

Town of Smithfield, Maine

ANNUAL FINANCIAL STATEMENTS
(with required and other supplementary information)

For the Year Ended January 31, 2014

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Independent Auditor's Report

Board of Selectmen
Town of Smithfield, Maine

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Smithfield, Maine as of and for the year ended January 31, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 appropriateness of accounting principles used and the reasonableness of significant 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, 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, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

Change in Accounting Principles

As described in Note 1 to the financial statements, the Town adopted the provisions of GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* and GASB Statement No. 66, *Technical Corrections – 2012 an Amendment of GASB No. 10 and No. 62*. The opinion is not modified as a result of this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis budgetary comparison information on pages 5 through 10 and 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 the 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.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smithfield's basic financial statements. The other supplementary information on Schedules 1 and 2 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to 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 State of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Brantra Shibodan & Associates

Bangor, Maine
April 30, 2014

Town of Smithfield, Maine
Management's Discussion and Analysis (MD&A) (UNAUDITED)
January 31, 2014

The Management Discussion and Analysis ("MD&A") is a report of the Town of Smithfield's fiscal activity for the year ending January 31, 2014. 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 1,030, 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 2013

Dale Churchill Term expires March 2013

Justin Furbush Term expires March 2013

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 lose 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, 2014 was \$431,058.

The Town's total debt decreased by \$82,500 during the year to \$537,500.

Under the government-wide basis of reporting, the Town's total net position increased by \$69,965.

The fund balance as reported on the Town's fund financial statements increased by \$5,540 to \$446,865.

On a budget basis, the Town's actual expenditures and other financing sources exceeded actual revenues by \$81,812. The Town had originally budgeted a deficiency of \$1101,591. This is a positive budget variance of \$28,779.

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 position presents information on all of the Town's assets and liabilities, with the difference between the two reported as net position. Over time, changes in net position 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 position changed during the most recent fiscal year. All changes in net position 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 position may serve over time as a useful indicator of a government's financial position. In the case of the Town, assets exceeded liabilities by \$578,596 as of January 31, 2014.

A portion of the Town's net position 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.

	Governmental Activities	
	January 31	
	2014	2013
Current and other assets	\$ 578,816	\$ 569,435
Capital assets	<u>538,231</u>	<u>559,306</u>
Total Assets	<u>1,117,047</u>	<u>1,128,741</u>
Current liabilities	83,451	82,610
Noncurrent liabilities	<u>455,000</u>	<u>537,500</u>
Total liabilities	<u>538,451</u>	<u>620,110</u>
Net Position		
Investment in capital assets (net of debt)	500,731	439,306
Restricted	10,772	10,761
Unrestricted	<u>67,093</u>	<u>58,564</u>
Total Net Position	<u>\$ 578,596</u>	<u>\$ 508,631</u>

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

As of January 31, 2014 the Town was able to report positive balances in all three categories of its net position.

Net position invested in capital assets, net of related debt increased by \$61,425 as repayment of debt exceeded depreciation expense.

The following table presents a summary of the Town's operations for the fiscal year ended January 31, 2014.

	Governmental Activities	
	January 31	
	2014	2013
REVENUES		
Charges for services and other	\$ 37,217	\$ 32,173
Operating grants and contributions	43,880	34,323
General revenues		
Property taxes, levied for general purposes	1,549,298	1,658,630
Excise taxes	181,458	171,643
Grants and contributions not restricted to specific programs	92,620	108,982
Unrestricted interest income	393	258
Miscellaneous	<u>13,399</u>	<u>14,242</u>
Total revenues	<u>1,918,265</u>	<u>2,020,251</u>
EXPENSES		
General government	\$ 242,438	\$ 247,905
Protection	53,466	52,224
Health and sanitation	52,892	53,513
Highways and bridges	198,799	774,645
Welfare	9,358	8,711
Education	964,407	923,393
County tax	244,362	251,566
Recreation	4,396	2,271
Cemeteries	9,128	15,008
Library	461	807
Social services	12,585	11,879
Unclassified	39,963	33,794
Interest on long-term debt	<u>16,045</u>	<u>6,526</u>
Total expenses	<u>1,848,300</u>	<u>2,382,242</u>
CHANGE IN NET POSITION	69,965	(361,991)
NET POSITION, BEGINNING OF YEAR	<u>508,631</u>	<u>870,622</u>
NET POSITION, END OF YEAR	<u>\$ 578,596</u>	<u>\$ 508,631</u>

Revenues of \$1,918,265 include property taxes totaling \$1,549,298. Excise taxes accounted for \$181,458 in total revenue.

Expenses of governmental activities include depreciation expense of \$21,075. 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 \$446,865, \$5,540 higher than the previous year. Of this amount, \$137,807 constitutes unassigned 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 \$110,591. Largely due to actual expenditures being less than budgeted, the actual fund balance decrease for the year ended January 31, 2014 was \$81,812 on a budget basis.

Total governmental fund expenditures for the year were \$2,375,760 and are broken down as follows:

	January 31	
	2014	2013
General government	\$ 226,580	\$ 231,847
Protection	48,249	41,800
Health and sanitation	52,892	53,513
Highways and bridges	186,893	158,591
Welfare	9,358	8,711
Education	964,407	923,393
County tax	244,362	251,566
Recreation	4,396	2,271
Cemeteries	9,128	15,008
Library	461	807
Social services	12,585	11,879
Unclassified	39,963	33,794
Debt service		
Principal	82,500	20,000
Interest	16,045	6,526
Capital outlay	<u>11,906</u>	<u>616,054</u>
Total expenses	<u>\$1,909,725</u>	<u>\$2,375,760</u>

The Town's debt service totaled \$82,500 for the year which represents payment on a bond payable.

The Town paid \$616,054 in prior year capital outlay which was comprised mostly by the costs associated with paving.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental activities as of January 31, 2014, amounts to \$538,231, net of accumulated depreciation. The investment in capital assets includes, land, buildings, equipment, and vehicles.

The following summarizes capital assets at year end:

<i>Governmental Activities</i>	Governmental Activities	
	1/31/14	1/31/13
Land	\$ 52,400	\$ 52,400
Construction in progress	-	-
Buildings	582,600	582,600
Equipment and furniture	216,229	216,229
Vehicles	<u>440,574</u>	<u>440,574</u>
Total capital assets	1,291,803	1,291,803
Accumulated depreciation	<u>(753,572)</u>	<u>(732,497)</u>
Governmental capital assets, net	<u>\$ 538,231</u>	<u>\$ 559,306</u>

Debt Administration

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

	Governmental Activities	
	1/31/14	1/31/13
Bonds payable	<u>\$537,500</u>	<u>\$620,000</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 2014-2015, 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 Position
January 31, 2014**

	Governmental Activities
ASSETS	
Cash and equivalents	\$ 431,058
Taxes receivable	141,451
Due from other governmental agencies	5,941
Other receivables	366
Capital assets, net	538,231
Total assets	1,117,047
LIABILITIES	
Payroll withholdings payable	947
Due to other governmental agencies	4
Long-term liabilities	
Due within one year	
Bonds payable	82,500
Due in more than one year	
Bonds payable	455,000
Total liabilities	538,451
NET POSITION	
Invested in capital assets, net of related debt	500,731
Restricted for permanent fund	10,772
Unrestricted	67,093
Total net position	\$ 578,596

**Town of Smithfield, Maine
Balance Sheet
Governmental Funds
January 31, 2014**

	<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	\$ 420,286	\$ -	\$ 10,772	\$ 431,058
Taxes receivable	141,451	-	-	141,451
Receivable from other governments	5,941	-	-	5,941
Other receivables	366	-	-	366
Due from other funds	-	248,303	-	248,303
Total assets	<u>\$ 568,044</u>	<u>\$ 248,303</u>	<u>\$ 10,772</u>	<u>\$ 827,119</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
Liabilities				
Payroll withholdings payable	\$ 947	\$ -	\$ -	\$ 947
Payable to other governments	4	-	-	4
Due to other funds	248,303	-	-	248,303
Deferred inflows - property taxes	131,000	-	-	131,000
Total liabilities and deferred inflows	<u>380,254</u>	<u>-</u>	<u>-</u>	<u>380,254</u>
Fund balances				
Nonspendable for endowments	-	-	6,981	6,981
Restricted for permanent fund	-	-	3,791	3,791
Committed for				
Capital projects	-	248,303	-	248,303
Other purposes	49,983	-	-	49,983
Unassigned	137,807	-	-	137,807
Total fund balances	<u>187,790</u>	<u>248,303</u>	<u>10,772</u>	<u>446,865</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 568,044</u>	<u>\$ 248,303</u>	<u>\$ 10,772</u>	<u>\$ 827,119</u>

Town of Smithfield, Maine
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
January 31, 2014

Total fund balance, governmental funds	\$ 446,865
Amounts reported for governmental activities in the Statement of Net Position 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 Position.	538,231
Some liabilities, (such as 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 Position.	(537,500)
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 Position.	<u>131,000</u>
Net Assets of Governmental Activities in the Statement of Net Position	<u><u>\$ 578,596</u></u>

Town of Smithfield, Maine
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended January 31, 2014

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Other Governmental Funds - Permanent Fund</u>	<u>Total Governmental Funds</u>
REVENUES				
Property taxes	\$ 1,546,298	\$ -	\$ -	\$ 1,546,298
Excise taxes	181,458	-	-	181,458
Intergovernmental revenues	128,990	-	-	128,990
Charges for services	34,369	-	-	34,369
Interest and fees on taxes	13,399	-	-	13,399
Interest income	382	-	11	393
Contributions	7,510	-	-	7,510
Miscellaneous	2,848	-	-	2,848
Total revenues	<u>1,915,254</u>	<u>-</u>	<u>11</u>	<u>1,915,265</u>
EXPENDITURES				
Current				
General government	226,580	-	-	226,580
Protection	48,249	-	-	48,249
Health and sanitation	52,892	-	-	52,892
Highways and bridges	186,893	-	-	186,893
Welfare	9,358	-	-	9,358
Education	964,407	-	-	964,407
County tax	244,362	-	-	244,362
Recreation	4,396	-	-	4,396
Cemeteries	9,128	-	-	9,128
Library	461	-	-	461
Social services	12,585	-	-	12,585
Unclassified	39,963	-	-	39,963
Debt service				
Principal	82,500	-	-	82,500
Interest	16,045	-	-	16,045
Capital outlay	-	11,906	-	11,906
Total expenditures	<u>1,897,819</u>	<u>11,906</u>	<u>-</u>	<u>1,909,725</u>
Excess (deficiency) of revenues over expenditures	<u>17,435</u>	<u>(11,906)</u>	<u>11</u>	<u>5,540</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	3,037	102,284	-	105,321
Transfers out	(102,284)	(3,037)	-	(105,321)
Total other financing sources (uses)	<u>(99,247)</u>	<u>99,247</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(81,812)	87,341	11	5,540
FUND BALANCES - BEGINNING	<u>269,602</u>	<u>160,962</u>	<u>10,761</u>	<u>441,325</u>
FUND BALANCES - ENDING	<u>\$ 187,790</u>	<u>\$ 248,303</u>	<u>\$ 10,772</u>	<u>\$ 446,865</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, 2014

Net change in fund balances - total governmental funds	\$ 5,540
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 \$21,075 exceeded capital outlays of \$0 in the current period.	(21,075)
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.	3,000
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 payments exceeded proceeds.	<u>82,500</u>
Change in net position of governmental activities	<u>\$ 69,965</u>

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 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. The more significant accounting policies of the Town are described below.

A. FINANCIAL REPORTING ENTITY

In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may be financially accountable and, as such, should be included within the Town's financial statements. In accordance with GASB Statement No. 14 as amended by GASB Statement No. 61, the Town is financially accountable if it appoints a voting majority of the organization's governing board and (1) it is able to impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the Town. Additionally, the Town is required to consider other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the reporting entity's financial statements to be misleading. Based on the application of these criteria, there are no entities that should be included as part of these financial statements.

B. BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE 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.

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The Town segregates transactions related to certain functions or activities 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.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS (CONTINUED)

1. 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 major funds of the Town are described below:

General Fund

The General Fund is the primary operating fund of the Town and is always classified as a major fund. This fund is used to account for all financial resources not accounted for in other funds.

Capital Projects Fund

The Capital Projects Fund accounts for funds reserved by authorization of the Board of Selectmen for capital projects and equipment purchases.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenue 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 position and the operating statements present increases, revenues, and decreases, expenses, in net total position. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

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, intergovernmental revenues and charges for services. All other governmental fund revenues are recognized when received.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. 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.

F. FINANCIAL STATEMENT AMOUNTS

1. Deposits

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

2. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds that may result in amounts owed between funds. Interfund receivables and payables between funds within governmental activities are eliminated in the government-wide financial statements.

3. Interfund Transfers

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of the governmental funds on the fund financial statements. For the purposes of the government-wide statement of activities, all interfund transfers between individual funds within governmental activities have been eliminated.

4. 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.

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.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

5. Long-term Debt

The accounting treatment of long-term debt depends on whether the assets are used in governmental 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.

6. Compensated Absences

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

7. Government-wide Net Position

Net position represents the difference between assets and liabilities. Net position 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 position is 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. All other net position is reported as unrestricted for expenditures qualifying from either classification, amounts will be considered spent first from restricted net position then from unrestricted net position.

8. Governmental Fund Balances

The Governmental Accounting Standards Board (GASB) has issued Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance to be properly reported within one of the five fund balance categories listed below:

Nonspendable, such as fund balances associated with inventories or prepaid expenses. The nonspendable fund balance may also include amounts that are required to be maintained intact, such as the corpus of an endowment fund.

Restricted fund balance category includes amounts that can be used only for the specific purposes stipulated by constitution, grantors or through enabling legislation.

**Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

8. Governmental Fund Balances (Continued)

Committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Town's highest level of decision making authority, which is voter approval.

Assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. The Board of Selectmen are authorized to assign funds for a particular purpose, under authority granted by voter approval.

Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications.

The Town has not formally adopted a fund balance policy, but has implemented GASB 54 based on the definitions above. Until the Town adopts its own policy, paragraph 18 of GASB 54 allows for a default policy whereby unrestricted funds are spent after all other funds are exhausted.

9. Revenue Recognition - Property Taxes

Property taxes were levied on assessed values of April 1, 2013, and were due November 31, 2013. Interest was charged at 7 percent 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.

For the governmental fund financial statements, property taxes assessed and collected during the year ended January 31, 2014 and during the first sixty days of the next fiscal year are recognized as revenue as of January 31, 2014. Receivables estimated to be collectible after the sixty day period are recorded as deferred revenue.

Assessed value	
Real estate	\$103,366,000
Personal property	<u>968,380</u>
	104,334,380
Tax rate (per \$1,000)	<u>14.85</u>
Commitment	1,549,366
Less collections	<u>(1,441,336)</u>
Receivable at January 31, 2014	<u>\$ 108,030</u>
Collection rate	93.0%

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. FINANCIAL STATEMENT AMOUNTS (CONTINUED)

10. New Governmental Accounting Standards

During the fiscal year ended January 31, 2014, the Town implemented the following Statements of the Governmental Accounting Standards Board (GASB):

Statement No. 65 - *Items Previously Reported as Assets and Liabilities.*

Statement No. 66 - *Technical Corrections – 2012 - an amendment of GASB No. 10 and No. 62.*

11. Recent Accounting Pronouncements

In January, 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations and is effective for these for such situations occurring in financial reporting periods beginning after December 15, 2013.

In April, 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement is effective for reporting beginning after June 15, 2013.

The Town has not yet determined the impact of these Statements on the financial statements.

NOTE 2. 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, 2014, the Town reported deposits of \$431,058 with bank balances of \$519,790. Of the Town's total bank balance of \$519,790, \$260,772 was exposed to custodial credit risk as not all amounts were insured or collateralized.

Deposits of \$431,058 have been reported in the Town's governmental funds.

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 3. CAPITAL ASSETS

Capital asset activity for the year ended January 31, 2014, is as follows:

	Balance 1/31/13	Additions	Disposals	Balance 1/31/14
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	216,229	-	-	216,229
Vehicles	440,574	-	-	440,574
Total capital assets being depreciated	<u>1,239,403</u>	<u>-</u>	<u>-</u>	<u>1,239,403</u>
<i>Less accumulated depreciation for</i>				
Buildings and improvements	(100,470)	(14,565)	-	(115,035)
Equipment and furniture	(198,453)	(5,510)	-	(203,963)
Vehicles	(433,574)	(1,000)	-	(434,574)
Total accumulated depreciation	<u>(732,497)</u>	<u>(21,075)</u>	<u>-</u>	<u>(753,572)</u>
Total capital assets, being depreciated, net	<u>506,906</u>	<u>(21,075)</u>	<u>-</u>	<u>485,831</u>
Governmental activities capital assets, net	<u>\$ 559,306</u>	<u>\$(21,075)</u>	<u>\$ -</u>	<u>\$ 538,231</u>

The beginning capital assets were restated for a vehicle not previously recorded.

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

<i>Governmental activities</i>	
General government	\$15,858
Protection	<u>5,217</u>
Total depreciation expense	<u>\$21,075</u>

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 4. LONG-TERM LIABILITIES

General obligations bonds payable

The following is a summary of the general obligation bonds payable transactions of the Town for the year ended January 31, 2014:

	Original Amount	Balance January 31 2013	Bonds Issued (Retired)	Balance January 31 2014
<i>Maine Municipal Bond Bank</i>				
General obligation bond dated October 30, 2008, due 2018 with annual principal payments and semi-annual interest payments. Interest at 3.00%	\$200,000	\$120,000	\$(20,000)	\$100,000
General obligation bond dated October 25, 2012, due 2020 with annual principal payments and semi-annual interest payments. Interest ranges 1.48% to 2.58%	\$500,000	<u>500,000</u> <u>\$620,000</u>	<u>(62,500)</u> <u>\$(82,500)</u>	<u>437,500</u> <u>\$537,500</u>

Future maturities of the general obligation bond payable are as follows:

Year ended January 31	Principal	Interest	Total
2015	\$ 82,500	\$13,452	\$ 95,952
2016	82,500	10,972	93,472
2017	82,500	8,429	90,929
2018	82,500	5,823	88,323
2019	82,500	3,671	86,171
2020-2021	<u>125,000</u>	<u>3,575</u>	<u>128,575</u>
	<u>\$537,500</u>	<u>\$45,922</u>	<u>\$583,422</u>

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, 2014, the Town was in compliance with these limitations.

Overlapping Debt

The Town is contingently liable for a proportionate share of the overlapping debt of Somerset County. At January 31, 2014, the County had debt outstanding of \$22,690,000, of which the Town share was 2.20% for a total of \$498,540. The Town is also contingently liable for a proportionate share of the overlapping debt of MSAD/RSU #54. At January 31, 2014, the District had debt outstanding of \$23,086,899, of which the Town share was 6.8% for a total of \$1,530,898.

NOTE 5. INTERFUND TRANSACTIONS

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

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 5. INTERFUND TRANSACTIONS (CONTINUED)

Individual fund interfund receivable and payables balances at January 31, 2014 arising from these transactions were as follows:

	Receivable	Payable	Transfers In	Transfers Out
General fund	\$ -	\$248,303	\$ 3,037	\$102,284
Capital projects fund	<u>248,303</u>	-	<u>102,284</u>	<u>3,037</u>
	<u>\$248,303</u>	<u>\$248,303</u>	<u>\$105,321</u>	<u>\$105,321</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.

NOTE 6. NET POSITION INVESTED IN CAPITAL ASSETS

Net position represents the difference between assets and liabilities. Net position invested in capital assets, net of related debt, consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds payable, adding back any unspent proceeds. The Town's net position invested in capital assets, net of related debt was calculated as follows at January 31, 2014:

Capital assets	\$1,291,803
Accumulated depreciation	(753,572)
Related bonds payable	<u>(37,500)</u>
Total balance	<u>\$ 500,731</u>

NOTE 7. COMMITTED - CAPITAL PROJECTS

At January 31, 2014, the committed fund balance for capital projects is comprised of the following:

Paving	\$152,365
Capital improvements	32,013
Equipment	<u>63,925</u>
	<u>\$248,303</u>

NOTE 8. COMMITTED - GENERAL FUND

At January 31, 2014, the committed fund balance for the general fund other purposes is comprised of the following:

Fire department contingency	\$24,292
Village cemetery expansion	3,277
Food pantry	1,580
Holiday fund	4,833
Smithfield anniversary celebration	8,500
Library operations	<u>7,501</u>
	<u>\$49,983</u>

Town of Smithfield, Maine
Notes to Basic Financial Statements
January 31, 2014

NOTE 9. COMMITMENTS

At January 31, 2014, the Town was committed to an assessing contract totaling \$38,600 through January 31, 2016 and three winter road maintenance contracts totaling \$39,198 through January 31, 2016.

The Town also had four 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.

NOTE 10. RELATED PARTY TRANSACTIONS

A member of the Town's board of selectmen is an owner of Furbush Lawn Care which provides services to the Town. Payments to Furbush Lawn Care for plowing and grounds maintenance amounted to approximately \$5,890 for the year ended January 31, 2014.

NOTE 11. RETIREMENT PLANS

Employees of the Town are covered by Social Security.

NOTE 12. PARTICIPATION IN PUBLIC ENTITY RISK POOL

The Town is 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.

The Town is also a member of the Maine Municipal Association - Property and Casualty Pool ("Pool"). As with the Fund above, the Pool was created to obtain lower rates for its members. The Town pays an annual premium for its property and liability coverage. Under the property coverage portion of the Pool, coverage is provided after the deductible is met, to \$300,000,000. Under the liability portion of the Pool, coverage is provided after the deductible is met, to \$1,000,000.

NOTE 13. CONTINGENCIES

With regard to pending legal claims or any unasserted claims, it is not feasible at this time to predict or determine their outcome. Management believes, however, that settlement amounts, if any, will not have a material adverse effect on the Town's financial position.

Town of Smithfield, Maine
Budget and Actual (with Variances)
General Fund
For the year ended January 31, 2014

	Budgeted Amounts			Actual	Variance with Final Budget - Positive (Negative)
	Original	Adjustments*	Final		
REVENUES					
Property taxes	\$ 1,549,366	\$ -	\$ 1,549,366	\$ 1,546,298	\$ (3,068)
Excise taxes	165,500	-	165,500	181,458	15,958
Intergovernmental revenues	133,477	3,452	136,929	128,990	(7,939)
Charges for services	-	32,046	32,046	34,369	2,323
Interest and fees on taxes	9,200	-	9,200	13,399	4,199
Interest income	-	382	382	382	-
Contributions	-	7,144	7,144	7,510	366
Miscellaneous	82,135	995	83,130	2,848	(80,282)
Total revenues	1,939,678	44,019	1,983,697	1,915,254	(68,443)
EXPENDITURES					
Current					
General government	218,318	22,239	240,557	226,580	13,977
Protection	48,035	26,916	74,951	48,249	26,702
Health and sanitation	60,000	2,285	62,285	52,892	9,393
Highways and bridges	191,703	2,030	193,733	186,893	6,840
Welfare	4,300	13,678	17,978	9,358	8,620
Education	964,408	-	964,408	964,407	1
County tax	244,330	-	244,330	244,362	(32)
Recreation	4,175	-	4,175	4,396	(221)
Cemeteries	12,200	3,677	15,877	9,128	6,749
Library	1,000	6,962	7,962	461	7,501
Social services	12,585	-	12,585	12,585	-
Unclassified	51,497	11,597	63,094	39,963	23,131
Debt service					
Principal	82,500	-	82,500	82,500	-
Interest and other charges	16,046	-	16,046	16,045	1
Total expenditures	1,911,097	89,384	2,000,481	1,897,819	102,662
Excess of revenues over expenditures	28,581	(45,365)	(16,784)	17,435	34,219
OTHER FINANCING SOURCES (USES)					
Transfers in	3,037	-	3,037	3,037	-
Transfers out	(96,844)	-	(96,844)	(102,284)	5,440
Total other financing sources and uses	(93,807)	-	(93,807)	(99,247)	5,440
Net change in fund balances	(65,226)	(45,365)	(110,591)	(81,812)	\$ 28,779
FUND BALANCES - BEGINNING	269,602	-	269,602	269,602	
FUND BALANCES - ENDING	\$ 204,376	\$ (45,365)	\$ 159,011	\$ 187,790	

*- Adjustments necessary to reflect the use of committed balances and expenditures of additional revenue sources.

**Town of Smithfield, Maine
Taxes Receivable and Tax Liens
General Fund
January 31, 2014**

Taxes receivable	
2013	\$ 108,030
2012	19
2011 and prior	<u>290</u>
Total	108,339
Tax liens receivable	
2012	32,997
2011	<u>115</u>
Total	<u>33,112</u>
Total taxes receivable and tax liens	<u>\$ 141,451</u>

Town of Smithfield, Maine
Property Valuation, Assessment and Appropriations
General Fund
Year ended January 31, 2014

Assessed Valuation	
Real estate	\$ 103,366,000
Personal property	<u>968,380</u>
Total assessed valuation	<u>\$ 104,334,380</u>
Tax rate per \$1,000	<u>14.85</u>
Current tax commitment	<u>\$ 1,549,366</u>
Reconciliation of commitment with appropriation	
Current year tax commitment, as above	\$ 1,549,366
Estimated revenues	434,231
Operating transfers, net	(93,807)
Appropriated fund balance	
Committed	45,465
Unassigned	<u>115,653</u>
	2,050,908
Less overlay	<u>(50,427)</u>
Total appropriations	<u>\$ 2,000,481</u>