

TOWN OF SMITHFIELD, VIRGINIA



FINANCIAL REPORT YEAR
ENDED JUNE 30, 2019

**TOWN OF SMITHFIELD, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2019**

Prepared by:

Ellen Minga, Town Treasurer

Town of Smithfield, Virginia

Town Council and Executive Officers

Mayor

T. Carter Williams

Vice-Mayor

Michael G. Smith

Council Members

Beth Haywood
Randolph H. Pack
Wayne Hall
Denise N. Tynes
Valerie C. Butler

Committees

Finance

Randolph H. Pack (CH)
Michael G. Smith
Valerie C. Butler

Water and Sewer

Michael G. Smith (CH)
Randolph H. Pack
Denise N. Tynes

Public Safety - Police

Denise N. Tynes (CH)
Wayne Hall
Beth Haywood

Isle of Wight Tourism Bureau

Denise N. Tynes
T. Carter Williams

Intergovernmental

T. Carter Williams
Michael G. Smith

Town Clerk

Lesley M. Greer

Town Manager

Brian S. Thrower

Treasurer

Ellen D. Minga

Chief of Police

Alonzo Howell

Public Works

Beth Haywood (CH)
Michael G. Smith
Denise N. Tynes

Public Buildings and Welfare

Valerie C. Butler (CH)
Randolph H. Pack
Wayne Hall

Parks and Recreation

Wayne Hall (CH)
Valerie C. Butler
Beth Haywood

Smithfield Planning Commission

Randolph H. Pack

TOWN OF SMITHFIELD, VIRGINIA

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Independent Auditors' Report

To the Honorable Members of
the 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 the Town of Smithfield, Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Smithfield, Virginia, as of June 30, 2019, 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.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2019, the Town adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* and early implemented GASB No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-16 and 79-90 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Smithfield, Virginia's basic financial statements. The supporting schedules and other statistical information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2019, on our consideration of the Town of Smithfield, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Town of Smithfield, Virginia's 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 the Town of Smithfield, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

November 26, 2019

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Management's Discussion and Analysis
Fiscal Year July 1, 2018 - June 30, 2019

The following discussion provides an overview and analysis of the Town of Smithfield, Virginia's (Town's) financial activities for the fiscal year ended June 30, 2019. This information should be read in conjunction with the Town's audited financial statements as reported herein.

FINANCIAL HIGHLIGHTS

- The net position of the Town increased by \$2,465,591 which represents a 5% increase over FY2018 (total net position-government-wide).
- The Town entered into a capital lease with Isle of Wight County for \$245,000 to upgrade its public safety radio system. The 5-year commitment was the only new debt issued in FY2019.
- The Town continued its commitment to the Pinewood Heights CDBG Relocation project with the acquisition of 3 properties and the relocation of 4 households in Phase III. The Town also entered into a contract with the Virginia Department of Housing and Community Development (VDHCD) for the 4th and final phase of the project. The Town will receive \$1,000,000 in grant funds towards a total project budget of \$2,453,907.
- The Town substantially completed construction of its Clontz Park Public Boat Ramp. Of the \$1,033,387 spent in FY2019, \$626,437 was eligible for reimbursement with grants from the Port of Virginia (\$56,437), the State of Virginia (\$160,000) and the Virginia Marine Resources Commission (\$410,000).
- The Town spent \$483,460 on sewer capital repairs including manhole rehabilitation (\$52,605), sanitary sewer line inspections and repairs (\$120,006), and electrical, pump, valve, and concrete repairs at numerous pump stations (\$310,849). Those projects were funded by the Town's Sewer Compliance Escrow Fund and its Capital Escrow Fund.

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.

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 or 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 budget comparisons, pension funding progress, supporting schedules and other statistical information found on pages 79 through 113.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Town of Smithfield, Virginia
Summary of Net Position
As of June 30, 2019

	Governmental Activities		Business-Type Activities		Total	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Current and other assets	\$ 12,470,394	\$ 12,379,632	\$ 7,746,662	\$ 6,814,834	\$ 20,217,056	\$ 19,194,466
Capital assets	26,813,064	25,404,310	14,644,105	14,815,137	\$ 41,457,169	\$ 40,219,447
Total assets	<u>\$ 39,283,458</u>	<u>\$ 37,783,942</u>	<u>\$ 22,390,767</u>	<u>\$ 21,629,971</u>	<u>\$ 61,674,225</u>	<u>\$ 59,413,913</u>
Deferred outflows of resources	\$ 254,372	\$ 224,951	\$ 63,574	\$ 72,834	\$ 317,946	\$ 297,785
Long-term liabilities outstanding	\$ 4,823,447	\$ 5,022,911	\$ 2,013,937	\$ 2,360,726	\$ 6,837,384	\$ 7,383,637
Other liabilities	1,453,070	1,697,686	685,618	562,640	\$ 2,138,688	\$ 2,260,326
Total liabilities	<u>\$ 6,276,517</u>	<u>\$ 6,720,597</u>	<u>\$ 2,699,555</u>	<u>\$ 2,923,366</u>	<u>\$ 8,976,072</u>	<u>\$ 9,643,963</u>
Deferred Inflows of Resources	\$ 2,506,859	\$ 2,036,193	\$ 53,569	\$ 41,462	\$ 2,560,428	\$ 2,077,655
Net position:						
Net investment in capital assets	\$ 22,192,996	\$ 20,147,780	\$ 12,356,908	\$ 12,182,289	\$ 34,549,904	\$ 32,330,069
Restricted	107,635	423,552	3,125,014	3,033,839	\$ 3,232,649	\$ 3,457,391
Unrestricted	8,453,823	8,680,771	4,219,295	3,521,849	\$ 12,673,118	\$ 12,202,620
Total net position	<u>\$ 30,754,454</u>	<u>\$ 29,252,103</u>	<u>\$ 19,701,217</u>	<u>\$ 18,737,977</u>	<u>\$ 50,455,671</u>	<u>\$ 47,990,080</u>

The FY2019 combined net position for the Town totaled \$50,455,671, an increase of 5% over FY2018. The largest portion (68%) 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 increased by \$2,219,835 in FY2019 as only \$245,000 in additional debt was incurred to offset new construction and infrastructure upgrades. Restricted assets of \$3,232,649 comprise 7% of total net position and dropped by \$224,742 (-7%) over prior year resulting from a decrease of \$315,917 in governmental activities that was offset by an increase of \$91,175 in business activities. The restricted assets for governmental activities (\$107,635) represent donated and/or designated funds specifically for the Pinewood Heights Redevelopment Project, the Smithfield Police Department, SNAP (Supplemental Nutrition Assistance Program), and highway maintenance. In FY2018, the Town also recorded contributed funds for the Joseph W Luter Jr Sports Complex which were used in full and therefore eliminated in FY2019. The business-type activities total of \$3,125,014 includes its debt service (\$826,385), water deposit (\$16,316) and sewer compliance (\$2,282,313) escrow funds. The debt service fund has been in place since FY2005 and is used to retire 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. Utility deposits were added to the Town Code in FY2014 to reduce the Town's losses from unpaid bills and are refundable after 6 billing cycles without delinquent payment. The sewer compliance fee was adopted on August 4, 2009 to fund expenses resulting from the regional sanitary sewer consent order. The consent order is an ongoing project that has progressed from its initial implementation phase to now include "find and fix" projects on an annual basis. Unrestricted funds of \$12,672,322 make up 25% of total net position and increased by \$469,702 (4%) from prior year. Included in this category for governmental activities are reserves and 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Governmental Activities. The following table shows a detailed summary of the revenues and expenses for governmental and business-type activities for 2019 as compared to 2018:

Town of Smithfield, Virginia
Changes in Net Position
As of June 30, 2019

	Governmental Activities		Business-Type Activities		Total	
	FY 2019	FY 2018	FY 2019	FY 2018	FY 2019	FY 2018
Revenues:						
Program Revenues:						
Charges for services	\$ 87,206	\$ 91,082	\$ 2,851,346	\$ 2,827,712	2,938,552	2,918,794
Operating Grants and Contributions	1,557,719	1,743,669	-	-	1,557,719	1,743,669
Capital Grants and Contributions	1,303,665	132,597	522,900	182,580	1,826,565	315,177
General Revenues:						
Property taxes	2,519,668	2,495,373	-	-	2,519,668	2,495,373
Other taxes	3,607,797	3,454,719	-	-	3,607,797	3,454,719
Unrestricted revenues from the use of money and property	460,292	334,010	59,008	40,513	519,300	374,523
Miscellaneous	112,880	208,605	26,967	17,445	139,847	226,050
Grants and contributions not restricted to specific programs	448,490	460,881	-	-	448,490	460,881
Gain on disposal	-	-	-	-	-	-
Total revenues	<u>\$ 10,097,717</u>	<u>\$ 8,920,936</u>	<u>\$ 3,460,221</u>	<u>\$ 3,068,250</u>	<u>\$ 13,557,938</u>	<u>\$ 11,989,186</u>
Expenses						
General government administration	\$ 1,218,767	\$ 1,193,699	\$ -	\$ -	\$ 1,218,767	\$ 1,193,699
Public safety	2,335,986	2,412,254	-	-	2,335,986	2,412,254
Public works	2,531,611	2,303,137	-	-	2,531,611	2,303,137
Parks, recreation and cultural	1,724,153	1,892,333	-	-	1,724,153	1,892,333
Community development	676,948	742,362	-	-	676,948	742,362
Interest on long-term debt	107,901	127,572	-	-	107,901	127,572
Water fund	-	-	1,593,655	1,548,749	1,593,655	1,548,749
Sewer fund	-	-	903,326	838,798	903,326	838,798
Total expenses	<u>\$ 8,595,366</u>	<u>\$ 8,671,357</u>	<u>\$ 2,496,981</u>	<u>\$ 2,387,547</u>	<u>\$ 11,092,347</u>	<u>\$ 11,058,904</u>
Increase (decrease) in net position	<u>\$ 1,502,351</u>	<u>\$ 249,579</u>	<u>\$ 963,240</u>	<u>\$ 680,703</u>	<u>\$ 2,465,591</u>	<u>\$ 930,282</u>
Net position-beginning of year	<u>\$ 29,252,103</u>	<u>\$ 29,002,524</u>	<u>\$ 18,737,977</u>	<u>\$ 18,057,274</u>	<u>\$ 47,990,080</u>	<u>\$ 47,059,798</u>
Net position-end of year	<u>\$ 30,754,454</u>	<u>\$ 29,252,103</u>	<u>\$ 19,701,217</u>	<u>\$ 18,737,977</u>	<u>\$ 50,455,671</u>	<u>\$ 47,990,080</u>

Program revenues for governmental activities make up 29% of total revenues and are comprised of charges for services (3%), operating grants and contributions (53%), and capital grants and contributions (44%). Charges for governmental activities services which includes permits, review fees, inspection fees, and fines and forfeitures decreased by \$3,876 over prior year. The largest decreases in fines and costs (-\$14,788), review fees (-\$2,250) and inspection fees (-\$2,700) were offset by increases in zoning permits (\$3,860), and the recategorization of DMV Stop fees (\$13,320) from property taxes to charges for services. Operating grants and contributions of \$1,557,719 decreased \$185,950 from prior year and consist of state highway maintenance funds (\$1,243,925), public safety grants (\$264,842), community development grants (\$41,000), cultural grants (\$4,500), and miscellaneous administrative and other grants (\$3,452). The annual state highway maintenance funds increased \$54,620 (5%) from FY2018 and were used to maintain street surfaces, manage storm water ditching and drainage, and support highway safety and beautification. Included in the public safety grants are annual 599 funds from the state (\$172,904) that are used to supplement the cost of law enforcement, a fire programs grant that is passed through to the Smithfield Volunteer Fire Department (\$27,998), federal and state police grants

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

(\$47,709) for equipment and operations, and three DCR grants (\$16,231) that were used for development of an emergency action plan, inundation zone analysis, mapping, and digitalization, and an inundation study at the Waterworks Dam. The community development operating grant represents the reimbursable portion of the Pinewood Heights CDBG Redevelopment Project. Grant funds in this category decreased by \$132,075 from prior year as the Town neared the finish of Phase III and utilized all of its remaining grant allocation. The most significant change in program revenues occurred in capital grants and contributions which increased \$1,171,068 from \$132,597 in FY2018 to \$1,303,665 in FY2019. In FY2019, the Town recorded contributions of \$65,000 specifically designated for the public sports complex including \$50,000 from Isle of Wight County for the 3rd payment of its 5 year commitment toward the project and \$15,000 from a local contractor for an HVAC unit. The Town also received contributions of \$538,645 for Windsor Castle Park which included tax credits of \$191,628 donated by Historic Windsor Castle Restoration LLC as well as capital improvements totaling \$347,017 from improvements made to the tenant house and 2 maintenance buildings. Significant funding commitments totaling \$626,437 for the construction of a public boat ramp in the Town’s Clontz Park were received from the Port of Virginia (\$56,437), the State of Virginia (\$160,000) and the VMRC (\$410,000). Finally, the Town received \$73,583 in VDOT reimbursements for its right-turn lane, intersection improvement alternatives analysis, and Smithfield to Nike Park Trail segment analysis projects.

A significant revenue source for the Town has always been general property taxes. FY2019 was not a reassessment year so value changes resulted from new construction and renovation or demolition of previously assessed property.

	FY2019	FY2018
Real estate tax revenue	\$ 1,745,781	\$ 1,719,533
Public Service corporation property taxes	29,661	31,390
Personal Property taxes	701,457	685,517
Penalties and interest	42,769	58,933
Total	\$ 2,519,668	\$ 2,495,373

Tax assessments for the Town are received from the Isle of Wight County Commissioner of Revenue.

Real estate and personal property assessments for FY2019 totaled \$1,121,399,297 and \$130,583,381 respectively, excluding any subsequent supplements and abatements, compared to \$1,103,568,800 and \$119,432,071 for FY2018.

Other local taxes increased 4% 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. Increases were balanced by several offsetting decreases, but meals taxes accounted for the largest increase of the year. Meals tax revenues of \$1,810,845 increased \$46,488 over FY2018’s total of \$1,764,357. The Town continues to dedicate 32% of meals tax revenues (\$579,470) to the Pinewood Heights Relocation Project to fund its portion of required leverage. Bank franchise taxes of \$157,713 increased \$9,016 with all but one of the Town’s 5 banking institutions showing growth for the year. Utility taxes are imposed and levied monthly on each purchase of natural gas or electricity delivered to consumers. Fluctuations tend to be small, but in FY2019, consumer utility tax and consumption tax collectively decreased by \$7,720. Business license taxes of \$403,131 increased by \$9,423 compared to an increase in FY2018 of \$11,561. Business license revenue is an important indicator of economic stability in the Town and is therefore reviewed each closely each year. Vehicle license taxes are billed with personal property taxes at a rate of \$33 per qualified vehicle and \$18 per qualified motorcycle. This rate increased from a flat \$20 for all qualified vehicles in prior years. Consequently, this tax increased from \$165,043 in FY2018 to \$254,331 in FY2019. Sales tax revenues of \$357,250 remained almost completely level from the prior year total of \$357,791. Cigarette taxes totaled \$161,289 which was a slight decrease of \$9,740 from FY2018. Cigarette tax revenues are recognized when tax stamps are sold to wholesalers, not when packages or cartons are sold to consumers.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Unrestricted revenue from use of money and property represents interest income, lease income, property rental income, event rental income, gift shops sales, fingerprinting, and special events labor reimbursement. Revenues in this category increased \$126,282 (38%) from FY2018. The largest increase of \$42,936 was noted in Town rents which now include an annual rent from Smithfield Recreation Association (SRA) for its use of the public ball fields (\$25,000) and Smithfield VA Events (\$27,000) for its lease of the tenant house at Windsor Castle Park. Interest revenue also posted an increase of \$39,493 as grant contribution reimbursements and strong collections increased cash balances available for earnings. Park Impact Fees is a new category that was approved by Town Council for events held at Windsor Castle Park. The total for FY2019 was \$20,349. Smithfield Center Rentals remained strong with an increase in rents of \$6,372 over prior year for total revenues of \$190,075.

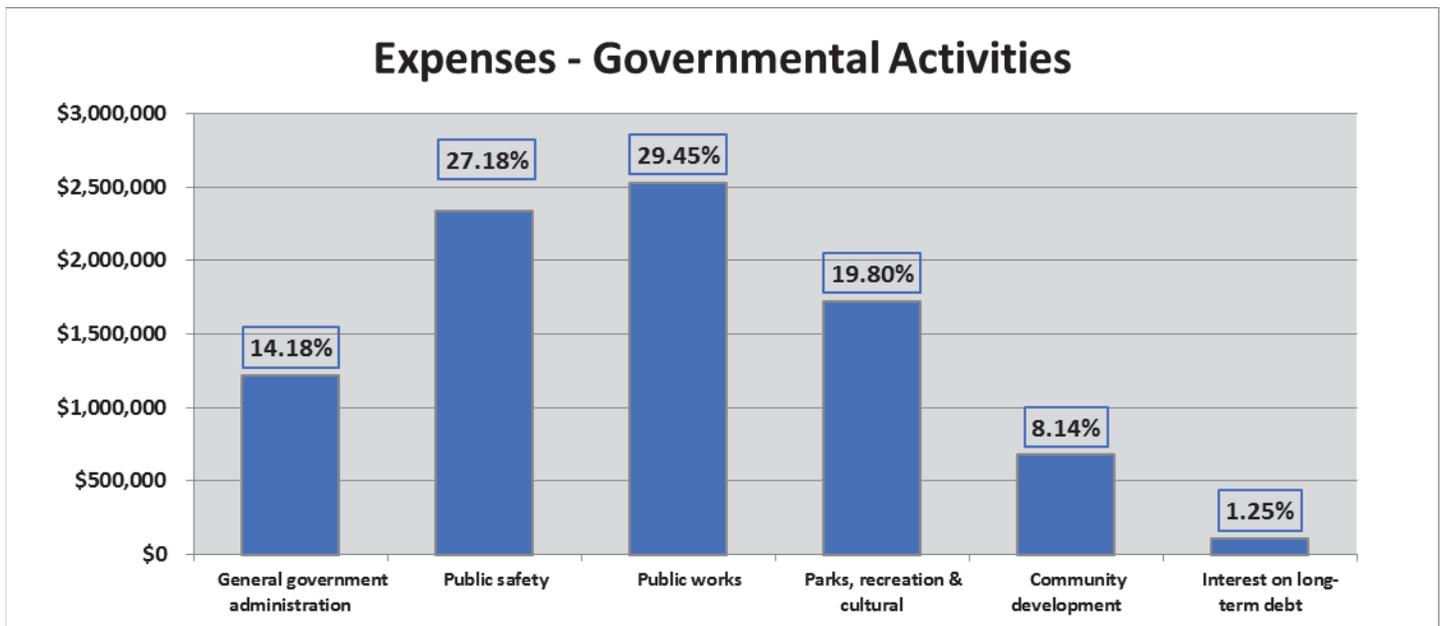
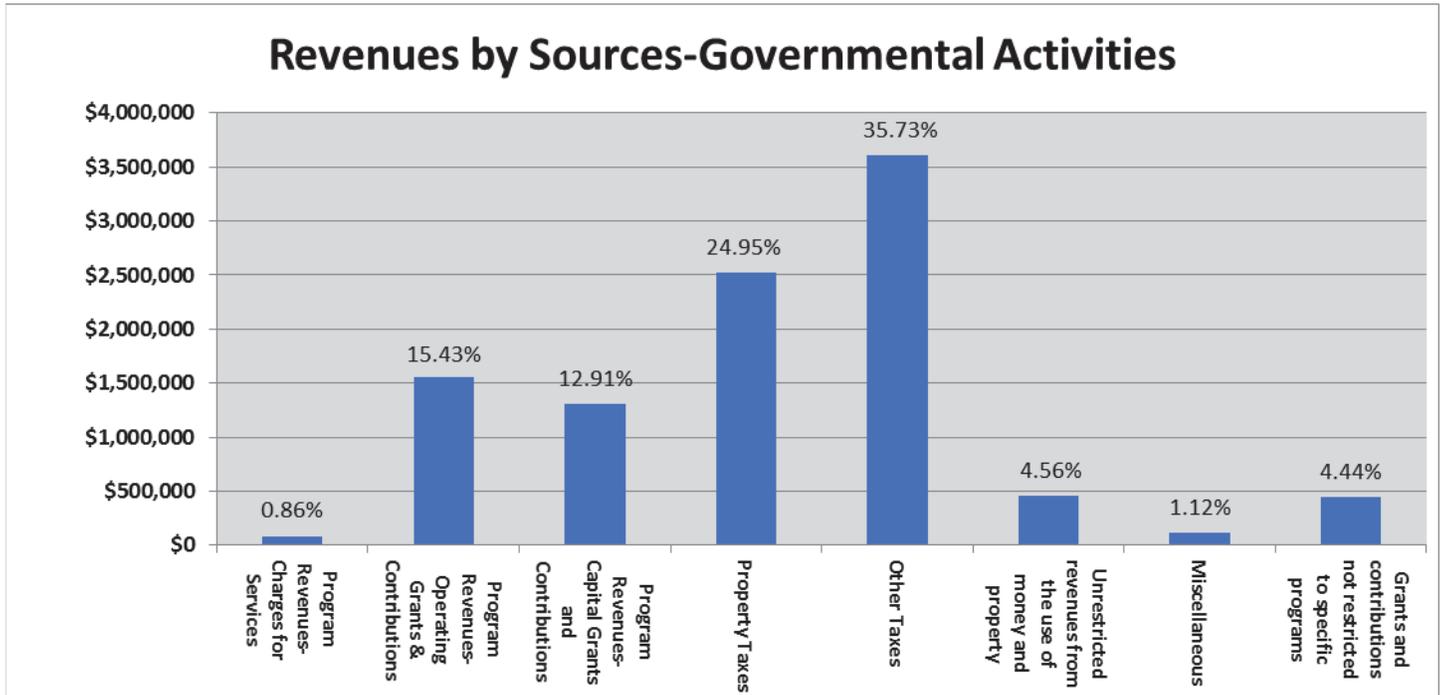
Miscellaneous revenues for FY2019 totaled \$112,880 and are made up of insurance proceeds, sale of copies, returned check charges, accident report fees, capital credit refunds, sale of property and equipment, and contributions from citizens, businesses, and non-profit organizations. Contributions for the museum (\$81,283) comprised 72% of this category for FY2019 and included \$77,507 from Isle of Wight County for reimbursement of 50% of the museum's operating costs. Donations of \$4,950 for CHIP (Community Help In Progress) sponsored by the Smithfield Police Department rounded out the contributions for the year. The Town also received \$9,465 in insurance reimbursements from its provider, the Virginia Risk Sharing Association (VRSA) for claims pertaining to damages to town vehicles and public property. In addition to contributions and reimbursements, the Town brought in \$16,324 from sale of retired equipment and vehicles administered through GOVDEALS.

Grant contributions not restricted to specific programs include the state's annual personal property tax relief contribution, communications tax allocations, rolling stock, mobile home tax, and short term rental taxes. The personal property tax relief of \$240,795 is a fixed amount that is received from the Commonwealth of Virginia in August of every year. Communications taxes are collected by the state as well 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 taxes collected and deductions applied by the state. Communications taxes of \$200,788 for FY2019 decreased \$15,665 from FY2018 marking a decline for the sixth consecutive year. Rolling stock, mobile home tax, and short term rental tax collectively totaled \$6,907 which was 89% higher than the prior year total of \$3,651.

Total expenditures for FY2019 governmental activities equaled \$8,595,366 compared to \$8,671,357 for FY2018, a decrease of \$75,991 (1%). These expenses are categorized as general government administration, public safety, public works, parks, recreation, and cultural, community development, and interest on long term debt. General government expenditures increased \$25,068 over FY2018. Increases in areas such as legal fees (\$19,848), travel & training (\$11,456), and records management upgrades (\$11,220) were offset by savings in salaries and benefits (-\$15,630). While salaries did increase as a result of a pay plan adjustment, those increases were reduced by \$24,790 due to a change in health insurance premiums. Faced with another double digit increase in its Anthem plans, the Town instead chose to offer OPTIMA in order to provide affordable coverage to its employees with generous benefits. Public safety and public works (including highway maintenance) are the largest cost centers and accounted for 57% of total costs. Public safety decreased by \$77,268 in part because of savings of \$43,046 of contributed E911 dispatch costs to Isle of Wight County for the first year's operation of its new Public Radio System. The Town contributed \$205,001 in FY2018 compared to \$161,955 in FY2019. Like general administration, public safety also recognized a substantial savings in health insurance premiums (\$44,441). Public Works ended the fiscal year with a 10% increase in costs (\$228,474). The majority of this increase resulted from highway expenditures as the Town spent all of its 2019 state highway grant funds (\$1,243,925) and a portion of a carryforward from the prior year (\$91,741). Parks, recreation, and cultural reflected a decrease in expenditures of \$168,180 as contributions towards the Windsor Castle Park Restoration Project tapered off. In FY2018, the Town contributed \$480,000 to the Windsor Castle Park Foundation and \$350,000 to Historic Windsor Castle Restoration, LLC for restoration work at the manor house and improvements to the tenant house and outbuildings. In FY2019, the Town contributed \$500,000 towards the restoration project while the tenant house was completed in FY2018. The Joseph W Luter Jr Sports Complex also opened, creating a new cost center to account for operations which totaled \$72,877 for the year. Community Development reflected a 9%

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

decrease for the fiscal year (-\$65,414) as Phase III of the Pinewood Heights Redevelopment Project neared completion. The Town spent \$360,059 for acquisition, relocation, and demolition in FY2018 compared to \$262,981 in FY2019. The Town’s 2019 contribution towards Tourism, a shared service with Isle of Wight County, increased \$34,011 over prior year. Interest on long-term debt decreased \$19,671 as the Town paid its debt as scheduled. The new radio system (\$245,000) purchased through Isle of Wight County was the only new debt for the year. At an annual interest rate of 1.65%, total interest over the 5-year life of the loan will be \$8,047.



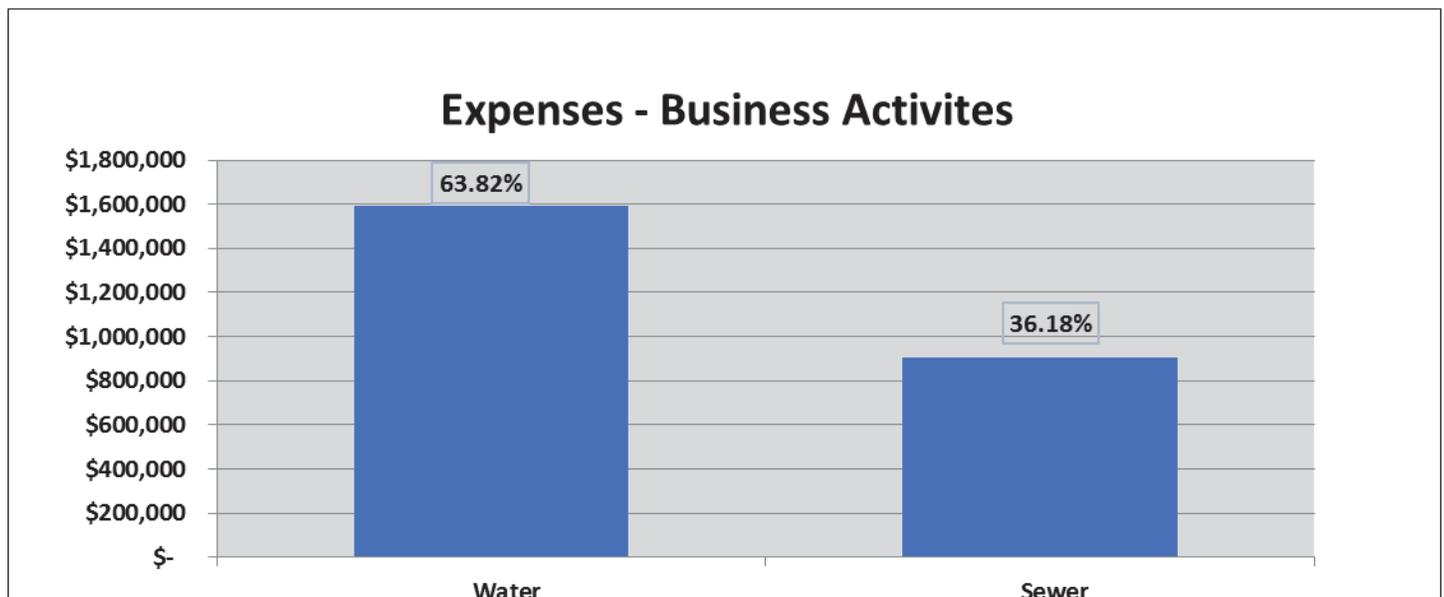
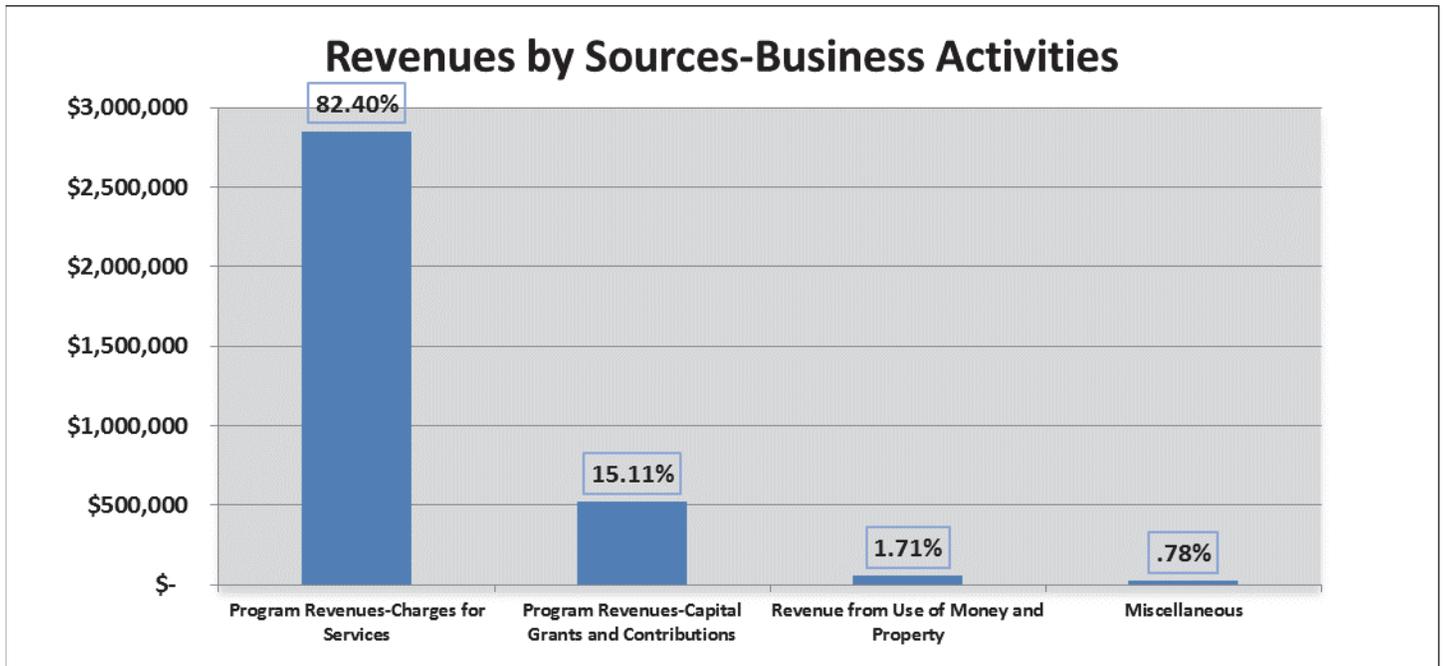
GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Business-Type Activities. The business-type activities show an increase in net position of \$963,240 for FY2019 compared to FY2018. Program revenues include charges for services that increased by \$23,634 and capital grants and contributions that increased by \$340,320. Included in charges for services are utility charges, bulk water sales, debt service fees, sewer compliance fees, and connection fees. Water and sewer consumption dropped slightly from prior year resulting in a decrease of utility charges of \$5,274. A decrease was reflected in the sewer fund (-\$25,642) that was offset by an increase in the water fund (\$20,368). The water fund reflected an increase only because the water rate was increased with the adopted budget to \$6.14 per 1,000 gallons compared to \$5.68 per 1,000 gallons the prior year. The town also has periodic requests from contractors for bulk water purchases which totaled \$2,531 for FY2019. Connection fees increased significantly by \$83,330 with the installation of 66 residential meters (5/8") and one commercial upgrade (3/4") in FY2019 as compared to 24 residential meters and one commercial upgrade (1") in FY2018. Debt service fees and sewer compliance fees reflected a combined decrease of \$55,513 for the year. They are fixed costs that are not driven by consumption, and therefore tend to remain stable unless there is a significant change in rates or a sizable fluctuation in the number of active accounts. In FY2019, the rate was lowered for the sewer compliance fee from \$24.14 bi-monthly to \$18.62 while the debt service fee was increased from \$8.95 bi-monthly to \$11.47. The changes in rates were calculated to offset the increase in the water consumption rate, so the average bill (12,500 gallons) would remain constant. Capital Grants and Contributions include availability fees and pro-rata share fees. Like connection fees, availability fees are tied directly to growth and are generally collected at the same time as connection fees. Availability fees increased from \$172,980 in FY2018 to \$442,899 in FY2019 as 42 more residential meters were installed. Availability fees are deposited into the Water and Sewer Capital Escrow Funds and are used for capital maintenance on existing infrastructure and to finance new infrastructure when needed. Pro-rata share fees also increased considerably from \$9,600 last year to \$80,000 in FY2019. 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. Included in general revenues for water and sewer are unrestricted revenues from the use of money and property (interest income) and miscellaneous revenues. Interest income increased \$18,495 while miscellaneous revenues of \$26,967 also increased by \$9,522 from FY2018. Miscellaneous revenues represent application fees for water service (\$10,022), returned check charges (\$25), sale of inventory items to contractors (\$6,030), and insurance recoveries (\$10,890). Insurance was collected as reimbursement for needed repairs at 3 sewer pump stations due to weather related events.

Expenditures increased \$109,434 for the year with increases in both water (\$44,906) and sewer (\$64,528). The water fund recorded increases in salaries and benefits (\$79,838) due primarily to new hires and a pay plan reassessment that resulted in pay rate adjustments. The water fund also recorded a significant decrease in water tank maintenance (-\$21,402) and professional services (-\$17,618). The Town authorized coating inspections and evaluations of its water tanks in FY2018 in order to develop a viable maintenance plan, but no work was performed in FY2019. In FY2018 the Town's contracted engineering firms, Kimley-Horn and Draper Aden, billed the Town \$23,966 to address an alternative discharge method for the Water Treatment Plant (RO) plant as well as storm water basin and private pond remediation. Those projects continued into FY2019, but the billings only totaled \$6,348. HRSD wastewater treatment charges increased by \$9,282 over prior year even though usage decreased from 37,874,287 gallons to 35,614,152 gallons. FY2019 marked the 4th consecutive year that water consumption through the RO plant decreased. The increase paid to HRSD was a direct result of a price increase per CCF from \$4.92 to \$5.37 (9%). The sewer fund recorded increases in salaries and benefits (\$31,742), materials and supplies (\$9,445), repairs and maintenance (\$20,214), and professional fees (\$7,770). Like water, salary and benefits increased due to new hires and a town-wide pay plan reassessment and subsequent pay adjustments. Materials and supplies increased as inventory items were used to replace and maintain residential water meters and other work orders throughout the year. Maintenance costs for the sewer fund increased \$20,214 from prior year due to numerous repairs and replacements needed for the electrical systems, generators, and pumps that keep the Town's sewer pump stations operating efficiently. Professional fees also increased as the engineering firm Draper Aden worked with the Town regarding general review services that included sewer rehab recommendations, local consent order meetings, and FY2020 budget preparation.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

The Town’s current utility rate structure is based on “usage only” with 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 \$18.62 is added to each bi-monthly bill for sewer compliance expenses. The sewer compliance fee was reduced from \$24.14 as billed in FY2018. As of July 1, 2018, the Town Council approved a water rate of \$6.14 per 1,000 gallons used and a fixed bi-monthly debt service fee of \$11.47. Prior year’s rates were \$5.68 per 1,000 gallons used and \$8.95 for the bi-monthly debt service fee. The only exception to the water billing structure is the rate charged to Isle of Wight County (\$6.10) in lieu of a separate usage rate and debt service fee. That rate is based on the prevailing rate per 1,000 gallons as set by Isle of Wight County through its membership with the Western Tidewater Water Authority and may be amended form year to year. Consumption and utility revenues are presented to the finance committee each month with the financial statements to ensure that revenues are sufficient to meet both operating and capital needs.



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 \$8,196,407 for FY2019, of which \$74,038 is nonspendable, \$1,417,334 is committed, \$107,635 is restricted, \$188,333 is assigned and \$6,409,067 is unassigned.

General Fund. The general fund is the Town's primary operating fund for all governmental activities. Total fund balances for FY2019 equaled \$87,982,871 which is a decrease of \$691,921 from prior year. The fund balances consist of: nonspendable fund balance of \$71,395, committed fund balance of \$1,417,334, restricted fund balance of \$107,635 and unassigned fund balance of \$6,386,507. The decrease in fund balance was a result of capital projects funded by the Town in FY2019.

Highway Maintenance Fund. The highway maintenance fund is used to track receipts from the Commonwealth of Virginia that are specifically designated for road maintenance and to identify allowable expenses that may be charged against state revenue. Assigned fund balance (\$180,225) and nonspendable fund balance (\$2,643) for FY2019 totaled \$182,868 which is decrease from a total fund balance of \$274,609 in FY2018. 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.

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

Proprietary Funds. The Town's only proprietary funds are its water and sewer funds which provide the same type of information included in the government-wide financial statements but in more detail. As of 2019 the combined total assets of the proprietary funds equaled \$22,390,767 which is a 4% increase over FY2018. Current assets increased \$760,796 from prior year as Cash and Cash Equivalents increased by \$255,033 for the water fund and \$336,431 for the sewer fund largely from escrow deposits for pro-rata share and availability fees. Restricted assets also increased \$103,095 as sewer compliance spending was again limited to "find and fix" projects rather than task-based engineering fees. Internal balances of \$954,785 owed to the General Fund were lower than year-end 2018 increasing total assets by \$146,092. Total capital assets decreased by \$171,032 as accumulated depreciation increased by \$720,023 and was offset by an increase of only \$548,991 in gross asset value. A net pension asset of \$250,677 was also recorded as required by GASB 68 Accounting and Financial Reporting for Pensions which was an increase of \$45,131 over prior year. There were smaller increases in accounts receivable (\$21,295), inventories (\$13,007), prepaid items (\$11,739), and due from other governmental units (\$5).

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's FY2019 budget was adopted by Town Council at a special meeting held on June 25, 2018. It was appropriated at the July 10, 2018 Town Council meeting effective as of July 1, 2018. The Town did not amend its budget during the fiscal year. Budgeted general fund revenues totaled \$9,675,156 for the year, but actual revenues equaled \$8,848,588. All revenue categories exceeded budget except for fines and forfeitures (-\$19,644), noncategorical aid from the Commonwealth (-\$17,230), and categorical aid from the federal government (-\$1,612,943). The decrease in noncategorical aid from the Commonwealth resulted from a reduction in communications tax of \$20,212. Communications taxes are made up of the Communications Sales Tax, the E-911 Tax, and the public rights-of-way fees collected directly by the state. Distributions are made monthly to localities after payment of direct costs of administering the program, payments for the Virginia Relay Center, and distributions for franchise fees are deducted. Categorical aid from the federal government fell short of budget due to the timing of several large capital projects. First, the Town signed a contract with the

GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

Virginia Department of Housing and Urban Development (VDHCD) for Phase IV of the Pinewood Heights Redevelopment Project. The budget reflected the full expected value of the CDBG funds available for reimbursement (\$1,000,000) plus the remaining funds available from Phase III (\$29,856) at the time the budget was prepared. As of June 30, 2019, the Town recognized only \$10,000 in CDBG reimbursements for Phase III and \$31,000 for Phase IV. The Town also included \$731,864 in federal aid for a right turn lane on US Route 258 at the Joseph W Luter Jr Sports Complex. Preliminary engineering work was done on the turn lane starting in FY2017 but construction did not begin in FY2019 leaving \$749,316 remaining for reimbursement in FY2020.

Highway revenues from the Commonwealth of Virginia were budgeted at \$1,189,305, but actual receipts for the year totaled \$1,243,925, allotting the Town an additional \$45,620 for street maintenance.

Total budgeted general fund expenses for FY2019 equaled 11,454,010 while actual spent was \$9,693,768. All departments were under budget with the exception of capital projects and debt service. The adopted budget for capital projects was \$1,861,720 but expenditures totaled \$2,289,276, exceeding budget by \$427,556 (\$23%). The public works department recorded a large savings (\$630,839) due to the slow progress of the right turn lane project scheduled for construction at the Joseph W Luter Jr Sports Complex. Three parks, recreation, and cultural projects were significantly over budget for the year; specifically, the Joseph W. Luter Jr Sports Complex (\$238,050), Windsor Castle Park restoration (\$347,018), and the Clontz Park Public Boat Ramp (\$430,387). The sports complex was expected to be completed in FY2018 and was not rolled forward into the FY2019 budget. The Windsor Castle Park expenses represent asset improvements to the caretaker's house and 2 maintenance and storage buildings that were donated back to the Town by Historic Smithfield Restoration LLC and accepted by Town Council on November 6, 2018. The Clontz Park Public Boat Ramp was budgeted at \$603,000, but the Town spent \$1,033,387 largely due to the discovery of debris discovered beneath the soil that required additional land improvements before the project could proceed. Debt service was over budget by \$796 as recorded interest exceeded the approved budget.

Highway maintenance funds were budgeted to equal budgeted highway revenues (\$1,189,305) plus interest earned (\$200). In the past few years, the Town has not spent its entire annual street maintenance grant and has recorded a carry forward. In FY2019, the Town spent all of its 2019 grant and utilized \$91,741 of its carry forward, posting actual expenses of \$1,335,941.

PROPRIETARY FUND BUDGETARY HIGHLIGHTS

The 2019 adopted budget for proprietary funds reflected a combined water and sewer change in net position of \$148,851. The sewer fund reflected a budgeted increase of \$232,185 while water was budgeted with a loss of \$83,334. Actual sewer change in net position for the year was \$592,433 which was \$360,248 greater than budgeted. Operating revenues exceeded budget by \$55,998 while operating expenses were \$69,514 lower than budgeted combining for an operating income that was \$125,512 over budget. Sewer maintenance and repairs exceeded budget by \$44,584 due to storm damage and numerous pump and impeller repairs and replacements. The Town's insurance provider, Virginia Risk Sharing Association (VRSA), reimbursed the Town \$10,890 for storm related damages. Savings in personnel services (\$41,620), related employee benefits (\$32,897), professional fees (\$14,685), and materials and supplies (\$19,760) more than offset the overage in maintenance and repairs. Water change in net position exceeded budget by \$454,141 for the year, posting a positive change instead of a projected loss. Like sewer, the operating expenses for the water fund fell below budget with a savings of \$299,311. The largest savings were personnel services (\$62,301), related employee benefits (\$36,268), water tank maintenance (\$79,430), and professional services (\$33,652). While the Town is committed to maintenance of its operable water tanks, no work was scheduled during FY2019. Personnel services and related employee benefits reflected savings in both the sewer and water funds as the public works department experienced several changes in personnel including the resignation of the department director. The position was partially filled by an internal promotion, but a change was made to split the duties with a new position that remained unfilled at June 30. Salaries were increased with a pay plan adjustment, but the increases were lower than budgeted due to the timing of staff vacancies. The budgeted HRSD charges for sewer treatment resulting from discharge from the water reverse osmosis plant were higher than prior year but still reflected budget savings of

PROPRIETARY FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

\$21,897. The total cost for FY2019 exceeded FY2018 by \$9,282 as the HRSD rate increased from \$4.92 to \$5.37 per CCF even though total consumption was down by 2,260,135 gallons. Combined non-operating revenues for sewer and water exceeded budget by \$416,108 and included pro-rata share fees (\$80,000), interest revenue (\$59,008), and availability fees (\$442,900). The Town received pro-rata share fees of \$40,000 each for water and sewer which represents payments of \$800 per lot on 49 lots and \$1200 per lot on 2 lots compared to a total of 6 lots for 2018. Pro-rata share fees are paid at the time that plats are recorded and are indicative of new development. Availability fees are recorded at the same time as connection fees and represent 66 connections and one upgrade for the year. This is an increase of 41 connections compared to 25 recorded in FY2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The Town’s 2019 investment in capital assets for its governmental and business-type activities totaled \$41,457,169 net of accumulated depreciation. This is an increase of \$1,237,722 from FY2018. Of this total, \$1,408,754 originated from an increase in governmental activities offset by a decrease in business-type activities of \$171,032. The largest increase resulted from the construction of the Clontz Park Boat Ramp (\$1,033,387) which was 95% complete at year end. An additional \$238,212 was spent on the Joseph W Luter Jr Sports Complex as it neared completion and opened for play. Also, the Town entered into a capital lease with Isle of Wight County for a \$245,000 public safety radio system. The decrease in value of the business-type assets resulted from depreciation expense that exceeded the cost of improvements for the year. Water Fund capital assets decreased by \$300,549 with new asset costs of \$53,031 and depreciation expense of \$353,580. The Sewer Fund increased by \$129,517 with additions of \$495,960 offset by depreciation of \$366,443. 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 2019 fiscal year included the following:

- Purchase of two police vehicles and one public works vehicle
- Purchase of 3 land parcels in Phase III of the Pinewood Heights Redevelopment Project
- Asset improvements from Phase I of the Windsor Castle Park Restoration Project
- Final construction costs for a public sports complex
- Substantial completion of a public boat ramp
- Implementation of a new public safety radio system
- Sanitary sewer inspections and manhole rehabs at various locations throughout the Town
- Bypass pump installations at three sewer pump stations

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

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Land	\$ 9,905,637	\$ 9,869,637	\$ 204,481	\$ 204,481	\$ 10,110,118	\$ 10,074,118
Building and system Improvements other than buildings	4,746,577	3,975,751	7,177,716	7,373,230	11,924,293	11,348,981
Machinery & equipment	4,150,556	838,027	84,270	91,032	4,234,826	929,059
Vehicles	708,667	417,035	2,652,842	2,687,877	3,361,509	3,104,912
Infrastructure	296,779	319,215	78,810	75,392	375,589	394,607
Art collections	5,501,641	5,667,199	4,318,425	4,379,385	9,820,066	10,046,584
Construction in progress	10,537	10,537	-	-	10,537	10,537
	<u>1,492,670</u>	<u>4,306,909</u>	<u>127,561</u>	<u>3,740</u>	<u>1,620,231</u>	<u>4,310,649</u>
Total	\$ 26,813,064	\$ 25,404,310	\$ 14,644,105	\$ 14,815,137	\$ 41,457,169	\$ 40,219,447

Additional details on the Town’s capital assets can be found in Note 6 of the Notes to the Basic Financial Statements.

CAPITAL ASSETS AND DEBT ADMINISTRATION: (CONTINUED)

Debt Administration. Outstanding debt for the Town at fiscal year-end 2019 totaled \$7,675,549 of which \$5,295,058 originated from governmental activities and the remaining \$2,380,491 from business-type activities. The only new debt issued during the year was a capital lease with Isle of Wight County for a public safety radio system totaling \$245,000. Total principal paid for all debt during the year was \$1,232,730. The Town's ratio of net general bonded debt to total assessed value of taxable property decreased from 0.42% in FY2018 to .35% in FY2019 with an increase in assessed value of \$18,942,354 and a decrease in net bonded debt of \$816,315 due to principal payments. Outstanding debt also includes Net Other Post-Employment Benefits (OPEB) liabilities of \$545,000 required by GASB 75. Group Life Insurance (GFI) and Line of Duty Act benefits (LODA) for the Town's certified officers are included in the calculations for OPEB liabilities.

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, 10, and 11 of the Notes to the Financial Statements and Statistical Tables 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, 2019

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	20178	2019	2018
General Obligation Bonds	\$ -	\$ 489,552	\$ 1,977,000	\$ 2,306,000	\$ 1,977,000	\$ 2,795,552
Notes payable	4,404,216	4,730,899	329,498	350,970.00	4,733,714	5,081,869
Line of Credit	-	-	-	-	-	-
Capital Leases	215,056	36,079	-	-	215,056	36,079
Net OPEB liabilities	505,052	476,478	39,948	32,523.00	545,000	509,001
Compensated absences	170,734	188,726	34,045	35,015	204,779	223,741
Total	\$ 5,295,058	\$ 5,921,734	\$ 2,380,491	\$ 2,724,508	\$ 7,675,549	\$ 8,646,242

ECONOMIC FACTORS

The Town has been defined by large capital projects in recent years. With the completions of the Joseph W Luter Jr Sports Complex, Windsor Castle Manor House, and Clontz Park Boat Ramp, the Town expects to attract visitors and clients that will generate new revenue. In FY2020, the Town will still manage several significant ongoing projects such as Phase IV of the Pinewood Heights Relocation Project, the right turn lane at the sports complex, intersection improvements at the Benns Church Blvd/Route 10/Route 258 bypass, and a Smithfield to Nike Park Trail connection. Attractions and development will bring new tax revenues but will also increase the cost of services. The Town will update its Capital Improvement Plan (CIP) in FY2020 and expects that maintenance and infrastructure needs for Town utilities will be heavily considered given that current assets have aged and new construction requires increased capacity. The current unemployment rate in Virginia is 2.8% which highlights the importance of employee retention in a competitive market. Economic indicators are cautiously optimistic for Hampton Roads in FY2020, but the Town recognizes that long range planning is vital for continued financial stability and success.

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 2019. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Smithfield, 310 Institute Street, Smithfield, VA 23430.

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Basic Financial Statements

Government-wide Financial Statements

Statement of Net Position
As of June 30, 2019

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,906,095	\$ 4,461,014	\$ 11,367,109
Receivables (net of allowance for uncollectibles):			
Taxes receivable	2,246,132	-	2,246,132
Accounts receivable	337,870	615,869	953,739
Interest receivable	86	-	86
Internal balances	954,785	(954,785)	-
Due from other governmental units	744,455	1,275	745,730
Inventories	38,898	142,996	181,894
Prepaid items	35,140	11,739	46,879
Restricted assets:			
Cash and cash equivalents	141,995	3,217,877	3,359,872
Net pension asset	1,064,938	250,677	1,315,615
Capital assets (net of accumulated depreciation):			
Land	9,905,637	204,481	10,110,118
Buildings and system	4,746,577	7,177,716	11,924,293
Improvements other than buildings	4,150,556	84,270	4,234,826
Machinery and equipment	708,667	2,652,842	3,361,509
Vehicles	296,779	78,810	375,589
Infrastructure	5,501,641	4,318,425	9,820,066
Art collections	10,537	-	10,537
Construction in progress	1,492,670	127,561	1,620,231
Total assets	\$ 39,283,458	\$ 22,390,767	\$ 61,674,225
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	\$ -	\$ 19,301	\$ 19,301
OPEB related items	90,386	5,672	96,058
Pension related items	163,986	38,601	202,587
Total deferred outflows of resources	\$ 254,372	\$ 63,574	\$ 317,946
LIABILITIES			
Accounts payable	\$ 616,086	\$ 198,771	\$ 814,857
Accrued wages & payroll liabilities	75,103	13,541	88,644
Customer deposits	-	92,863	92,863
Accrued interest payable	10,839	13,889	24,728
Due to other governmental units	249,823	-	249,823
Unearned revenue	832	-	832
Due to taxpayers	28,776	-	28,776
Long-term liabilities:			
Due within one year	470,201	366,554	836,755
Due in more than one year	4,824,857	2,013,937	6,838,794
Total liabilities	\$ 6,276,517	\$ 2,699,555	\$ 8,976,072
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue-property taxes	\$ 2,214,031	\$ -	\$ 2,214,031
OPEB related items	86,094	4,906	91,000
Pension related items	206,734	48,663	255,397
Total deferred inflows of resources	\$ 2,506,859	\$ 53,569	\$ 2,560,428
NET POSITION			
Net investment in capital assets	\$ 22,192,996	\$ 12,356,908	\$ 34,549,904
Restricted:			
Pinewood Heights escrow	68,298	-	68,298
SNAP program	2,219	-	2,219
Police department expenditures	37,118	-	37,118
Water debt service and customer deposits	-	842,701	842,701
Sewer compliance	-	2,282,313	2,282,313
Unrestricted	8,453,823	4,219,295	12,673,118
Total net position	\$ 30,754,454	\$ 19,701,217	\$ 50,455,671

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, 2019

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 1,218,767	\$ 13,320	\$ -	\$ -
Public safety	2,335,986	40,356	248,611	-
Public works	2,531,611	-	1,247,377	73,583
Parks, recreation, and cultural	1,724,153	-	20,731	1,230,082
Community development	676,948	33,530	41,000	-
Interest on long-term debt	107,901	-	-	-
Total governmental activities	\$ 8,595,366	\$ 87,206	\$ 1,557,719	\$ 1,303,665
Business-type activities:				
Water	\$ 1,593,655	\$ 1,692,607	\$ -	\$ 213,320
Sewer	903,326	1,158,739	-	309,580
Total business-type activities	\$ 2,496,981	\$ 2,851,346	\$ -	\$ 522,900
Total primary government	\$ 11,092,347	\$ 2,938,552	\$ 1,557,719	\$ 1,826,565

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

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
\$ (1,205,447)	\$ -	\$ (1,205,447)
(2,047,019)	-	(2,047,019)
(1,210,651)	-	(1,210,651)
(473,340)	-	(473,340)
(602,418)	-	(602,418)
(107,901)	-	(107,901)
<u>\$ (5,646,776)</u>	<u>\$ -</u>	<u>\$ (5,646,776)</u>
\$ -	\$ 312,272	\$ 312,272
-	564,993	564,993
<u>\$ -</u>	<u>\$ 877,265</u>	<u>\$ 877,265</u>
<u>\$ (5,646,776)</u>	<u>\$ 877,265</u>	<u>\$ (4,769,511)</u>
\$ 2,519,668	\$ -	\$ 2,519,668
357,250	-	357,250
403,131	-	403,131
192,386	-	192,386
1,810,845	-	1,810,845
161,289	-	161,289
254,331	-	254,331
428,565	-	428,565
460,292	59,008	519,300
112,880	26,967	139,847
448,490	-	448,490
<u>\$ 7,149,127</u>	<u>\$ 85,975</u>	<u>\$ 7,235,102</u>
\$ 1,502,351	\$ 963,240	\$ 2,465,591
29,252,103	18,737,977	47,990,080
<u>\$ 30,754,454</u>	<u>\$ 19,701,217</u>	<u>\$ 50,455,671</u>

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Fund Financial Statements

Balance Sheet
 Governmental Funds
 As of June 30, 2019

	General	Highway Maintenance	Capital Projects	Total
ASSETS				
Cash and cash equivalents	\$ 6,906,095	\$ -	\$ -	\$ 6,906,095
Receivables (net of allowance for uncollectibles):				
Taxes receivable	2,246,132	-	-	2,246,132
Accounts receivable	337,870	-	-	337,870
Interest receivable	86	-	-	86
Due from other funds	954,858	301,625	8,151	1,264,634
Due from other governmental units	744,455	-	-	744,455
Inventories	38,898	-	-	38,898
Prepaid items	32,497	2,643	-	35,140
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	107,635	34,360	-	141,995
Total assets	<u>\$ 11,368,526</u>	<u>\$ 338,628</u>	<u>\$ 8,151</u>	<u>\$ 11,715,305</u>
LIABILITIES				
Accounts payable & other accrued expenditures	\$ 466,586	\$ 149,500	\$ -	\$ 616,086
Accrued wages & payroll liabilities	68,873	6,230	-	75,103
Due to other funds	309,776	30	43	309,849
Unearned revenue	832	-	-	832
Due to other governmental units	249,823	-	-	249,823
Refunds to taxpayers	28,776	-	-	28,776
Total liabilities	<u>\$ 1,124,666</u>	<u>\$ 155,760</u>	<u>\$ 43</u>	<u>\$ 1,280,469</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	<u>\$ 2,260,989</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,260,989</u>
FUND BALANCE				
Nonspendable:				
Prepaid items	\$ 32,497	\$ 2,643	\$ -	\$ 35,140
Inventory	38,898	-	-	38,898
Total nonspendable fund balance	<u>\$ 71,395</u>	<u>\$ 2,643</u>	<u>\$ -</u>	<u>\$ 74,038</u>
Restricted:				
Pinewood Heights escrow	\$ 68,298	\$ -	\$ -	\$ 68,298
SNAP program	2,219	-	-	2,219
Police department expenditures	37,118	-	-	37,118
Total restricted fund balance	<u>\$ 107,635</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 107,635</u>
Committed:				
Special projects	\$ 1,121,198	\$ -	\$ -	\$ 1,121,198
Windsor Castle	92,903	-	-	92,903
Museum	203,233	-	-	203,233
Total committed fund balance	<u>\$ 1,417,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,417,334</u>
Assigned:				
Highway maintenance	\$ -	\$ 180,225	\$ -	\$ 180,225
Capital projects	-	-	8,108	8,108
Total assigned fund balance	<u>\$ -</u>	<u>\$ 180,225</u>	<u>\$ 8,108</u>	<u>\$ 188,333</u>
Unassigned	<u>\$ 6,386,507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,386,507</u>
Total fund balances	<u>\$ 7,982,871</u>	<u>\$ 182,868</u>	<u>\$ 8,108</u>	<u>\$ 8,173,847</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,368,526</u>	<u>\$ 338,628</u>	<u>\$ 8,151</u>	<u>\$ 11,715,305</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, 2019

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	8,173,847
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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.

	26,813,064
--	------------

Items related to measurement of the net pension asset and net OPEB liabilities are considered deferred outflows or deferred inflows and will be recognized in pension and OPEB expense over future years. Certain deferred outflows represent a reduction in current expense for contributions to be recognized in a future period.

Deferred outflows - pension related	\$	163,986	
Deferred outflows - OPEB related		90,386	
Deferred inflows - pension related		(206,734)	
Deferred inflows - OPEB related		(86,094)	(38,456)

Pension assets are long-term assets and not available to pay for current-period expenditures and, therefore, are reported in the Statement of Net Position.

Net pension asset	1,064,938
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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	46,958
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Interest paid on long-term debt is not accrued in governmental funds, but rather is recognized when paid.

	(10,839)
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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.

Bonds, notes and line of credit	\$	(4,619,272)	
Compensated absences		(170,734)	
Net OPEB liabilities		(505,052)	(5,295,058)

Net position of governmental activities	\$	30,754,454
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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, 2019

	General	Highway Maintenance	Capital Projects	Total
REVENUES				
General property taxes	\$ 2,514,739	\$ -	\$ -	\$ 2,514,739
Other local taxes	3,607,797	-	-	3,607,797
Permits, privilege fees, and regulatory licenses	46,850	-	-	46,850
Fines and forfeitures	40,356	-	-	40,356
Revenue from the use of money and property	460,017	275	-	460,292
Miscellaneous	716,525	-	-	716,525
Intergovernmental:				
Commonwealth	1,313,527	1,243,925	-	2,557,452
Federal	148,777	-	-	148,777
Total revenues	<u>\$ 8,848,588</u>	<u>\$ 1,244,200</u>	<u>\$ -</u>	<u>\$ 10,092,788</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,230,019	\$ -	\$ -	\$ 1,230,019
Public safety	2,235,444	-	-	2,235,444
Public works	814,544	1,335,941	-	2,150,485
Parks, recreation, and cultural	1,459,716	-	-	1,459,716
Community development	677,111	-	-	677,111
Capital projects	2,289,276	-	-	2,289,276
Debt service:				
Principal retirement	882,258	-	-	882,258
Interest and other fiscal charges	105,400	-	-	105,400
Total expenditures	<u>\$ 9,693,768</u>	<u>\$ 1,335,941</u>	<u>\$ -</u>	<u>\$ 11,029,709</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (845,180)</u>	<u>\$ (91,741)</u>	<u>\$ -</u>	<u>\$ (936,921)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	\$ 245,000	-	-	245,000
Total other financing sources (uses)	<u>\$ 245,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 245,000</u>
Net change in fund balances	\$ (600,180)	\$ (91,741)	\$ -	\$ (691,921)
Fund balances - beginning	<u>8,583,051</u>	<u>274,609</u>	<u>8,108</u>	<u>8,865,768</u>
Fund balances - ending	<u>\$ 7,982,871</u>	<u>\$ 182,868</u>	<u>\$ 8,108</u>	<u>\$ 8,173,847</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, 2019

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

Net change in fund balances - total governmental funds	\$	(691,921)
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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	\$ 2,316,612	
Depreciation expense	<u>(907,858)</u>	1,408,754

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

Property tax revenue		4,929
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. Details supporting this adjustment are as follows:

Issuance of capital leases	\$ (245,000)	
Principal retired on general obligation bonds, capital leases and notes	<u>882,258</u>	637,258

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.

Change in compensated absences	\$ 17,992	
Change in net pension asset	191,726	
Change in net OPEB liabilities	(28,574)	
Change in deferred inflows related to the net OPEB liabilities	(18,723)	
Change in deferred inflows related to the net pension asset	(46,010)	
Change in deferred outflows related to net pension asset	(26,929)	
Change in deferred outflows related to net OPEB liabilities	56,350	
Change in accrued interest payable	<u>(2,501)</u>	<u>143,331</u>

Change in net position of governmental activities	\$	<u><u>1,502,351</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, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,428,233	\$ 2,032,781	\$ 4,461,014
Prepaid expenses	7,783	3,956	11,739
Receivables, net of allowances for uncollectibles accounts	385,549	230,320	615,869
Due from other funds	30	146,512	146,542
Due from other governmental units	-	1,275	1,275
Inventory	117,437	25,559	142,996
Total current assets	\$ 2,939,032	\$ 2,440,403	\$ 5,379,435
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	\$ 935,564	\$ 2,282,313	\$ 3,217,877
Total restricted assets	\$ 935,564	\$ 2,282,313	\$ 3,217,877
Net pension asset	\$ 141,834	\$ 108,843	\$ 250,677
Capital assets:			
Land	\$ 194,391	\$ 10,090	\$ 204,481
Improvements other than buildings	115,140	20,087	135,227
Vehicles	132,582	295,154	427,736
Buildings	7,394,018	4,211,632	11,605,650
Machinery and equipment	2,024,826	3,812,976	5,837,802
Infrastructure	3,519,710	8,289,650	11,809,360
Construction in progress	15,349	112,212	127,561
Accumulated depreciation	(4,689,859)	(10,813,853)	(15,503,712)
Total capital assets	\$ 8,706,157	\$ 5,937,948	\$ 14,644,105
Total noncurrent assets	\$ 9,783,555	\$ 8,329,104	\$ 18,112,659
Total assets	\$ 12,722,587	\$ 10,769,507	\$ 23,492,094
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	\$ 19,301	\$ -	\$ 19,301
OPEB related items	3,165	2,507	5,672
Pension related items	21,841	16,760	38,601
Total deferred outflows of resources	\$ 44,307	\$ 19,267	\$ 63,574
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 71,709	\$ 127,062	\$ 198,771
Accrued payroll	8,544	4,997	13,541
Customer deposits	92,863	-	92,863
Accrued interest payable	11,622	2,267	13,889
Due to other funds	713,103	388,224	1,101,327
Compensated absences - current portion	5,531	4,107	9,638
Note payable - current portion	21,916	-	21,916
Bonds payable - current portion	232,910	102,090	335,000
Total current liabilities	\$ 1,158,198	\$ 628,747	\$ 1,786,945
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 1,381,380	\$ 260,620	\$ 1,642,000
Note payable - net of current portion	307,582	-	307,582
Net OPEB liability	24,585	15,363	39,948
Compensated absences - net of current portion	16,305	8,102	24,407
Total noncurrent liabilities	\$ 1,729,852	\$ 284,085	\$ 2,013,937
Total liabilities	\$ 2,888,050	\$ 912,832	\$ 3,800,882
DEFERRED INFLOWS OF RESOURCES			
OPEB related items	\$ 3,019	\$ 1,887	\$ 4,906
Pension related items	27,534	21,129	48,663
Total deferred inflows of resources	\$ 30,553	\$ 23,016	\$ 53,569
NET POSITION			
Net investment in capital assets	\$ 6,781,670	\$ 5,575,238	\$ 12,356,908
Restricted	842,701	2,282,313	3,125,014
Unrestricted	2,223,920	1,995,375	4,219,295
Total net position	\$ 9,848,291	\$ 9,852,926	\$ 19,701,217
Total liabilities, deferred inflows of resources and net position	\$ 12,766,894	\$ 10,788,774	\$ 23,555,668

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

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended June 30, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services and connection fees	\$ 1,440,428	\$ 1,158,739	\$ 2,599,167
Charges for services-debt service	252,179	-	252,179
Miscellaneous	16,077	10,890	26,967
Total operating revenues	\$ 1,708,684	\$ 1,169,629	\$ 2,878,313
OPERATING EXPENSES			
Personnel services	\$ 436,181	\$ 249,731	\$ 685,912
Employee benefits	75,172	27,754	102,926
Contractual	32,918	29,469	62,387
Maintenance, repairs, and truck operations	54,739	104,493	159,232
HRS D	258,403	-	258,403
Utilities	123,131	53,535	176,666
Supplies	155,894	30,241	186,135
Other charges	65,476	36,101	101,577
Depreciation	353,579	366,443	720,022
Total operating expenses	\$ 1,555,493	\$ 897,767	\$ 2,453,260
Operating income (loss)	\$ 153,191	\$ 271,862	\$ 425,053
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 42,461	\$ 16,547	\$ 59,008
Interest expense and other fiscal charges	(38,162)	(5,559)	(43,721)
Total nonoperating revenues (expenses)	\$ 4,299	\$ 10,988	\$ 15,287
Income (loss) before contributions	\$ 157,490	\$ 282,850	\$ 440,340
Contributed capital - availability fees	\$ 173,320	\$ 269,580	\$ 442,900
Contributed capital - development impact fees	40,000	40,000	80,000
Total contributed capital	\$ 213,320	\$ 309,580	\$ 522,900
Change in net position	\$ 370,810	\$ 592,430	\$ 963,240
Total net position - beginning	9,477,481	9,260,496	18,737,977
Total net position - ending	\$ 9,848,291	\$ 9,852,926	\$ 19,701,217

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2019

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,686,495	\$ 1,182,438	\$ 2,868,933
Payments to suppliers	(802,925)	(203,957)	(1,006,882)
Payments to and on behalf of employees	(515,091)	(293,723)	(808,814)
Net cash provided by (used for) operating activities	\$ 368,479	\$ 684,758	\$ 1,053,237
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	\$ (53,031)	\$ (495,959)	\$ (548,990)
Capital contributions	213,320	309,580	522,900
Retirement of long-term indebtedness	(248,382)	(102,090)	(350,472)
Interest expense	(34,927)	(6,197)	(41,124)
Net cash provided by (used for) capital and related financing activities	\$ (123,020)	\$ (294,666)	\$ (417,686)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 42,461	\$ 16,547	\$ 59,008
Net cash provided by (used for) investing activities	\$ 42,461	\$ 16,547	\$ 59,008
Net increase (decrease) in cash and cash equivalents	\$ 287,920	\$ 406,639	\$ 694,559
Cash and cash equivalents - beginning, including restricted cash and cash equivalents of \$902,677 and \$2,212,105	3,075,877	3,908,455	6,984,332
Cash and cash equivalents - ending, including restricted cash and cash equivalents of \$935,564 and \$2,282,313	\$ 3,363,797	\$ 4,315,094	\$ 7,678,891
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 153,191	\$ 271,862	\$ 425,053
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	353,579	366,443	720,022
(Increase) decrease in accounts receivable	(34,109)	12,814	(21,295)
(Increase) decrease in due from other funds	(30)	57,181	57,151
(Increase) decrease in due from other governmental units	-	(5)	(5)
(Increase) decrease in inventory	(10,485)	(2,522)	(13,007)
(Increase) decrease in prepaid expenses	(7,783)	(3,956)	(11,739)
Increase (decrease) in compensated absences	(889)	(81)	(970)
Increase (decrease) in accrued payroll	1,344	810	2,154
Increase (decrease) in due to other funds	(106,197)	(97,046)	(203,243)
Increase (decrease) in accounts payable	12,131	96,225	108,356
(Increase) decrease in net pension asset	(25,535)	(19,596)	(45,131)
Increase (decrease) in net OPEB liability	11,717	(4,292)	7,425
(Increase) decrease in deferred outflows of resources - OPEB related	(1,672)	(227)	(1,899)
Increase (decrease) in deferred inflows of resources - OPEB related	1,583	(306)	1,277
(Increase) decrease in deferred outflows of resources - pension related	3,586	2,752	6,338
Increase (decrease) in deferred inflows of resources - pension related	6,128	4,702	10,830
Increase (decrease) in customer deposits	11,920	-	11,920
Total adjustments	\$ 215,288	\$ 412,896	\$ 628,184
Net cash provided by (used for) operating activities	\$ 368,479	\$ 684,758	\$ 1,053,237

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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019

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 (GASB). 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). 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).

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

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. The budgetary comparison schedules present the original budget, the final budget and the actual activity of the major governmental funds.

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, meals tax, transient occupancy tax 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.

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 enterprise funds.

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 funds consist of the Water and Sewer Funds.

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 May 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, Highway Maintenance Fund, Water Fund and Sewer Fund.
6. The budgets for the General Fund, Highway Maintenance Fund Water Fund 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, 2019.

E. Expenditures and Appropriations

Expenditures exceeded appropriations for the capital projects function and the highway maintenance fund for the year ended June 30, 2019.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

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

F. Cash and 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

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

H. Inventory and Prepaid Items

All inventories, which consist of materials and supplies, are valued at cost using the weighted average 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 \$84,900 at June 30, 2019. The allowance for uncollectible billings in the water and sewer funds are \$86,736 and \$54,555, 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 and estimated useful life of greater than one year 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 acquisition 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.

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

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

N. Intergovernmental Agreements

Water Services Agreement:

Effective June 5, 2018 the Town amended and extended an existing agreement with the County of Isle of Wight (“County”) to provide water to certain areas of the County. Pursuant to the agreement, the County will pay the Town the prevailing rate per 1,000 gallons, as set by Isle of Wight County through its membership with the Western Tidewater Water Authority. Billing will be provided on a bi-monthly basis. After the close of the fiscal year, the Town and County will complete a true-up of usage, rates and annual billings. The agreement shall remain in place for a 10-year period commencing July 1, 2018.

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 fiscal year 2019 was \$256,172.

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 were no expenditures related to this agreement in fiscal year 2019.

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 2019 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 were no expenditures related to this agreement in fiscal year 2019.

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 2019 was \$161,955.

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 has multiple items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension asset and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

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 multiple items that qualify 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. In addition, certain items related to the measurement of the net pension asset and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

P. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Town's Retirement Plan and the additions to/deductions from the Town's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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

Q. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, and LODA OPEB Plans and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. 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.

S. 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.

T. Fund Equity

The Town reports fund balance in accordance with professional standards. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

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

T. Fund Equity: (Continued)

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

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

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

NOTE 2—DEPOSITS 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.

Investments

As of June 30, 2019, the Town had the following investments:

Town's Rated Debt Investments

<u>Rated Debt Investments Value</u>	<u>Standard & Poor's Rating</u>
	<u>AA+f/s1</u>
VACO/VML Virginia Investment Pool \$	<u>531,278</u>
Total	<u>\$ 531,278</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Town has measured fair value of the above investments at the net asset value (NAV).

Redemption Restrictions

The Town is limited to two withdrawals per month.

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, 2019 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investment Credit Policy: (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. VACo/VML 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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.

<u>Investment Type</u>	<u>Investment Maturity*</u>	
	<u>Fair Value</u>	<u>Less than 1</u>
VACO/VML Virginia Investment Pool	\$ <u>531,278</u>	\$ <u>531,278</u>
Total investments	\$ <u><u>531,278</u></u>	\$ <u><u>531,278</u></u>

* Weighted average maturity in 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.

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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, 2019, are detailed as follows:

	<u>General</u>	<u>Highway Maintenance</u>	<u>Business-type Activities</u>	
			<u>Water</u>	<u>Sewer</u>
Pinewood Heights escrow	\$ 68,298	\$ -	\$ -	\$ -
Police Department	37,118	-	-	-
SNAP program	2,219	-	-	-
Highway maintenance	-	34,360	-	-
Debt service	-	-	826,385	-
Compliance escrow	-	-	-	2,282,313
Customer deposits	-	-	109,179	-
Total	<u>\$ 107,635</u>	<u>\$ 34,360</u>	<u>\$ 935,564</u>	<u>\$ 2,282,313</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

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

	General	Business-type Activities		Total Primary Government
		Water	Sewer	
Special projects	\$ 1,121,198	\$ -	\$ -	\$ 1,121,198
Windsor Castle	92,903	-	-	92,903
Museum	203,233	-	-	203,233
Escrow	217,538	826,280	1,493,679	2,537,497
Total	<u>\$ 1,634,872</u>	<u>\$ 826,280</u>	<u>\$ 1,493,679</u>	<u>\$ 3,954,831</u>

NOTE 3—RECEIVABLES:

Accounts receivable are detailed as follows:

	Governmental Activities	Business-type Activities
Property taxes	\$ 2,331,032	\$ -
Consumer utility taxes	9,185	-
Consumption taxes	1,824	-
Interest	86	-
Transient occupancy tax	63,081	-
Meals tax	263,594	-
Other	186	-
Water and sewer billings	-	757,160
Total	\$ 2,668,988	\$ 757,160
Allowance for uncollectibles	<u>(84,900)</u>	<u>(141,291)</u>
Net receivables	<u>\$ 2,584,088</u>	<u>\$ 615,869</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 4—DUE FROM/TO OTHER GOVERNMENTS:

Details of amounts due from/to other governments as of June 30, 2019 are as follows:

Governmental Activities:	<u>Due From</u>	<u>Due To</u>
Commonwealth:		
Communications Tax	\$ 32,048	\$ -
VDEM Disaster Grants Public Assistance	20,595	-
VMRC grant	410,000	-
Other	3,000	29,097
Due from/to Commonwealth	<u>\$ 465,643</u>	<u>\$ 29,097</u>
Isle of Wight County:		
Local Sales Tax	\$ 89,639	\$ -
Fines	5,971	-
Other	78,006	220,726
Due from/to Isle of Wight County	<u>\$ 173,616</u>	<u>\$ 220,726</u>
Due from Federal Government:		
CDBG	\$ 1,000	\$ -
VDEM Disaster Grants Public Assistance	90,864	-
VDOT construction	13,332	-
Due from Federal Government	<u>\$ 105,196</u>	<u>\$ -</u>
Total	<u>\$ 744,455</u>	<u>\$ 249,823</u>
Business-type Activities:		
Isle of Wight County:	<u>\$ 1,275</u>	<u>\$ -</u>

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

NOTE 5—INTERFUND RECEIVABLES AND PAYABLES:

Interfund receivable and payable balances are considered short-term in nature. All balances result from the time-lag between the dates that reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. At June 30, 2019, the balances are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Primary Government:		
General Fund	\$ 954,858	\$ 309,776
Highway Fund	301,625	30
Capital Projects Fund	8,151	43
Enterprise Funds:		
Water Fund	30	713,103
Sewer Fund	146,512	388,224
Total	<u>\$ 1,411,176</u>	<u>\$ 1,411,176</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 6—CAPITAL ASSETS:

The following is a summary of changes in capital assets:

Governmental Activities:	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 9,869,637	\$ 36,000	\$ -	\$ 9,905,637
Construction in progress	4,306,909	1,426,705	4,240,944	1,492,670
Total capital assets not being depreciated	<u>\$ 14,176,546</u>	<u>\$ 1,462,705</u>	<u>\$ 4,240,944</u>	<u>\$ 11,398,307</u>
Capital assets being depreciated:				
Art collections	\$ 118,466	\$ -	\$ -	\$ 118,466
Buildings and system	6,178,354	983,580	-	7,161,934
Improvements other than buildings	1,769,770	3,454,090	-	5,223,860
Machinery and equipment	1,405,274	399,440	-	1,804,714
Vehicles	1,611,118	104,413	106,006	1,609,525
Infrastructure	9,804,618	153,328	-	9,957,946
Total capital assets being depreciated	<u>\$ 20,887,600</u>	<u>\$ 5,094,851</u>	<u>\$ 106,006</u>	<u>\$ 25,876,445</u>
Accumulated depreciation:				
Art collections	\$ (107,929)	\$ -	\$ -	\$ (107,929)
Buildings and system	(2,202,603)	(212,754)	-	(2,415,357)
Improvements other than buildings	(931,743)	(141,561)	-	(1,073,304)
Machinery and equipment	(988,239)	(107,808)	-	(1,096,047)
Vehicles	(1,291,903)	(126,849)	(106,006)	(1,312,746)
Infrastructure	(4,137,419)	(318,886)	-	(4,456,305)
Total accumulated depreciation	<u>\$ (9,659,836)</u>	<u>\$ (907,858)</u>	<u>\$ (106,006)</u>	<u>\$ (10,461,688)</u>
Net capital assets being depreciated	<u>\$ 11,227,764</u>	<u>\$ 4,186,993</u>	<u>\$ -</u>	<u>\$ 15,414,757</u>
Capital assets, net	<u>\$ 25,404,310</u>	<u>\$ 5,649,698</u>	<u>\$ 4,240,944</u>	<u>\$ 26,813,064</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Business-type Activities:	Balance June 30, 2018	Additions	Deletions	Balance June 30, 2019
Capital assets not being depreciated:				
Land	\$ 204,481	\$ -	\$ -	\$ 204,481
Construction in progress	3,740	123,821	-	127,561
Total capital assets not being depreciated	<u>\$ 208,221</u>	<u>\$ 123,821</u>	<u>\$ -</u>	<u>\$ 332,042</u>
Capital assets being depreciated:				
Buildings and system	\$ 11,598,050	\$ 7,600	\$ -	\$ 11,605,650
Machinery and equipment	5,545,928	291,874	-	5,837,802
Infrastructure	11,708,665	100,695	-	11,809,360
Improvements other than buildings	135,227	-	-	135,227
Vehicles	402,736	25,000	-	427,736
Total capital assets being depreciated	<u>\$ 29,390,606</u>	<u>\$ 425,169</u>	<u>\$ -</u>	<u>\$ 29,815,775</u>
Accumulated depreciation:				
Buildings and system	\$ (4,224,820)	\$ (203,114)	\$ -	\$ (4,427,934)
Machinery and equipment	(2,858,051)	(326,909)	-	(3,184,960)
Infrastructure	(7,329,280)	(161,655)	-	(7,490,935)
Improvements other than buildings	(44,195)	(6,762)	-	(50,957)
Vehicles	(327,344)	(21,582)	-	(348,926)
Total accumulated depreciation	<u>\$ (14,783,690)</u>	<u>\$ (720,022)</u>	<u>\$ -</u>	<u>\$ (15,503,712)</u>
Net capital assets being depreciated	<u>\$ 14,606,916</u>	<u>\$ (294,853)</u>	<u>\$ -</u>	<u>\$ 14,312,063</u>
Capital assets, net	<u>\$ 14,815,137</u>	<u>\$ (171,032)</u>	<u>\$ -</u>	<u>\$ 14,644,105</u>

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

Governmental activities:

General government administration	\$ 41,575
Public safety	157,574
Public works (Highways and streets)	436,701
Parks, recreation and cultural	272,008
Total governmental activities	<u>\$ 907,858</u>
Business-type activities	<u>\$ 720,022</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Contract Commitments

Contract commitments of the Town at June 30, 2019 related to capital assets are as follows:

Project	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
Urban Fund Projects:		
US 258 Right Turn Lane at Sports Complex	\$ 92,092	\$ 1,040,483
Intersection Improvement-Benns Church Blvd/258/Rt. 10	137,025	928,200
MUNIS Conversion	173,013	100,000
Clontz Park Boat Ramp	1,093,824	100,000
Sports Complex	4,163,127	100,000
Sewer Manhole Rehabilitation	56,345	18,655
Sewer Assessment program Phase III	55,867	750
RO Stormwater Improvements	15,349	11,800
Total	<u>\$ 5,786,642</u>	<u>\$ 2,299,888</u>

NOTE 7—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, 2019, the interest rate being charged to the Town was 4.9185% and there was no balance outstanding. The line of credit was renewed, effective September 23, 2019.

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. The variable interest rate is calculated based on the Wall Street Journal Prime Rate. At June 30, 2019, the interest rate being charged to the Town was 5.50% and there was no balance outstanding. The unsecured line was renewed through July 31, 2020.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS:

Governmental activities obligations

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

	<u>Balance July 1, 2018</u>	<u>Issuances/ Additions</u>	<u>Retirements/ Reductions</u>	<u>Balance June 30, 2019</u>
Direct borrowings and direct placements:				
General obligation bond payable	\$ 489,552	\$ -	\$ (489,552)	-
Notes payable	4,730,899	-	(326,683)	4,404,216
Other liabilities:				
Capital leases	36,079	245,000	(66,023)	215,056
Net OPEB liabilities	476,478	154,240	(125,666)	505,052
Compensated absences	188,726	-	(17,992)	170,734
Totals	<u>\$ 5,921,734</u>	<u>\$ 399,240</u>	<u>\$ (1,025,916)</u>	<u>\$ 5,295,058</u>

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

Year Ending June 30,	<u>Direct Borrowings and Direct Placements</u>		<u>Capital Leases</u>	
	<u>Notes Payable</u>		<u>Principal</u>	<u>Interest</u>
	<u>Principal</u>	<u>Interest</u>		
2020	\$ 333,574	\$ 83,034	\$ 64,572	\$ 3,563
2021	340,616	75,992	52,748	2,472
2022	347,814	68,794	49,839	1,614
2023	345,125	61,451	47,897	791
2024	300,265	55,099	-	-
2025-2029	1,589,888	186,961	-	-
2030-2033	1,146,934	37,610	-	-
Total	<u>\$ 4,404,216</u>	<u>\$ 568,941</u>	<u>\$ 215,056</u>	<u>\$ 8,440</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Governmental activities obligations: (continued)

Details of Long-term Obligations

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Direct Borrowings and Direct Placements:		
Notes Payable:		
\$434,300 note payable dated April 24, 2015. Payments due annually with the final installment due 2023, bearing interest at 3.05%.	\$ 221,481	\$ 55,266
\$5,000,000 note payable (\$4,635,000 - General Fund and \$365,000 Water Fund) dated October 2017. Payments due monthly with final installment due October 2032 (180 installments), bearing interest at 1.90%.	<u>4,182,735</u>	<u>278,308</u>
Total Notes Payable	<u>\$ 4,404,216</u>	<u>\$ 333,574</u>
Capital Leases:		
\$27,450 capital lease entered into during 2018 for fire inspection and monitoring of Town buildings. Payable annually for three years, no interest.	\$ 9,150	\$ 9,150
\$245,000 capital lease dated July 2018 for the purchase of E-911 radio equipment, payable annually with final installment due July 2022, bearing interest at 1.65%.	195,000	48,234
\$21,180 capital lease dated October 2017 for the purchase of a specialty mower, payable monthly with final installment due December 2020 (36 installments), bearing interest at 4.28%.	<u>10,906</u>	<u>7,188</u>
Total Capital Leases	<u>\$ 215,056</u>	<u>\$ 64,572</u>
Other Liabilities:		
Compensated Absences (Note 9)	\$ <u>170,734</u>	\$ <u>72,055</u>
Net OPEB liabilities (Note 11)	\$ <u>505,052</u>	\$ <u>-</u>
Total governmental activities obligations	<u>\$ 5,295,058</u>	<u>\$ 470,201</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type obligations

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

	<u>Balance July 1, 2018</u>	<u>Issuances/ Additions</u>	<u>Retirements/ Reductions</u>	<u>Balance June 30, 2019</u>
Direct borrowings and direct placements:				
General obligation bonds payable	\$ 2,306,000	\$ -	\$ (329,000)	\$ 1,977,000
Note payable	350,970	-	(21,472)	329,498
Other liabilities:				
Net OPEB liabilities	32,523	16,104	(8,679)	39,948
Compensated absences	35,015	-	(970)	34,045
Totals	<u>\$ 2,724,508</u>	<u>\$ 16,104</u>	<u>\$ (360,121)</u>	<u>\$ 2,380,491</u>

In March 2015, the Town issued Series 2015A and Series 2015B General Obligation Refunding Bonds in the amount of \$918,000 and \$2,182,000, respectively. The bonds were issued to current and advance refund the Series 2004 and Series 2005 bonds realizing a net present value savings of \$101,723 and \$254,338, respectively. The bonds are payable annually with interest payable semi-annually at a rate of 1.50%. Both Series 2015A and 2015B mature August 2022.

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

<u>Year Ending June 30,</u>	<u>Direct Borrowings and Direct Placements</u>			
	<u>General Obligation Bonds</u>		<u>Note Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 335,000	\$ 29,293	\$ 21,916	\$ 6,068
2021	336,000	23,943	22,336	5,648
2022	347,000	18,498	22,765	5,220
2023	959,000	7,866	23,201	4,784
2024	-	-	23,646	4,339
2023-2027	-	-	125,202	14,721
2028-2032	-	-	90,432	2,962
Total	<u>\$ 1,977,000</u>	<u>\$ 79,600</u>	<u>\$ 329,498</u>	<u>\$ 43,742</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type obligations: (Continued)

Details of Long-term Obligations

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Direct Borrowings and Direct Placements		
\$918,000 Series 2015A General Obligation Refunding Bond dated March 12, 2015 with principal payable annually, bearing interest at 1.50% payable semi-annually maturing on August 1, 2022.	\$ 437,000	\$ 123,000
\$2,182,000 Series 2015B General Obligation Refunding Bond dated March 12, 2015 with principal payable annually, bearing interest at 1.65% payable semi-annually and maturing on August 1, 2022.	<u>1,540,000</u>	<u>212,000</u>
Total Bonds Payable	<u>\$ 1,977,000</u>	<u>\$ 335,000</u>
\$5,000,000 note payable (\$4,635,000 - General Fund and \$365,000 Water Fund) dated October 2017. Payments due monthly with final installment due October 2032 (180 installments), bearing interest at 1.90%.	<u>\$ 329,498</u>	<u>\$ 21,916</u>
Other liabilities		
Compensated Absences (Note 9)	<u>\$ 34,045</u>	<u>\$ 9,638</u>
Net OPEB liabilities (Note 11)	<u>\$ 39,948</u>	<u>\$ -</u>
Total business-type obligations	<u><u>\$ 2,380,491</u></u>	<u><u>\$ 366,554</u></u>

NOTE 9—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.

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 retirement, 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, 2019, accumulated vacation and sick leave for the governmental funds amounted to \$170,734 of which \$72,055 is short-term.

At June 30, 2019, accumulated vacation and sick leave for the proprietary funds amounted to \$34,045 of which \$9,638 is short-term.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Town are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

Benefit Structures

The System administers three different benefit structures for covered employees - Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

- a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.
- b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. Hazardous duty employees are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.
- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.7% or 1.85% for hazardous duty employees as elected by the employer. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents, and 1.7% or 1.85% for hazardous duty employees as elected by the employer. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Primary Government
Inactive members or their beneficiaries currently receiving benefits	23
Inactive members:	
Vested inactive members	12
Non-vested inactive members	14
Inactive members active elsewhere in VRS	31
Total inactive members	57
Active members	63
Total covered employees	143

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Town’s contractually required employer contribution rate for the year ended June 30, 2019 was 5.14% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Town were \$148,085 and \$152,960 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Asset

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer’s total pension liability determined in accordance with GASB Statement No. 68, less that employer’s fiduciary net position. The Town’s net pension assets were measured as of June 30, 2018. The total pension liabilities used to calculate the net pension assets were determined by an actuarial valuation performed as of June 30, 2017, and rolled forward to the measurement date of June 30, 2018.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Town’s Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the Town's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 - Hazardous Duty: 70% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits: (Continued)

Mortality rates: (Continued)

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) - Hazardous Duty: 45% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits: (Continued)

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
	*Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Town was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. Through the fiscal year ended June 30, 2018, the rate contributed by the employer for the Town's Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2017	\$ 8,696,427	\$ 9,775,185	\$ (1,078,758)
Changes for the year:			
Service cost	\$ 347,677	\$ -	\$ 347,677
Interest	600,262	-	600,262
Differences between expected and actual experience	(172,628)	-	(172,628)
Contributions - employer	-	152,960	(152,960)
Contributions - employee	-	138,192	(138,192)
Net investment income	-	727,785	(727,785)
Benefit payments, including refunds	(242,520)	(242,520)	-
Administrative expenses	-	(6,115)	6,115
Other changes	-	(654)	654
Net changes	\$ 532,791	\$ 769,648	\$ (236,857)
Balances at June 30, 2018	\$ 9,229,218	\$ 10,544,833	\$ (1,315,615)

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the Town using the discount rate of 7.00%, as well as what the Town’s net pension asset would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	<u>1% Decrease</u> <u>(6.00%)</u>	<u>Current Discount</u> <u>(7.00%)</u>	<u>1% Increase</u> <u>(8.00%)</u>
Town Net Pension Liability (Asset)	\$ 72,856	\$ (1,315,615)	\$ (2,455,347)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2019, the Town recognized pension expense of \$1,335. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government	
	<u>Deferred</u> <u>Outflows of</u> <u>Resources</u>	<u>Deferred</u> <u>Inflows of</u> <u>Resources</u>
Differences between expected and actual experience	\$ 54,502	\$ 140,229
Change in assumptions	-	19,677
Net difference between projected and actual earnings on pension plan investments	-	95,491
Employer contributions subsequent to the measurement date	<u>148,085</u>	<u>-</u>
Total	<u>\$ 202,587</u>	<u>\$ 255,397</u>

\$148,085 reported as deferred outflows of resources related to pensions resulting from the Town’s contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>Primary</u> <u>Government</u>
2020	\$ (10,859)
2021	(45,751)
2022	(135,872)
2023	(8,413)
2024	-
Thereafter	-

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf> by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS:

Group Life Insurance:

Plan Description

The Group Life Insurance (GLI) Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the Town were \$15,353 and \$15,029 for the years ended June 30, 2019 and June 30, 2018, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB

At June 30, 2019, the Town reported a liability of \$228,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion for the Town was .01501% as compared to .01547% at June 30, 2017.

For the year ended June 30, 2019, the Town recognized GLI OPEB expense of \$3,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB (Continued)

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 11,000	\$ 4,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	7,000
Change in assumptions	-	10,000
Changes in proportion	10,000	7,000
Employer contributions subsequent to the measurement date	<u>15,353</u>	<u>-</u>
Total	<u>\$ 36,353</u>	<u>\$ 28,000</u>

\$15,353 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2020	\$ (2,000)
2021	(2,000)
2022	(2,000)
2023	-
2024	2,000
Thereafter	(3,000)

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees: (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees: (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Program represents the program’s total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the GLI Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
		<hr/>
Total GLI OPEB Liability	\$	3,113,508
Plan Fiduciary Net Position		1,594,773
Employers' Net GLI OPEB Liability (Asset)	\$	<hr/> <hr/> 1,518,735
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		51.22%

The total GLI OPEB liability is calculated by the System’s actuary, and each plan’s fiduciary net position is reported in the System’s financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System’s notes to the financial statements and required supplementary information.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System’s investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of System’s investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB’s fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Sensitivity of the Employer’s Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer’s proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer’s proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Town’s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 298,000	\$ 228,000	\$ 172,000

GLI Program Fiduciary Net Position

Detailed information about the GLI Program’s Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Line of Duty Act (LODA) Program:

Plan Description

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) was established pursuant to §9.1-400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA Program provides death and health insurance benefits to eligible state and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System’s actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

The specific information for the LODA Program OPEB, including eligibility, coverage and benefits is described below:

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

Eligible Employees

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VaLORS) are automatically covered by the LODA Program.

Benefit Amounts

The LODA program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after; \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date; or an additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001.

The LODA program also provides health insurance benefits. Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the LODA.

Contributions

The contribution requirements for the LODA are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the LODA Program for the year ended June 30, 2019 was \$705.77 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the LODA Program from the entity were \$12,704 and \$10,780 for the years ended June 30, 2019 and June 30, 2019, respectively.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

LODA OPEB Liabilities, LODA OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the LODA OPEB

At June 30, 2019, the Town reported a liability of \$317,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2018 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2018, the entity's proportion was .10121% as compared to .10521% at June 30, 2017.

For the year ended June 30, 2019, the entity recognized LODA OPEB expense of \$22,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the entity reported deferred outflows of resources and deferred inflows of resources related to the LODA OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 47,000	\$ -
Net difference between projected and actual earnings on LODA OPEB plan investments	-	1,000
Change in assumptions	-	37,000
Change in proportion	-	25,000
Employer contributions subsequent to the measurement date	<u>12,704</u>	<u>-</u>
Total	<u>\$ 59,704</u>	<u>\$ 63,000</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

\$12,704 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2020	\$ (2,000)
2021	(2,000)
2022	(2,000)
2023	(2,000)
2024	(2,000)
Thereafter	(6,000)

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.50%-5.35%
SPORS employees	3.50%-4.75%
VaLORS employees	3.50%-4.75%
Locality employees	3.50%-4.75%
Medical cost trend rates assumption:	
Under age 65	7.75%-5.00%
Ages 65 and older	5.75%-5.00%
Year of ultimate trend rate	Fiscal year ended 2024
Investment rate of return	3.89%, net of OPEB plan investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.89%. However, since the difference was minimal, a more conservative 3.89% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

Net LODA OPEB Liability

The net OPEB liability (NOL) for the LODA Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the LODA Program are as follows (amounts expressed in thousands):

	<u>LODA Program</u>
Total LODA OPEB Liability	\$ 315,395
Plan Fiduciary Net Position	1,889
Employers' Net OPEB Liability (Asset)	<u>\$ 313,506</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	0.60%

The total LODA OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.89% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.89% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date of June 30, 2018.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.89%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2018, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Line of Duty Act (LODA) Program: (Continued)

Sensitivity of the Covered Employer’s Proportionate Share of the Net LODA OPEB Liability to Changes in the Discount Rate

The following presents the covered employer’s proportionate share of the net LODA OPEB liability using the discount rate of 3.89%, as well as what the covered employer’s proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.89%) or one percentage point higher (4.89%) than the current rate:

	Discount Rate		
	1% Decrease (2.89%)	Current (3.89%)	1% Increase (4.89%)
Town's proportionate share of the total LODA Net OPEB Liability	\$ 363,000	\$ 317,000	\$ 280,000

Sensitivity of the Covered Employer’s Proportionate Share of the Net LODA OPEB Liability to Changes in the Health Care Trend Rate

Because the LODA Program contains a provision for the payment of health insurance premiums, the liabilities are also impacted by the health care trend rates. The following presents the covered employer’s proportionate share of the net LODA OPEB liability using the health care trend rate of 7.75% decreasing to 5.00%, as well as what the covered employer’s proportionate share of the net LODA OPEB liability would be if it were calculated using a health care trend rate that is one percentage point lower (6.75% decreasing to 4.00%) or one percentage point higher (8.75% decreasing to 6.00%) than the current rate:

	Health Care Trend Rates		
	1% Decrease (6.75% decreasing to 4.00%)	Current (7.75% decreasing to 5.00%)	1% Increase (8.75% decreasing to 6.00%)
Town's proportionate share of the total LODA Net OPEB Liability	\$ 270,000	\$ 317,000	\$ 376,000

LODA OPEB Fiduciary Net Position

Detailed information about the LODA Program Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

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, would be immaterial.

General Obligation Bonds

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

NOTE 13—LEGAL DEBT MARGIN:

The Commonwealth of Virginia imposes a legal limit of 10% of assessed valuation of real estate on the amount of general obligation borrowings that may be issued by the Town. At June 30, 2019, the Town's aggregate general obligation indebtedness was \$105,429,216 less than the Commonwealth of Virginia's limit. Reference Table 11 in the Other Statistical Information.

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:

The Town of Smithfield had numerous projects underway during FY2019. The Pinewood Heights Relocation CDBG project is the longest running project of the Town as it began in FY2007 and was divided into 4 phases. Although Phase III was not completed during the year, all remaining CDBG funds were drawn or committed, and the Town has purchased all parcels in the phase. There are 2 relocations and the associated demolitions remaining to close the phase. Phase IV was approved, and a contract signed with DCHD on April 5, 2019. The contract will terminate on April 4, 2021. As of June 30, 2019, the Town had relocated one market rate renter. Phase IV includes acquisition and relocation of 5 owner occupied, 6 market rate renter, and 4 section 8 renter households as well as 4 vacant homes and 2 vacant lots for a total

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 15—COMMITMENTS: (CONTINUED)

of 21 properties. The Town's contract includes \$1,000,000 in CDBG funds with an expected match of \$1,409,807 from the Town, including \$44,100 from Suffolk Housing and Redevelopment Authority (SHRA) for Section 8 rentals. The Town will utilize its dedicated meals tax funds totaling approximately \$554,226 per year to fund its portion of the project.

The Town's new Joseph W. Luter Jr. Sports Complex opened in the spring of 2019. The Virginia Department of Transportation (VDOT) required the Town to install a right-turn lane into the complex upon approval of the project. The engineering work was largely completed in FY2019, but the construction phase will carry forward into FY2020. The projected total cost of the project including engineering and construction is \$1,128,675.

Another large VDOT approved project was an intersection improvement alternative analysis for Bennis Church Boulevard/US Route 258/State Route 10 Bypass. The preliminary engineering phase was budgeted at \$180,470 and was 77% completed during FY2019. The improvement phase of the project (\$884,800) will begin in FY2020.

NOTE 16—UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2019 (Continued)

NOTE 17—ADOPTION OF ACCOUNTING PRINCIPLES:

The Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

The Town early implemented provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* during the fiscal year ended June 30, 2019. This Statement simplifies accounting for interest cost incurred before the end of a construction period. Interest cost incurred during construction is expensed and no longer capitalized as part of project costs. No restatement was required as a result of this implementation.

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.

General Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2019

	General Fund			
	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 2,458,453	\$ 2,458,453	\$ 2,514,739	\$ 56,286
Other local taxes	3,437,800	3,437,800	3,607,797	169,997
Permits, privilege fees, and regulatory licenses	38,000	38,000	46,850	8,850
Fines and forfeitures	60,000	60,000	40,356	(19,644)
Revenue from the use of money and property	348,589	348,589	460,017	111,428
Miscellaneous	279,820	279,820	716,525	436,705
Intergovernmental:				
Commonwealth	1,300,774	1,300,774	1,313,527	12,753
Federal	1,761,720	1,761,720	148,777	(1,612,943)
Total revenues	\$ 9,685,156	\$ 9,685,156	\$ 8,848,588	\$ (836,568)
EXPENDITURES				
Current:				
General government administration	\$ 1,259,166	\$ 1,259,166	\$ 1,230,019	\$ 29,147
Public safety	2,437,151	2,437,151	2,235,444	201,707
Public works	942,676	942,676	814,544	128,132
Parks, recreation, and cultural	1,997,133	1,997,133	1,459,716	537,417
Community development	1,969,302	1,969,302	677,111	1,292,191
Capital projects	1,861,720	1,861,720	2,289,276	(427,556)
Debt service:				
Principal retirement	882,258	882,258	882,258	-
Interest and other fiscal charges	104,604	104,604	105,400	(796)
Total expenditures	\$ 11,454,010	\$ 11,454,010	\$ 9,693,768	\$ 1,760,242
Excess (deficiency) of revenues over (under) expenditures	\$ (1,768,854)	\$ (1,768,854)	\$ (845,180)	\$ 923,674
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	\$ 241,129	\$ 241,129	\$ 245,000	\$ 3,871
Total other financing sources (uses)	\$ 241,129	\$ 241,129	\$ 245,000	\$ 3,871
Net change in fund balances	\$ (1,527,725)	\$ (1,527,725)	\$ (600,180)	\$ 927,545
Fund balances - beginning	1,527,725	1,527,725	8,583,051	7,055,326
Fund balances - ending	\$ -	\$ -	\$ 7,982,871	\$ 7,982,871

Highway Maintenance Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2019

	Highway Maintenance Fund			
	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ 200	\$ 200	\$ 275	\$ 75
Intergovernmental:				
Commonwealth	1,189,305	1,189,305	1,243,925	54,620
Total revenues	\$ 1,189,505	\$ 1,189,505	\$ 1,244,200	\$ 54,695
EXPENDITURES				
Current:				
Public works	\$ 1,189,505	\$ 1,189,505	\$ 1,335,941	\$ (146,436)
Total expenditures	\$ 1,189,505	\$ 1,189,505	\$ 1,335,941	\$ (146,436)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (91,741)	\$ (91,741)
Net change in fund balances	\$ -	\$ -	\$ (91,741)	\$ (91,741)
Fund balances - beginning	-	-	274,609	274,609
Fund balances - ending	\$ -	\$ -	\$ 182,868	\$ 182,868

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Measurement Dates of June 30, 2014 through June 30, 2018

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability					
Service cost	\$ 347,677	\$ 345,672	\$ 331,525	\$ 327,359	\$ 321,427
Interest	600,262	549,789	508,641	467,961	429,561
Differences between expected and actual experience	(172,628)	107,895	(38,766)	6,227	-
Changes in assumptions	-	(39,355)	-	-	-
Benefit payments, including refunds of employee contributions	(242,520)	(243,397)	(183,768)	(257,044)	(147,781)
Net change in total pension liability	<u>\$ 532,791</u>	<u>\$ 720,604</u>	<u>\$ 617,632</u>	<u>\$ 544,503</u>	<u>\$ 603,207</u>
Total pension liability - beginning	8,696,427	7,975,823	7,358,188	6,813,685	6,210,478
Total pension liability - ending (a)	<u><u>\$ 9,229,218</u></u>	<u><u>\$ 8,696,427</u></u>	<u><u>\$ 7,975,820</u></u>	<u><u>\$ 7,358,188</u></u>	<u><u>\$ 6,813,685</u></u>
Plan fiduciary net position					
Contributions - employer	\$ 152,960	\$ 200,069	\$ 175,435	\$ 169,828	\$ 225,366
Contributions - employee	138,192	139,642	139,731	126,764	133,560
Net investment income	727,785	1,064,028	152,635	365,835	1,071,092
Benefit payments, including refunds of employee contributions	(242,520)	(243,397)	(183,768)	(257,044)	(147,781)
Administrative expense	(6,115)	(5,926)	(5,063)	(4,907)	(5,531)
Other	(654)	(955)	(63)	(78)	57
Net change in plan fiduciary net position	<u>\$ 769,648</u>	<u>\$ 1,153,461</u>	<u>\$ 278,907</u>	<u>\$ 400,398</u>	<u>\$ 1,276,763</u>
Plan fiduciary net position - beginning	9,775,185	8,621,724	8,342,817	7,942,419	6,665,656
Plan fiduciary net position - ending (b)	<u><u>\$ 10,544,833</u></u>	<u><u>\$ 9,775,185</u></u>	<u><u>\$ 8,621,724</u></u>	<u><u>\$ 8,342,817</u></u>	<u><u>\$ 7,942,419</u></u>
Town's net pension (asset) liability - ending (a) - (b)	\$ (1,315,615)	\$ (1,078,758)	\$ (645,904)	\$ (984,629)	\$ (1,128,734)
Plan fiduciary net position as a percentage of the total pension liability	114.25%	112.40%	108.10%	113.38%	116.57%
Covered payroll	\$ 2,848,327	\$ 2,850,144	\$ 2,636,184	\$ 2,541,822	\$ 2,522,284
Town's net pension (asset) liability as a percentage of covered payroll	-46.19%	-37.85%	-24.50%	-38.74%	-44.75%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions - Pension
 For the Years Ended June 30, 2010 through June 30, 2019

Date	Contributions in Relation to			Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2019	\$ 148,085	\$ 148,085	\$ -	\$ 3,112,992	4.76%
2018	152,960	152,960	-	2,848,327	5.37%
2017	156,370	156,370	-	2,850,144	5.49%
2016	175,434	175,434	-	2,636,184	6.65%
2015	170,809	170,809	-	2,541,822	6.72%
2014	225,492	225,492	-	2,522,284	8.94%
2013	222,173	222,173	-	2,485,160	8.94%
2012	130,192	130,192	-	2,337,373	5.57%
2011	130,342	130,342	-	2,340,076	5.57%
2010	109,518	109,518	-	2,291,176	4.78%

Notes to Required Supplementary Information
Pension
For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Largest 10 - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

All Others (Non 10 Largest) - Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates, and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Schedule of Employer's Share of Net OPEB Liability
 Group Life Insurance Program
 For the Measurement Dates of June 30, 2018 and 2017

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2018	0.01501% \$	228,000 \$	2,848,327	8.00%	51.22%
2017	0.01547%	233,000	2,850,144	8.18%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Group Life Insurance Program
 For the Years Ended June 30, 2017 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ 15,353	\$ 15,353	\$ -	\$ 3,112,992	0.51%
2018	15,029	15,029	-	2,848,327	0.53%
2017	14,833	14,833	-	2,850,144	0.52%

Schedule is intended to show information for 10 years. Information is available commencing with 2017. Additional years will be included as they become available.

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Schedule of Employer's Share of Net LODA OPEB Liability
 Line of Duty Act (LODA) Program
 For the Measurement Dates of June 30, 2018 and 2017

Date (1)	Employer's Proportion of the Net LODA OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) (3)	Covered- Employee Payroll * (4)	Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total LODA OPEB Liability (6)
2018	0.10121% \$	317,000 \$	N/A	N/A	0.60%
2017	0.10521%	276,000	N/A	N/A	1.30%

* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of the employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only two years of data is available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Line of Duty Act (LODA) Program
 For the Years Ended June 30, 2017 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered- Employee Payroll * (4)	Contributions as a % of Covered - Employee Payroll (5)
2019	\$ 12,704	\$ 12,704	\$ -	\$ N/A	N/A
2018	10,780	10,780	-	N/A	N/A
2017	11,347	11,347	-	N/A	N/A

* The contributions for the Line of Duty Act Program are based on the number of participants in the Program using a per capita-based contribution versus a payroll-based contribution. Therefore, covered-employee payroll is the relevant measurement, which is the total payroll of employees in the OPEB plan. However, when volunteers and part-time employees make up a significant percentage of the employer's members in the plan, the employer may determine that covered-employee payroll is misleading and, therefore, not applicable for disclosure.

Schedule is intended to show information for 10 years. Information is available commencing with 2017. Additional years will be included as they become available.

Notes to Required Supplementary Information
 Line of Duty Act (LODA) Program
 For the Year Ended June 30, 2019

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Employees in the Largest Ten Locality Employers with Public Safety Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Employees in the Non-Largest Ten Locality Employers with Public Safety Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Other Supplementary Information

Supporting Schedules

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

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	\$ 1,746,553	\$ 1,746,553	\$ 1,740,726	\$ (5,827)
Real and personal public service corporation taxes	31,400	31,400	29,661	(1,739)
Personal property and machinery & tools taxes	645,000	645,000	701,583	56,583
Penalties	30,500	30,500	32,464	1,964
Interest	5,000	5,000	10,305	5,305
Total general property taxes	<u>\$ 2,458,453</u>	<u>\$ 2,458,453</u>	<u>\$ 2,514,739</u>	<u>\$ 56,286</u>
Other local taxes:				
Local sales and use taxes	\$ 357,000	\$ 357,000	\$ 357,250	\$ 250
Cigarette taxes	176,000	176,000	161,289	(14,711)
Bank stock taxes	150,000	150,000	157,713	7,713
Business license tax	379,225	379,225	403,131	23,906
Utility license taxes	192,000	192,000	192,386	386
Transient taxes	190,000	190,000	221,906	31,906
Meals tax	1,701,590	1,701,590	1,810,845	109,255
Vehicle licenses	241,000	241,000	254,331	13,331
Peg Channel capital fee	1,985	1,985	1,447	(538)
Consumption tax	49,000	49,000	47,499	(1,501)
Total other local taxes	<u>\$ 3,437,800</u>	<u>\$ 3,437,800</u>	<u>\$ 3,607,797</u>	<u>\$ 169,997</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 38,000	\$ 38,000	\$ 46,850	\$ 8,850
Total permits, privilege fees, and regulatory licenses	<u>\$ 38,000</u>	<u>\$ 38,000</u>	<u>\$ 46,850</u>	<u>\$ 8,850</u>
Fines and forfeitures:				
Police fines	\$ 60,000	\$ 60,000	\$ 40,356	\$ (19,644)
Total fines and forfeitures	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 40,356</u>	<u>\$ (19,644)</u>
Revenue from use of money and property:				
Interest	\$ 20,000	\$ 20,000	\$ 104,673	\$ 84,673
Revenue from use of property	328,589	328,589	355,344	26,755
Total revenue from use of money and property	<u>\$ 348,589</u>	<u>\$ 348,589</u>	<u>\$ 460,017</u>	<u>\$ 111,428</u>
Miscellaneous:				
Miscellaneous	\$ 12,120	\$ 12,120	\$ 17,182	\$ 5,062
VML insurance safety grant	4,000	4,000	-	(4,000)
Donations	263,700	263,700	689,879	426,179
Insurance recoveries	-	-	9,464	9,464
Total miscellaneous	<u>\$ 279,820</u>	<u>\$ 279,820</u>	<u>\$ 716,525</u>	<u>\$ 436,705</u>
Total revenue from local sources	<u>\$ 6,622,662</u>	<u>\$ 6,622,662</u>	<u>\$ 7,386,284</u>	<u>\$ 763,622</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 221,000	\$ 221,000	\$ 200,788	\$ (20,212)
PPTRA	240,795	240,795	240,795	-
Auto rental tax	3,800	3,800	6,770	2,970
Rolling stock tax	125	125	137	12
Total noncategorical aid	<u>\$ 465,720</u>	<u>\$ 465,720</u>	<u>\$ 448,490</u>	<u>\$ (17,230)</u>

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019 (Continued)

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid:				
Shared expenses:				
Aid to Police	\$ 172,903	\$ 172,903	\$ 172,904	\$ 1
Total shared expenses	<u>\$ 172,903</u>	<u>\$ 172,903</u>	<u>\$ 172,904</u>	<u>\$ 1</u>
Other categorical aid:				
Fire programs fund	\$ 26,250	\$ 26,250	\$ 27,998	\$ 1,748
Virginia Commission of Arts Grant	4,500	4,500	4,500	-
Urban Funds	-	-	13,515	13,515
Virginia Department of Conservation & Recreation	-	-	16,231	16,231
Virginia Marine Resources Grant	626,000	626,000	626,437	437
TRIAD	2,250	2,250	-	(2,250)
Litter control grant	3,151	3,151	3,452	301
Total other categorical aid	<u>\$ 662,151</u>	<u>\$ 662,151</u>	<u>\$ 692,133</u>	<u>\$ 29,982</u>
Total categorical aid	<u>\$ 835,054</u>	<u>\$ 835,054</u>	<u>\$ 865,037</u>	<u>\$ 29,983</u>
Total revenue from the Commonwealth	<u>\$ 1,300,774</u>	<u>\$ 1,300,774</u>	<u>\$ 1,313,527</u>	<u>\$ 12,753</u>
Revenue from the federal government:				
Categorical aid:				
Highway Planning and Construction	\$ 731,864	\$ 731,864	\$ 60,068	\$ (671,796)
Pinewood Heights CDBG Relocation Grant	1,029,856	1,029,856	41,000	(988,856)
Edward Byrne Memorial Justice Assistance Grant	-	-	41,229	41,229
State and Community Highway Safety Grant	-	-	6,480	6,480
Total categorical aid	<u>\$ 1,761,720</u>	<u>\$ 1,761,720</u>	<u>\$ 148,777</u>	<u>\$ (1,612,943)</u>
Total revenue from the federal government	<u>\$ 1,761,720</u>	<u>\$ 1,761,720</u>	<u>\$ 148,777</u>	<u>\$ (1,612,943)</u>
Total General Fund	<u><u>\$ 9,685,156</u></u>	<u><u>\$ 9,685,156</u></u>	<u><u>\$ 8,848,588</u></u>	<u><u>\$ (836,568)</u></u>
Highway Maintenance Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Interest	\$ 200	\$ 200	\$ 275	\$ 75
Total revenue from local sources	<u>\$ 200</u>	<u>\$ 200</u>	<u>\$ 275</u>	<u>\$ 75</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Street and highway maintenance	\$ 1,189,305	\$ 1,189,305	\$ 1,243,925	\$ 54,620
Total revenue from the Commonwealth	<u>\$ 1,189,305</u>	<u>\$ 1,189,305</u>	<u>\$ 1,243,925</u>	<u>\$ 54,620</u>
Total Highway Maintenance Fund	<u><u>\$ 1,189,505</u></u>	<u><u>\$ 1,189,505</u></u>	<u><u>\$ 1,244,200</u></u>	<u><u>\$ 54,695</u></u>
Total Primary Government	<u><u>\$ 10,874,661</u></u>	<u><u>\$ 10,874,661</u></u>	<u><u>\$ 10,092,788</u></u>	<u><u>\$ (781,873)</u></u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 223,871	\$ 223,871	\$ 267,876	\$ (44,005)
Town Manager	493,081	493,081	476,031	17,050
Treasurer	542,214	542,214	486,112	56,102
Total general government administration	<u>\$ 1,259,166</u>	<u>\$ 1,259,166</u>	<u>\$ 1,230,019</u>	<u>\$ 29,147</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,260,258	\$ 2,260,258	\$ 2,032,491	\$ 227,767
Total law enforcement and traffic control	<u>\$ 2,260,258</u>	<u>\$ 2,260,258</u>	<u>\$ 2,032,491</u>	<u>\$ 227,767</u>
Fire and rescue services:				
Fire department	\$ 39,250	\$ 39,250	\$ 40,998	\$ (1,748)
E-911 dispatch	137,643	137,643	161,955	(24,312)
Total fire and rescue services	<u>\$ 176,893</u>	<u>\$ 176,893</u>	<u>\$ 202,953</u>	<u>\$ (26,060)</u>
Total public safety	<u>\$ 2,437,151</u>	<u>\$ 2,437,151</u>	<u>\$ 2,235,444</u>	<u>\$ 201,707</u>
Public works:				
Public works engineering, trash removal:				
Engineering, trash removal, maintenance	\$ 783,744	\$ 783,744	\$ 667,786	\$ 115,958
Maintenance of general buildings and grounds:				
Public buildings	\$ 158,932	\$ 158,932	\$ 146,758	\$ 12,174
Total public works	<u>\$ 942,676</u>	<u>\$ 942,676</u>	<u>\$ 814,544</u>	<u>\$ 128,132</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 234,914	\$ 234,914	\$ 219,142	\$ 15,772
Clontz Park	2,000	2,000	1,694	306
Farmers Market	3,000	3,000	3,000	-
Fireworks	2,000	2,000	-	2,000
Haydens Lane Maintenance	1,000	1,000	152	848
Veterans War Memorial	2,500	2,500	2,577	(77)
Isle of Wight Arts League	9,000	9,000	9,000	-
Jersey Park Playground	750	750	152	598
Museum	194,723	194,723	189,844	4,879
Pinewood Playground	500	500	154	346
Regional Library	5,230	5,230	5,230	-
Smithfield Center	342,294	342,294	320,785	21,509
Waterworks Lake Park and Dam	10,250	10,250	308	9,942
Sports Complex	59,500	59,500	72,878	(13,378)
Windsor Castle Park restoration contribution	1,000,000	1,000,000	500,000	500,000
Windsor Castle Park	129,472	129,472	134,800	(5,328)
Total parks, recreation, and cultural	<u>\$ 1,997,133</u>	<u>\$ 1,997,133</u>	<u>\$ 1,459,716</u>	<u>\$ 537,417</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2019 (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:				
Old courthouse contribution	\$ 4,400	\$ 4,400	\$ 4,400	\$ -
Chamber of Commerce	6,000	6,000	6,000	-
Christian Outreach	12,650	12,650	-	12,650
Genieve Shelter	7,920	7,920	7,920	-
Hampton Roads Planning District	10,000	10,000	10,019	(19)
YMCA Project	50,000	50,000	50,000	-
CDBG and Pinewood Heights	1,547,460	1,547,460	263,144	1,284,316
TRIAD	3,120	3,120	1,650	1,470
Tourism Bureau	255,499	255,499	256,172	(673)
Tax Relief for Elderly & Veterans	31,553	31,553	37,106	(5,553)
Other expense	-	-	22,560	(22,560)
Western Tidewater Free Clinic	40,700	40,700	40,700	-
Total community development	<u>\$ 1,969,302</u>	<u>\$ 1,969,302</u>	<u>\$ 699,671</u>	<u>\$ 1,269,631</u>
Capital projects:				
Function:				
General Government - Town Manager	\$ 7,000	\$ 7,000	\$ -	\$ 7,000
General Government - Treasurer	50,000	50,000	41,824	8,176
Public Safety - Police	343,420	343,420	365,639	(22,219)
Public Works - other	786,800	786,800	155,961	630,839
Public Works - public buildings	6,500	6,500	6,346	154
Parks, Recreation and Cultural - Waterworks Park & Dam	45,000	45,000	32,827	12,173
Parks, Recreation and Cultural - Sports Complex	-	-	238,050	(238,050)
Parks, Recreation and Cultural - Windsor Castle Park	-	-	347,018	(347,018)
Parks, Recreation and Cultural - Smithfield Center	20,000	20,000	19,829	171
Parks, Recreation and Cultural - Clontz Park	603,000	603,000	1,033,387	(430,387)
Parks, Recreation and Cultural - Jersey Park	-	-	12,395	(12,395)
Community Development - property acquisition	-	-	36,000	(36,000)
Total capital projects	<u>\$ 1,861,720</u>	<u>\$ 1,861,720</u>	<u>\$ 2,289,276</u>	<u>\$ (427,556)</u>
Debt service:				
Principal retirement and interest	\$ 882,258	\$ 882,258	\$ 882,258	\$ -
Interest and other fiscal charges	104,604	104,604	105,400	(796)
Total debt service	<u>\$ 986,862</u>	<u>\$ 986,862</u>	<u>\$ 987,658</u>	<u>\$ (796)</u>
Total General Fund	<u>\$ 11,454,010</u>	<u>\$ 11,454,010</u>	<u>\$ 9,716,328</u>	<u>\$ 1,737,682</u>
Highway Maintenance Fund:				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highway maintenance	\$ 1,167,005	\$ 1,167,005	\$ 1,308,768	\$ (141,763)
Highway capital outlay	22,500	22,500	27,173	(4,673)
Total Highway Maintenance Fund	<u>\$ 1,189,505</u>	<u>\$ 1,189,505</u>	<u>\$ 1,335,941</u>	<u>\$ (146,436)</u>
Total Primary Government	<u>\$ 12,643,515</u>	<u>\$ 12,643,515</u>	<u>\$ 11,052,269</u>	<u>\$ 1,591,246</u>

Other Statistical Information

TOWN OF SMITHFIELD, VIRGINIA

Net Position by Component
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Governmental activities				
Net investment in capital assets	\$ 22,192,996	\$ 20,147,780	\$ 21,015,145	\$ 21,084,936
Restricted	107,635	423,552	1,258,418	1,896,404
Unrestricted	8,453,823	8,680,771	7,236,182	6,507,589
Total governmental activities net position	<u>\$ 30,754,454</u>	<u>\$ 29,252,103</u>	<u>\$ 29,509,745</u>	<u>\$ 29,488,929</u>
Business-type activities				
Net investment in capital assets	\$ 12,356,908	\$ 12,182,289	\$ 12,145,829	\$ 12,022,648
Restricted	3,125,014	3,033,839	2,764,024	2,261,716
Unrestricted	4,219,295	3,521,849	3,181,201	3,268,468
Total business-type activities net position	<u>\$ 19,701,217</u>	<u>\$ 18,737,977</u>	<u>\$ 18,091,054</u>	<u>\$ 17,552,832</u>
Primary government				
Net investment in capital assets	\$ 34,549,904	\$ 32,330,069	\$ 33,160,974	\$ 33,107,584
Restricted	3,232,649	3,457,391	4,022,442	4,158,120
Unrestricted	12,673,118	12,202,620	10,417,383	9,776,057
Total primary government net position	<u>\$ 50,455,671</u>	<u>\$ 47,990,080</u>	<u>\$ 47,600,799</u>	<u>\$ 47,041,761</u>

Table 1

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$	19,325,305	\$ 19,858,407	\$ 20,341,956	\$ 20,238,480	\$ 16,855,409	\$ 15,757,552
	130,778	161,059	176,929	-	-	1,526,185
	6,366,159	5,125,703	4,478,388	2,877,537	4,112,055	2,606,432
\$	<u>25,822,242</u>	<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>
\$	12,041,397	\$ 12,149,969	\$ 12,456,082	\$ 12,248,298	\$ 12,153,344	\$ 8,383,785
	2,118,384	1,793,475	1,509,709	2,233,571	1,440,224	4,399,841
	2,914,632	2,694,709	2,397,006	1,657,184	2,750,516	2,841,075
\$	<u>17,074,413</u>	<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>
\$	31,366,702	\$ 32,008,376	\$ 32,798,038	\$ 32,486,778	\$ 29,008,753	\$ 24,141,337
	2,249,162	1,954,534	1,686,638	2,233,571	1,440,224	5,926,026
	9,280,791	7,820,412	6,875,394	4,534,721	6,862,571	5,447,507
\$	<u>42,896,655</u>	<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>

TOWN OF SMITHFIELD, VIRGINIA

Change in Net Position
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Expenses				
Governmental activities:				
General government administration	\$ 1,218,767	\$ 1,193,699	\$ 1,172,634	\$ 1,053,933
Public safety	2,335,986	2,412,254	2,501,166	2,395,527
Public works	2,531,611	2,303,138	2,460,615	2,462,073
Parks, recreation, and cultural	1,724,153	1,892,333	1,468,199	945,848
Community development	676,948	742,362	1,903,649	1,144,472
Interest on long-term debt	107,901	127,571	50,342	44,266
Total governmental activities expenses	<u>\$ 8,595,366</u>	<u>\$ 8,671,357</u>	<u>\$ 9,556,605</u>	<u>\$ 8,046,119</u>
Business-type activities:				
Water	\$ 1,593,655	\$ 1,548,749	\$ 1,623,458	\$ 1,535,791
Sewer	903,326	838,798	930,017	972,556
Total business-type activities expenses	<u>\$ 2,496,981</u>	<u>\$ 2,387,547</u>	<u>\$ 2,553,475</u>	<u>\$ 2,508,347</u>
Total primary government expenses	<u>\$ 11,092,347</u>	<u>\$ 11,058,904</u>	<u>\$ 12,110,080</u>	<u>\$ 10,554,466</u>
Program Revenue				
Governmental activities:				
Charges for services:	\$ 87,206	\$ 91,082	\$ 97,832	\$ 91,602
Operating grants and contributions	1,557,719	1,743,669	1,862,264	1,305,965
Capital grants and contributions	1,303,665	132,597	957,221	3,555,770
Total governmental activities program revenues	<u>\$ 2,948,590</u>	<u>\$ 1,967,348</u>	<u>\$ 2,917,317</u>	<u>\$ 4,953,337</u>
Business-type activities:				
Charges for services:				
Water	\$ 1,692,607	\$ 1,591,685	\$ 1,598,568	\$ 1,590,719
Sewer	1,158,739	1,236,027	1,241,163	1,201,638
Operating grants and contributions	-	-	-	-
Capital grants and contributions	522,900	182,580	217,840	150,444
Total business-type activities program revenues	<u>\$ 3,374,246</u>	<u>\$ 3,010,292</u>	<u>\$ 3,057,571</u>	<u>\$ 2,942,801</u>
Total primary government program revenues	<u>\$ 6,322,836</u>	<u>\$ 4,977,640</u>	<u>\$ 5,974,888</u>	<u>\$ 7,896,138</u>
Governmental activities	\$ (5,646,776)	\$ (6,704,009)	\$ (6,639,288)	\$ (3,092,782)
Business-type activities	877,265	622,745	504,096	434,454
Total primary government net expense	<u>\$ (4,769,511)</u>	<u>\$ (6,081,264)</u>	<u>\$ (6,135,192)</u>	<u>\$ (2,658,328)</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes	\$ 2,519,668	\$ 2,495,373	\$ 2,244,184	\$ 2,432,132
Franchise taxes	192,386	197,901	190,102	137,832
Sales taxes	357,250	357,917	367,527	330,898
Other taxes	3,058,161	2,898,901	2,817,556	2,712,974
Grants and contributions not restricted to specific programs	448,490	460,881	682,356	473,672
Gain (Loss) on disposition of capital assets	-	-	6,268	289,162
Revenues from use of property and money	460,292	334,010	234,640	271,179
Miscellaneous	112,880	208,605	117,471	111,620
Transfers	-	-	-	-
Other-Insurance Recoveries	-	-	-	-
Total governmental activities	<u>\$ 7,149,127</u>	<u>\$ 6,953,588</u>	<u>\$ 6,660,104</u>	<u>\$ 6,759,469</u>
Business-type activities:				
Miscellaneous	\$ 26,967	\$ 17,445	\$ 11,539	\$ 26,793
Other-Insurance Recoveries	-	-	-	-
Revenues from use of property and money	59,008	40,513	22,587	17,172
Total business-type activities	<u>\$ 85,975</u>	<u>\$ 57,958</u>	<u>\$ 34,126</u>	<u>\$ 43,965</u>
Total primary government	<u>\$ 7,235,102</u>	<u>\$ 7,011,546</u>	<u>\$ 6,694,230</u>	<u>\$ 6,803,434</u>
Change in Net Position				
Governmental activities	\$ 1,502,351	\$ 249,579	\$ 20,816	\$ 3,666,687
Business-type activities	963,240	680,703	538,222	478,419
Total primary government	<u>\$ 2,465,591</u>	<u>\$ 930,282</u>	<u>\$ 559,038</u>	<u>\$ 4,145,106</u>

Table 2

	2015	2014	2013	2012	2011	2010
\$	1,003,355	\$ 964,395	\$ 1,008,448	\$ 849,523	\$ 873,583	\$ 861,980
	2,364,059	2,397,623	2,363,849	2,357,991	2,453,686	2,416,984
	2,287,246	2,388,421	2,090,010	2,209,701	1,813,720	1,874,892
	916,654	826,369	691,306	740,853	806,902	599,380
	1,039,243	1,004,920	646,422	458,015	561,600	805,672
	41,771	35,648	43,342	34,721	57,712	13,760
\$	<u>7,652,328</u>	<u>\$ 7,617,376</u>	<u>\$ 6,843,377</u>	<u>\$ 6,650,804</u>	<u>\$ 6,567,203</u>	<u>\$ 6,572,668</u>
\$	1,751,634	\$ 1,632,400	\$ 1,546,489	\$ 1,637,463	\$ 895,899	\$ 871,765
	1,011,978	1,121,187	1,245,035	1,594,505	1,078,458	985,978
\$	<u>2,763,612</u>	<u>\$ 2,753,587</u>	<u>\$ 2,791,524</u>	<u>\$ 3,231,968</u>	<u>\$ 1,974,357</u>	<u>\$ 1,857,743</u>
\$	<u>10,415,940</u>	<u>\$ 10,370,963</u>	<u>\$ 9,634,901</u>	<u>\$ 9,882,772</u>	<u>\$ 8,541,560</u>	<u>\$ 8,430,411</u>
\$	105,848	\$ 92,796	\$ 85,572	\$ 539,710	\$ 509,445	\$ 560,155
	1,263,354	1,268,617	1,335,108	1,394,579	1,287,831	1,182,407
	150,800	374,394	1,516,875	2,281,395	1,202,583	2,548,708
\$	<u>1,520,002</u>	<u>\$ 1,735,807</u>	<u>\$ 2,937,555</u>	<u>\$ 4,215,684</u>	<u>\$ 2,999,859</u>	<u>\$ 4,291,270</u>
\$	1,624,519	\$ 1,626,650	\$ 1,594,540	\$ 1,521,884	\$ 1,299,332	\$ 1,432,182
	1,214,154	1,201,756	1,181,471	1,370,018	1,357,910	1,167,007
	-	-	-	-	-	-
	211,594	178,369	212,202	120,586	18,737	184,334
\$	<u>3,050,267</u>	<u>\$ 3,006,775</u>	<u>\$ 2,988,213</u>	<u>\$ 3,012,488</u>	<u>\$ 2,675,979</u>	<u>\$ 2,783,523</u>
\$	<u>4,570,269</u>	<u>\$ 4,742,582</u>	<u>\$ 5,925,768</u>	<u>\$ 7,228,172</u>	<u>\$ 5,675,838</u>	<u>\$ 7,074,793</u>
\$	(6,132,326)	\$ (5,881,569)	\$ (3,905,822)	\$ (2,435,120)	\$ (3,567,344)	\$ (2,281,398)
	286,655	253,188	196,689	(219,480)	701,622	925,780
\$	<u>(5,845,671)</u>	<u>\$ (5,628,381)</u>	<u>\$ (3,709,133)</u>	<u>\$ (2,654,600)</u>	<u>\$ (2,865,722)</u>	<u>\$ (1,355,618)</u>
\$	2,304,590	\$ 2,498,772	\$ 2,352,590	\$ 2,602,423	\$ 2,670,808	\$ 2,707,054
	130,227	134,609	116,784	131,046	143,231	141,404
	313,161	293,935	259,165	323,039	263,813	263,029
	2,585,464	2,319,444	2,209,427	1,905,360	1,722,320	1,704,845
	480,541	480,105	493,914	-	7,637	7,025
	17,028	28,142	18,722	(900,500)	(355,905)	(507,496)
	239,991	205,654	193,830	306,049	46,373	70,247
	178,676	68,804	138,522	19,269	4,796	12,201
	-	-	-	-	(41,000)	41,000
	-	-	4,124	34,018	9,219	12,551
\$	<u>6,249,678</u>	<u>\$ 6,029,465</u>	<u>\$ 5,787,078</u>	<u>\$ 4,420,704</u>	<u>\$ 4,471,292</u>	<u>\$ 4,451,860</u>
\$	15,663	\$ 10,642	\$ 7,543	\$ 3,091	\$ -	\$ -
	-	-	7,110	-	-	-
	13,117	11,526	12,402	14,449	17,761	32,527
\$	<u>28,780</u>	<u>\$ 22,168</u>	<u>\$ 27,055</u>	<u>\$ 14,449</u>	<u>\$ 17,761</u>	<u>\$ 32,527</u>
\$	<u>6,278,458</u>	<u>\$ 6,051,633</u>	<u>\$ 5,814,133</u>	<u>\$ 4,435,153</u>	<u>\$ 4,489,053</u>	<u>\$ 4,484,387</u>
\$	117,352	\$ 147,896	\$ 1,881,256	\$ 1,985,584	\$ 903,948	\$ 2,170,462
	315,435	275,356	223,744	(205,031)	719,383	958,307
\$	<u>432,787</u>	<u>\$ 423,252</u>	<u>\$ 2,105,000</u>	<u>\$ 1,780,553</u>	<u>\$ 1,623,331</u>	<u>\$ 3,128,769</u>

TOWN OF SMITHFIELD, VIRGINIA

Fund Balances of Governmental Funds
Last Ten Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	-	-	-	-	-
Nonspendable	71,395	86,943	47,593	87,451	37,522
Restricted	107,635	148,943	1,116,809	1,800,803	130,778
Committed	1,417,334	1,398,693	1,245,015	203,984	144,384
Unassigned	6,386,507	6,948,472	5,251,801	5,331,092	5,353,610
Total general fund	<u>\$ 7,982,871</u>	<u>\$ 8,583,051</u>	<u>\$ 7,661,218</u>	<u>\$ 7,423,330</u>	<u>\$ 5,666,294</u>
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	\$ -	\$ -	\$ -	\$ -	\$ -
Capital project funds	-	-	-	-	-
Nonspendable, reported in:					
Special revenue funds	2,643	-	-	-	-
Restricted, reported in:					
Special revenue funds	180,225	274,609	141,609	95,601	-
Assigned, reported in:					
Special revenue funds	-	-	-	-	83,872
Capital project funds	8,108	8,108	8,108	8,108	8,108
Unassigned, reported in:					
Special revenue funds	-	-	-	-	-
Total all other governmental funds	<u>\$ 190,976</u>	<u>\$ 282,717</u>	<u>\$ 149,717</u>	<u>\$ 103,709</u>	<u>\$ 91,980</u>
Total fund balances	<u>\$ 8,173,847</u>	<u>\$ 8,865,768</u>	<u>\$ 7,810,935</u>	<u>\$ 7,527,039</u>	<u>\$ 5,758,274</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 in Note 1 of the notes to the financial statements.

Table 3

2014	2013	2012	2011 [1]	2010
\$ -	\$ -	\$ -	\$ 1,174,566	\$ 1,508,460
-	-	-	-	2,552,861
2,128	36,723	-	-	-
161,059	176,929	-	-	-
22,444	19,903	-	638,907	-
4,878,078	4,058,330	2,691,180	2,189,060	-
<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>

\$ -	\$ -	\$ -	\$ -	\$ 9,618
-	-	-	-	8,107
-	-	-	-	-
-	-	-	-	-
38,064	109,859	-	147,536	-
8,108	8,108	8,108	8,107	-
-	-	(7,007)	-	-
<u>\$ 46,172</u>	<u>\$ 117,967</u>	<u>\$ 1,101</u>	<u>\$ 155,643</u>	<u>\$ 17,725</u>
<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>

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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
2019	\$ 1,230,019	\$ 2,235,444	\$ 2,150,485	\$ 1,459,716	\$ 677,111	\$ 2,289,276	\$ 882,258	\$ 105,400	\$ 11,029,709
2018	1,185,804	2,288,658	1,907,265	1,716,056	742,362	1,682,879	271,485	119,401	9,913,910
2017	1,135,211	2,312,087	2,049,108	1,292,176	1,698,649	3,351,960	90,800	50,367	11,980,358
2016	1,032,973	2,252,064	1,987,807	775,156	1,144,472	1,946,638	87,057	\$ 45,097	9,271,264
2015	992,342	2,269,098	1,943,321	750,219	1,039,243	588,277	45,492	40,748	7,668,740
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

[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			Miscellaneous	Total
							Commonwealth	Federal	Local-County		
2019	\$ 2,514,739	\$ 3,607,797	\$ 46,850	\$ 40,356	\$ 460,292	-	\$ 2,557,452	\$ 148,777	-	\$ 716,525	\$ 10,092,788
2018	2,524,997	3,454,719	35,938	55,144	334,010	-	1,909,206	427,941	-	208,605	8,950,560
2017	2,257,766	3,375,185	34,890	62,942	234,640	-	1,832,838	564,799	214,204	1,007,471	9,584,735
2016	2,381,837	3,181,704	23,075	68,527	271,179	-	1,779,637	635,740	-	2,686,650	11,028,349
2015	2,410,696	3,028,852	41,506	64,342	239,991	-	1,740,239	154,456	-	178,676	7,858,758
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

[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
2019	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.375/\$100	\$.16/\$100	\$1/\$100
2018	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.375/\$100	\$.16/\$100	\$1/\$100
2017	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.38/\$100	\$.16/\$100	\$1/\$100
2016	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
2015	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100
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

[1] Mobile home rate.

Principal Taxpayers - Real Estate
June 30, 2019

Taxpayer	Type of Business	Assessed Valuation Real Estate	% of Total
Smithfield Foods, Inc.	Meat processing	\$ 42,454,400	3.85%
Smithfield Farmland Corp	Meat processing	31,254,700	2.83%
Suso 4 Smithfield FF LP	Real Estate	11,995,600	1.09%
Bradford Mews Associates	Apartment rentals	8,380,800	0.76%
Patrick Henry Hospital	Nursing home/Assisted Living	8,294,000	0.75%
Smithfield Hotel LLC	Hotel/Lodging	6,821,500	0.62%
Cypress Investment Holdings LLC	Land developer	6,594,000	0.60%
Morris Creek Landing Apartments	Apartment rentals	6,373,700	0.58%
Pack Development Company LLC	Restaurant/Hotel	4,782,100	0.43%
Premium Pet Health LLC	Pet food raw material	4,563,500	0.41%
Smithfield Square Associates	Real estate	4,364,000	0.40%
Smithfield Ham & Products	Commercial/Industrial	4,197,900	0.38%
CIG Cypress Run Plaza LLC	Commerical Real Estate	4,010,500	0.36%
KLS Smithfield Development Group LLC	Commercial/Industrial	3,971,600	0.36%
Church Square LLC	Land developer	3,331,600	0.30%
Skyline-Fri 8 LP	Commercial Real Estate	3,108,700	0.28%
Little Robert J III & Anne R	Real Estate	3,060,100	0.28%
JP Housing LP	Apartment rentals	2,806,900	0.25%
JVC LLC	Commercial Real Estate	2,715,900	0.25%
Pomoco Developments Inc	Commercial Real Estate	2,604,300	0.24%
Smithfield Packing Company	Meat processing	2,505,400	0.23%
		\$ 168,191,200	15.25%

		Assessed Valuation Personal Property	% of Total
Gwaltney of Smithfield	Meat processing	41,014,264	31.41%
C R England Inc	Trucking/shipping	1,999,354	1.53%
Premium Pet Health LLC	Dog food plant	1,298,434	0.99%
HYG Financial Services	Vehicle and equipment financing	1,189,688	0.91%
Riverside Convalescent Center	Nursing home/Assisted Living	1,049,507	0.80%
Charter Communications	Cable/High Speed Internet Service Provider	1,058,639	0.81%
Food Lion LLC	Retail grocery	880,931	0.67%
Farm Fresh #238	Retail grocery	895,517	0.69%
Hampton Inn & Suites	Hotel/Lodging	600,000	0.46%
		\$ 46,457,590	38.29%

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
2019	\$ 2,703,772	\$ 2,677,156	99.0%	\$ 35,608	\$ 2,712,764	100.3%	\$ 139,894	5.2%
2018	2,679,540	2,656,014	99.1%	50,846	2,706,860	101.0%	139,596	5.2%
2017	2,668,084	2,629,217	98.5%	40,649	2,669,866	100.1%	181,149	6.8%
2016	2,602,315	2,530,923	97.3%	25,179	2,556,102	98.2%	205,135	7.9%
2015	2,620,463	2,541,353	97.0%	62,029	2,603,382	99.3%	186,735	7.1%
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%

[1] Exclusive of penalties and interest. Tax years 2010-2016 include VL tax as part of the personal property tax levy.

Exclusive of supplements and abatements of tax assessments

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

[3] Starting in FY 2014, penalties are not included

[4] Delinquent tax collections include collections of any prior year. Amounts reported are not specific to fiscal year.

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
2019	8,441 [1]	\$ 1,251,982,678	\$ 6,710,634	\$ 2,306,498	\$ 4,404,136	0.35%	\$ 522
2018	8,287 [1]	1,233,040,324	7,877,421	2,656,970	5,220,451	0.42%	630
2017	8,287 [1]	1,228,195,669	6,507,832	2,998,000	3,509,832	0.29%	424
2016	8,287 [1]	1,264,903,187	3,970,025	3,034,840	935,185	0.07%	113
2015	8,287 [1]	1,270,545,592	4,548,745	3,526,503	1,022,242	0.08%	123
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

[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			
2019	\$ 882,258	\$ 105,400	\$ 987,658	\$ 11,029,709	8.95%
2018	271,485	119,401	390,886	9,913,910	3.94%
2017	90,800	50,367	141,167	11,980,358	1.18%
2016	87,057	45,097	132,154	9,271,264	1.43%
2015	45,492	40,748	86,240	7,668,740	1.12%
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%

Computation of Legal Debt Margin
As of June 30, 2019

Total assessed value of taxed real property	\$ 1,121,399,297
Debit limit - 10% of total assessed value	\$ 112,139,930
Amount of debt applicable to debt limit - gross debt	<u>6,710,714</u>
Legal debt margin	<u>\$ 105,429,216</u>

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

Function/Program	Full-time Equivalent Employees as of June 30,									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
General government										
Management services	3.53	4.40	4.18	3.40	3.40	3.40	3.33	2.80	2.80	3.11
Finance	6.69	6.80	6.91	6.95	5.80	5.80	5.80	4.71	4.12	4.79
Planning	2.27	1.85	1.85	1.85	2.00	2.15	2.35	2.35	2.35	2.35
Building	1.20	1.03	1.03	1.03	1.00	1.00	1.00	0.90	0.88	0.85
Other	0.67	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Police										
Officers	18.40	18.96	18.32	20.70	19.68	21.80	21.59	20.80	19.31	21.78
Civilians	4.06	4.70	4.70	4.70	4.59	3.77	3.80	2.46	3.82	4.35
Other public works										
Engineering	1.00	1.00	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Other	7.83	8.38	8.07	7.70	7.14	6.36	7.86	7.57	6.05	5.97
Park and recreation	10.25	9.15	9.35	8.99	9.43	6.56	5.33	4.92	5.08	5.26
Water	7.44	6.49	7.09	6.61	7.14	6.42	7.22	6.08	5.84	5.83
Wastewater	4.16	3.91	4.97	5.16	4.81	4.55	5.97	5.96	6.14	6.13
Total	67.50	67.47	68.07	68.69	66.59	63.41	65.85	60.15	57.99	62.02

TOWN OF SMITHFIELD, VIRGINIA

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2019	2018	2017	2016	2015
Police					
Physical arrests	156	160	200	164	170
Parking violations	6	5	39	74	60
Traffic violations	1154	1,026	1,395	1,471	1,108
Fire					
Emergency responses		536		875	608
Refuse collection					
Refuse collected (tons per day) [1]	8.38	8.26	7.57	7.53	7.29
Recycling collected (tons per day) [1]	1.56	1.63	2.06	1.87	1.64
Other public works					
Street resurfacing (miles) [1]	3.36	3.36	2.34	1.56	2.52
Potholes repaired [1]	17	21	43	59	73
Water					
New connections	65	23	25	19	24
Water mains breaks	77	64	29	68	76
Average daily consumption (thousands of gallons)	761	768.88	787.22	816.87	829.31
Peak daily consumption (thousands of gallons)	917.70	1,139.67	1,819.12	1,782.13	1,886.87

[1] outsourced to subcontractors

Table 13

2014	2013	2012	2011	2010
279	268	199	271	362
22	23	21	20	99
1,689	1,662	1,041	1,387	1,817
620	603	659	524	578
9.63	33.13	32.57	33.69	9.45
N/A	N/A	N/A	N/A	N/A
1.5	1.25	1.23	1.40	1.82
80	85	83	87	79
21	28	10	17	31
30	25	35	4	11
835.8	828.59	822.07	810.72	824.47
1,949.25	1,968.15	1,821.23	1,879.39	2,159.77

TOWN OF SMITHFIELD, VIRGINIA

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2019	2018	2017	2016	2015
Police					
Stations	1	1	1	1	1
Patrol units	21	21	21	21	21
Fire stations	1	1	1	1	1
Other public works					
Street (miles)	48.46	48.02	48.02	47.02	47.02
Streetlights	707	707	705	705	705
Traffic signals	7	7	7	7	7
Park and recreation					
Acreage*	311.86	311.86	311.86	311.86	204.556
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.
Acreage increase in 2016 resulted from the purchase of the Little Farm (101.60 acres) to be used as public ballfields and the contribution of 5.70 acres by Smithfield Foods to be used as a public boat ramp accessed at the existing Clontz Park.

Table 14

2014	2013	2012	2011	2010
1	1	1	1	1
22	22	22	21	22
1	1	1	1	1
47.02	47.11	47.11	47.11	47.11
704	704	704	687	686
7	7	7	7	7
203.296	203.296	203.296	201.901	201.901
2	2	2	2	2
1	1	1	1	1
38.25	38.25	38.25	38.25	38.25
1,120	1,120	1,120	1,120	1,120
38.25	38.25	38.25	38.25	38.25

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Compliance



**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
the 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 the Town of Smithfield, Virginia, as of and for the year ended June 30, 2019, 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 November 26, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Town of Smithfield, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 the 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

November 26, 2019