

Town of Smithfield, Maine

REPORT ON FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended January 31, 2011

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Independent Auditor's Report

Board of Selectmen
Town of Smithfield, Maine

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of the Town of Smithfield, Maine as of and for the year ended January 31, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Smithfield, Maine's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the remaining fund information of the Town of Smithfield, Maine, as of January 31, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 13, 2011, on our consideration of the Town of Smithfield, Maine'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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (pages 5 through 10) and budgetary comparison information (page 26) 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 response to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smithfield, Maine's basic financial statements as a whole. The other supplementary information described in the accompanying table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Bangor, Maine
May 13, 2011

Town of Smithfield, Maine
Management's Discussion and Analysis (MD&A) (UNAUDITED)
January 31, 2011

The Management Discussion and Analysis ("MD&A") is a report of the Town of Smithfield's fiscal activity for the year ending January 31, 2011. The report is presented in a manner that fairly represents the Town's present financial position in respect to all funds and accounts. Included is all the information to accurately understand the Town's financial position, and the data is correct to the best of our knowledge and belief.

The report includes funds and accounts that the Town of Smithfield is required, either by legal or fiduciary duty, to maintain in the operation of all services. The use of the additional financial statements is encouraged to more fully understand the report.

THE COMMUNITY

A small friendly community with a population of 930, located between North Pond and East Pond making a great vacation spot. Smithfield was incorporated on February 29, 1840, making it the only Town in Maine to be founded on Leap Year Day! The Town was made up of part of Mercer, all of East Pond Plantation and part of Dearborn. On incorporation there were 130 families living in Town. The Abnakis used this area for their hunting and fishing grounds. It remains a good hunting and fishing spot as well as boating and swimming in the summer and ice fishing in the winter.

OFFICIALS OF THE TOWN

Selectmen

Richard A. Moore	Term expires March 2011
Dale Churchill	Term expires March 2011
Justin Furbush	Term expires March 2011
Linda L. French	Town Clerk/Register of Voters
Joni Gould	Tax Collector and Treasurer

FINANCIAL INFORMATION

The Town administration is responsible for the accounting structure of the community. This structure includes the establishment of financial controls that protect the town from loss and misuse. All accounting information is maintained and reported using generally accepted accounting principles (GAAP). Further, the administration performs constant review of all services to promote and assure optimum utilization of resources to provide the services requested by the community. All services are reviewed using a cost benefit analysis that considers the need and demand for the service provided balanced against the cost to the community as a whole.

The following is a discussion of the financial highlights of the town during the past fiscal year.

The total balance of the Town's cash and cash equivalents at January 31, 2011 was \$333,784.

The Town's total debt decreased by \$51,317 during the year to \$160,000.

Under the government-wide basis of reporting, the Town's total net assets increased by \$62,386.

The fund balance as reported on the Town's fund financial statements increased by \$67,097 to \$371,431.

On a budget basis, the Town's actual revenues exceeded expenditures and other financing sources by \$28,854. The Town had originally budgeted a deficiency of \$108,564. This is a positive budget variance of \$137,400.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements

The government-wide financial statements are designed to provide readers with a broad overview of the Town's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Town's assets and liabilities, with the difference between the two reported as net assets. Over time, changes in net assets may serve as an indicator of whether the financial position of the Town is improving or deteriorating.

The statement of activities presents information showing how the Town's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected taxes.

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues. The governmental activities of the Town include public safety, administering services, education, and public works. The government-wide financial statements can be found on pages 11-12 of this report.

Fund financial statements

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as government activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Town's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Town's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. Capital assets and depreciation are not included in the governmental funds financial statements.

The Town adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. This statement is included in the

required supplementary information portion of the financial statements. The governmental fund financial statements can be found on pages 13-16 of this report.

Notes to the basic financial statements

The notes provided additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 17-25 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning financial performance (budget and actual with variances). Required supplementary information can be found on page 26.

GOVERNMENT-WIDE ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$964,001 as of January 31, 2011.

A portion of the Town's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be use to liquidate these liabilities.

The Town's financial position is the product of several financing transactions including the net result of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

	<u>Governmental Activities</u>	
	<u>January 31</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 497,506	\$ 448,422
Capital assets	<u>626,570</u>	<u>664,598</u>
Total Assets	<u>1,124,076</u>	<u>1,113,020</u>
Current liabilities	20,075	51,405
Noncurrent liabilities	<u>140,000</u>	<u>160,000</u>
Total liabilities	<u>160,075</u>	<u>211,405</u>
Net Assets		
Investment in capital assets (net of debt)	466,570	453,281
Restricted	88,797	50,669
Unrestricted	<u>408,634</u>	<u>397,665</u>
Total Net Assets	<u>\$ 964,001</u>	<u>\$ 901,915</u>

A portion of the Town's net assets represents resources that are restricted. Unrestricted net assets may be used to meet the government's ongoing obligations to citizens and creditors.

As of January 31, 2011 the Town was able to report positive balances in all three categories of its net assets.

Net assets invested in capital assets, net of related debt increased by \$13,289 as the acquisition of assets and repayment of related debt exceeded depreciation expense.

The following table presents a summary of the Town's operations for the fiscal year ended January 31, 2011.

	<u>Governmental Activities</u>	
	<u>January 31</u>	
	<u>2011</u>	<u>2010</u>
REVENUES		
Charges for services and other	\$ 25,641	\$ 26,857
Operating grants and contributions	34,869	41,747
General revenues		
Property taxes, levied for general purposes	1,506,977	1,551,678
Excise taxes	160,010	165,972
Grants and contributions not restricted to specific programs	102,801	121,231
Unrestricted interest income	51	98
Miscellaneous	19,004	27,432
<i>Special item</i> – gain on disposal of assets	<u>29,006</u>	<u>40,933</u>
Total revenues	<u>1,878,359</u>	<u>1,975,948</u>
EXPENSES		
General government	\$ 223,977	\$ 208,982
Protection	66,503	89,430
Health and sanitation	66,307	70,519
Highways and bridges	208,106	207,566
Welfare	11,576	10,790
Education	903,604	911,825
County tax	275,503	256,806
Recreation	1,025	1,279
Cemeteries	6,673	13,792
Library	1,388	10
Social services	11,125	10,267
Unclassified	31,188	36,869
Interest on long-term debt	<u>8,998</u>	<u>12,903</u>
Total expenses	<u>1,815,973</u>	<u>1,831,038</u>
CHANGE IN NET ASSETS	62,386	144,910
NET ASSETS, BEGINNING OF YEAR	<u>901,615</u>	<u>756,705</u>
NET ASSETS, END OF YEAR	<u>\$ 964,001</u>	<u>\$ 901,615</u>

Revenues of \$1,878,359 include property taxes totaling \$1,506,977. Excise taxes accounted for \$160,010 in total revenue.

Expenses of governmental activities include depreciation expense of \$41,073. Depreciation expense has been allocated and is included in the various function/program expenses of the Town.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

Governmental funds

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the Town's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported combined ending fund balance of \$371,431, \$67,097 higher than the previous year. Of this amount, \$282,634 constitutes unreserved fund balance. The remainder of the fund balance is reserved to indicate that it is not available for spending because it has already been committed.

In the general fund, the Town originally budgeted for a decrease in the fund balance on a budget basis of \$108,546. Largely due to actual expenditures being less than budgeted, the actual fund balance increase for the year ended January 31, 2011 was \$28,854 on a budget basis.

Total governmental fund expenditures for the year were \$1,829,608 and are broken down as follows:

	January 31	
	2011	2010
General government	\$ 207,644	\$ 199,874
Protection	41,764	61,689
Health and sanitation	66,307	70,519
Highways and bridges	159,810	169,152
Welfare	11,576	10,790
Education	903,604	911,825
County tax	275,503	256,806
Recreation	1,025	1,279
Cemeteries	10,063	13,792
Library	1,388	10
Social services	11,125	10,267
Unclassified	31,188	36,869
Debt service		
Principal	51,317	94,977
Interest	8,998	12,903
Capital outlay	<u>48,296</u>	<u>132,523</u>
Total expenses	<u>\$1,829,608</u>	<u>\$1,983,275</u>

The Town's debt service totaled \$60,315 for the year which represents payment on various bonds payable and a capital lease.

The Town paid \$48,296 in capital outlays which is comprised mostly by the costs associated with paving and the renovation of the new town office and fire station.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of January 31, 2011, amounts to \$626,570, net of accumulated depreciation. The investment in capital assets includes, land, buildings, equipment, and vehicles.

The following summarizes capital assets at year end:

	<u>Governmental Activities</u>	
	<u>1/31/11</u>	<u>1/31/10</u>
<i>Governmental Activities</i>		
Land	\$ 52,400	\$ 52,400
Construction in progress	-	-
Buildings	582,600	582,600
Equipment and furniture	216,229	212,839
Vehicles	<u>260,000</u>	<u>261,800</u>
Total capital assets	1,111,229	1,109,639
Accumulated depreciation	<u>(484,659)</u>	<u>(445,041)</u>
Governmental capital assets, net	<u>\$ 626,570</u>	<u>\$ 664,598</u>

Debt Administration

The Town's debt consists of general obligation bonds payable.

	<u>Governmental Activities</u>	
	<u>1/31/11</u>	<u>1/31/10</u>
Bonds payable	<u>\$160,000</u>	<u>\$211,317</u>

Additional information on the Town's long-term debt can be found in the notes to the basic financial statements.

SUMMARY

The annual budget assures the efficient, effective, and economic uses of the Town's resources, as well as establishing that the highest priority objectives are accomplished. Through the budget, the Board of Selectmen sets the direction of the Town, allocates its resources, and establishes its priorities all being subject to voter approval at the annual Town meeting.

As the Town enters fiscal year 2011-2012, we are in solid financial shape. We have a strong surplus, allowing for a steadier cash flow to fund the operating budget. The tax mil rate will be dependent of the will of the people as they act on the warrant at the Town meeting.

REQUEST FOR INFORMATION

This report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Town's finances and to show the Town's accountability for money it receives. If you have any questions about this report, please contact the office Monday through Friday 8-4. The telephone number is (207) 362-4772.

Town of Smithfield, Maine
Statement of Net Assets
January 31, 2011

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 333,784
Taxes receivable	158,681
Due from other governmental agencies	5,041
Capital assets, net	626,570
Total assets	1,124,076
 LIABILITIES	
Accounts payable	75
Long-term liabilities	
Due within one year	
Bonds payable	20,000
Due in more than one year	
Bonds payable	140,000
Total liabilities	160,075
 NET ASSETS	
Invested in capital assets, net of related debt	466,570
Restricted for	
Endowments	6,896
Capital projects	81,965
Unrestricted	408,570
Total net assets	\$ 964,001

Town of Smithfield, Maine
Statement of Activities
For the Year Ended January 31, 2011

Functions/Programs	Expenses	Program Revenue		Net (Expense)
		Charges for Services and other	Operating Grants and Contri- butions	Revenue and Changes in Net Assets
				Governmental Activities
Governmental activities				
General government	\$ 223,977	\$ 18,064	\$ -	\$ (205,913)
Protection	66,503	51	-	(66,452)
Health and sanitation	66,307	775	-	(65,532)
Highways and bridges	208,106	-	26,424	(181,682)
Welfare	11,576	-	8,291	(3,285)
Education	903,604	-	-	(903,604)
County tax	275,503	-	-	(275,503)
Recreation	1,025	-	154	(871)
Cemeteries	6,673	1,975	-	(4,698)
Library	1,388	340	-	(1,048)
Social services	11,125	-	-	(11,125)
Unclassified	31,188	4,436	-	(26,752)
Interest on long-term debt	8,998	-	-	(8,998)
Total governmental activities	\$ 1,815,973	\$ 25,641	\$ 34,869	(1,755,463)
General revenues				
Taxes				
				1,506,977
				160,010
				102,801
				51
				19,004
				29,006
				<u>1,817,849</u>
				62,386
				<u>901,615</u>
				<u>\$ 964,001</u>

**Town of Smithfield, Maine
Balance Sheet -
Governmental Funds
January 31, 2011**

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds - Permanent Fund</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and cash equivalents	\$ 323,207	\$ -	\$ 10,577	\$ 333,784
Taxes receivable	158,681	-	-	158,681
Due from other governments	5,041	-	-	5,041
Due from other funds	-	81,965	64	82,029
Total assets	<u>\$ 486,929</u>	<u>\$ 81,965</u>	<u>\$ 10,641</u>	<u>\$ 579,535</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 75	\$ -	\$ -	\$ 75
Due to other funds	82,029	-	-	82,029
Deferred property tax	126,000	-	-	126,000
Total liabilities	<u>208,104</u>	<u>-</u>	<u>-</u>	<u>208,104</u>
Fund balances				
Reserved for				
Endowments	-	-	6,896	6,896
Future capital expenditures	-	81,965	-	81,965
Unreserved				
Designated for other purposes	40,277	-	-	40,277
Undesignated	238,548	-	-	238,548
Unreserved, reported in non-major Permanent funds	-	-	3,745	3,745
Total fund balances	<u>278,825</u>	<u>81,965</u>	<u>10,641</u>	<u>371,431</u>
Total liabilities and fund balances	<u>\$ 486,929</u>	<u>\$ 81,965</u>	<u>\$ 10,641</u>	<u>\$ 579,535</u>

Town of Smithfield, Maine
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Assets
January 31, 2011

Total fund balance, governmental funds	\$ 371,431
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Assets.	626,570
Some liabilities, (such as Notes Payable, Capital Lease Contract Payable, and Bonds Payable), are not due and payable in the current period and are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Assets.	(160,000)
Some liabilities, (such as deferred property taxes), are not available to pay current period expenditures and therefore are deferred in the fund financial statement, but not in the governmental activities of the Statement of Net Assets.	<u>126,000</u>
Net Assets of Governmental Activities in the Statement of Net Assets	<u><u>\$ 964,001</u></u>

Town of Smithfield, Maine
Statement of Revenues, Expenditures and Changes
in Fund Balances - Governmental Funds
For the Year Ended January 31, 2011

	General Fund	Capital projects	Other Governmental Funds - Permanent Fund	Total Governmental Funds
REVENUES				
Property taxes	\$ 1,524,977	\$ -	\$ -	\$ 1,524,977
Excise taxes	160,010	-	-	160,010
Intergovernmental revenues	131,403	-	-	131,403
Charges for services	5,211	-	-	5,211
Interest income	-	-	51	51
Grants and donations	6,607	-	-	6,607
Miscellaneous	39,031	-	64	39,095
Total revenues	<u>1,867,239</u>	<u>-</u>	<u>115</u>	<u>1,867,354</u>
EXPENDITURES				
Current				
General government	207,644	-	-	207,644
Protection	41,764	-	-	41,764
Health and sanitation	66,307	-	-	66,307
Highways and bridges	159,810	-	-	159,810
Welfare	11,576	-	-	11,576
Education	903,604	-	-	903,604
County tax	275,503	-	-	275,503
Recreation	1,025	-	-	1,025
Cemeteries	10,063	-	-	10,063
Library	1,388	-	-	1,388
Social services	11,125	-	-	11,125
Unclassified	31,188	-	-	31,188
Debt service				
Principal	51,317	-	-	51,317
Interest	8,998	-	-	8,998
Capital outlay	-	48,296	-	48,296
Total expenditures	<u>1,781,312</u>	<u>48,296</u>	<u>-</u>	<u>1,829,608</u>
Excess (deficiency) of revenues over expenditures	<u>85,927</u>	<u>(48,296)</u>	<u>115</u>	<u>37,746</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	-	86,424	-	86,424
Transfers out	(86,424)	-	-	(86,424)
Total other financing sources (uses)	<u>(86,424)</u>	<u>86,424</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM				
Proceeds from sale of assets	29,351	-	-	29,351
Net change in fund balances	28,854	38,128	115	67,097
Fund balances - beginning	<u>249,971</u>	<u>43,837</u>	<u>10,526</u>	<u>304,334</u>
Fund balances - ending	<u>\$ 278,825</u>	<u>\$ 81,965</u>	<u>\$ 10,641</u>	<u>\$ 371,431</u>

See accompanying notes to basic financial statements.

Town of Smithfield, Maine
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the Year Ended January 31, 2011

Net change in fund balances - total governmental funds \$ 67,097

Amounts reported for Governmental Activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation of \$41,073 exceeded capital outlays of \$3,390 in the current period. (37,683)

Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the Statement of Activities reports only the gain on the sale of the assets. Thus, the change in net assets differs from the change in fund balance by the cost of the asset sold. (345)

Governmental funds recognize deferred revenue as an item that affects current financial resources. In contrast, the Statement of Activities recognizes all revenue that is receivable. (18,000)

Governmental funds report bond proceeds as current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of bond principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which proceeds exceeded payments. 51,317

Change in net assets of governmental activities \$ 62,386

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Smithfield, Maine was incorporated on February 29, 1840 under the laws of the State of Maine. The Town operates under a selectmen form of government and provides the following services as authorized by its charter – public safety, public works, culture, recreation, education, and community development.

The accounting and reporting policies of the Town relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and the Financial Accounting Standards Board, when applicable. As allowed in section P80 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, the Town has elected not to apply Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee of Accounting Procedure issued after November 30, 1989. The more significant accounting policies of the Town are described below.

Financial Reporting Entity

The Town's basic financial statements include the accounts of all Town operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- the organization is legally separate (can sue and be sued in its own name)
- the Town holds the corporate powers of the organization
- the Town appoints a voting majority of the organization's board
- the Town is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Town
- there is fiscal dependency by the organization on the Town

Based on the aforementioned criteria, the Town of Smithfield, Maine has no component units.

Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements report information on all of the activities of the Town. Governmental activities are normally supported by taxes and intergovernmental revenues. The Town has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given program; and 2) operating or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (Continued)

Fund Financial Statements

The Town segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental Funds

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources.

The Town has presented the following major funds:

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

Capital Projects Fund

The Capital Projects Fund is used to account for funds reserved by authorization of the Board of Selectmen.

Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities, whether current or non-current, are included on the statement of net assets and the operating statements present increases, revenues, and decreases, expenses, in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Measurement Focus/Basis of Accounting (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period.

The Town considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due. The revenues susceptible to accrual are property taxes and intergovernmental revenues. All other governmental fund revenues are recognized when received.

Budgets and Budgetary Accounting

The Town adopts an annual budget for the Town's general fund in account form at town meeting. Generally, appropriations for the general fund lapse at year end, except for balances approved to be carried forward by Town selectmen. In accordance with legal requirements of the State of Maine, all education balances are continued.

Formal budgets are not adopted for the other funds. Grant procedures for many of the revenues included in the Special Revenue Funds require submission of a budget. However, such budgets are not subject to formal adoption procedures and are normally prepared based upon the grant period which does not necessarily correspond with the Town's fiscal year.

Deposits

For purposes of the statement of net assets, cash and equivalents include all demand accounts and nonnegotiable certificates of deposit of the Town. Additional information is presented in Note 2.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the Governmental Funds.

Capital Assets

Capital assets, which include property and equipment, are reported in the government-wide financial statements. All capital assets are valued at historical cost or estimated historical cost if actual historical is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued)

Assets capitalized have an original cost of \$2,500 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-50 years
Improvements	25-100 years
Machinery and equipment	3-50 years
Vehicles	3-25 years

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental resources are reported as liabilities in government-wide statements. The long-term debt consists of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures.

Compensated Absences

Vacation and sick pay benefits which are substantially non-vesting and are not material are not reported.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the Town or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2010, and were due November 30, 2010. Interest was charged at 7% per annum on amounts not paid by the due date. Upon the expiration of eight months, and within one year from the date of the original commitment, a tax lien is recorded for all delinquent taxes on real estate.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition - Property Taxes (Continued)

For the governmental fund financial statements, property taxes assessed and collected during the year ended January 31, 2011 and during the first sixty days of the next fiscal year are recognized as revenue as of January 31, 2011. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$100,022,400
Personal property	<u>871,400</u>
	\$100,893,800
Tax rate (per \$1,000)	<u>14.95</u>
Commitment	\$ 1,508,362
Supplemental taxes assessed	<u>57</u>
	1,508,419
Less collections and abatements	<u>(1,393,220)</u>
Receivable at January 31, 2011	<u>\$ 115,199</u>
Collection rate	92.3%

Recent Accounting Pronouncements

In March 2009, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The intent of this statement is to provide clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The new statement is effective for financial statement periods beginning after June 15, 2010. The Town is currently assessing the impact of this statement on its financial statements.

2. DEPOSITS

Deposits

Custodial Credit Risk: Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk. As of January 31, 2011, the Town reported deposits of \$333,784 with bank balances of \$538,054. Of the Town's total bank balance of \$538,054, \$0 was exposed to custodial credit risk as all amounts were insured or collateralized.

The deposits of \$333,784 have been reported in the Town's governmental funds.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

3. CAPITAL ASSETS

Capital asset activity for the year ended January 31, 2011, is as follows:

	Balance 1/31/10	Additions	Disposals	Balance 1/31/11
Governmental Activities				
<i>Capital assets not being depreciated</i>				
Land	\$ 52,400	\$ -	\$ -	\$ 52,400
<i>Capital assets being depreciated</i>				
Buildings and improvements	582,600	-	-	582,600
Equipment and furniture	212,839	3,390	-	216,229
Vehicles	<u>261,800</u>	<u>-</u>	<u>(1,800)</u>	<u>260,000</u>
Total capital assets being depreciated	1,057,239	3,390	(1,800)	1,058,829
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(56,775)	(14,565)	-	(71,340)
Equipment and furniture	(162,826)	(12,493)	-	(175,219)
Vehicles	<u>(225,440)</u>	<u>(14,015)</u>	<u>1,455</u>	<u>(238,000)</u>
Total accumulated depreciation	<u>(445,041)</u>	<u>(41,073)</u>	<u>1,455</u>	<u>(484,659)</u>
Total capital assets, being depreciated, net	<u>612,198</u>	<u>(37,683)</u>	<u>(345)</u>	<u>574,170</u>
Governmental activities capital assets, net	<u>\$ 664,598</u>	<u>\$(37,683)</u>	<u>\$ (345)</u>	<u>\$ 626,570</u>

Depreciation expense was charged as a direct expense to programs as follows:

<i>Governmental activities</i>	
General government	\$16,334
Protection	<u>24,739</u>
Total depreciation expense	<u>\$41,073</u>

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

4. LONG-TERM DEBT

General obligation bonds payable

The following is a summary of general obligation bonds payable transactions of the Town for the year ended January 31, 2011.

	Original Amount	Balance January 31 2010	Bonds Issued (Retired)	Balance January 31 2011
<i>Maine Municipal Bond Bank</i>				
General obligation bond dated May 25, 2000, due 2010 with annual principal payments and semi-annual interest payments. Interest at 5.281%	129,000	12,900	(12,900)	-
General obligation bond dated October 30, 2008, due 2018 with annual principal payments and semi-annual interest payments. Interest at 3.00%	200,000	180,000	(20,000)	160,000
<i>U.S. Department of Agriculture</i>				
General obligation bond dated November 13, 2002, due 2010 with annual principal and interest payments. Interest at 4.625%	<u>130,000</u>	<u>18,417</u>	<u>(18,417)</u>	<u>-</u>
Total general obligation bonds payable	<u>\$642,734</u>	<u>\$211,317</u>	<u>\$(51,317)</u>	<u>\$160,000</u>

The annual future payment requirements for all debt outstanding as of January 31, 2011 are as follows:

Year ended January 31	Principal	Interest	Total
2012	\$ 20,000	\$ 6,985	\$ 26,985
2013	20,000	6,526	26,526
2014	20,000	5,411	25,411
2015	20,000	4,296	24,296
2016	20,000	3,181	23,181
2017-2019	<u>60,000</u>	<u>3,432</u>	<u>63,432</u>
	<u>\$160,000</u>	<u>\$29,831</u>	<u>\$189,831</u>

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

4. LONG-TERM DEBT (CONTINUED)

In accordance with Maine law, no municipality shall incur debt for specific purposes in excess of certain percentages of State valuation of such municipality. At January 31, 2011, the Town was in compliance with these limitations.

Overlapping Debt

In addition to the bond and note payable, the Town is contingently liable for a proportionate share of the overlapping debt of Somerset County. At January 31, 2011, the County had debt outstanding of \$25,720,000, of which the Town share was 2.14% for a total of \$550,408.

5. TAX ANTICIPATION NOTE

The Town entered into a temporary financing agreement to borrow funds in anticipation of taxes. Short-term debt activity for the year ended January 31, 2011, was as follows:

	<u>Balance January 31, 2010</u>	<u>Draws</u>	<u>Repayments</u>	<u>Balance January 31, 2011</u>
Bangor Savings Bank	\$ -	\$148,000	\$(148,000)	\$ -

6. INTERFUND TRANSACTIONS

During the course of normal operations the Town has numerous transactions between funds including expenditures and transfers.

Individual fund interfund receivable and payables balances at January 31, 2011 arising from these transactions were as follows:

	<u>Receivable</u>	<u>Payable</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$82,029	\$ -	\$86,424
Other governmental funds	<u>82,029</u>	<u>-</u>	<u>86,424</u>	<u>-</u>
	<u>\$82,029</u>	<u>\$82,029</u>	<u>\$86,424</u>	<u>\$86,424</u>

Transfers are used to move revenues that are collected in accordance with the budget to the appropriate fund to expend and use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorization.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2011

7. FUND BALANCE – DESIGNATED FOR OTHER PURPOSES – GENERAL FUND

At January 31, 2011, the fund balances designated for other purposes in the general fund were comprised of the following:

Fire department contingency	\$17,874
Village cemetery expansion	3,001
County tax	3,094
Food pantry	1,696
Holiday fund	2,771
Smithfield anniversary celebration	2,500
Library operations	<u>9,341</u>
	<u>\$40,277</u>

8. FUND BALANCE – DESIGNATED FOR FUTURE EXPENDITURES – CAPITAL PROJECTS FUND

At January 31, 2011, the capital projects fund's fund balance was designated as follows:

Paving	\$56,689
Capital improvements	10,000
Equipment	10,000
Building construction	<u>3,276</u>
	<u>\$81,965</u>

9. RETIREMENT PLANS

Employees of the Town are covered by Social Security.

10. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is also a member of the Maine Municipal Association - Unemployment Compensation Fund ("Fund"). The fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain lower costs for unemployment compensation coverage and develop a comprehensive loss control program. The Town contributes to the fund based on the first \$12,000 of wages for unemployment compensation. Each member has its reserve, which is determined by the actuary. The annual rate set by the Fund's actuary is based on the member's reserve and on estimated future claims. Each member is responsible for its own excess of claims over reserve.

11. COMMITMENTS

At January 31, 2011, the Town had three years remaining on a contract for solid waste disposal. The total charges are based on the tonnage of materials delivered to the transfer station and are adjusted annually for any increase in the consumer price index. Contract payments totaled approximately \$64,863 for the year ended January 31, 2011.

Town of Smithfield, Maine
Budget and Actual (with Variances)
General Fund
For the year ended January 31, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final*		
REVENUES				
Property taxes	\$ 1,508,362	\$ 1,508,362	\$ 1,524,977	\$ 16,615
Excise taxes	158,800	158,800	160,010	1,210
Intergovernmental	136,805	138,983	131,403	(7,580)
Charges for services	-	5,211	5,211	-
Grants and donations	-	6,607	6,607	-
Other	23,400	47,089	39,031	(8,058)
Total revenues	1,827,367	1,865,052	1,867,239	2,187
EXPENDITURES				
Current				
General government	197,016	215,205	207,644	7,561
Protection	45,035	61,917	41,764	20,153
Health and sanitation	79,045	83,121	66,307	16,814
Highways and bridges	177,320	177,750	159,810	17,940
Welfare	4,125	17,668	11,576	6,092
Education	903,604	903,604	903,604	-
County tax	252,409	278,596	275,503	3,093
Recreation	2,700	2,854	1,025	1,829
Cemeteries	13,700	15,675	10,063	5,612
Library	1,000	10,729	1,388	9,341
Social services	11,125	11,125	11,125	-
Unclassified	43,634	48,070	31,188	16,882
Debt service				
Principal	48,684	51,317	51,317	-
Interest and other charges	9,491	9,543	8,998	545
Total expenditures	1,788,888	1,887,174	1,781,312	105,862
Excess (deficiency) of revenues over expenditures	38,479	(22,122)	85,927	108,049
OTHER FINANCING SOURCES (USES)				
Transfers out	(86,424)	(86,424)	(86,424)	-
SPECIAL ITEM				
Proceeds from sale of assets	-	-	29,351	29,351
Net change in fund balances	(47,945)	(108,546)	28,854	\$ 137,400
FUND BALANCES - BEGINNING	249,971	249,971	249,971	
FUND BALANCES - ENDING	\$ 202,026	\$ 141,425	\$ 278,825	

**Town of Smithfield, Maine
Taxes Receivable and Tax Liens
General Fund
January 31, 2011**

Taxes receivable		
2010		\$ 115,199
2009		447
2008		105
2007		<u>109</u>
Total		115,860
Tax liens receivable		
2009		39,742
2008		<u>3,079</u>
Total		<u>42,821</u>
Total taxes receivable and tax liens		<u>\$ 158,681</u>

Town of Smithfield, Maine
Property Valuation, Assessment and Appropriations
General Fund
Year ended January 31, 2011

Assessed Valuation	
Real estate	\$ 100,022,400
Personal property	<u>871,400</u>
Total assessed valuation	<u>\$ 100,893,800</u>
Tax rate per \$1,000	<u>14.95</u>
Current tax commitment	<u>\$ 1,508,362</u>
Reconciliation of commitment with appropriation	
Current year tax commitment, as above	\$ 1,508,362
Estimated revenues	356,690
Operating transfers out	(86,424)
Appropriated fund balance	
Designated	34,413
Undesignated	<u>100,890</u>
	1,913,931
Less overlay	<u>(26,757)</u>
Total appropriations	<u>\$ 1,887,174</u>

**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***

Board of Selectmen
Town of Smithfield

We have audited the financial statements of the governmental activities, each major fund, and the remaining fund information of the Town of Smithfield, as of and for the year ended January 31, 2011, which collectively comprise the Town of Smithfield's basic financial statements and have issued our report thereon dated May 13, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Smithfield, Maine's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Smithfield, Maine's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Smithfield, Maine's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. *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. The Town did not have adequate systems of internal control over financial reporting and required significant audit adjustments. We consider this deficiency to be a significant deficiency.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the Town of Smithfield, Maine, in a separate letter dated May 13, 2011.

This report is intended solely for the information and use of the Board of Selectmen, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Bangor, Maine
May 13, 2011