

A Reader's Guide
Understanding the Town of Smithfield's Annual Financial
Report For the Fiscal Year Ended June 30, 2024

This brief guide is designed to help you understand and relate to the information provided in the Financial Report, as well as enhance your ability to evaluate the financial and economic information. We have provided specific examples of ways you can use the Financial Report to look for answers to questions that may interest you. You will find illustrative financial statements with additional detail about interpreting the Financial Report.

What is the purpose of the financial statements?

The code of Virginia **§ 15.2-2510. Comparative report of local government revenues and expenditures.** Requires the locality prepare financial statements and file them with the Auditor of Public Accounts by December 15th.

Town government operates differently from private- sector businesses. While private-sector businesses focus on maximizing profits for investors, governments focus on providing services to all citizens. In most cases, the Town does not bill citizens directly for services received. Instead, we primarily finance services with taxes, federal grants, and other fees applied generally to the public. Because citizens have little choice in paying taxes, and it is not always clear how the services received relate to the taxes paid, government has an important responsibility to demonstrate accountability to the public. Financial statements are an important way to provide this accountability.

Government-Wide Financial Statements

The first two financial statements in the Financial Report are the government-wide financial statements---the Summary of Net Position (Financial Report page 11) and the Changes in Net Position/Governmental Activities (Financial Report page 12). The government-wide statements provide comprehensive information about the entire government, broken down into the following activities:

- *Government Activities* encompass most of the Town's basic services, such as general government, public safety, parks and rec, utilities, highways. Revenues from taxes, federal grants, and charges for services finance most of these activities.
- *Business-Type Activities* account for operations that function in a manner similar to private business, where all or a significant portion of their costs are recovered through user fees and charges to external customers. Think water/sewer.

The Summary of Net Position contains information about what the Town owns (assets),

what the Town owes (liabilities), and what is left after assets are used to satisfy liabilities (net assets) on the last day of the fiscal year (June 30). The Statement of Activities contains information about the costs of providing public services (expenses) and resources obtained to finance services (revenues) during the reported fiscal year.

Fund Financial Statements

Fund financial statements provide a detailed look at the individual major funds of the Town and total the remaining non-major governmental funds in a single column. Fund financial statements are comprised of the following:

- *Governmental funds* report the finances of the Town's most basic services. Governmental funds focus on short-term assets and liabilities and do not include capital assets or long-term debt. The governmental fund financial statements include the Balance Sheet (Financial Report page 21) and the Statement of Revenues, Expenditures, and Changes in Fund Balances (Financial Report page 23). The governmental fund statements also include reconciliations that identify the differences between the fund and government-wide statements (Financial Report pages 24).
- *Proprietary funds* report the activities the Town operates like a business, where the cost of providing goods or services is primarily financed by fees charged to the users of their services. Proprietary funds include enterprise and internal service funds. Enterprise funds report activities that provide supplies or services to the general public; internal service funds report activities that provide supplies and services for the Town's programs and activities. Proprietary fund financial statements include the Statement of Net Position (Financial Report page 25); Statement of Revenues, Expenses, and Changes in Net Position (Financial Report page 26); and Statement of Cash Flows (Financial Report page 27).
- *Fiduciary funds* account for resources the Town manages or holds on behalf of parties outside the Town – think Pension Plan. These funds are not shown in government-wide financial statements because the resources of these funds are not available to support the Town's programs. The Fiduciary funds financial statement include the Plan Fiduciary Net Position (Financial Report page 79).

Supporting Financial Statement Information

- *An Independent Auditor's Report* (Financial Report pages 6-8) provides reasonable assurance about whether financial statements are free of material misstatement. After thorough evaluation of the Financial Report, the auditor issues an opinion regarding the statements' conformity with accounting principals generally accepted in the United States. The Town of Smithfield's financial statements received an

unmodified opinion, the best opinion that can be received, meaning the statements are fairly presented in all material respects.

- *Management's Discussion and Analysis* (MD&A on Financial Report pages 9-14) gives an objective and easily read analysis of the Town's financial activities based on currently known facts, decisions, or conditions. It presents short and long-term analyses of the Town's activities and compares the current-year results with those of the prior year. It will help you determine whether the Town's finances have improved or deteriorated during the year. It concludes with a description of currently known facts and decisions that are expected to have a significant effect on the Town's future financial position and operations.
- *Government-wide Financial Statements* (Financial Report pages 16 - 19) provide more detail for non-major governmental, internal service and fund financial statements are on Financial Report page 21. *The Statistical Section* (Financial Report pages 94 - 107) provides information that will help you understand the health of the Town and the underlying economy. This section contains 10- year trend tables of financial, economic, and demographic data. The statistical section is often of interest to investors and creditors because the trends and non-financial factors it identifies can provide crucial insight to those assessing the Town's creditworthiness.

How You Can Use the Financial Statements

Now that you have a better understanding of the major components of the Financial Report, we will show you how to use this report to analyze some of the areas that were important to The Town of Smithfield's citizens this past year, as follows:

- **General Property Tax Revenues (Real Estate, Personal Property)** – Property tax revenues of \$4,772,012 for 2024 are presented on page 19 of the Financial Report.
- **Sales Tax Revenue** – Sales tax revenue of \$584,070 for 2024 are presented on page 19 of the Financial Report. An increase of \$56,121 from the prior year reflects the growing economy. Additional sales tax data may be found on pages 97 – 98.
- **Budgetary Comparison Schedules** – demonstrates compliance with the adopted budget and is an important component of a government's accountability to the public. The Budgetary Comparison Schedules present the original budget, the final budget and the actual activity of the major governmental funds. These can be found on pages 90 – 93.

L Ross

Treasurer, Town of Smithfield