690
Unrestricted intergovernmental	2,996,132	-	-	2,996,132
Restricted intergovernmental	417,318	635,719	166,759	1,219,796
Sales and services	2,538,634	-	-	2,538,634
Investment earnings	1,511	279	-	1,790
Miscellaneous	196,129	-	-	196,129
Total revenues	<u>12,670,011</u>	<u>635,998</u>	<u>166,759</u>	<u>13,472,768</u>
EXPENDITURES				
Current:				
General government	1,070,208	-	-	1,070,208
Public safety	4,326,485	-	-	4,326,485
Street and Public Works	1,333,246	-	-	1,333,246
Sanitation	992,136	-	-	992,136
Cultural and Recreational	1,685,257	-	-	1,685,257
Debt service:				
Principal	1,154,963	-	-	1,154,963
Interest and other charges	356,894	-	-	356,894
Capital outlay	23,042	3,266,672	-	3,289,714
Total expenditures	<u>10,942,231</u>	<u>3,266,672</u>	<u>-</u>	<u>14,208,903</u>
Excess (deficiency) of revenues over expenditures	1,727,780	(2,630,674)	166,759	(736,135)
OTHER FINANCING SOURCES (USES)				
Transfers (to) from other funds	160,000	-	(160,000)	-
Sales of capital assets	17,468	-	-	17,468
Total other financing sources (uses)	<u>177,468</u>	<u>-</u>	<u>(160,000)</u>	<u>17,468</u>
Net change in fund balance	1,905,248	(2,630,674)	6,759	(718,667)
Fund balances, beginning	3,891,791	2,509,744	-	6,401,535
Fund balances, ending	<u>\$ 5,797,039</u>	<u>\$ (120,930)</u>	<u>\$ 6,759</u>	<u>\$ 5,682,868</u>

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

Exhibit 5

**Town of Smithfield
Reconciliation of the
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2014**

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

Net changes in fund balances - total governmental funds		\$ (718,667)
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	3,289,714	
Depreciation expense for governmental assets	(2,574,676)	
Loss on disposal of capital assets	<u>(6,393)</u>	
		708,645
<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		(17,830)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
		1,154,963
<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		(18,378)
Net pension obligation		(25,029)
Other postemployment benefits		(585,040)
Total changes in net position of governmental activities		<u>\$ 498,664</u>

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

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2014**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 5,877,156	\$ 5,852,156	\$ 6,201,597	\$ 349,441
Other taxes and licenses	1,296,375	241,100	318,690	77,590
Unrestricted intergovernmental	2,095,800	2,755,592	2,996,132	240,540
Restricted intergovernmental	311,900	362,589	417,318	54,729
Sales and services	3,110,205	2,538,480	2,538,634	154
Investment earnings	2,800	2,800	1,511	(1,289)
Miscellaneous	249,642	256,400	196,129	(60,271)
Total revenues	<u>12,943,878</u>	<u>12,009,117</u>	<u>12,670,011</u>	<u>660,894</u>
Expenditures:				
Current:				
General government	3,402,891	1,473,453	1,070,208	403,245
Public safety	4,365,352	4,493,792	4,326,485	167,307
Street and Public Works	901,118	1,434,386	1,333,246	101,140
Sanitation	1,064,967	1,064,967	992,136	72,831
Cultural and Recreational	1,764,982	1,809,869	1,685,257	124,612
Debt service:				
Principal retirement	1,574,568	1,174,568	1,154,963	19,605
Interest and other charges	-	400,000	356,894	43,106
Capital Outlay	-	46,610	23,042	23,568
Total expenditures	<u>13,073,878</u>	<u>11,897,645</u>	<u>10,942,231</u>	<u>955,414</u>
Revenues over (under) expenditures	<u>(130,000)</u>	<u>111,472</u>	<u>1,727,780</u>	<u>1,616,308</u>
Other financing sources (uses):				
Appropriated (Unappropriated) fund balance	-	(241,472)	-	241,472
Sale of fixed assets	-	-	17,468	17,468
Transfers from other funds	130,000	130,000	160,000	30,000
Total other financing sources (uses)	<u>130,000</u>	<u>(111,472)</u>	<u>177,468</u>	<u>288,940</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>1,905,248</u>	<u>\$ 1,905,248</u>
Fund balances, beginning			3,891,791	
Fund balances, ending			<u>\$ 5,797,039</u>	

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

**Town of Smithfield
Statement of Net Position
Proprietary Funds
June 30, 2014**

	Water and Sewer		
	Electric Fund	Fund	Total
ASSETS			
Current assets:			
Cash and investments	\$ 4,859,802	\$ 4,892,242	\$ 9,752,044
Restricted cash	496,425	101,500	597,925
Accounts receivable (net)	2,474,252	780,001	3,254,253
Due from other governments	13,984	44,257	58,241
Inventories	1,049,659	128,759	1,178,418
Total current assets	<u>8,894,122</u>	<u>5,946,759</u>	<u>14,840,881</u>
Capital assets:			
Land and other non-depreciable assets	-	10,000	10,000
Other capital assets, net of depreciation	9,330,149	6,448,503	15,778,652
Capital assets (net)	<u>9,330,149</u>	<u>6,458,503</u>	<u>15,788,652</u>
Total assets	<u>18,224,271</u>	<u>12,405,262</u>	<u>30,629,533</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities - trade	1,534,500	266,453	1,800,953
Accrued payroll and payroll liabilities	29,209	30,835	60,044
Customer deposits	496,425	101,500	597,925
Accrued interest payable	170,210	8,461	178,671
Compensated absences - current	15,061	13,594	28,655
Current portion of long-term debt	220,335	123,500	343,835
Total current liabilities	<u>2,465,740</u>	<u>544,343</u>	<u>3,010,083</u>
Non-current liabilities:			
Other non-current liabilities:			
Compensated absences	45,182	40,783	85,965
Other postemployment benefits	530,882	478,288	1,009,170
Non-current portion of long-term debt	3,668,444	137,411	3,805,855
Total non-current liabilities	<u>4,244,508</u>	<u>656,482</u>	<u>4,900,990</u>
Total liabilities	<u>6,710,248</u>	<u>1,200,825</u>	<u>7,911,073</u>
NET POSITION			
Net investment in capital assets	5,441,370	6,197,592	11,638,962
Unrestricted	6,072,653	5,006,845	11,079,498
Total net position	<u>\$ 11,514,023</u>	<u>\$ 11,204,437</u>	<u>\$ 22,718,460</u>

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

Town of Smithfield
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2014

	Electric Fund	Water and Sewer Fund	Total
OPERATING REVENUES			
Charges for services	\$ 19,554,076	\$ 5,558,470	\$ 25,112,546
Other operating revenues	452,703	23,460	476,163
Total operating revenues	20,006,779	5,581,930	25,588,709
OPERATING EXPENSES			
Utility operations	2,449,639	1,545,944	3,995,583
Electrical purchases	16,438,243	-	16,438,243
Water and sewer distribution	-	3,789,747	3,789,747
Depreciation	566,451	404,711	971,162
Total operating expenses	19,454,333	5,740,402	25,194,735
Operating income (loss)	552,446	(158,472)	393,974
NON-OPERATING REVENUES (EXPENSES)			
Investment earnings	2,857	1,889	4,746
Interest and other charges	(164,830)	(12,673)	(177,503)
Total non-operating revenue (expenses)	(161,973)	(10,784)	(172,757)
Income (loss) before contributions and transfers	390,473	(169,256)	221,217
Capital Contributions	-	-	-
Total income (loss) after contributions and transfers	390,473	(169,256)	221,217
Change in net position	390,473	(169,256)	221,217
Total net position, beginning	11,123,550	11,373,693	22,497,243
Total net position, ending	\$ 11,514,023	\$ 11,204,437	\$ 22,718,460

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

**Town of Smithfield
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2014**

	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 18,858,056	\$ 5,351,239	\$ 24,209,295
Cash paid for goods and services	(18,108,259)	(4,527,472)	(22,635,731)
Cash paid to or on behalf of employees for services	(629,280)	(758,512)	(1,387,792)
Net customer deposits	(41,095)	(3,230)	(44,325)
Other operating revenues	452,703	23,460	476,163
Net cash provided (used) by operating activities	<u>532,125</u>	<u>85,485</u>	<u>617,610</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	-	(260,585)	(260,585)
Principal paid on bonds and installment purchases	(204,057)	(123,500)	(327,557)
Interest paid on bonds and installment purchases	(164,830)	(12,673)	(177,503)
Net cash provided (used) by capital and related financing activities	<u>(368,887)</u>	<u>(396,758)</u>	<u>(765,645)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	2,859	1,889	4,748
Net cash provided (used) by investing activities	<u>2,859</u>	<u>1,889</u>	<u>4,748</u>
Net increase (decrease) in cash and investments	166,097	(309,384)	(143,287)
Balances, beginning	5,190,130	5,303,126	10,493,256
Balances, ending	<u>\$ 5,356,227</u>	<u>\$ 4,993,742</u>	<u>\$ 10,349,969</u>

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

**Town of Smithfield
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2014**

	Electric Fund	Water and Sewer Fund	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 552,446	\$ (158,472)	\$ 393,974
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	566,451	404,711	971,162
Changes in assets and liabilities:			-
(Increase) decrease in accounts receivable	(696,020)	(207,231)	(903,251)
(Increase) decrease in due from other governments	5,549	(8,217)	(2,668)
(Increase) decrease in inventory	65,660	1,825	67,485
Increase (decrease) in accounts payable and accrued liabilities	1,199	(10,559)	(9,360)
Increase (decrease) in accrued payroll and payroll liabilities	3,499	8,115	11,614
Increase (decrease) in customer deposits	(41,095)	(3,230)	(44,325)
Increase (decrease) in accrued vacation pay	(5,014)	761	(4,253)
Increase (decrease) in accrued other postemployment benefits	79,450	57,782	137,232
Total adjustments	(20,321)	243,957	223,636
Net cash provided by operating activities	<u>\$ 532,125</u>	<u>\$ 85,485</u>	<u>\$ 617,610</u>

Noncash investing, capital, and financing activities:

None.

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

**Town of Smithfield
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014**

	Private-Purpose Trust		
	Fund	Agency Fund	Total
ASSETS			
Cash and investments	\$ 93,142	\$ 191,287	\$ 284,429
Due from other governments	790	-	790
Total assets	93,932	191,287	285,219
LIABILITIES			
Current liabilities:			
Miscellaneous liabilities	-	-	-
Total liabilities	-	-	-
NET POSITION	\$ 93,932	\$ 191,287	\$ 285,219

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

Exhibit 11

**Town of Smithfield
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2014**

	Private-Purpose Trust Fund
ADDITIONS:	
Investment earnings	\$ 3,150
DEDUCTIONS:	
Special projects	(1,654)
Changes in net assets	4,804
NET POSITION	
Total net position, beginning	89,128
Total net position, ending	\$ 93,932

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

B. Basis of Presentation

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

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

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

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

The Town reports the following major governmental funds:

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

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

The Town reports the following non-major governmental fund:

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

The Town reports the following major enterprise funds:

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

The Town reports the following fund types:

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

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Long-term debt issued and acquisitions under capital leases are reported as other financing sources. General capital asset acquisitions are reported as expenditures in governmental funds.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Grant revenues that are unearned at year-end are recorded as unearned revenues.

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

D. Budgetary Data

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

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. The Town Manager is authorized to reallocate departmental appropriations among the various objects of expenditures and is authorized to approve interdepartmental transfers, in the same fund, not to exceed 10 percent of the appropriated monies for the department whose allocation is affected. Any such transfer shall be reported to the Town Council at its 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.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity

1. Deposits and Investments

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

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

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2010. Johnston County bills and collects property taxes on behalf of the Town. Upon collection, the County remits the funds to the Town less a 2% administrative fee.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

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

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

7. Capital Assets

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

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

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

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

8. Deferred Outflows/Inflows of Resources

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

9. Long-Term Obligations

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

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

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

10. Compensated Absences

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

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

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

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

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

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

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

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

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

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

The Town has not officially adopted a fund balance policy.

11. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes

Finding 2014-1 - The Town's computer system contracted a virus which compromised financial records for four months of the fiscal year.

B. Excess of Expenditures over Appropriations

None.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

III. Detail Notes on All Funds

A. Assets

1. Deposits

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

At June 30, 2014, the Town's deposits had a carrying amount of \$13,475,596 and a bank balance of \$14,977,627. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$14,227,627 was covered by collateral held under the Pooling Method. The Town's petty cash totaled \$600 at June 30, 2014.

2. Investments

At June 30, 2014 the Town's investment balances were as follows:

	<u>Cost Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust		
Cash Portfolio	<u>\$2,235,242</u>	<u>\$2,235,242</u>

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

Credit Risk. State law limits investments in commercial paper to the top rating issued by nationally recognized statistical rating organizations (NRSROs); however, the Town had no formal policy on specifically managing credit risk. As of June 30, 2014, the Town's investments in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAM by Standard & Poor's. The Town's investments in US Government Agencies are rated AAA by Standard & Poor's.

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

3. Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit 1 at June 30, 2014 were as follows:

	Accounts	Taxes	Due from other governments	Total
Governmental Activities:				
General	\$ 316,109	\$ 88,320	\$ 557,357	\$ 961,786
Other governmental	-	-	66,099	66,099
Allowance for doubtful accounts	(111,600)	(2,100)	-	(113,700)
Total governmental activities	\$ 204,509	\$ 86,220	\$ 623,456	\$ 914,185
Business-Type Activities:				
Electric	\$ 3,637,452	\$ -	\$ 13,984	\$ 3,651,436
Water and Sewer	1,261,201	-	44,257	1,305,458
Allowance for doubtful accounts	(1,644,400)	-	-	(1,644,400)
Total business-type activities	\$ 3,254,253	\$ -	\$ 58,241	\$ 3,312,494

Due from other governments consisted of the following:

Local option sales tax	\$ 347,863
Franchise tax	209,494
Sales tax	66,099
\$ 623,456	

4. Capital Assets

	Beginning Balances	Reclassification	Increases	Decreases	Ending Balances
Governmental activities:					
Capital assets not being depreciated					
Land	\$ 6,284,188	\$ -	\$ -	\$ -	\$ 6,284,188
Construction in progress	4,068,007	-	3,266,672	316,695	7,017,984
Total capital assets not being depreciated	10,352,195		3,266,672	316,695	13,302,172
Capital assets being depreciated					
Buildings and improvements	16,754,039	-	40,695	-	16,794,734
Infrastructure	45,484,336	-	276,000	-	45,760,336
Equipment and vehicles	5,445,910	-	23,042	164,202	5,304,750
Total capital assets being depreciated	67,684,285		339,737	164,202	67,859,820
Less accumulated depreciation for					
Buildings and improvements	4,458,351	(331,591)	712,210	-	4,838,970
Infrastructure	32,020,590	76,532	1,619,498	-	33,716,620
Equipment and vehicles	4,021,539	255,059	242,969	157,811	4,361,756
Accumulated depreciation	40,500,480	\$ -	\$ 2,574,677	\$ 157,811	42,917,346
Total capital assets, depreciated, net	27,183,805				24,942,474
Governmental activity capital assets, net	\$ 37,536,000				\$ 38,244,646

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

General government	\$ 135,466
Public safety	289,096
Street and public works	1,397,088
Sanitation	57,847
Cultural and recreational	695,180
\$ 2,574,677	

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

B. Liabilities

1. Pension Plan Obligations

	Beginning Balances	Reconciliation	Increases	Decreases	Ending Balances
Business-type activities:					
Electric Fund					
Capital assets not being depreciated					
Land	\$ 85,000	\$ (85,000)	\$ -	\$ -	\$ -
Construction in progress	189,547	-	-	189,547	-
Total capital assets not being depreciated	274,547	(85,000)	-	189,547	-
Capital assets being depreciated					
Plant and distribution systems	12,671,403	96,175	189,547	-	12,957,125
Equipment	2,179,336	(11,173)	-	-	2,168,163
Total capital assets being depreciated	14,850,739	85,002	189,547	-	15,125,288
Less accumulated depreciation for					
Plant and distribution systems	4,171,956	(787,430)	500,000	-	3,884,526
Equipment	1,056,732	787,430	66,451	-	1,910,613
Accumulated Depreciation	5,228,688	-	\$ 566,451	\$ -	5,795,139
Capital assets, depreciated, net	9,622,051	-	-	-	9,330,149
Electric Fund capital assets	<u>\$ 9,896,598</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 9,330,149</u>
Water and Sewer Fund					
Capital assets not being depreciated					
Land	\$ 214,100	\$ (204,100)	\$ -	\$ -	\$ 10,000
Construction in progress	524,687	-	124,270	648,957	-
Total capital assets not being depreciated	738,787	(204,100)	124,270	648,957	10,000
Capital assets being depreciated					
Plant and distribution systems	13,022,290	216,587	701,717	-	13,940,594
Equipment	1,222,068	(12,480)	83,555	-	1,293,143
Total capital assets being depreciated	14,244,358	204,107	785,272	-	15,233,737
Less accumulated depreciation for					
Plant and distribution systems	7,255,705	175,188	349,861	-	7,780,754
Equipment	1,124,818	(175,188)	54,850	-	1,004,480
Accumulated Depreciation	8,380,523	\$ -	\$ 404,711	\$ -	8,785,234
Capital assets, depreciated, net	5,863,835	-	-	-	6,448,503
Water and Sewer Fund capital assets	<u>\$ 6,602,622</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 6,458,503</u>
Business-type Activities capital assets	<u>\$ 16,499,220</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ 15,788,652</u>

a. Local Governmental Employees' Retirement System

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

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Smithfield are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013 and 2012 were \$384,869, \$415,877 and \$477,036, respectively. The contributions made by the Town equaled the required contributions for each year.

b. Law Enforcement Officers Special Separation Allowance

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

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, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	43
Total	46

A separate report was not issued for the plan.

2. Summary of Significant Accounting Policies:

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

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

3. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees. The Town's expense for benefit payments to current retirees for the fiscal year ended June 30, 2014 was \$58,723.

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases. The actuarial value of assets was market value. The unfunded actuarial accrued liability is being amortized as a level percent of pay on a closed basis. The remaining amortization period at December 31, 2013 was 20 years.

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

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

Annual required contribution	\$ 82,678
Interest on net pension obligation	(1,705)
Adjustment to annual required contribution	2,779
Annual pension cost	83,752
Contributions made	58,723
Increase (decrease) in net pension obligation	25,029
Net pension obligation beginning of year	(34,106)
Net pension obligation end of year	\$ (9,077)

Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2014	\$ 83,097	96.04%	\$ (38,347)
6/30/2013	\$ 83,164	94.90%	\$ (34,106)
6/30/2012	\$ 83,097	96.04%	\$ (38,347)

4. Funded Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the Separation Allowance was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$716,913. The covered payroll (annual payroll of active employees covered by the Separation Allowance) was \$1,850,735 and the ratio of the UAAL to the covered payroll was 38.73%. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of Separation Allowance assets are increasing or decreasing over time relative to the actuarial accrued liability for benefit.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2014 were \$115,432, which consisted of \$85,495 from the Town and \$29,937 from the law enforcement officers.

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

Plan Description. The State of North Carolina contributes, on behalf of the Town, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the Fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Fund is included in the Comprehensive Annual Financial Report

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

(CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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

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

Plan Description. The Town adopted a Supplemental Retirement Income Plan, a single-employer defined benefit plan, for non-law enforcement employees provided by Prudential Retirement 401(k) Services and administered by NC Department of State Treasurer. All employees are eligible to participate on a voluntary basis. Total contributions for the year ended June 30, 2014 were \$229,878, which consisted of \$101,648 from the Town and \$128,230 from the employees.

f. Other Postemployment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town provides post-retirement healthcare benefits through a single-employer defined benefit plan, to retirees of the Town provided they have at least twenty years of creditable service with the Town. The Town pays the full cost of coverage for these benefits. Also, the Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently, 54 retirees are eligible vested in post-retirement health benefits. For the fiscal year ended June 30, 2014, the Town made payments for post-retirement health benefit premiums of \$0. The Town obtains healthcare coverage through private insurers. A separate report is not issued for the plan.

Membership of the Plan consisted of the following at December 31, 2012, the date of the latest actuarial valuation:

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

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

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 19% of annual covered payroll. For the current year, the Town contributed \$0 or 0% of annual covered payroll. There were no contributions by employees for the fiscal year ended June 30, 2014. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

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

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

Annual required contribution	\$ 789,303
Interest on net OPEB obligation	171,811
Adjustment to annual required contribution	<u>(238,842)</u>
Annual OPEB cost (expense)	722,272
Contributions made	-
Increase (decrease) in net OPEB obligation	<u>722,272</u>
Net OPEB obligation, beginning of year	4,295,263
Net OPEB obligation, end of year	<u><u>\$ 5,017,535</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014 were as follows:

For Year Ended June 30	Trend Information		
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2014	\$ 722,272	0.0%	\$ 5,017,535
2013	\$ 916,722	27.2%	\$ 4,295,263
2012	\$ 978,446	21.1%	\$ 3,628,122

Funded Status and Funding Progress. As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$8,592,701. The covered payroll (annual payroll of active employees covered by the plan) was \$4,126,669, and the ratio of the UAAL to the covered payroll was 208.2 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions.

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

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) a 4.00% investment rate of return (net of administrative expenses), which included an inflation component of 3.00% and (b) a 8.50% to 5.00% medical cost trend rate with 2018 the year of ultimate trend rate. The actuarial value of assets, if any, was determined using the market value of assets. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at December 31, 2012 was 30 years.

2. Other Employment Benefits

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2014, the Town made contributions to the State for death benefits of \$0. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount.

3. Deferred Inflows of Resources

Deferred inflows of resources at year-end is comprised of property taxes receivable in the amount of \$86,220.

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 City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' 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 contacting 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 City 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 \$50,000. The remaining employees that have access to funds are bonded for \$5,000 per occurrence.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

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, 2014 are comprised of the following individual agreements:

Government Activities:

\$300,000 for renovations to EMS building, due in annual installments of \$17,616 through March 2037, interest at 4.125%	\$ 258,448
\$3,000,000 for construction of community center, due in fixed annual principal installments of \$150,000 plus interest at 4.06% through January 2028. Loan balance of \$2,250,000 refinanced at 2.92% in FY 2013. All other terms remain the same.	2,100,000
\$4,500,000 for construction of community center, due in fixed annual principal installments of \$225,000 plus interest at 4.06% through November 2027. Loan balance of \$3,375,000 refinance at 2.92% in FY 2013. All other terms remain the same.	3,150,000
\$500,000 for street surfacing, due in annual installments of \$50,000, plus interest at 3.22% through May 2018. Loan balance of \$250,000 refinanced at 1.78% during FY 2013. All other terms remain the same.	200,000
\$150,000 for renovations to EMS building, due in annual installments of \$8,808 through March 2037, interest at 4.125%	129,224
\$250,000 for Downtown Revitalization Project, due in annual installments of \$15,125 through 2036, interest at 4.375%	216,547
\$500,000 for street resurfacing, due in fixed annual installments of \$50,000 plus interest at 3.49% through October 2018	250,000
\$620,000 for equipment, due in annual installments of \$132,188 through November 2015, interest at 2.174%	255,705
\$1,150,000 for Smithfield Crossings Project, due in annual installments of \$164,286 plus interest at 2.65% beginning November 1, 2012; \$4,056,400 for Smithfield Crossing Project due December 31, 2013, interest at 1.13% - refinanced July 2014	4,869,681
	\$ 11,429,605
Total governmental activities	

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

Business-Type Activities:

State Clean Water Bond Loan for construction of ammonia treatment plan and sludge handling system, authorized to borrow a total commitment of \$1,170,000. the loan has two components: a revolving loan - \$408,220, 20-year term with interest at 3.00%, and a non-revolving loan \$761,780, 20-year term with interest at 5.30% until May 1, 2003, thereafter 3.43%. Annual principal payments began May 1, 1998, semi-annual interest payments are due May 1 and November 1, with amounts due depending on total borrowings to date.

\$ 195,911

\$650,000 for construction of lift stations, due in annual installments of \$65,000, plus interest at 3.38% through March 2015

65,000

Total business-type activities

\$ 260,911

Future minimum payments as of June 30, 2014 for the installment purchase contracts are as follows:

Year Ending June 30	Principal	Interest	Total
Governmental Activities:			
2015	\$ 4,830,455	\$ 243,591	\$ 5,074,046
2016	785,427	220,426	1,005,853
2017	656,753	197,391	854,144
2018	657,489	176,697	834,186
2019	607,748	156,190	763,938
2020-2024	1,982,536	546,649	2,529,185
2025-2029	1,619,938	197,776	1,817,714
2030-2034	159,749	47,996	207,745
2035-2038	129,510	18,399	147,909
	<u>\$ 11,429,605</u>	<u>\$ 1,805,115</u>	<u>\$ 13,234,720</u>

Business-Type Activities:
Water and Sewer Fund:

2015	\$ 123,500	\$ 8,566	\$ 132,066
2016	58,500	4,450	62,950
2017	58,500	2,531	61,031
2018	20,411	612	21,023
	<u>\$ 260,911</u>	<u>\$ 16,159</u>	<u>\$ 277,070</u>

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

b. General Obligation Bonds

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

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

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 190,000	\$ 17,155	\$ 207,155
2016	185,000	12,690	197,690
2017	180,000	4,171	184,171
2018	175,000	4,112	179,112
	<u>\$ 730,000</u>	<u>\$ 38,128</u>	<u>\$ 768,128</u>

c. Revenue Bonds

\$5,000,000 Electric System Revenue Bond, Series 2007. Dated as of August 7, 2007, will bear interest from that date, payable on August 15, 2008 and annually thereafter on each August 15. Stated to mature \$368,887 due annually. \$ 3,888,779

The Town has pledged future electric customer revenues, net of specified operating expenses, to repay \$5 million in electric system revenue bonds issued in August 2007. Proceeds from the bonds provided financing for the construction of the improvements to the Town's electric system. The bonds are payable solely from electric customer net revenues and are payable through 2027. Annual principal and interest payments on the bonds are expected to require about 74% of net revenues. Section 5.02 of the Bond Order requires the debt service coverage ratio will not be less than 120% of the debt service requirement for the year. The total principal and interest remaining to be paid on the bonds is \$5,164,255. Principal and interest paid for the current year revenue bonds and total electric customer net revenues were \$368,887 and \$1,264,007, respectively.

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

The debt service coverage ratio calculation for the year ended June 30, 2014 is as follows:

Operating revenues	\$ 20,006,779
Operating expenses	(19,374,883)
Add back:	
Investment earnings	2,857
Depreciation	566,451
Income available for debt service	<u>\$ 1,201,204</u>
Debt service principal and interest paid (Revenue bond only)	<u>\$ 368,887</u>
Debt service coverage ratio	326%

The Town's debt service coverage ratio is greater than 120% of the debt service requirement for the year ended June 30, 2014.

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

Year Ending June 30	Principal	Interest	Total
2015	\$ 220,335	\$ 148,552	\$ 368,887
2016	231,263	119,228	350,491
2017	238,779	111,712	350,491
2018	246,539	103,952	350,491
2019	254,552	95,939	350,491
2020-2024	1,402,364	350,092	1,752,456
2025-2028	1,294,947	107,017	1,401,964
	<u>\$ 3,888,779</u>	<u>\$ 1,036,492</u>	<u>\$ 4,925,271</u>

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

d. Changes in Long-Term Liabilities

A summary of changes in long-term obligations follows:

	Balance			Current	
	July 1, 2013	Increases	Decreases	Balance June 30, 2014	Portion of Balance
Governmental activities:					
Installment purchases	\$ 12,389,568	\$ -	\$ 959,963	\$ 11,429,605	\$ 4,830,455
General obligation bonds	925,000	-	195,000	730,000	190,000
Compensated absences	410,703	18,378	-	429,081	107,270
Other postemployment benefits	3,423,325	585,040	-	4,008,365	-
Total	<u>\$ 17,148,596</u>	<u>\$ 603,418</u>	<u>\$ 1,154,963</u>	<u>\$ 16,597,051</u>	<u>\$ 5,127,725</u>
Business-type activities:					
Revenue bonds	\$ 4,092,836	\$ -	\$ 204,057	\$ 3,888,779	\$ 220,335
Installment purchases	384,411	-	123,500	260,911	123,500
Compensated absences	118,872	-	4,252	114,620	28,655
Other postemployment benefits	871,938	137,232	-	1,009,170	-
Total	<u>\$ 5,468,057</u>	<u>\$ 137,232</u>	<u>\$ 331,809</u>	<u>\$ 5,273,480</u>	<u>\$ 372,490</u>

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

At June 30, 2014, the Town of Smithfield had a legal debt margin of \$ 68,859,719.

C. Interfund Balances and Activity

Due To/From Other Funds

At June 30, 2014, \$478,660 was due to the General Fund from the General Fund Capital Project Fund, which represents advances to cover various expenses. At June 30, 2014, \$4,609 was due to the General Fund from the Smithfield Fire Tax District Special Revenue Fund, which represents advances to cover various expenses.

D. On-Behalf Payments for Fringe Benefits and Salaries

For the fiscal year ended June 30, 2014, the Town recognized payments for pension contributions made by the State as a revenue and an expenditure of \$14,667 for the 28 volunteer firemen and the 13 employed firemen who perform firefighting duties for the Town's fire department. The volunteers and employees elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The plan is funded by a \$10 monthly contribution paid by each member, investment income, and State appropriation.

**Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014**

F. Fund Balance

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

Total fund balance - General Fund	\$ 5,797,039
Less restricted for:	
Prepaid items	660
USDA debt payments	30,503
Public safety	53,593
Stabilization by State statute	1,286,460
Streets	164,843
Remaining Fund Balance	\$ 4,274,771

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

The Town has not officially adopted a fund balance policy.

IV. Jointly Governed Organization – Electric Power Agency

The Town, in conjunction with thirty-two other local governments, is a member of the North Carolina Eastern Municipal Agency (the Agency). Each participating government appoints one Commissioner to the Agency's governing board. Under the power sales agreement, the Town has agreed, in exchange for a share of the power from the project, to take or pay for its share of project output whether or not the project is complete, operable, operating or retired, and notwithstanding the suspension, interruption, interference, reduction, or curtailment of the project output for any reason whatsoever. The Town has also entered into a supplemental power sales agreement with the Power Agency which provides that the Town will be obligated to purchase all of its bulk power requirements from the Power Agency. The Town's obligations under the power sales agreement and the supplemental power sales agreement would be payable as an operating expense of its electrical system solely from the revenue of such a system. The Town's present share of the project output of the North Carolina Eastern Municipal Power Agency is 2.0056%. Under the agreement, the Power Agency would bill the Town each month for its project power cost, including the Town's share of the debt service on the bonds issued by the Power Agency. The agreement signed with the Power Agency, dated April 22, 1992, shall expire the later of January 1, 2032 or the final payment on the original projects. The Power Agency is currently supplying to the Town its bulk power supply. Except for the power sales purchase requirements, the Town has no obligation, entitlement or residual interest in the Agency. The Town's purchases of power for the fiscal year ended June 30, 2014 were \$16,438,243.

V. Joint Ventures

The Town, in conjunction with Riverside Extension, Inc., participates in a joint venture to improve and develop property for the expansion of Riverside Cemetery. In accordance with the joint venture agreement, the Town has agreed to purchase property from the Johnston County Board of Education in the amount of \$600,000. Riverside Extension, Inc. has agreed to obtain financing to pay the purchase price of the property in exchange for the right to improve and develop the property, to receive from the Town the proceeds for all cemetery lots sold before July 1, 2015, and to receive from the Town conveyance of a lot to Saint Paul's Episcopal Church. The Town has an ongoing financial responsibility

Town of Smithfield, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2014

for the joint venture because the Town is responsible for marketing and selling cemetery lots, installing and maintaining a 20 foot access road, and assuming maintenance of the cemetery once constructed. The joint venture does not issue separate financial statements.

VI. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

VII. Subsequent Events

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

IX. Interfund Transfers

During the year ended June 30, 2014, \$160,000 was transferred from the Smithfield Fire Tax District Special Revenue Fund to the General Fund to cover operating expenses.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

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

Schedule of Funding Progress and Employer Contributions
for Other Postemployment Benefits

**Town of Smithfield, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
For the Year Ended June 30, 2014**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (VAAL) (b-a)			
12/31/2013	\$ -	\$ 716,913	\$ 716,913	0.00%	\$ 1,850,735	38.74%
12/31/2012	-	738,432	738,432	0.00%	1,862,394	39.65%
12/31/2010	-	816,920	816,920	0.00%	1,955,899	41.77%
12/31/2009	-	724,331	724,331	0.00%	1,726,146	41.96%
12/31/2008	-	701,165	701,165	0.00%	1,816,771	38.59%
12/31/2007	-	567,415	567,415	0.00%	1,593,248	35.61%
12/31/2006	-	442,591	442,591	0.00%	1,476,645	29.97%
12/31/2005	-	481,856	481,856	0.00%	1,462,073	32.96%
12/31/2004	-	471,356	471,356	0.00%	1,388,563	33.95%
12/31/2003	-	427,596	427,596	0.00%	1,295,388	33.01%
12/31/2002	-	454,247	454,247	0.00%	1,151,032	39.46%
12/31/2001	-	443,376	443,376	0.00%	979,382	45.27%

Schedule of Employer Contributions

Year Ended June 30	Annual	
	Required Contribution (ARC)	Percentage of ARC Contributed
2014	\$ 82,678	71.03%
2013	82,695	95.44%
2012	73,788	128.26%
2011	73,788	135.55%
2010	70,921	142.98%
2009	56,256	140.89%
2008	46,369	170.93%
2007	48,164	164.56%
2006	50,926	155.64%

Notes to the Required Schedules:

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

Valuation date:	12/31/2013
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar closed
Remaining amortization period:	17 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25%-7.85%
*Includes inflation at	3.00%
Cost of living adjustments	None

**Town of Smithfield, North Carolina
Other Postemployment Benefits
Required Supplementary Information
For the Year Ended June 30, 2014**

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
		Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (VAAL) (b-a)			
12/31/2012	\$ -	\$ 8,592,701	\$8,592,701	0%	\$ 4,126,669	208.22%
12/31/2009	-	8,211,690	8,211,690	0%	5,812,092	141.29%
12/31/2007	-	9,834,213	9,834,213	0%	6,894,972	142.63%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2014	\$ 789,303	0.00%
2013	973,342	25.64%
2012	973,342	21.17%
2011	1,075,291	9.56%
2010	1,075,291	11.07%
2009	1,075,291	14.75%

Notes to the Required Schedules:

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

Valuation date:	12/31/2012
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar amount, open
Remaining amortization period:	30 years
Asset valuation method:	Market value
Actuarial assumptions:	
Investment rate of return*	4.00%
Medical cost trend rate	
Pre-Medicare trend rate	8.50% - 5.00%
Post-Medicare trend rate	6.25% - 5.00%
Year of ultimate trend rate	2018
*Includes inflation at	3.00%

**SUPPLEMENTARY STATEMENTS
AND SCHEDULES**

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

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues:			
Ad valorem taxes			
Taxes	\$	\$ 6,084,247	\$
Downtown district tax		93,788	
Penalties and interest		23,562	
Total	<u>5,852,156</u>	<u>6,201,597</u>	<u>349,441</u>
Other taxes and licenses			
Privilege licenses		87,990	
Zoning permits		17,822	
Other permits		24,230	
Occupancy Tax		188,648	
Total	<u>241,100</u>	<u>318,690</u>	<u>77,590</u>
Unrestricted intergovernmental			
Franchise tax		812,577	
Beer and wine tax		48,065	
ABC board profit distribution		49,879	
Local option sales tax		1,956,092	
PEG channel fees		107,398	
Solid waste disposal tax		6,180	
Excise tax - rentals		15,941	
Total	<u>2,755,592</u>	<u>2,996,132</u>	<u>240,540</u>
Restricted intergovernmental			
Powell Bill allocation		324,794	
Department of Justice forfeitures		27,588	
JAG grant		18,921	
Grant Revenue		43,195	
Cemetery grant		2,820	
Total	<u>362,589</u>	<u>417,318</u>	<u>54,729</u>
Sales and services			
Cemetery lot sales and grave openings		83,200	
Public safety fees		240,563	
Refuse collection fees		1,328,322	
Recreation fees		53,106	
EMS fees		80,038	
Aquatic Center fees		753,405	
Total	<u>2,538,480</u>	<u>2,538,634</u>	<u>154</u>
Investment earnings	<u>2,800</u>	<u>1,511</u>	<u>(1,289)</u>

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Miscellaneous			
Blount Street assessments		1,827	
Cell tower rental		53,275	
Other		141,027	
Total	<u>256,400</u>	<u>196,129</u>	<u>(60,271)</u>
Total revenues	<u>12,009,117</u>	<u>12,670,011</u>	<u>660,894</u>
Expenditures:			
General Government:			
Governing Body			
Salaries and employee benefits		438,466	
Operating expenditures		69,908	
Overhead allocated to other funds		(295,950)	
Total	<u>385,877</u>	<u>212,424</u>	<u>173,453</u>
Administration			
Operating expenditures		1,092,064	
Overhead allocated to other funds		(635,744)	
Total	<u>635,166</u>	<u>456,320</u>	<u>178,846</u>
Finance			
Salaries and employee benefits		253,766	
Operating expenditures		17,188	
Overhead allocated to other funds		(157,736)	
Total	<u>130,875</u>	<u>113,218</u>	<u>17,657</u>
Building and Planning			
Salaries and employee benefits		262,656	
Operating expenditures		25,590	
Total	<u>321,535</u>	<u>288,246</u>	<u>33,289</u>
Total general government	<u>1,473,453</u>	<u>1,070,208</u>	<u>403,245</u>
Public safety:			
Police			
Salaries and employee benefits		2,712,172	
Operating expenditures		330,431	
Capital outlay		23,042	
Total	<u>3,206,128</u>	<u>3,065,645</u>	<u>140,483</u>

**Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire			
Salaries and employee benefits		1,107,466	
Operating expenditures		173,662	
Total	<u>1,330,612</u>	<u>1,281,128</u>	<u>49,484</u>
Emergency Medical Services			
Operating expenditures		2,754	
Total	<u>3,662</u>	<u>2,754</u>	<u>908</u>
Total public safety	<u>4,540,402</u>	<u>4,349,527</u>	<u>190,875</u>
Street and Public Works:			
Community Appearance			
Salaries and employee benefits		344,037	
Operating expenditures		147,919	
Total	<u>533,268</u>	<u>491,956</u>	<u>41,312</u>
Streets			
Salaries and employee benefits		254,423	
Operating expenditures		503,392	
Total	<u>803,597</u>	<u>757,815</u>	<u>45,782</u>
Garage			
Salaries and employee benefits		55,796	
Operating expenditures		27,679	
Total	<u>97,521</u>	<u>83,475</u>	<u>14,046</u>
Total street and public works	<u>1,434,386</u>	<u>1,333,246</u>	<u>101,140</u>
Sanitation:			
Salaries and employee benefits		670,155	
Operating expenditures		321,981	
Total sanitation	<u>1,064,967</u>	<u>992,136</u>	<u>72,831</u>
Cultural and recreational:			
Salaries and employee benefits		1,141,914	
Operating expenditures		543,343	
Total cultural and recreational	<u>1,809,869</u>	<u>1,685,257</u>	<u>124,612</u>
Debt service:			
Principal retirement		1,154,963	
Interest and other charges		356,894	
Total debt service	<u>1,574,568</u>	<u>1,511,857</u>	<u>62,711</u>
Total expenditures	<u>11,897,645</u>	<u>10,942,231</u>	<u>955,414</u>

Town of Smithfield
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Annual Budget and Actual
For the Fiscal Year Ended June 30, 2014

	Budget	Actual	Variance Positive (Negative)
Revenues over (under) expenditures	<u>111,472</u>	<u>1,727,780</u>	<u>1,616,308</u>
Other financing sources (uses):			
Appropriated fund balance	(241,472)	-	241,472
Transfers from other funds	130,000	160,000	30,000
Sale of fixed assets	-	17,468	17,468
Total	<u>(111,472)</u>	<u>177,468</u>	<u>288,940</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	1,905,248	<u>\$ 1,905,248</u>
Fund balance, beginning		3,891,791	
Fund balance, ending		<u>\$ 5,797,039</u>	

**Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Balance Sheet
June 30, 2014**

Assets

Cash and cash equivalents	\$ 11,368
	<hr/>
Total assets	\$ 11,368
	<hr/> <hr/>

Liabilities and Fund Balances

Liabilities:

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

Fund balances:

Unassigned	6,759
	<hr/>

Total liabilities and fund balances	\$ 11,368
	<hr/> <hr/>

Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended June 30, 2014

Revenues	
Fire district taxes	\$ 159,871
Interest Income	8
Supplemental Funding	<u>6,880</u>
Total revenues	<u>166,759</u>
Expenditures	
Public safety	<u>-</u>
Total expenditures	<u>-</u>
Revenues over (under) expenses	166,759
Other financing sources (uses):	
Operating transfers out	<u>(160,000)</u>
Total other financing sources (uses)	<u>(160,000)</u>
Excess (deficiency) of revenues and other financing sources over expenditures	6,759
Fund balance, beginning	<u>-</u>
Fund balance, ending	<u><u>\$ 6,759</u></u>

Town of Smithfield
Smithfield Fire Tax District Special Revenue Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget to Actual
For the Year Ended June 30, 2014

	Budget	Actual	Variance
Revenues			
Fire district taxes	\$ 155,782	\$ 159,871	\$ 4,089
Other Income	6,357	6,888	531
Total revenues	162,139	166,759	4,620
Expenditures			
Public safety	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenses	162,139	166,759	4,620
Other financing sources (uses):			
Appropriated fund balance	(135,217)	-	135,217
Operating transfers out	(162,139)	(160,000)	2,139
Total other financing sources (uses)	(297,356)	(160,000)	137,356
Excess (deficiency) of revenues and other financing sources over expenditures	\$ -	6,759	\$ -
Fund balance, beginning		-	
Fund balance, ending		\$ 6,759	

Town of Smithfield
Major Capital Projects Fund - General Fund Capital Project
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2014

	Project Authorization	Prior Years	Current Year	Total Project To Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental	\$ 1,700,400	\$ 742,981	\$ 635,719	\$ 1,378,700	\$ (321,700)
Contributions	776,000	276,000	-	276,000	(500,000)
Investment earnings	-	12,012	279	12,291	12,291
Total revenues	<u>2,476,400</u>	<u>1,030,993</u>	<u>635,998</u>	<u>1,666,991</u>	<u>(809,409)</u>
Expenditures:					
Neuse River Theater repairs	80,000	40,695	-	40,695	39,305
Professional park	276,000	276,000	-	276,000	-
Smithfield Crossings Area "A"	950,400	1,411,923	71,396	1,483,319	(532,919)
Smithfield Crossings Area "B"	5,206,400	2,339,389	3,195,276	5,534,665	(328,265)
Total expenditures	<u>6,512,800</u>	<u>4,068,007</u>	<u>3,266,672</u>	<u>7,334,679</u>	<u>(821,879)</u>
Revenues over (under) expenditures	<u>(4,036,400)</u>	<u>(3,037,014)</u>	<u>(2,630,674)</u>	<u>(5,667,688)</u>	<u>(1,631,288)</u>
Other financing sources (uses):					
Transfers in	80,000	340,000	-	340,000	260,000
Debt issued	3,956,400	5,206,400	-	5,206,400	1,250,000
Total other financing sources (uses)	<u>4,036,400</u>	<u>5,546,400</u>	<u>-</u>	<u>5,546,400</u>	<u>1,510,000</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 2,509,386</u>	<u>\$ (2,630,674)</u>	<u>\$ (121,288)</u>	<u>\$ (121,288)</u>

**Town of Smithfield
Electric Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Electricity sales	\$	\$ 19,554,076	\$
Connection fees		21,679	
Miscellaneous		5,161	
Penalties		425,863	
Total	<u>20,186,000</u>	<u>20,006,779</u>	<u>(179,221)</u>
Non-operating revenues:			
Interest earnings		2,857	
Total	<u>14,000</u>	<u>2,857</u>	<u>(11,143)</u>
Total revenues	<u>20,200,000</u>	<u>20,009,636</u>	<u>(190,364)</u>
Expenditures:			
Electrical purchases		16,438,243	
Electrical operations		2,375,203	
Capital outlay		-	
Debt service		368,887	
Total	<u>20,200,000</u>	<u>19,182,333</u>	<u>1,017,667</u>
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 827,303</u>	<u>\$ 827,303</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 827,303	
Reconciling items:			
Principal repayment on long-term debt		204,057	
Capital outlay		-	
Depreciation		(566,451)	
(Increase) decrease in compensated absences		5,014	
(Increase) decrease in other postemployment benefits		(79,450)	
Total reconciling items		<u>(436,830)</u>	
Net income		<u>\$ 390,473</u>	

**Town of Smithfield
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Ended June 30, 2014**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$	\$ 2,772,525	\$
Sewer sales		2,785,945	
Connection and tap fees		20,585	
Miscellaneous		2,875	
Total	<u>6,371,428</u>	<u>5,581,930</u>	<u>(789,498)</u>
Non-operating revenues:			
Interest earnings		1,889	
Total	<u>5,000</u>	<u>1,889</u>	<u>(3,111)</u>
Total revenues	<u>6,376,428</u>	<u>5,583,819</u>	<u>(792,609)</u>
Expenditures:			
Water treatment plant		1,511,788	
Water and sewer distribution		3,765,359	
Capital outlay		136,315	
Debt service		136,173	
Total	<u>6,376,428</u>	<u>5,549,635</u>	<u>826,793</u>
Other financing sources (uses):			
Appropriated fund balance		-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 34,184</u>	<u>\$ 34,184</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 34,184	
Reconciling items:			
Principal repayment on long-term debt		123,500	
Capital outlay		136,315	
Depreciation		(404,711)	
Capital Contribution		-	
(Increase) decrease in compensated absences		(762)	
(Increase) decrease in other postemployment benefits		(57,782)	
Total reconciling items		<u>(203,440)</u>	
Net income		<u>\$ (169,256)</u>	

Town of Smithfield
Enterprise Fund Capital Project - Water and Sewer Capital Projects
Schedule of Revenues, Expenditures, and Changes in Fund Balance (Non - GAAP)
From Inception and For the Year Ended June 30, 2014

	Actual			Total Project To Date	Variance Favorable (Unfavorable)
	Project Authorization	Prior Years	Current Year		
Revenues:					
Restricted intergovernmental	\$ 255,000	\$ 238,872	\$ -	\$ 238,872	\$ (16,128)
Local contributions	80,600	70,350	-	70,350	(10,250)
Investment earnings	-	35,154	-	35,154	35,154
Total revenues	335,600	344,376	-	344,376	8,776
Expenditures:					
Sewer line rehab	191,000	176,518	-	176,518	14,482
Center point loop	15,000	-	-	-	15,000
Hydrant replacement	50,000	49,781	-	49,781	219
West Smithfield I & I	100,000	49,848	-	49,848	50,152
Bridge Replacement	217,000	248,540	124,270	372,810	(155,810)
Total expenditures	573,000	524,687	124,270	648,957	(75,957)
Excess (Deficit) of revenues over (under) expenditures	(237,400)	(180,311)	(124,270)	(304,581)	(67,181)
Other financing sources (uses):					
Interfund transfers in	237,400	265,000	-	265,000	27,600
Total other financing sources (uses)	237,400	265,000	-	265,000	27,600
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ 84,689	(124,270)	\$ (39,581)	\$ (39,581)
Reconciliation of Modified Accrual Basis to Full Accrual Basis:					
Excess (Deficit) of Revenues & Other Financing Sources Over (Under) Expenditures and Other Financing Uses				\$ (39,581)	
Expenditures Recorded as Construction in Progress				\$ -	
Net Income (Loss)				\$ (39,581)	

Town of Smithfield
Statement of Changes in Assets and Liabilities
Agency Fund
For the Year Ended June 30, 2014

	<u>Balance</u> <u>July 1, 2013</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2014</u>
ASSETS				
Cash and cash equivalents	\$ 204,815	\$ 27,286	\$ 40,814	\$ 191,287
Total assets	<u>204,815</u>	<u>27,286</u>	<u>40,814</u>	<u>191,287</u>
LIABILITIES				
Current liabilities:				
Miscellaneous liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET POSITION	<u>\$ 204,815</u>	<u>\$ 27,286</u>	<u>\$ 40,814</u>	<u>\$ 191,287</u>

OTHER SCHEDULES

This section contains additional information required
on property taxes.

Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy - Town-Wide

Analysis of Current Tax Levy - Downtown District

**Town of Smithfield
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2014**

Fiscal Year	Uncollected Balance July 1, 2013	Additions	Collections And Credits	Uncollected Balance June 30, 2014
2014	\$ -	\$ 5,863,020	\$ 5,826,782	\$ 36,238
2013	58,258	-	46,138	12,120
2012	22,450	-	5,598	16,852
2011	11,379	-	828	10,551
2010	6,811	-	289	6,522
2009	5,126	-	457	4,669
2008	4,644	-	4,307	337
2007	703	-	-	703
2006	203	-	-	203
2005	147	-	-	147
2004	257	-	-	257
	<u>\$ 109,978</u>	<u>\$ 5,863,020</u>	<u>\$ 5,884,400</u>	<u>88,599</u>

Downtown District Taxes Receivable (279)

Less allowance for uncollectible ad valorem taxes receivable: (2,100)

Ad valorem taxes receivable, net \$ 86,220

Reconciliation with Revenues:

Ad valorem taxes:
General Fund \$ 6,201,597

Ad valorem taxes - General Fund (23,562)

Penalties and interest (377,146)

Taxes collected by NCDMV 83,511

Taxes written off (317,197)

\$ 5,884,400

Town of Smithfield
 Analysis of Current Tax Levy
 Town - Wide Levy
 For the Fiscal Year Ended June 30, 2014

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current Real and personal property	\$ 982,799,284	0.57	\$ 5,601,958	\$ 5,377,620	\$ 224,339
Discoveries	34,121,720	0.57	194,494	193,277	1,217
Releases	(4,179,455)	0.57	(23,822)	(15,729)	(8,094)
Total Property Valuation	<u>\$ 1,012,741,549</u>				
Net levy			5,772,630	5,555,168	217,462
Uncollected taxes at June 30, 2014			<u>(35,959)</u>	<u>(25,002)</u>	<u>(10,957)</u>
Current year's taxes collected			<u>\$ 5,736,671</u>	<u>\$ 5,530,166</u>	<u>\$ 206,505</u>
Current levy collection percentage			<u>99.38%</u>	<u>99.55%</u>	<u>94.96%</u>

Town of Smithfield
Analysis of Current Tax Levy - Downtown District
Town - Wide Levy
For the Fiscal Year Ended June 30, 2014

	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	\$ 46,843,322	0.19	\$ 89,080	\$ 88,765	\$ 315
Discoveries	786,934	0.19	1,495	1,495	-
Releases	(97,721)	0.19	(186)	(108)	(77)
Total Property Valuation	<u>\$ 47,532,535</u>				
Net levy			90,390	90,152	238
Uncollected taxes at June 30, 2014			<u>(279)</u>	<u>(274)</u>	<u>(5)</u>
Current year's taxes collected			<u>\$ 90,111</u>	<u>\$ 89,878</u>	<u>\$ 233</u>
Current levy collection percentage			<u>99.69%</u>	<u>99.70%</u>	<u>97.90%</u>

COMPLIANCE SECTION

Town of Smithfield
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014

SECTION I - SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? x yes no

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

Noncompliance material to financial
statements noted x yes no

State Awards

Internal control over financial reporting:

Material weakness(es) identified? yes x no

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

Noncompliance material to financial
statements noted yes x no

Type of auditors' 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 yes x no

Identification of major State programs:

Program Name
Highway Construction Program - DOT-18

Independent Auditors' Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

**PETWAY
MILLS &
PEARSON, PA**

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

www.pmpcpa.com

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of Town of Smithfield, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Smithfield's basic financial statements, and have issued our report thereon dated November 6, 2014.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness. Finding 2014-1.

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Smithfield's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported

under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2014-1.

Town of Smithfield's Responses to Findings

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

Purpose of this Report

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


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

November 6, 2014

PM&P

PETWAY
MILLS &
PEARSON, PA

CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

www.pmpcpa.com

Memberships:

North Carolina
Association of
Certified Public
Accountants

American Institute
of Certified Public
Accountants

Medical Group
Management
Association

**Independent Auditors' Report on Compliance for Each Major State Program and on
Internal Control over Compliance in Accordance with OMB Circular A-133 and the State
Single Audit Implementation Act**

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

Report on Compliance for Each Major State Program

We have audited the Town of Smithfield'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 the Town of Smithfield's major State program for the year ended June 30, 2014. The Town of Smithfield's major State program is 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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Town of Smithfield's major State program 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 and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Town of Smithfield's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

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

Opinion on Each Major State Program

In our opinion, the 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 its major State program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the 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 the Town of Smithfield's internal control over compliance with the types of requirements that could have a direct and material effect on a major State program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major State program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 State 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 State 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 a type of compliance requirement of a State program that is less severe than a 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 weaknesses 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.


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

November 6, 2014

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

SECTION II - FINANCIAL STATEMENT FINDINGS

Material Weakness

Finding 2014-1

Criteria:

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

Condition:

In the current year, there were violations of General Statutes 159-26.a due to incomplete and inaccurate accounting records as a result of loss of data from a virus.

Effect:

The Town lost four months of financial data.

Cause:

The Town's records were not complete due to the Town contracting a virus which compromised financial data for four months out of the fiscal year.

Recommendation:

The Town should implement procedures to effectively back up all financial data on a regular basis.

Views of responsible officials and planned corrective actions:

The Town completed an outside analysis of its IT system and related infrastructure. Recommendations were presented to the Town Council to improve the IT system and related infrastructure. The Council directed management to include the request in next year's budget package.

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

Town of Smithfield
Corrective Action Plan
For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding 2014-1

Name of contact person:
Greg Siler, Finance Director

Corrective Action:
The Town completed an outside analysis of its IT system and related infrastructure. Recommendations were presented to the Town Council to improve the IT system and related infrastructure. The Council directed management to include the request in next year's budget package.

Completion date:
Immediately

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

None
Required.

Town of Smithfield
Summary Schedule of Prior Year's Findings
For the Year Ended June 30, 2014

SECTION II - FINANCIAL STATEMENT FINDINGS

Finding: 2013-1

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

Finding: 2013-2

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

Town of Smithfield, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2014

Grantor/Pass-through/ Grantor- Program Title	CFDA Number	Pass-through Grantor's Number	Expenditures
FEDERAL AWARDS			
U.S. Department of Housing and Urban Development			
Passed-through the N.C. Department of Commerce Community Development Block Grant - Talent Enhancement	14.228	12-C-2463	\$ 43,195
U.S. Department of Justice			
Passed-through the N.C. Department of Public Safety Juvenile Justice and Delinquency Prevention	16.540		18,921
U.S. Department of Agriculture			
Direct Program Rural Development Community Facilities Loans and Grants	10.766		135,719
TOTAL FEDERAL AWARDS			<u>197,835</u>
STATE AWARDS			
N.C. Department of Transportation Powell Bill Highway Construction Program		DOT - 4 DOT-18	370,433 <u>500,000</u>
TOTAL STATE AWARDS			<u>870,433</u>
TOTAL FEDERAL AND STATE ASSISTANCE			<u>\$ 1,068,268</u>

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

Basis of Presentation

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