

TOWN OF SMITHFIELD, VIRGINIA



FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

TOWN OF SMITHFIELD, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2013

Prepared by:

Ellen Minga, Town Treasurer

Town of Smithfield, Virginia

Town Council and Executive Officers

Mayor

T. Carter Williams

Vice-Mayor

Andrew C. Gregory

Council Members

Constance H. Chapman
Dr. P Milton Cook, Jr.
Randolph H. Pack
Michael G. Smith
Denise N. Tynes

Committees

Finance

Randolph H. Pack (CH)
Dr. P. Milton Cook, Jr.
Andrew C. Gregory

Water and Sewer

Andrew C. Gregory (CH)
Michael G. Smith
Denise N. Tynes

Fire and Rescue

Denise N. Tynes (CH)
Constance H. Chapman
Randolph H. Pack

Isle of Wight Economic Development Commission

Dr. P. Milton Cook, Jr.

Intergovernmental

T. Carter Williams
Andrew C. Gregory
Dr. P. Milton Cook, Jr.

Town Clerk

Lesley M. Greer

Town Manager

Peter M. Stephenson

Treasurer

Ellen D. Minga

Chief of Police

Steven G. Bowman

Public Works

Michael G. Smith (CH)
Dr. P. Milton Cook, Jr.
Denise N. Tynes

Public Buildings and Welfare

Dr. P. Milton Cook, Jr. (CH)
Constance H. Chapman
Michael G. Smith

Public Safety - Police

Constance H. Chapman (CH)
Andrew C. Gregory
Denise N. Tynes

Isle of Wight Tourism Bureau

Andrew C. Gregory
Denise N. Tynes

Smithfield Planning Commission

Randolph H. Pack

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Honorable Members of Town Council
Town of Smithfield, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund, of Town of Smithfield, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, the business-type activities, and each major fund, of the Town of Smithfield, Virginia, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the Town adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to 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 on pages 4-18, budgetary comparison information, and schedule of pension funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smithfield, Virginia's basic financial statements. The supporting schedules and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget and Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

The other statistical information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2014, on our consideration of the Town of Smithfield, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Smithfield, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
January 23, 2014

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MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR JULY 1, 2012 - JUNE 30, 2013

The following discussion provides an overview and analysis of the Town of Smithfield, Virginia's (Town's) financial activities for the fiscal year ended June 30, 2013. This information should be read in conjunction with the Town's audited financial statements as reported herein.

FINANCIAL HIGHLIGHTS

- The net position of the Town increased by \$2,105,000 which represents a 5.4% increase over FY2012 (total net position-government-wide).
- On July 2, 2012, the Town Council signed an agreement with the Virginia Department of Housing and Community Development for a grant of \$624,720 for Phase II-MY1 of the Pinewood Heights Redevelopment Project. Per the terms of the agreement, the Town is responsible for acquisition, relocation, and demolition of 6 owner-occupied and 4 renter occupied properties. As of June 30, 2013, the Town had acquired 3 properties with demolition to be completed in FY2014.
- The streetscape enhancement project on South Church Street that was carried forward from FY2012 was completed under budget for a total cost of \$4,438,674. The project was funded with a combination of federal, state, private, and local government funds. Costs for FY2013 to close out the project totaled \$368,177.
- Engineering and field work continued on the Regional Sewer Consent Order. The project has been divided into tasks and 45% of remaining tasks with cumulative costs of \$120,199 were completed in FY2013. Upgrades related to the consent order for flow monitoring and the Town's SCADA system was also completed for a total cost of \$312,508.
- A right turn lane was completed on John Rolfe Drive to assist with traffic flow onto Battery Park Road. The Virginia Department of Transportation (VDOT) contributed \$36,246 to this cost sharing project.
- A public restroom valued at \$410,000 was constructed and donated to the Town by Smithfield Foods, Inc. The restroom is located on Main Street in the heart of the historic district.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to the Town's basic financial statements. These basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The Town is required to comply with the Governmental Accounting Standards Board (GASB) Statement No. 34. The implementation of GASB 34 changed the accounting and presentation of the financial statements to include government-wide financial statements that report both long-term and short-term information about the Town's overall financial standing.

Government-wide Financial Statements

The *Government-wide Financial Statements* provide an overview of the Town's financial position as a whole in a manner similar to private-sector businesses. Government-wide financial reporting consists of two statements: the Statement of Net Position and the Statement of Activities.

Government-wide Financial Statements (Continued)

The Statement of Net Position presents information on the Town's assets and liabilities/deferred inflows of resources, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors, such as a change in property tax base and infrastructure needs resulting from development or annexation, should also be included in a comprehensive assessment of the Town's position.

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, 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.

The Statement of Net Position and the Statement of Activities include the following:

- **Governmental activities** - The governmental activities of the Town include general government administration, public safety, public works, community development, and parks, recreation, and cultural. Most of these activities are primarily financed by property taxes, other local taxes, and licenses and permit fees.
- **Business-type activities** - The business-type activities of the Town include a Water Fund and a Sewer Fund. These funds are supported by charges for services based on use. The current rate structure also includes a fixed bi-monthly fee per meter to offset the annual debt service payments incurred to fund a new water treatment plant.

Fund Financial Statements

Fund accounting is used to maintain control over resources that have been segregated for specific functions. Governments use fund accounting to ensure and demonstrate finance-related legal compliance. The funds of the Town are divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as governmental 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 the balances of spendable resources available at fiscal year end. Such information may be useful in evaluating a government's near-term financing requirements.

Because the governmental funds statements present a more current focus than the information in the government-wide financial statements, a comparison between the two statements is a valuable tool for readers to understand the possible long-term impact of the Town's recent financing decisions. Reconciliations of the governmental funds balance sheet and statement of revenues, expenditures, and changes are shown in Exhibits 3 and 4 on pages 22 and 23 to compare governmental funds to governmental activities.

Proprietary Funds - The Town maintains only one type of proprietary fund, which is the enterprise fund. Enterprise funds provide both long-term and short-term information on business type activities in the government-wide financial statements. They show similar, but more detailed, information on the fund financial statements. The Town uses enterprise funds to account for its water and sewer operations.

Notes to the Financial Statements - The notes provide additional information and explanations that are essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found at the end of the basic financial statements section of this report.

Supplementary Information - In addition to the basic financial statements and accompanying notes, this report also contains schedules of budget comparisons, property assessments and tax rates, debt ratios, and other supporting and statistical information found on pages 58 through 81.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Town of Smithfield, Virginia Summary of Net Position As of June 30, 2013

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 7,335,479	4,974,586	\$ 4,179,948	4,894,749	\$ 11,515,427	9,869,335
Capital assets	21,010,600	20,874,160	16,735,948	16,939,008	37,746,548	37,813,168
Total assets	\$ 28,346,079	\$ 25,848,746	\$ 20,915,896	\$ 21,833,757	\$ 49,261,975	\$ 47,682,503
Long-term liabilities outstanding	\$ 816,880	\$ 1,977,367	\$ 240,561	913,942	\$ 1,057,441	2,891,309
Other liabilities	825,920	755,362	4,312,538	4,780,762	5,138,458	5,536,124
Total liabilities	\$ 1,642,800	\$ 2,732,729	\$ 4,553,099	\$ 5,694,704	\$ 6,195,899	\$ 8,427,433
Deferred inflows of resources	\$ 1,706,006	\$ -	\$ -	\$ -	\$ 1,706,006	\$ -
Net position:						
Net investment in capital assets	\$ 20,341,956	\$ 20,238,480	\$ 12,456,082	\$ 12,248,298	\$ 32,798,038	\$ 32,486,778
Restricted	176,929	-	1,509,709	2,233,571	1,686,638	2,233,571
Unrestricted	4,478,388	2,877,537	2,397,006	1,657,184	6,875,394	4,534,721
Total net position	\$ 24,997,273	\$ 23,116,017	\$ 16,362,797	\$ 16,139,053	\$ 41,360,070	\$ 39,255,070

The combined net position for the Town totals \$41,360,070, an increase of 5.4% over FY2012. The largest portion (79%) represents investments in capital assets, net of related debt used to finance the assets. These capital assets include land, buildings, machinery, and equipment. They are used to provide services to citizens, thus, they are not available for future spending. The increase in FY2013 resulted largely from completion of the South Church Street Streetscape Project, acceptance of a public restroom, and continued progress on the federally mandated Regional Sewer Consent Order. Restricted assets of \$1,686,638 make up only 4% of total net position. The governmental activities total of \$176,929 represents donated and/or designated funds specifically for beautification, the Pinewood Heights Redevelopment Project, the streetscape project on South Church Street and the Smithfield Police Department. The business-type activities total of \$1,509,709 includes its debt service and sewer compliance escrow funds. The debt service fund has been in place since FY2005 and is used to fund the debt obligation relating to the Town's newest water storage tank finished in FY2011 and the water treatment plant (RO) that was completed in FY2012. The sewer compliance fee was adopted on August 4, 2009 to fund expenses resulting from the regional sanitary sewer consent order. Unrestricted funds of \$6,875,394 make up 17% of total net position and increased by \$2,340,673 (51%) from prior year. This increase is largely due to the reclassification of water and sewer development escrow funds that were shown as restricted in the prior year. These escrow funds are made up of pro-rata share fees from new development and are used only to fund capital construction or repairs resulting from growth. Unrestricted funds are made up of committed, assigned, and unassigned fund balances. Included in this category for governmental activities are cash balances in the highway fund that are used for state approved highway maintenance as well as unrestricted investments that may be used to meet the Town's ongoing financial needs. Water and sewer capital escrow funds are also categorized as unrestricted and are made up of availability fees collected prior to construction that may be used to repair or replace existing infrastructure as well as offset capital expenses related to new growth when needed.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Governmental Activities. The following table shows a detailed summary of the revenues and expenses for governmental and business-type activities for 2013 as compared to 2012:

Town of Smithfield, Virginia
Changes in Net Position
As of June 30, 2013

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:						
Program revenues:						
Charges for services	\$ 85,572	\$ 702,679	\$ 2,776,011	\$ 2,888,811	\$ 2,861,583	\$ 3,591,490
Operating grants and contributions	1,335,108	1,394,579	-	-	1,335,108	1,394,579
Capital grants and contributions	1,516,875	2,281,395	212,202	120,586	1,729,077	2,401,981
General revenues:						
Property taxes	2,352,590	2,602,423	-	-	2,352,590	2,602,423
Other taxes	2,585,376	2,359,445	-	-	2,585,376	2,359,445
Unrestricted revenues from the use of money and property	193,830	306,049	12,402	14,449	206,232	320,498
Miscellaneous	142,646	53,287	14,653	3,091	157,299	56,378
Grants and contributions not restricted to specific programs	493,914	-	-	-	493,914	-
Gain on disposal	18,722	(900,500)	-	-	18,722	(900,500)
Total revenues	<u>\$ 8,724,633</u>	<u>\$ 8,799,357</u>	<u>\$ 3,015,268</u>	<u>\$ 3,026,937</u>	<u>\$ 11,739,901</u>	<u>\$ 11,826,294</u>
Expenses:						
General government administration	\$ 1,124,143	\$ 1,238,374	\$ -	\$ -	\$ 1,124,143	\$ 1,238,374
Public safety	2,378,375	2,357,991	-	-	2,378,375	2,357,991
Public works	1,952,522	1,820,850	-	-	1,952,522	1,820,850
Parks, recreation and culture	698,573	740,853	-	-	698,573	740,853
Community development	646,422	458,015	-	-	646,422	458,015
Interest on long-term debt	43,342	34,721	-	-	43,342	34,721
Water fund	-	-	1,546,489	1,637,463	1,546,489	1,637,463
Sewer fund	-	-	1,245,035	1,594,505	1,245,035	1,594,505
Total expenses	<u>\$ 6,843,377</u>	<u>\$ 6,650,804</u>	<u>\$ 2,791,524</u>	<u>\$ 3,231,968</u>	<u>\$ 9,634,901</u>	<u>\$ 9,882,772</u>
Increase (decrease) in net position	<u>\$ 1,881,256</u>	<u>\$ 2,148,553</u>	<u>\$ 223,744</u>	<u>\$ (205,031)</u>	<u>\$ 2,105,000</u>	<u>\$ 1,943,522</u>
Net position-beginning of year	<u>\$ 23,116,017</u>	<u>\$ 20,967,464</u>	<u>\$ 16,139,053</u>	<u>\$ 16,344,084</u>	<u>\$ 39,255,070</u>	<u>\$ 37,311,548</u>
Net position-end of year	<u>\$ 24,997,273</u>	<u>\$ 23,116,017</u>	<u>\$ 16,362,797</u>	<u>\$ 16,139,053</u>	<u>\$ 41,360,070</u>	<u>\$ 39,255,070</u>

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Program revenues make up 34% of total revenues and are comprised of charges for services, operating grants and contributions, and capital grants and contributions. Program revenues dropped \$1,441,098 (33%) from prior year due to reclassification of charges and completion of grant funded projects. Charges for governmental activities services (3%) include permits, review fees, and fines and forfeitures. These charges for services decreased \$617,107 from FY2012 because business license taxes and Smithfield Center rentals were reclassified to other local taxes and revenue from use of money and property respectively. When compared to permits, review fees, and fines from prior year, charges for services actually increased by \$10,103. Operating grants and contributions of \$1,335,108 (45%) dropped \$59,471 from prior year and are made up of state highway maintenance funds (\$1,003,520), VDOT cost sharing funds for a new turn lane on an existing street (\$36,246), public safety grants (\$201,579), FEMA grants (\$84,995) and community development and cultural grants (\$8,768). While available operating grants vary from year to year, the Town's annual state highway maintenance fund has remained a reliable and much needed source of revenue increasing from \$986,577 in FY2012 to \$1,003,520 in FY2013. Included in the public safety grants are annual 599 funds from the state in the amount of \$161,532 to supplement the cost of law enforcement. The largest change in program revenues occurred in capital grants and contributions which decreased almost 33% from \$2,281,395 in FY2012 to \$1,516,875 in FY2013. In FY2012, the Town utilized \$1,106,301 in state and federal funding for the South Church Street project as well as \$225,000 in private contributions. The Town also received \$71,000 in federal grant reimbursements as well as a cash contribution of \$165,041 from Isle of Wight County to finish Phase I of the Pinewood Heights Redevelopment Project. In FY2013, \$582,349 was received in state and federal grants and \$400,000 in private donations for completion of the South Church Street Project. Federal funding of \$124,526 for the first draw request for Phase II-MY 1 of the ongoing Pinewood Heights Project and an additional private donation valued at \$410,000 for public restrooms made up the remainder of capital grants and contributions for the year.

The largest revenue source for the Town has always been general property taxes.

	FY2013	FY2012
Real estate tax revenue	\$ 1,643,338	\$ 1,751,150
Public service corporation property taxes	30,139	28,872
Personal property taxes	639,380	785,497
Penalties and interest	39,733	36,904
Total	<u>\$ 2,352,590</u>	<u>\$ 2,602,423</u>

Tax assessments for the Town are received from the Isle of Wight County Commissioner of Revenue. Real estate and personal property assessments for FY2013 totaled \$1,060,976,600 and \$187,301,569 respectively, excluding any subsequent supplements and abatements, compared to \$1,090,457,100 and \$183,614,286 for FY2012. FY2013 was a reassessment year; and real estate assessments decreased by 3% which was a lower decrease than the county wide 5%. Personal property increased by 2% but reflects a decrease in collections in the table above because the state contribution for personal property tax relief of \$240,795 was reclassified in FY2013 to grants and contributions not restricted to specific projects.

Other local taxes increased 2% for the year and include transient occupancy taxes, sales taxes, cigarette taxes, meals taxes, franchise taxes, consumers' utility taxes, business license taxes, and vehicle license taxes. Transient occupancy tax increased \$3,098 (2%) as collections for the year remained consistent although relatively flat from prior year. Sales tax decreased significantly by \$35,574 (13%) over prior year which was the exact opposite of FY2012 that reflected a notable increase of \$35,031. The decrease in 2013 puts the Town back in line with the sales tax revenue of FY2010 and illustrates that consumer spending continues to fluctuate as the economic outlook swings up and down. Cigarette taxes totaled \$136,665 with a decrease of \$6,917 (11%) over FY2012. This tax typically fluctuates from year to year since revenues are recognized by sales of cigarette tax stamps to wholesalers who buy in bulk. Meals taxes of \$1,198,415 increased \$213,695 from prior year. Much of this increase may be attributed to the fact that Town Council voted to increase meals tax from 5% to 6%

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

as of July 1, 2012. The additional 1% was to be added to a previously designated 1% for use in special projects such as the Pinewood Heights Redevelopment Project, leaving the remaining 4% for general use. Franchise license taxes dropped for the second year in a row totaling \$116,784 in 2013 compared to \$131,046 in 2012 and \$143,232 in 2011. This decrease indicates that the Town's share in net capital value for the five banking institutions sited within the Town limits has declined when compared to other locations in the state. Consumers' utility taxes increased by \$7,023 (3%) after remaining relatively flat for the prior three years. Utility taxes are imposed and levied monthly on each purchase of natural gas or electricity delivered to consumers. Business license taxes and vehicle license taxes were included in program services in FY2012, but are now included with local taxes. Business license taxes increased from \$331,426 in 2012 to \$365,415 in 2013, an increase of \$33,988 (10%). Although the increase may not seem significant, when compared to total business license sales of \$285,280 in FY2011, the increases for the last two years indicate a renewed investment in business and development for the community. Vehicles license taxes are billed at the same time as personal property taxes although a decal is no longer required to be displayed on licensed vehicles. This tax increased from \$132,415 in FY2012 to \$137,139 in FY2013. This increase of \$4,723 is small, but since vehicle license fees are billed at \$20 per qualifying vehicle, the change indicates the addition of at least 236 vehicles in the Town during the fiscal year.

Insurance reimbursements of \$28,126 were slightly lower than the \$34,018 collected in FY2012. The largest portion of the insurance proceeds (\$24,002) was received as reimbursement for storm damage requiring major storm drain rehab in the Town's Cypress Creek subdivision.

Grant contributions not restricted to specific programs represents a new revenue category for the Town for existing items that were shown elsewhere in prior years. The largest of these items are the state's annual personal property tax relief contribution and communications tax allocation. The personal property tax relief of \$240,795 is a fixed amount that is received in August of every year. Communications tax is received in total by the Commonwealth of Virginia and then allocated to each locality based on a percentage that was calculated when the tax was removed from the local level and redirected to the state. Revenues vary depending upon tax collected and deductions applied by the state. Communications tax of \$242,241 for FY2013 only increased \$641 from FY2012.

Miscellaneous revenues for FY2013 totaled \$114,520 and included cash proffer revenues, electricity reimbursement revenues from Basses' Choice (a former tenant of the Town), return check charges, accident report fees, a wellness grant, miscellaneous contributions, fingerprinting, and grass cutting reimbursements for yard violations. The Town collected cash proffers of \$1,500 in FY2013 as compared to \$3,000 for FY2012. The Town also received a grant from the Obici Healthcare Foundation (\$32,775) for a wellness initiative to promote healthy lifestyle choices for its citizens based on diet and exercise. In addition, the Police Department was awarded \$24,000 from Farmers Bank in appreciation of their hard work and successful efforts regarding a local bank robbery. They Police Department was also the recipient of an Opticom valued at (\$20,900) from Smithfield Foods to use with traffic lights to safely stop traffic for emergency responders.

Revenue from use of money and property includes interest income, lease income, property rental income, and Smithfield Center rental income. Revenues in this category decreased \$112,219 from FY2012 even though Smithfield Center Revenues were not included in this grouping last year. The decrease can be attributed to the sale of Town property totaling \$259,907 that was included in this category in FY2012 while this was removed in FY2013. Smithfield Center Rentals revenue, including its vendor program, and kayak rentals totaled \$164,287 which was consistent with the prior year receipts of \$162,968 that was included with program revenue. In FY2013, the Town did start charging fees for special events that generate overtime for police and public works staff. These fees generated \$3,782 in revenue and were only used for the last few events of the fiscal year. Interest revenue decreased slightly (\$3,061) in FY2013 as interest rates remained low. Rental of town real estate totaled \$18,395 which was in line with FY2012 (\$18,519).

For purposes of analysis the Town compares categories of expenses including a separate category for public buildings that is not presented in the Statement of Activities.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

Total expenditures for FY2013 governmental activities totaled \$6,843,377 compared to \$6,650,804 for FY2012, an increase of only \$192,573 (3%). These expenses are categorized as general government administration, public buildings, public safety, public works, community development, and interest on long term debt. As previously mentioned, the MD&A for analytical purposes presents a category of expense titled "Public Building" that is not reported separately in the Statement of Activities. Public safety (police and fire) and public works (including highway maintenance) are the largest cost centers and accounted for 35% and 27% of total costs respectively. Public safety increased by only \$20,384 from the prior year, largely because FY2012 was the last year that the Town contributed towards operating costs for the Smithfield Volunteer Fire Department and the Isle of Wight Rescue Squad. Those costs are now included in the budget for Isle of Wight County. Eliminating those costs in FY2013 saved the Town \$144,000. Most of the offsetting increase during the year (\$120,257) was for salaries and related benefits. Salaries were increased by a mandatory 1% to phase in a 5% contribution required for all employees who participate in the Virginia Retirement System. The Town opted to spread the increase over a 5 year period and has four more years at 1% per year to bring all employees to the 5% required. An additional 2% cost of living adjustment was added for all employees, including those that are part-time. Public Works also ended the fiscal year with a very small overall increase in total expenses of \$19,594 (includes public buildings) from prior year. Although there were labor increases as described for the police department above, a re-evaluation of staff allocations for services in water, sewer, and highway kept increases in the general and highway funds to a minimum. The balance of departmental expenses remained very flat from prior year. Community Development reflected the largest increase for the fiscal year (\$188,407) as a result of progress made in Phase II-MY1 of the Pinewood Heights Redevelopment Project. The Town also changed its policy on capitalizing the structures acquired from the Pinewood property owners electing instead to expense them since they will be demolished. Public Buildings and Parks, Recreation, and Cultural actually reflected decreases in expenditures of \$57,926 and \$189,197 respectively. In FY2012, the Town still had rental expenses of \$26,134 for its police department for the first six months of the fiscal year. In December 2012, the department was relocated into a newly renovated building purchased from Isle of Wight County. In addition to rental expenses, there were also moving costs, supplies, and landscaping associated with the relocation. The town manager's office also relocated into the remodeled building next door to the police department and had similar expenses related to the move. General government reflected an increase of \$54,983 (includes public buildings) that mainly resulted from the addition of a new position for the Treasurer's office. The position was added in the last quarter of FY2012, so FY2013 was the first year that it was funded for the entire year. Interest on long-term debt represents general obligation debt to Isle of Wight County for the purchase of the town manager and police department buildings. Also, the Town did secure a note with Farmers Bank during FY2013 for \$80,175 to finance a new HVAC system for the Smithfield Center.

In FY2012, the Town of Smithfield realized a loss on disposition of capital assets totaling \$900,500. Most of this loss is related to the Pinewood Heights Redevelopment Project. As of June 30, 2012, the Town had purchased 16 properties from Pinewood Heights residents as required for Phase I MY2. Fourteen units were demolished during FY2012 (including 2 from MY1), so the values of the buildings located on those properties were retired from the Town's capital assets. This activity was similar to that in FY2010 and FY2011 during which six units acquired in Pinewood Heights were likewise demolished each year and removed from the Town's asset list. In FY2013, the Town opted to expense structures that were acquired in Pinewood instead of capitalizing them for the short period of time before demolition requiring them to be removed from the books for a loss.

Business-type Activities. The business-type activities show an increase in net position of \$223,744 for FY2013 compared to a decrease of \$205,031 in FY2012. Program revenues include charges for services that decreased by \$120,503 and capital grants and contributions that increased minimally by \$996. Included in charges for services are utility charges, bulk water sales, and connection fees. Water and sewer consumption dropped significantly for the second consecutive year as rates increased and weather conditions continued to be favorable. Town Council adopted new rates as of January 1, 2012 which did offset some of the drop in consumption, but not enough to meet projected revenue needs for the fiscal year. Connection fees, which are driven by growth, actually increased from \$31,530 in FY2012 to \$62,720 in FY2013. Only nine 5/8" residential

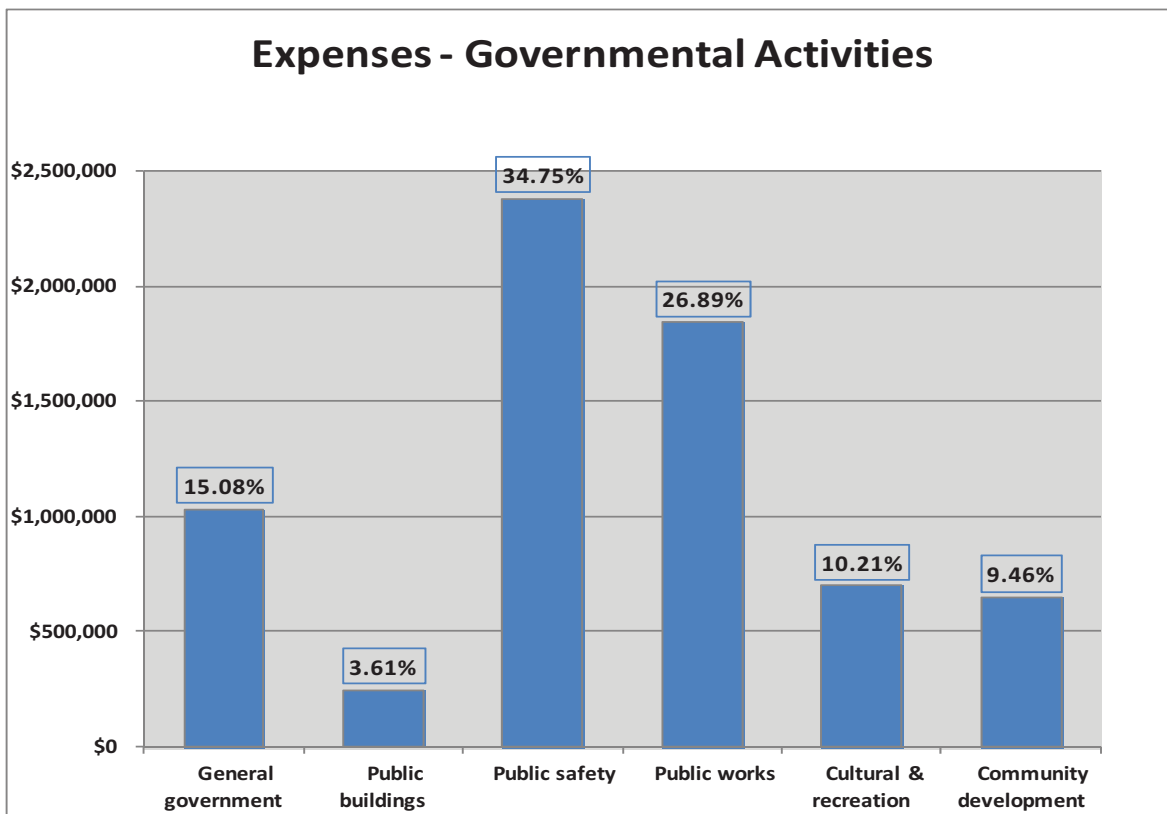
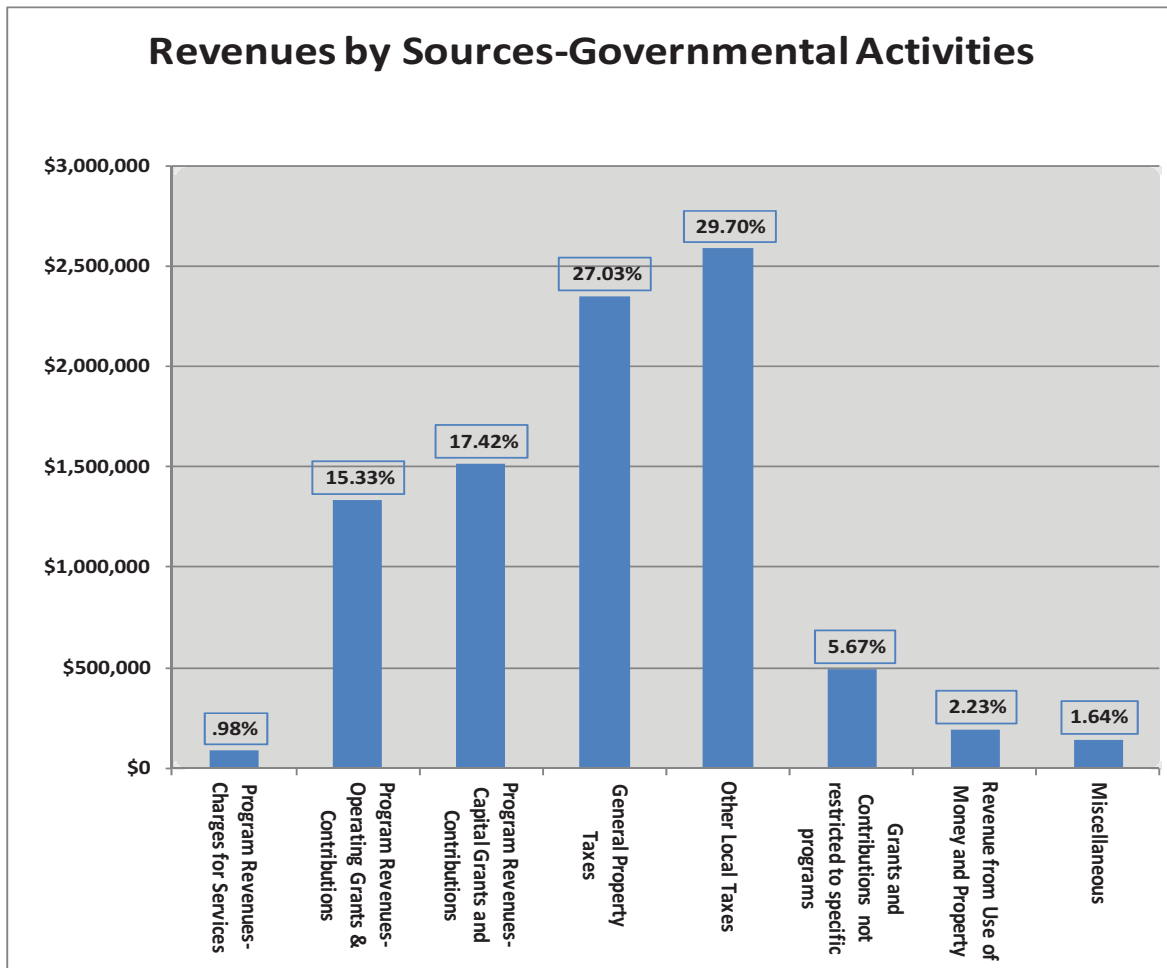
GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

meters were installed in 2012 as compared to twenty-eight in 2013. This increase in connections coupled with a decrease in consumption indicates that more customers are using less water. Included in general revenues for water and sewer are insurance reimbursements, miscellaneous revenues, availability fees, restricted fees, and revenue from use of money and property. In FY2013, the Town received \$7,110 from its insurance provider for reimbursement of storm damage to a SCADA antenna. Miscellaneous revenues of \$7,543 represent application fees for water service (\$5,869) and sales of scrap metal and inventory items to contractors (meter boxes, line setters, and water boxes) totaling \$1,241. Like connection fees, availability fees are tied directly to growth. Availability fees are collected at the same time as connection fees, and the charge is based on meter size. In FY2013, availability fees increased to \$191,520 compared to \$100,900 in FY2012 as nineteen more residential meters were installed. Availability fees are deposited into the Water and Sewer Capital Escrow Funds and are used for capital maintenance on existing infrastructure and to finance new infrastructure when needed. Restricted fees for capital expenditures include sewer compliance fees, debt service fees, and pro-rata share fees which are also deposited into escrow accounts and are not used to fund operating expenses. The Sewer Compliance Escrow Fund was established to track collections of the sewer compliance fee (\$24.14 bi-monthly) and subsequent disbursements for the Regional Sanitary Sewer Consent Order. Since the sewer compliance fee is added equally to each utility account, 2013 collections of \$489,933 are consistent with prior year and should remain that way unless the town experiences significant growth. Likewise, debt service fees of \$19.30 per utility account are also collected bi-monthly and deposited into the Water Debt Service Fund to be used exclusively to pay down debt borrowed for construction of the Battery Park Road water storage tank and the water treatment plant. Debt service fees are also applied equally to each utility account and therefore do not normally fluctuate greatly. Collections for FY2013 totaled \$403,486 compared to \$402,791 in FY2012. Like connection fees and availability fees, pro-rata share fees are growth related. They are deposited into a development escrow account and can only be used for capital additions or repairs resulting from growth. These fees are paid by developers at the time that plats are recorded and are assessed at \$800 for water and \$800 for sewer per lot. In FY2013, the Town received \$6,400 each in sewer and water pro-rata share fees compared to \$4,000 in 2012. Revenue from the use of money and property is made up of interest income and decreased \$2,047 in FY2013. This decrease was caused by sustained low interest earnings on all cash accounts and utilization of escrow funds for consent order projects.

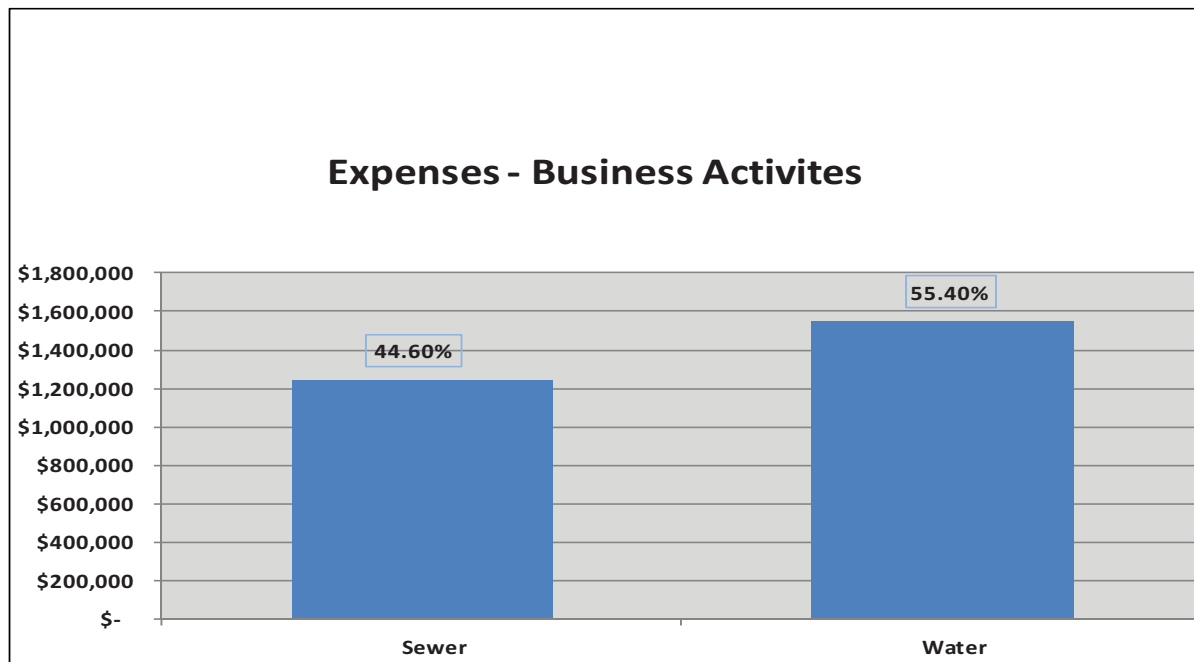
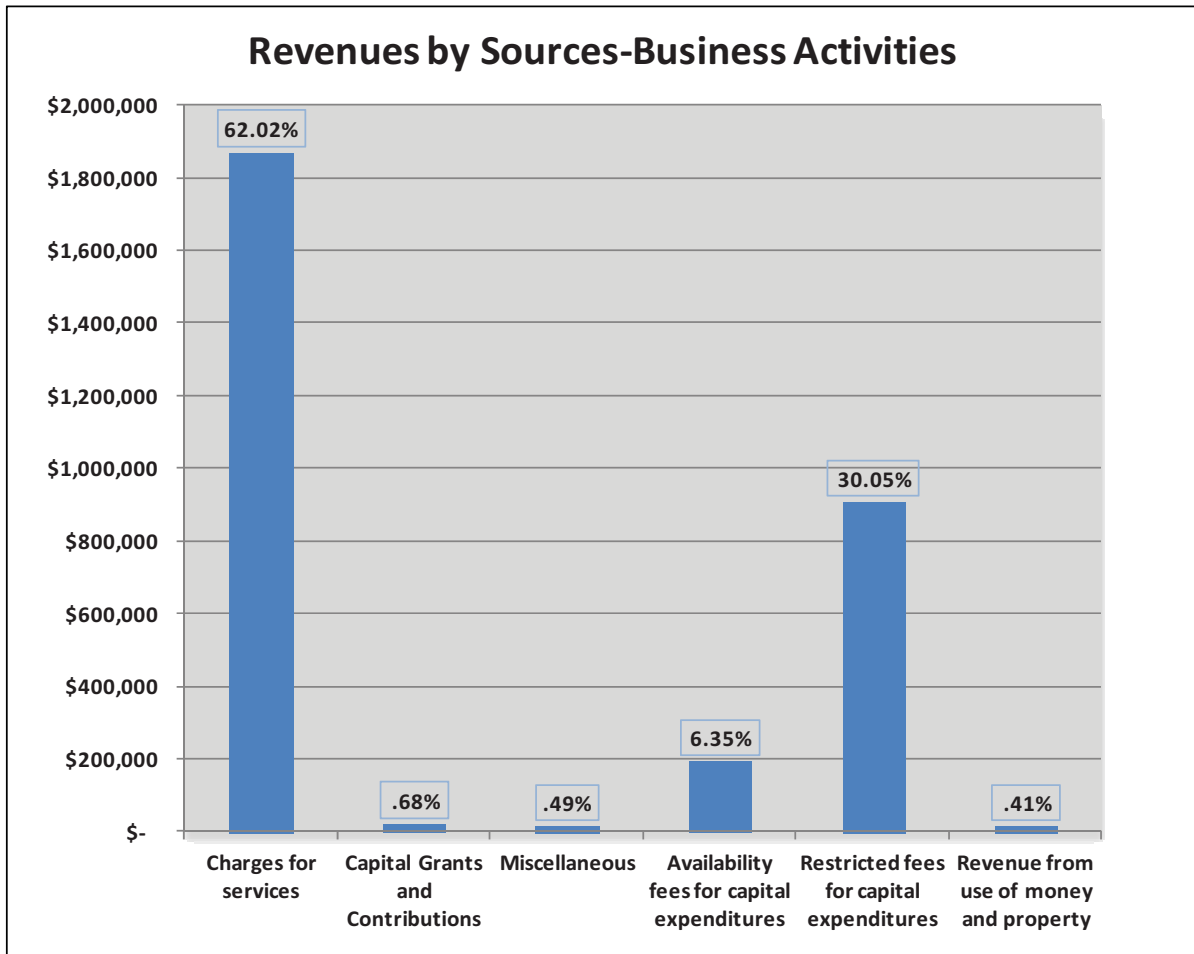
Utility expenses decreased \$440,444 from FY2012 with \$349,470 attributable to sewer and \$90,974 attributable to water. The decrease for sewer was caused by a decrease in depreciation, a non-operating expense, due to an adjustment made in FY2012 that fully depreciated many existing assets. Water likewise experienced a substantial decrease in depreciation (\$154,086) as well as a drop in materials and supplies (\$123,030) related to an inventory adjustment in FY2012. The water fund also reflected several offsetting increases such as the costs to run the water treatment plant once it became operational (\$82,167), water tank maintenance (\$49,207), and salaries (\$41,007). Salaries increased as significant overtime was accumulated during the start up of the reverse osmosis plant.

The Town's current utility rate structure was adopted as of January 1, 2012. This rate structure is based on "usage only" with a charge of \$3.50 per 1,000 gallons for sewer and \$4.85 per 1,000 gallons for water for in-town customers. The rate structure also includes fixed costs on each bi-monthly bill of \$24.14 and \$19.30 per account to address sewer compliance and water debt service expenses. Because consumption has continued to drop in FY2013, the Town Council will review the utility rates on a monthly basis to ensure that revenues are sufficient to meet both operating and capital needs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)



GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The Town's governmental funds relay information on current sources and uses of spendable resources, as well as on the balances of spendable resources available at fiscal year end. The fund balances of total governmental funds equaled \$4,409,852 for FY2013, of which \$36,723 are prepaid items (nonspendable), \$19,903 are committed, \$176,929 are restricted, and \$4,176,297 are unassigned. This was a 57% increase from FY2012 which had a restated fund balance of \$2,799,606.

General Fund. The general fund is the Town's primary operating fund for all governmental activities. Total fund balances for FY2013 equal \$4,291,885 and are made up of prepaid items of \$36,723, committed fund balances of \$19,903, restricted fund balances of \$176,929, and unassigned fund balances of \$4,058,330. The unassigned fund balance was \$2,792,461 (restated) in FY2012. The increase in unassigned fund balance resulted from the use of cash reserves to fund large progress payments on the South Church Street Streetscape Project and renovations to the newly purchased town manager and police department buildings. In FY2012, assets increased and liabilities decreased as South Church Street was completed and town expenditures for capital were greatly reduced.

Highway Maintenance Fund. The highway maintenance fund is used to track receipts from the state that are specifically designated for road maintenance and to identify allowable expenses that may be charged against state revenue. Unassigned fund balances for FY2013 totaled \$109,859 which is a significant increase from a total fund balance of -\$7,007 in FY2012. Ideally, the fund balance of highway maintenance should be small because grant funds from the state should be expensed in the same year they are allocated. The Town did not spend all of its 2013 highway grant funds, however, and those funds have been carried forward to FY2014.

Capital Projects Fund. The capital projects fund for FY2004 specifically detailed grant activity for a community development block grant in the Rising Star community of the Town. Financial activity for this grant began in FY2000 and was completed in FY2004, but the Town continued to collect program revenue from residents who benefited from the Rising Star rehabilitation through FY2007. The balance of program revenues collected (\$8,151) remains in the Town's capital projects fund until a decision is made on its disposition.

Proprietary Funds. The Town's only proprietary funds are its water and sewer funds which provide the same type of information included in the government-wide financial statements but in more detail. As of 2013, the total assets of the proprietary funds totaled \$20,915,896 which is a 4% decrease over FY2012. This change resulted from significantly lower capital outlay costs for the year when compared to 2012 offset by depreciation and payment of debt service. Most of the capital outlay reduction was in the water fund which had capital costs of \$1,312,956 in FY2012 that included construction of an improved waterline on South Church Street and completion of the water treatment (RO) plant. Restricted assets of \$1,509,709 decreased \$723,862 from 2012 as water and sewer development escrow funds were reclassified as unrestricted net position, water debt service funds were used to pay down debt, and sewer compliance escrow funds were used to finance continued engineering and "find and fix" costs required by the regional sanitary sewer consent order. Likewise, unrestricted net position increased by \$739,822 from \$1,657,184 in FY2012 to \$2,397,006 in FY2013 as receivables were accrued for expected reimbursements and water and sewer billings net of allowance for doubtful accounts of \$625,977.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's FY2013 budget was adopted by Town Council at a special meeting held on June 25, 2012. It was appropriated at the July 2, 2012 Town Council meeting. An amended budget was presented and adopted on June 4, 2013. The amended budget reflected a \$2,065,174 (26.79%) increase including reserves over the originally adopted budget. This was largely due to increases in revenues and expenses related to the South Church Street Streetscape Enhancement Project. Other notable changes resulted from FEMA reimbursements, Pinewood Heights CDBG activity, sale of town properties, a private donation of public restrooms, a 1% increase in the Town's meals tax rate, and installation of a new HVAC unit at the Smithfield Center. The South Church Street Project was expected to be completed in FY2012 and therefore was not originally budgeted for FY2013. While the majority of construction was completed by June 30, 2012, the utility work (\$294,899) was not finalized until 2013 and a private donation of \$400,000 was not received until the project was almost finished. Federal and state revenue budgets were increased by \$762,890 and \$151,755 respectively as reimbursements were requested for prior year expenditures on the project that were previously funded by private donations and later reallocated to utility costs that were not eligible for reimbursement. These payments fell below amended budget by \$264,000, however as utility costs were not as high as originally projected. Also included in the federal revenue budget was the full value of the Pinewood Heights Redevelopment Grant (\$624,720), but the Town only received reimbursement of \$124,526 as activity did not progress as quickly as anticipated during the year. A small portion of the federal and state amended budget revenues (\$84,995) represent FEMA reimbursements for Hurricane Irene expenses incurred in FY2012. During the year, Town Council elected to sell two of the Town's rental properties on Main Street and another of its properties that was currently not in use on North Church Street for \$415,000 less incentive allowances of \$240,000. The incentive allowances require that improvements be made to the properties that will beautify and economically benefit the Town. Also, Smithfield Foods, Inc. built public restrooms on Main Street and generously donated them to the Town of Smithfield. The donation was added to the amended budget for a value of \$250,000, but the final appraised value was \$410,000. On June 5, 2012, the Town Council adopted an ordinance to increase the town's meals tax rate from 5% to 6% effective July 1, 2012. This change was not included in the original budget, but was added to the amended budget, increasing meals tax from \$970,000 to \$1,170,235. Actual meals tax collections as of June 30 were \$1,198,415 with 2% (\$368,675) dedicated to fund the Town's leverage requirement in Phase II of the Pinewood Heights Redevelopment Project. Finally, the Town amended its budget to reflect a note for \$80,175 secured from Farmers Bank to finance a much needed replacement HVAC system at the Smithfield Center. The highway road maintenance budget increased by \$76,065 in FY2013 as the state increased its annual grant allocation and VDOT contributed \$36,246 towards the construction of a right turn lane on John Rolfe Drive. The highway fund was also reimbursed \$24,002 by the Virginia Municipal League (the Town's insurance provider) for significant storm damage that necessitated major storm drain rehab work. The Town included \$35,000 in its amended budget for cash proffers received from prior years that were used to pay the Town's matching costs for the right turn lane on John Rolfe Drive.

Total budgeted departmental operating expenses for FY2013 dropped by \$26,957 with fluctuations up and down between departments. There were two significant budget decreases: Parks, Recreation, and Cultural (\$60,136) and Public Safety (\$64,623). The Parks, Recreation, and Cultural budget was reduced by \$31,900 for the waterworks dam as anticipated grant funding to offset engineering costs was moved to FY2014. Also, the Town's original budget contribution of \$36,000 for the Smithfield Branch of the Blackwater Regional Library was reduced to \$8,190 and paid to the Friends of the Library to supplement programs specific to Smithfield. Since the library's contract is with Isle of Wight County, the Town Council determined that the Town would be better served by directing its money towards the needs of the Smithfield branch. Salaries and health insurance budgets were decreased in the Police Department. The original budget was prepared with projected salaries and benefits for 4 new officers, but only 3 were hired. The health insurance budget for new hires was originally projected as employee/spouse coverage, but most selected single coverage which saved the Town approximately \$4,000 per officer. The other departments showed budget increases that were mostly caused by the removal of the highway overhead allocation. In past years, a portion of Town Council, Town Manager, Treasurer, Public Works, and Public Buildings costs have been allocated to the Highway Fund to offset time and materials spent on highway related functions such as accounting, contracts, etc. Those budget amounts totaling

GENERAL FUND BUDGETARY HIGHLIGHTS (CONTINUED)

\$61,165 were removed from the amended budget in FY2013 so that more of the state allocated highway maintenance money could be spent on allowable maintenance expenses. Budgeted capital outlay increased by \$1,207,167 in the amended budget with the biggest changes in Planning, Engineering, and Public Works (\$855,683), Public Buildings (\$250,000) and Parks, Recreation, and Cultural (\$74,465). The Planning, Engineering, and Public Works original budget did not reflect any capital outlay for the year, but the completion date of the South Church Street Streetscape Project was extended to FY2013 increasing the budget by \$855,683. The actual project costs for 2013 were only \$386,177 as savings were realized in utility relocations. Also, as explained previously, the Public Buildings capital budget was amended by \$250,000 to reflect acceptance of the public restrooms donation. The actual assessed value was \$410,000, so the expense reflected on the financial statements exceeded the amended budget. Again, as mentioned above, a new HVAC unit was installed at the Smithfield Center for \$80,175. The original budget reflected \$24,000 for HVAC upgrades as the Town had planned to phase in a new system. After further discussion, Town Council decided a new unit would be a better solution than gradually addressing an ongoing problem. The Town's amended budget shows operating reserves of \$773,899 compared to \$0 in the original budget. Actual reserves were \$904,000 and largely resulted from reimbursement of South Church Street Streetscape Enhancement Project expenses incurred in the previous year. The road maintenance budget was amended by \$111,065 to reflect an increase in allowable maintenance for FY2013 that included the right turn lane on John Rolfe Drive and storm water drain rehab work.

PROPRIETARY FUND BUDGETARY HIGHLIGHTS

The budget for proprietary funds was revised during FY2013 to reflect a net loss after contributions of -\$152,838 (-129%) compared to the original budgeted income of \$524,531. Budgeted revenues decreased \$395,014 (-12 %) largely because of a continued decline in utility consumption that began with rate increases implemented in FY2012. Favorable weather conditions such as intermittent periods of rain during the summer also contributed to the drop in consumption. On a positive note, connection fees increased by \$11,200 (33%) as meter installations for new construction exceeded original projections. The Town budgeted for 15 residential meter connections in FY2013 and increased the budget to 20, but the actual number of installations was 28. This was a significant increase from 9 in the prior year and suggests some recovery, albeit small, in growth and development. The Town decreased the operating expense budget for proprietary funds by \$42,112 (-2%). The original budget included \$50,164 of repair/replacement costs that were built into the water rate structure so that money would be available when needed for upgrades to the water treatment plant. In FY2012, the Town opened a Water Treatment Capital Escrow fund so that any budgeted money for the plant that remained unspent at fiscal year-end could be reserved for future use. Because FY2013 revenues fell below projections, however, the amended expenses for the reverse osmosis plant were reduced to remove the repair/replacement costs. The Town will have to find an alternative financing source when repairs are needed for the plant unless revenues increase either through consumption or rate changes in subsequent fiscal years. Bad debt and depreciation expense budgets were amended by \$380,300 to reflect an increase in sewer depreciation as the Town continued to make progress on the engineering tasks and "find and fix" items related to the regional sanitary sewer consent order. The budget for non-operating revenues and expenses was increased \$55,860 to adjust revenues for pro-rata share fees (\$12,800) and insurance reimbursements (\$7,110) that were not originally budgeted as well as an increase in availability fees (\$34,200). Pro-rata share fees of \$1,600 per lot were paid by developers for 8 lots during FY2013. Pro-rata share fees have not been budgeted for several years since they are paid at the time that plats are recorded. Not many were recorded as construction declined sharply in a struggling economy. In FY2012, the Town received \$8000 in pro-rata share fees which were the first received since FY2007. Availability fees are paid at the same time as connection fees and likewise exceeded original and amended budget expectations as 28 residential meters were installed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of FY2013, the Town's investment in capital assets for its governmental and business-type activities totaled \$37,746,548 net of accumulated depreciation. This is an decrease of only \$66,620 from FY2012. The small increase is a result of a reduction in capital spending in FY2013 compared to prior year that is further reduced after applying annual depreciation. The Town's investment in capital assets includes land, buildings, improvements other than buildings, infrastructure, machinery and equipment and construction in progress. The Town owns roads, streetlights, and other highway infrastructure that has been included in this report.

Major capital asset events during the current fiscal year included the following:

- Purchase of three new police vehicles and a public works vehicle
- Installation of a new HVAC system for the Smithfield Center
- Purchase of 3 land parcels to begin Phase II MY1 of the Pinewood Heights Redevelopment Project
- Acceptance of a public restroom facility on Main Street from a private donor
- Construction of a right turn lane on John Rolfe Drive
- SCADA system upgrades and flow monitoring upgrades as part of the town's ongoing compliance requirements for the regional sanitary sewer consent order
- Completion of the South Church Street Streetscape Enhancement Project

Town of Smithfield, Virginia Capital Assets (net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 8,120,836	\$ 8,074,742	\$ 204,481	\$ 204,481	\$ 8,325,317	\$ 8,279,223
Building and system	3,944,530	4,146,540	8,610,915	8,945,762	12,555,445	13,092,302
Improvements other than buildings	1,113,947	1,022,358	119,638	126,150	1,233,585	1,148,508
Machinery & equipment	402,951	331,387	3,081,555	2,917,959	3,484,506	3,249,346
Vehicles	381,181	419,130	152,275	155,989	533,456	575,119
Infrastructure	7,030,260	3,075,443	4,052,797	4,283,249	11,083,057	7,358,692
Art collections	14,816	7,055	-	-	14,816	7,055
Contruction in progress	2,079	3,797,505	514,287	305,418	516,366	4,102,923
Total	\$ 21,010,600	\$ 20,874,160	\$ 16,735,948	\$ 16,939,008	\$ 37,746,548	\$ 37,813,168

Additional details on the Town's capital assets can be found in Note 7 of the Notes to the Basic Financial Statements.

Debt Administration. Outstanding debt for the Town at fiscal year-end 2013 totaled \$5,138,458 of which \$825,920 originated from governmental activities and the remaining \$4,312,538 from business-type activities. New debt in the amount of \$80,175 was secured with a note from Farmers Bank to replace the HVAC system at the Smithfield Center. Total principal paid for the fiscal year totaled \$435,170. The Town's ratio of net bonded debt to total assessed value of taxable property remained the same as in FY2012 at .05%.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Detailed information about the Town's net bonded debt per capita and legal debt margin may be found in Tables 10 and 11 on pages 75 and 76 of this report. The Town's outstanding debt is significantly below the state's allowable limit of 10% of the total assessed value of taxed real property.

Town of Smithfield, Virginia
Outstanding Debt
For the Year Ended June 30, 2013

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
General obligation bonds	\$ 600,766	\$ 620,680	\$ 4,223,464	\$ 4,605,738	\$ 4,824,230	\$ 5,226,418
Notes payable	67,878	-	56,402	77,085	124,280	77,085
Compensated absences	157,276	134,682	32,672	27,701	189,948	162,383
Total	<u>\$ 825,920</u>	<u>\$ 755,362</u>	<u>\$ 4,312,538</u>	<u>\$ 4,710,524</u>	<u>\$ 5,138,458</u>	<u>\$ 5,465,886</u>

ECONOMIC FACTORS

An announcement in May 2013 that Smithfield Foods, Inc. had agreed to a private acquisition by the Chinese company Shuanghui was the biggest news of the year for the Town of Smithfield. Smithfield Foods is headquartered in Smithfield and has been an essential part of its economy since its founding in 1936 as the Smithfield Packing Company. There was genuine concern among Town officials, residents, and local businesses regarding how the sale might impact the Town's future. Workforce reductions and lost revenues were envisioned, but for now Shuanghui plans to continue business as usual in the Town. Regarding other concerns for the Town, Smithfield began the fiscal year with the South Church Street Streetscape Enhancement Project still ongoing. The project was completed in 2013 eliminating the inconvenience of traffic delays and greatly improving the appearance of a well traveled area of the historic district. The Windsor Castle Park has quickly become a focal point for the Town as part of its wellness initiative and the venue of choice for special events. A new contract was signed with the Virginia Department of Housing and Community Development for Phase II MY1 of the Pinewood Heights Redevelopment Project for the acquisition, relocation, and demolition of 10 properties to be funded with federal grant money and 2% of the Town's meals tax revenues. Town Council is committed to this successful endeavor that has already improved the lives of numerous residents to date. Water and sewer rates are evaluated monthly as user consumption has dropped for two consecutive years. Town Council is aware that increasing rates are a concern for residents and businesses alike, but the Town must maintain its utilities and provide quality service while complying with unfunded mandates.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town of Smithfield, Virginia's financial condition as of fiscal year ended 2013. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Smithfield, 310 Institute Street, Smithfield, VA 23430.

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Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Position
As of June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 3,175,290	\$ 2,798,027	\$ 5,973,317
Receivables (net of allowance for uncollectibles):			
Taxes receivable	1,787,226	-	1,787,226
Accounts receivable	233,515	625,977	859,492
Interest receivable	109	-	109
Unearned incentive	353,240	-	353,240
Internal balances	897,948	(897,948)	-
Due from other governmental units	674,499	762	675,261
Inventories	-	143,421	143,421
Prepaid items	36,723	-	36,723
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	176,929	1,509,709	1,686,638
Capital assets (net of accumulated depreciation):			
Land	8,120,836	204,481	8,325,317
Buildings and system	3,944,530	8,610,915	12,555,445
Improvements other than buildings	1,113,947	119,638	1,233,585
Machinery and equipment	402,951	3,081,555	3,484,506
Vehicles	381,181	152,275	533,456
Infrastructure	7,030,260	4,052,797	11,083,057
Art collections	14,816	-	14,816
Construction in progress	2,079	514,287	516,366
Total assets	\$ 28,346,079	\$ 20,915,896	\$ 49,261,975
LIABILITIES			
Accounts payable	\$ 602,498	\$ 150,315	\$ 752,813
Accrued liabilities	119,566	25,244	144,810
Accrued interest payable	-	65,002	65,002
Due to other governmental units	40,498	-	40,498
Due to taxpayers	54,318	-	54,318
Long-term liabilities:			
Due within one year	95,932	432,455	528,387
Due in more than one year	729,988	3,880,083	4,610,071
Total liabilities	\$ 1,642,800	\$ 4,553,099	\$ 6,195,899
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	\$ 1,706,006	\$ -	\$ 1,706,006
NET POSITION			
Net investment in capital assets	\$ 20,341,956	\$ 12,456,082	\$ 32,798,038
Restricted for:			
Town beautification	68,949	-	68,949
Pinewood Heights escrow	28,812	-	28,812
South street projects	42,644	-	42,644
Police department expenditures	36,524	-	36,524
Debt service	-	1,279,413	1,279,413
Sewer compliance	-	230,296	230,296
Unrestricted	4,478,388	2,397,006	6,875,394
Total net position	\$ 24,997,273	\$ 16,362,797	\$ 41,360,070

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

TOWN OF SMITHFIELD, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 1,124,143	\$ -	\$ -	\$ -
Public safety	2,378,375	68,396	286,575	-
Public works	1,952,522	-	1,043,531	1,392,349
Parks, recreation, and cultural	698,573	-	5,002	-
Community development	646,422	17,176	-	124,526
Interest on long-term debt	43,342	-	-	-
Total governmental activities	\$ 6,843,377	\$ 85,572	\$ 1,335,108	\$ 1,516,875
Business-type activities:				
Water	\$ 1,546,489	\$ 1,594,540	\$ -	\$ 76,160
Sewer	1,245,035	1,181,471	-	136,042
Total business-type activities	\$ 2,791,524	\$ 2,776,011	\$ -	\$ 212,202
Total primary government	\$ 9,634,901	\$ 2,861,583	\$ 1,335,108	\$ 1,729,077

General revenues:

General property taxes

Other local taxes:

Local sales and use tax

Business licenses

Utility license taxes

Restaurant food taxes

Cigarette taxes

Motor vehicle taxes

Other local taxes

Unrestricted revenues from use of money and property

Miscellaneous

Grants and contributions not restricted to specific programs

Gain on disposal of capital assets

Total general revenues

Change in net position

Net position - beginning, as restated

Net position - ending

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

Exhibit 2

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (1,124,143)	\$ -	\$ (1,124,143)
(2,023,404)	-	(2,023,404)
483,358	-	483,358
(693,571)	-	(693,571)
(504,720)	-	(504,720)
(43,342)	-	(43,342)
<u>\$ (3,905,822)</u>	<u>\$ -</u>	<u>\$ (3,905,822)</u>
\$ -	\$ 124,211	\$ 124,211
-	72,478	72,478
<u>-</u>	<u>196,689</u>	<u>196,689</u>
<u>\$ (3,905,822)</u>	<u>\$ 196,689</u>	<u>\$ (3,709,133)</u>
\$ 2,352,590	\$ -	\$ 2,352,590
259,165	-	259,165
365,415	-	365,415
188,140	-	188,140
1,198,415	-	1,198,415
136,665	-	136,665
137,139	-	137,139
300,437	-	300,437
193,830	12,402	206,232
142,646	14,653	157,299
493,914	-	493,914
18,722	-	18,722
<u>5,787,078</u>	<u>27,055</u>	<u>5,814,133</u>
1,881,256	223,744	2,105,000
23,116,017	16,139,053	39,255,070
<u>24,997,273</u>	<u>16,362,797</u>	<u>41,360,070</u>

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Fund Financial Statements

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Balance Sheet

Governmental Funds

As of June 30, 2013

	General	Highway Maintenance	Capital Projects	Total
ASSETS				
Cash and cash equivalents (Note 2)	\$ 2,969,271	\$ 10,430	\$ 195,589	\$ 3,175,290
Receivables (net of allowance for uncollectibles):				
Taxes receivable (Note 1)	1,787,226	-	-	1,787,226
Accounts receivable	233,515	-	-	233,515
Interest receivable	109	-	-	109
Due from other funds	1,098,478	232,363	8,151	1,338,992
Due from other governmental units (Note 3)	674,499	-	-	674,499
Prepaid items	36,723	-	-	36,723
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	176,929	-	-	176,929
Total assets	<u>\$ 6,976,750</u>	<u>\$ 242,793</u>	<u>\$ 203,740</u>	<u>\$ 7,423,283</u>
LIABILITIES				
Accounts payable	\$ 483,920	\$ 118,578	\$ -	\$ 602,498
Accrued liabilities	110,108	9,458	-	119,566
Due to other funds	240,514	4,898	195,632	441,044
Due to other governmental units (Note 3)	40,498	-	-	40,498
Refunds to taxpayers	54,318	-	-	54,318
Total liabilities	<u>\$ 929,358</u>	<u>\$ 132,934</u>	<u>\$ 195,632</u>	<u>\$ 1,257,924</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	<u>\$ 1,755,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,755,507</u>
FUND BALANCE				
Nonspendable:				
Prepaid items	<u>\$ 36,723</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,723</u>
Restricted for:				
Town beautification	\$ 68,949	\$ -	\$ -	\$ 68,949
Pinewood Heights escrow	28,812	-	-	28,812
South street projects	42,644	-	-	42,644
Police department expenditures	36,524	-	-	36,524
Total restricted fund balance	<u>\$ 176,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176,929</u>
Committed for:				
Special projects	<u>\$ 19,903</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,903</u>
Unassigned	<u>\$ 4,058,330</u>	<u>\$ 109,859</u>	<u>\$ 8,108</u>	<u>\$ 4,176,297</u>
Total fund balances	<u>\$ 4,291,885</u>	<u>\$ 109,859</u>	<u>\$ 8,108</u>	<u>\$ 4,409,852</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,976,750</u>	<u>\$ 242,793</u>	<u>\$ 203,740</u>	<u>\$ 7,423,283</u>

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

Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
As of June 30, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	4,409,852
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When capital assets (land, buildings, equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net position includes those capital assets among the assets of the locality as a whole.		21,010,600
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue.

Unavailable revenue related to property taxes	49,501
Unearned incentive allowance	353,240

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. All liabilities - both current and long-term - are reported in the Statement of Net Position.

(825,920)

Net position of governmental activities	\$	<u>24,997,273</u>
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The notes to the financial statements are an integral part of this statement.

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	General	Highway Maintenance	Capital Projects	Total
REVENUES				
General property taxes	\$ 2,361,401	\$ -	\$ -	\$ 2,361,401
Other local taxes	2,585,376	-	-	2,585,376
Permits, privilege fees, and regulatory licenses	17,176	-	-	17,176
Fines and forfeitures	68,396	-	-	68,396
Revenue from the use of money and property	193,643	187	-	193,830
Miscellaneous	928,644	24,002	-	952,646
Intergovernmental revenues:				
Commonwealth	813,693	1,039,766	-	1,853,459
Federal	682,438	-	-	682,438
Total revenues	<u>\$ 7,650,767</u>	<u>\$ 1,063,955</u>	<u>\$ -</u>	<u>\$ 8,714,722</u>
EXPENDITURES				
Current:				
General government administration	\$ 928,844	\$ -	\$ -	\$ 928,844
Public safety	2,216,171	-	-	2,216,171
Public works	945,289	855,490	-	1,800,779
Parks, recreation, and cultural	537,096	-	-	537,096
Community development	620,362	-	-	620,362
Capital outlay	1,084,262	97,643	-	1,181,905
Debt service:				
Principal retirement	482,211	-	-	482,211
Interest and other fiscal charges	43,345	-	-	43,345
Total expenditures	<u>\$ 6,857,580</u>	<u>\$ 953,133</u>	<u>\$ -</u>	<u>\$ 7,810,713</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 793,187</u>	<u>\$ 110,822</u>	<u>\$ -</u>	<u>\$ 904,009</u>
OTHER FINANCING SOURCES (USES)				
Issuance of note payable	\$ 80,175	\$ -	\$ -	\$ 80,175
Line of credit draws	450,000	-	-	450,000
Sale of land	174,171	-	-	174,171
Sale of equipment	1,891	-	-	1,891
Total other financing sources (uses)	<u>\$ 706,237</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 706,237</u>
Net change in fund balances	\$ 1,499,424	\$ 110,822	\$ -	\$ 1,610,246
Fund balances - beginning, as restated	<u>2,792,461</u>	<u>(963)</u>	<u>8,108</u>	<u>2,799,606</u>
Fund balances - ending	<u><u>\$ 4,291,885</u></u>	<u><u>\$ 109,859</u></u>	<u><u>\$ 8,108</u></u>	<u><u>\$ 4,409,852</u></u>

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

Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$	1,610,246
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Details supporting this adjustment are as follows:

Capital outlay	\$	1,177,869	
Depreciation expense		<u>(644,088)</u>	533,781

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to decrease net position.	(183,400)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(8,811)
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. Details supporting this adjustment are as follows:

Principal retired on general obligation bonds	\$	19,914	
Principal retired on notes payable		12,297	
Payment of line of credit		450,000	
Issuance of note payable		(80,175)	
Line of credit draws		<u>(450,000)</u>	(47,964)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

(Increase)/decrease in compensated absences	<u>(22,596)</u>
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Change in net position of governmental activities	\$	<u><u>1,881,256</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 As of June 30, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,450,144	\$ 1,347,883	\$ 2,798,027
Receivables, net of allowances for uncollectibles accounts	351,260	274,717	625,977
Due from other funds	2,441	278,081	280,522
Due from other governmental units	-	762	762
Inventory	115,760	27,661	143,421
Total current assets	\$ 1,919,605	\$ 1,929,104	\$ 3,848,709
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	\$ 1,279,413	\$ 230,296	\$ 1,509,709
Total restricted assets	\$ 1,279,413	\$ 230,296	\$ 1,509,709
Noncurrent assets:			
Capital assets:			
Land	\$ 194,391	\$ 10,090	\$ 204,481
Improvements other than buildings	112,644	17,591	130,235
Vehicles	70,082	269,507	339,589
Buildings	7,386,468	4,192,193	11,578,661
Machinery and equipment	1,824,028	2,746,087	4,570,115
Infrastructure	3,050,879	7,361,370	10,412,249
Construction in progress	2,079	512,208	514,287
Less accumulated depreciation	(2,653,462)	(8,360,207)	(11,013,669)
Total capital assets	\$ 9,987,109	\$ 6,748,839	\$ 16,735,948
Total noncurrent assets	\$ 11,266,522	\$ 6,979,135	\$ 18,245,657
Total assets	\$ 13,186,127	\$ 8,908,239	\$ 22,094,366
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 40,243	\$ 110,072	\$ 150,315
Accrued payroll	14,163	11,081	25,244
Accrued interest payable	53,857	11,145	65,002
Due to other funds	716,788	461,682	1,178,470
Compensated absences - current portion	7,499	6,249	13,748
Bonds payable - current portion	322,274	96,433	418,707
Total current liabilities	\$ 1,154,824	\$ 696,662	\$ 1,851,486
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 3,017,240	\$ 843,919	\$ 3,861,159
Compensated absences - net of current portion	10,145	8,779	18,924
Total noncurrent liabilities	\$ 3,027,385	\$ 852,698	\$ 3,880,083
Total liabilities	\$ 4,182,209	\$ 1,549,360	\$ 5,731,569
NET POSITION			
Net investment in capital assets	\$ 6,647,595	\$ 5,808,487	\$ 12,456,082
Restricted	1,279,413	230,296	1,509,709
Unrestricted	1,076,910	1,320,096	2,397,006
Total net position	\$ 9,003,918	\$ 7,358,879	\$ 16,362,797
Total liabilities and net position	\$ 13,186,127	\$ 8,908,239	\$ 22,094,366

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

Statement of Revenues, Expenses, and Changes in Fund Net Position
 Proprietary Funds
 For the Year Ended June 30, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services and connection fees	\$ 1,184,654	\$ 1,175,071	\$ 2,359,725
Charges for services-debt service	403,486	-	403,486
Development impact fees	6,400	6,400	12,800
Miscellaneous	6,916	627	7,543
Total operating revenues	\$ 1,601,456	\$ 1,182,098	\$ 2,783,554
OPERATING EXPENSES			
Personnel services	\$ 329,564	\$ 264,404	\$ 593,968
Employee benefits	111,311	96,756	208,067
Contractual	43,428	24,216	67,644
Maintenance, repairs, and truck operations	111,328	86,288	197,616
RO Plant	390,465	-	390,465
Utilities	11,938	50,878	62,816
Office supplies	25,977	60,910	86,887
Other charges	56,598	53,635	110,233
Depreciation	329,839	563,572	893,411
Bad debt expense	1,127	901	2,028
Total operating expenses	\$ 1,411,575	\$ 1,201,560	\$ 2,613,135
Operating income (loss)	\$ 189,881	\$ (19,462)	\$ 170,419
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 6,428	\$ 5,974	\$ 12,402
Insurance recoveries	-	7,110	7,110
Interest expense	(134,914)	(43,475)	(178,389)
Total nonoperating revenues (expenses)	\$ (128,486)	\$ (30,391)	\$ (158,877)
Income (loss) before contributions	\$ 61,395	\$ (49,853)	\$ 11,542
Contributed capital - availability fees	\$ 76,160	\$ 115,360	\$ 191,520
Contributed capital - VA revolving loan	-	20,682	20,682
Change in net position	\$ 137,555	\$ 86,189	\$ 223,744
Total net position - beginning, as restated	8,866,363	7,272,690	16,139,053
Total net position - ending	\$ 9,003,918	\$ 7,358,879	\$ 16,362,797

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2013

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,643,276	\$ 1,320,122	\$ 2,963,398
Payments to suppliers	(313,281)	(255,140)	(568,421)
Payments to and on behalf of employees	(433,400)	(461,894)	(895,294)
Net cash provided by (used for) operating activities	\$ 896,595	\$ 603,088	\$ 1,499,683
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Intergovernmental revenue	\$ -	\$ 7,110	\$ 7,110
Net cash provided by (used for) noncapital financing activities	\$ -	\$ 7,110	\$ 7,110
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	\$ (22,404)	\$ (667,947)	\$ (690,351)
Capital contributions	76,160	136,042	212,202
Debt service	-	-	-
Retirements of long-term indebtedness	(311,724)	(91,233)	(402,957)
Interest payments	(139,201)	(44,422)	(183,623)
Net cash provided by (used for) capital and related financing activities	\$ (397,169)	\$ (667,560)	\$ (1,064,729)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 6,428	\$ 5,974	\$ 12,402
Net cash provided by (used for) investing activities	\$ 6,428	\$ 5,974	\$ 12,402
Net increase (decrease) in cash and cash equivalents	\$ 505,854	\$ (51,388)	\$ 454,466
Cash and cash equivalents - beginning	2,223,703	1,629,567	3,853,270
Cash and cash equivalents - ending	\$ 2,729,557	\$ 1,578,179	\$ 4,307,736
Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities:			
Operating income (loss)	\$ 189,881	\$ (19,462)	\$ 170,419
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:			
Depreciation expense	329,839	563,572	893,411
(Increase) decrease in accounts receivable	64,644	18,837	83,481
(Increase) decrease in due to other funds	356,911	119,187	476,098
Increase (decrease) in compensated absences	4,389	582	4,971
Increase (decrease) in payroll liabilities	2,546	(345)	2,201
Increase (decrease) in due from other funds	540	(104,015)	(103,475)
Increase (decrease) in accounts payable	(29,331)	(8,881)	(38,212)
Increase (decrease) in inventory	(22,824)	30,569	7,745
Increase (decrease) in due from other governments	-	3,044	3,044
Total adjustments	\$ 706,714	\$ 622,550	\$ 1,329,264
Net cash provided by (used for) operating activities	\$ 896,595	\$ 603,088	\$ 1,499,683

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

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TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

The *Town of Smithfield, Virginia* (Town) is a political subdivision of the Commonwealth of Virginia governed by an elected seven member Town Council. The Town provides a full range of services for its citizens. These services include police and fire protection, recreational activities, and cultural events.

The financial statements of the Town of Smithfield, Virginia have been prepared in conformity with the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia, and the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board. The more significant of the government's accounting policies are described below.

A. Financial Reporting Entity

Accounting principles generally accepted in the United States require financial statements to present the primary government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government. The Town has no component units that meet the requirements for blending. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize they are legally separate from the primary government. The Town does not have any discretely presented component units.

B. Government-wide and Fund Financial Statements

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Town. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

Statement of Net Position - The Statement of Net Position is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented component unit. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense, the cost of "using up" capital assets, in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

B. Government-wide and Fund Financial Statements (Continued)

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Budgetary comparison schedules - Demonstrating compliance with the adopted budget is an important component of a government's accountability to the public. Many citizens participate in one way or another in the process of establishing the annual operating budgets of state and local governments, and have a keen interest in following the actual financial progress of their governments over the course of the year. Many governments revise their original budgets over the course of the year for a variety of reasons. Under the GASB 34 reporting model, governments provide budgetary comparison information in their annual reports, including the original budget and a comparison of final budget and actual results.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, public works, health and welfare, etc.) which are otherwise being supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, fines, permits and charges, etc.) The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants, and contributions. The program revenues must be directly associated with the function (public safety, public works, health and welfare, etc.) or a business-type activity.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Town considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustment necessary to reconcile the fund financial statements to the governmental column of the government-wide financial statements.

The following is a brief description of the specific funds used by the Town in FY 2013.

1. *Governmental Funds:*

Governmental Funds are those through which most governmental functions typically are financed.

- a. *General Fund* - The General Fund is the primary operating fund of the Town. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for services, and interest income. The General Fund is considered a major fund for reporting purposes.
- b. *Special Revenue Fund* - Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The only special revenue fund is the Highway Maintenance Fund, which is considered a major fund.
- c. *Capital Projects Fund* - The Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments. The Town Capital Projects Fund is considered a major fund.

2. *Proprietary Funds:*

Proprietary Funds account for operations that are financed in a manner similar to private business enterprises. The measurement focus is upon determination of net income, financial position, and changes in financial position. Proprietary Funds consist of an enterprise fund.

Enterprise Funds account for the financing of services to the general public where all or most of the operating expenses involved are recorded in the form of charges to users of such services. The enterprise fund consists of the Water and Sewer Fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues consist of charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Budgets and Budgetary Accounting

The Town Council annually adopts budgets for the general and water and sewer funds.

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. On or before April 1 of each year, the Town Manager submits to Town Council a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public notice regarding the proposed budget is circulated in accordance with Virginia statute, and at least one public hearing is conducted at the Smithfield Center to obtain taxpayer comments.
3. Prior to June 30, the budget is legally enacted through passage of an appropriation resolution. Town Council may approve supplemental appropriations.
4. The legal level of control is at the function level within an individual fund. The Town Manager is authorized to transfer budgeted amounts within departments within any fund; however, any revisions between departments, from the contingency line item, or that alter the total expenditures of any fund must be approved by Town Council.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Water and Sewer Fund.
6. The budgets for the General Fund and Water and Sewer Fund are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. A review of the presented budget comparisons herein will disclose how accurately Town Council was actually able to forecast the revenues and expenditures of the Town.
8. Appropriations lapse on June 30, unless carried forward by a resolution of Town Council.
9. Budgetary amounts as presented in the financial statements reflect budget revisions through June 30, 2013.

E. Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2013.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F. Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as short-term highly liquid investments that are both (1) readily convertible to known amounts of cash, and (2) so near the maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, only investments with original maturities of three months or less meet this definition.

G. Investments

The Town's investments at June 30, 2013 consisted of amounts invested in certificates of deposit, which are reported in the financial statements as cash and cash equivalents.

H. Inventory and Prepaid Items

All inventories, which consist of materials and supplies, are valued at cost using the first-in, first-out method. Reported inventories are accounted for under the consumption method (i.e., recorded as expenditures when used) in the proprietary funds. The cost is recorded as an expenditure at the time individual inventory items are consumed. Quantities on hand at year end are recorded at cost on the balance sheet.

I. Allowance for Uncollectible Accounts

The Town calculates its allowances for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance for uncollectible taxes was \$172,287 at June 30, 2013. The allowance for uncollectible billings in the water and sewer funds are \$57,649 and \$45, 296 respectively.

J. Capital Assets

Capital outlays are recorded as expenditures of the governmental funds of the Town, and as assets in the government-wide financial statements to the extent that the Town's capitalization threshold of \$5,000 is met. Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation is recorded on capital assets on a government-wide basis using the straight-line method and the following estimated useful lives:

Art	15 Years
Buildings and System	10-50 Years
Automobiles	5-7 Years
Machinery and Equipment	3-20 Years
Infrastructure	30-65 Years
Improvements Other than Buildings	10-50 Years

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Interest attributable to capitalized assets as of June 30, 2013 was immaterial.

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

K. Compensated Absences

Town employees are granted vacation and sick leave based on the employee's length of service and position. They may accumulate, subject to certain limitations, unused vacation and sick leave earned. Upon retirement, termination or death, employees may be compensated for certain amounts at their then current rate of pay. The accumulated annual sick and vacation leave estimated to be payable upon separation are recorded in the accompanying government-wide financial statements. The current amount of leave liability has been estimated at 10%. The balance of compensated absences has been reported as a long-term liability.

L. Long-Term Obligations

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bonds payable are reported net of the applicable bond premium or discount. Long-term obligations financed by proprietary funds are reported as liabilities in the appropriate fund.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

L. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Significant estimates, which are elements of these financial statements, include allowance for doubtful accounts receivable and useful lives for tangible property. Actual results could differ from those estimates.

M. Intergovernmental Agreements

Water Services Agreement:

The Town has an agreement in place with Isle of Wight County to provide water to certain areas of Isle of Wight County. The initial agreement was entered into in August 2010 for a term of five years at the rate of \$3.90 per 1,000 gallons. The rate was increased to \$5.99 effective January 1, 2012 as part of utility rate increases adopted by the Town council. The Town received \$255,878 in 2013 under this agreement. The agreement may be renewed for 5 subsequent one year terms.

Sanitary Sewer Public Utility Agreement:

The Town has an agreement in place with Isle of Wight County to provide sewer services to certain areas of Isle of Wight County at the rate of \$1.50 per month for each residential and commercial connection within the area. The initial agreement was entered into in March 2010 and continues for five years. After the initial 5 year period, the amount of the surcharge is subject to review and adjustment, if necessary. The Town received \$9,121 in 2013 under this agreement.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

N. Intergovernmental Agreements (Continued)

Tourism Agreement:

The Town has a memorandum of understanding with Isle of Wight County to share the operating costs of the tourism center located in Smithfield. The tourism center is for the benefit of both Smithfield and Isle of Wight County. The total amount the Town expended related to this memorandum of understanding in 2013 was \$183,605.

Erosion and Sediment Control Plan:

The Town has a memorandum of agreement with Isle of Wight County to develop an erosion and sediment control plan for each zoning permit that it issues. There was no expenditure related to this agreement in FY 2013.

Fats, Oils, and Grease Control:

The Town, along with several other localities, has entered into a Memorandum of agreement with Hampton Roads Sanitation District related to control of the amounts of fats, oils, and grease draining into sanitary sewers from food service establishments. The total amount the Town expended during FY 2013 was nominal and is not currently tracked or reported separately by the Town.

Law Enforcement Mutual Aid Agreement:

The Town has entered into a mutual aid agreement with several other localities to provide police and sheriff support across jurisdictional lines. There was no expenditure related to this agreement in FY2013.

Emergency Communications Center:

The Town has entered into a memorandum of understanding with other nearby localities to establish an emergency communications center to serve as a central dispatch facility for police, fire and EMS. The total amount the Town expended related to this memorandum of understanding in 2013 was \$103,227.

O. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any deferred outflows of resources as of June 30, 2013.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

O. Deferred Outflows/Inflows of Resources: (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

P. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

Q. Net Position Flow Assumption

Sometimes the Town will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town's policy to consider restricted - net position to have been depleted before unrestricted - net position is applied.

R. Fund Equity

The Town reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund type Definitions*. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

R. Fund Equity (Continued)

- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is generally the Town's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

Town Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance/resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Town Council through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

A fund balance policy has not been formally adopted by Council as of June 30, 2013.

S. Adoption of Accounting Principles

Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board:

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and deferred outflows of resources. The requirements of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on an entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board:

The Town implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net position reported in the financial statements was restated as a result of implementing this Statement. Please refer to Note 17 for further detail.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS:

Deposits

All deposits of the Town are held in banks covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (Act) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Under the Act, banks holding public deposits in excess of the amounts insured by the Federal Deposit Insurance Corporation (FDIC) must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. If any member financial institution fails, the entire collateral becomes available to satisfy the claims of the Town. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks and savings and loans) of the pool; therefore, these deposits are considered collateralized and as a result are considered insured. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans.

Investments

As of June 30, 2013, the Town had the following investments:

Town's Rated Debt Investments	
<u>Rated Debt Investments Value</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
State Non-Arbitrage Pool	\$ <u>752</u>
Total	\$ <u><u>752</u></u>

Investment Credit Policy

The Town has no investment policy that limits its investment choices other than the limitations of the Code of Virginia. The following investments are allowed under the Code:

1. Direct obligations of the U.S. government, its agencies, and instrumentalities to which the full faith and credit of the U.S. government is pledged, or obligations to the payment of which the full faith and credit of the state is pledged; Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out of state financial institutions;

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS: (CONTINUED)

2. With certain limitations, negotiable Certificates of deposit, prime bankers acceptances, prime commercial paper, and repurchase agreements;
3. Municipal obligations, bond or revenue anticipation notes; money judgments; or bond or revenue anticipation notes of public trusts whose beneficiary is a Town, municipality, or school district; and
4. Money market funds regulated by the Securities and Exchange Commission (SEC) in which investments consist of the investments mentioned in points 1, 2, and 3.

Interest Rate Risk

This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Town does not have a formal policy for custodial credit risk other than those policies in the Code of Virginia. All investments, evidenced by individual securities, are registered in the name of the Town.

Concentration of Investment Credit Risk

The Town places no limit on the amount it may invest in any one issuer. At June 30, 2013, the Town had no concentration of credit risk.

Restricted and Designated Cash

Restricted cash and cash equivalents of the Town's governmental funds and activities at June 30, 2013, are detailed as follows:

	<u>General</u>	<u>Business-Type Activities</u>	
		<u>Water</u>	<u>Sewer</u>
Beautification	\$ 68,949	\$ -	\$ -
South Church Street	42,644	-	-
Pinewood Heights Escrow	28,812	-	-
Police CD	36,524	-	-
Debt Service	-	1,279,413	-
Compliance Escrow	-	-	230,296
Total	<u>\$ 176,929</u>	<u>\$ 1,279,413</u>	<u>\$ 230,296</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 2—CASH AND CASH EQUIVALENTS AND INVESTMENTS: (CONTINUED)

The Town designates cash and cash equivalents for the following purposes. The cash and cash equivalents are designated by actions of the Town Council and therefore do not meet the criteria for restricted.

Designated Cash:

	<u>General</u>	<u>Business-Type Activities</u>	<u>Total</u>
		<u>Water</u> <u>Sewer</u>	<u>Primary Government</u>
Special Projects	\$ 19,903	\$ - \$ -	\$ 19,903
Escrow	213,657	187,897 329,099	730,653
SNAP	752	- -	752
Total	<u>\$ 234,312</u>	<u>\$ 187,897</u> <u>\$ 329,099</u>	<u>\$ 751,308</u>

NOTE 3—RECEIVABLES:

Accounts receivable are detailed as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Property taxes	\$ 1,927,540	\$ -
Franchise taxes	17,958	-
Consumer utility taxes	10,596	-
Consumption taxes	3,419	-
Interest	109	-
Other	230,761	-
Employees	47	-
Payroll	2,707	-
Water and sewer billings	<u>-</u>	<u>728,922</u>
Total	\$ 2,193,137	\$ 728,922
Allowance for uncollectibles	<u>(172,287)</u>	<u>(102,945)</u>
Net receivables	<u>2,020,850</u>	<u>625,977</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 4—DUE FROM/TO OTHER GOVERNMENTS:

Details of amounts due from/to other governments are as follows:

Commonwealth:		
Urban Funds	\$	105,771
Fire Programs Fund		3,609
Communications Tax		<u>38,299</u>
Due from Commonwealth	\$	<u>147,679</u>
Isle of Wight County:		
Local Sales Tax	\$	47,912
Fines		6,756
Contribution to Pinewood Heights		<u>660</u>
Due from Isle of Wight County	\$	<u>55,328</u>
Isle of Wight County Fire Department:	\$	<u>1,401</u>
Due from Federal Government:		
Urban Funds	\$	<u>470,091</u>
Total	\$	<u><u>674,499</u></u>
Enterprise:		
Isle of Wight County:	\$	<u><u>762</u></u>

All amounts due from other governments are expected to be collected within one year.

NOTE 5—INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances are considered short-term in nature. All balances result from the time-lag between the dates that reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. At June 30, 2013, the balances are as follows:

	Interfund Receivable	Interfund Payable
Primary Government:		
General Fund	\$ 1,098,479	\$ 240,514
Special Revenue	8,151	195,633
Capital Projects Fund	232,363	4,898
Enterprise Funds:		
Water Fund	2,441	716,788
Sewer Fund	278,081	461,682
Total	\$ <u><u>1,619,515</u></u>	\$ <u><u>1,619,515</u></u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 6—UNEARNED INCENTIVE- SALE OF TOWN PROPERTY:

The Town has entered multiple agreements with purchasers of certain property previously owned by the Town. The agreements provide for forgiveness of the initial purchase price, based on the fair market value, whereby the purchaser must invest an agreed upon amount in the construction and rehabilitation costs in the property. Agreement 2 was entered into in FY13. The following represents outstanding incentives based on the sale/purchase agreements:

	<u>Original Amount</u>	<u>Oustanding Balance</u>
Agreement 1	\$ 139,300	\$ 113,240
Agreement 2	\$ 240,000	\$ 240,000

NOTE 7—CAPITAL ASSETS:

The following is a summary of changes in capital assets:

Governmental Activities:	<u>Balance June 30, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2013</u>
Capital assets not being depreciated:				
Land	\$ 8,074,742	\$ 65,100	\$ 19,006	\$ 8,120,836
Construction in progress	<u>3,797,505</u>	<u>426,308</u>	<u>4,221,734</u>	<u>2,079</u>
Total capital assets not being depreciated	<u>\$ 11,872,247</u>	<u>\$ 491,408</u>	<u>\$ 4,240,740</u>	<u>\$ 8,122,915</u>
Capital assets being depreciated:				
Art collections	\$ 107,929	\$ 10,537	\$ -	\$ 118,466
Buildings and system	5,236,964	372,676	410,800	5,198,840
Improvements other than buildings	1,551,430	151,707	-	1,703,137
Machinery and equipment	968,244	117,341	-	1,085,585
Vehicles	1,316,090	91,269	49,186	1,358,173
Infrastructure	<u>5,398,984</u>	<u>4,164,664</u>	<u>-</u>	<u>9,563,648</u>
Subtotal	<u>\$ 14,579,641</u>	<u>\$ 4,908,194</u>	<u>\$ 459,986</u>	<u>\$ 19,027,849</u>
Less: accumulated depreciation for:				
Art collections	\$ (100,874)	\$ (2,775)	\$ -	\$ (103,649)
Buildings and system	(1,090,424)	(193,105)	(32,466)	(1,251,063)
Improvements other than buildings	(529,074)	(60,118)	(49,186)	(540,006)
Machinery and equipment	(636,857)	(45,777)	-	(682,634)
Vehicles	(896,960)	(129,220)	-	(1,026,180)
Infrastructure	<u>(2,323,539)</u>	<u>(213,093)</u>	<u>-</u>	<u>(2,536,632)</u>
Total accumulated depreciation	<u>\$ (5,577,728)</u>	<u>\$ (644,088)</u>	<u>\$ (81,652)</u>	<u>\$ (6,140,164)</u>
Net capital assets being depreciated	<u>\$ 9,001,913</u>	<u>\$ 4,264,106</u>	<u>\$ 378,334</u>	<u>\$ 12,887,685</u>
Capital assets, net	<u>\$ 20,874,160</u>	<u>\$ 4,755,514</u>	<u>\$ 4,619,074</u>	<u>\$ 21,010,600</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Business-type Activities:	Balance June 30, 2012	Additions	Deletions	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 204,481	\$ -	\$ -	\$ 204,481
Construction in progress	305,418	224,569	15,700	514,287
Total capital assets not being depreciated	\$ 509,899	\$ 224,569	\$ 15,700	\$ 718,768
Capital assets being depreciated:				
Buildings and system	\$ 11,584,426	\$ -	\$ 5,765	\$ 11,578,661
Equipment	4,173,876	396,239	-	4,570,115
Infrastructure	10,355,250	56,999	-	10,412,249
Land improvements	130,235	-	-	130,235
Vehicles	311,345	28,244	-	339,589
Subtotal	\$ 26,555,132	\$ 481,482	\$ 5,765	\$ 27,030,849
Less: accumulated depreciation for:				
Buildings and system	\$ (2,638,664)	\$ (334,847)	\$ (5,765)	\$ (2,967,746)
Equipment	(1,255,917)	(232,643)	-	(1,488,560)
Infrastructure	(6,072,001)	(287,451)	-	(6,359,452)
Land improvements	(4,085)	(6,512)	-	(10,597)
Vehicles	(155,356)	(31,958)	-	(187,314)
Total accumulated depreciation	\$ (10,126,023)	\$ (893,411)	\$ (5,765)	\$ (11,013,669)
Net capital assets being depreciated	\$ 16,429,109	\$ (411,929)	\$ -	\$ 16,017,180
Capital assets, net	\$ 16,939,008	\$ (187,360)	\$ 15,700	\$ 16,735,948

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

Governmental activities:

General government administration	\$ 193,848
Public safety	142,536
Public works (Highways and streets)	146,623
Cultural and recreation	161,081
Total governmental activities	\$ 644,088
Enterprise funds	\$ 893,411

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Construction Commitments

Construction commitments of the Town are as follows at June 30, 2013:

Project	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Construction Standards Update	\$ 6,237	\$ 9,963
SSO Consent Order:		
MOM Program Full Hydraulic Model - Phase 2	112,390	2,610
Annual Report Development	20,600	4,400
General Rehabilitation Plan	119,088	55,913
Manhole Rehabilitation	26,945	4,570
Private Property I/I Abatement Program	23,525	1,475
SSES/Task 2 Pump station inspections	34,650	3,850
Capacity Assessments	33,289	1,712
Locality- HRSD Coordination	58,456	21,544
General Review Services:	64,710	5,290
GIS Assistance	2,708	500
Data Retrieval	13,770	6,230
Total	\$ 516,368	\$ 118,057

NOTE 8—LINE OF CREDIT:

In FY2013, the Town renewed an agreement with TowneBank for a line of credit of \$500,000 in order to assist the Town in financing the purchase of properties under the Pinewood Heights Project. Borrowings bear interest at LIBOR or Wall Street Journal Prime Rate (depending on which is most advantageous to the Town at the time of borrowing) but at no time will the interest rate be lower than 3.25%. At June 30, 2013, the interest rate being charged to the Town was 3.25% and there was no balance outstanding. The unsecured line expired August 22, 2013 but was renewed for another year.

On July 31, 2012, the Town entered into an agreement with Farmers Bank for a line of credit of \$1,000,000 in order to assist the Town in financing capital projects, such as the South Church Street Project. The variable interest rate is calculated based on the Wall Street Journal Prime Rate. The interest rate will never be greater than 18% or less than 3.25%. During the year, the Town withdrew \$450,000 from the available credit. The \$450,000 was repaid prior to year end. At June 30, 2013, the interest rate being charged to the Town was 3.25% and there was no balance outstanding. The unsecured line expired July 31, 2013 and was renewed for an additional year.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 9—LONG-TERM OBLIGATIONS:

Governmental obligations

The following is a summary of changes in long-term obligations:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013
General obligation bonds payable	\$ 620,680	\$ -	\$ (19,914)	\$ 600,766
Note payable	\$ -	\$ 80,175	\$ (12,297)	\$ 67,878
Line of credit	\$ -	\$ 450,000	\$ (450,000)	\$ -
Compensated absences	\$ 134,682	\$ 22,594	\$ -	\$ 157,276
Totals	\$ 755,362	\$ 552,769	\$ (482,211)	\$ 825,920

Details of Long-Term Obligations

In April 2011, the primary government issued Taxable General Obligation Bond of \$638,907 pursuant to a sales contract entered into with the County of Isle of Wight in February 2011. Principal payments will be made in eight annual installments beginning January 2012 with a balloon payment of \$489,553 due no later than December 2019. Interest is calculated at 4% to 5.50% per annum and made in semiannual installments, which began in February 2011. The bonds were issued for the purpose of providing funds for various public improvement projects, including but not limited to, the acquisition of land for public safety and administration offices. At June 30, 2013, the balance of the bond payable was \$600,766 and related interest expense was \$33,991.

Annual requirements of amortize long-term obligations and related interest for governmental activities are as follows:

Year Ending June 30,	Bonds		Notes	
	Principal	Interest	Principal	Interest
2014	\$ 19,914	\$ 33,194	\$ 15,269	\$ 2,474
2015	21,574	32,398	15,900	1,843
2016	21,573	31,481	16,553	1,189
2017	23,233	30,564	17,240	502
2018	24,893	29,402	2,916	41
2019-2023	149,355	124,728	-	-
2024-2028	194,162	77,690	-	-
2029-2031	146,062	17,080	-	-
Total	\$ 600,766	\$ 376,537	\$ 67,878	\$ 6,049

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-Term Obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Bonds Payable:		
\$638,907 General Obligation Bond Series 2011 dated September 8, 2011 with principal payable semi-annually, bearing interest at 4.00% to 5.50% payable semi-annually, maturing 2031.	\$ <u>600,766</u>	\$ <u>19,914</u>
Notes Payable:		
\$80,175 note payable dated August 7, 2012. Payments due annually with the final installment due 2018, bearing interest at 4.00%.	\$ <u>67,878</u>	\$ <u>15,269</u>
Compensated Absences (Note 10)	\$ <u>157,276</u>	\$ <u>60,749</u>
Total general long-term obligation debt	\$ <u><u>825,920</u></u>	\$ <u><u>95,932</u></u>

Business-type obligations

The following is a summary of changes in long-term obligations:

	<u>Balance July 1, 2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2013</u>
General obligation bonds payable	\$ <u>4,605,738</u>	\$ <u>-</u>	\$ <u>(382,274)</u>	\$ <u>4,223,464</u>
Note payable	\$ <u>77,085</u>	\$ <u>-</u>	\$ <u>(20,683)</u>	\$ <u>56,402</u>
Compensated absences	\$ <u>27,701</u>	\$ <u>4,971</u>	\$ <u>-</u>	\$ <u>32,672</u>
Totals	\$ <u><u>4,710,524</u></u>	\$ <u><u>4,971</u></u>	\$ <u><u>(402,957)</u></u>	\$ <u><u>4,312,538</u></u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type obligations (Continued)

In June 2004, the primary government issued General Obligation Refunding Bonds of \$1,745,000 at a premium of \$29,270, with interest calculated at 2.8% to 5% per annum. Principal payments are being made in annual installments (\$85,000 in FY2013) and interest payments are being made in semi-annual installments. The bonds were issued for the purpose of refunding \$1,742,322 of outstanding 1983 Series Water and Sewer Bonds. As a result, \$1,742,322 of the 1983 Series Bonds are considered to be defeased and the liability for these bonds has been removed from the General Obligation Bonds outstanding. The defeasance resulted in a reduction of total debt service payments over the remaining life of the bond of \$66,702. At June 30, 2013, the balance of the bond payable was \$1,065,000.

In July 2005, the Town received proceeds of \$3,570,000 as part of a pooled Series 2005 bond as issued by the Industrial Development Authority of the Town of Stafford and City of Staunton, Virginia. The purpose of the issue is to provide funds for qualifying projects undertaken by or on behalf of political subdivisions or other governmental units of the Commonwealth of Virginia. The Town's intended use is for water improvement systems. Repayment of the proceeds began February 2006 and is to be paid in semi-annual installments through August 2025 with an interest rate ranging between 3.25% and 4.375%. The bond is maintained within the water enterprise fund. At June 30, 2013, the balance of the bond payable was \$2,605,000.

In August, 2011, the primary government issued a General Obligation Bond for \$773,266 maturing in various installments through August, 2016, with interest payable semiannually at 3.145%. At June 30, 2013, the balance of the bond payable was \$553,464.

Annual requirements of amortize long-term obligations and related interest for business-type activities are as follows:

Year Ending June 30,	General Obligation Bonds		Note	
	Principal	Interest	Principal	Interest
2014	\$ 396,974	\$ 169,360	\$ 21,733	\$ 2,552
2015	416,824	154,362	22,833	1,452
2016	431,828	138,598	11,836	296
2017	362,838	121,858	-	-
2018	295,000	108,086	-	-
2019-2023	1,600,000	332,206	-	-
2024-2026	720,000	47,531	-	-
Total	\$ <u>4,223,464</u>	\$ <u>1,072,001</u>	\$ <u>56,402</u>	\$ <u>4,300</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$3,570,000 General Obligation Refunding Bond dated July 28, 2005 with principal payable annually, bearing interest at 3.25% to 4.25% payable semi-annually August 1, 2025	\$ 2,605,000	\$ 155,000
\$1,745,000 Infrastructure Revenue Bond dated May 31, 2004 with principal payable annually, bearing interest at 2.8% to 5% payable semi-annually April 1, 2022	1,065,000	90,000
\$773,266 General Obligation bond dated August 2011, with principal payable annually, bearing interest at 3.145% payable semi-annually, maturing August 2016	553,464	151,974
\$300,000 General Obligation Bonds Series 2010 dated May 1, 1996 with principal payable semi-annually, bearing interest at 5%, maturing November 1, 2015.	<u>56,402</u>	<u>21,733</u>
Total	\$ 4,279,866	\$ 418,707
Compensated Absences (Note 10)	\$ <u>32,672</u>	\$ <u>13,748</u>
Total enterprise debt	\$ <u><u>4,312,538</u></u>	\$ <u><u>432,455</u></u>

NOTE 10—COMPENSATED ABSENCES

Annual Leave Accrual

Each employee earns annual leave on a monthly basis for each month of service. The rate at which annual leave is accrued is dependent upon the length of the employee's service with the Town.

In lieu of taking regular vacation, an employee may request, before April 1, to be paid at his regular hourly rate for up to five days of unused earned leave. The payout is made on the first payroll in July. Leave not taken or time for which the employee has not been compensated may be carried over to the next year. However, no more than 10 days may be carried over.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 10—COMPENSATED ABSENCES: (CONTINUED)

Sick Leave

Each employee is eligible for eight hours of sick leave per month beginning the first month of employment. Unused sick leave may be accumulated and carried forward to succeeding years. Upon termination, each employee who has completed three years of continuous service is eligible to receive payment for unused sick leave hours at 25% of the employee's hourly rate at the time of termination, not to exceed \$2,500.

At June 30, 2013, accumulated vacation and sick leave for the government funds amounted to \$157,276 of which \$60,749 is short-term.

At June 30, 2013, accumulated vacation and sick leave for the proprietary funds amounted to \$32,672 of which \$13,748 is short-term.

NOTE 11—DEFINED BENEFIT PENSION PLAN:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least five years of service credit or age 50 with at least ten years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

NOTE 11—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

A. Plan Description: (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 3.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/PDF/Publications/2012-Annual-Report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Town is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Town's contribution rate for the fiscal year ended June 30, 2013 was 8.94% of the annual covered payroll.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 11—DEFINED BENEFIT PENSION PLAN: (CONTINUED)

C. Annual Pension Cost

For the fiscal year ended June 30, 2013, the Town's annual pension cost of \$222,176 was equal to the required and actual contributions.

Three-Year Trend Information			
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/13	\$ 222,176	100%	\$ -
06/30/12	223,640	100%	-
06/30/11	247,921	100%	-

The fiscal year 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.6% per year, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Town's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Town's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 98.43% funded. The actuarial accrued liability for benefits was \$5,924,449, and the actuarial value of assets was \$5,831,703, resulting in an unfunded actuarial accrued liability (UAAL) of \$92,746. The covered payroll (annual payroll of active employees covered by the plan) was \$2,334,835 and the ratio of the UAAL to the covered payroll was 3.97%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 12—CONTINGENT LIABILITIES:

Federal assisted grant programs:

The Town participates in a number of federally assisted grant programs. Although the Town has been audited in accordance with the provisions of OMB Circular A-133, these programs remain subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under terms of the grant. Based on prior experience, Town management believes such disallowances, if any, will not be significant.

General Obligation Bonds

General obligation bonds have been recorded in the Enterprise Funds from which repayment is anticipated. The General Fund has a contingent liability for repayment of the aforementioned bonds, should the Enterprise Funds be unable to repay the obligations.

NOTE 13—LEGAL DEBT MARGIN:

The Commonwealth of Virginia imposes a legal limit of 10% of assessed valuation of real estate on the amount of general obligation borrowings that may be issued by the Town. At June 30, 2013, the Town's aggregate general obligation indebtedness was \$102,107,941 less than the Commonwealth of Virginia's limit. See Table 11.

NOTE 14—RISK MANAGEMENT:

The Town is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Property, liability and worker's compensation coverage are provided through the Virginia Municipal League Insurance Programs (VML). The Town reports the majority of its risk management expenditures in the General Fund with some allocation to the Water and Sewer Funds accordingly.

The Town maintains surety coverage for principal officials through the VML. Surety coverage is provided under the general liability coverage with a limit of \$5,000,000. All elected officials, appointed officials, members of all appointed governing bodies; employees and volunteers are covered while acting within the scope of their duties with the Town.

NOTE 15—COMMITMENTS:

Pinewood Heights Project

The Town of Smithfield began a three phase community improvement project in FY2007 to better the living conditions of residents in its Pinewood Heights neighborhood. With grant assistance of \$1,400,000 from the Virginia Department of Housing and Community Development (DHCD), the Town acquired 32 properties, permanently relocated residents, and demolished and cleared all purchased dwellings in Phase I. The Town's investment totaled \$2,318,392 and included \$750,000 in cash and in-kind contributions from Isle of Wight County as well as Section 8 vouchers valued at \$223,272. Phase I was completed during fiscal year 2012.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 15—COMMITMENTS: (CONTINUED)

Upon the successful completion of Phase I, the Smithfield Town Council approved a contract with DHCD for Phase II on July 2, 2012. Phase II is divided into multi-years 1 and 2 to make the project financially manageable. Multi-year 1 (MY1) includes acquisition, relocation, and demolition of six owner occupied units and four tenant occupied units. Funding is comprised of \$624,720 in community development block grant funds and \$828,755 of Town leverage funding, including \$21,000 in Section 8 vouchers and \$94,682 in relocation contributions from the Southeastern Tidewater Opportunity Project (STOP) organization. On June 5, 2012, the Town Council voted to increase the Town's meals tax from 5% to 6% with 2% dedicated to the Pinewood Project. This increase is expected to generate approximately \$388,000 in annual revenue to finance the Town's required leverage. As of June 30, 2013, the Town had purchased and relocated one owner occupied unit and two Section 8 renter occupied units. One of the Section 8 renters was the recipient of the STOP organization's contribution and is now a home owner. The Town's project costs for FY2013 totaled \$349,237 with \$71,000 reimbursed by DHCD. Phase 11 MY1 is scheduled for completion in fiscal year 2014.

South Church Street Phase V

The Smithfield Town Council executed a contract with Excel Paving Corporation on November 4, 2010 for construction and improvements of South Church Street, a main thoroughfare through the Town. Improvements included paving, curb and gutter, sidewalks, construction of a small parking lot, storm drainage, private entrances, street lighting, crosswalks, utility relocations, landscaping, and pavers. The improvements are in accordance with Town and VDOT standards. The project cost was estimated at \$4,900,000 but was completed under budget in fiscal year 2013 at \$4,438,674. Funding sources included the American Recovery and Reinvestment Act (ARRA) Federal Stimulus Regional Share Funds, federal and state grant funds, state urban funds, town matching funds, and private contributions.

NOTE 16—SUBSEQUENT EVENT:

No subsequent events to report.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2013 (Continued)

NOTE 17—RESTATEMENT OF BEGINNING EQUITY:

Beginning equity was restated for the following purposes:

	Governmental Activities Net Position	Business-Type Activities Net Position
Balance as reported at June 30, 2012	\$ 22,839,948	\$ 15,698,950
Implementation of GASB 65-removal of bond issuance costs (Note 1)	(15,000)	(7,887)
Adjust for unrecorded FY12 sales tax receivable	24,195	-
Adjust for unrecorded FY12 meals tax receivable	140,621	-
Adjust for unrecorded FY12 occupancy tax	42,547	-
Adjust errors in beginning accumulated depreciation	83,706	-
Adjust for unrecorded water and sewer allowances	-	(74,159)
Adjust for unrecorded unbilled water and sewer receivables	-	522,149
	<u>23,116,017</u>	<u>16,139,053</u>
Balance as restated at July 1, 2012	\$ <u>23,116,017</u>	\$ <u>16,139,053</u>

	Governmental Activities Fund Balance
Balance as reported at June 30, 2012	\$ 2,692,281
Remove compensated absences to reflect in government wide	39,262
Adjust for unrecorded FY12 sales tax receivable	24,195
Adjust for unrecorded FY12 meals tax receivable	140,621
Adjust for unrecorded FY12 occupancy tax	42,547
Remove unearned incentive-sale of town property- not modified accrual item	(139,300)
	<u>2,799,606</u>
Balance as restated at July 1, 2012	\$ <u>2,799,606</u>

NOTE 18—UPCOMING PRONOUNCEMENTS:

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Town has not determined the impact of this pronouncement on its financial statements.

Required Supplementary Information

Note to Required Supplementary Information:

Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.

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General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	General Fund			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 2,287,450	\$ 2,354,480	\$ 2,361,401	\$ 6,921
Other local taxes	2,334,245	2,528,636	2,585,376	56,740
Permits, privilege fees, and regulatory licenses	13,860	18,200	17,176	(1,024)
Fines and forfeitures	57,000	57,000	68,396	11,396
Revenue from the use of money and property	160,605	179,075	193,643	14,568
Miscellaneous	56,395	768,870	928,644	159,774
Intergovernmental revenues:				
Commonwealth	699,830	858,573	813,693	(44,880)
Federal	638,020	1,400,910	682,438	(718,472)
Total revenues	\$ 6,247,405	\$ 8,165,744	\$ 7,650,767	\$ (514,977)
EXPENDITURES				
Current:				
General government administration	\$ 918,674	\$ 955,610	\$ 928,844	\$ 26,766
Public safety	2,373,645	2,309,022	2,216,171	92,851
Public works	954,023	970,805	945,289	25,516
Parks, recreation, and cultural	640,643	580,507	537,096	43,411
Community development	968,046	995,314	620,362	374,952
Capital projects	808,555	2,015,722	1,084,262	931,460
Debt service:				
Principal retirement	19,914	32,204	482,211	(450,007)
Interest and other fiscal charges	38,991	43,517	43,345	172
Total expenditures	\$ 6,722,491	\$ 7,902,701	\$ 6,857,580	\$ 1,045,121
Excess (deficiency) of revenues over (under) expenditures	\$ (475,086)	\$ 263,043	\$ 793,187	\$ 530,144
OTHER FINANCING SOURCES (USES)				
Issuance of note payable	\$ -	\$ 80,175	\$ 80,175	\$ -
Line of credit draws	-	-	450,000	450,000
Sale of land	-	414,172	174,171	(240,001)
Sale of equipment	1,000	1,891	1,891	-
Total other financing sources (uses)	\$ 1,000	\$ 496,238	\$ 706,237	\$ 209,999
Net change in fund balances	\$ (474,086)	\$ 759,281	\$ 1,499,424	\$ 740,143
Fund balances - beginning, as restated	474,086	(759,281)	2,792,461	3,551,742
Fund balances - ending	\$ -	\$ -	\$ 4,291,885	\$ 4,291,885

Highway Maintenance Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

For the Year Ended June 30, 2013

	Highway Maintenance Fund			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts			
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ 250	\$ 250	\$ 187	\$ (63)
Miscellaneous	-	24,002	24,002	-
Intergovernmental revenues:				
Commonwealth	986,457	1,038,520	1,039,766	1,246
Total revenues	\$ 986,707	\$ 1,062,772	\$ 1,063,955	\$ 1,183
EXPENDITURES				
Current:				
Public works	\$ 986,707	\$ 1,097,772	\$ 953,133	\$ 144,639
Total expenditures	\$ 986,707	\$ 1,097,772	\$ 953,133	\$ 144,639
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (35,000)	\$ 110,822	\$ 145,822
Net change in fund balances	\$ -	\$ (35,000)	\$ 110,822	\$ 145,822
Fund balances - beginning, as restated	-	35,000	(963)	(35,963)
Fund balances - ending	\$ -	\$ -	\$ 109,859	\$ 109,859

Schedule of Pension Funding Progress

As of June 30, 2013

Virginia Retirement System - Schedule of Pension Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a) (c)	Funded Ratio (a/b) (d)	Annual Covered Payroll (e)	UAAL as % of Covered Payroll (c/e) (f)
06/30/10	\$ 5,300,600	\$ 5,504,342	\$ 203,742	96.30%	\$ 2,293,514	8.88%
06/30/11	5,648,590	6,026,748	378,158	93.73%	2,278,045	16.60%
06/30/12	5,831,703	5,924,449	92,746	98.43%	2,334,835	3.97%

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Other Supplementary Information

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Supporting Schedules

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Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 1,673,955	\$ 1,684,225	\$ 1,682,288	\$ (1,937)
Personal property taxes	581,205	632,205	639,380	7,175
Penalties	25,125	28,500	29,680	1,180
Interest	7,165	9,550	10,053	503
Total general property taxes	\$ 2,287,450	\$ 2,354,480	\$ 2,361,401	\$ 6,921
Other local taxes:				
Local sales and use taxes	\$ 275,000	\$ 243,000	\$ 259,165	\$ 16,165
Cigarette taxes	130,000	130,000	136,665	6,665
Franchise license taxes	139,245	119,855	116,784	(3,071)
Business license tax	314,500	349,040	365,415	16,375
Utility license taxes	189,500	194,000	188,140	(5,860)
Transient taxes	140,000	140,000	135,230	(4,770)
Meals tax	970,000	1,170,235	1,198,415	28,180
Vehicle licenses	130,000	135,506	137,139	1,633
Consumption tax	46,000	47,000	48,423	1,423
Total other local taxes	\$ 2,334,245	\$ 2,528,636	\$ 2,585,376	\$ 56,740
Permits, privilege fees, and regulatory licenses:				
Miscellaneous	\$ 13,860	\$ 18,200	\$ 17,176	\$ (1,024)
Total permits, privilege fees, and regulatory licenses	\$ 13,860	\$ 18,200	\$ 17,176	\$ (1,024)
Fines and forfeitures:				
Police fines	\$ 57,000	\$ 57,000	\$ 68,396	\$ 11,396
Total fines and forfeitures	\$ 57,000	\$ 57,000	\$ 68,396	\$ 11,396
Revenue from use of money and property:				
Interest	\$ 8,015	\$ 6,550	\$ 6,654	\$ 104
Revenue from use of property	152,590	172,525	186,989	14,464
Total revenue from use of money and property	\$ 160,605	\$ 179,075	\$ 193,643	\$ 14,568
Miscellaneous revenue:				
Miscellaneous	\$ 51,095	\$ 45,336	\$ 42,924	\$ (2,412)
Donations	5,300	719,409	881,596	162,187
Insurance recoveries	-	4,125	4,124	(1)
Total miscellaneous revenue	\$ 56,395	\$ 768,870	\$ 928,644	\$ 159,774
Total revenue from local sources	\$ 4,909,555	\$ 5,906,261	\$ 6,154,636	\$ 248,375
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 238,000	\$ 245,000	\$ 242,241	\$ (2,759)
PPTRA	240,795	240,795	240,795	-
Auto rental tax	1,300	1,300	782	(518)
Rolling stock tax	25	13	13	-
Fuel refund	7,000	6,700	6,555	(145)
Total noncategorical aid	\$ 487,120	\$ 493,808	\$ 490,386	\$ (3,422)

Schedule of Revenues - Budget and Actual

Governmental Funds

For the Year Ended June 30, 2013 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Aid to Police	\$ 161,533	\$ 161,533	\$ 161,532	\$ (1)
Total shared expenses	\$ 161,533	\$ 161,533	\$ 161,532	\$ (1)
Other categorical aid:				
Fire programs fund	\$ 18,568	\$ 22,517	\$ 26,126	\$ 3,609
VCA Grant	5,000	5,000	5,000	-
Block Grant	-	795	4,238	3,443
FEMA-VDEM	-	15,705	15,706	1
Urban Funds	-	155,450	106,938	(48,512)
DCA Grant	25,000	-	-	-
SNAP	-	-	2	2
Litter control grant	2,609	3,765	3,765	-
Total other categorical aid	\$ 51,177	\$ 203,232	\$ 161,775	\$ (41,457)
Total categorical aid	\$ 212,710	\$ 364,765	\$ 323,307	\$ (41,458)
Total revenue from the Commonwealth	\$ 699,830	\$ 858,573	\$ 813,693	\$ (44,880)
Revenue from the federal government:				
Categorical aid:				
Federal Grants	\$ 5,000	\$ 12,000	\$ 9,683	\$ (2,317)
Urban Fund	-	690,900	475,411	(215,489)
FEMA	-	69,290	69,290	-
Pinewood Heights CDBG Relocation Grant-Phase II	624,720	624,720	124,526	(500,194)
Federal Fuel Refund	8,300	4,000	3,528	(472)
Total categorical aid	\$ 638,020	\$ 1,400,910	\$ 682,438	\$ (718,472)
Total revenue from the federal government	\$ 638,020	\$ 1,400,910	\$ 682,438	\$ (718,472)
Total General Fund	\$ 6,247,405	\$ 8,165,744	\$ 7,650,767	\$ (514,977)
Highway Maintenance Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Interest	\$ 250	\$ 250	\$ 187	\$ (63)
Miscellaneous revenue:				
Insurance reimbursement	\$ -	\$ 24,002	\$ 24,002	\$ -
Total revenue from local sources	\$ 250	\$ 24,252	\$ 24,189	\$ (63)
Revenue from the Commonwealth:				
Street and highway maintenance	\$ 986,457	\$ 1,003,520	\$ 1,003,520	\$ -
VDOT revenue sharing	-	35,000	36,246	1,246
Total revenue from the Commonwealth	\$ 986,457	\$ 1,038,520	\$ 1,039,766	\$ 1,246
Total Highway Maintenance Fund	\$ 986,707	\$ 1,062,772	\$ 1,063,955	\$ 1,183
Total Primary Government	\$ 7,234,112	\$ 9,228,516	\$ 8,714,722	\$ (513,794)

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2013

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town Council/Manager	\$ 507,609	\$ 530,284	\$ 513,154	\$ 17,130
Treasurer	411,065	425,326	415,690	9,636
Total general government administration	\$ 918,674	\$ 955,610	\$ 928,844	\$ 26,766
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,216,002	\$ 2,135,980	\$ 2,063,840	\$ 72,140
Fire and rescue services:				
Fire department	\$ 41,568	\$ 45,517	\$ 49,104	\$ (3,587)
E-911 dispatch	116,075	127,525	103,227	24,298
Total fire and rescue services	\$ 157,643	\$ 173,042	\$ 152,331	\$ 20,711
Total public safety	\$ 2,373,645	\$ 2,309,022	\$ 2,216,171	\$ 92,851
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 852,523	\$ 849,810	\$ 833,212	\$ 16,598
Maintenance of general buildings and grounds:				
General properties	\$ 101,500	\$ 120,995	\$ 112,077	\$ 8,918
Total public works	\$ 954,023	\$ 970,805	\$ 945,289	\$ 25,516
Parks, recreation, and cultural:				
Parks and recreation:				
BSV Parking Lot	\$ -	\$ 4,500	\$ 70	\$ 4,430
Clontz Park	1,000	1,600	1,590	10
Community Wellness Initiative	23,727	23,727	21,412	2,315
Cypress Creek No Wake Zone	-	-	1,399	(1,399)
Farmers Market	3,000	3,000	-	3,000
Fireworks	2,000	2,000	2,000	-
Fishing Pier	600	-	-	-
Hampton Roads Partnership	1,960	1,960	1,960	-
Haydens Lane Maintenance	3,500	2,900	2,572	328
Isle of Wight Arts League	10,000	10,000	10,000	-
Playgrounds	1,000	7,000	405	6,595
Regional Library	36,000	8,190	8,190	-
Smithfield Center	436,856	429,220	397,897	31,323
TUMC Parking Lot	-	3,310	3,185	125
Veterans War Memorial	1,000	1,000	3,004	(2,004)
Waterworks Dam	35,000	3,100	4,107	(1,007)
Windsor Castle Park	85,000	79,000	79,305	(305)
Total parks, recreation, and cultural	\$ 640,643	\$ 580,507	\$ 537,096	\$ 43,411

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2013 (Continued)

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Community development:				
Planning and community development:				
APVA Courthouse	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Chamber of Commerce	6,000	6,000	6,000	-
Christian Outreach	6,000	6,000	-	6,000
Genieve Shelter	9,000	9,000	9,000	-
Pinewood Heights	655,420	682,688	340,107	342,581
TRIAD	1,650	1,650	1,650	-
Tourism Bureau	209,976	209,976	183,605	26,371
Western Tidewater Free Clinic	25,000	25,000	25,000	-
YMCA Project	50,000	50,000	50,000	-
Total community development	<u>\$ 968,046</u>	<u>\$ 995,314</u>	<u>\$ 620,362</u>	<u>\$ 374,952</u>
Capital projects:				
Function:				
Town Council	\$ -	\$ 5,727	\$ 5,207	\$ 520
Public Safety	98,000	119,292	112,170	7,122
Planning, Engineering & Public Works	-	1,105,683	832,423	273,260
Parks, Recreation and Cultural	24,000	98,465	98,462	3
Community Development	686,555	686,555	36,000	650,555
Total capital projects	<u>808,555</u>	<u>2,015,722</u>	<u>1,084,262</u>	<u>931,460</u>
Debt service:				
Principal retirement and interest	\$ 19,914	\$ 32,204	\$ 482,211	\$ (450,007)
Interest and other fiscal charges	38,991	43,517	43,345	172
Total debt service	<u>\$ 58,905</u>	<u>\$ 75,721</u>	<u>\$ 525,556</u>	<u>\$ (449,835)</u>
Total General Fund	<u>\$ 6,722,491</u>	<u>\$ 7,902,701</u>	<u>\$ 6,857,580</u>	<u>\$ 1,045,121</u>
Highway Maintenance Fund:				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highway maintenance	\$ 986,707	\$ 1,097,772	\$ 953,133	\$ 144,639
Total Highway Maintenance Fund	<u>\$ 986,707</u>	<u>\$ 1,097,772</u>	<u>\$ 953,133</u>	<u>\$ 144,639</u>
Total Primary Government	<u>\$ 7,709,198</u>	<u>\$ 9,000,473</u>	<u>\$ 7,810,713</u>	<u>\$ 1,189,760</u>

Other Statistical Information

TOWN OF SMITHFIELD, VIRGINIA

Net Position by Component
Last Ten Fiscal Years

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Governmental activities					
Net investment in capital assets	\$ 20,341,956	\$ 20,238,480	\$ 16,855,409	\$ 15,757,552	\$ 14,036,786
Restricted	176,929	-	-	1,526,185	776,333
Unrestricted	4,478,388	2,877,537	4,112,055	2,606,432	2,789,245
Total governmental activities net position	<u>\$ 24,997,273</u>	<u>\$ 23,116,017</u>	<u>\$ 20,967,464</u>	<u>\$ 19,890,169</u>	<u>\$ 17,602,364</u>
Business-type activities					
Net investment in capital assets	\$ 12,456,082	\$ 12,248,298	\$ 12,153,344	\$ 8,383,785	\$ 7,726,696
Restricted	1,509,709	2,233,571	1,440,224	4,399,841	-
Unrestricted	2,397,006	1,657,184	2,750,516	2,841,075	6,980,698
Total business-type activities net position	<u>\$ 16,362,797</u>	<u>\$ 16,139,053</u>	<u>\$ 16,344,084</u>	<u>\$ 15,624,701</u>	<u>\$ 14,707,394</u>
Primary government					
Net investment in capital assets	\$ 32,798,038	\$ 32,486,778	\$ 29,008,753	\$ 24,141,337	\$ 21,763,482
Restricted	1,686,638	2,233,571	1,440,224	5,926,026	776,333
Unrestricted	6,875,394	4,534,721	6,862,571	5,447,507	9,769,943
Total primary government net position	<u>\$ 41,360,070</u>	<u>\$ 39,255,070</u>	<u>\$ 37,311,548</u>	<u>\$ 35,514,870</u>	<u>\$ 32,309,758</u>

Table 1

2008	2007	2006	2005	2004
\$ 6,065,558	\$ 5,795,951	\$ 4,127,196	\$ 3,642,371	\$ 3,091,309
1,129,937	392,314	428,310	92,645	197,137
3,114,587	2,944,331	3,876,804	4,120,097	3,629,107
<u>\$ 10,310,082</u>	<u>\$ 9,132,596</u>	<u>\$ 8,432,310</u>	<u>\$ 7,855,113</u>	<u>\$ 6,917,553</u>
\$ 6,052,778	\$ 7,712,175	\$ 6,757,567	\$ 5,530,875	\$ 4,676,207
4,334,848	4,540,167	4,461,514	761,069	731,691
3,864,596	(359,379)	(934,846)	2,574,826	2,889,423
<u>\$ 14,252,222</u>	<u>\$ 11,892,963</u>	<u>\$ 10,284,235</u>	<u>\$ 8,866,770</u>	<u>\$ 8,297,321</u>
\$ 12,118,336	\$ 13,508,126	\$ 10,884,763	\$ 9,173,246	\$ 7,767,516
5,464,785	4,932,481	4,889,824	853,714	928,828
6,979,183	2,584,952	2,941,958	6,694,923	6,518,530
<u>\$ 24,562,304</u>	<u>\$ 21,025,559</u>	<u>\$ 18,716,545</u>	<u>\$ 16,721,883</u>	<u>\$ 15,214,874</u>

TOWN OF SMITHFIELD, VIRGINIA
Change in Net Position
Last Ten Fiscal Years

	2013	2012	2011	2010	2009
Expenses					
Governmental activities:					
Community Development	\$ 646,422	\$ 458,015	\$ 561,600	\$ 805,672	\$ 365,494
Cultural and recreation	683,116	704,853	770,902	563,380	558,077
Fire and Rescue	154,733	279,296	290,605	317,701	307,658
General Government	1,008,448	849,523	873,583	861,980	1,088,173
Interest on long-term debt	43,342	34,721	57,712	13,760	18,451
Library	8,190	36,000	36,000	36,000	36,000
Other public works	1,451,858	1,383,735	1,188,794	1,269,268	1,669,326
Police	2,209,116	2,078,695	2,163,081	2,099,283	2,150,522
Public Buildings	247,220	388,851	186,364	188,126	175,554
Refuse collection	390,932	437,115	438,562	417,498	413,732
Total governmental activities expenses	\$ 6,843,377	\$ 6,650,804	\$ 6,567,203	\$ 6,572,668	\$ 6,782,987
Business-type activities:					
Water	\$ 1,546,489	\$ 1,637,463	\$ 895,899	\$ 871,765	\$ 925,985
Sewer	1,245,035	1,594,505	1,078,458	985,978	1,085,367
Total business-type activities expenses	\$ 2,791,524	\$ 3,231,968	\$ 1,974,357	\$ 1,857,743	\$ 2,011,352
Total primary government expenses	\$ 9,634,901	\$ 9,882,772	\$ 8,541,560	\$ 8,430,411	\$ 8,794,339
Program Revenue					
Governmental activities:					
Charges for services:					
Fines and costs	\$ 68,396	\$ 55,767	\$ 68,017	\$ 66,519	\$ 73,486
General government administration	-	-	-	-	-
Public Safety	-	-	-	-	-
Cultural and recreation rentals	-	162,969	132,347	117,343	126,026
Community development	-	-	-	-	-
Other public works	-	-	-	-	-
Licenses, permits, and privilege fees	17,176	483,943	441,428	493,636	508,544
Operating grants and contributions	1,335,108	1,394,579	1,287,831	1,182,407	1,175,835
Capital grants and contributions	1,516,875	2,281,395	1,202,583	2,548,708	7,204,294
Total governmental activities program revenues	\$ 2,937,555	\$ 4,378,653	\$ 3,132,206	\$ 4,408,613	\$ 9,088,185
Business-type activities:					
Charges for services:					
Water	\$ 1,594,540	\$ 1,521,884	\$ 1,299,332	\$ 1,432,182	\$ 1,466,705
Sewer	1,181,471	1,370,018	1,357,910	1,167,007	912,995
Operating grants and contributions	-	-	-	-	2,574
Capital grants and contributions	212,202	120,586	18,737	184,334	16,975
Total business-type activities program revenues	\$ 2,988,213	\$ 3,012,488	\$ 2,675,979	\$ 2,783,523	\$ 2,399,249
Total primary government program revenues	\$ 5,925,768	\$ 7,391,141	\$ 5,808,185	\$ 7,192,136	\$ 11,487,434
Governmental activities	\$ (3,905,822)	\$ (2,272,151)	\$ (3,434,997)	\$ (2,164,055)	\$ 2,305,198
Business-type activities	196,689	(219,480)	701,622	925,780	387,897
Total primary government net expense	\$ (3,709,133)	\$ (2,491,631)	\$ (2,733,375)	\$ (1,238,275)	\$ 2,693,095
General Revenues and Other Changes in Net Position					
Governmental activities:					
Taxes					
Property taxes	\$ 2,352,590	\$ 2,602,423	\$ 2,670,808	\$ 2,707,054	\$ 2,717,017
Franchise taxes	116,784	131,046	143,231	141,404	92,375
Sales taxes	259,165	323,039	263,813	263,029	284,054
Other taxes	2,209,427	1,905,360	1,722,320	1,704,845	1,726,986
Unrestricted grants and contributions	493,914	-	7,637	7,025	19,405
Gain (Loss) on disposition of capital assets	18,722	(900,500)	(355,905)	(507,496)	-
Revenues from use of property and money	193,830	306,049	46,373	70,247	77,219
Intergovernmental					
Commonwealth	-	-	-	-	-
Federal	-	-	-	-	-
Miscellaneous	138,522	19,269	4,796	12,201	-
Transfers	-	-	(41,000)	41,000	41,000
Other-Insurance Recoveries	4,124	34,018	9,219	12,551	29,028
Total governmental activities	\$ 5,787,078	\$ 4,420,704	\$ 4,471,292	\$ 4,451,860	\$ 4,987,084
Business-type activities:					
Miscellaneous	\$ 7,543	\$ 3,091	\$ -	\$ -	\$ -
Other-Insurance Recoveries	7,110	-	-	-	-
Investment earnings	12,402	14,449	17,761	32,527	108,275
Total business-type activities	\$ 27,055	\$ 14,449	\$ 17,761	\$ 32,527	\$ 108,275
Total primary government	\$ 5,814,133	\$ 4,435,153	\$ 4,489,053	\$ 4,484,387	\$ 5,095,359
Change in Net Position					
Governmental activities	\$ 1,881,256	\$ 2,148,553	\$ 1,036,295	\$ 2,287,805	\$ 7,292,282
Business-type activities	223,744	(205,031)	719,383	958,307	496,172
Total primary government	\$ 2,105,000	\$ 1,943,522	\$ 1,755,678	\$ 3,246,112	\$ 7,788,454

Table 2

2008	2007	2006	2005	2004
\$ 565,386	\$ 211,992	\$ 275,340	\$ 245,611	\$ 186,566
429,185	478,201	422,779	419,931	339,398
1,291,524	245,253	413,454	(1)	-
886,653	1,117,303	1,147,563	1,336,670	1,395,372
30,409	14,903	44,954	54,125	-
36,000	36,000	33,110	30,295	-
1,322,948	1,282,967	1,001,406	862,238	985,605
2,000,866	2,074,231	1,757,567	1,771,210	1,664,896
149,166	215,529	129,918	94,812	121,762
394,969	389,051	207,643	188,243	-
<u>\$ 7,107,106</u>	<u>\$ 6,065,430</u>	<u>\$ 5,433,734</u>	<u>\$ 5,003,134</u>	<u>\$ 4,693,599</u>
\$ 857,058	\$ 811,100	\$ 753,657	\$ 510,648	\$ 568,904
974,884	962,260	882,645	715,503	663,986
<u>\$ 1,831,942</u>	<u>\$ 1,773,360</u>	<u>\$ 1,636,302</u>	<u>\$ 1,226,151</u>	<u>\$ 1,232,890</u>
<u>\$ 8,939,048</u>	<u>\$ 7,838,790</u>	<u>\$ 7,070,036</u>	<u>\$ 6,229,285</u>	<u>\$ 5,926,489</u>
\$ 71,222	\$ 69,893	\$ 69,210	\$ 74,887	\$ 62,293
-	-	-	-	547,102
-	-	-	-	27,973
122,794	135,238	-	9,841	4,300
-	-	-	51,241	4,151
562,925	627,280	604,756	606,561	48,980
2,077,963	1,076,220	792,263	766,421	-
621,784	40,500	-	-	-
<u>\$ 3,456,688</u>	<u>\$ 1,949,131</u>	<u>\$ 1,466,229</u>	<u>\$ 1,508,951</u>	<u>\$ 694,799</u>
\$ 1,358,845	\$ 1,435,244	\$ 1,167,203	\$ 629,580	\$ 465,856
932,841	1,130,904	831,573	548,548	323,062
265,618	-	-	-	-
1,353,581	459,636	-	-	-
<u>\$ 3,910,885</u>	<u>\$ 3,025,784</u>	<u>\$ 1,998,776</u>	<u>\$ 1,178,128</u>	<u>\$ 788,918</u>
<u>\$ 7,367,573</u>	<u>\$ 4,974,915</u>	<u>\$ 3,465,005</u>	<u>\$ 2,687,079</u>	<u>\$ 1,483,717</u>
\$ (3,650,418)	\$ (4,116,299)	\$ (3,967,505)	\$ (3,494,183)	\$ (3,998,800)
2,078,943	1,252,424	362,474	(48,023)	(443,972)
<u>\$ (1,571,475)</u>	<u>\$ (2,863,875)</u>	<u>\$ (3,605,031)</u>	<u>\$ (3,542,206)</u>	<u>\$ (4,442,772)</u>
\$ 2,473,865	\$ 2,411,387	\$ 2,203,507	\$ 2,062,764	\$ 1,806,915
98,592	161,843	156,732	147,888	-
279,583	274,948	254,386	239,385	-
1,635,892	1,481,890	1,326,898	1,300,513	1,654,705
76,731	33,583	237,625	296,355	-
-	-	-	-	-
152,724	195,123	250,850	208,644	144,037
-	-	-	-	268,875
-	-	-	-	376,553
-	-	-	-	-
41,000	41,000	41,000	41,000	41,000
69,517	216,811	73,704	135,195	-
<u>\$ 4,827,904</u>	<u>\$ 4,816,585</u>	<u>\$ 4,544,702</u>	<u>\$ 4,431,744</u>	<u>\$ 4,292,085</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
321,316	392,176	283,384	70,096	-
<u>\$ 321,316</u>	<u>\$ 392,176</u>	<u>\$ 283,384</u>	<u>\$ 70,096</u>	<u>\$ -</u>
<u>\$ 5,149,220</u>	<u>\$ 5,208,761</u>	<u>\$ 4,828,086</u>	<u>\$ 4,501,840</u>	<u>\$ 4,292,085</u>
\$ 1,177,486	\$ 700,286	\$ 577,197	\$ 937,561	\$ 293,285
2,400,259	1,644,600	645,858	22,073	(443,972)
<u>\$ 3,577,745</u>	<u>\$ 2,344,886</u>	<u>\$ 1,223,055</u>	<u>\$ 959,634</u>	<u>\$ (150,687)</u>

TOWN OF SMITHFIELD, VIRGINIA

Fund Balances of Governmental Funds
Last Ten Fiscal Years

	2013	2012	2011 [1]	2010
General Fund				
Reserved	\$ -	\$ -	\$ 1,174,566	\$ 1,508,460
Unreserved	-	-	-	2,552,861
Nonspendable	36,723	-	-	-
Restricted	176,929	-	-	-
Committed	19,903	-	638,907	-
Unassigned	4,058,330	2,691,180	2,189,060	-
Total general fund	\$ 4,291,885	\$ 2,691,180	\$ 4,002,533	\$ 4,061,321
All Other Governmental Funds				
Unreserved, reported in:				
Special revenue funds	\$ -	\$ -	\$ -	\$ 9,618
Capital project funds	-	-	-	8,107
Debt service funds	-	-	-	-
Restricted, reported in:				
Special revenue funds	-	-	-	-
Capital project funds	-	-	-	-
Debt service funds	-	-	-	-
Committed, reported in:				
Special revenue funds	109,859	(7,007)	147,536	-
Capital project funds	8,108	8,108	8,107	-
Debt service funds	-	-	-	-
Unassigned, reported in:				
Debt service funds	-	-	-	-
Total all other governmental funds	\$ 117,967	\$ 1,101	\$ 155,643	\$ 17,725
Total fund balances	\$ 4,409,852	\$ 2,692,281	\$ 4,158,176	\$ 4,079,046

[1] The presentation of fund balance changed in 2011 as a result of the implementation of GASB 54. Prior to 2011, fund balances are reported only as 'reserved' and effective 2011, fund balances are reported as described described in Note 1 of the notes to the financial statements.

Table 3

2009	2008	2007	2006	2005	2004
\$ 1,078,373	\$ 1,031,489	\$ 317,679	\$ 302,692	\$ 297,369	\$ 292,311
2,417,959	2,616,244	3,019,368	3,984,498	3,937,354	3,325,509
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 3,496,332</u>	<u>\$ 3,647,733</u>	<u>\$ 3,337,047</u>	<u>\$ 4,287,190</u>	<u>\$ 4,234,723</u>	<u>\$ 3,617,820</u>
\$ (25,827)	\$ 414,963	\$ (127,663)	\$ -	\$ -	\$ -
8,107	8,107	8,107	2,310	-	187
-	-	-	-	4,123	-
145,062	98,448	74,635	(20,340)	36,495	173,137
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 127,342</u>	<u>\$ 521,518</u>	<u>\$ (44,921)</u>	<u>\$ (18,030)</u>	<u>\$ 40,618</u>	<u>\$ 173,324</u>
<u>\$ 3,623,674</u>	<u>\$ 4,169,251</u>	<u>\$ 3,292,126</u>	<u>\$ 4,269,160</u>	<u>\$ 4,275,341</u>	<u>\$ 3,791,144</u>

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General Governmental Expenditures by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Public Safety	Public Buildings and Works [1]	Parks Recreational and Cultural	Community Development and Nondepartmental	Capital Projects	Debt Service Principal	Debt Service Interest and Issuance Costs	Total
2013	\$ 934,052	\$ 2,328,340	\$ 2,730,845	\$ 635,558	\$ 656,362	\$ -	\$ 482,211	\$ 43,345	\$ 7,810,713
2012	839,491	2,559,397	6,138,421	581,972	785,664	-	18,227	34,721	10,957,893
2011	773,996	2,445,825	3,198,945	866,696	1,221,142	-	6,246	57,712	8,570,562
2010	760,333	2,409,883	2,074,822	1,846,020	1,560,855	-	215,373	13,746	8,881,032
2009	1,304,222	2,421,575	2,314,279	7,383,665	1,077,460	-	222,188	15,041	14,738,430
2008	1,930,979	2,517,603	1,647,828	463,837	497,004	-	302,883	23,588	7,383,722
2007	1,039,257	2,329,968	3,145,030	465,502	264,793	-	340,195	33,486	7,618,231
2006	1,055,837	2,233,388	1,545,352	510,968	326,186	2,990	398,088	44,953	6,117,762
2005	940,534	1,896,000	491,075	449,931	292,906	1,028,566	391,879	57,431	5,548,322
2004	1,155,690	1,664,896	1,073,395	339,398	222,224	33,972	374,615	77,524	4,941,714

[1] Includes highway maintenance.

General Governmental Revenues by Source
Last Ten Fiscal Years

Fiscal Year	General Property Taxes [1]	Other Local Taxes	License, Permits and Privilege Fees	Fines and Forfeitures	Use of Money and Property	Program	From Commonwealth	From Federal Government	From County	Miscellaneous	Total
2013	\$ 2,361,401	\$ 2,585,376	\$ 17,176	\$ 68,396	\$ 193,830	-	\$ 1,853,459	\$ 682,438	\$ 5,559	\$ 947,087	\$ 8,714,722
2012	2,601,296	2,152,082	483,943	55,767	469,018	-	1,325,597	1,047,197	354,559	1,002,539	9,491,998
2011	2,681,191	2,129,364	441,428	68,017	172,447	936	1,153,683	1,096,213	134,871	771,542	8,649,692
2010	2,675,489	2,109,278	493,636	66,519	182,370	5,220	1,166,576	411,184	396,312	1,829,820	9,336,404
2009	2,840,115	2,103,415	508,544	73,486	201,859	1,386	1,155,049	426,937	275,700	6,556,853	14,143,344
2008	2,450,120	2,014,067	562,925	71,222	275,518	-	1,457,021	637,673	-	45,850	7,514,396
2007	2,281,153	1,920,994	627,280	69,893	330,363	5,797	1,082,662	25,327	-	256,728	6,600,197
2006	2,232,277	1,738,016	599,756	74,210	250,850	1,177	1,026,515	3,373	-	72,527	5,998,701
2005	2,116,088	1,687,786	598,227	74,887	208,644	-	1,012,630	50,147	-	196,350	5,944,759
2004	1,798,142	1,654,705	517,661	62,293	144,037	-	981,384	376,553	-	114,845	5,649,620

[1] Includes penalties.

Also, note that personal property tax relief from the state (\$240,795) was included with general property taxes in prior years but has been moved to revenues From Commonwealth as of 2013.

Property Tax Rates
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property	Boats	Machinery and Tools	Public Utility	
					Real Estate	Personal Property
2013	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2012	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2011	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2010	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2009	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2008	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2007	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2006	\$.21/\$100	\$1/\$100 \$.21/\$100[1]	\$.25/\$100	\$.15/\$100	\$.21/\$100	\$1/\$100
2005	\$.21/\$100	\$1/\$100 \$.21/\$100[1]	\$.25/\$100	\$.15/\$100	\$.21/\$100	\$1/\$100
2004	\$.23/\$100	\$1/\$100 \$.23/\$100[1]	\$.25/\$100	\$.15/\$100	\$.23/\$100	\$1/\$100

[1] Mobile home rate.

Principal Taxpayers - Real Estate
June 30, 2013

Taxpayer	Type of Business	Assessed Valuation Real Estate	% of Total
Smithfield Foods, Inc.	Meat processing	\$ 41,811,700	4.03%
Gwaltney of Smithfield, Ltd.	Meat processing	30,138,000	2.91%
Cypress Creek Development Co., LLC	Land developer	13,569,300	1.31%
Smithfield Packing Company	Meat processing	10,194,400	0.98%
Cedar-Smithfield II LLC	Real estate	9,097,600	0.88%
Patrick Henry Hospital	Nursing home/Assisted Living	8,390,000	0.81%
Bradford Mews Associates	Apartment rentals	8,200,000	0.79%
Smithfield Associates LLC	Hotel/Lodging	6,821,500	0.66%
Smithfield Development Corp	Land developer	5,972,100	0.58%
Morris Creek Landing Apartments	Apartment rentals	5,425,400	0.52%
Smithfield Square Associates	Real estate	4,866,400	0.47%
Smithfield Ham & Products	Commercial/Industrial	4,777,400	0.46%
Church Square LLC	Land developer	4,457,500	0.43%
Club Forest Pine St LLC & Club	Real estate	4,010,500	0.39%
Virginia Smithfield LLC	Real estate	3,810,900	0.37%
Cypress Creek Golf Course, LLC	Land developer	3,624,700	0.35%
Pack Development Company LLC	Restaurant/Hotel	3,624,300	0.35%
KLS Smithfield Development Group LLC	Commercial/Industrial	2,615,400	0.25%
Robert J Little, III & Nancy Delk	Commerical/Real Estate	2,440,300	0.24%
		<u>\$ 173,847,400</u>	<u>16.76%</u>
		Assessed Valuation Personal Property	% of Total
Gwaltney of Smithfield	Meat processing	\$ 93,837,811	50.10%
John Morrell & Company	Dog food plant	3,129,497	1.67%
NMHG Financial Services Inc	Equipment financing	2,438,119	1.30%
Smithfield Ham & Products Co.	Wholesale ham and related pork products	1,881,272	1.00%
C R England Inc	Trucking/shipping	1,424,194	0.76%
Dailmer Trust-Smithfield Foods	Vehicle and equipment financing	1,153,418	0.62%
All Virginia Environmental Solutions	Recycling/Trash Pickup	1,039,352	0.55%
Charter Communications	Cable/High Speed Internet Service Provider	922,974	0.49%
Food Lion LLC	Retail grocery	910,554	0.49%
Farmers Service	Hardware/lawn & garden	886,603	0.47%
Farm Fresh #238	Retail grocery	862,638	0.46%
Smithfield Packing	Meat processing	745,947	0.40%
Riverside Convalescent Center	Nursing home/Assisted Living	670,023	0.36%
Hampton Inn & Suites	Hotel/Lodging	480,000	0.26%
Smithfield Station	Hotel/restaurant/retail	317,390	0.17%
		<u>\$ 110,699,792</u>	<u>59.10%</u>

Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy [1][2]	Total Current Collections [1]	Percent of Levy Collected	Total Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes [3]	Percent of Delinquent Taxes to Tax Levy
2013	\$ 2,687,986	\$ 2,597,231	96.6%	\$ 65,467	\$ 2,662,698	99.1%	\$ 327,334	12.2%
2012	2,707,913	2,615,584	96.6%	54,429	2,670,013	98.6%	294,531	10.9%
2011	2,762,912	2,660,799	96.3%	91,482	2,752,281	99.6%	334,882	12.1%
2010	2,782,362	2,682,324	96.4%	49,374	2,731,698	98.2%	333,985	12.0%
2009	2,696,693	2,627,544	97.4%	46,683	2,674,227	99.2%	277,914	10.3%
2008	2,454,163	2,424,449	98.8%	23,621	2,448,070	99.8%	252,253	10.3%
2007	2,350,667	2,313,995	98.4%	21,482	2,335,477	99.4%	208,104	8.9%
2006	2,144,398	2,133,140	99.5%	18,151	2,151,291	100.3%	120,144	5.6%
2005	2,029,857	2,006,124	98.8%	27,216	2,033,340	100.2%	102,258	5.0%
2004	1,803,454	1,760,553	97.6%	21,504	1,782,057	98.8%	124,577	6.9%

[1] Exclusive of penalties and interest. Tax years 2010-2013 include VL tax as part of the personal property tax levy.

[2] The total tax levy includes the Commonwealth's reimbursement of \$240,795.

[3] Inclusive of penalties. (note - Delinquent taxes = \$228,880, Penalty & Interest = \$98,454)

Ratio of Net General Bonded Debt to Assessed
Value and Net Bonded Debt Per Capita
Last Ten Fiscal Years

Fiscal Year	Population	Assessed Value	Gross and Net Bonded Debt [3]	Less: Debt Payable from Enterprise Funds	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Per Capita
2013	8,089 [1]	\$ 1,242,935,697	\$ 4,948,510	\$ 4,279,866	\$ 668,644	0.05%	\$ 83
2012	8,089 [1]	1,291,801,806	5,303,476	4,682,823	620,653	0.05%	77
2011	8,089 [1]	1,315,267,714	4,870,677	4,231,770	638,907	0.05%	79
2010	6,324 [2]	1,326,157,271	4,476,754	4,470,508	6,246	0.00%	1
2009	6,324 [2]	1,310,667,802	4,924,959	4,703,341	221,618	0.02%	35
2008	6,324 [2]	1,241,516,731	5,380,722	4,936,922	443,800	0.04%	70
2007	6,324 [2]	1,181,657,578	5,977,452	5,231,094	746,358	0.06%	118
2006	6,324 [2]	842,305,875	6,604,383	5,517,897	1,086,486	0.13%	172
2005	6,324 [2]	807,331,646	3,515,061	2,102,369	1,412,692	0.17%	223
2004	6,324 [2]	661,964,530	4,054,967	2,264,583	1,790,384	0.27%	283

[1] U.S. Census Bureau- 2010 Census

[2] U.S. Census Bureau- 2000 Census

[3] Includes all long-term general obligation debt payable from enterprise revenue.

Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures
Last Ten Fiscal Years

Fiscal Year	General		Total Debt Service	Total General Expenditures	Ratio of Debt Service to Expenditures
	Principal	Interest			
2013	\$ 32,214	\$ 43,342	\$ 75,556	\$ 7,810,713	0.97%
2012	18,254	34,721	52,975	10,960,611	0.48%
2011	6,246	57,712	63,958	8,570,562	0.75%
2010	215,373	13,746	229,119	8,881,032	2.58%
2009	222,188	15,041	237,229	14,738,430	1.61%
2008	302,883	23,588	326,471	7,383,722	4.42%
2007	340,195	33,486	373,681	7,618,231	4.91%
2006	398,087	44,954	443,041	6,117,762	7.24%
2005	391,879	57,431	449,310	5,548,322	8.10%
2004	374,615	77,524	452,139	4,941,714	9.15%

Computation of Legal Debt Margin
June 30, 2013

Total assessed value of taxed real property	\$ 1,070,564,509
Debit limit - 10% of total assessed value	\$ 107,056,451
Amount of debt applicable to debt limit - gross debt	<u>4,948,510</u>
Legal debt margin	<u>\$ 102,107,941</u>

Full-time Equivalent City Government Employees by Function/Program
Last Ten Fiscal Years

Function/Program	Full-time Equivalent Employees as of June 30, 2013									
	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
General government										
Management services	3.33	2.80	2.80	3.11	3.43	3.43	3.33	3.18	2.75	2.19
Finance	5.80	4.71	4.12	4.79	4.60	4.00	4.55	3.40	3.20	2.60
Planning	2.35	2.35	2.35	2.35	2.50	2.00	2.41	2.50	2.60	1.60
Building	1.00	0.90	0.88	0.85	0.98	0.98	0.50	-	-	-
Other	0.80	0.80	0.80	0.80	0.80	1.00	1.00	1.00	1.00	1.00
Police										
Officers	21.59	20.80	19.31	21.78	21.00	20.16	20.51	21.00	21.00	17.00
Civilians	3.80	2.46	3.82	4.35	3.82	3.80	4.80	4.80	4.50	4.50
Other public works										
Engineering	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.50	0.50
Other	7.86	7.57	6.05	5.97	4.90	5.50	4.76	5.61	5.38	4.70
Park and recreation	5.33	4.92	5.08	5.26	4.23	4.23	5.28	5.91	4.87	4.61
Water	7.22	6.08	5.84	5.83	5.35	4.70	4.71	4.71	4.71	4.25
Wastewater	5.97	5.96	6.14	6.13	6.85	5.90	5.92	5.92	3.91	3.55
Total	65.85	60.15	57.99	62.02	59.26	56.50	58.57	58.83	54.42	46.50

TOWN OF SMITHFIELD, VIRGINIA

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2013	2012	2011	2010	2009
Police					
Physical arrests	268	199	271	362	387
Parking violations	23	21	20	99	48
Traffic violations	1,662	1,041	1,387	1,817	1,991
Fire					
Emergency responses	603	659	524	578	650
Refuse collection					
Refuse collected (tons per day) [1]	33.13	32.57	33.69	9.45	9.70
Other public works					
Street resurfacing (miles) [1]		1.23	1.40	1.82	6.25
Potholes repaired [1]	85	83	87	79	48
Water					
New connections	28	10	17	31	41
Water mains breaks	25	35	4	11	22
Average daily consumption (thousands of gallons)	828.59	822.07	810.72	824.47	806.24
Peak daily consumption (thousands of gallons)	1,968.15	1,821.23	1,879.39	2,159.77	1,734.77
[1] outsourced to subcontractors					

Table 13

2008	2007	2006	2005	2004
361	354	344	417	351
37	54	66	65	81
1,503	2,052	1,799	1,804	1,244
581	425	426	366	428
9.96	9.05	9.09	8.82	8.56
3.50	-	2.60	-	0.70
32	26	31	36	27
41	95	110	111	120
26	24	25	25	21
880.22	810.73	820.65	771.29	748.40
1,819.71	1,482.17	1,592.79	n/a	n/a

TOWN OF SMITHFIELD, VIRGINIA

Capital Asset Statistics by Function/Program Last Ten Fiscal Years

Function/Program	2013	2012	2011	2010	2009
Police					
Stations	1	1	1	1	1
Patrol units	22	22	21	22	21
Fire stations	1	1	1	1	1
Other public works					
Street (miles)	47.11	47.11	47.11	47.11	47.11
Streetlights	704	704	687	686	684
Traffic signals	7	7	7	7	7
Park and recreation					
Acreage*	203.296	203.296	201.901	201.901	201.901
Playgrounds	2	2	2	2	2
Conference centers	1	1	1	1	1
Water					
Water mains (miles)	38.25	38.25	38.25	38.25	38.25
Storage capacity (thousands of gallons)	1,120	1,120	1,120	1,120	625
Wastewater					
Sanitary sewers (miles)	38.25	38.25	38.25	38.25	38.25

*Acreage increase in 2009 resulted from the purchase of Windsor Castle Estate to be used as a public park.
The estate included 196.41 acres.

Table 14

2008	2007	2006	2005	2004
1	1	1	1	1
22	21	21	21	18
1	1	1	1	1
47.11	43.33	41.92	41.92	40.15
667	655	651	603	547
7	7	7	5	5
5.491	5.491	5.491	5.491	5.491
2	2	2	2	2
1	1	1	1	1
38.25	38.25	38.25	38.25	36.5
625	625	625	625	625
38.25	38.25	38.25	38.25	36.5

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Compliance

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ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

**To the Honorable Members of Town Council
Town of Smithfield, Virginia**

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, and each major fund, of Town of Smithfield, Virginia, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Smithfield, Virginia's basic financial statements, and have issued our report thereon dated January 23, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we have reported to management of the Town of Smithfield, Virginia, in a separate letter dated January 23, 2014.

Purpose of this Report

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

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
January 23, 2014

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Honorable Members of Town Council
Town of Smithfield
Smithfield, Virginia

Report on Compliance for Each Major Federal Program

We have audited Town of Smithfield, Virginia's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Town of Smithfield, Virginia's major federal programs for the year ended June 30, 2013. Town of Smithfield, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Smithfield, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Town of Smithfield, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Town of Smithfield, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of Town of Smithfield, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Smithfield, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Smithfield, Virginia's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer Cox Associates
(Charlottesville, Virginia
January 23, 2014

TOWN OF SMITHFIELD, VIRGINIA

Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/State Pass - Through Grantor/ Program Title or Cluster Title	Federal Catalog Number	Pass-Through Entity Identifying Number	Expenditures
Department of Transportation			
Direct payments:			
Highway Planning and Construction	20.205	N/A	\$ 475,411
Pass-through payments:			
Highway Safety Cluster:			
State and Community Highway Safety	20.600	SC-2012-52131-4509/OP-2013-53490-5205	8,249
Alcohol Impaired Driving Countermeasures			
Incentives Grants I	20.601	K8-2013-53488-5203	<u>1,434</u>
Total Department of Transportation			\$ <u>9,683</u>
Department of Housing and Urban Development			
Pass-through payments:			
Community Development Block Grants/ State's Program and Non-Entitlement Grants in Hawaii	14.228	N/A	\$ <u>124,526</u>
Department of Homeland Security			
Pass-through payments:			
Disaster Grants-Public Assistance	97.036		\$ <u>69,290</u>
Total Expenditures of Federal Awards			\$ <u><u>678,910</u></u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Schedule of Expenditures of Federal Awards For the Year Ended June 30, 2013

Note 1 - General

The accompanying Schedule of Expenditures of Federal Awards ("Schedule") includes the federal grant activity of the Town of Smithfield, Virginia under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Town of Smithfield, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Smithfield, Virginia.

Note 2 - Basis of Accounting

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Note 3 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in the Town's basic financial statements as follows:

Intergovernmental federal revenues per the basic financial statements:

Primary government:

General Fund	\$ 682,438
Less: Federal Fuel Refund	(3,528)
Total General Fund	<u>678,910</u>

Total federal expenditures per the Schedule of Expenditures
of Federal Awards

\$ 678,910

TOWN OF SMITHFIELD, VIRGINIA

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

Section I - Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Noncompliance material to financial statements noted? No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? No

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported
in accordance with Circular A-133, Section .510 (a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
20.205	Highway Planning and Construction

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

Auditee qualified as low-risk auditee? Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Section IV - Prior Year Federal Award Findings and Questioned Costs

There are no prior year federal award findings and questioned costs to report.

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