

TOWN OF SMITHFIELD, VIRGINIA



FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

TOWN OF SMITHFIELD, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

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

Town Clerk

Lesley M. Greer

Town Manager

Peter M. Stephenson

Treasurer

Ellen D. Minga

Chief of Police

Steven G. Bowman

Committees

Finance

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

Public Works

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

Water and Sewer

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

Public Buildings and Welfare

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

Fire and Rescue

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

Public Safety - Police

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

Isle of Wight Tourism Bureau

Andrew C. Gregory
Denise N. Tynes

Parks and Recreation

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

Intergovernmental

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

Smithfield Planning Commission

Randolph H. Pack

TOWN OF SMITHFIELD, VIRGINIA

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FOR YEAR ENDED JUNE 30, 2014

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 Town of Smithfield, Virginia, as of June 30, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of pension funding progress on pages 3-16, 61-62, and 63 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 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 supporting schedules 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 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 21, 2015, on our consideration of 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 21, 2015

Management's Discussion and Analysis
Fiscal Year July 1, 2013 - June 30, 2014

The following discussion provides an overview and analysis of Town of Smithfield, Virginia's (Town's) financial activities for the fiscal year ended June 30, 2014. 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 \$423,252 which represents a 1.02% increase over FY2013 (total net position-government-wide).
- The Town continued progress on the Pinewood Heights Redevelopment Project with the acquisition of 3 properties (\$211,454) in Phase II Multi-Year 1. Three homeowners and two tenants were also relocated, and one remaining unit from Phase I Multi-Year 2 was demolished.
- The Town added capital assets totaling \$422,605 including 3 police vehicles and 1 public works vehicle.
- Principal payments of \$453,915 in FY2014 lowered outstanding debt to \$4,494,595 (4% of the legal debt limit).

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 required and 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.

The Statement of Net Position presents information on the Town's assets, deferred outflows of resources and liabilities and deferred inflows of resources. The difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources is reported as net position. Over time, increases or decreases in net assets 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.

Government-wide financial statements: (Continued)

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

- **Governmental activities** - The governmental activities of the Town include general government, public safety, public works, public buildings, community development, and 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 propriety 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 government's recent financing decisions. Reconciliations of the governmental funds balance sheet and statement of revenues, expenditures, and changes are shown in Exhibits 4 and 6 on pages 21 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 budgetary comparisons, pension funding progress, supporting schedules and other statistical information found on pages 61 through 86.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Town of Smithfield, Virginia Summary of Net Position As of June 30, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 7,922,747	7,335,479	\$ 4,709,215	4,179,948	\$ 12,631,962	11,515,427
Capital assets	20,491,841	21,010,600	16,011,130	16,735,948	36,502,971	37,746,548
Total assets	\$ 28,414,588	28,346,079	\$ 20,720,345	20,915,896	\$ 49,134,933	49,261,975
Long-term liabilities outstanding	\$ 802,599	816,880	\$ 3,889,540	4,312,538	\$ 4,692,139	5,129,418
Other liabilities	750,382	825,920	192,652	240,561	943,034	1,066,481
Total liabilities	\$ 1,552,981	1,642,800	\$ 4,082,192	4,553,099	\$ 5,635,173	6,195,899
Deferred inflows of resources	\$ 1,716,438	1,706,006	-	-	\$ 1,716,438	1,706,006
Net position:						
Net investment in capital assets	\$ 19,858,407	20,341,956	\$ 12,149,969	12,456,082	\$ 32,008,376	32,798,038
Restricted	161,059	176,929	1,793,475	1,509,709	1,954,534	1,686,638
Unrestricted	5,125,703	4,478,388	2,694,709	2,397,006	7,820,412	6,875,394
Total net position	\$ 25,145,169	24,997,273	\$ 16,638,153	16,362,797	\$ 41,783,322	41,360,070

The combined net position for the Town totals \$41,783,322, an increase of 1.02% over FY2013. The largest portion (77%) 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. This net investment decreased by \$789,663 (-2.4%) in FY2014 because depreciation expense and debt service payments exceeded the value of capital asset additions. Restricted assets of \$1,954,534 make up only 5% of total net position. The governmental activities total of \$161,059 represents donated and/or restricted funds specifically for beautification, the Pinewood Heights Redevelopment Project, the Smithfield Police Department, and the SNAP (Supplemental Nutrition Assistance Program) program. The business-type activities total of \$1,793,475 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 for 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 \$7,820,412 make up 19% of total net position and increased by \$945,019 (13%) from prior year. 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 and development escrow funds are also categorized as unrestricted and are made up of availability fees and pro-rata share 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.

Governmental Activities. The following table shows a detailed summary of the revenues and expenses for governmental and business-type activities for 2014 as compared to 2013:

Town of Smithfield, Virginia
Changes in Net Position
As of June 30, 2014

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 92,796	\$ 85,572	\$ 2,828,406	\$ 2,776,011	\$ 2,921,202	\$ 2,861,583
Operating grants and contributions	1,268,617	1,335,108	-	-	1,268,617	1,335,108
Capital grants and contributions	374,394	1,516,875	178,369	212,202	552,763	1,729,077
General revenues:						
Property taxes	2,498,772	2,352,590	-	-	2,498,772	2,352,590
Other taxes	2,747,988	2,585,376	-	-	2,747,988	2,585,376
Unrestricted revenues from the use of money and property	205,654	193,830	11,526	12,402	217,180	206,232
Miscellaneous	68,804	142,646	10,642	14,653	79,446	157,299
Grants and contributions not restricted to specific programs	480,105	493,914	-	-	480,105	493,914
Gain on disposal	28,142	18,722	-	-	28,142	18,722
Total revenues	\$ 7,765,272	\$ 8,724,633	\$ 3,028,943	\$ 3,015,268	\$ 10,794,215	\$ 11,739,901
Expenses:						
General government						
administration	\$ 964,395	\$ 1,124,143	\$ -	\$ -	\$ 964,395	\$ 1,124,143
Public safety	2,397,623	2,378,375	-	-	2,397,623	2,378,375
Public works	2,388,421	1,952,522	-	-	2,388,421	1,952,522
Parks, recreation and cultural	826,369	698,573	-	-	826,369	698,573
Community development	1,004,920	646,422	-	-	1,004,920	646,422
Interest on long-term debt	35,648	43,342	-	-	35,648	43,342
Water fund	-	-	1,632,400	1,546,489	1,632,400	1,546,489
Sewer fund	-	-	1,121,187	1,245,035	1,121,187	1,245,035
Total expenses	\$ 7,617,376	\$ 6,843,377	\$ 2,753,587	\$ 2,791,524	\$ 10,370,963	\$ 9,634,901
Increase (decrease) in net position	\$ 147,896	\$ 1,881,256	\$ 275,356	\$ 223,744	\$ 423,252	\$ 2,105,000
Net position-beginning of year	\$ 24,997,273	\$ 23,116,017	\$ 16,362,797	\$ 16,139,053	\$ 41,360,070	\$ 39,255,070
Net position-end of year	\$ 25,145,169	\$ 24,997,273	\$ 16,638,153	\$ 16,362,797	\$ 41,783,322	\$ 41,360,070

Program revenues make up 22% of total revenues and are comprised of charges for services, operating grants and contributions, and capital grants and contributions. Program revenues dropped \$1,201,748 (41%) from prior year due to the completion of the South Church Street Streetscape Improvement Project and the public restrooms. The Town received \$982,348 in federal, state, and private grant funding for South Church Street and a private donation valued at \$410,000 for the public restrooms in FY2013. Charges for governmental activities services (5%) include permits, review fees, and fines and forfeitures. These charges for services increased only \$7,224 from FY2013 largely due to an increase in fines totaling \$5,357. Review fees also increased by \$6,846 but were offset by decreases in zoning, land disturbance, and easement permits. Operating grants and contributions of \$1,268,617 (73%) dropped \$66,491 from prior year and are made up of state highway maintenance funds (\$1,033,113), public safety grants (\$197,828), community development and cultural grants (\$25,820), and miscellaneous administrative and other grants (\$11,856). 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 \$1,003,520 in FY2013 to \$1,033,112 in FY2014. 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 75% from 1,516,875 in FY2013 to \$374,394 in FY2014. In FY2013, the Town utilized \$706,874 in state and federal funding for the South Church Street project and the Pinewood Heights Redevelopment Project as well as \$400,000 in private contributions. The Town also received the donation of a public restroom from Smithfield Foods valued at \$410,000. In FY2014, the sole capital grant was \$374,394 in federal funding to reimburse Town expenditures for Phase II MY1 of the Pinewood Heights Redevelopment Project.

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

	Governmental Activities	
	2014	2013
Real estate tax revenue	\$ 1,767,140	\$ 1,643,338
Public Service corporation property taxes	31,183	30,139
Personal Property taxes	654,631	639,380
Penalties and interest	<u>45,818</u>	<u>39,733</u>
Total	<u>\$ 2,498,772</u>	<u>\$ 2,352,590</u>

Tax assessments for the Town are received from the Isle of Wight County Commissioner of Revenue. Real estate and personal property assessments for FY2014 totaled \$1,061,653,100 and \$204,595,677 respectively, excluding any subsequent supplements and abatements, compared to \$1,060,976,600 and \$187,301,569 for FY2013.

FY2014 was not a reassessment year; so real estate assessment increases represent only new construction.

Other local taxes increased 6% 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 \$24,183 (18%) with revenues particularly strong in the 4th quarter exceeding prior year by over \$16,000. Sales tax revenues of \$293,935 also increased by \$34,770 (13%) bringing the Town close to its 2012 total of \$298,844 after a \$35,574 decrease in FY2013. Cigarette taxes totaled \$166,913 which was an increase of \$30,248 (22%) over prior year. 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 \$1,264,762 increased \$66,347 from 2013. One-third of the meals tax revenue (\$421,587) is dedicated to the Pinewood Heights Project to fund the Town's portion of acquisition, relocation, and demolition expenditures. Franchise taxes increased for the first time in three years totaling \$134,609 in 2014 compared to \$116,784 in 2013, \$131,046 in 2012, and \$143,231 in 2011. The 2014 change was mainly due to the increase in the Town's share of net capital value for the Farmers Bank which is one of five banking institutions located within the Town limits. Consumers' utility taxes increased \$9,380 (4%) and was the second consecutive year of an increase after remaining relatively flat for years 2010-2012. Utility taxes are imposed and levied monthly on each purchase of natural gas or electricity delivered to consumers. Business license taxes decreased from \$365,434 in 2013 to \$345,173 in 2014, a drop of \$20,441 (6%). Although a decrease was reflected in this category, the change was caused by a decrease in delinquent business license collections while current year licenses increased by \$3600. This is an indication that the financial outlook for local businesses is stabilizing. 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 decreased from \$137,138 in FY2013 to \$134,933 in FY2014 indicating a reduction of approximately 110 licensed vehicles in the Town.

Unrestricted revenue from use of money and property represent interest income, lease income, property rental income, and event rental income. Revenues in this category increased minimally by \$11,824 from FY2013. The majority of the increase can be attributed to kayak rentals at Windsor Castle Park which brought in \$9,389 during its first full season of activity compared to \$1,035 for a partial season last year. In FY2013, the Town started charging fees for special events that generate overtime for police and public works staff. These fees generated \$9,015 in revenue during FY2014 compared to \$3,782 last year. Interest revenue increased slightly (\$1,641) but property rentals and Smithfield Center rentals decreased \$1,957 and \$1,422 respectively.

Miscellaneous revenues for FY2014 totaled \$68,804 and are made up of cash proffer revenues, insurance proceeds, sale of copies, return check charges, accident report fees, wellness and safety grants, fingerprinting, grass cutting reimbursements for yard violations, and several small refunds. The Town collected cash proffers of \$32,000 in FY2014 for the Church Square development as compared to \$1,500 in FY2013 and \$3000 for FY2012. The Town also received final grant proceeds (\$18,000) from the Obici Healthcare Foundation for a wellness initiative that was carried forward from FY2013. In addition, the Town received \$11,648 in insurance proceeds from the Virginia Municipal League (VML) for damages to police vehicles during the year as well as a \$4,000 safety grant from the Virginia Municipal Group (VMG).

Grant contributions not restricted to specific programs include the state's annual personal property tax relief contribution, communications tax allocation, rolling stock and short term rental taxes. 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 \$238,118 for FY2014 decreased \$4,123 from FY2013. Rolling stock and short term rental tax collectively totaled \$1180 compared to \$795 last year which is an increase of only \$385.

Gain on disposal of assets of \$28,142 represents \$9,000 for sale of land and \$19,141 for sale of equipment and vehicles including three retired police vehicles and one retired public works pickup.

Total expenditures for FY2014 governmental activities totaled \$7,617,376 compared to \$6,843,377 for FY2013, an increase of \$773,999 (11%). These expenses are categorized as general government administration, public safety, public works, parks, recreation, and cultural, community development, and interest on long term debt. Public safety and public works (including highway maintenance) are the largest cost centers and each accounted for 31% of total costs respectively. Public safety increased by only \$19,248 from the prior year as a result of offsetting increases and decreases in multiple expense line items. The Town increased salaries 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 three more years at 1% per year to bring all employees to the 5% required. An additional 1.5% cost of living adjustment was added for all employees, including those that are part-time. Notably, to offset the increase in salary and benefits of \$37,735, Public Safety fuel decreased by \$10,697 and vehicle repairs decreased by \$8,176. The Town's annual E911 contribution to Isle of Wight County increased by \$7,645 but was equalized by decreases in equipment costs (\$5,892) and computer and technology (\$2,741). Public Works ended the fiscal year with the most significant overall increase in total expenses of \$435,899 from prior year. Labor increases as described for public safety above accounted for \$40,448 of the increase, but the majority was attributable to highway maintenance which increased \$132,413 from prior year due to an increase in 2014 state highway funds of \$29,594 and a carry forward of 2013 funds totaling \$118,335. Additionally a portion of depreciation expense for public buildings (\$135,141) was included with general government administration expenses in FY2013. Parks, recreation, and culture reflected an increase in expenditures of \$127,796 largely due to the allocation of a portion of public works salaries and benefits totaling \$100,212 to Windsor Castle Park. In prior years, labor costs for the park were absorbed by the Public Works, Highway, Water, and Sewer departments. The Town also incurred engineering costs of \$15,300 for evaluation of needed repairs to the Waterworks Dam. Community Development reflected the second largest increase for the fiscal year (\$358,498) as a result of progress made in Phase II-MY1 of the Pinewood Heights Redevelopment Project. The Town acquired 3 properties and relocated 3 owners and 2 renters during the fiscal year. General government was the only operating department that reflected a decrease (-\$159,748) for 2014. This decrease was due to the correct reclassification of Public Buildings depreciation expense to the Public Works department. 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 secured a note with Farmers Bank during FY2013 for \$80,175 to finance a new HVAC system for the Smithfield Center. Interest decreased from prior year as the Town continued to pay down the existing debt. The Town did not issue new debt in FY2014.

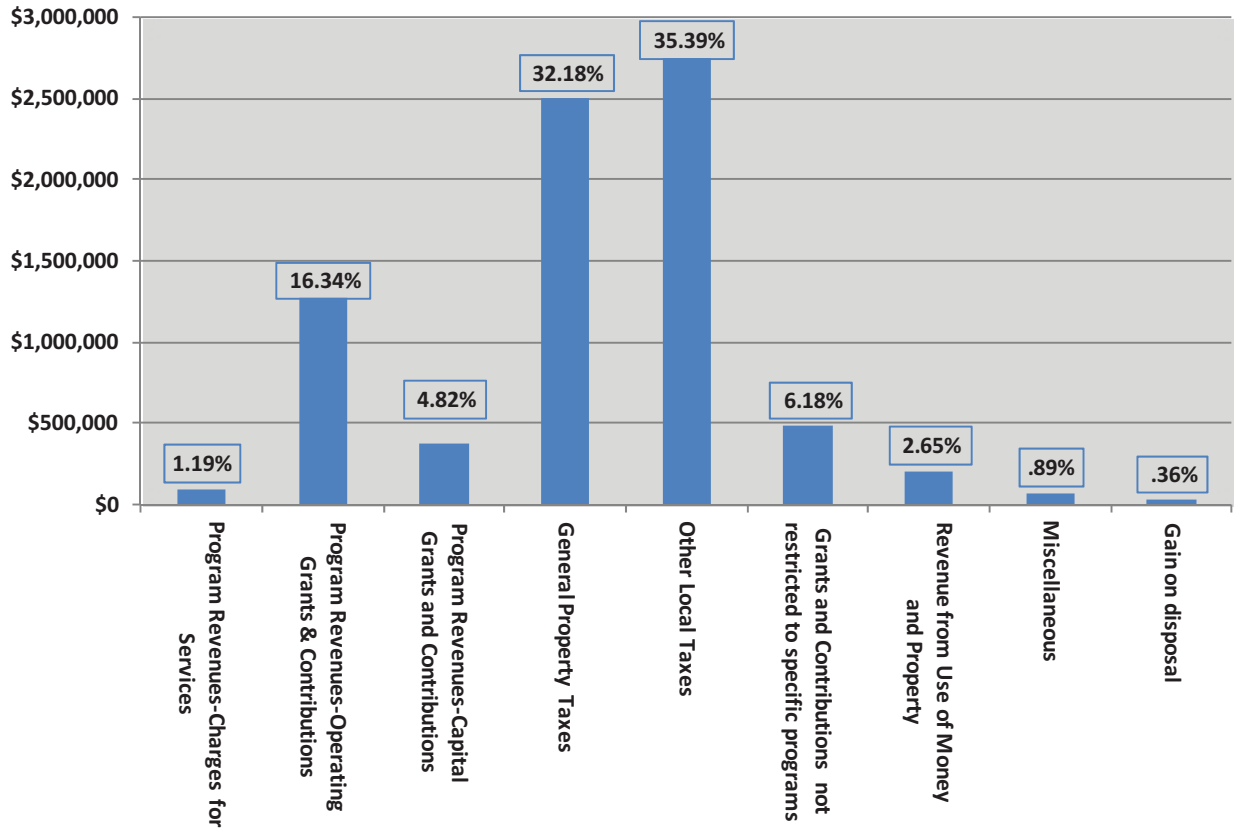
Business-type Activities. The business-type activities show an increase in net position of \$275,356 for FY2014 compared to an increase of \$223,744 in FY2013. Program revenues include charges for services that increased by \$52,395 and capital grants and contributions that decreased by \$33,833. Included in charges for services are utility charges, bulk water sales, debt service fees, sewer compliance fees, and connection fees. Water and sewer consumption remained steady from prior year but an additional water rate increase from \$4.85 to \$5.68 per 1000 gallons accounted for an increase of \$253,067 even with an offsetting decrease in the fixed debt service fee from \$19.30 to \$8.95 per billing account (-\$208,780). As with utility charges, the debt service fees are collected bi-monthly but are 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. Likewise, 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, 2014 collections of \$493,192 are just slightly higher than prior year (\$489,933) and will increase incrementally as new customers are added to the system. Connection fees, which are driven by growth, actually decreased from \$62,720 in FY2013 to \$45,860 in FY2014. Only nineteen 5/8" residential meters were installed in 2014 as compared to twenty-eight in 2013. Capital Grants and Contributions include availability fees, pro-rata share fees and contributed revenue. 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. Availability fees decreased from to \$191,520 in FY2013 to \$140,640 in FY2014 as nine fewer 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. Pro-rata share fees increased slightly from \$12,800 in 2013 to \$16,000 in current year. 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. Pro-rata share fees are designated for capital expenditures resulting from new growth and are deposited in the Water and Sewer Development Escrow Funds. The Town also received \$21,729 in contributed revenue from Smithfield Foods as reimbursement for a loan that was incurred in 1996 to finance a pump station critical to their operations. This loan will mature on November 1, 2015. Included in general revenues for water and sewer are revenues from the use of money and property and miscellaneous revenues. Revenue from the use of money and property is made up of interest income and decreased \$876 in FY2014. This decrease was caused by sustained low interest earnings on all cash accounts and utilization of available cash for operating expenses. Miscellaneous revenues of \$10,642 represent application fees for water service (\$6,749) and sales of scrap metal and inventory items to contractors (meter boxes, water boxes, drop bowl) totaling \$3,893.

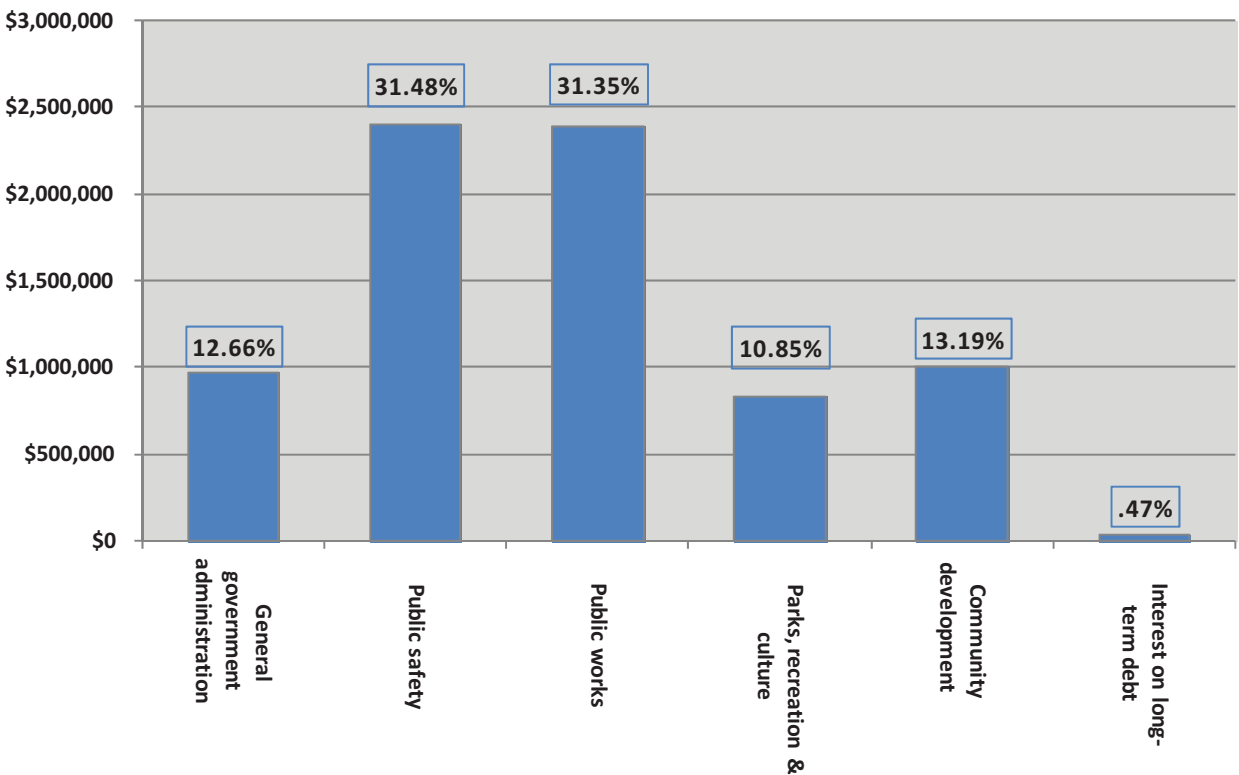
Utility expenses decreased \$37,937 from FY2013 with water increasing by \$85,911 and sewer decreasing by \$123,848. The largest increases in the water fund were in the operating costs of the water treatment plant (\$38,221), water tank maintenance (\$26,767), and engineering fees (\$25,242). Ironically, the engineering fees were incurred as the Town looks at alternative waste discharge methods to potentially lower the cost of operating the water treatment plant. That study will be continued in FY2015. The increase in water tank maintenance was the result of 4 quarterly payments in FY2014 compared to 3 in FY2013 once a contract agreement was reached. The change in sewer expenses was the result of a decrease in salaries and benefits (\$-65,690), materials and supplies (\$-24,145), repairs and maintenance (\$-19,271), and SCADA (\$-11,605). The decrease in salaries and benefits was due to a reallocation of duties and responsibilities among the public works employees whose time is spread between water, sewer, highway, Windsor Castle Park, and public works. Materials and supplies fluctuate based on total inventory at year end as adjustments to the inventory count are made through this line item. Since the implementation of the Town's new work order system in FY2014, the department is doing a better job of tracking costs and materials used. Although repairs and maintenance dropped to \$52,218 in FY2014 compared to \$71,490 in FY2013, the Town still incurs significant expense to maintain its sewer system on an annual basis. In 2014, however, most of those costs were over \$5,000 and thus capitalized. The Town's SCADA (Supervisory Control and Data Acquisition) System is used to monitor activity at its sewer pump stations. SCADA maintenance costs fluctuate from year to year as equipment is upgraded or replaced. The Town's SCADA cost for FY2014 was \$6,641.

The Town's current utility rate structure is based on "usage only" with some fixed costs added to address sewer compliance and water debt service expenses. The Town's current sewer rate was adopted as of January 1, 2012 and is billed at \$3.50 per 1,000 gallons used. In addition, a fixed cost of \$24.14 is added on each bi-monthly bill for sewer compliance expenses. On July 1, 2013, the Town Council approved an increase to the water rate from \$4.85 to \$5.68 per 1,000 gallons used. At the same time they also approved a decrease in the fixed bi-monthly debt service fee from \$19.30 to \$8.95. The Town Council reviews consumption and the resulting utility revenues on a monthly basis to ensure that revenues are sufficient to meet both operating and capital needs.

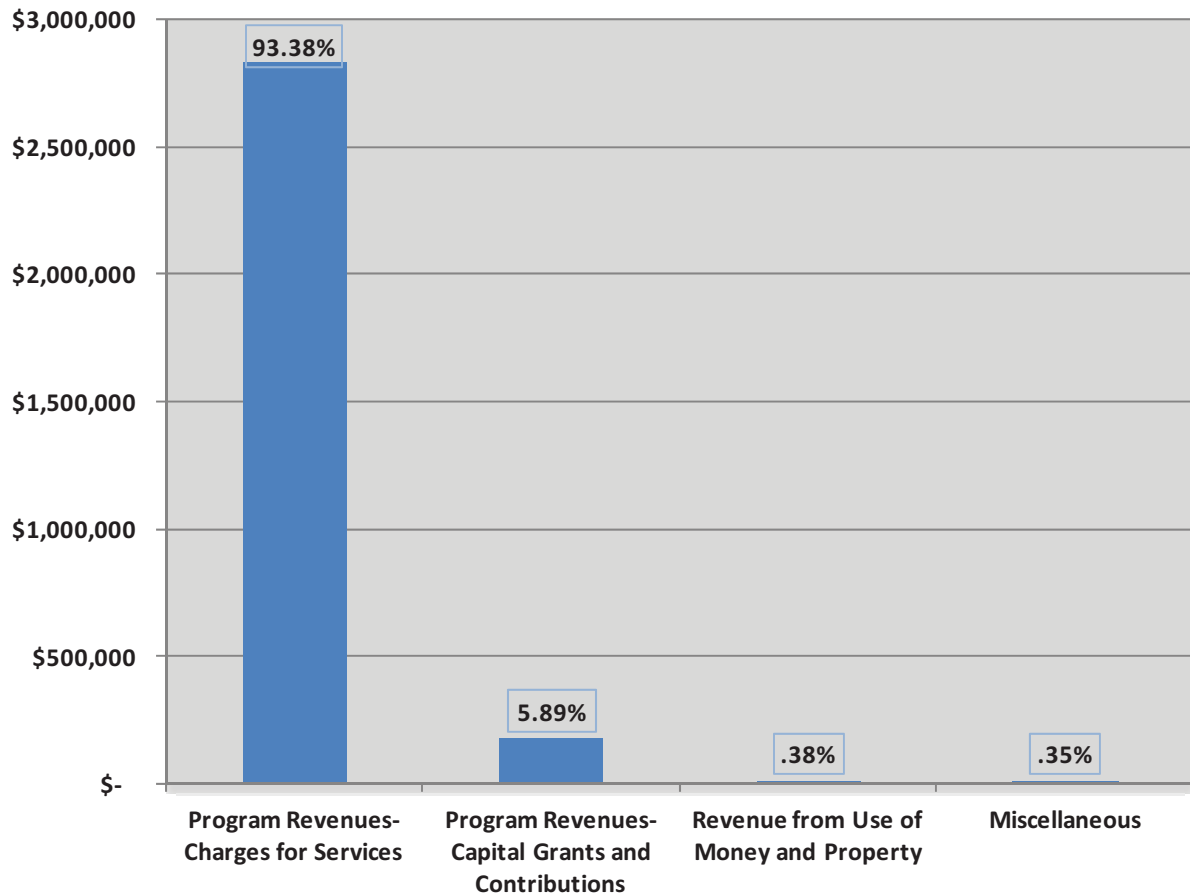
Revenues by Source-Governmental Activities



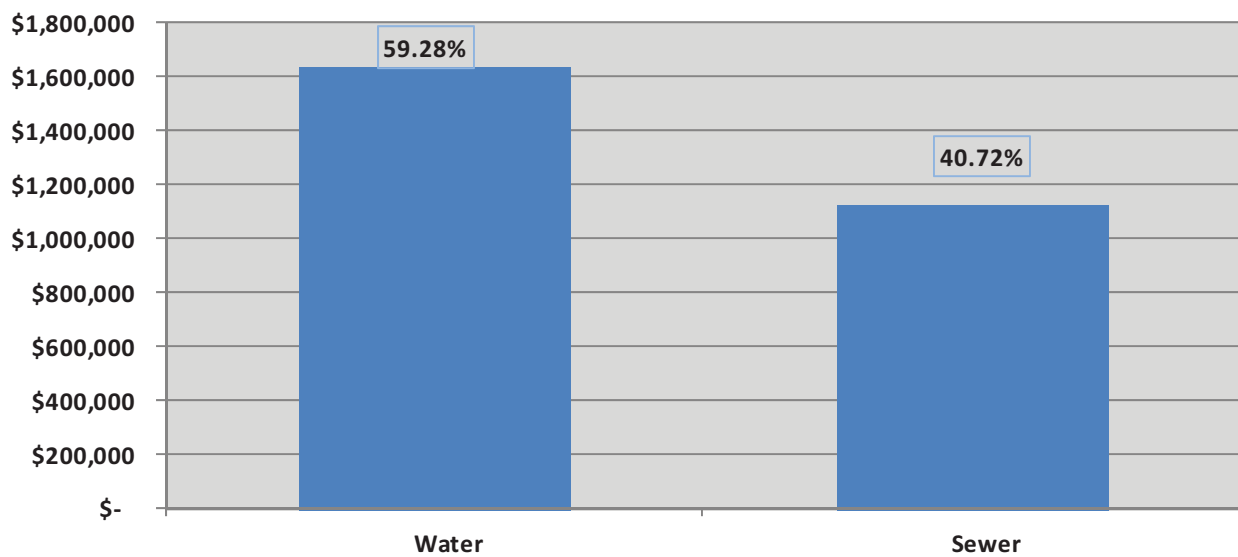
Expenses - Governmental Activities



Revenues by Source-Business-type Activities



Expenses - Business-type Activities



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 \$5,109,881 for FY2014, of which \$2,128 are prepaid items (nonspendable), \$22,444 are committed, \$161,059 are restricted, \$46,172 are assigned and \$4,878,078 are unassigned. This was a 16% increase from FY2013 which had a total fund balance of \$4,409,852.

General Fund. The general fund is the Town's primary operating fund for all governmental activities. Total fund balances for FY2014 equal \$5,063,709 and are made up of prepaid items of \$2,128, committed fund balances of \$22,444, restricted fund balances of \$161,059, and unassigned fund balances of \$4,878,078. The unassigned fund balance was \$4,291,885 in FY2013. In FY2014, assets increased (particularly cash and cash equivalents) and liabilities decreased as the Town's capital expenditures were significantly lower than in FY2013.

Highway Maintenance Fund. The highway maintenance fund is used to track receipts from the state that is specifically designated for road maintenance and to identify allowable expenses that may be charged against state revenue. Assigned fund balances for FY2014 totaled \$38,064 which is a significant decrease from a total fund balance of \$109,859 in FY2013. 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. In FY2014, the Town spent most of its 2014 highway grant funds as well as those that had been carried forward from FY2013.

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 (\$8,108) 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 2014, the total assets of the proprietary funds equaled \$22,182,838 which is less than a 1% increase over FY2013. This change resulted from higher cash equivalents due to the water rate increase and lower capital asset values as depreciation expenses exceeded capital outlay for the year. Restricted assets of \$1,793,475 increased \$283,766 from 2013 as sewer compliance spending decreased in FY2014 while the Town waited on the outcome of a regional study initiated by the Hampton Roads Sanitation District (HRSD). Unrestricted net position increased by \$297,703 from \$2,397,006 in FY2013 to \$2,694,709 in FY2014 as debt was paid down and utility billings increased.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's FY2014 budget was adopted by Town Council at a special meeting held on June 24, 2013. It was appropriated at the July 2, 2013 Town Council meeting. An amended budget was presented and adopted on June 3, 2014. The amended budget reflected a \$377,652 (-4.53%) decrease including reserves over the originally adopted budget. This change was mainly due to a decrease of \$400,000 in other financing sources originally budgeted for note proceeds to be used for a new baseball field complex. The project was delayed after the potential site for the project presented environmental challenges. Town Council is still hoping to secure an acceptable location for the ball fields in the future. Other notable changes resulted from sales taxes, cigarette taxes, meals taxes, and Pinewood Heights CDBG activity. The budget for sales taxes was increased by \$27,000 as collections were trending up during the year. The total (\$293,935) for FY2014 exceeded the amended budget by \$23,935 as sales tax revenues remained consistent throughout the year and did not drop off in the late winter and early spring months as in FY2013. This is a positive sign that consumer spending is strong within our community. Although the budget for cigarette tax sales was not

amended, total revenue of \$166,913 exceeded the budgeted amount of \$130,000 by \$36,913. This revenue is always difficult to project since it is based on sales of tax stamps to wholesalers instead of package sales to consumers. Meals tax revenues have been very strong for the Town even as the tax percentage (6%) has increased 2% over the years to support the Pinewood Heights Redevelopment Project. The 2014 budget was amended by \$71,769 from \$1,191,405 to \$1,263,174 to reflect the projected year-end total. Actual meals tax revenues of \$1,264,762 exceeded the amended budget by \$1,588. Of this total \$421,587 is designated to finance the Town's portion of the Pinewood Project. The grant portion of the project was included in the federal revenue budget based on the estimated remaining value of Phase II MY1 at fiscal year-end 2013 (\$500,194). The Town was unable to complete the project as anticipated by June 30, 2014, so federal grant revenues of \$374,394 were \$125,800 below budget. The remainder of this phase was carried forward to FY2015. The highway road maintenance budget increased by \$29,563 in FY2014 as the state increased its annual grant allocation from \$1,003,520 to \$1,033,113. Since there were no large projects in FY2014 other than the ongoing Pinewood Heights Redevelopment Project, budget revenues were more accurately projected without the timing issues that occur with state and federal grant funds.

Total budgeted departmental operating expenses for FY2014 increased by \$331,676 with fluctuations up and down between departments. There was one significant departmental increase: Community Development. This department was originally budgeted at \$891,543 and was amended to \$1,307,850. This increase of \$416,307 was made to reflect the portion of Phase II MY2 of the Pinewood Heights Redevelopment Project that was projected to begin in FY2014. There were no expenditures for MY2 during the year, however, so the budget was rolled forward to FY2015. Although not as significant as the increase, there were two areas with notable budget decreases: Public Safety and Debt Service. The budget for public safety was decreased by \$51,751 (-2.18%) and was spread over various line items such as communications, supplies, fuel, and travel and training. Actual expenses were \$69,922 below the amended budget due to savings in salaries and health insurance. Overtime was lower than projected and changes in medical coverage by personnel decreased the Town's required contribution. Also, the annual E911 contribution made to Isle of Wight County for shared dispatch services was decreased by \$8,078 after the year end true up was prepared. The second expense category that was lowered with a budget amendment was Debt Service. As discussed previously under budgeted revenues, the Town originally budgeted for \$400,000 of note proceeds for the addition of public baseball fields. The annual debt service cost for that anticipated loan was included in the original budget. Since the loan was not needed in FY2014, the debt expense was removed in the amended budget. Actual debt service costs were only \$79 over budget for the year. Budgeted capital outlay decreased substantially by \$850,056 in the amended budget with the biggest changes in Planning, Engineering, and Public Works (-\$475,000), and Community Development - Pinewood Heights (-\$345,056). The Planning, Engineering, and Public Works original budget included \$400,000 for the expected cost of the public baseball fields and \$75,000 for drainage and sewer improvements in Pinewood Heights. As sited previously, the ball fields were removed from the budget for FY2014. The Pinewood Heights drainage and sewer improvements budget was reduced to \$25,000 and reallocated to the General Government Administration operating budget. Town staff realized that it needed more information before actual improvements could be made. The Town contracted with their engineers to prepare a study of the infrastructure needs in Pinewood to make it suitable for commercial use once all residential units are acquired and demolished. The road maintenance budget was amended by \$147,898 to reflect an increase in allowable maintenance for FY2014 made possible by the increase in state grant funds and the carry forward of remaining FY2013 funds.

PROPRIETARY FUND BUDGETARY HIGHLIGHTS

The budget for proprietary funds was revised during FY2014 to reflect a net loss after contributions of \$43,527 (-60%) compared to the original budgeted loss of \$109,484. Budgeted operating revenues decreased \$104,402 (-4 %) largely because utility consumption projections were too optimistic when preparing the original budget. On a positive note, however, the amended reduction in water and sewer sales was too conservative. While the actual combined revenue of \$2,094,533 did not meet the original budget of \$2,152,859, it did exceed the amended budget total of \$2,036,570. Total consumption for FY2014 was very close to that of FY2013 and indicates that consumers are getting accustomed to the increased water and sewer rates. Budgeted operating expenses and depreciation expenses also decreased, by \$17,583 (-.95%) and \$172,720 (-15%) respectively. The budget for the water treatment plant was decreased by \$20,673 and still came in under the amended budget at \$428,686. This savings resulted because anticipated repairs built into five year projections for the plant have not yet been needed. Depreciation expenses were also lower

than the amended budget as progress on the sanitary sewer consent order slowed pending the outcome of a regional study to consider the feasibility of transferring sewer assets from participating localities to the Hampton Roads Sanitation District (HRSD). Notably, the total budget for connection fees was decreased by \$12,380 (27%) as this revenue was tracking significantly below budget in mid year. Like the utility charges, however, the budget amendment was too conservative, and actual connection fees of \$45,860 exceeded the original budget of \$44,800. The Town budgeted for 20 residential meter connections in FY2014 and decreased the budget to 13, but the actual number of installations was 19. This was very close to the original budget and shows some consistency in growth even if lower than the 28 connections in the prior year. The budget for non-operating revenues and expenses was decreased by \$19,944 but included an increase for pro-rata share fees (\$16,000) that were not originally budgeted while offsetting a drop in availability fees (-\$37,200). Pro-rata share fees of \$1600 per lot were paid by developers for 10 lots during FY2014. Pro-rata share fees are paid at the time that plats are recorded. Not many were recorded as construction declined sharply in a struggling economy over the past few years. In FY2012, the Town received \$8,000 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 amended budget expectations as they were based on 19 new connections.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of FY2014, the Town's investment in capital assets for its governmental and business-type activities totaled \$36,502,971 net of accumulated depreciation. This is a decrease of \$1,243,577 from FY2013. The decrease is the result of a significant reduction in capital spending in 2014 compared to prior year that was further reduced after applying annual depreciation. The Town's investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, vehicles, infrastructure, art collection 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 2014 fiscal year included the following:

- Purchase of three new police vehicles and one public works vehicle
- Purchase of 3 land parcels in Phase II MY1 of the Pinewood Heights Redevelopment Project
- Completion of an ARC Flash analysis and rating for 10 of the Town's wastewater pumping stations
- Continued progress on the regional sanitary sewer overflow consent order project including completion of 2 large components; ie, Mom (Management, Operation, and Maintenance) Program Full Hydraulic Model Phase 2 and Locality-HRSD Coordination.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 8,156,836	\$ 8,120,836	\$ 204,481	\$ 204,481	\$ 8,361,317	\$ 8,325,317
Building and system	3,761,566	3,944,530	8,300,392	8,610,915	12,061,958	12,555,445
Improvements other than buildings	1,070,480	1,113,947	118,077	119,638	1,188,557	1,233,585
Machinery & equipment	401,790	402,951	2,884,985	3,081,555	3,286,775	3,484,506
Vehicles	359,892	381,181	138,853	152,275	498,745	533,456
Infrastructure	6,727,157	7,030,260	3,991,779	4,052,797	10,718,936	11,083,057
Art collections	12,041	14,816	-	-	12,041	14,816
Contruction in progress	2,079	2,079	372,563	514,287	374,642	516,366
Total	<u>\$ 20,491,841</u>	<u>\$ 21,010,600</u>	<u>\$ 16,011,130</u>	<u>\$ 16,735,948</u>	<u>\$ 36,502,971</u>	<u>\$ 37,746,548</u>

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

Debt Administration. Outstanding debt for the Town at fiscal year-end 2014 totaled \$4,692,139 of which \$802,599 originated from governmental activities and the remaining \$3,889,540 from business-type activities. The Town did not issue new debt during FY2014, and principal paid for the year totaled \$453,915. The Town's ratio of net bonded debt to total assessed value of taxable property has remained the same for the last four years at .05%.

Detailed information about the Town's long-term obligations, net bonded debt per capita and legal debt margin may be found in Notes 8, 9 and 10 of the Notes to Financial Statements and Statistical Table 9, 10 and 11. 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, 2014**

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 580,825	\$ 600,766	\$ 3,826,491	\$ 4,223,464	\$ 4,407,316	\$ 4,824,230
Notes payable	52,609	67,878	34,670	56,402	87,279	124,280
Compensated absences	169,165	157,276	28,379	32,672	197,544	189,948
Total	\$ 802,599	\$ 825,920	\$ 3,889,540	\$ 4,312,538	\$ 4,692,139	\$ 5,138,458

ECONOMIC FACTORS

During FY2014 the sale of Smithfield Foods to the Chinese company Shuanghui was completed. The parent company is now known as WH Group Limited, but as promised the headquarters have remained in Smithfield as they continue to be a huge supporter of the local economy. Residential and commercial growth is slow but encouraging as developers are revisiting projects that were previously on hold. Special events are at an all time high as Windsor Castle Park gives organizers the needed space to host large crowds in a scenic outdoor setting. Such events have strengthened the tourism trade in Smithfield and revitalized business. Smithfield is fortunate to be an active community with residents and business owners who are invested in the town's success and give of their time and talents to ensure that it continues to thrive. Town Council and staff are confident that Smithfield has an exciting future.

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 2014. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Smithfield, 310 Institute Street, Smithfield, VA 23430.

Basic Financial Statements

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Government-wide Financial Statements

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Statement of Net Position
As of June 30, 2014

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 3,989,612	\$ 3,313,903	\$ 7,303,515
Receivables (net of allowance for uncollectibles):			
Taxes receivable	1,875,201	-	1,875,201
Accounts receivable	290,365	597,142	887,507
Interest receivable	86	-	86
Unearned incentive	205,000	-	205,000
Internal balances	1,150,260	(1,150,260)	-
Due from other governmental units	249,036	764	249,800
Inventories	-	154,191	154,191
Prepaid items	2,128	-	2,128
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	161,059	1,793,475	1,954,534
Capital assets (net of accumulated depreciation):			
Land	8,156,836	204,481	8,361,317
Buildings and system	3,761,566	8,300,392	12,061,958
Improvements other than buildings	1,070,480	118,077	1,188,557
Machinery and equipment	401,790	2,884,985	3,286,775
Vehicles	359,892	138,853	498,745
Infrastructure	6,727,157	3,991,779	10,718,936
Art collections	12,041	-	12,041
Construction in progress	2,079	372,563	374,642
Total assets	\$ 28,414,588	\$ 20,720,345	\$ 49,134,933
LIABILITIES			
Accounts payable	\$ 353,737	\$ 63,964	\$ 417,701
Accrued liabilities	2,138	-	2,138
Accrued wages & payroll liabilities	201,212	25,301	226,513
Customers' deposits	-	43,990	43,990
Accrued interest payable	-	59,397	59,397
Due to other governmental units	129,484	-	129,484
Due to taxpayers	63,812	-	63,812
Long-term liabilities:			
Due within one year	94,285	450,801	545,086
Due in more than one year	708,314	3,438,739	4,147,053
Total liabilities	\$ 1,552,981	\$ 4,082,192	\$ 5,635,173
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue-property taxes	\$ 1,716,438	\$ -	\$ 1,716,438
NET POSITION			
Net investment in capital assets	\$ 19,858,407	\$ 12,149,969	\$ 32,008,376
Restricted for:			
Town beautification	69,116	-	69,116
Pinewood Heights escrow	16,256	-	16,256
South Church Street projects	36,015	-	36,015
SNAP program	3,015	-	3,015
Police department expenditures	36,657	-	36,657
Debt service	-	1,212,185	1,212,185
Sewer compliance	-	581,290	581,290
Unrestricted	5,125,703	2,694,709	7,820,412
Total net position	\$ 25,145,169	\$ 16,638,153	\$ 41,783,322

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

TOWN OF SMITHFIELD, VIRGINIA

Statement of Activities
For the Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 964,395	\$ -	\$ 35	\$ -
Public safety	2,397,623	73,753	197,828	-
Public works	2,388,421	-	1,044,934	-
Parks, recreation, and cultural	826,369	-	22,708	-
Community development	1,004,920	19,043	3,112	374,394
Interest on long-term debt	35,648	-	-	-
Total governmental activities	\$ 7,617,376	\$ 92,796	\$ 1,268,617	\$ 374,394
Business-type activities:				
Water	\$ 1,632,400	\$ 1,626,650	\$ -	\$ 64,040
Sewer	1,121,187	1,201,756	-	114,329
Total business-type activities	\$ 2,753,587	\$ 2,828,406	\$ -	\$ 178,369
Total primary government	\$ 10,370,963	\$ 2,921,202	\$ 1,268,617	\$ 552,763

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

Net position - ending

The notes to 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
\$ (964,360)	\$ -	\$ (964,360)
(2,126,042)	-	(2,126,042)
(1,343,487)	-	(1,343,487)
(803,661)	-	(803,661)
(608,371)	-	(608,371)
(35,648)	-	(35,648)
<u>\$ (5,881,569)</u>	<u>\$ -</u>	<u>\$ (5,881,569)</u>
\$ -	\$ 58,290	\$ 58,290
-	194,898	194,898
<u>\$ -</u>	<u>\$ 253,188</u>	<u>\$ 253,188</u>
<u>\$ (5,881,569)</u>	<u>\$ 253,188</u>	<u>\$ (5,628,381)</u>
\$ 2,498,772	\$ -	\$ 2,498,772
293,935	-	293,935
345,173	-	345,173
196,714	-	196,714
1,264,762	-	1,264,762
166,913	-	166,913
134,933	-	134,933
345,558	-	345,558
205,654	11,526	217,180
68,804	10,642	79,446
480,105	-	480,105
28,142	-	28,142
<u>\$ 6,029,465</u>	<u>\$ 22,168</u>	<u>\$ 6,051,633</u>
147,896	275,356	423,252
<u>24,997,273</u>	<u>16,362,797</u>	<u>41,360,070</u>
<u>\$ 25,145,169</u>	<u>\$ 16,638,153</u>	<u>\$ 41,783,322</u>

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Fund Financial Statements

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Balance Sheet
Governmental Funds
As of June 30, 2014

	General	Highway Maintenance	Capital Projects	Total
ASSETS				
Cash and cash equivalents (Note 2)	\$ 3,906,106	\$ 83,506	\$ -	\$ 3,989,612
Receivables (net of allowance for uncollectibles):				
Taxes receivable (Note 1)	1,875,201	-	-	1,875,201
Accounts receivable	290,365	-	-	290,365
Interest receivable	86	-	-	86
Due from other funds	1,156,647	229,413	8,151	1,394,211
Due from other governmental units (Note 3)	249,036	-	-	249,036
Prepaid items	2,128	-	-	2,128
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	161,059	-	-	161,059
Total assets	<u>\$ 7,640,628</u>	<u>\$ 312,919</u>	<u>\$ 8,151</u>	<u>\$ 7,961,698</u>
LIABILITIES				
Accounts payable	\$ 147,144	\$ 206,593	\$ -	\$ 353,737
Accrued wages & payroll liabilities	139,293	61,919	-	201,212
Other accrued liabilities	2,138	-	-	2,138
Due to other funds	237,565	6,343	43	243,951
Due to other governmental units (Note 3)	129,484	-	-	129,484
Refunds to taxpayers	63,811	-	-	63,811
Total liabilities	<u>\$ 719,435</u>	<u>\$ 274,855</u>	<u>\$ 43</u>	<u>\$ 994,333</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	<u>\$ 1,857,484</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,857,484</u>
FUND BALANCE				
Nonspendable:				
Prepaid items	<u>\$ 2,128</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,128</u>
Restricted:				
Town beautification	\$ 69,116	\$ -	\$ -	\$ 69,116
Pinewood Heights escrow	16,256	-	-	16,256
South Church Street projects	36,015	-	-	36,015
SNAP program	3,015	-	-	3,015
Police department expenditures	36,657	-	-	36,657
Total restricted fund balance	<u>\$ 161,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 161,059</u>
Committed:				
Special projects	\$ 19,944	\$ -	\$ -	\$ 19,944
Museum	2,500	-	-	2,500
Total committed fund balance	<u>\$ 22,444</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,444</u>
Assigned:				
Highway maintenance	\$ -	\$ 38,064	\$ -	\$ 38,064
Capital projects	-	-	8,108	8,108
Total assigned fund balance	<u>\$ -</u>	<u>\$ 38,064</u>	<u>\$ 8,108</u>	<u>\$ 46,172</u>
Unassigned	<u>\$ 4,878,078</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,878,078</u>
Total fund balances	<u>\$ 5,063,709</u>	<u>\$ 38,064</u>	<u>\$ 8,108</u>	<u>\$ 5,109,881</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,640,628</u>	<u>\$ 312,919</u>	<u>\$ 8,151</u>	<u>\$ 7,961,698</u>

The notes to 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, 2014

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 5,109,881
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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.	20,491,841
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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	141,046
Unearned incentive allowance	205,000

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.	<u>(802,599)</u>
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Net position of governmental activities	<u><u>\$ 25,145,169</u></u>
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The notes to 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, 2014

	General	Highway Maintenance	Capital Projects	Total
REVENUES				
General property taxes	\$ 2,407,227	\$ -	\$ -	\$ 2,407,227
Other local taxes	2,747,988	-	-	2,747,988
Permits, privilege fees, and regulatory licenses	19,043	-	-	19,043
Fines and forfeitures	73,753	-	-	73,753
Revenue from the use of money and property	205,457	197	-	205,654
Miscellaneous	87,147	-	-	87,147
Intergovernmental revenues:				
Commonwealth	687,326	1,033,113	-	1,720,439
Federal	384,334	-	-	384,334
Total revenues	<u>\$ 6,612,275</u>	<u>\$ 1,033,310</u>	<u>\$ -</u>	<u>\$ 7,645,585</u>
EXPENDITURES				
Current:				
General government administration	\$ 917,447	\$ -	\$ -	\$ 917,447
Public safety	2,249,828	-	-	2,249,828
Public works	927,323	1,105,105	-	2,032,428
Parks, recreation, and cultural	662,467	-	-	662,467
Community development	856,680	-	-	856,680
Capital projects	183,990	-	-	183,990
Debt service:				
Principal retirement	35,210	-	-	35,210
Interest and other fiscal charges	35,648	-	-	35,648
Total expenditures	<u>\$ 5,868,593</u>	<u>\$ 1,105,105</u>	<u>\$ -</u>	<u>\$ 6,973,698</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 743,682</u>	<u>\$ (71,795)</u>	<u>\$ -</u>	<u>\$ 671,887</u>
OTHER FINANCING SOURCES (USES)				
Sale of land	\$ 9,000	\$ -	\$ -	\$ 9,000
Sale of equipment	19,142	-	-	19,142
Total other financing sources (uses)	<u>\$ 28,142</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 28,142</u>
Net change in fund balances	\$ 771,824	\$ (71,795)	\$ -	\$ 700,029
Fund balances - beginning	4,291,885	109,859	8,108	4,409,852
Fund balances - ending	<u>\$ 5,063,709</u>	<u>\$ 38,064</u>	<u>\$ 8,108</u>	<u>\$ 5,109,881</u>

The notes to 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, 2014

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

Net change in fund balances - total governmental funds	\$	700,029
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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	\$	241,168	
Depreciation expense		<u>(759,927)</u>	(518,759)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property tax revenue	\$	91,545	
Decrease in unearned incentive		<u>(148,240)</u>	(56,695)

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 and notes	35,210
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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>(11,889)</u>
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Change in net position of governmental activities	\$	<u><u>147,896</u></u>
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The notes to financial statements are an integral part of this statement.

Statement of Net Position
 Proprietary Funds
 As of June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,907,776	\$ 1,406,127	\$ 3,313,903
Receivables, net of allowances for uncollectibles accounts	348,234	248,908	597,142
Due from other funds	2,441	309,792	312,233
Due from other governmental units	-	764	764
Inventory	130,617	23,574	154,191
Total current assets	\$ 2,389,068	\$ 1,989,165	\$ 4,378,233
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	\$ 1,212,185	\$ 581,290	\$ 1,793,475
Total restricted assets	\$ 1,212,185	\$ 581,290	\$ 1,793,475
Capital assets:			
Land	\$ 194,391	\$ 10,090	\$ 204,481
Improvements other than buildings	115,140	20,087	135,227
Vehicles	79,533	278,958	358,491
Buildings	7,394,018	4,192,193	11,586,211
Machinery and equipment	1,825,992	2,798,343	4,624,335
Infrastructure	3,050,879	7,591,370	10,642,249
Construction in progress	2,079	370,484	372,563
Less accumulated depreciation	(2,981,914)	(8,930,513)	(11,912,427)
Total capital assets	\$ 9,680,118	\$ 6,331,012	\$ 16,011,130
Total noncurrent assets	\$ 10,892,303	\$ 6,912,302	\$ 17,804,605
Total assets	\$ 13,281,371	\$ 8,901,467	\$ 22,182,838
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 48,300	\$ 15,664	\$ 63,964
Accrued payroll	15,713	9,588	25,301
Customer deposits	43,990	-	43,990
Accrued interest payable	49,261	10,136	59,397
Due to other funds	1,012,155	450,338	1,462,493
Compensated absences - current portion	6,162	4,983	11,145
Bonds payable - current portion	337,973	101,683	439,656
Total current liabilities	\$ 1,513,554	\$ 592,392	\$ 2,105,946
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 2,679,266	\$ 742,239	\$ 3,421,505
Compensated absences - net of current portion	9,870	7,364	17,234
Total noncurrent liabilities	\$ 2,689,136	\$ 749,603	\$ 3,438,739
Total liabilities	\$ 4,202,690	\$ 1,341,995	\$ 5,544,685
NET POSITION			
Net investment in capital assets	\$ 6,662,879	\$ 5,487,090	\$ 12,149,969
Restricted	1,212,185	581,290	1,793,475
Unrestricted	1,203,617	1,491,092	2,694,709
Total net position	\$ 9,078,681	\$ 7,559,472	\$ 16,638,153
Total liabilities and net position	\$ 13,281,371	\$ 8,901,467	\$ 22,182,838

The notes to 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, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services and connection fees	\$ 1,431,944	\$ 1,201,756	\$ 2,633,700
Charges for services-debt service	194,706	-	194,706
Miscellaneous	9,550	1,092	10,642
Total operating revenues	<u>\$ 1,636,200</u>	<u>\$ 1,202,848</u>	<u>\$ 2,839,048</u>
OPERATING EXPENSES			
Personnel services	\$ 366,535	\$ 234,407	\$ 600,942
Employee benefits	82,451	61,062	143,513
Contractual	55,028	15,740	70,768
Maintenance, repairs, and truck operations	133,911	66,360	200,271
RO Plant	428,686	-	428,686
Utilities	11,705	53,430	65,135
Supplies	43,253	37,062	80,315
Other charges	54,910	38,855	93,765
Depreciation	332,202	574,054	906,256
Total operating expenses	<u>\$ 1,508,681</u>	<u>\$ 1,080,970</u>	<u>\$ 2,589,651</u>
Operating income (loss)	<u>\$ 127,519</u>	<u>\$ 121,878</u>	<u>\$ 249,397</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	\$ 6,923	\$ 4,603	\$ 11,526
Interest expense	(123,719)	(40,217)	(163,936)
Total nonoperating revenues (expenses)	<u>\$ (116,796)</u>	<u>\$ (35,614)</u>	<u>\$ (152,410)</u>
Income (loss) before contributions	<u>\$ 10,723</u>	<u>\$ 86,264</u>	<u>\$ 96,987</u>
Contributed capital - availability fees	\$ 56,040	\$ 84,600	\$ 140,640
Contributed capital - development impact fees	8,000	8,000	16,000
Contributed capital - VA revolving loan	-	21,729	21,729
Change in net position	<u>\$ 74,763</u>	<u>\$ 200,593</u>	<u>\$ 275,356</u>
Total net position - beginning	<u>9,003,918</u>	<u>7,358,879</u>	<u>16,362,797</u>
Total net position - ending	<u><u>\$ 9,078,681</u></u>	<u><u>\$ 7,559,472</u></u>	<u><u>\$ 16,638,153</u></u>

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2014

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,683,216	\$ 1,228,657	\$ 2,911,873
Payments to suppliers	(438,926)	(344,823)	(783,749)
Payments to and on behalf of employees	(449,048)	(299,643)	(748,691)
Net cash provided by (used for) operating activities	\$ 795,242	\$ 584,191	\$ 1,379,433
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	\$ (25,210)	\$ (156,228)	\$ (181,438)
Capital contributions	64,040	114,329	178,369
Retirements of long-term indebtedness	(322,274)	(96,431)	(418,705)
Interest payments	(128,317)	(41,226)	(169,543)
Net cash provided by (used for) capital and related financing activities	\$ (411,761)	\$ (179,556)	\$ (591,317)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends received	\$ 6,923	\$ 4,603	\$ 11,526
Net cash provided by (used for) investing activities	\$ 6,923	\$ 4,603	\$ 11,526
Net increase (decrease) in cash and cash equivalents	\$ 390,404	\$ 409,238	\$ 799,642
Cash and cash equivalents - beginning, including restricted cash and cash equivalents of \$1,279,413 and \$230,296	2,729,557	1,578,179	4,307,736
Cash and cash equivalents - ending, including restricted cash and cash equivalents of \$1,212,185 and \$581,290	\$ 3,119,961	\$ 1,987,417	\$ 5,107,378
Reconciliation of operating income (loss) to net cash provided by (used for) by operating activities:			
Operating income (loss)	\$ 127,519	\$ 121,878	\$ 249,397
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:			
Depreciation expense	332,202	574,054	906,256
(Increase) decrease in accounts receivable	3,026	25,809	28,835
(Increase) decrease in due from other funds	-	(31,711)	(31,711)
(Increase) decrease in inventory	(14,857)	4,087	(10,770)
Increase (decrease) in compensated absences	(1,612)	(2,681)	(4,293)
Increase (decrease) in payroll liabilities	1,550	(1,493)	57
Increase (decrease) in due to other funds	295,367	(11,344)	284,023
Increase (decrease) in accounts payable	8,057	(94,408)	(86,351)
Increase (decrease) in customer deposits	43,990	-	43,990
Total adjustments	\$ 667,723	\$ 462,313	\$ 1,130,036
Net cash provided by (used for) operating activities	\$ 795,242	\$ 584,191	\$ 1,379,433

The notes to 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, 2014

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Narrative Profile

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 public safety, recreational activities, and cultural events.

The financial statements of 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 Town'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 fiscal year 2014.

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, 2014.

E. Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2014.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (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, 2014 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 \$64,563 at June 30, 2014. The allowance for uncollectible billings in the water and sewer funds are \$62,684 and \$53,397 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	3-30 Years
Infrastructure	30-65 Years
Improvements Other than Buildings	10-50 Years

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

J. Capital Assets: (Continued)

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, 2014 was immaterial.

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. 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.

M. 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.

N. 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 \$259,811 in 2014 under this agreement. The agreement may be renewed for 5 subsequent one year terms.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

N. Intergovernmental Agreements (Continued)

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 \$9,113 in 2014 under this agreement.

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 2014 was \$184,915.

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 fiscal year 2014.

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 fiscal year 2014 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 fiscal year 2014.

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 2014 was \$110,872.

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

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, 2014.

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);

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

R. Fund Equity (Continued)

- 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;
- 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).

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

Investments

As of June 30, 2014, the Town had the following investments:

Town's Rated Debt Investments	
<u>Rated Debt Investments Value</u>	<u>Fair Quality Ratings</u>
	<u>AA</u>
VACO/VML Virginia Investment Pool \$	<u>500,601</u>
Total	<u>\$ 500,601</u>

Investment Credit Policy

The Town's investment policy permits the Town to invest any and all funds belonging to the Town or in the Town's control in the following:

1. U.S. Government Obligations - Stocks, bonds, notes and other evidences of indebtedness of the United States, its agencies or government sponsored corporations. These securities can be held directly or in the form of a registered money market or mutual funds provided that the portfolio of the fund is limited to such evidences of indebtedness.
2. Municipal Obligations - Stocks, bonds, notes and other evidences of indebtedness of the Commonwealth of Virginia, or of any county, city, town, district, authority or public body of the Commonwealth of Virginia with an investment grade from two of the rating agencies of at least A by Moody's, A by S&P, or A by Fitch.
3. Overnight, term or open Repurchase agreements collateralized by U.S. Treasury/Agency Securities- The repurchase agreement should have a term to maturity of not greater than (90) days. The collateral for overnight or one day repurchase agreements is required to be at least 100% of the value of the repurchase agreement.
4. Corporate Notes - Issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States that has a minimum "Aa" long-term debt rating by Moody's Investor's Service and a minimum "AA" long-term debt rating by Standard & Poor's. The amount invested in any single issuing corporation will not exceed five percent (5%) of the total funds available for investment (based on book value at the date of acquisition).
5. Negotiable Certificates of Deposit and Bank Deposit Notes of domestic banks and domestic offices of foreign banks- Must have a rating of at least A-1 by Standard & Poor's and P-1 by Moody's Investor Service, Inc., for maturities of one year or less and a rating of at least "AA" by Standard & Poor's and "Aa" by Moody's Investor Service for maturities over one year and not exceed five years.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

6. Commercial paper - Unsecured short-term debt of U.S. corporations may be purchased if the following conditions are met:
 - a) The maturity is no greater than two hundred-seventy (270) days;
 - b) No more than five percent (5%) of the total funds available for investment (based on book value on the date of acquisition) may be invested in commercial paper;
 - c) The amount invested in any single issuing corporation will not exceed five percent (5%) of the total funds available for investment (based on book value on the date of acquisition);
 - d) The issuing corporation, or its guarantor, has a net worth of at least \$50 million;
 - e) The net income of the issuing corporation, or its guarantor, has averaged \$3 million per year for the previous five years; and
 - f) The issuing corporation, or its guarantor, has a short-term debt rating of no less than “A-1” (or its equivalent) by at least two of following; Moody’s Investors Service, Standard & Poor’s, Fitch Investor’s Service and Duff and Phelps.
7. Registered Investment Companies (Mutual Funds) - Shares in open-end investment funds provided such funds are registered under the Federal Investment Company Act of 1940, invest exclusively in the securities permitted under this investment policy, provided that the fund is rated “AAm” or “AAm-G” or better by Standard & Poor’s Corporation, or equivalent by other rating agencies. The fund must also be properly registered for sale under the Securities Act (Section 13.1-501 et. seq.) of the Code of Virginia.
8. State Pool - The pooled investment fund (known as the Virginia Local Government Investment Pool or “LGIP”) as provided for in Section 2.2-4600 et seq. of the Code of Virginia.
9. VACoVML Virginia Investment Pool - This pooled investment fund as provided for in Sections 2.2-4501, 15.2-1500, and 15.2-1300 of the Code of Virginia.

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’s investment policy requires that no investment maturity or duration exceed five years.

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’s investment policy states that all securities and investments shall be in the name of the Town.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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

Concentration of Investment Credit Risk

The Town's investment policy requires the following diversification to mitigate concentration of investment credit risk:

1. The portfolio will be diversified with no more than five percent of its value invested in the securities of any single issuer. This limitation shall not apply to securities of the Commonwealth of Virginia, the U.S. Government, insured certificates of deposit, the Commonwealth of Virginia Local Government Investment Pool, and the VACo/VML Virginia Investment Pool.
2. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each eligible security is as follows:

U.S. Government Obligations	100% maximum
Registered Money Market Mutual Funds	100% maximum
State of Virginia LGIP	100% maximum
Repurchase Agreements	50% maximum
Commercial Paper	5% maximum
Negotiable Certificates of Deposit/Bank Notes	75% maximum
Municipal Obligations	20% maximum
Corporate Notes	15% maximum
Bank Deposits	100% maximum

Restricted and Designated Cash

Restricted cash and cash equivalents of the Town's governmental funds and activities at June 30, 2014, are detailed as follows:

	General	Business-type Activities	
		Water	Sewer
Town beautification	\$ 69,116	\$ -	\$ -
South Church Street projects	36,015	-	-
Pinewood Heights escrow	16,256	-	-
Police CD	36,657	-	-
SNAP program	3,015	-	-
Debt Service	-	1,212,185	-
Compliance escrow	-	-	581,290
Total	\$ 161,059	\$ 1,212,185	\$ 581,290

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.

	General	Business-type Activities		Total Primary Government
		Water	Sewer	
Special projects	\$ 19,944	\$ -	\$ -	\$ 19,944
Museum	2,500	-	-	2,500
Escrow	214,302	196,475	338,104	748,881
Total	\$ 236,746	\$ 196,475	\$ 338,104	\$ 771,325

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 3—RECEIVABLES:

Accounts receivable are detailed as follows:

	Governmental Activities	Business-type Activities
Property taxes	\$ 1,939,764	\$ -
Consumer utility taxes	26,378	-
Consumption taxes	6,825	-
Interest	86	-
Transient occupancy tax	49,546	-
Meals tax	168,348	-
Other	22,427	-
Payroll	16,841	-
Water and sewer billings	-	713,223
Total	\$ 2,230,215	\$ 713,223
Allowance for uncollectibles	(64,563)	(116,081)
Net receivables	<u>2,165,652</u>	<u>597,142</u>

NOTE 4—DUE FROM/TO OTHER GOVERNMENTS:

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

Governmental Activities:	
Commonwealth:	
Fire Programs Fund	\$ 24,294
DCA waterworks dam grant	8,500
Communications Tax	40,125
Due from Commonwealth	<u>\$ 72,919</u>
Isle of Wight County:	
Local Sales Tax	\$ 51,391
Fines	7,512
Other	6,045
Due from Isle of Wight County	<u>\$ 64,948</u>
Isle of Wight County Fire Department:	<u>\$ 1,401</u>
Due from Federal Government:	
CDBG	<u>\$ 109,768</u>
Total	<u>\$ 249,036</u>
Business-type Activities:	
Isle of Wight County:	<u>\$ 764</u>

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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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, 2014, the balances are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Primary Government:		
General Fund	\$ 1,156,647	\$ 237,565
Special Revenue	229,413	6,343
Capital Projects Fund	8,151	43
Enterprise Funds:		
Water Fund	2,441	1,012,155
Sewer Fund	309,792	450,338
Total	<u>\$ 1,706,444</u>	<u>\$ 1,706,444</u>

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 fiscal year 2013. The following represents outstanding incentives based on the sale/purchase agreements:

	<u>Original Amount</u>	<u>Oustanding Balance</u>
Agreement 1	\$ 139,300	\$ -
Agreement 2	\$ 240,000	\$ 205,000

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 7—CAPITAL ASSETS:

The following is a summary of changes in capital assets:

Governmental Activities:	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 8,120,836	\$ 36,000	\$ -	\$ 8,156,836
Construction in progress	2,079	-	-	2,079
Total capital assets not being depreciated	\$ 8,122,915	\$ 36,000	\$ -	\$ 8,158,915
Capital assets being depreciated:				
Art collections	\$ 118,466	\$ -	\$ -	\$ 118,466
Buildings and system	5,198,840	-	-	5,198,840
Improvements other than buildings	1,703,137	22,997	-	1,726,134
Machinery and equipment	1,085,585	53,328	50,458	1,088,455
Vehicles	1,358,173	108,097	127,149	1,339,121
Infrastructure	9,563,648	20,746	-	9,584,394
Subtotal	\$ 19,027,849	\$ 205,168	\$ 177,607	\$ 19,055,410
Less: accumulated depreciation for:				
Art collections	\$ (103,649)	\$ (2,776)	\$ -	\$ (106,425)
Buildings and system	(1,251,063)	(186,211)	-	(1,437,274)
Improvements other than buildings	(589,189)	(66,465)	-	(655,654)
Machinery and equipment	(682,634)	(54,489)	(50,458)	(686,665)
Vehicles	(976,997)	(129,381)	(127,149)	(979,229)
Infrastructure	(2,536,632)	(320,605)	-	(2,857,237)
Total accumulated depreciation	\$ (6,140,164)	\$ (759,927)	\$ (177,607)	\$ (6,722,484)
Net capital assets being depreciated	\$ 12,887,685	\$ (554,759)	\$ -	\$ 12,332,926
Capital assets, net	\$ 21,010,600	\$ (518,759)	\$ -	\$ 20,491,841

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Business-type Activities:	Balance June 30, 2013	Additions	Deletions	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 204,481	\$ -	\$ -	\$ 204,481
Construction in progress	514,287	53,276	195,000	372,563
Total capital assets not being depreciated	\$ 718,768	\$ 53,276	\$ 195,000	\$ 577,044
Capital assets being depreciated:				
Buildings and system	\$ 11,578,661	\$ 7,550	\$ -	\$ 11,586,211
Equipment	4,570,115	61,718	7,498	4,624,335
Infrastructure	10,412,249	230,000	-	10,642,249
Land improvements	130,235	4,992	-	135,227
Vehicles	339,589	18,902	-	358,491
Subtotal	\$ 27,030,849	\$ 323,162	\$ 7,498	\$ 27,346,513
Less: accumulated depreciation for:				
Buildings and system	\$ (2,967,746)	\$ (318,073)	\$ -	\$ (3,285,819)
Equipment	(1,488,560)	(258,288)	(7,498)	(1,739,350)
Infrastructure	(6,359,452)	(291,018)	-	(6,650,470)
Land improvements	(10,597)	(6,553)	-	(17,150)
Vehicles	(187,314)	(32,324)	-	(219,638)
Total accumulated depreciation	\$ (11,013,669)	\$ (906,256)	\$ (7,498)	\$ (11,912,427)
Net capital assets being depreciated	\$ 16,017,180	\$ (583,094)	\$ -	\$ 15,434,086
Capital assets, net	\$ 16,735,948	\$ (529,818)	\$ 195,000	\$ 16,011,130

Depreciation expense was charged to functions of the Town as follows:

Governmental activities:

General government administration	\$ 44,423
Public safety	262,098
Public works (Highways and streets)	288,347
Cultural and recreation	165,059

Total governmental activities \$ 759,927

Enterprise funds \$ 906,256

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 7—CAPITAL ASSETS: (CONTINUED)

Construction Commitments

Construction commitments of the Town at June 30, 2014 are as follows:

Project	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Construction Standards Update	\$ 6,237	\$ 9,963
SSO Consent Order:		
Annual report development	22,000	3,000
General rehabilitation plan	126,700	48,300
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 assessment	33,794	1,208
Flow monitoring upgrades	11,407	11,092
General review services	64,710	-
GIS assistance	2,708	-
Data retrieval	13,770	-
Regional meetings	3,945	-
Sewer Storage Shed	4,253	7,748
Total	\$ <u>374,644</u>	\$ <u>91,206</u>

NOTE 8—LINE OF CREDIT:

In fiscal year 2013, 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, 2014, the interest rate being charged to the Town was 3.25% and there was no balance outstanding. The unsecured line was to expire on August 22, 2014, however the line was renewed and will expire October 30, 2015.

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%. At June 30, 2014, the interest rate being charged to the Town was 3.25% and there was no balance outstanding. The unsecured line was to expire on July 31, 2014, however the line was renewed and will expire on July 31, 2015.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 9—LONG-TERM OBLIGATIONS:

Governmental activities obligations

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

	Balance June 30, 2013	Additions	Reductions	Balance June 30, 2014
General obligation bond payable	\$ 600,766	\$ -	\$ (19,941)	\$ 580,825
Note payable	\$ 67,878	\$ -	\$ (15,269)	\$ 52,609
Compensated absences	\$ 157,276	\$ 11,889	\$ -	\$ 169,165
Totals	\$ 825,920	\$ 11,889	\$ (35,210)	\$ 802,599

Details of Long-term Obligations

In April 2011, the primary government issued Taxable General Obligation Bonds 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, 2014, the balance of the bond payable was \$580,825.

Annual requirements for the bonds and notes outstanding for governmental activities are as follows:

Year Ending June 30,	Bonds		Notes	
	Principal	Interest	Principal	Interest
2015	\$ 21,574	\$ 32,398	\$ 15,899	\$ 1,843
2016	21,573	31,481	16,553	1,189
2017	23,233	30,564	17,240	502
2018	24,893	29,402	2,917	41
2019	26,552	28,033	-	-
2020-2024	157,652	116,634	-	-
2025-2029	205,778	66,148	-	-
2030-2031	99,570	8,683	-	-
Total	\$ 580,825	\$ 343,343	\$ 52,609	\$ 3,575

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (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>580,825</u>	\$ <u>21,574</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>52,609</u>	\$ <u>15,899</u>
Compensated Absences (Note 10)	\$ <u>169,165</u>	\$ <u>56,812</u>
Total general long-term obligations	\$ <u><u>802,599</u></u>	\$ <u><u>94,285</u></u>

Business-type obligations

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

	<u>Balance July 1, 2013</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2014</u>
General obligation bonds payable	\$ <u>4,223,464</u>	\$ <u>-</u>	\$ <u>(396,973)</u>	\$ <u>3,826,491</u>
Note payable	\$ <u>56,402</u>	\$ <u>-</u>	\$ <u>(21,732)</u>	\$ <u>34,670</u>
Compensated absences	\$ <u>32,672</u>	\$ <u>-</u>	\$ <u>(4,293)</u>	\$ <u>28,379</u>
Totals	\$ <u><u>4,312,538</u></u>	\$ <u><u>-</u></u>	\$ <u><u>(422,998)</u></u>	\$ <u><u>3,889,540</u></u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (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 (\$90,000 in FY2014) 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, 2014, the balance of the bond payable was \$975,000.

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, 2014, the balance of the bond payable was \$2,450,000.

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, 2014, the balance of the bond payable was \$401,491.

Annual requirements for the bonds and note outstanding for business-type activities are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Note</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2015	\$ 416,823	\$ 154,362	\$ 22,833	\$ 1,452
2016	431,827	138,598	11,837	296
2017	362,841	121,858	-	-
2018	295,000	108,086	-	-
2019	305,000	94,958	-	-
2020-2024	1,525,000	263,274	-	-
2025-2026	490,000	21,506	-	-
Total	\$ <u>3,826,491</u>	\$ <u>902,642</u>	\$ <u>34,670</u>	\$ <u>1,748</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (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	\$ 2,450,000	\$ 165,000
\$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	975,000	95,000
\$773,266 General Obligation bond dated August 2011, with principal payable annually, bearing interest at 3.145% payable semi-annually, maturing August 2016	401,491	156,823
\$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>34,670</u>	<u>22,833</u>
Total	\$ 3,861,161	\$ 439,656
Compensated Absences (Note 10)	<u>\$ 28,379</u>	<u>\$ 11,145</u>
Total enterprise debt	<u><u>\$ 3,889,540</u></u>	<u><u>\$ 450,801</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, 2014 (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, 2014, accumulated vacation and sick leave for the government funds amounted to \$169,165 of which \$56,812 is short-term.

At June 30, 2014, accumulated vacation and sick leave for the proprietary funds amounted to \$28,379 of which \$11,145 is short-term.

NOTE 11—PENSION PLAN:

A. Plan Description

Name of Plan:	Virginia Retirement System (VRS)
Identification of Plan:	Agent Multiple-Employer Pension Plan
Administering Entity:	Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to 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.

Within the VRS Plan, the System administers three different benefit plans for local government employees - Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS – PLAN 1

- 1. Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
- 3. Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

3. Hybrid Opt-In Election (Continued)

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

- 4. Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- 5. Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- 6. Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

- 7. Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.
- An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- 8. Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

9. Service Retirement Multiplier - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

10. Normal Retirement Age - Age 65.

11. Earliest Unreduced Retirement Eligibility - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. Earliest Reduced Retirement Eligibility - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

13. Cost-of-Living Adjustment (COLA) in Retirement - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

14. Eligibility - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

15. Exceptions to COLA Effective Dates - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 1 (CONTINUED)

15. Exceptions to COLA Effective Dates (Continued)

- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

16. Disability Coverage - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS – PLAN 2

- 1. Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
- 2. Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 2 (CONTINUED)

3. **Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

4. **Retirement Contributions** - Same as VRS Plan 1—Refer to Section 4.
5. **Creditable Service** - Same as VRS Plan 1— Refer to Section 5.
6. **Vesting** - Same as VRS Plan 1—Refer to Section 6.
7. **Calculating the Benefit** - Same as VRS Plan 1—Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.
- Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.
12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

VRS – PLAN 2 (CONTINUED)

14. Eligibility - Same as VRS Plan 1—Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1—Refer to Section 15.

16. Disability Coverage - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service - Same as VRS Plan 1—Refer to Section 17.

HYBRID RETIREMENT PLAN

1. Plan Overview - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See “Eligible Members”)

- The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.
- The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
- In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

2. Eligible Members - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees*
- School division employees
- Political subdivision employees*

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

2. Eligible Members (Continued)

- Judges appointed or elected to an original term on or after January 1, 2014
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

3. *Non-Eligible Members - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS)
- Members of the Virginia Law Officers' Retirement System (VaLORS)
- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

4. Retirement Contributions - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. Creditable Service

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

6. Vesting

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1—Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation - Same as VRS Plan 2—Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2—Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 15.

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

HYBRID RETIREMENT PLAN (CONTINUED)

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2—Refer to Section 17.

Defined Contribution Component - Not Applicable.

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/2013-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 5.00% 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 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 2014 was 8.94% of annual covered payroll.

C. Annual Pension Cost

For fiscal year 2014, the Town's annual pension cost of \$225,492 was equal to the Town's required and actual contributions.

Three-Year Trend Information				
Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation	
06/30/14	\$ 225,492	100%	\$	-
06/30/13	222,176	100%		-
06/30/12	223,640	100%		-

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 11—PENSION PLAN: (CONTINUED)

C. Annual Pension Cost (Continued)

The FY 2014 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 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, 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.

D. Funding Status and Progress

As of June 30, 2013, the most recent actuarial valuation date, the Town's plan was 102.05% funded. The actuarial accrued liability for benefits was \$6,210,478, and the actuarial value of assets was \$6,337,581, resulting in an over funded actuarial accrued liability (UAAL) of \$127,103. The covered payroll (annual payroll of active employees covered by the plan) was \$2,503,565 and ratio of the UAAL to the covered payroll was -5.08%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) 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.

NOTE 12—CONTINGENT LIABILITIES:

Federal assisted grant programs:

The Town participates in a number of federally assisted grant programs. 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

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, 2014, the Town's aggregate general obligation indebtedness was \$102,649,500 less than the Commonwealth of Virginia's limit. Reference 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

Town of Smithfield began a four phase community improvement project in FY2007 to better the living conditions of residents in its Pinewood Heights neighborhood. The project was originally projected to be completed over three phases but was later extended to four to make the project financially manageable. 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.

On July 2, 2012, the Smithfield Town Council approved a contract with DHCD for Phase II. This phase was divided into multi-years 1 and 2 consisting of 10 and 8 properties respectively. Multi-year 1 (MY1) included the acquisition, relocation, and demolition of 5 owner occupied and 5 tenant occupied units. Financing was comprised of \$624,720 in community development block grants and \$901,481 of Town leverage funding, including \$38,514 in Section 8 vouchers and \$94,682 in relocation contributions from the Southeastern Tidewater Opportunity Project (STOP) organization. As of June 30, 2014, the Town had purchased and relocated 4 owner occupied units and 2 Section 8 tenant occupied units. Also, the Town relocated 2 additional Section 8 tenants from properties in the phase that had not yet been purchased. One of the Section 8 renters was the recipient of the STOP organization's contribution and became a home owner. The remaining owner occupied unit and 3 rental units were purchased in fiscal year 2015 with the final acquisition occurring on October 6, 2014. Demolition for all units is expected to take place in FY2015. The Town received all allocated DHCD grant funds for Phase II MY1 and closeout was effective on December 24, 2014.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2014 (Continued)

NOTE 15—COMMITMENTS: (CONTINUED)

Pinewood Heights Project (Continued)

As Phase II MY1 was nearing completion, the Town continued with Phase II MY2. This portion of Phase II consists of 2 owner occupied units, 4 tenant occupied units, and 2 vacant units. The budget for MY2 consists of \$375,280 from DHCD and \$519,751 from the Town including \$21,000 in Section 8 vouchers through Isle of Wight County. Phase II MY2 is scheduled for completion by September 2015.

A contract for a planning grant for Phases III and IV was executed with DHCD on November 14, 2014. These will be the final two phases of the project and include 18 units in Phase III and 16 units in Phase IV. The Town plans to finance its portion with meals tax revenues of which 2% have been dedicated towards this project. In FY2014, the Town collected \$1,264,762 in meals tax revenues of which \$421,587 were applied to Pinewood. Of that amount only \$201,779 was used in FY2014 with the remaining \$219,808 placed in escrow for FY2015 expenses.

NOTE 16—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 believes the implementation of Statement No. 68 will significantly impact the Town's net position; however, no formal study or estimate of the impact of this standard has been performed.

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, 2014

	General Fund			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 2,349,590	\$ 2,368,520	\$ 2,407,227	\$ 38,707
Other local taxes	2,540,825	2,653,600	2,747,988	94,388
Permits, privilege fees, and regulatory licenses	20,200	18,400	19,043	643
Fines and forfeitures	57,000	70,000	73,753	3,753
Revenue from the use of money and property	171,195	191,536	205,457	13,921
Miscellaneous	47,061	87,508	87,147	(361)
Intergovernmental revenues:				
Commonwealth	694,732	682,637	687,326	4,689
Federal	507,194	507,229	384,334	(122,895)
Total revenues	\$ 6,387,797	\$ 6,579,430	\$ 6,612,275	\$ 32,845
EXPENDITURES				
Current:				
General government administration	\$ 994,156	\$ 1,007,919	\$ 917,447	\$ 90,472
Public safety	2,371,501	2,319,750	2,249,828	69,922
Public works	924,045	945,856	927,323	18,533
Parks, recreation, and cultural	721,785	739,561	662,467	77,094
Community development	891,543	1,307,850	856,680	451,170
Capital projects	1,265,281	415,225	183,990	231,235
Debt service:				
Principal retirement	108,964	35,214	35,210	4
Interest and other fiscal charges	55,215	35,565	35,648	(83)
Total expenditures	\$ 7,332,490	\$ 6,806,940	\$ 5,868,593	\$ 938,347
Excess (deficiency) of revenues over (under) expenditures	\$ (944,693)	\$ (227,510)	\$ 743,682	\$ 971,192
OTHER FINANCING SOURCES (USES)				
Sale of land	\$ -	\$ -	\$ 9,000	\$ 9,000
Sale of equipment	1,000	6,000	19,142	13,142
General obligation bond	400,000	-	-	-
Total other financing sources (uses)	\$ 401,000	\$ 6,000	\$ 28,142	\$ 22,142
Net change in fund balances	\$ (543,693)	\$ (221,510)	\$ 771,824	\$ 993,334
Fund balances - beginning	543,693	221,510	4,291,885	4,070,375
Fund balances - ending	\$ -	\$ -	\$ 5,063,709	\$ 5,063,709

Highway Maintenance Fund

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

For the Year Ended June 30, 2014

	Highway Maintenance Fund			
	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget - Positive (Negative)
REVENUES				
Revenue from the use of money and property	\$ 250	\$ 220	\$ 197	\$ (23)
Intergovernmental revenues:				
Commonwealth	<u>1,003,520</u>	<u>1,033,113</u>	<u>1,033,113</u>	<u>-</u>
Total revenues	<u>\$ 1,003,770</u>	<u>\$ 1,033,333</u>	<u>\$ 1,033,310</u>	<u>\$ (23)</u>
EXPENDITURES				
Current:				
Public works	<u>\$ 1,003,770</u>	<u>\$ 1,151,668</u>	<u>\$ 1,105,105</u>	<u>\$ 46,563</u>
Total expenditures	<u>\$ 1,003,770</u>	<u>\$ 1,151,668</u>	<u>\$ 1,105,105</u>	<u>\$ 46,563</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (118,335)</u>	<u>\$ (71,795)</u>	<u>\$ 46,540</u>
Net change in fund balances	\$ -	\$ (118,335)	\$ (71,795)	\$ 46,540
Fund balances - beginning	<u>-</u>	<u>118,335</u>	<u>109,859</u>	<u>(8,476)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,064</u>	<u>\$ 38,064</u>

Schedule of Pension Funding Progress

As of June 30, 2014

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)
06/30/11	\$ 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%
06/30/13	6,337,581	6,210,478	(127,103)	102.05%	2,503,565	-5.08%

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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, 2014

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	\$ 1,680,000	\$ 1,687,000	\$ 1,675,601	\$ (11,399)
Real and personal public service corporation taxes	-	-	31,183	31,183
Personal property taxes	632,205	642,205	654,631	12,426
Penalties	28,015	28,715	31,581	2,866
Interest	9,370	10,600	14,231	3,631
Total general property taxes	\$ 2,349,590	\$ 2,368,520	\$ 2,407,227	\$ 38,707
Other local taxes:				
Local sales and use taxes	\$ 243,000	\$ 270,000	\$ 293,935	\$ 23,935
Cigarette taxes	130,000	130,000	166,913	36,913
Franchise license taxes	119,855	134,370	134,609	239
Business license tax	337,065	340,950	345,173	4,223
Utility license taxes	194,500	193,600	196,714	3,114
Transient taxes	142,000	142,000	159,413	17,413
Meals tax	1,191,405	1,263,174	1,264,762	1,588
Vehicle licenses	135,500	132,006	134,933	2,927
Peg Channel capital fee	-	-	1,858	1,858
Consumption tax	47,500	47,500	49,678	2,178
Total other local taxes	\$ 2,540,825	\$ 2,653,600	\$ 2,747,988	\$ 94,388
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 20,200	\$ 18,400	\$ 19,043	\$ 643
Total permits, privilege fees, and regulatory licenses	\$ 20,200	\$ 18,400	\$ 19,043	\$ 643
Fines and forfeitures:				
Police fines	\$ 57,000	\$ 70,000	\$ 73,753	\$ 3,753
Total fines and forfeitures	\$ 57,000	\$ 70,000	\$ 73,753	\$ 3,753
Revenue from use of money and property:				
Interest	\$ 6,485	\$ 7,650	\$ 8,286	\$ 636
Revenue from use of property	164,710	183,886	197,171	13,285
Total revenue from use of money and property	\$ 171,195	\$ 191,536	\$ 205,457	\$ 13,921
Miscellaneous revenue:				
Miscellaneous	\$ 3,200	\$ 35,000	\$ 35,156	\$ 156
Obici Foundation wellness grant	12,500	18,000	18,000	-
VML insurance safety grant	3,861	4,000	4,000	-
Donations	27,500	18,858	18,343	(515)
Insurance recoveries	-	11,650	11,648	(2)
Total miscellaneous revenue	\$ 47,061	\$ 87,508	\$ 87,147	\$ (361)
Total revenue from local sources	\$ 5,185,871	\$ 5,389,564	\$ 5,540,615	\$ 151,051
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 245,000	\$ 240,000	\$ 238,118	\$ (1,882)
PPTRA	240,795	240,795	240,795	-
Auto rental tax	1,300	1,000	1,164	164
Rolling stock tax	13	15	16	1
Fuel refund	865	12	12	-
Total noncategorical aid	\$ 487,973	\$ 481,822	\$ 480,105	\$ (1,717)

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2014 (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	\$ 19,461	\$ 19,461	\$ 24,294	\$ 4,833
VCA Grant	5,000	5,000	5,000	-
Asset forfeiture	-	-	1,462	1,462
DCA grant (dam)	17,000	8,500	8,500	-
SNAP program fund	-	3,000	3,112	112
Litter control grant	3,765	3,321	3,321	-
Total other categorical aid	\$ 45,226	\$ 39,282	\$ 45,689	\$ 6,407
Total categorical aid	\$ 206,759	\$ 200,815	\$ 207,221	\$ 6,406
Total revenue from the Commonwealth	\$ 694,732	\$ 682,637	\$ 687,326	\$ 4,689
Revenue from the federal government:				
Categorical aid:				
Federal Grants	\$ 6,000	\$ 7,035	\$ 9,940	\$ 2,905
Pinewood Heights CDBG Relocation Grant-Phase II	500,194	500,194	374,394	(125,800)
Federal Fuel Refund	1,000	-	-	-
Total categorical aid	\$ 507,194	\$ 507,229	\$ 384,334	\$ (122,895)
Total revenue from the federal government	\$ 507,194	\$ 507,229	\$ 384,334	\$ (122,895)
Total General Fund	\$ 6,387,797	\$ 6,579,430	\$ 6,612,275	\$ 32,845
Highway Maintenance Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Interest	\$ 250	\$ 220	\$ 197	\$ (23)
Total revenue from local sources	\$ 250	\$ 220	\$ 197	\$ (23)
Revenue from the Commonwealth:				
Street and highway maintenance	\$ 1,003,520	\$ 1,033,113	\$ 1,033,113	\$ -
Total revenue from the Commonwealth	\$ 1,003,520	\$ 1,033,113	\$ 1,033,113	\$ -
Total Highway Maintenance Fund	\$ 1,003,770	\$ 1,033,333	\$ 1,033,310	\$ (23)
Total Primary Government	\$ 7,391,567	\$ 7,612,763	\$ 7,645,585	\$ 32,822

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2014

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	\$ 569,006	\$ 594,984	\$ 523,512	\$ 71,472
Treasurer	425,150	412,935	393,935	19,000
Total general government administration	\$ 994,156	\$ 1,007,919	\$ 917,447	\$ 90,472
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,209,840	\$ 2,154,480	\$ 2,091,439	\$ 63,041
Fire and rescue services:				
Fire department	\$ 42,461	\$ 46,070	\$ 47,267	\$ (1,197)
Coast Guard Auxiliary	250	250	250	-
E-911 dispatch	118,950	118,950	110,872	8,078
Total fire and rescue services	\$ 161,661	\$ 165,270	\$ 158,389	\$ 6,881
Total public safety	\$ 2,371,501	\$ 2,319,750	\$ 2,249,828	\$ 69,922
Public works:				
Public works engineering, trash removal:				
Engineering, trash removal, maintenance	\$ 802,095	\$ 805,740	\$ 795,182	\$ 10,558
Maintenance of general buildings and grounds:				
Public buildings	\$ 121,950	\$ 140,116	\$ 132,141	\$ 7,975
Total public works	\$ 924,045	\$ 945,856	\$ 927,323	\$ 18,533
Parks, recreation, and cultural:				
Parks and recreation:				
BSV Parking Lot	\$ -	\$ 5,000	\$ 4,990	\$ 10
Clontz Park	1,600	1,600	1,442	158
Community Wellness Initiative	35,000	44,700	41,832	2,868
Cypress Creek No Wake Zone	-	-	325	(325)
Farmers Market	3,000	3,280	3,279	1
Fireworks	2,000	2,000	2,000	-
Haydens Lane Maintenance	2,900	5,000	5,656	(656)
Veterans Ware Memorial	1,000	1,000	921	79
Isle of Wight Arts League	10,000	10,000	10,000	-
Jersey Park Playground	1,000	1,000	393	607
Pinewood Playground	500	500	368	132
Regional Library	10,000	10,000	3,316	6,684
Smithfield Center	431,720	430,843	381,867	48,976
TUMC Parking Lot	1,500	1,500	1,000	500
Hampton Roads Partnership	1,960	-	-	-
Museum	-	-	300	(300)
Historic Smithfield	-	3,018	3,018	-
Waterworks Dam	34,000	21,100	16,315	4,785
Windsor Castle Park	185,605	199,020	185,445	13,575
Total parks, recreation, and cultural	\$ 721,785	\$ 739,561	\$ 662,467	\$ 77,094

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2014 (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	14,000	14,000	14,000	-
Genieve Shelter	9,000	9,000	9,000	-
YMCA Project	50,000	50,000	50,000	-
Pinewood Heights	332,184	549,167	214,382	334,785
TRIAD	1,650	1,650	1,650	-
Tourism Bureau	209,976	187,500	184,915	2,585
Western Tidewater Free Clinic	33,339	33,339	33,339	-
CDBG Owner relocation and acquisition	230,394	452,194	338,394	113,800
Total community development	\$ 891,543	\$ 1,307,850	\$ 856,680	\$ 451,170
Capital projects:				
Function:				
General Government - Town Council	\$ 7,650	\$ 7,650	\$ 6,250	\$ 1,400
General Government - Treasurer	45,000	15,000	-	15,000
Public Safety - Police	111,700	111,700	95,103	16,597
Public Works - engineering, trash removal, maintenance	505,875	30,875	12,934	17,941
Public Works - public buildings	7,000	7,000	-	7,000
Parks, Recreation and Cultural - Smithfield Center	34,000	34,000	33,703	297
Parks, Recreation and Cultural - public park improvements	25,000	25,000	-	25,000
Parks, Recreation and Cultural - Windsor Castle Park	100,000	100,000	-	100,000
Community Development - Pinewood Heights relocation	429,056	84,000	36,000	48,000
Total capital projects	\$ 1,265,281	\$ 415,225	\$ 183,990	\$ 231,235
Debt service:				
Principal retirement and interest	\$ 108,964	\$ 35,214	\$ 35,210	\$ 4
Interest and other fiscal charges	55,215	35,565	35,648	(83)
Total debt service	\$ 164,179	\$ 70,779	\$ 70,858	\$ (79)
Total General Fund	\$ 7,332,490	\$ 6,806,940	\$ 5,868,593	\$ 938,347
Highway Maintenance Fund:				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highway maintenance	\$ 848,198	\$ 1,100,352	\$ 1,047,927	\$ 52,425
Highway capital outlay	155,572	51,316	57,178	(5,862)
Total Highway Maintenance Fund	\$ 1,003,770	\$ 1,151,668	\$ 1,105,105	\$ 46,563
Total Primary Government	\$ 8,336,260	\$ 7,958,608	\$ 6,973,698	\$ 984,910

Other Statistical Information

TOWN OF SMITHFIELD, VIRGINIA

Net Position by Component
Last Ten Fiscal Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Governmental activities					
Net investment in capital assets	\$ 19,858,407	\$ 20,341,956	\$ 20,238,480	\$ 16,855,409	\$ 15,757,552
Restricted	161,059	176,929	-	-	1,526,185
Unrestricted	5,125,703	4,478,388	2,877,537	4,112,055	2,606,432
Total governmental activities net position	<u>\$ 25,145,169</u>	<u>\$ 24,997,273</u>	<u>\$ 23,116,017</u>	<u>\$ 20,967,464</u>	<u>\$ 19,890,169</u>
Business-type activities					
Net investment in capital assets	\$ 12,149,969	\$ 12,456,082	\$ 12,248,298	\$ 12,153,344	\$ 8,383,785
Restricted	1,793,475	1,509,709	2,233,571	1,440,224	4,399,841
Unrestricted	2,694,709	2,397,006	1,657,184	2,750,516	2,841,075
Total business-type activities net position	<u>\$ 16,638,153</u>	<u>\$ 16,362,797</u>	<u>\$ 16,139,053</u>	<u>\$ 16,344,084</u>	<u>\$ 15,624,701</u>
Primary government					
Net investment in capital assets	\$ 32,008,376	\$ 32,798,038	\$ 32,486,778	\$ 29,008,753	\$ 24,141,337
Restricted	1,954,534	1,686,638	2,233,571	1,440,224	5,926,026
Unrestricted	7,820,412	6,875,394	4,534,721	6,862,571	5,447,507
Total primary government net position	<u>\$ 41,783,322</u>	<u>\$ 41,360,070</u>	<u>\$ 39,255,070</u>	<u>\$ 37,311,548</u>	<u>\$ 35,514,870</u>

Table 1

2009	2008	2007	2006	2005
\$ 14,036,786	\$ 6,065,558	\$ 5,795,951	\$ 4,127,196	\$ 3,642,371
776,333	1,129,937	392,314	428,310	92,645
2,789,245	3,114,587	2,944,331	3,876,804	4,120,097
<u>\$ 17,602,364</u>	<u>\$ 10,310,082</u>	<u>\$ 9,132,596</u>	<u>\$ 8,432,310</u>	<u>\$ 7,855,113</u>
\$ 7,726,696	\$ 6,052,778	\$ 7,712,175	\$ 6,757,567	\$ 5,530,875
-	4,334,848	4,540,167	4,461,514	761,069
6,980,698	3,864,596	(359,379)	(934,846)	2,574,826
<u>\$ 14,707,394</u>	<u>\$ 14,252,222</u>	<u>\$ 11,892,963</u>	<u>\$ 10,284,235</u>	<u>\$ 8,866,770</u>
\$ 21,763,482	\$ 12,118,336	\$ 13,508,126	\$ 10,884,763	\$ 9,173,246
776,333	5,464,785	4,932,481	4,889,824	853,714
9,769,943	6,979,183	2,584,952	2,941,958	6,694,923
<u>\$ 32,309,758</u>	<u>\$ 24,562,304</u>	<u>\$ 21,025,559</u>	<u>\$ 18,716,545</u>	<u>\$ 16,721,883</u>

TOWN OF SMITHFIELD, VIRGINIA

Change in Net Position

Last Ten Fiscal Years

	2014	2013	2012	2011
Expenses				
Governmental activities:				
General government administration	\$ 964,395	\$ 1,008,448	\$ 849,523	\$ 873,583
Public safety	2,397,623	2,363,849	2,357,991	2,453,686
Public works	2,388,421	2,090,010	2,209,701	1,813,720
Parks, recreation, and cultural	826,369	691,306	740,853	806,902
Community development	1,004,920	646,422	458,015	561,600
Interest on long-term debt	35,648	43,342	34,721	57,712
Total governmental activities expenses	\$ 7,617,376	\$ 6,843,377	\$ 6,650,804	\$ 6,567,203
Business-type activities:				
Water	\$ 1,632,400	\$ 1,546,489	\$ 1,637,463	\$ 895,899
Sewer	1,121,187	1,245,035	1,594,505	1,078,458
Total business-type activities expenses	\$ 2,753,587	\$ 2,791,524	\$ 3,231,968	\$ 1,974,357
Total primary government expenses	\$ 10,370,963	\$ 9,634,901	\$ 9,882,772	\$ 8,541,560
Program Revenue				
Governmental activities:				
Charges for services:	\$ 92,796	\$ 85,572	\$ 539,710	\$ 509,445
Operating grants and contributions	1,268,617	1,335,108	1,394,579	1,287,831
Capital grants and contributions	374,394	1,516,875	2,281,395	1,202,583
Total governmental activities program revenues	\$ 1,735,807	\$ 2,937,555	\$ 4,215,684	\$ 2,999,859
Business-type activities:				
Charges for services:				
Water	\$ 1,626,650	\$ 1,594,540	\$ 1,521,884	\$ 1,299,332
Sewer	1,201,756	1,181,471	1,370,018	1,357,910
Operating grants and contributions	-	-	-	-
Capital grants and contributions	178,369	212,202	120,586	18,737
Total business-type activities program revenues	\$ 3,006,775	\$ 2,988,213	\$ 3,012,488	\$ 2,675,979
Total primary government program revenues	\$ 4,742,582	\$ 5,925,768	\$ 7,228,172	\$ 5,675,838
Governmental activities	\$ (5,881,569)	\$ (3,905,822)	\$ (2,435,120)	\$ (3,567,344)
Business-type activities	253,188	196,689	(219,480)	701,622
Total primary government net expense	\$ (5,628,381)	\$ (3,709,133)	\$ (2,654,600)	\$ (2,865,722)
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes	\$ 2,498,772	\$ 2,352,590	\$ 2,602,423	\$ 2,670,808
Franchise taxes	134,609	116,784	131,046	143,231
Sales taxes	293,935	259,165	323,039	263,813
Other taxes	2,319,444	2,209,427	1,905,360	1,722,320
Grants and contributions not restricted to specific programs	480,105	493,914	-	7,637
Gain (Loss) on disposition of capital assets	28,142	18,722	(900,500)	(355,905)
Revenues from use of property and money	205,654	193,830	306,049	46,373
Miscellaneous	68,804	138,522	19,269	4,796
Transfers	-	-	-	(41,000)
Other-Insurance Recoveries	-	4,124	34,018	9,219
Total governmental activities	\$ 6,029,465	\$ 5,787,078	\$ 4,420,704	\$ 4,471,292
Business-type activities:				
Miscellaneous	\$ 10,642	\$ 7,543	\$ 3,091	\$ -
Other-Insurance Recoveries	-	7,110	-	-
Revenues from use of property and money	11,526	12,402	14,449	17,761
Total business-type activities	\$ 22,168	\$ 27,055	\$ 14,449	\$ 17,761
Total primary government	\$ 6,051,633	\$ 5,814,133	\$ 4,435,153	\$ 4,489,053
Change in Net Position				
Governmental activities	\$ 147,896	\$ 1,881,256	\$ 1,985,584	\$ 903,948
Business-type activities	275,356	223,744	(205,031)	719,383
Total primary government	\$ 423,252	\$ 2,105,000	\$ 1,780,553	\$ 1,623,331

Table 2

2010	2009	2008	2007	2006	2005
\$ 861,980	\$ 1,088,173	\$ 886,653	\$ 1,117,303	\$ 1,147,563	\$ 1,336,670
2,416,984	2,458,180	3,292,390	2,319,484	2,171,021	1,771,209
1,874,892	2,258,612	1,867,083	1,887,547	1,338,967	1,145,293
599,380	594,077	465,185	514,201	455,889	450,226
805,672	365,494	565,386	211,992	275,340	245,611
13,760	18,451	30,409	14,903	44,954	54,125
<u>\$ 6,572,668</u>	<u>\$ 6,782,987</u>	<u>\$ 7,107,106</u>	<u>\$ 6,065,430</u>	<u>\$ 5,433,734</u>	<u>\$ 5,003,134</u>
\$ 871,765	\$ 925,985	\$ 857,058	\$ 811,100	\$ 753,657	\$ 510,648
985,978	1,085,367	974,884	962,260	882,645	715,503
<u>\$ 1,857,743</u>	<u>\$ 2,011,352</u>	<u>\$ 1,831,942</u>	<u>\$ 1,773,360</u>	<u>\$ 1,636,302</u>	<u>\$ 1,226,151</u>
<u>\$ 8,430,411</u>	<u>\$ 8,794,339</u>	<u>\$ 8,939,048</u>	<u>\$ 7,838,790</u>	<u>\$ 7,070,036</u>	<u>\$ 6,229,285</u>
\$ 560,155	\$ 582,030	\$ 634,147	\$ 697,173	\$ 673,966	\$ 681,448
1,182,407	1,175,835	2,077,963	1,076,220	792,263	766,421
2,548,708	7,204,294	621,784	40,500	-	-
<u>\$ 4,291,270</u>	<u>\$ 8,962,159</u>	<u>\$ 3,333,894</u>	<u>\$ 1,813,893</u>	<u>\$ 1,466,229</u>	<u>\$ 1,447,869</u>
\$ 1,432,182	\$ 1,466,705	\$ 1,358,845	\$ 1,435,244	\$ 1,167,203	\$ 629,580
1,167,007	912,995	932,841	1,130,904	831,573	548,548
-	2,574	265,618	-	-	-
184,334	16,975	1,353,581	459,636	-	-
<u>\$ 2,783,523</u>	<u>\$ 2,399,249</u>	<u>\$ 3,910,885</u>	<u>\$ 3,025,784</u>	<u>\$ 1,998,776</u>	<u>\$ 1,178,128</u>
<u>\$ 7,074,793</u>	<u>\$ 11,361,408</u>	<u>\$ 7,244,779</u>	<u>\$ 4,839,677</u>	<u>\$ 3,465,005</u>	<u>\$ 2,625,997</u>
<u>\$ (2,281,398)</u>	<u>\$ 2,179,172</u>	<u>\$ (3,773,212)</u>	<u>\$ (4,251,537)</u>	<u>\$ (3,967,505)</u>	<u>\$ (3,555,265)</u>
925,780	387,897	2,078,943	1,252,424	362,474	(48,023)
<u>\$ (1,355,618)</u>	<u>\$ 2,567,069</u>	<u>\$ (1,694,269)</u>	<u>\$ (2,999,113)</u>	<u>\$ (3,605,031)</u>	<u>\$ (3,603,288)</u>
\$ 2,707,054	\$ 2,717,017	\$ 2,473,865	\$ 2,411,387	\$ 2,203,507	\$ 2,062,764
141,404	92,375	98,592	161,843	156,732	147,888
263,029	284,054	279,583	274,948	254,386	239,385
1,704,845	1,726,986	1,635,892	1,481,890	1,326,898	1,300,513
7,025	19,405	76,731	33,583	237,625	296,355
(507,496)	-	-	-	-	-
70,247	77,219	152,724	195,123	250,850	208,644
12,201	-	-	-	-	-
41,000	41,000	41,000	41,000	41,000	41,000
12,551	29,028	69,517	216,811	73,704	135,195
<u>\$ 4,451,860</u>	<u>\$ 4,987,084</u>	<u>\$ 4,827,904</u>	<u>\$ 4,816,585</u>	<u>\$ 4,544,702</u>	<u>\$ 4,431,744</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
32,527	108,275	321,316	392,176	283,384	70,096
<u>\$ 32,527</u>	<u>\$ 108,275</u>	<u>\$ 321,316</u>	<u>\$ 392,176</u>	<u>\$ 283,384</u>	<u>\$ 70,096</u>
<u>\$ 4,484,387</u>	<u>\$ 5,095,359</u>	<u>\$ 5,149,220</u>	<u>\$ 5,208,761</u>	<u>\$ 4,828,086</u>	<u>\$ 4,501,840</u>
\$ 2,170,462	\$ 7,166,256	\$ 1,054,692	\$ 565,048	\$ 577,197	\$ 876,479
958,307	496,172	2,400,259	1,644,600	645,858	22,073
<u>\$ 3,128,769</u>	<u>\$ 7,662,428</u>	<u>\$ 3,454,951</u>	<u>\$ 2,209,648</u>	<u>\$ 1,223,055</u>	<u>\$ 898,552</u>

TOWN OF SMITHFIELD, VIRGINIA

Fund Balances of Governmental Funds
Last Ten Fiscal Years

	2014	2013	2012	2011 [1]	2010
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ 1,174,566	\$ 1,508,460
Unreserved	-	-	-	-	2,552,861
Nonspendable	2,128	36,723	-	-	-
Restricted	161,059	176,929	-	-	-
Committed	22,444	19,903	-	638,907	-
Unassigned	4,878,078	4,058,330	2,691,180	2,189,060	-
Total general fund	<u>\$ 5,063,709</u>	<u>\$ 4,291,885</u>	<u>\$ 2,691,180</u>	<u>\$ 4,002,533</u>	<u>\$ 4,061,321</u>
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	-	-	-	-	-
Assigned, reported in:					
Special revenue funds	38,064	109,859	-	147,536	-
Capital project funds	8,108	8,108	8,108	8,107	-
Unassigned, reported in:					
Special revenue funds	-	-	(7,007)	-	-
Total all other governmental funds	<u>\$ 46,172</u>	<u>\$ 117,967</u>	<u>\$ 1,101</u>	<u>\$ 155,643</u>	<u>\$ 17,725</u>
Total fund balances	<u>\$ 5,109,881</u>	<u>\$ 4,409,852</u>	<u>\$ 2,692,281</u>	<u>\$ 4,158,176</u>	<u>\$ 4,079,046</u>

[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
\$ 1,078,373	\$ 1,031,489	\$ 317,679	\$ 302,692	\$ 297,369
2,417,959	2,616,244	3,019,368	3,984,498	3,937,354
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<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>
\$ (25,827)	\$ 414,963	\$ (127,663)	\$ -	\$ -
8,107	8,107	8,107	2,310	-
-	-	-	-	4,123
145,062	98,448	74,635	(20,340)	36,495
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
<u>\$ 127,342</u>	<u>\$ 521,518</u>	<u>\$ (44,921)</u>	<u>\$ (18,030)</u>	<u>\$ 40,618</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>

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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
2014	\$ 917,447	\$ 2,249,828	\$ 2,032,428	\$ 662,467	\$ 856,680	\$ 183,990	\$ 35,210	\$ 35,648	\$ 6,973,698
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

[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	Intergovernmental		From County	Miscella- neous	Total
							Common- wealth	Federal			
2014	\$ 2,407,227	\$ 2,747,988	\$ 19,043	\$ 73,753	\$ 205,654	-	\$ 1,720,439	\$ 384,334	\$ -	\$ 87,147	\$ 7,645,585
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

[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
2014	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
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

[1] Mobile home rate.

Principal Taxpayers - Real Estate
June 30, 2014

Taxpayer	Type of Business	Assessed Valuation Real Estate	% of Total
Smithfield Foods, Inc.	Meat processing	\$ 41,843,900	4.03%
Gwaltney of Smithfield, Ltd.	Meat processing	30,080,300	2.90%
Cypress Creek Development Co., LLC	Land developer	12,875,900	1.24%
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%
Morris Creek Landing Apartments	Apartment rentals	5,425,400	0.52%
Smithfield Square Associates	Real estate	4,866,400	0.47%
Pack Development Company LLC	Restaurant/Hotel	4,782,100	0.46%
Smithfield Ham & Products	Commercial/Industrial	4,777,400	0.46%
Church Square LLC	Land developer	4,327,500	0.42%
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%
Smithfield Packing Company	Meat processing	3,563,100	0.34%
Smithfield Development Corp	Land developer	3,331,500	0.32%
Robert J Little, III & Ann Robbins	Commerical/Real Estate	3,133,100	0.30%
KLS Smithfield Development Group LLC	Commercial/Industrial	2,615,400	0.25%
		<u>\$ 165,577,200</u>	15.96%
		Assessed Valuation Personal Property	% of Total
Gwaltney of Smithfield	Meat processing	\$ 95,656,431	51.07%
Premium Pet Health LLC	Dog food plant	3,234,497	1.73%
NMHG Financial Services Inc	Equipment financing	2,438,572	1.30%
C R England Inc	Trucking/shipping	2,340,863	1.25%
Smithfield Ham & Products Co.	Meat processing	1,564,555	0.84%
All Virginia Environmental Solutions	Recycling/Trash Pickup	1,173,220	0.63%
Charter Communications	Cable/High Speed Internet Service Provider	955,799	0.51%
Food Lion LLC	Retail grocery	946,038	0.51%
Dailmer Trust-Smithfield Foods	Vehicle and equipment financing	945,793	0.50%
Farm Fresh #238	Retail grocery	892,159	0.48%
Farmers Service/S B Cox Ready Mix Inc	Hardware/lawn & garden	886,603	0.47%
Riverside Convalescent Center	Nursing home/Assisted Living	704,657	0.38%
Smithfield Packing	Meat processing	700,504	0.37%
Hampton Inn & Suites	Hotel/Lodging	500,000	0.27%
		<u>\$ 112,939,691</u>	60.30%

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
2014	\$ 2,629,086	\$ 2,552,923	97.1%	\$ 49,288	\$ 2,602,211	99.0%	\$ 228,354	8.7%
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%

[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. (starting in FY 2014, penalties are not included)

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
2014	8,220 [1]	\$ 1,262,169,562	\$ 4,494,595	\$ 3,861,161	\$ 633,434	0.05%	\$ 77
2013	8,143 [1]	1,242,935,697	4,948,510	4,279,866	668,644	0.05%	82
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

[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	Governmental Funds		Total Debt Service	Total Governmental Funds Expenditures	Ratio of Debt Service to Expenditures
	Principal	Interest			
2014	\$ 35,210	\$ 35,648	\$ 70,858	\$ 6,973,698	1.02%
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%

Computation of Legal Debt Margin
As of June 30, 2014

Total assessed value of taxed real property	\$ 1,071,440,950
Debit limit - 10% of total assessed value	\$ 107,144,095
Amount of debt applicable to debt limit - gross debt	<u>4,494,595</u>
Legal debt margin	\$ <u><u>102,649,500</u></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									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government										
Management services	3.40	3.33	2.80	2.80	3.11	3.43	3.43	3.33	3.18	2.75
Finance	5.80	5.80	4.71	4.12	4.79	4.60	4.00	4.55	3.40	3.20
Planning	2.15	2.35	2.35	2.35	2.35	2.50	2.00	2.41	2.50	2.60
Building	1.00	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	0.80	1.00	1.00	1.00	1.00
Police										
Officers	21.80	21.59	20.80	19.31	21.78	21.00	20.16	20.51	21.00	21.00
Civilians	3.77	3.80	2.46	3.82	4.35	3.82	3.80	4.80	4.80	4.50
Other public works										
Engineering	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.50
Other	6.36	7.86	7.57	6.05	5.97	4.90	5.50	4.76	5.61	5.38
Park and recreation	6.56	5.33	4.92	5.08	5.26	4.23	4.23	5.28	5.91	4.87
Water	6.42	7.22	6.08	5.84	5.83	5.35	4.70	4.71	4.71	4.71
Wastewater	4.55	5.97	5.96	6.14	6.13	6.85	5.90	5.92	5.92	3.91
Total	63.41	65.85	60.15	57.99	62.02	59.26	56.50	58.57	58.83	54.42

TOWN OF SMITHFIELD, VIRGINIA

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2014	2013	2012	2011	2010
Police					
Physical arrests	279	268	199	271	362
Parking violations	22	23	21	20	99
Traffic violations	1,689	1,662	1,041	1,387	1,817
Fire					
Emergency responses	620	603	659	524	578
Refuse collection					
Refuse collected (tons per day) [1]	9.63	33.13	32.57	33.69	9.45
Other public works					
Street resurfacing (miles) [1]	1.5	1.25	1.23	1.40	1.82
Potholes repaired [1]	80	85	83	87	79
Water					
New connections	21	28	10	17	31
Water mains breaks	30	25	35	4	11
Average daily consumption (thousands of gallons)	835.8	828.59	822.07	810.72	824.47
Peak daily consumption (thousands of gallons)	1,949.25	1,968.15	1,821.23	1,879.39	2,159.77
[1] outsourced to subcontractors					

Table 13

2009	2008	2007	2006	2005
387	361	354	344	417
48	37	54	66	65
1,991	1,503	2,052	1,799	1,804
650	581	425	426	366
9.70	9.96	9.05	9.09	8.82
6.25	3.50	-	2.60	-
48	32	26	31	36
41	41	95	110	111
22	26	24	25	25
806.24	880.22	810.73	820.65	771.29
1,734.77	1,819.71	1,482.17	1,592.79	n/a

TOWN OF SMITHFIELD, VIRGINIA

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2014	2013	2012	2011	2010
Police					
Stations	1	1	1	1	1
Patrol units	22	22	22	21	22
Fire stations	1	1	1	1	1
Other public works					
Street (miles)	47.02	47.11	47.11	47.11	47.11
Streetlights	704	704	704	687	686
Traffic signals	7	7	7	7	7
Park and recreation					
Acreage*	203.296	203.296	203.296	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	1,120
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

2009	2008	2007	2006	2005
1	1	1	1	1
21	22	21	21	21
1	1	1	1	1
47.11	47.11	43.33	41.92	41.92
684	667	655	651	603
7	7	7	7	5
201.901	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	38.25
625	625	625	625	625
38.25	38.25	38.25	38.25	38.25

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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, 2014, 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 21, 2015.

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*.

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 21, 2015