

**TOWN OF SMITHFIELD**  
**FINANCIAL STATEMENTS**  
**SMITHFIELD, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2015**

## **TOWN COUNCIL**

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**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**

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## **FINANCIAL SECTION**



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**Independent Auditor's Report**

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Smithfield's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

**Opinions**

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, North Carolina as of June 30, 2015, 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.

## **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 10 through 19 and 60 through 61, respectively, the Local Government Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Asset and Contributions, on pages 62 and 63, 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 Federal and State Awards, as required by the Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and 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 Federal and 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 2, 2015 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*

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

November 2, 2015

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

As management of the Town of Smithfield, a narrative overview of the Town's financial statements and analysis of financial activities is offered for the fiscal year ended June 30, 2015. Readers are encouraged to read the presented information in conjunction with additional information that has been furnished in the Town's financial statements and narrative below.

### Financial Highlights

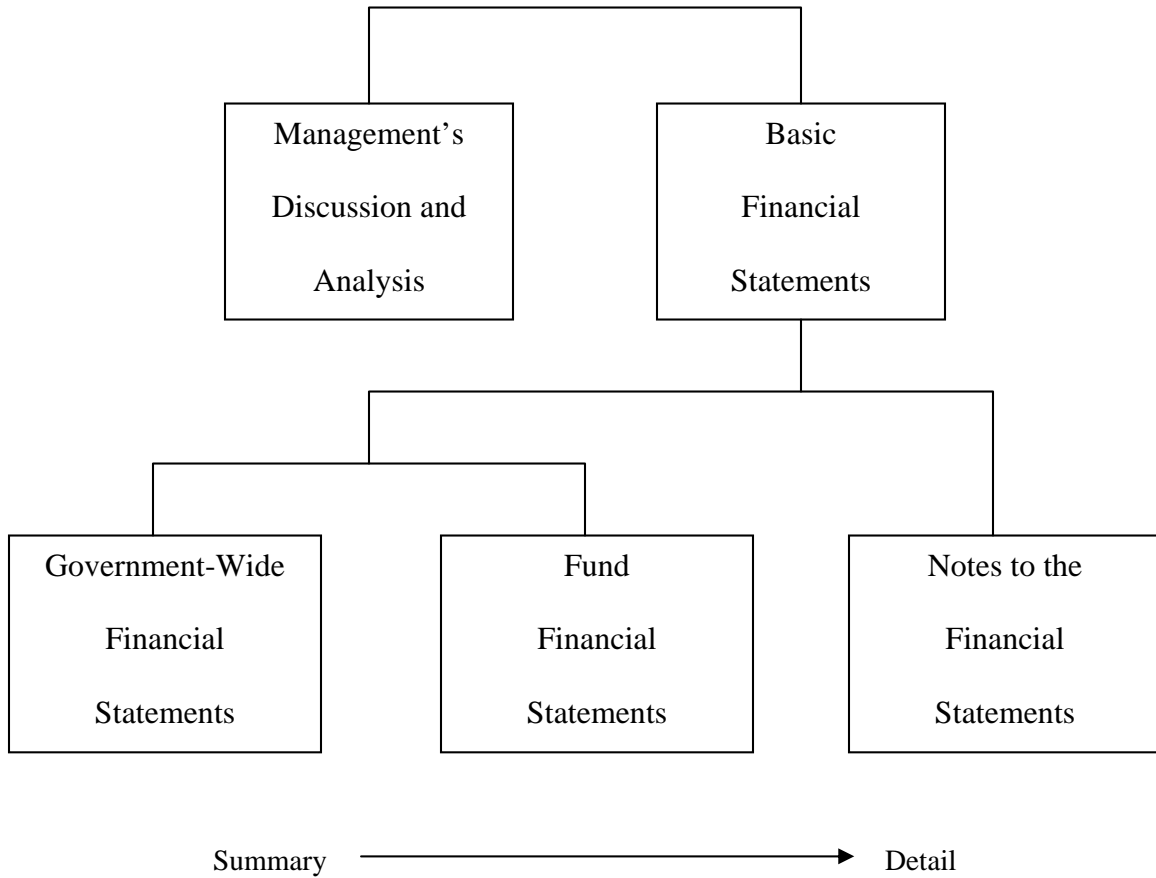
- The assets and deferred outflows of the Town of Smithfield exceeded its liabilities and deferred inflows at the close of the fiscal year by \$49,089,510(*net position*).
- Total governmental net position decreased by \$1,061,143, primarily due to decrease in the governmental activities net position.
- As of the close of the current fiscal year, the Town of Smithfield's governmental funds reported combined ending fund balances of \$7,029,254 an increase of \$1,346,386 in comparison with the prior year. Approximately 22.53 percent of this total amount, or \$1,583,664, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,916,035 or 52.15 percent of total general fund expenditures for the fiscal year; compared to \$4,274,771 or 39.07 percent the prior fiscal year.
- For the 2<sup>nd</sup> year, the Town of Smithfield experienced record high cost of \$3,107,710 or \$395,824 (14.60 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 \$1,879,660 (11.52 percent) during the current fiscal year.
- The Town of Smithfield has a bond rating of A1- and A with Moody's and Standard & Poor's respectively.

### 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 perspectives of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Smithfield. As an overview, the following chart outlines the required components of the annual financial report.

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

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

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

## Government-Wide Financial Statements

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. Government-wide statements provide short and long-term information about the Town's financial status as a whole.

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

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

The government-wide financial statements are on Exhibits 1 and 2 of this report.

## Fund Financial Statements

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

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

An annual budget is adopted for the Town of Smithfield 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. This 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 position and the Statement of Activities.

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

**Notes to the Financial Statements.** Notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow Exhibit 11 of this report.

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

**Town of Smithfield’s Net position**

**Figure 2**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Assets:</b>						
Current and other assets	\$ 7,634,197	\$ 6,276,314	\$ 14,987,875	\$ 14,840,881	\$ 22,622,072	\$ 21,117,195
Capital assets, net	35,835,506	38,253,723	15,709,238	15,788,652	51,544,744	54,042,375
Deferred outflows of resources	290,427	-	92,067	-	382,494	-
Total assets and deferred outflows of resources	<u>43,760,130</u>	<u>44,530,037</u>	<u>30,789,180</u>	<u>30,629,533</u>	<u>74,549,310</u>	<u>75,159,570</u>
<b>Liabilities:</b>						
Current liabilities	1,735,819	5,634,951	3,130,089	3,010,083	4,865,908	8,645,034
Non-current liabilities	13,762,907	11,469,326	5,047,643	4,900,990	18,810,550	16,370,316
Deferred inflows of resources	1,355,340	-	428,002	-	1,783,342	-
Total liabilities and deferred inflows of resources	<u>16,854,066</u>	<u>17,104,277</u>	<u>8,605,734</u>	<u>7,911,073</u>	<u>25,459,800</u>	<u>25,015,350</u>
<b>Net Position:</b>						
Net investment in capital assets	25,123,925	26,085,041	11,292,570	11,638,962	36,416,495	37,724,003
Restricted for:						
USDA Payments	49,090	30,503	-	-	49,090	30,503
Public Safety	24,634	39,802	-	-	24,634	39,802
Transportation	83,912	164,843	-	-	83,912	164,843
Fire District	24,034	6,759	-	-	24,034	6,759
Stabilization by State Statute	1,401,994	1,286,460	-	-	1,401,994	1,286,460
Capital Projects	-	(120,930)	-	-	-	(120,930)
Other Restrictions	-	-	326,455	-	326,455	-
Unrestricted	198,475	(66,718)	10,564,421	11,079,498	10,762,896	11,012,780
Total net position	<u>\$ 26,906,064</u>	<u>\$ 27,425,760</u>	<u>\$ 22,183,446</u>	<u>\$ 22,718,460</u>	<u>\$ 49,089,510</u>	<u>\$ 50,144,220</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. Assets and deferred outflows of the Town of Smithfield exceeded liabilities and deferred inflows by \$49,089,510 as of June 30, 2015. The Town's net position decreased by \$1,061,143 for the fiscal year ended June 30, 2015. The largest portion of net position (74.18%) reflects the Town's investment in capital assets (e.g. land, buildings, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Smithfield uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town's net position \$1,910,119 (3.89%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$10,762,896 (21.93%) is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.71 % and 100% in the Town-Wide and Downtown tax districts respectively.
- Continued low cost of debt due to the Town's credit rating.

### Town of Smithfield's Changes in Net Position

Figure 3

	Governmental		Business-Type		Total	
	Governmental Activities		Business-Type Activities			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,481,868	\$ 2,538,634	\$ 25,361,666	\$ 25,588,708	\$ 27,843,534	\$ 28,127,342
Operating grants and contributions	499,018	1,219,789	-	-	499,018	1,219,789
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	6,151,723	6,183,765	-	-	6,151,723	6,183,765
Other taxes	3,387,163	2,996,132	-	-	3,387,163	2,996,132
Unrestricted intergovernmental	288,144	318,690	-	-	288,144	318,690
Investment earnings, unrestricted	4,752	1,798	19,653	4,747	24,405	6,545
Miscellaneous	164,078	196,129	-	-	-	-
Gain/Loss on disposal of fixed assets	10,710	11,077	-	-	10,710	11,077
Total revenues	<u>12,987,456</u>	<u>13,466,014</u>	<u>25,381,319</u>	<u>25,593,455</u>	<u>38,204,697</u>	<u>38,863,340</u>
<b>Expenses:</b>						
General government	1,486,810	1,279,325	-	-	1,486,810	1,279,325
Public safety	4,875,246	4,967,189	-	-	4,875,246	4,967,189
Streets and public works	2,756,215	2,784,894	-	-	2,756,215	2,784,894
Sanitation	1,020,798	1,096,653	-	-	1,020,798	1,096,653
Cultural and recreation	2,344,755	2,482,395	-	-	2,344,755	2,482,395
Interest on long-term debt	237,690	356,894	-	-	237,690	356,894
Electric	-	-	18,920,373	19,619,163	18,920,373	19,619,163
Water and sewer	-	-	6,760,700	5,753,075	6,760,700	5,753,075
Total expenses	<u>12,721,514</u>	<u>12,967,350</u>	<u>25,681,073</u>	<u>25,372,238</u>	<u>38,402,587</u>	<u>38,339,588</u>
Change in net position	286,773	498,664	(280,340)	221,217	6,433	719,881
<b>Net Position:</b>						
Beginning of year - July 1	27,425,760	26,927,096	22,718,460	22,497,243	50,144,220	49,424,339
Change in accounting principle	(806,469)	-	(254,674)	-	(1,061,143)	-
Beginning of year, as restated	<u>26,619,291</u>	<u>26,927,096</u>	<u>22,463,786</u>	<u>22,497,243</u>	<u>49,083,077</u>	<u>49,424,339</u>
End of year - June 30	<u>\$ 26,906,064</u>	<u>\$ 27,425,760</u>	<u>\$ 22,183,446</u>	<u>\$ 22,718,460</u>	<u>\$ 49,089,510</u>	<u>\$ 50,144,220</u>

**Governmental Activities.** Governmental activities increased the Town's net position by \$286,773. Key elements of this increase are as follows:

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

**Business-Type Activities.** Business-type activities decreased the Town's net position by \$280,340. Key elements of this increase are as follows:

- No key elements contributed to the decrease

### **Financial Analysis of the Town's Funds**

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town of Smithfield's fund balance available in the General Fund was \$5,916,035, while total fund balance reached \$7,475,665. Currently, the Town has fund balance available for appropriation of 52.15% of total General Fund expenditures, while total fund balance represents 65.90% of the same amount.

At June 30, 2015, the governmental funds of the Town of Smithfield reported a fund balance of \$7,029,254, a 23.69% increase 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:

- \$25,000 to fund renovations in the Finance Department
- \$30,000 to fund law suit settlement
- \$35,000 to fund three year fitness equipment lease at SRAC
- \$45,000 to fund legal fees partially associated with law suit settlement

**Proprietary Funds.** The Town of Smithfield's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year totaled \$3,553,177 and those for the Electric Fund amounted to \$7,011,244. The total decrease in net position for the Water and Sewer Fund was \$1,273,646, whereas the Electric Fund had a total increase in net position of \$993,306.

### **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, 2015, totals \$50,846,130 (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:

- \$49,965 to purchase water filter controller
- \$51,753 to purchase SCADA upgrade
- \$60,879 to purchase mini excavator
- \$67,461 to purchase tract loader
- \$329,805 to sewer vacuum truck

### Town of Smithfield's Capital Assets

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 6,284,188	\$ 6,284,188	\$ 10,000	\$ 10,000	\$ 6,294,188	\$ 6,294,188
Construction in progress	6,375,140	7,017,984	-	-	6,375,140	7,017,984
Buildings and improvements	16,794,734	16,794,734	-	-	16,794,734	16,794,734
Plant and distribution systems	-	-	27,003,793	26,897,719	27,003,793	26,897,719
Infrastructure	45,760,336	45,760,336	-	-	45,760,336	45,760,336
Equipment and vehicles	5,544,469	5,304,750	4,121,061	3,461,306	9,665,530	8,766,056
Total	80,758,867	81,161,992	31,134,854	30,369,025	111,893,721	111,531,017
Accumulated depreciation	(45,454,307)	(42,914,346)	(15,593,284)	(14,580,373)	(61,047,591)	(57,494,719)
Capital assets, net	<u>\$ 35,304,560</u>	<u>\$ 38,247,646</u>	<u>\$ 15,541,570</u>	<u>\$ 15,788,652</u>	<u>\$ 50,846,130</u>	<u>\$ 54,036,298</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, 2015, the Town of Smithfield had total debt outstanding of \$14,429,635 as noted in the following table.

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

**Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Installment purchases	\$ 9,544,759	\$ 11,429,605	\$ 580,445	\$ 260,911	\$ 10,125,204	\$ 11,690,516
Capital leases	95,876	-	-	-	95,876	-
Revenue bonds	-	-	3,668,555	3,888,779	3,668,555	3,888,779
General obligation bonds	540,000	730,000	-	-	540,000	730,000
Total	<u>\$ 10,180,635</u>	<u>\$ 12,159,605</u>	<u>\$ 4,249,000</u>	<u>\$ 4,149,690</u>	<u>\$ 14,429,635</u>	<u>\$ 16,309,295</u>

The Town of Smithfield's total debt decreased by \$1,879,660 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 \$80,564,635.

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, 2016**

**Governmental Activities.** With no new development occurring in FY16 and more of the same expected for FY17, forecast for the primary sources of revenue (e.g. property and sales tax) were calculated using little or no growth factor. The budget was guided by three principles: (1) Take care of what we have; (2) Keep rates to citizens/customers as low as possible; and (3) provide funding for much needed infrastructure improvements. Thus, in order to hold the line and minimize the cost of services to citizens, expenses again will be tightly controlled, but the Town is expected to return to an effective and affordable capital improvement plan. With improved fund balance, this budget included necessary capital expenditures in many departments that had been delayed for several years.

Budgeted operational expenditures in the General Fund are expected to increase by 6% to \$13,680,098 over FY15 original budget with \$1,280,000 in capital expenditures.

Town Council has focused upon maintaining General Fund Balance by estimating \$250,000 to reserves in the 2016 budget year.

Other budget highlights in brief:

- Property tax rate to remain at \$.57 per 100 valuations
- No cost-of-living allowance for employees
- Merit system budgeted at 2% cap raise for employees

**Business-Type Activities.** While water and sewer rates will remain unchanged, electric rates will be cut 5% across the board with the completion of the Duke Energy Progress, Inc. buyout of the North Carolina Eastern Power Agency. With reduced energy cost resulting from the buyout, additional electric rate reductions may follow after an independent electric rate study.

Budgeted operational expenditures in the Water/Sewer Fund are expected to increase by 34.6% to \$8,714,898 over FY 2015 original budget. The Town will begin substantial maintenance programs in 2015 and 2016 to update aging infrastructure, including \$900,000 to correct sewer inflow and infiltration problems, and to continue to prepare for Automated Metering Infrastructure (AMI) technology. This project is critical, as inflow and infiltration create a variety of serious issues, such as pump station overflows and significant wastewater treatment cost.

Budgeted operational expenditures in the Electric Fund are expected to decreased by 9.2% to \$17,946,254 under FY 2015 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, 2015**

	Primary Government		Total
	Governmental Activities	Business-type Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 6,562,550	\$ 9,391,164	\$ 15,953,714
Restricted cash	157,636	627,660	785,296
Taxes receivables (net)	43,320	-	43,320
Accounts receivable (net)	208,290	3,672,194	3,880,484
Due from other governments	662,401	86,574	748,975
Inventories	-	1,210,283	1,210,283
<b>Total current assets</b>	<b>7,634,197</b>	<b>14,987,875</b>	<b>22,622,072</b>
Non-current assets:			
Net pension asset - LGERS	530,946	167,668	698,614
Capital assets:			
Land, non-depreciable improvements, and construction in progress	12,659,327	10,000	12,669,327
Other capital assets, net of depreciation	22,645,233	15,531,570	38,176,803
<b>Total capital assets</b>	<b>35,304,560</b>	<b>15,541,570</b>	<b>50,846,130</b>
<b>Total non-current assets</b>	<b>35,835,506</b>	<b>15,709,238</b>	<b>51,544,744</b>
<b>Total assets</b>	<b>43,469,703</b>	<b>30,697,113</b>	<b>74,166,816</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan	290,427	92,067	382,494
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable - trade	430,427	1,881,723	2,312,150
Accrued payroll and payroll liabilities	131,196	34,183	165,379
Accrued interest payable	-	178,671	178,671
Customer deposits	-	627,660	627,660
Due within one year	1,174,196	407,852	1,582,048
<b>Total current liabilities</b>	<b>1,735,819</b>	<b>3,130,089</b>	<b>4,865,908</b>
Long-term liabilities:			
Due in more than one year	13,762,907	5,047,643	18,810,550
<b>Total long-term liabilities</b>	<b>13,762,907</b>	<b>5,047,643</b>	<b>18,810,550</b>
<b>Total liabilities</b>	<b>15,498,726</b>	<b>8,177,732</b>	<b>23,676,458</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	1,355,340	428,002	1,783,342
<b>NET POSITION</b>			
Net investment in capital assets	25,123,925	11,292,570	36,416,495
Restricted for:			
USDA debt payments	49,090	-	49,090
Public safety	24,634	-	24,634
Transportation	83,912	-	83,912
Fire district	24,034	-	24,034
Stabilization by State Statute	1,401,994	-	1,401,994
Capital projects	-	-	-
Other restrictions	-	326,455	326,455
Unrestricted	198,475	10,564,421	10,762,896
<b>Total net position</b>	<b>\$ 26,906,064</b>	<b>\$ 22,183,446</b>	<b>\$ 49,089,510</b>

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, 2015**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 1,486,810	\$ -	\$ -	\$ -	\$ (1,486,810)	\$ -	\$ (1,486,810)
Public safety	4,875,246	308,694	165,884	-	(4,400,668)	-	(4,400,668)
Street and Public Works	2,756,215	72,300	325,334	-	(2,358,581)	-	(2,358,581)
Sanitation	1,020,798	1,303,652	-	-	282,854	-	282,854
Cultural and Recreational	2,344,755	797,222	7,800	-	(1,539,733)	-	(1,539,733)
Interest on long-term debt	237,690	-	-	-	(237,690)	-	(237,690)
<b>Total governmental activities</b>	<b>12,721,514</b>	<b>2,481,868</b>	<b>499,018</b>	<b>-</b>	<b>(9,740,628)</b>	<b>-</b>	<b>(9,740,628)</b>
<b>Business-type activities:</b>							
Electric	18,920,373	19,882,643	-	14,414	-	976,684	976,684
Water and Sewer	6,760,700	5,479,023	-	30,000	-	(1,251,677)	(1,251,677)
<b>Total business-type activities</b>	<b>25,681,073</b>	<b>25,361,666</b>	<b>-</b>	<b>44,414</b>	<b>-</b>	<b>(274,993)</b>	<b>(274,993)</b>
<b>Total primary government</b>	<b>\$ 38,402,587</b>	<b>\$ 27,843,534</b>	<b>\$ 499,018</b>	<b>\$ 44,414</b>	<b>(9,740,628)</b>	<b>(274,993)</b>	<b>(10,015,621)</b>
General revenues:							
Taxes:							
Ad valorem taxes					6,151,723	-	6,151,723
Local option sales taxes					3,387,163	-	3,387,163
Other taxes and licenses					288,144	-	288,144
Unrestricted investment earnings					4,752	19,653	24,405
Miscellaneous					164,078	-	164,078
Special items:							
Gain on disposal of fixed assets					10,710	-	10,710
Transfers					20,831	(25,000)	(4,169)
Total general revenues, special items and transfers					10,027,401	(5,347)	10,022,054
<b>Change in net position</b>					<b>286,773</b>	<b>(280,340)</b>	<b>6,433</b>
<b>Net position, beginning, as previously reported</b>					<b>27,425,760</b>	<b>22,718,460</b>	<b>50,144,220</b>
<b>Change in accounting principle</b>					<b>(806,469)</b>	<b>(254,674)</b>	<b>(1,061,143)</b>
<b>Net position, beginning, as restated</b>					<b>26,619,291</b>	<b>22,463,786</b>	<b>49,083,077</b>
<b>Net position, ending</b>					<b>\$ 26,906,064</b>	<b>\$ 22,183,446</b>	<b>\$ 49,089,510</b>

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

**Town of Smithfield  
Balance Sheets  
Governmental Funds  
June 30, 2015**

	Major Funds			Total Governmental Funds
	General	General Fund Capital Projects	Non-major Special Revenue Fund	
<b>ASSETS</b>				
Cash and investments	\$ 6,482,308	\$ 51,599	\$ 28,643	\$ 6,562,550
Restricted cash	157,636	-	-	157,636
Receivables, net:				
Taxes	43,320	-	-	43,320
Accounts	208,290	-	-	208,290
Due from other governments	670,135	(7,734)	-	662,401
Due from other funds	483,269	-	-	483,269
Total assets	<u>\$ 8,044,958</u>	<u>\$ 43,865</u>	<u>\$ 28,643</u>	<u>\$ 8,117,466</u>
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities - trade	\$ 394,777	\$ 35,650	\$ -	\$ 430,427
Accrued payroll and payroll liabilities	131,196	-	-	131,196
Due to other funds	-	478,660	4,609	483,269
Total liabilities	<u>525,973</u>	<u>514,310</u>	<u>4,609</u>	<u>1,044,892</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property taxes receivable	43,320	-	-	43,320
Total deferred inflows of resources	<u>43,320</u>	<u>-</u>	<u>-</u>	<u>43,320</u>
<b>FUND BALANCES</b>				
Restricted:				
USDA debt payments	49,090	-	-	49,090
Public Safety	24,634	-	-	24,634
Stabilization by State Statute	1,401,994	-	-	1,401,994
Streets	83,912	-	-	83,912
Capital projects	-	-	-	-
Fire district	-	-	24,034	24,034
Unassigned	5,916,035	(470,445)	-	5,445,590
Total fund balances	<u>7,475,665</u>	<u>(470,445)</u>	<u>24,034</u>	<u>7,029,254</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,044,958</u>	<u>\$ 43,865</u>	<u>\$ 28,643</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.	35,304,560
Earned revenues considered deferred inflows of resources in fund statements.	43,320
Net Pension Asset	530,946
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	290,427
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.	(14,937,103)
Pension related deferrals	(1,355,340)
Net position of governmental activities:	<u>\$ 26,906,064</u>

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

**Town of Smithfield**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2015**

	Major Funds		Non-major Special Revenue Fund	Total Governmental Funds
	General Fund	Capital Projects		
<b>REVENUES</b>				
Ad valorem taxes	\$ 6,194,624	\$ -	\$ -	\$ 6,194,624
Other taxes and licenses	253,750	-	-	253,750
Unrestricted intergovernmental	3,387,162	-	-	3,387,162
Restricted intergovernmental	361,649	-	147,275	508,924
Sales and services	2,516,261	-	-	2,516,261
Investment earnings	4,752	-	-	4,752
Miscellaneous	154,174	-	-	154,174
Total revenues	12,872,372	-	147,275	13,019,647
<b>EXPENDITURES</b>				
Current:				
General government	1,337,361	-	-	1,337,361
Public safety	4,543,545	-	-	4,543,545
Street and Public Works	1,377,268	-	-	1,377,268
Sanitation	961,077	-	-	961,077
Cultural and Recreational	1,652,845	-	-	1,652,845
Debt service:				
Principal	974,987	-	-	974,987
Interest and other charges	237,690	-	-	237,690
Capital outlay	258,891	599,515	-	858,406
Total expenditures	11,343,664	599,515	-	11,943,179
Excess (deficiency) of revenues over expenditures	1,528,708	(599,515)	147,275	1,076,468
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers (to) from other funds	(99,169)	250,000	(130,000)	20,831
Loan proceeds	140,000	-	-	140,000
Lease proceeds	98,377	-	-	98,377
Sales of capital assets	10,710	-	-	10,710
Total other financing sources (uses)	149,918	250,000	(130,000)	269,918
Net change in fund balance	1,678,626	(349,515)	17,275	1,346,386
Fund balances, beginning	5,797,039	(120,930)	6,759	5,682,868
Fund balances, ending	\$ 7,475,665	\$ (470,445)	\$ 24,034	\$ 7,029,254

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



**Town of Smithfield  
Reconciliation of the  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds to the Statement of Activities  
For the Year Ended June 30, 2015**

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

Net changes in fund balances - total governmental funds		\$ 1,346,386
<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	858,406	
Depreciation expense for governmental assets	(2,556,132)	
Loss on disposal of capital assets	-	(1,697,726)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		290,427
<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		(42,901)
<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>		
		736,610
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		47,954
Pension expense		(17,925)
Net pension obligation		(42,626)
Other postemployment benefits		(333,427)
Rounding		1
Total changes in net position of governmental activities		\$ 286,773

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, 2015**

	<b>General Fund</b>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>Revenues:</b>				
Ad valorem taxes	\$ 5,853,656	\$ 5,850,404	\$ 6,194,624	\$ 344,220
Other taxes and licenses	2,251,036	253,750	253,750	-
Unrestricted intergovernmental	1,316,803	2,774,000	3,387,162	613,162
Restricted intergovernmental	322,000	369,511	361,649	(7,862)
Sales and services	2,245,992	2,855,643	2,516,261	(339,382)
Investment earnings	1,500	4,752	4,752	-
Miscellaneous	328,946	154,174	154,174	-
Total revenues	<u>12,319,933</u>	<u>12,262,234</u>	<u>12,872,372</u>	<u>610,138</u>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	2,439,090	2,182,630	1,337,361	845,269
Public safety	4,626,525	4,713,588	4,543,545	170,043
Street and Public Works	1,456,877	1,490,877	1,377,268	113,609
Sanitation	1,034,567	1,034,567	961,077	73,490
Cultural and Recreational	1,695,662	1,668,462	1,652,845	15,617
<b>Debt service:</b>				
Principal retirement	1,150,067	1,185,067	974,987	210,080
Interest and other charges	237,690	237,690	237,690	-
Capital Outlay	258,891	258,891	258,891	-
Total expenditures	<u>12,899,369</u>	<u>12,771,772</u>	<u>11,343,664</u>	<u>1,428,108</u>
Revenues over (under) expenditures	<u>(579,436)</u>	<u>(509,538)</u>	<u>1,528,708</u>	<u>2,038,246</u>
<b>Other financing sources (uses):</b>				
Appropriated (Unappropriated) fund balance	239,436	17,621	-	(17,621)
Sale of fixed assets	-	-	10,710	10,710
Loan proceeds	210,000	140,000	140,000	-
Lease proceeds	-	70,000	98,377	28,377
Transfers to other funds	-	(202,029)	(254,169)	(52,140)
Transfers from other funds	130,000	483,946	155,000	(328,946)
Total other financing sources (uses)	<u>579,436</u>	<u>509,538</u>	<u>149,918</u>	<u>(359,620)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ -</u>	<u>1,678,626</u>	<u>\$ 1,678,626</u>
Fund balances, beginning			5,797,039	
Fund balances, ending			<u>\$ 7,475,665</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, 2015**

	Water and Sewer		
	Electric Fund	Fund	Total
<b>ASSETS</b>			
Current assets:			
Cash and investments	\$ 5,659,323	\$ 3,731,841	\$ 9,391,164
Restricted cash	518,510	109,150	627,660
Accounts receivable (net)	2,946,694	725,500	3,672,194
Due from other governments	27,853	58,721	86,574
Inventories	1,084,178	126,105	1,210,283
Total current assets	<u>10,236,558</u>	<u>4,751,317</u>	<u>14,987,875</u>
Noncurrent assets:			
Net pension asset	83,834	83,834	167,668
Capital assets:			
Land and other non-depreciable assets	-	10,000	10,000
Other capital assets, net of depreciation	8,902,564	6,629,006	15,531,570
Capital assets (net)	<u>8,902,564</u>	<u>6,639,006</u>	<u>15,541,570</u>
Total noncurrent assets	<u>8,986,398</u>	<u>6,722,840</u>	<u>15,709,238</u>
Total assets	<u>19,222,956</u>	<u>11,474,157</u>	<u>30,697,113</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan	46,616	45,451	92,067
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities - trade	1,600,750	280,973	1,881,723
Accrued payroll and payroll liabilities	6,324	27,859	34,183
Customer deposits	518,510	109,150	627,660
Accrued interest payable	170,210	8,461	178,671
Compensated absences - current	12,252	10,085	22,337
Current portion of long-term debt	247,541	137,974	385,515
Total current liabilities	<u>2,555,587</u>	<u>574,502</u>	<u>3,130,089</u>
Non-current liabilities:			
Other non-current liabilities:			
Compensated absences	36,755	30,254	67,009
Other postemployment benefits	586,907	530,241	1,117,148
Non-current portion of long-term debt	3,496,330	367,156	3,863,486
Total non-current liabilities	<u>4,119,992</u>	<u>927,651</u>	<u>5,047,643</u>
Total liabilities	<u>6,675,579</u>	<u>1,502,153</u>	<u>8,177,732</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	214,001	214,001	428,002
<b>NET POSITION</b>			
Net investment in capital assets	5,158,694	6,133,876	11,292,570
Other restrictions	210,054	116,401	326,455
Unrestricted	7,011,244	3,553,177	10,564,421
Total net position	<u>\$ 12,379,992</u>	<u>\$ 9,803,454</u>	<u>\$ 22,183,446</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, 2015**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 19,230,661	\$ 5,448,205	\$ 24,678,866
Other operating revenues	651,982	30,818	682,800
<b>Total operating revenues</b>	<b>19,882,643</b>	<b>5,479,023</b>	<b>25,361,666</b>
<b>OPERATING EXPENSES</b>			
Utility operations	2,281,393	1,921,911	4,203,304
Electrical purchases	15,914,155	-	15,914,155
Water and sewer distribution	-	4,356,807	4,356,807
Depreciation	575,654	471,004	1,046,658
<b>Total operating expenses</b>	<b>18,771,202</b>	<b>6,749,722</b>	<b>25,520,924</b>
<b>Operating income (loss)</b>	<b>1,111,441</b>	<b>(1,270,699)</b>	<b>(159,258)</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>			
Investment earnings	16,622	3,031	19,653
Interest and other charges	(149,171)	(10,978)	(160,149)
<b>Total non-operating revenue (expenses)</b>	<b>(132,549)</b>	<b>(7,947)</b>	<b>(140,496)</b>
<b>Income (loss) before contributions and transfers</b>	<b>978,892</b>	<b>(1,278,646)</b>	<b>(299,754)</b>
Capital contributions	14,414	30,000	44,414
Transfer to general fund	-	(25,000)	(25,000)
<b>Total income (loss) after contributions and transfers</b>	<b>993,306</b>	<b>(1,273,646)</b>	<b>(280,340)</b>
<b>Change in net position</b>	<b>993,306</b>	<b>(1,273,646)</b>	<b>(280,340)</b>
<b>Total net position, as previously reported</b>	<b>11,514,023</b>	<b>11,204,437</b>	<b>22,718,460</b>
<b>Change in accounting principle</b>	<b>(127,337)</b>	<b>(127,337)</b>	<b>(254,674)</b>
<b>Total net position, as restated</b>	<b>11,386,686</b>	<b>11,077,100</b>	<b>22,463,786</b>
<b>Total net position, ending</b>	<b>\$ 12,379,992</b>	<b>\$ 9,803,454</b>	<b>\$ 22,183,446</b>

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, 2015**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 18,758,219	\$ 5,502,706	\$ 24,260,925
Cash paid for goods and services	(17,051,594)	(5,222,031)	(22,273,625)
Cash paid to or on behalf of employees for services	(1,148,023)	(1,061,714)	(2,209,737)
Net customer deposits	22,085	7,650	29,735
Other operating revenues	651,982	30,818	682,800
Net cash provided (used) by operating activities	<u>1,232,669</u>	<u>(742,571)</u>	<u>490,098</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers to other funds	-	(25,000)	(25,000)
Net cash provided (used) by noncapital financing activities	<u>-</u>	<u>(25,000)</u>	<u>(25,000)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(148,068)	(651,507)	(799,575)
Capital contributions	14,414	30,000	44,414
Proceeds from debt	83,501	407,684	491,185
Principal paid on bonds and installment purchases	(228,361)	(163,410)	(391,771)
Interest paid on bonds and installment purchases	(149,171)	(10,978)	(160,149)
Net cash provided (used) by capital and related financing activities	<u>(427,685)</u>	<u>(388,211)</u>	<u>(815,896)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	16,622	3,031	19,653
Net cash provided (used) by investing activities	<u>16,622</u>	<u>3,031</u>	<u>19,653</u>
Net increase (decrease) in cash and investments	821,606	(1,152,751)	(331,145)
Balances, beginning	5,356,227	4,993,742	10,349,969
Balances, ending	<u>\$ 6,177,833</u>	<u>\$ 3,840,991</u>	<u>\$ 10,018,824</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, 2015**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 1,111,441	\$ (1,270,699)	\$ (159,258)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	575,654	471,004	1,046,658
Pension expense	2,830	2,830	5,660
Changes in assets and liabilities:			-
(Increase) decrease in accounts receivable	(472,442)	54,445	(417,997)
(Increase) decrease in due from other governments	(13,869)	(14,464)	(28,333)
(Increase) decrease in inventory	(34,519)	2,655	(31,864)
Increase (decrease) in accounts payable and accrued liabilities	66,250	14,520	80,770
Increase (decrease) in accrued payroll and payroll liabilities	(22,935)	(2,976)	(25,911)
Increase (decrease) in customer deposits	22,085	7,650	29,735
Increase (decrease) in accrued vacation pay	(11,235)	(14,038)	(25,273)
(Increase) decrease in deferred outflows of resources for pensions	(46,616)	(45,451)	(92,067)
Increase (decrease) in accrued other postemployment benefits	56,025	51,953	107,978
Total adjustments	121,228	528,128	649,356
Net cash provided by operating activities	<u>\$ 1,232,669</u>	<u>\$ (742,571)</u>	<u>\$ 490,098</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, 2015**

	<b>Private-Purpose Trust</b>		
	<b>Fund</b>	<b>Agency Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and investments	\$ 97,442	\$ 180,283	\$ 277,725
Due from other governments	791	-	791
<b>Total assets</b>	<b>98,233</b>	<b>180,283</b>	<b>278,516</b>
<b>LIABILITIES</b>			
Current liabilities:			
Miscellaneous liabilities	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>NET POSITION</b>	<b>\$ 98,233</b>	<b>\$ 180,283</b>	<b>\$ 278,516</b>

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, 2015

	<u>Private-Purpose Trust Fund</u>
<b>ADDITIONS:</b>	
Investment earnings	\$ 3,150
Transfer from General Fund	4,169
<b>DEDUCTIONS:</b>	
Special projects	<u>3,018</u>
Changes in net assets	4,301
<b>NET POSITION</b>	
Total net position, beginning	93,932
Total net position, ending	<u><u>\$ 98,233</u></u>

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, 2015**

**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. 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, 2015**

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, 2015**

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. Sales taxes are considered a shared revenue for the Town because the tax is levied by Johnston County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Grant revenues that are unearned at year-end are recorded as unearned revenues.

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

**D. Budgetary Data**

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

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

**Town of Smithfield, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

next regular meeting and shall be entered into the minutes. During the year, several amendments to the original budget were necessary, the effects of which were not material.

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

**1. Deposits and Investments**

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

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

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

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

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

**4. Ad Valorem Taxes Receivable**

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

**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

**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 one item that meet this criterion, contributions made to the pension plan in the 2015 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items

**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

that meets this criterion for this category – property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

**9. Long-Term Obligations**

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

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.

**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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

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

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

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

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Smithfield's governing body (highest level of decision making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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.

## **12. Pensions**

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

## **13. 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.

**Town of Smithfield, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**II. Stewardship, Compliance, and Accountability**

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

**1. Noncompliance with North Carolina General Statutes**

None.

**B. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2015 the General Fund Capital Projects Fund had a negative fund balance. Management and the Board will more closely review the budget reports to ensure compliance in future years.

**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, 2015, the Town's deposits had a carrying amount of \$14,681,747 and a bank balance of \$14,922,903. Of the bank balance, \$951,528 was covered by federal depository insurance, and \$13,966,380 was covered by collateral held under the Pooling Method. The Town's petty cash totaled \$588 at June 30, 2015.

**2. Investments**

At June 30, 2015 the Town's investment balances were as follows:

	<u>Cost Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust Cash Portfolio	<u>\$2,333,054</u>	<u>\$2,333,054</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.



**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

*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, 2015, 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.

**3. Receivables - Allowances for Doubtful Accounts**

The receivables shown in Exhibit 1 at June 30, 2015 were as follows:

	Accounts	Taxes	Due from other governments	Total
<b>Governmental Activities:</b>				
General	\$ 319,890	\$ 57,626	\$ 670,135	\$ 1,047,651
Other governmental	-	-	(7,734)	(7,734)
Allowance for doubtful accounts	(111,600)	(14,306)	-	(125,906)
<b>Total governmental activities</b>	<b>\$ 208,290</b>	<b>\$ 43,320</b>	<b>\$ 662,401</b>	<b>\$ 914,011</b>
<b>Business-Type Activities:</b>				
Electric	\$ 4,109,894	\$ -	\$ 27,853	\$ 4,137,747
Water and Sewer	1,206,700	-	58,721	1,265,421
Allowance for doubtful accounts	(1,644,400)	-	-	(1,644,400)
<b>Total business-type activities</b>	<b>\$ 3,672,194</b>	<b>\$ -</b>	<b>\$ 86,574</b>	<b>\$ 3,758,768</b>

Due from other governments consisted of the following:

Local option sales tax	\$ 373,472
Franchise tax	239,750
Sales tax	135,753
	<u>\$ 748,975</u>

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**4. Capital Assets**

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 6,284,188	\$ -	\$ -	\$ 6,284,188
Construction in progress	7,017,984	599,516	1,242,360	6,375,140
Total capital assets not being depreciated	13,302,172	599,516	1,242,360	12,659,328
Capital assets being depreciated				
Buildings and improvements	16,794,734	-	-	16,794,734
Infrastructure	45,760,336	-	-	45,760,336
Equipment and vehicles	5,304,750	258,890	19,171	5,544,469
Total capital assets being depreciated	67,859,820	258,890	19,171	68,099,539
Less accumulated depreciation for				
Buildings and improvements	4,838,970	712,210	-	5,551,180
Infrastructure	33,716,620	1,617,886	-	35,334,506
Equipment and vehicles	4,361,756	226,036	19,171	4,568,621
Accumulated depreciation	42,917,346	\$ 2,556,132	\$ 19,171	45,454,307
Total capital assets, depreciated, net	24,942,474			22,645,232
Governmental activity capital assets, net	<u>\$ 38,244,646</u>			<u>\$ 35,304,560</u>

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

General government	\$ 134,491
Public safety	287,014
Street and public works	1,387,025
Sanitation	57,430
Cultural and recreational	690,172
	<u>\$ 2,556,132</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<b>Electric Fund</b>				
Capital assets not being depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Construction in progress	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated				
Plant and distribution systems	12,957,125	-	-	12,957,125
Equipment	2,168,164	148,068	24,472	2,291,760
Total capital assets being depreciated	15,125,289	148,068	24,472	15,248,885
Less accumulated depreciation for				
Plant and distribution systems	3,884,526	500,000	-	4,384,526
Equipment	1,910,613	75,654	24,472	1,961,795
Accumulated Depreciation	5,795,139	\$ 575,654	\$ 24,472	6,346,321
Capital assets, depreciated, net	9,330,150			8,902,564
Electric Fund capital assets	<u>\$ 9,330,150</u>			<u>\$ 8,902,564</u>
<b>Water and Sewer Fund</b>				
Capital assets not being depreciated				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Construction in progress	-	-	-	-
Total capital assets not being depreciated	10,000	-	-	10,000
Capital assets being depreciated				
Plant and distribution systems	13,940,594	106,074	-	14,046,668
Equipment	1,293,143	545,433	9,275	1,829,301
Total capital assets being depreciated	15,233,737	651,507	9,275	15,875,969
Less accumulated depreciation for				
Plant and distribution systems	7,780,754	370,399	-	8,151,153
Equipment	1,004,480	100,605	9,275	1,095,810
Accumulated Depreciation	8,785,234	\$ 471,004	\$ 9,275	9,246,963
Capital assets, depreciated, net	6,448,503			6,629,006
Water and Sewer Fund capital assets	<u>\$ 6,458,503</u>			<u>\$ 6,639,006</u>
Business-type Activities capital assets	<u>\$ 15,788,653</u>			<u>\$ 15,541,570</u>

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**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

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

**Benefits Provided.** LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with 5 years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with 5 years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with 5 years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed 5 years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2015 was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$382,494 for the year ended June 30, 2015.

**Refunds of Contributions** – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By State law, refunds to member with at least 5 years of service include 4% interest. State law requires a 60 day waiting period after service

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termination before the refund may be paid. The acceptance of the refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2015, the Town reported an asset of \$698,614 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing updated procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was .118%, which was a decrease of .005% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$23,585. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 76,335
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,626,356
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	80,651
Employer contributions subsequent to the measurement date	382,494	-
Total	\$ 382,494	\$ 1,783,342

\$382,494 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Future amortization:

**June 30:**

2016	\$ (445,934)
2017	(445,934)
2018	(445,934)
2019	(445,540)
	\$ (1,783,342)

***Actuarial Assumptions.*** The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, inflation and productivity factor
Investment rate of return	7.25 percent, net pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yield across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity of risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset class, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8%, and Inflation Protection 3.4%.

**Discount rate.** The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net

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position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
<b>Town's proportionate share of the net pension liability (asset)</b>	\$ 2,371,396	\$ (698,614)	\$ (3,283,462)

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

**b. Law Enforcement Officers Special Separation Allowance**

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

All full time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2014, 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. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

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

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**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, 2015 was \$54,418.

The annual required contribution for the current year was determined as part of the December 31, 2014 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, 2014 was 20 years.

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

Annual required contribution	\$ 96,731
Interest on net pension obligation	(454)
Adjustment to annual required contribution	767
Annual pension cost	97,044
Contributions made	54,418
Increase (decrease) in net pension obligation	42,626
Net pension obligation beginning of year	(9,077)
Net pension obligation end of year	\$ 33,549

**Trend Information**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
6/30/2015	\$ 97,044	56.08%	\$ 33,549
6/30/2014	\$ 83,752	70.12%	\$ (9,077)
6/30/2013	\$ 83,164	94.90%	\$ (34,106)

**4. Funded Status and Funding Progress**

As of December 31, 2014, 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 \$727,470. The covered payroll (annual payroll of active employees covered by the Separation Allowance) was \$1,937,143 and the ratio of the UAAL to the covered payroll was 37.55%. 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.

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**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, 2015 were \$117,804, which consisted of \$95,149 from the Town and \$22,655 from the law enforcement officers.

**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, 2015 were \$215,453, which consisted of \$105,892 from the Town and \$109,561 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, 2015, the Town made payments for post-retirement health benefit premiums of \$269,594. 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.



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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 \$789,303 or 34.16% of annual covered payroll. There were no contributions by employees for the fiscal year ended June 30, 2015. The Town's obligation to contribute to the post-retirement benefit plan is established and may be amended by the Town Council.

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

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

Annual required contribution	\$ 789,303
Interest on net OPEB obligation	200,701
Adjustment to annual required contribution	(279,005)
Annual OPEB cost (expense)	710,999
Contributions made	(269,594)
Increase (decrease) in net OPEB obligation	441,405
Net OPEB obligation, beginning of year	5,017,535
Net OPEB obligation, end of year	\$ 5,458,940

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, 2015 were as follows:

For Year Ended June 30	Trend Information		Net OPEB Obligation
	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	
2015	\$ 710,999	37.9%	\$ 5,458,940
2014	\$ 722,272	0.0%	\$ 5,017,535
2013	\$ 916,722	27.2%	\$ 4,295,264

**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

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

***Actuarial Methods and Assumptions.***

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

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

**2. Other Employment Benefits**

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. Contributions are determined as a percentage of monthly payrolls, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2015, 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 Outflows and Inflows of Resources**

The Town has one deferred outflow of resources. Deferred outflow of resources is comprised of contributions to pension plan in current fiscal year in the amount of \$382,494.

Deferred inflows of resources at year-end is comprised of property taxes receivable in the amount of \$43,320, and pension deferrals in the amount of \$1,783,342

**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

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**For the Fiscal Year Ended June 30, 2015**

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 Town upon request.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. The Town does not carry flood insurance.

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

**5. Long-Term Obligations**

**a. Installment Purchases**

As authorized by State law (G.S. 160A-20 and 153A-158.1), the Town financed various property and equipment acquisitions by installment purchases. Installment purchase contracts at June 30, 2015 were comprised of the following individual agreements:

**Town of Smithfield, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**Government Activities:**

\$300,000 for renovations to EMS building due in annual installments of \$17,616 through March 2037, interest at 4.125%	\$ 251,493
\$3,000,000 for construction of community center, due in fixed annual installments of \$150,000 plus interest at 4.06% through January 2028. Loan balance of \$2,250,000 refinanced at 2.92% in FY 2013. All other terms remain the same.	1,950,000
\$4,500,000 for construction of community center, due in fixed annual principal installments of \$225,000 plus interest at 4.06% through November 2027. Loan balance of \$3,375,000 refinanced at 2.92% in FY 2013. All other terms remain the same.	2,925,000
\$500,000 for street resurfacing, due in annual installments of \$50,000, plus interest at 3.22% through May 2018. Loan balance of \$250,000 refinanced at 1.78% during FY 2013. All other terms remain the same.	150,000
\$150,000 for renovations to EMS building, due in annual installments of \$8,808 through March 2037, interest at 4.125%	125,746
\$250,000 for Downtown Revitalization Project, due in annual installments of \$15,125 through 2036, interest at 4.375%	210,896
\$500,000 for street resurfacing, due in fixed annual installments of \$50,000 plus interest at 3.149% through October 2018.	200,000
\$620,000 for equipment, due in annual installments of \$132,188 through November 2015, interest at 2.174%	128,589
\$1,150,000 for Smithfield Crossings Project, due in annual installments of \$164,286 plus interest at 2.65%	656,635
\$4,056,400 for Smithfield Crossings Project, due December 31, 2013, interest rate at 1.13% - refinanced July 2014; This note was paid in full during fiscal year 2015. This loan was paid off by the below USDA loan proceeds below.	-
\$2,806,400 for Smithfield Crossings Project, due in annual installments of \$157,411 through July 2044, interest at 3.75%	2,806,400
\$140,000 for vehicles and equipment, due in semi-annual installments of \$14,604.73 through May 2020, interest at 1.550%	<u>140,000</u>
Total governmental activities	<u><u>\$ 9,544,759</u></u>

**Town of Smithfield, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**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.	\$ 137,411
\$650,000 for construction of lift stations, due in annual installments of \$65,000, plus interest at 3.38% through March 2015. This loan was paid in full during fiscal year 2015.	-
\$491,185 for equipment, due in semi-annual installments of \$51,133 through November 2019, interest 1.55%	<u>443,035</u>
Total business-type activities	<u><u>\$ 580,446</u></u>

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

Year Ending June 30	Principal	Interest	Total
<b>Governmental Activities:</b>			
2016	\$ 862,117	\$ 308,126	\$ 1,170,243
2017	736,583	284,538	1,021,121
2018	739,741	262,924	1,002,665
2019	692,506	241,561	934,067
2020	482,118	220,970	703,088
2021-2025	2,314,668	888,560	3,203,228
2026-2030	1,657,803	528,610	2,186,413
2031-2035	645,718	338,324	984,042
2036-2040	652,249	217,549	869,798
2041-2045	761,256	94,336	855,592
	<u>\$ 9,544,759</u>	<u>\$ 3,385,498</u>	<u>\$ 12,930,257</u>
<b>Business-Type Activities:</b>			
<b>Water and Sewer Fund:</b>			
2016	\$ 154,251	\$ 10,964	\$ 165,215
2017	155,758	7,539	163,297
2018	119,183	4,106	123,289
2019	100,308	1,957	102,265
2020	50,946	396	51,342
	<u>\$ 580,446</u>	<u>\$ 24,962</u>	<u>\$ 605,408</u>

**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.

**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

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>
2016	\$ 185,000	\$ 12,690	\$ 197,690
2017	180,000	8,343	188,343
2018	175,000	4,113	179,113
	<u>\$ 540,000</u>	<u>\$ 25,146</u>	<u>\$ 565,146</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. The balance of this loan at August 2014, in the amount of \$3,668,555, was refinanced at 3.25% through August 2027. Annual payments are \$350,491.

\$ 3,668,555

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 \$4,556,382. Principal and interest paid for the current year revenue bonds and total electric customer net revenues were \$220,224 and \$1,025,049, respectively.

The debt service coverage ratio calculation for the year ended June 30, 2015 is as follows:

Operating revenues	\$ 19,796,251
Operating expenses	(18,771,202)
Add back:	
Investment earnings	16,622
Depreciation	575,654
Income available for debt service	<u>\$ 1,617,325</u>
Debt service principal and interest paid (Revenue bond only)	<u>\$ 220,224</u>
Debt service coverage ratio	734%

**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

The Town's debt service coverage ratio is greater than 120% of the debt service requirement for the year ended June 30, 2015.

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 231,264	\$ 119,228	\$ 350,492
2017	238,779	111,712	350,491
2018	246,539	103,952	350,491
2019	254,552	95,939	350,491
2020	262,825	87,666	350,491
2021-2025	1,447,941	304,514	1,752,455
2026-2028	986,655	64,816	1,051,471
	<u>\$ 3,668,555</u>	<u>\$ 887,827</u>	<u>\$ 4,556,382</u>

**d. Capital Leases**

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

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

The following is an analysis of the asset recorded under capital lease at June 30, 2015:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	\$ 98,377	\$ 1,640	\$ 96,737

The future minimum lease obligations as of June 30, 2015 were as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 31,006	\$ 4,905	\$ 35,911
2017	32,917	2,994	35,911
2018	31,953	966	32,919
	<u>\$ 95,876</u>	<u>\$ 8,865</u>	<u>\$ 104,741</u>

**Town of Smithfield, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

**e. Changes in Long-Term Liabilities**

A summary of changes in long-term obligations follows:

	Balance			Current	
	July 1, 2014	Increases	Decreases	Balance June 30, 2015	Portion of Balance
<b>Governmental activities:</b>					
Installment purchases	\$ 11,429,605	\$ 2,946,400	\$ 4,831,246	\$ 9,544,759	\$ 862,908
General obligation bonds	730,000	-	190,000	540,000	185,000
Capitalized leases	-	98,377	2,501	95,876	31,006
Compensated absences	429,081	-	47,954	381,127	95,282
Net pension liability (LGERS)	1,133,206	-	1,133,206	-	-
Net pension obligation (LEO)	(9,077)	42,626	-	33,549	-
Other postemployment benefits	4,008,365	333,427	-	4,341,792	-
Total	<u>\$ 17,721,180</u>	<u>\$ 3,420,830</u>	<u>\$ 6,204,907</u>	<u>\$ 14,937,103</u>	<u>\$ 1,174,196</u>
<b>Business-type activities:</b>					
Revenue bonds	\$ 3,888,779	\$ -	\$ 220,224	\$ 3,668,555	\$ 231,264
Installment purchases	260,911	491,185	171,651	580,445	154,252
Compensated absences	114,620	-	25,274	89,346	22,336
Net pension liability (LGERS)	357,854	-	357,854	-	-
Other postemployment benefits	1,009,170	107,978	-	1,117,148	-
Total	<u>\$ 5,631,334</u>	<u>\$ 599,163</u>	<u>\$ 775,003</u>	<u>\$ 5,455,494</u>	<u>\$ 407,852</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, 2015, the Town of Smithfield had a legal debt margin of \$80,564,635.

**C. Interfund Balances and Activity**

**Due To/From Other Funds**

At June 30, 2015, \$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, 2015, \$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**

The Town has recognized as revenue and an expenditure, on-behalf payments for fringe benefits and salaries of \$17,997 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firemen's Relief Fund during the fiscal year ended June 30, 2015. Under State law the local board of trustees for the Fund receives an amount each year, which the board may use at its own discretion for eligible firemen or their departments.

**F. Fund Balance**

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



**Town of Smithfield, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2015**

Total fund balance - General Fund	\$ 7,475,665
Less restricted for:	
USDA debt payments	49,090
Public safety	24,634
Stabilization by State statute	1,401,994
Streets	83,912
Remaining Fund Balance	\$ 5,916,035

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.

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

Encumbrances	General Fund	Electric Fund	Water and Sewer Fund
	\$40,300	\$210,054	\$116,401

**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, 2015 were \$15,914,155.

**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

**Town of Smithfield, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2015**

price of the property in exchange for the right to improve and develop the property, to receive from the Town the proceeds for all cemetery lots sold before July 1, 2015, and to receive from the Town conveyance of a lot to Saint Paul's Episcopal Church. The Town has an ongoing financial responsibility for the joint venture because the Town is responsible for marketing and selling cemetery lots, installing and maintaining a 20 foot access road, and assuming maintenance of the cemetery once constructed. The joint venture does not issue separate financial statements.

**VI. Summary Disclosure of Significant Contingencies**

Federal and State Assisted Programs

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

**VII. Subsequent Events**

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

**IX. Interfund Transfers**

During the year ended June 30, 2015, \$130,000 was transferred from the Smithfield Fire Tax District Special Revenue Fund to the General Fund to cover operating expenses. \$25,000 was transferred from the Water and Sewer Fund to the General Fund to cover operating expenses. \$250,000 was transferred from the General Fund to the General Fund Capital Project Fund to cover various expenses. \$4,169 was transferred from the General Fund to the Private-Purpose Trust Fund to cover expenses related to special projects.

**X. Change in Accounting Principles**

The Town implemented Governmental Accounting Standards Board (GASB) statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$806,469 and \$254,674, respectively.

## **REQUIRED SUPPLEMENTAL FINANCIAL DATA**

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

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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

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

Schedule of Contributions - Local Government Employees'  
Retirement System

**Town of Smithfield, North Carolina  
Law Enforcement Officers' Special Separation Allowance  
Required Supplementary Information  
For the Year Ended June 30, 2015**

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (VAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
12/31/2014	\$ -	\$ 727,470	\$ 727,470	0.00%	\$ 1,937,143	37.55%
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%

**Schedule of Employer Contributions**

Year Ended June 30	Annual Required Contribution (ARC)	Percentage of ARC Contributed
2015	\$ 96,731	56.26%
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:	12/31/2014
Actuarial cost method:	Projected unit credit
Amortization method:	Level dollar closed
Remaining amortization period:	16 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  
Health Care Plan Allowance (Other Postemployment Benefits)  
Required Supplementary Information  
For the Year Ended June 30, 2015**

**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
2015	\$ 789,303	34.16%
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%

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

**Local Government Employees' Retirement System**

	<u>2015</u>	<u>2014</u>
Smithfield's proportion of the net pension liability (asset) (%)	0.11846%	0.12370%
Smithfield's proportion of the net pension liability (asset) (\$)	\$ (698,613)	\$ 1,491,060
Smithfield's covered-employee payroll	\$ 6,030,168	\$ 6,162,658
Smithfield's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(11.59%)	24.20%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

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

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

**Local Government Employees' Retirement System**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 382,494	\$ 429,916
Contributions in relation to the contractually required contribution	382,494	429,916
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Smithfield's covered-employee payroll	\$ 5,977,396	\$ 6,030,168
Contributions as a percentage of covered-employee payroll	6.40%	7.13%

## **SUPPLEMENTARY STATEMENTS**

### **AND SCHEDULES**

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

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**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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
<b>Ad valorem taxes</b>			
Taxes	\$	\$ 6,082,739	\$
Downtown district tax		89,484	
Penalties and interest		22,401	
Total	<u>5,850,404</u>	<u>6,194,624</u>	<u>344,220</u>
<b>Other taxes and licenses</b>			
Zoning permits		16,215	
Other permits		30,523	
Occupancy Tax		207,012	
Total	<u>253,750</u>	<u>253,750</u>	<u>-</u>
<b>Unrestricted intergovernmental</b>			
Franchise tax		998,113	
Beer and wine tax		52,592	
ABC board profit distribution		73,432	
Local option sales tax		2,131,536	
PEG channel fees		105,213	
Solid waste disposal tax		8,657	
Excise tax - rentals		17,619	
Total	<u>2,774,000</u>	<u>3,387,162</u>	<u>613,162</u>
<b>Restricted intergovernmental</b>			
Powell Bill allocation		325,334	
Department of Justice forfeitures		7,115	
JAG grant		667	
Grant revenue		13,928	
RADA grant		6,805	
Open Space grant		7,800	
Total	<u>369,511</u>	<u>361,649</u>	<u>(7,862)</u>
<b>Permits and fees</b>			
Cemetery lot sales and grave openings		72,300	
Public safety fees		250,382	
Refuse collection fees		1,303,652	
Recreation fees		63,635	
EMS fees		58,312	
Business registration fee		34,393	
Aquatic Center fees		733,587	
Total	<u>2,855,643</u>	<u>2,516,261</u>	<u>(339,382)</u>
<b>Investment earnings</b>	<u>4,752</u>	<u>4,752</u>	<u>-</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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Miscellaneous</b>			
Street assessments		1,500	
Cell tower rental		52,374	
Other		100,300	
Total	<u>154,174</u>	<u>154,174</u>	<u>-</u>
<b>Total revenues</b>	<u>12,262,234</u>	<u>12,872,372</u>	<u>610,138</u>
<b>Expenditures:</b>			
<b>General Government:</b>			
<b>Governing Body</b>			
Salaries and employee benefits		280,856	
Operating expenditures		40,198	
Overhead allocated to other funds		(77,846)	
Total	<u>337,379</u>	<u>243,208</u>	<u>94,171</u>
<b>Administration</b>			
Operating expenditures		871,494	
Overhead allocated to other funds		(211,311)	
Total	<u>1,275,097</u>	<u>660,183</u>	<u>614,914</u>
<b>Finance</b>			
Salaries and employee benefits		99,729	
Operating expenditures		64,372	
Overhead allocated to other funds		(39,789)	
Total	<u>191,171</u>	<u>124,312</u>	<u>66,859</u>
<b>Building and Planning</b>			
Salaries and employee benefits		269,426	
Operating expenditures		40,232	
Total	<u>378,983</u>	<u>309,658</u>	<u>69,325</u>
<b>Total general government</b>	<u>2,182,630</u>	<u>1,337,361</u>	<u>845,269</u>
<b>Public safety:</b>			
<b>Police</b>			
Salaries and employee benefits		2,788,925	
Operating expenditures		375,850	
Capital outlay		71,955	
Total	<u>3,350,651</u>	<u>3,236,730</u>	<u>113,921</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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Fire</b>			
Salaries and employee benefits		1,170,956	
Operating expenditures		206,882	
Capital Outlay		33,135	
<b>Total</b>	<u>1,466,527</u>	<u>1,410,973</u>	<u>55,554</u>
<b>Emergency Medical Services</b>			
Operating expenditures		932	
<b>Total</b>	<u>1,500</u>	<u>932</u>	<u>568</u>
<b>Total public safety</b>	<u>4,818,678</u>	<u>4,648,635</u>	<u>170,043</u>
<b>Street and Public Works: Community Appearance</b>			
Salaries and employee benefits		276,740	
Operating expenditures		197,605	
Capital outlay		23,624	
<b>Total</b>	<u>539,491</u>	<u>497,969</u>	<u>41,522</u>
<b>Streets</b>			
Salaries and employee benefits		265,726	
Operating expenditures		552,818	
<b>Total</b>	<u>879,818</u>	<u>818,544</u>	<u>61,274</u>
<b>Garage</b>			
Salaries and employee benefits		57,857	
Operating expenditures		26,522	
<b>Total</b>	<u>95,192</u>	<u>84,379</u>	<u>10,813</u>
<b>Total street and public works</b>	<u>1,514,501</u>	<u>1,400,892</u>	<u>113,609</u>
<b>Sanitation:</b>			
Salaries and employee benefits		658,026	
Operating expenditures		303,051	
Capital outlay		31,800	
<b>Total sanitation</b>	<u>1,066,367</u>	<u>992,877</u>	<u>73,490</u>
<b>Cultural and recreational:</b>			
Salaries and employee benefits		1,057,407	
Operating expenditures		595,438	
Capital outlay		98,377	
<b>Total cultural and recreational</b>	<u>1,766,839</u>	<u>1,751,222</u>	<u>15,617</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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Debt service:</b>			
Principal retirement		974,987	
Interest and other charges		237,690	
<b>Total debt service</b>	<u>1,422,757</u>	<u>1,212,677</u>	<u>210,080</u>
<b>Total expenditures</b>	<u>12,771,772</u>	<u>11,343,664</u>	<u>1,428,108</u>
<b>Revenues over (under) expenditures</b>	<u>(509,538)</u>	<u>1,528,708</u>	<u>2,038,246</u>
Other financing sources (uses):			
Appropriated fund balance	17,621	-	(17,621)
Transfers from other funds	483,946	155,000	(328,946)
Transfers to other funds	(202,029)	(254,169)	(52,140)
Loan proceeds	140,000	140,000	-
Lease proceeds	70,000	98,377	28,377
Sale of fixed assets	-	10,710	10,710
Total	<u>509,538</u>	<u>149,918</u>	<u>(359,620)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	1,678,626	<u>\$ 1,678,626</u>
Fund balance, beginning		5,797,039	
Fund balance, ending		<u>\$ 7,475,665</u>	

**Town of Smithfield  
Smithfield Fire Tax District Special Revenue Fund  
Balance Sheet  
June 30, 2015**

**Assets**

Cash and cash equivalents	<u>\$ 28,643</u>
Total assets	<u><u>\$ 28,643</u></u>

**Liabilities and Fund Balances**

Liabilities:	
Due to other funds	<u>\$ 4,609</u>
Fund balances:	
Unassigned	<u>24,034</u>
Total liabilities and fund balances	<u><u>\$ 28,643</u></u>

**Town of Smithfield**  
**Smithfield Fire Tax District Special Revenue Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Year Ended June 30, 2015**

<b>Revenues</b>		
Fire district taxes	\$ 137,370	
Supplemental Funding	<u>9,905</u>	
Total revenues		<u>147,275</u>
<b>Expenditures</b>		
Public safety		<u>-</u>
Total expenditures		<u>-</u>
Revenues over (under) expenses		147,275
Other financing sources (uses):		
Operating transfers out		<u>(130,000)</u>
Total other financing sources (uses)		<u>(130,000)</u>
Excess (deficiency) of revenues and other financing sources over expenditures		17,275
Fund balance, beginning		<u>6,759</u>
Fund balance, ending		<u><u>\$ 24,034</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, 2015**

	Budget	Actual	Variance
<b>Revenues</b>			
Fire district taxes	\$ 130,000	\$ 137,370	\$ 7,370
Other Income	-	9,905	9,905
Total revenues	130,000	147,275	17,275
<b>Expenditures</b>			
Public safety	-	-	-
Total expenditures	-	-	-
Revenues over (under) expenses	130,000	147,275	17,275
Other financing sources (uses):			
Appropriated fund balance	-	-	-
Operating transfers out	(130,000)	(130,000)	-
Total other financing sources (uses)	(130,000)	(130,000)	-
Excess (deficiency) of revenues and other financing sources over expenditures	\$ -	17,275	\$ -
Fund balance, beginning		6,759	
Fund balance, ending		\$ 24,034	

**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, 2015**

	Project Authorization	Prior Years	Current Year	Total Project To Date	Variance Favorable (Unfavorable)
<b>Revenues:</b>					
Restricted intergovernmental Contributions	\$ 1,128,700	\$ 1,378,700	\$ -	\$ 1,378,700	\$ 250,000
Investment earnings	500,000	276,000	-	276,000	(224,000)
	12,291	12,291	-	12,291	-
<b>Total revenues</b>	<b>1,640,991</b>	<b>1,666,991</b>	<b>-</b>	<b>1,666,991</b>	<b>26,000</b>
<b>Expenditures:</b>					
Neuse River Theater repairs	80,000	40,695	-	40,695	39,305
Professional park	276,000	276,000	-	276,000	-
Smithfield Crossings Area "A"	1,483,319	1,483,319	-	1,483,319	-
Smithfield Crossings Area "B"	6,224,431	5,534,665	599,515	6,134,180	90,251
<b>Total expenditures</b>	<b>8,063,750</b>	<b>7,334,679</b>	<b>599,515</b>	<b>7,934,194</b>	<b>129,556</b>
Revenues over (under) expenditures	(6,422,759)	(5,667,688)	(599,515)	(6,267,203)	155,556
<b>Other financing sources (uses):</b>					
Transfers in	940,000	340,000	250,000	590,000	(350,000)
Debt issued	5,482,759	5,206,400	-	5,206,400	(276,359)
<b>Total other financing sources (uses)</b>	<b>6,422,759</b>	<b>5,546,400</b>	<b>250,000</b>	<b>5,796,400</b>	<b>(626,359)</b>
Revenues and other financing sources over (under) expenditures:	\$ -	\$ (121,288)	\$ (349,515)	\$ (470,803)	\$ (470,803)



**Town of Smithfield  
Electric Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non - GAAP)  
For the Ended June 30, 2015**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Electricity sales	\$	\$ 19,230,661	\$
Connection fees		21,047	
Miscellaneous		190,621	
Penalties		440,314	
Total	<u>19,938,220</u>	<u>19,882,643</u>	<u>(55,577)</u>
Non-operating revenues:			
Interest earnings		16,622	
Total	<u>8,000</u>	<u>16,622</u>	<u>8,622</u>
Total revenues	<u>19,946,220</u>	<u>19,899,265</u>	<u>(46,955)</u>
Expenditures:			
Electrical purchases		15,914,155	
Electrical operations		2,280,390	
Capital outlay		148,068	
Debt service		377,532	
Total	<u>19,946,220</u>	<u>18,720,145</u>	<u>1,226,075</u>
Other financing sources (uses):			
Charging station grant	-	14,414	14,414
Appropriated fund balance	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>14,414</u>	<u>14,414</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ 1,193,534</u>	<u>\$ 1,193,534</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues and other sources over expenditures and other uses		\$ 1,193,534	
Reconciling items:			
Principal repayment on long-term debt		228,361	
Capital outlay		148,068	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		46,616	
Pension expense		(2,830)	
Depreciation		(575,654)	
(Increase) decrease in compensated absences		11,235	
(Increase) decrease in other postemployment benefits		(56,024)	
Total reconciling items		<u>(200,228)</u>	
Net income		<u>\$ 993,306</u>	

**Town of Smithfield  
Water and Sewer Fund  
Schedule of Revenues and Expenditures  
Budget and Actual (Non - GAAP)  
For the Ended June 30, 2015**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$	\$ 2,747,276	\$
Sewer sales		2,700,929	
Connection and tap fees		22,132	
Miscellaneous		8,686	
Total	<u>5,939,885</u>	<u>5,479,023</u>	<u>(460,862)</u>
Non-operating revenues:			
Interest earnings		3,031	
Total	<u>4,500</u>	<u>3,031</u>	<u>(1,469)</u>
Total revenues	<u>5,944,385</u>	<u>5,482,054</u>	<u>(462,331)</u>
Expenditures:			
Water treatment plant		1,950,336	
Water and sewer distribution		4,333,088	
Capital outlay		651,507	
Debt service		174,389	
Total	<u>7,774,900</u>	<u>7,109,320</u>	<u>665,580</u>
Other financing sources (uses):			
Grant revenues		30,000	
Transfer to general fund		(25,000)	
Appropriated fund balance		-	
Total other financing sources (uses)	<u>1,830,515</u>	<u>5,000</u>	<u>(1,825,515)</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>\$ (1,622,266)</u>	<u>\$ (1,622,266)</u>
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues and other sources over expenditures and other uses		\$ (1,622,266)	
Reconciling items:			
Principal repayment on long-term debt		163,410	
Capital outlay		651,507	
Depreciation		(471,004)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		45,451	
Pension expense		(2,830)	
(Increase) decrease in compensated absences		14,039	
(Increase) decrease in other postemployment benefits		(51,953)	
Total reconciling items		<u>348,620</u>	
Net income (loss)		<u>\$ (1,273,646)</u>	

**Town of Smithfield**  
**Statement of Changes in Assets and Liabilities**  
**Agency Fund**  
**For the Year Ended June 30, 2015**

	<u>Balance</u> <u>July 1, 2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
<b>ASSETS</b>				
Cash and cash equivalents	\$ 191,287	\$ (175)	\$ 10,829	\$ 180,283
Total assets	<u>191,287</u>	<u>(175)</u>	<u>10,829</u>	<u>180,283</u>
<b>LIABILITIES</b>				
Current liabilities:				
Miscellaneous liabilities	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET POSITION</b>	<u>\$ 191,287</u>	<u>\$ (175)</u>	<u>\$ 10,829</u>	<u>\$ 180,283</u>

## **OTHER SCHEDULES**

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This section contains additional information required  
on property taxes.

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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, 2015**

Fiscal Year	Uncollected Balance July 1, 2014	Additions	Collections And Credits	Uncollected Balance June 30, 2015
2014	\$	\$	\$	\$
		6,232,633	6,216,172	16,461
2013	36,238	-	26,899	9,339
2012	12,120	-	4,886	7,234
2011	16,852	-	7,067	9,785
2010	10,551	-	6,757	3,794
2009	6,522	-	1,253	5,269
2008	4,669	-	285	4,384
2007	337	-	30	307
2006	703	-	-	703
2005	203	-	-	203
2004	147	-	-	147
	<u>\$ 88,342</u>	<u>\$ 6,232,633</u>	<u>\$ 6,263,349</u>	<u>57,626</u>

Downtown District Taxes Receivable	-
Less allowance for uncollectible ad valorem taxes receivable:	<u>(14,306)</u>
Ad valorem taxes receivable, net	<u>\$ 43,320</u>
<b>Reconciliation with Revenues:</b>	
Ad valorem taxes:	
General Fund	\$ 6,194,624
Ad valorem taxes - General Fund	
Unremitted taxes	66,931
Taxes written off	<u>1,794</u>
	<u>68,725</u>
	<u>\$ 6,263,349</u>

**Town of Smithfield  
Analysis of Current Tax Levy  
Town - Wide Levy  
For the Fiscal Year Ended June 30, 2015**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current Real and personal property	\$ 1,049,543,504	0.57	\$ 5,982,311	\$ 5,480,984	\$ 501,327
Discoveries	23,934,604	0.57	136,427	136,376	51
Releases	<u>(3,475,528)</u>	0.57	<u>(19,810)</u>	<u>(19,757)</u>	<u>(53)</u>
Total Property Valuation	<u>\$ 1,070,002,580</u>				
Net levy			6,098,928	5,597,603	501,325
Uncollected taxes at June 30, 2015			<u>(16,461)</u>	<u>(16,461)</u>	-
Current year's taxes collected			<u>\$ 6,082,467</u>	<u>\$ 5,581,142</u>	<u>\$ 501,325</u>
Current levy collection percentage			<u>99.73%</u>	<u>99.71%</u>	<u>100.00%</u>

**Town of Smithfield**  
**Analysis of Current Tax Levy - Downtown District**  
**Town - Wide Levy**  
**For the Fiscal Year Ended June 30, 2015**

	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	\$ 68,632,153	0.19	\$ 130,401	\$ 89,050	\$ 41,351
Discoveries	1,901,096	0.19	3,612	3,612	-
Releases	(162,842)	0.19	(309)	(309)	-
Total Property Valuation	<u>\$ 70,370,407</u>				
Net levy			133,704	92,353	41,351
Uncollected taxes at June 30, 2015			-	-	-
Current year's taxes collected			<u>\$ 133,704</u>	<u>\$ 92,353</u>	<u>\$ 41,351</u>
Current levy collection percentage			<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

**COMPLIANCE SECTION**





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**MILLS &**

**PEARSON, PA**

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**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***

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 the Town of Smithfield, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Smithfield's basic financial statements, and have issued our report thereon dated November 2, 2015.

Internal Control Over Financial Reporting

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

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. 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.

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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dunn'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

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

November 2, 2015



**PETWAY**

**MILLS &**

**PEARSON, PA**

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**Independent Auditors' Report on Compliance for Each Major Federal 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 Federal Program**

We have audited the Town of Smithfield's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and 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 federal program for the year ended June 30, 2015. The Town of Smithfield's major federal 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 federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for the Town of Smithfield's major federal 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 *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 federal 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 federal program. However, our audit does not provide a legal determination of the Town of Smithfield's compliance.

**Opinion on Each Major Federal 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 federal program for the year ended June 30, 2015.

**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 federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of

expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with 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 federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal 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*

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

November 2, 2015

Town of Smithfield  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2015

**SECTION I - SUMMARY OF AUDITORS' RESULTS**

Financial Statements

Type of auditors' report issued: Unmodified

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

Federal 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

Type of auditors' report issued on compliance for major Federal programs: Unmodified

Any audit findings disclosed that are required  
 to be reported in accordance with  
 OMB Circular A-133? \_\_\_\_\_ yes \_\_\_x\_\_\_ no

Identification of major Federal programs:

<u>Program Name</u>	<u>CFDA #</u>
Rural Development Community Facilities Loans and Grants	10.766

Dollar threshold used to distinguish between Type A and Type B Programs \$300,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes \_\_\_x\_\_\_ no

Town of Smithfield  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2015

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None reported

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None reported

Town of Smithfield  
Corrective Action Plan  
For the Year Ended June 30, 2015

**SECTION II - FINANCIAL STATEMENT FINDINGS**

None required

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None required

Town of Smithfield  
Summary Schedule of Prior Year's Findings  
For the Year Ended June 30, 2015

**SECTION II - FINANCIAL STATEMENT FINDINGS**

Finding: 2014-1

Status: The Town has implemented new procedures to back up all financial data on a regular basis.



**Town of Smithfield, North Carolina**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2015**

<b>Grantor/Pass-through/ Grantor- Program Title</b>	<b>CFDA Number</b>	<b>Pass-through Grantor's Number</b>	<b>Expenditures</b>
<b>FEDERAL AWARDS</b>			
<b>U.S. Department of Housing and Urban Development</b>			
Passed-through the N.C. Department of Commerce Community Development Block Grant - Talent Enhancement	14.228	12-C-2463	\$ 12,511
<b>U.S. Department of Agriculture</b>			
Direct Program Rural Development Community Facilities Loans and Grants	10.766		2,806,400
Passed-through the Governor's Highway Safety Program	20.600	PT150913	13,928
<b>TOTAL FEDERAL AWARDS</b>			<u>2,832,839</u>
<b>STATE AWARDS</b>			
N.C. Department of Transportation Powell Bill		DOT - 4	<u>406,264</u>
<b>TOTAL STATE AWARDS</b>			<u>406,264</u>
<b>TOTAL FEDERAL AND STATE ASSISTANCE</b>			<u>\$ 3,239,103</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.

Loans Outstanding:

The Town of Smithfield had the following loan balance at June 30, 2015

**US Department of Agriculture**

Rural Development Community Facilities Loans and Grants - Smithfield Crossing	10.766		\$ 2,806,400
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