

TOWN OF SMITHFIELD, VIRGINIA



FINANCIAL REPORT YEAR
ENDED JUNE 30, 2018

**TOWN OF SMITHFIELD, VIRGINIA
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

Prepared by:

Ellen Minga, Town Treasurer

Town of Smithfield, Virginia

Town Council and Executive Officers

Mayor

T. Carter Williams

Vice-Mayor

Florine H. Moore

Council Members

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

Town Clerk

Lesley M. Greer

Town Manager

Peter M. Stephenson

Treasurer

Ellen D. Minga

Chief of Police

Alonzo Howell

Committees

Finance

Randolph H. Pack (CH)
Dr. P. Milton Cook, Jr.
Florine H. Moore

Water and Sewer

Michael G. Smith (CH)
Florine H. Moore
Denise N. Tynes

Public Safety - Police

Denise N. Tynes (CH)
Florine H. Moore

Isle of Wight Tourism Bureau

Denise N. Tynes
T. Carter Williams

Intergovernmental

T. Carter Williams
Dr. P. Milton Cook, Jr.

Public Works

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

Public Buildings and Welfare

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

Parks and Recreation

Denise N. Tynes (CH)
Randolph H. Pack

Smithfield Planning Commission

Randolph H. Pack

TOWN OF SMITHFIELD, VIRGINIA

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-17
<u>Basic Financial Statements:</u>	
Government-wide Financial Statements:	
Exhibit 1 Statement of Net Position	18
Exhibit 2 Statement of Activities	19-20
Fund Financial Statements:	
Exhibit 3 Balance Sheet—Governmental Funds	21
Exhibit 4 Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	22
Exhibit 5 Statement of Revenues, Expenditures and Changes in Fund Balances— Governmental Funds	23
Exhibit 6 Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	24
Exhibit 7 Statement of Net Position—Proprietary Funds	25
Exhibit 8 Statement of Revenues, Expenses and Changes in Net Position— Proprietary Funds	26
Exhibit 9 Statement of Cash Flows—Proprietary Funds	27
Notes to Financial Statements	28-98
<u>Required Supplementary Information:</u>	
Exhibit 10 Schedule of Revenues, Expenditures and Changes in Fund Balances— Budget and Actual—General Fund	99
Exhibit 11 Schedule of Revenues, Expenditures and Changes in Fund Balances— Budget and Actual—Highway Maintenance Fund	100
Exhibit 12 Schedule of Changes in Net Pension Liability and Related Ratios	101
Exhibit 13 Schedule of Employer Contributions—Pension	102
Exhibit 14 Notes to Required Supplementary Information—Pension	103
Exhibit 15 Schedule of Share of Net OPEB Liability—Group Life Insurance Program	104
Exhibit 16 Schedule of Employer Contributions—Group Life Insurance Program	105
Exhibit 17 Notes to Required Supplementary Information—Group Life Insurance Program	106-107

TOWN OF SMITHFIELD, VIRGINIA

FINANCIAL REPORT
YEAR ENDED JUNE 30, 2018

TABLE OF CONTENTS (CONTINUED)

	<u>Page</u>
<u>Required Supplementary Information:</u>	
Exhibit 18 Schedule of Employer's Share of Net LODA OPEB Liability—Line of Duty Act Program (LODA)	108
Exhibit 19 Schedule of Employer Contributions—Line of Duty Act Program (LODA)	109
Exhibit 20 Notes to Required Supplementary Information—Line of Duty Act Program (LODA)	110-111
<u>Other Supplementary Information:</u>	
Supporting Schedules:	
Schedule 1 Schedule of Revenues—Budget and Actual—Governmental Funds	112-113
Schedule 2 Schedule of Expenditures—Budget and Actual—Governmental Funds	114-115
Other Statistical Information:	
Table 1 Net Position by Component—Last Ten Fiscal Years	116-117
Table 2 Change in Net Position—Last Ten Fiscal Years	118-119
Table 3 Fund Balances of Governmental Funds—Last Ten Fiscal Years	120-121
Table 4 General Governmental Expenditures by Function—Last Ten Fiscal Years	122
Table 5 General Governmental Revenues by Source—Last Ten Fiscal Years	123
Table 6 Property Tax Rates—Last Ten Fiscal Years	124
Table 7 Principal Taxpayers-Real Estate	125
Table 8 Property Tax Levies and Collections—Last Ten Fiscal Years	126
Table 9 Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt per Capita—Last Ten Fiscal Years	127
Table 10 Ratio of Annual Debt Service for General Bonded Debt to Total General Expenditures—Last Ten Fiscal Years	128
Table 11 Computation of Legal Debt Margin	129
Table 12 Full-time Equivalent City Government Employees by Function/Program—Last Ten Fiscal Years	130
Table 13 Operating Indicators by Function/Program—Last Ten Fiscal Years	131-132
Table 14 Capital Asset Statistics by Function/Program—Last Ten Fiscal Years	133-134
<u>Compliance:</u>	
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 <i>Government Auditing Standards</i>	135-136

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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, 2018, 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 opinion.

Opinion

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, 2018, 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 Principles

As described in Note 17 to the financial statements, in 2018, the Town adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 17 to the financial statements, in 2018, the Town restated beginning balances to reflect the requirements of GASB Statement No. 75. 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, budgetary comparison information, and schedules related to pension and OPEB funding on pages 4-17, 99-100, and 101-111 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.

Other Matters: (Continued)

Supplementary and Other Information: (Continued)

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 30, 2018, 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 30, 2018

This page intentionally left blank

Management's Discussion and Analysis *Fiscal Year July 1, 2017 - June 30, 2018*

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, 2018. This information should be read in conjunction with the Town's audited financial statements as reported herein.

FINANCIAL HIGHLIGHTS

- Net position was restated as of July 1, 2017 with the implementation of General Accounting Standards Board Statements No. 75 and No. 85. A detailed explanation is found in Note 17-Adoption of Accounting Principles.
- The net position of the Town increased by \$930,282 which represents a 2% increase over FY2017 (total net position-government-wide).
- The Joseph W. Luter, Jr. Sports Complex was substantially completed in FY2018.
- The Town continued its commitment to the Pinewood Heights CDBG Relocation project with the acquisition of 3 properties and the relocation of 2 households in Phase III.
- The Town completed its emergency spillway hazard mitigation project at the Waterworks Dam. The Town received FEMA assistance of \$179,859 towards the total cost of \$195,499.
- New debt of \$1,969,553 was incurred as part of a non-revolving line of credit that was used for multiple capital projects throughout the Town. The \$5 million line of credit was converted to a fixed note payable in October 2017.

Overview of the Financial Statements

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

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

Government-wide financial statements

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

The Statement of Net Position presents information on the Town's assets, deferred outflows 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 position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating. Other factors, such as a change in property tax base and infrastructure needs resulting from development or annexation, should also be included in a comprehensive assessment of the Town's position.

FINANCIAL HIGHLIGHTS: (CONTINUED)

Government-wide financial statements: (Continued)

The Statement of Activities presents information showing how net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying events giving rise to the changes occur, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

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

- **Governmental activities** - The governmental activities of the Town include general government, 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 22 and 24 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 and OPEB funding progress, supporting schedules and other statistical information found on pages 99 through 134.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Town of Smithfield, Virginia
 Summary of Net Position
 As of June 30, 2018

	Governmental Activities		Business-type Activities		Total	
	2018	2017 *	2018	2017	2018	2017
Current and other assets	\$ 12,379,632	11,311,023	\$ 6,814,834	\$ 6,150,947	\$ 19,194,466	\$ 17,461,970
Capital assets	25,404,310	24,524,977	14,815,137	15,114,886	40,219,447	39,639,863
Total assets	\$ 37,783,942	\$ 35,836,000	\$ 21,629,971	\$ 21,265,833	\$ 59,413,913	\$ 57,101,833
Deferred outflows of resources	\$ 224,951	\$ 311,057	\$ 72,834	\$ 102,163	\$ 297,785	\$ 413,220
Long-term liabilities outstanding	\$ 5,921,734	\$ 3,707,072	\$ 2,724,508	\$ 3,042,089	\$ 8,646,242	\$ 6,749,161
Other liabilities	798,863	1,146,801	198,858	229,094	997,721	1,375,895
Total liabilities	\$ 6,720,597	\$ 4,853,873	\$ 2,923,366	\$ 3,271,183	\$ 9,643,963	\$ 8,125,056
Deferred inflows of resources	\$ 2,036,193	\$ 1,783,439	\$ 41,462	\$ 5,759	\$ 2,077,655	\$ 1,789,198
Net position:						
Net investment in capital assets	\$ 20,147,780	\$ 21,015,145	\$ 12,182,289	\$ 12,510,829	\$ 32,330,069	\$ 33,525,974
Restricted	423,552	1,258,418	3,033,839	2,764,024	3,457,391	4,022,442
Unrestricted	8,680,771	7,236,182	3,521,849	2,816,201	12,202,620	10,052,383
Total net position	\$ 29,252,103	\$ 29,509,745	\$ 18,737,977	\$ 18,091,054	\$ 47,990,080	\$ 47,600,799

* Note: Net position was restated as of July 1, 2017 to record net OPEB liability. See Note 17-Adoption of Accounting Principles.

The combined net position for the Town totaled \$47,990,080, an increase of 2% over FY2017. The largest portion (67%) represents investments in capital assets, net of related debt used to finance the assets. These capital assets include land, buildings, machinery, and equipment. They are used to provide services to citizens, thus, they are not available for future spending. This net investment decreased by \$1,195,905 in FY2018 largely due to the incurrence of additional debt of \$1,969,553 to offset new construction and infrastructure upgrades and due to routine depreciation. Restricted assets of \$3,457,391 comprise 7% of total net position and dropped by \$565,051 (-14%) over prior year resulting from a decrease of \$834,866 in governmental activities that was offset by an increase of \$269,815 in business activities. The restricted net position for governmental activities (\$423,552) represents donated and/or designated funds specifically for the Pinewood Heights Redevelopment Project, the Smithfield Police Department, SNAP (Supplemental Nutrition Assistance Program), and highway maintenance. As of June 30, 2017, \$961,833 of the total restricted balance of \$1,258,418 was designated for construction of the public sports complex. That obligation was met in FY2018 as the funds were fully applied to the project. The business-type activities total of \$3,033,839 includes its debt service (\$815,642), water deposit (\$6,092) and sewer compliance (\$2,212,105) 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. 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 \$12,202,620 make up 26% of total net position and increased by \$2,150,237 (24%) 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

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

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. Net position was restated as of July 1, 2017 to adhere to the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75 (GASB 75), *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and Statement No. 85, *Omnibus 2017*. See Note 17-Adoption of Accounting Principles for a detailed explanation of these reporting changes.

Governmental Activities. The following table shows a detailed summary of the revenues and expenses for governmental and business-type activities for 2018 as compared to 2017:

Town of Smithfield, Virginia Changes in Net Position As of June 30, 2018						
	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 91,082	\$ 97,832	\$ 2,827,712	\$ 2,839,731	\$ 2,918,794	\$ 2,937,563
Operating grants and contributions	1,743,669	1,862,264	-	-	1,743,669	1,862,264
Capital grants and contributions	132,597	957,221	182,580	217,840	315,177	1,175,061
General revenues:						
Property taxes	2,495,373	2,244,184	-	-	2,495,373	2,244,184
Other taxes	3,454,719	3,375,185	-	-	3,454,719	3,375,185
Unrestricted revenues from the use of money and property	334,010	234,640	40,513	22,587	374,523	257,227
Miscellaneous	208,605	117,471	17,445	11,539	226,050	129,010
Grants and contributions not restricted to specific programs	460,881	682,356	-	-	460,881	682,356
Gain on disposal	-	6,268	-	-	-	6,268
Total revenues	<u>\$ 8,920,936</u>	<u>\$ 9,577,421</u>	<u>\$ 3,068,250</u>	<u>\$ 3,091,697</u>	<u>\$ 11,989,186</u>	<u>\$ 12,669,118</u>
Expenses:						
General government administration	\$ 1,193,699	\$ 1,172,634	\$ -	\$ -	\$ 1,193,699	\$ 1,172,634
Public safety	2,412,254	2,501,166	-	-	2,412,254	2,501,166
Public works	2,303,138	2,460,615	-	-	2,303,138	2,460,615
Parks, recreation and cultural	1,892,333	1,468,199	-	-	1,892,333	1,468,199
Community development	742,362	1,903,649	-	-	742,362	1,903,649
Interest on long-term debt	127,571	50,342	-	-	127,571	50,342
Water fund	-	-	1,548,749	1,623,458	1,548,749	1,623,458
Sewer fund	-	-	838,798	930,017	838,798	930,017
Total expenses	<u>\$ 8,671,357</u>	<u>\$ 9,556,605</u>	<u>\$ 2,387,547</u>	<u>\$ 2,553,475</u>	<u>\$ 11,058,904</u>	<u>\$ 12,110,080</u>
Increase (decrease) in net position	<u>\$ 249,579</u>	<u>\$ 20,816</u>	<u>\$ 680,703</u>	<u>\$ 538,222</u>	<u>\$ 930,282</u>	<u>\$ 559,038</u>
Net position-beginning of year, restated *	<u>\$ 29,002,524</u>	<u>\$ 25,822,242</u>	<u>\$ 18,057,274</u>	<u>\$ 17,074,413</u>	<u>\$ 47,059,798</u>	<u>\$ 42,896,655</u>
Net position-end of year	<u>\$ 29,252,103</u>	<u>\$ 25,843,058</u>	<u>\$ 18,737,977</u>	<u>\$ 17,612,635</u>	<u>\$ 47,990,080</u>	<u>\$ 43,455,693</u>

* Note: Net position was restated as of July 1, 2017 to record net OPEB liability. See Note 17-Adoption of Accounting Principles.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Program revenues for governmental activities make up 22% of total revenues and are comprised of charges for services (5%), operating grants and contributions (89%), and capital grants and contributions (7%). Charges for governmental activities services which includes permits, review fees, and fines and forfeitures decreased by \$6,750 over prior year. The largest decreases in fines and costs (-\$7,798) and demolition permits (-\$5,671) were offset by increases in yard sale permits (\$3,725), inspection fees (\$1,975), and right-of-way (ROW) easement permits (\$1,741). Operating grants and contributions of \$1,743,669 decreased \$118,595 from prior year and consist of state highway maintenance funds (\$1,189,305), public safety grants (\$373,638), community development grants (\$173,075), cultural grants (\$4,500), and miscellaneous administrative and other grants (\$3,151). The annual state highway maintenance funds increased \$19,617 (2%) from FY2017 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 (\$166,736) that are used to supplement the cost of law enforcement, a fire programs grant that is passed through to the Smithfield Volunteer Fire Department (\$27,043), and a FEMA grant (\$179,859) that was used for emergency spillway remediation at the Town’s Waterworks Dam. The community development operating grant represents the reimbursable portion of the Pinewood CDBG Redevelopment Project. Grant funds in this category decreased by \$324,140 from prior year as the Town had drawn \$816,925 of the \$1,000,000 available in FY2016 and FY2017. The most significant change in program revenues occurred in capital grants and contributions which decreased \$824,624 from \$957,221 in FY2017 to \$132,597 in FY2018. In FY2017, the Town recorded contributions of \$890,000 specifically designated for the planned public sports complex with donations received from the Luter Family Foundation (\$240,000), Smithfield Foods (\$500,000), and Farmers Bank (\$150,000). Additional contributions of \$101,239 were received for the complex in FY2018 but were categorized as miscellaneous general revenues. In FY2018, the Town received \$132,597 from the Federal Emergency Management Agency (FEMA) to offset capital costs of emergency spillway remediation at the Waterworks Dam.

The largest revenue source for the Town has always been general property taxes although meals taxes (included with Other Local Taxes) now exceeds personal property taxes and is almost level with real estate collections.

	Governmental Activities	
	2018	2017
Real estate tax revenue	\$ 1,719,553	\$ 1,729,971
Public Service corporation property taxes	31,390	31,029
Personal Property taxes	685,517	479,603
Penalties and interest	58,933	3,581
Total	\$ 2,495,393	\$ 2,244,184

Tax assessments for the Town are received from the Isle of Wight County Commissioner of Revenue. Real estate and personal property assessments for FY2018 totaled \$1,103,568,800 and \$119,432,071 respectively, excluding any subsequent supplements and abatements, compared to \$1,098,079,600 and \$120,444,178 for FY2017. FY2018 was not a reassessment year so assessment changes were related to new construction and demolition or modifications to existing structures. The significant increase in personal property taxes of \$205,914 resulted from a change in the assessment methodology for machinery and tools in FY2017 that reduced assessed values by 40%. This change was implemented by the Isle of Wight Commissioner of the Revenue and was retroactive for fiscal years 2013, 2014, and 2015. The Town increased its machinery and tools tax rate from \$0.15 per \$100 assessed to \$0.375 per \$100 assessed to offset the reduction. Refunds processed for years 2013 through 2015, however, did impact total personal property receipts for FY2017. A contribution was made by Isle of Wight County in the amount of \$214,204 to offset the 2017 loss of revenue and was included under grants and contributions not restricted to specific programs.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Other local taxes increased 2% for the year and include transient occupancy taxes, sales taxes, cigarette taxes, meals taxes, franchise taxes, consumers' utility taxes, business license taxes, and vehicle license taxes. Increases were balanced by several offsetting decreases, but meals taxes accounted for the majority of the increase for the year. Meals tax revenues of \$1,764,357 increased \$53,153 over FY2017's total of \$1,711,204. The Town continues to dedicate 32% of meals tax revenues (\$567,545) to the Pinewood Heights Redevelopment Project to fund its portion of required leverage. Bank franchise taxes of \$148,697 increased \$13,588 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 and tends to remain flat. In FY2018, however, consumer utility tax and consumption tax collectively increased by \$9,978. Business license taxes of \$393,708 increased by \$11,561 after reflecting a decrease in FY2017 of \$8,225. The increase brings the Town's business license revenues back in line with FY2016 indicating business stability over the last three years. Vehicle license taxes are billed with personal property taxes at a fee of \$20 per qualified vehicle. This tax increased from \$152,416 in FY2017 to \$165,043 in FY2018. Sales tax revenues of \$357,917 decreased by \$9,610 (-3%) after a record year in FY2017 of sales tax revenues of \$367,527. Cigarette taxes totaled \$171,029 which was a \$12,944 decrease over prior year. Cigarette tax revenues are recognized when tax stamps are sold to wholesalers, not when packages or cartons are sold to consumers.

Unrestricted revenue from use of money and property represents interest income, lease income, property rental income, event rental income, and special events labor reimbursement. Revenues in this category increased \$99,370 (2%) from FY2017. Interest revenue posted the largest increase of \$46,762 as intercompany reimbursements and strong collections added to cash balances available for investment. Special events revenues increased \$5,193 and reflect reimbursement to the Town for police and public works assistance during events held by organizations not directly sponsored by the Town. Property rental income rose by \$11,289 with the addition of a new tenant beginning in February 2018. Event rentals at the Smithfield Center and Windsor Castle Park increased \$37,258 as the Parks and Recreation Department continues to expand its programs and improve its amenities.

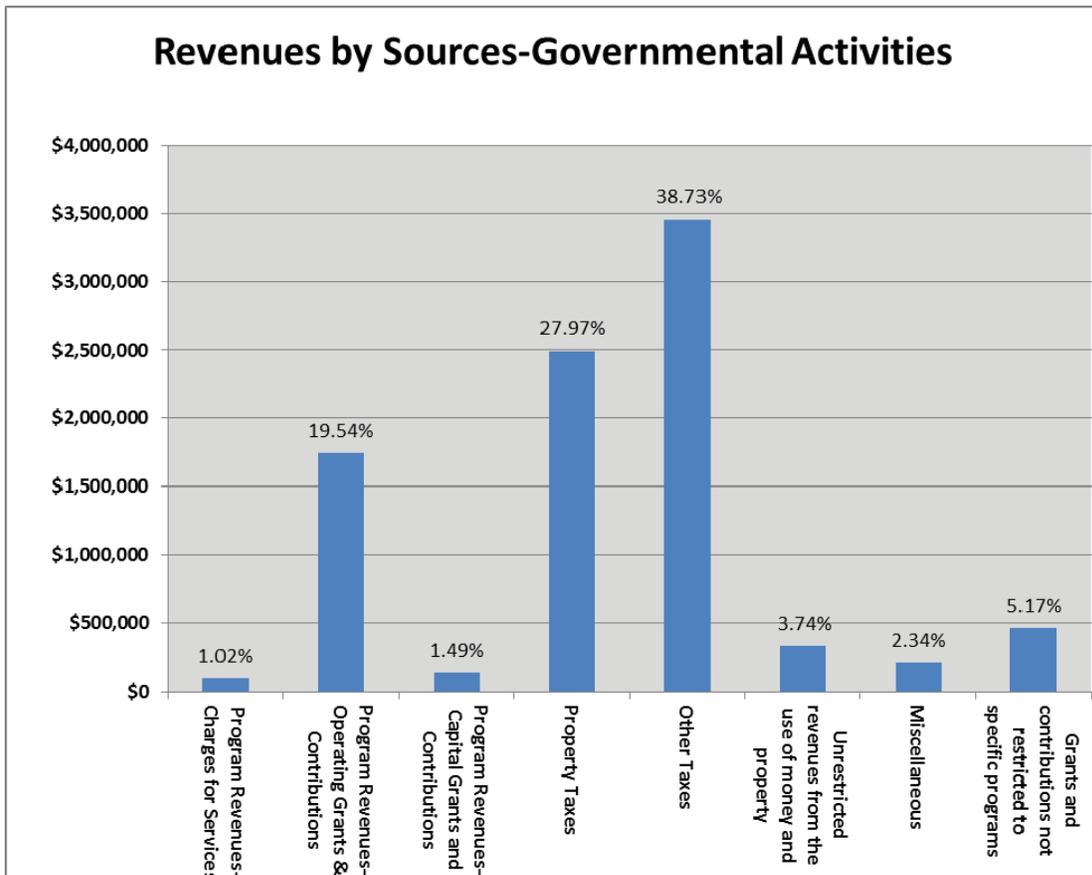
Miscellaneous revenues for FY2018 totaled \$208,605 and are made up of insurance proceeds, sale of copies, returned check charges, accident report fees, wellness and safety grants, fingerprinting, grass cutting reimbursements for yard violations, capital credit refunds, museum gift shop sales and program/lecture fees, and contributions from citizens, businesses, and non-profit organizations. Contributions for the public sports complex (\$101,239) comprised 49% of this category for FY2018 and included \$100,000 from Isle of Wight County as part of its \$250,000 commitment to the project. The Town also received \$35,040 from the Windsor Castle Park Foundation as final reimbursement for a natural playscape installed in the park in FY2017 and \$15,000 from Smithfield VA Events to be dedicated for future capital needs to enhance and preserve the park. Donations of \$11,309 for the Isle of Wight Museum in lieu of an admission fee, and \$14,961 for CHIP (Community Help In Progress) sponsored by the Smithfield Police Department rounded out the contributions for the year. The Town additionally received \$9,814 in insurance reimbursements from its provider, the Virginia Municipal League (VML) for claims pertaining to damages to town vehicles and public property. In addition to contributions, the Museum also brought in revenues of \$12,060 from gift shop sales (\$10,577) and programs and lectures (\$1,483).

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. For FY2017, this category also included a contribution from Isle of Wight County that reimbursed the Town \$214,204 for refunds to taxpayers due to machinery and tools tax assessment changes for fiscal years 2013 through 2015. 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 \$216,435 for FY2017 decreased \$6,985 from FY2017 marking a decline for the fifth consecutive year. Rolling stock, mobile home tax, and short term rental tax collectively totaled \$3,651 which was slightly less than the prior year total of \$3,937.

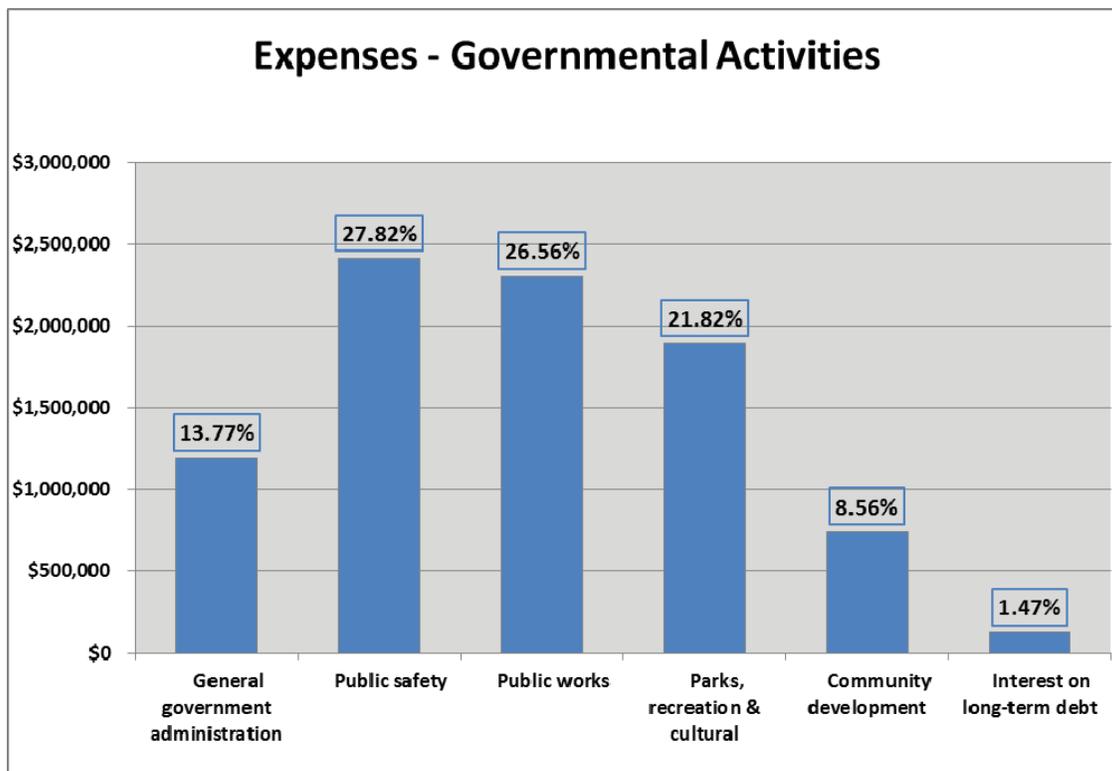
The Town did not sell or donate assets in FY2018, eliminating gain or loss on the disposal of assets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Total expenditures for FY2017 governmental activities totaled \$8,671,357 compared to \$9,556,605 for FY2017, a decrease of \$885,248 (10%). 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 \$21,065 over FY2017. This was a minimal increase attributable to salaries and benefits due to a 2% cost of living increase for all employees and a plan year increase of 5% for medical premiums. The 2017 insurance premium increase was 11.54%, but the Town was able to reduce the increase in FY2018 by offering a deductible HMO plan. Previous plan offerings did not require employee deductibles. Public safety and public works (including highway maintenance) are the largest cost centers and accounted for 54% of total costs. Public safety decreased by \$88,912 due to a drop in labor and benefit costs realized from departmental vacancies. The Police Department has been actively recruiting for the past year but has not yet reached full staff of 21 certified officers. Public Works also ended the fiscal year with a drop in costs (-\$157,478). Salaries and benefits did increase with raises and insurance increases as noted in other departments; however, like the police department, they also experienced personnel turnover that left interim vacancies throughout the year. Notably, the Town also reduced its recycling pickups from weekly to bi-weekly which saved \$113,819. Residents are not charged for trash and recycling collections. Parks, recreation, and cultural reflected an increase in expenditures of \$424,134 and is still growing as new venues are added such as the public sports complex. 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 FY2017, the Town contributed \$520,000 towards the restoration project which is nearing the completion of Phase I. The Town’s highway expenses increased by \$37,537 from prior year as the Town spent state grant funding allocated for the maintenance of its street system. Community Development reflected the largest decrease for the fiscal year (-\$1,161,287) as progress slowed in Phase III of the Pinewood Heights Redevelopment Project requiring the Town to spend \$360,059 for acquisition, relocation, and demolition in FY2018 compared to \$1,316,167 in FY2017. The Town also eliminated an economic development incentive (\$205,000) with a local business that was satisfied in the prior year. Interest on long-term debt increased \$77,230 as the Town drew down the remaining \$1,969,553 available on its \$5 million non-revolving line of credit as of October 2017. Interest paid on the line of credit and the subsequent fixed note totaled \$87,978 for the year compared to \$8,270 in FY2017.



GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

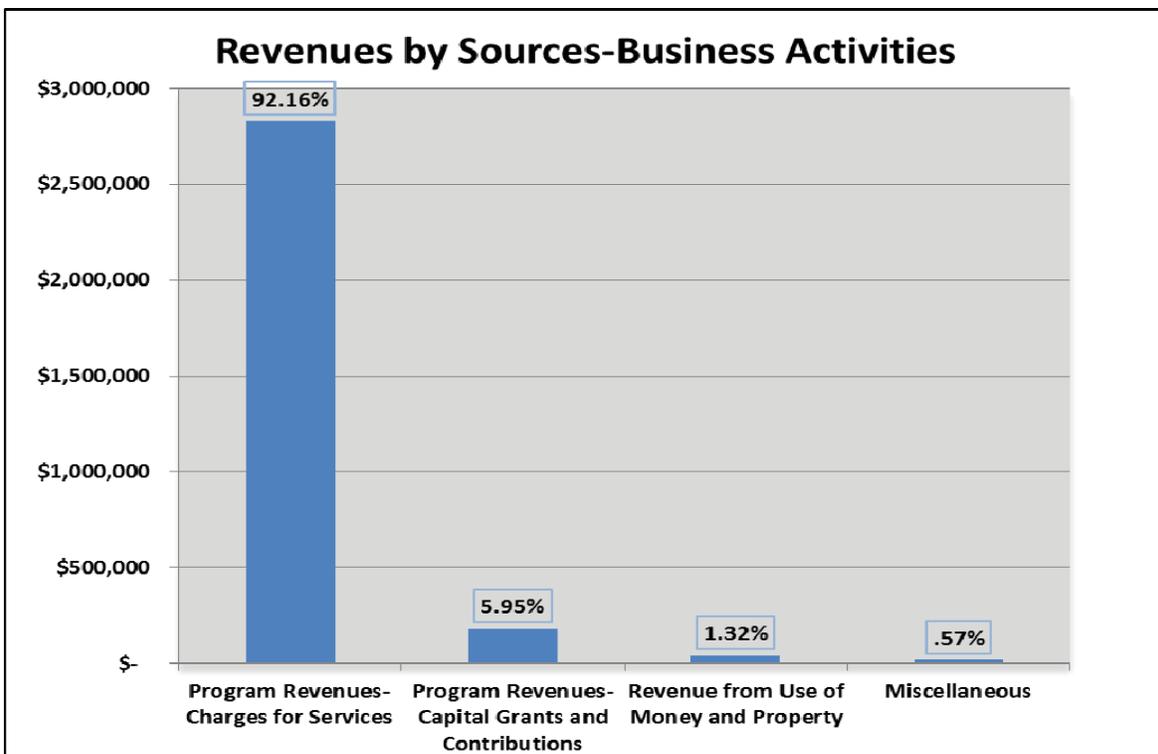


Business-Type Activities. The business-type activities show an increase in net position of \$680,703 for FY2018 compared to FY2017. Program revenues include charges for services that decreased by \$12,019 and capital grants and contributions that decreased by \$35,260. Included in charges for services are utility charges, bulk water sales, debt service fees, sewer compliance fees, and connection fees. Water and sewer consumption dropped slightly resulting in a decrease of utility charges of \$13,156. The decrease was reflected in both the sewer fund (-\$4,540) and the water fund (-\$8,616). The town has periodic requests by contractors for bulk water purchases. Although not significant, bulk water sales did increase \$1,410 in 2018. Connection fees decreased \$5,080 from prior year with the installation of 24 residential meters (5/8") and one commercial upgrade (1") in FY2018 as compared to 27 residential meters in FY2017. Debt service fees and sewer compliance fees reflected a minimal combined increase of \$4,807 for the year. They are fixed costs that are not driven by consumption, however, and therefore tend to remain stable unless there is a significant fluctuation in the number of active accounts. Capital Grants and Contributions include availability fees, pro-rata share fees and contributed revenue. Like connection fees, availability fees are tied directly to growth and are generally collected at the same time as connection fees. Availability fees decreased from \$177,840 in FY2017 to \$172,980 in FY2018 as 3 less 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 decreased considerably from \$40,000 last year to \$9,600 in the current year. These fees are paid by developers at the time that plats are recorded and are assessed at \$800 for water and \$800 for sewer per lot. Pro-rata share fees are designated for capital expenditures resulting from new growth and are deposited in the Water and Sewer Development Escrow Funds. 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 reflected its largest increase in recent years (\$17,925) while miscellaneous revenues of \$17,445 also increased by \$5,906 from FY2017. Miscellaneous revenues represent application fees for water service (\$9,072), returned check charges (\$50), sale of inventory items to contractors (\$1,074), scrap metal sales (\$415), and insurance recoveries (\$6,834). Insurance was collected as reimbursement for repairs to a pump at a sewer pump station due to weather related damage.

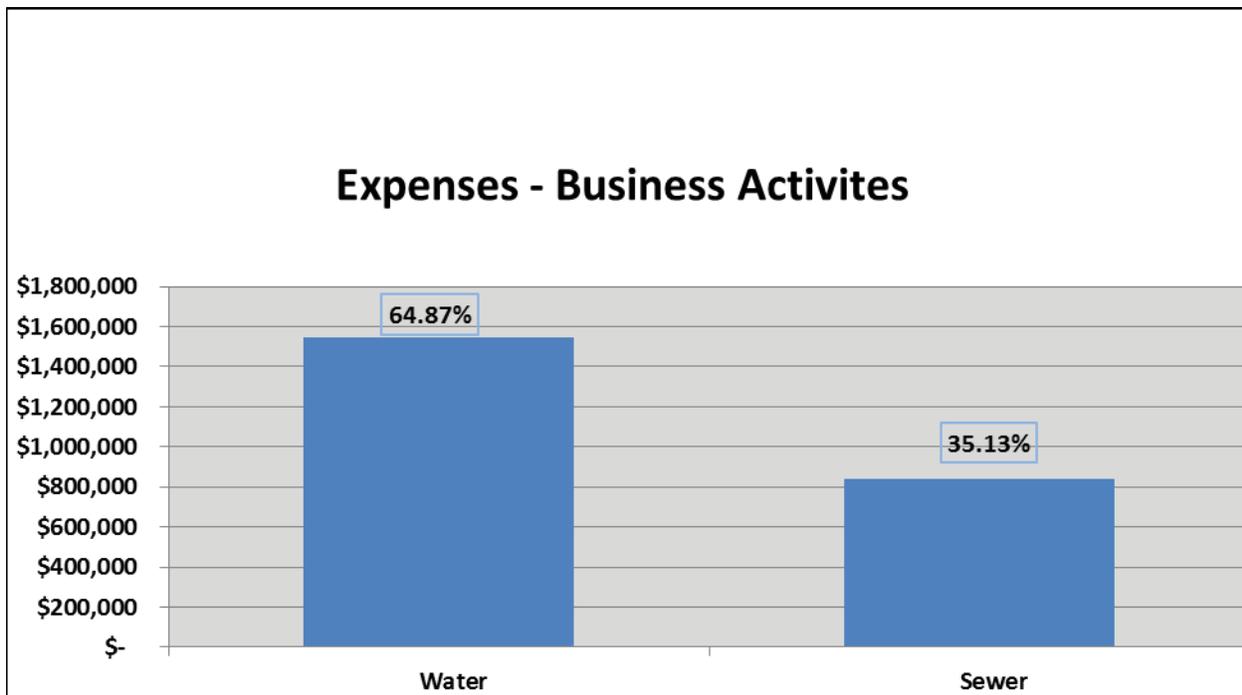
GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)

Utility expenses decreased \$165,928 for the year with water decreasing \$74,709 and sewer decreasing \$91,219. The water fund recorded decreases in salaries and benefits (-\$69,510) due primarily to turnover of personnel. The vacancies were difficult to fill and left gaps in the workforce for longer periods of time than in previous years. As the economy has strengthened, the Town is competing with private sector businesses offering attractive salaries. The water fund also recorded a significant decrease in materials and supplies (-\$55,842) as materials were used leaving inventory to be replenished. These decreases were offset by increases in water tank maintenance (\$21,972), professional services (\$7,422), and depreciation expense (\$14,092). The Town did not incur a cost for water tank maintenance in FY2017 but did authorize coating inspections and evaluations of the tanks in FY2018 in order to develop a viable maintenance plan. The increase in professional fees resulted from billings from the Town’s contracted engineering firms, Kimley-Horn and Draper Aden to address an alternative discharge method for the Water Treatment Plant (RO) plant as well as storm water basin and private pond remediation. HRSD wastewater treatment charges increased by \$14,266 over prior year even though usage decreased from 38,951,492 gallons to 37,874,287 gallons. The increase was a direct result of a price increase per CCF from \$4.51 to \$4.92 (9%). Depreciation increased due to the addition of significant capital improvements for both FY2017 and FY2018 related to the RO plant. The sewer fund recorded decreases in several of the same categories as the water fund for the same reasons. Salary and benefits decreased \$96,234 and materials and supplies decreased \$43,672 due to personnel vacancies and use of materials. The Town’s Public Utilities employee hours are allocated between general government and utility funds on a percentage basis to meet the needs of the department. Maintenance costs for the sewer fund rose \$31,132 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. Sewer depreciation also increased \$13,640 as capital improvements of over \$272,638 were added to the fixed asset schedule for the year.

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 \$24.14 is added to each bi-monthly bill for sewer compliance expenses. On July 1, 2013, the Town Council approved a water rate of \$5.68 per 1,000 gallons used and a fixed bi-monthly debt service fee of \$8.95. The only exception to this rate is the blended rate charged to Isle of Wight County (\$6.10) in lieu of a separate usage rate and debt service fee. 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.



GOVERNMENT-WIDE FINANCIAL ANALYSIS: (CONTINUED)



FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

Governmental Funds. The Town's governmental funds relay information on current sources and uses of spendable resources, as well as on the balances of spendable resources available at fiscal year end. The fund balances of total governmental funds equaled \$8,865,768 for FY2018, of which \$86,943 is nonspendable, \$1,398,693 is committed, \$423,552 is restricted, \$8,108 is assigned and \$6,948,472 is unassigned.

General Fund. The general fund is the Town's primary operating fund for all governmental activities. Total fund balances for FY2018 equal \$8,583,051 and consist of: nonspendable fund balance of \$86,943, committed fund balance of \$1,398,693, restricted fund balance of \$148,943, and unassigned fund balance of \$6,948,472. The restricted fund balance was \$1,116,809 in FY2017. In FY2017, the Town's restricted fund balance included \$961,833 representing cash for construction of its new public sports complex. By June 30, 2018, all of the contributed funds had been used for the project.

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. Restricted fund balance for FY2018 totaled \$274,609 which is an increase from a total fund balance of \$141,609 in FY2017. 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.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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 2018, the combined total assets of the proprietary funds equaled \$22,934,541 which is a 2% increase over FY2017. Current assets increased \$390,329 from prior year as Water Fund cash and cash equivalents include intercompany balances due from Water to Sewer of \$203,693 that is also shown as an intercompany receivable for the Sewer Fund. Restricted assets increased \$267,443 as sewer compliance spending was limited for the second consecutive year to "find and fix" projects rather than task based engineering fees. Total capital assets decreased by \$299,749 as accumulated depreciation increased by \$708,726 that was offset by an increase of only \$408,977 in gross asset value. A net pension asset of \$205,546 was also recorded as required by GASB 68 Accounting and Financial Reporting for Pensions which was an increase of \$82,474 over prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Town's FY2018 budget was adopted by Town Council at a special meeting held on June 26, 2017. It was appropriated at the July 11, 2017 Town Council meeting. An amended budget was presented and adopted on June 5, 2018. The amended budget reflected an increase of \$2,193,691 (19.05%) including reserves over the previously adopted budget. The large increase resulted primarily from urban funds that were committed to three VDOT projects within the Town as well as the use of loan reserves and operating reserves needed because of project rollovers from prior year. Specifically, grants from the federal government increased \$1,191,013, use of loan reserves increased \$434,250, and budgeted operating reserves increased by \$502,199. Additional increases of \$61,279 in contributions, \$48,630 in capital lease acquisitions, and \$164,752 of highway maintenance funds also added to the amended budget. The urban fund project values were not available when the original 2018 budget was prepared. The most expensive of the three projects is associated with the Public Sports Complex that was started in FY2017 and subsequently necessitated a right turn lane into the complex (\$835,744). The other two projects address 1) three possible alternative routes for a Smithfield to Nike Park Trail segment (\$28,690) and 2) an analysis of a Bennis Church/Route 258/Route 10 bypass intersection (\$176,861). The urban funds account for 98% of the project costs while the Town of Smithfield has to match only 2%. All three projects were started in FY2018 but only \$135,303 was spent cumulatively by year end. In FY2017, the Town of Smithfield secured a \$5 million line of credit that was used to fund multiple projects. This line was converted into a fixed note as in October 2017. The Town expected to utilize the loan funds by June 30, 2017, but several projects such as the Windsor Castle Restoration, Clontz Park Boat Ramp, and the software conversion in the Treasurer's office were extended beyond their original completion dates. The funds were put into escrow to be applied as the projects progress. As of June 30, 2018, the Town used \$391,523 of the \$434,250 included in the amended budget. Operating reserves from prior years' dedicated meals tax were included in the amended budget to complete Phase III of the Pinewood Heights Redevelopment Project that was previously budgeted for close out in FY2017. Progress was slow in FY2018 and only \$396,320 of an expected \$520,313 was utilized by year end.

The budget for contributions increased by \$61,279 to reflect additional donations of \$35,040 from the Windsor Castle Park Foundation to reimburse the Town fully for the Natural Playground installation during FY2017 and \$50,000 from Isle of Wight County for the Public Sports Complex. The County had been budgeted to pay \$50,000 per year for 5 years for the project beginning in FY2017. They made no contribution in FY2017, but paid \$100,000 in FY2018 to meet their commitment. The Town also entered into 2 capital leases for the year for a new fire alarm system (\$27,450) and sandpro machine (\$21,180) for the new public sports complex. Finally, budgeted road maintenance funds were increased by \$164,752 to reflect an increase in state funding (\$19,617) and a carry forward of grant funds remaining from FY2017 (\$145,135).

GENERAL FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

Total budgeted operating expenses for FY2018 decreased by \$462,860 (-5.68%) with a large increase of \$484,313 in Community Development offset by significant decreases in Parks, Recreation, and Cultural (-\$673,400) and Debt Service (-\$255,621). Smaller changes in General Government (\$8,101), Treasurer (-\$33,266), Public Safety (\$613), and Public Buildings (\$6,400) accounted for the remainder of amendments to operating expenses. The budget for Community Development increased from \$392,951 to \$877,264 (123.25%). This budgeted increase was made to account for the remaining portion of Phase III of the Pinewood Heights Redevelopment Project as carried over from FY2017. As progress slowed, however, the Town did not complete the project and spent \$360,320 for the year leaving a remainder of \$164,036. The budget decrease for Parks, Recreation, and Cultural was also significant at \$673,400. This decrease resulted from a reduction of budgeted contribution costs for the Windsor Castle Park Restoration Project from \$1,490,000 to \$480,000 with \$10,000 paid in FY2017 and the remaining \$1,000,000 rolled into FY2019. This decrease of \$1,010,000 was offset by an increase of \$350,000 for a contribution to Historic Windsor Castle Park LLC for the restoration of the tenant house and the addition of two outbuildings. The budget for debt service was reduced by \$250,000 as the Town eliminated its projected TowneBank line of credit repayment of \$250,000. The Town did not utilize the line in FY2018; therefore, no repayment was required. Budgeted capital outlay increased \$1,460,246 (89.14%) with the largest increases in Public Works (\$1,041,867) and Parks, Recreation, and Cultural (\$373,829). The three urban fund projects previously detailed with the revenue amendments accounted for the increase in budgeted Public Works capital. The associated increase in budgeted federal revenues offset the increase in capital outlay in this category. The decrease in budgeted capital outlay for Parks, Recreation, and Cultural was the result of multiple projects; namely, engineering for the Clontz Park Boat Ramp (\$30,000), bathroom floor replacement at the Smithfield Center (\$7,329), equipment for the Public Sports Complex (\$20,780), and change orders and carry forward from FY2017 for the Public Sports Complex (\$315,720). Actual capital expenditures for FY2018 totaled \$1,682,879 compared to amended budget of \$3,098,475. Road maintenance budget expenditures were increased by \$164,752 to account for the increase in allowable grant funds for FY2018 (\$19,617) and the carry forward of funds remaining from FY2017 (\$145,135).

PROPRIETARY FUND BUDGETARY HIGHLIGHTS

The budget for proprietary funds was amended during FY2018 to reflect a net income of \$237,234 after contributions compared to the original budgeted income of \$84,802. Budgeted operating revenues were not revised; however, budgeted operating expenses were reduced by \$128,298 (-6.16%). The amended Sewer Fund actually reflected an increase to operating expenses of \$9,500 as \$26,000 and \$3,500 were added to maintenance and VAC truck repairs respectively with an offsetting decrease of \$20,000 to materials and supplies. Weather and pressure issues forced numerous repairs to electrical systems, pumps, and generators that fell below the capital threshold. The materials and supplies line item was reduced to offset the replenishment of inventory after a year of heavy repairs. Materials and supplies totaled \$20,866 for the year which was \$19,134 under the amended budget. Operating expenses for the Water Fund were amended to reflect a reduction of \$137,798. The decreases were attributable to water tank maintenance (-\$75,000), materials and supplies (-\$25,000), and HRSD sewer maintenance costs (-\$37,798). The budget for water tank maintenance decreased as the Town decided to instead focus on an analysis of the tanks that included coating evaluations and inspections in order to better schedule service in future years. This line item was still \$3,028 under budget after the budget decrease. Like the Sewer Fund, the materials and supplies budgeted expense was reduced as items were placed into service. The total recorded for the year was \$63,140, so the Town still reflected savings of \$11,860 even after the initial \$25,000 reduction. The budgeted HRSD charges for sewer treatment due to discharge from the reverse osmosis plant were reduced as usage dropped by 1,077,205 gallons over prior year. The total cost for FY2018 still exceeded FY2017 by \$14,265 as the HRSD rate increased from \$4.51 to \$4.92 per CCF. Depreciation expenses were not adjusted during the year, but water was under budget by \$33,620 and sewer was under budget by \$41,654 as capital outlay expenses were under budget by over 50% for both funds. The budget for non-operating revenues and expenses was increased by \$24,134 which included increases for pro-rata share fees (\$4,800), interest revenue (\$12,500), and insurance recoveries (\$12,500). The Town received pro-rata share fees of \$9,600 (\$4,800 each for water and sewer) which represents payment of \$800 per lot on 6 lots. Pro-rata share fees are paid at the time that plats are recorded and are indicative of new

PROPRIETARY FUND BUDGETARY HIGHLIGHTS: (CONTINUED)

development. Interest revenue was increased in the water fund by \$12,500 for the general operating account as strong cash balances prior to intercompany distributions increased earned interest by 158% higher over prior year. The insurance recovery was paid by VML Insurance Programs to offset the costs of pump repairs at one of the Town's sewer pump stations after a severe weather event.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. As of FY2018, the Town's investment in capital assets for its governmental and business-type activities totaled \$40,219,447 net of accumulated depreciation. This is an increase of \$579,584 from FY2017. Of this total, \$879,333 originated from an increase in governmental activities offset by a decrease in business-type activities of \$299,749. For the second consecutive year, the increase in governmental activities resulted primarily from construction in progress with the development of the public sports complex that was projected to open in FY2019. The value reductions of the business-type assets resulted from depreciation expense that exceeded the costs of improvements for the year. Water Fund capital assets decreased by \$227,117 with costs of \$124,262 and depreciation expense of \$351,379. The Sewer Fund decreased by \$72,632 with additions of \$284,713 offset by depreciation of \$357,345. 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 2018 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
- Continued progress on construction of a public sports complex and associated turn lane
- Completion of emergency spillway hazard mitigation at the Waterworks Dam
- Bypass pump installations at the James Street and Crescent pump stations
- Completion of repairs to Well #8 including replacement of steel columns and reinstallation of vertical turbine pump

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 9,869,637	\$ 9,833,637	\$ 204,481	\$ 204,481	\$ 10,074,118	\$ 10,038,118
Building and system	3,975,751	4,153,580	7,373,230	7,565,015	11,348,981	11,718,595
Improvements other than buildings	838,027	909,013	91,032	97,793	929,059	1,006,806
Machinery & equipment	417,035	397,149	2,687,877	2,589,683	3,104,912	2,986,832
Vehicles	319,215	376,894	75,392	107,271	394,607	484,165
Infrastructure	5,667,199	5,788,819	4,379,385	4,535,279	10,046,584	10,324,098
Art collections	10,537	10,537	-	-	10,537	10,537
Construction in progress	4,306,909	3,055,348	3,740	15,364	4,310,649	3,070,712
Total	\$ 25,404,310	\$ 24,524,977	\$ 14,815,137	\$ 15,114,886	\$ 40,219,447	\$ 39,639,863

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 obligations for the Town at fiscal year-end 2018 totaled \$8,646,242 of which \$5,921,734 originated from governmental activities and the remaining \$2,724,508 from business-type activities. The Town converted a five million dollar (\$5,000,000) non-revolving line of credit that was secured in FY2017 to a fixed note in October 2017. Total principal paid for all debt during the year was \$612,515. The Town's ratio of net bonded debt to total assessed value of taxable property increased from 0.58% in FY2017 to .70% in FY2018 with the addition of the \$5 million note payable. Outstanding obligations also includes Net Other Post-Employment Benefits (OPEB) liabilities of \$509,001 as required by GASB 75. Group Life Insurance (GLI) 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, 2018

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
General obligation bonds	\$ 489,552	\$ 514,445	\$ 2,306,000	\$ 2,633,000	\$ 2,795,552	\$ 3,147,445
Notes payable	4,730,899	329,940	350,970	-	5,081,869	329,940
Line of credit	-	2,665,447	-	365,000	-	3,030,447
Capital leases	36,079	-	-	-	36,079	-
Net OPEB liabilities	476,478	532,128	32,523	35,873	509,001	568,001
Compensated absences	188,726	197,240	35,015	44,089	223,741	241,329
Total	\$ 5,921,734	\$ 4,239,200	\$ 2,724,508	\$ 3,077,962	\$ 8,646,242	\$ 7,317,162

ECONOMIC FACTORS

Capital construction in the Town of Smithfield during FY2018 centered on projects started in the previous fiscal year. The Joseph W. Luter, Jr. Sports Complex neared completion, but the associated right turn lane was delayed, limiting use of the facility at least until the spring of FY2019. Significant progress was made on Phase I of the Windsor Castle Park Restoration Project which is also expected to conclude in FY2019. A public boat ramp is planned at Clontz Park with the assistance of federal and state grant funds. The Town's Parks and Recreation department continues to grow with these added amenities designed to appeal to both visitors and residents. The Town will need to generate adequate revenues in order to staff and service these facilities. New development has been approved within the Town limits which will eventually bring in additional tax revenues. Recruitment for all of the Town's departments is a concern as the current low unemployment rate presents hiring challenges. Salaries and benefits were addressed in the FY2019 budget; however, private sector businesses continue to be strong competitors in a limited market.

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 2018. Questions concerning this report or requests for additional information should be directed to the Treasurer, Town of Smithfield, 310 Institute Street, Smithfield, VA 23430.

Basic Financial Statements

This page intentionally left blank

Government-wide Financial Statements

This page intentionally left blank

Statement of Net Position
As of June 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,614,826	\$ 3,869,550	\$ 11,484,376
Receivables (net of allowance for uncollectibles):			
Taxes receivable	1,813,661	-	1,813,661
Accounts receivable	344,923	594,574	939,497
Interest receivable	83	-	83
Internal balances	1,100,877	(1,100,877)	-
Due from other governmental units	290,078	1,270	291,348
Inventories	45,603	129,989	175,592
Prepaid items	41,340	-	41,340
Restricted assets:			
Cash and cash equivalents	255,029	3,114,782	3,369,811
Net pension asset	873,212	205,546	1,078,758
Capital assets (net of accumulated depreciation):			
Land	9,869,637	204,481	10,074,118
Buildings and system	3,975,751	7,373,230	11,348,981
Improvements other than buildings	838,027	91,032	929,059
Machinery and equipment	417,035	2,687,877	3,104,912
Vehicles	319,215	75,392	394,607
Infrastructure	5,667,199	4,379,385	10,046,584
Art collections	10,537	-	10,537
Construction in progress	4,306,909	3,740	4,310,649
Total assets	\$ 37,783,942	\$ 21,629,971	\$ 59,413,913
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	\$ -	\$ 24,122	\$ 24,122
Net OPEB liability related items	34,036	3,773	37,809
Net pension related items	190,915	44,939	235,854
Total deferred outflows of resources	\$ 224,951	\$ 72,834	\$ 297,785
LIABILITIES			
Accounts payable	\$ 467,895	\$ 90,415	\$ 558,310
Accrued wages & payroll liabilities	61,283	11,387	72,670
Customer deposits	-	80,943	80,943
Accrued interest payable	8,338	16,113	24,451
Due to other governmental units	230,075	-	230,075
Due to taxpayers	31,272	-	31,272
Long-term liabilities:			
Due within one year	898,823	363,782	1,262,605
Due in more than one year	5,022,911	2,360,726	7,383,637
Total liabilities	\$ 6,720,597	\$ 2,923,366	\$ 9,643,963
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue-property taxes	\$ 1,808,098	\$ -	\$ 1,808,098
Net OPEB liability related items	67,371	3,629	71,000
Net pension related items	160,724	37,833	198,557
Total deferred inflows of resources	\$ 2,036,193	\$ 41,462	\$ 2,077,655
NET POSITION			
Net investment in capital assets	\$ 20,147,780	\$ 12,182,289	\$ 32,330,069
Restricted:			
Town beautification	-	-	-
Pinewood Heights escrow	73,250	-	73,250
South Church Street projects	36,449	-	36,449
SNAP program	2,219	-	2,219
Police department expenditures	37,025	-	37,025
Highway maintenance	274,609	-	274,609
Water debt service and customer deposits	-	821,734	821,734
Sewer compliance	-	2,212,105	2,212,105
Unrestricted	8,680,771	3,521,849	12,202,620
Total net position	\$ 29,252,103	\$ 18,737,977	\$ 47,990,080

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, 2018

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental activities:				
General government administration	\$ 1,193,699	\$ -	\$ -	\$ -
Public safety	2,412,254	55,144	373,638	-
Public works	2,303,137	-	1,192,456	132,597
Parks, recreation, and cultural	1,892,333	-	4,500	-
Community development	742,362	35,938	173,075	-
Interest on long-term debt	127,572	-	-	-
Total governmental activities	\$ 8,671,357	\$ 91,082	\$ 1,743,669	\$ 132,597
Business-type activities:				
Water	\$ 1,548,749	\$ 1,591,685	\$ -	\$ 72,300
Sewer	838,798	1,236,027	-	110,280
Total business-type activities	\$ 2,387,547	\$ 2,827,712	\$ -	\$ 182,580
Total primary government	\$ 11,058,904	\$ 2,918,794	\$ 1,743,669	\$ 315,177

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, restated

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
\$ (1,193,699)	\$ -	\$ (1,193,699)
(1,983,472)	-	(1,983,472)
(978,084)	-	(978,084)
(1,887,833)	-	(1,887,833)
(533,349)	-	(533,349)
(127,572)	-	(127,572)
<u>\$ (6,704,009)</u>	<u>\$ -</u>	<u>\$ (6,704,009)</u>
\$ -	\$ 115,236	\$ 115,236
-	507,509	507,509
<u>\$ -</u>	<u>\$ 622,745</u>	<u>\$ 622,745</u>
<u>\$ (6,704,009)</u>	<u>\$ 622,745</u>	<u>\$ (6,081,264)</u>
\$ 2,495,373	\$ -	\$ 2,495,373
357,917	-	357,917
393,708	-	393,708
197,901	-	197,901
1,764,357	-	1,764,357
171,029	-	171,029
165,043	-	165,043
404,764	-	404,764
334,010	40,513	374,523
208,605	17,445	226,050
460,881	-	460,881
<u>\$ 6,953,588</u>	<u>\$ 57,958</u>	<u>\$ 7,011,546</u>
\$ 249,579	\$ 680,703	\$ 930,282
29,002,524	18,057,274	47,059,798
<u>\$ 29,252,103</u>	<u>\$ 18,737,977</u>	<u>\$ 47,990,080</u>

This page intentionally left blank

Fund Financial Statements

Balance Sheet
 Governmental Funds
 As of June 30, 2018

	General	Highway Maintenance	Capital Projects	Total
ASSETS				
Cash and cash equivalents (Note 2)	\$ 7,614,826	\$ -	\$ -	\$ 7,614,826
Receivables (net of allowance for uncollectibles):				
Taxes receivable (Note 1,3)	1,813,661	-	-	1,813,661
Accounts receivable (Note 3)	344,923	-	-	344,923
Interest receivable (Note 3)	83	-	-	83
Due from other funds (Note 5)	1,100,920	402,037	8,151	1,511,108
Due from other governmental units (Note 4)	290,078	-	-	290,078
Inventories	45,603	-	-	45,603
Prepaid items	41,340	-	-	41,340
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 2)	148,943	106,086	-	255,029
Total assets	<u>\$ 11,400,377</u>	<u>\$ 508,123</u>	<u>\$ 8,151</u>	<u>\$ 11,916,651</u>
LIABILITIES				
Accounts payable	\$ 239,975	\$ 227,920	\$ -	\$ 467,895
Accrued wages & payroll liabilities	55,689	5,594	-	61,283
Due to other funds (Note 5)	410,188	-	43	410,231
Due to other governmental units (Note 4)	230,075	-	-	230,075
Refunds to taxpayers	31,272	-	-	31,272
Total liabilities	<u>\$ 967,199</u>	<u>\$ 233,514</u>	<u>\$ 43</u>	<u>\$ 1,200,756</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue-property taxes	\$ 1,850,127	\$ -	\$ -	\$ 1,850,127
FUND BALANCE				
Nonspendable:				
Prepaid items	\$ 41,340	\$ -	\$ -	\$ 41,340
Inventory	45,603	-	-	45,603
Total nonspendable fund balance	<u>\$ 86,943</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 86,943</u>
Restricted:				
Pinewood Heights escrow	\$ 73,250	\$ -	\$ -	\$ 73,250
South Church Street projects	36,449	-	-	36,449
SNAP program	2,219	-	-	2,219
Highway maintenance	-	274,609	-	274,609
Police department expenditures	37,025	-	-	37,025
Total restricted fund balance	<u>\$ 148,943</u>	<u>\$ 274,609</u>	<u>\$ -</u>	<u>\$ 423,552</u>
Committed:				
Special projects	\$ 1,118,958	\$ -	\$ -	\$ 1,118,958
Windsor Castle	99,500	-	-	99,500
Museum	180,235	-	-	180,235
Total committed fund balance	<u>\$ 1,398,693</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,398,693</u>
Assigned:				
Capital projects	\$ -	\$ -	\$ 8,108	\$ 8,108
Total assigned fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,108</u>	<u>\$ 8,108</u>
Unassigned	\$ 6,948,472	\$ -	\$ -	\$ 6,948,472
Total fund balances	<u>\$ 8,583,051</u>	<u>\$ 274,609</u>	<u>\$ 8,108</u>	<u>\$ 8,865,768</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,400,377</u>	<u>\$ 508,123</u>	<u>\$ 8,151</u>	<u>\$ 11,916,651</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, 2018

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 8,865,768

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. 25,404,310

Items related to measurement of the net pension and OPEB liabilities are considered deferred outflows or deferred inflows and will be recognized in pension and OPEB expense over future years.

Deferred outflows - pension related	\$ 190,915	
Deferred outflows - OPEB related	34,036	
Deferred inflows - pension related	(160,724)	
Deferred inflows - OPEB related	<u>(67,371)</u>	(3,144)

Assets arising from pension 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 873,212

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 42,029

Interest paid on long-term debt is not accrued in governmental funds, but rather is recognized when paid. (8,338)

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	\$ (5,256,530)	
Compensated absences	(188,726)	
Net OPEB liabilities	<u>(476,478)</u>	<u>(5,921,734)</u>

Net position of governmental activities \$ 29,252,103

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, 2018

	General	Highway Maintenance	Capital Projects	Total
REVENUES				
General property taxes	\$ 2,524,997	\$ -	\$ -	\$ 2,524,997
Other local taxes	3,454,719	-	-	3,454,719
Permits, privilege fees, and regulatory licenses	35,938	-	-	35,938
Fines and forfeitures	55,144	-	-	55,144
Revenue from the use of money and property	333,756	254	-	334,010
Miscellaneous	208,605	-	-	208,605
Intergovernmental:				
Commonwealth	719,901	1,189,305	-	1,909,206
Federal	427,941	-	-	427,941
Total revenues	<u>\$ 7,761,001</u>	<u>\$ 1,189,559</u>	<u>\$ -</u>	<u>\$ 8,950,560</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,185,804	\$ -	\$ -	\$ 1,185,804
Public safety	2,288,658	-	-	2,288,658
Public works	850,706	1,056,559	-	1,907,265
Parks, recreation, and cultural	1,716,056	-	-	1,716,056
Community development	742,362	-	-	742,362
Capital projects	1,682,879	-	-	1,682,879
Debt service:				
Principal retirement	271,485	-	-	271,485
Interest and other fiscal charges	119,401	-	-	119,401
Total expenditures	<u>\$ 8,857,351</u>	<u>\$ 1,056,559</u>	<u>\$ -</u>	<u>\$ 9,913,910</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (1,096,350)</u>	<u>\$ 133,000</u>	<u>\$ -</u>	<u>\$ (963,350)</u>
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	\$ 48,630	\$ -	\$ -	\$ 48,630
Line of credit draws	1,969,553	-	-	1,969,553
Total other financing sources (uses)	<u>\$ 2,018,183</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,018,183</u>
Net change in fund balances	\$ 921,833	\$ 133,000	\$ -	\$ 1,054,833
Fund balances - beginning	<u>7,661,218</u>	<u>141,609</u>	<u>8,108</u>	<u>7,810,935</u>
Fund balances - ending	<u>\$ 8,583,051</u>	<u>\$ 274,609</u>	<u>\$ 8,108</u>	<u>\$ 8,865,768</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, 2018

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

Net change in fund balances - total governmental funds	\$	1,054,833
--	----	-----------

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Details supporting this adjustment are as follows:

Capital outlay	\$	1,700,644	
Depreciation expense		<u>(821,221)</u>	879,423

The net effect of various miscellaneous transactions involving capital assets (i.e., sales and donations) is to increase or decrease net position.

Gain (loss) on exchange of capital assets	(90)
---	------

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

Property tax revenue	(29,624)
----------------------	----------

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:

Proceeds from the line of credit draws	\$	(1,969,553)	
Proceeds from capital leases		(48,630)	
Principal retired on general obligation bonds and notes		<u>271,485</u>	(1,746,698)

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	\$	8,514	
Change in net pension asset		350,380	
Change in net OPEB liabilities		30,743	
Change in deferred inflows related to the measurement of the net OPEB liabilities		(67,371)	
Change in deferred inflows related to the measurement of the net pension asset		(136,254)	
Change in deferred outflows related to net pension asset		(120,142)	
Change in deferred outflows related to net OPEB liabilities		34,036	
Change in accrued interest payable		<u>(8,171)</u>	91,735

Change in net position of governmental activities	\$	<u><u>249,579</u></u>
---	----	-----------------------

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

Statement of Net Position
 Proprietary Funds
 As of June 30, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,173,200	\$ 1,696,350	\$ 3,869,550
Receivables, net of allowances for uncollectibles accounts	351,440	243,134	594,574
Due from other funds	-	203,693	203,693
Due from other governmental units	-	1,270	1,270
Inventory	106,952	23,037	129,989
Total current assets	\$ 2,631,592	\$ 2,167,484	\$ 4,799,076
Noncurrent assets:			
Restricted assets:			
Cash and cash equivalents	\$ 902,677	\$ 2,212,105	\$ 3,114,782
Total restricted assets	\$ 902,677	\$ 2,212,105	\$ 3,114,782
Net pension asset	\$ 116,299	\$ 89,247	\$ 205,546
Capital assets:			
Land	\$ 194,391	\$ 10,090	\$ 204,481
Improvements other than buildings	115,140	20,087	135,227
Vehicles	120,082	282,654	402,736
Buildings	7,394,018	4,204,032	11,598,050
Machinery and equipment	2,024,826	3,521,102	5,545,928
Infrastructure	3,494,528	8,214,137	11,708,665
Construction in progress	-	3,740	3,740
Accumulated depreciation	(4,336,280)	(10,447,410)	(14,783,690)
Total capital assets	\$ 9,006,705	\$ 5,808,432	\$ 14,815,137
Total noncurrent assets	\$ 10,025,681	\$ 8,109,784	\$ 18,135,465
Total assets	\$ 12,657,273	\$ 10,277,268	\$ 22,934,541
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	\$ 24,122	\$ -	\$ 24,122
Net OPEB liability related items	1,493	2,280	3,773
Net pension related items	25,427	19,512	44,939
Total deferred outflows of resources	\$ 51,042	\$ 21,792	\$ 72,834
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 59,578	\$ 30,837	\$ 90,415
Accrued payroll	7,200	4,187	11,387
Customer deposits	80,943	-	80,943
Accrued interest payable	13,208	2,905	16,113
Due to other funds	819,300	485,270	1,304,570
Compensated absences - current portion	8,117	5,161	13,278
Note payable - current portion	21,504	-	21,504
Bonds payable - current portion	226,910	102,090	329,000
Total current liabilities	\$ 1,236,760	\$ 630,450	\$ 1,867,210
Noncurrent liabilities:			
Bonds payable - net of current portion	\$ 1,614,290	\$ 362,710	\$ 1,977,000
Note payable - net of current portion	329,466	-	329,466
Net OPEB liability	12,868	19,655	32,523
Compensated absences - net of current portion	14,608	7,129	21,737
Total noncurrent liabilities	\$ 1,971,232	\$ 389,494	\$ 2,360,726
Total liabilities	\$ 3,207,992	\$ 1,019,944	\$ 4,227,936
DEFERRED INFLOWS OF RESOURCES			
Net OPEB liability related items	\$ 1,436	\$ 2,193	\$ 3,629
Net pension related items	21,406	16,427	37,833
Total deferred inflows of resources	\$ 22,842	\$ 18,620	\$ 41,462
NET POSITION			
Net investment in capital assets	\$ 6,838,657	\$ 5,343,632	\$ 12,182,289
Restricted	821,734	2,212,105	3,033,839
Unrestricted	1,817,090	1,704,759	3,521,849
Total net position	\$ 9,477,481	\$ 9,260,496	\$ 18,737,977
Total liabilities, deferred inflows of resources and net position	\$ 12,708,315	\$ 10,299,060	\$ 23,007,375

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, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
OPERATING REVENUES			
Charges for services:			
Charges for services and connection fees	\$ 1,395,707	\$ 1,236,027	\$ 2,631,734
Charges for services-debt service	195,978	-	195,978
Miscellaneous	9,596	7,849	17,445
Total operating revenues	<u>\$ 1,601,281</u>	<u>\$ 1,243,876</u>	<u>\$ 2,845,157</u>
OPERATING EXPENSES			
Personnel services	\$ 375,891	\$ 208,481	\$ 584,372
Employee benefits	62,625	37,263	99,888
Contractual	48,473	28,485	76,958
Maintenance, repairs, and truck operations	67,832	82,672	150,504
HRSD	80,979	-	80,979
Utilities	59,059	53,596	112,655
Supplies	399,544	21,202	420,746
Other charges	60,408	42,656	103,064
Depreciation	351,380	357,346	708,726
Total operating expenses	<u>\$ 1,506,191</u>	<u>\$ 831,701</u>	<u>\$ 2,337,892</u>
Operating income (loss)	<u>\$ 95,090</u>	<u>\$ 412,175</u>	<u>\$ 507,265</u>
NONOPERATING REVENUES (EXPENSES)			
Investment income	\$ 28,246	\$ 12,267	\$ 40,513
Interest expense and other fiscal charges	(42,558)	(7,097)	(49,655)
Total nonoperating revenues (expenses)	<u>\$ (14,312)</u>	<u>\$ 5,170</u>	<u>\$ (9,142)</u>
Income (loss) before contributions	<u>\$ 80,778</u>	<u>\$ 417,345</u>	<u>\$ 498,123</u>
Contributed capital - availability fees	\$ 67,500	\$ 105,480	\$ 172,980
Contributed capital - development impact fees	4,800	4,800	9,600
Total contributed capital	<u>\$ 72,300</u>	<u>\$ 110,280</u>	<u>\$ 182,580</u>
Change in net position	<u>\$ 153,078</u>	<u>\$ 527,625</u>	<u>\$ 680,703</u>
Total net position - beginning, restated	<u>9,324,403</u>	<u>8,732,871</u>	<u>18,057,274</u>
Total net position - ending	<u>\$ 9,477,481</u>	<u>\$ 9,260,496</u>	<u>\$ 18,737,977</u>

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

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended June 30, 2018

	Enterprise Funds		
	Water Fund	Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers and users	\$ 1,563,872	\$ 1,226,130	\$ 2,790,002
Payments to suppliers	(507,179)	(520,580)	(1,027,759)
Payments to and on behalf of employees	(455,342)	(259,856)	(715,198)
Net cash provided by (used for) operating activities	<u>\$ 601,351</u>	<u>\$ 445,694</u>	<u>\$ 1,047,045</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Purchase of property, plant and equipment	\$ (124,263)	\$ (284,714)	\$ (408,977)
Capital contributions	72,300	110,280	182,580
Retirement of long-term indebtedness	(240,600)	(100,430)	(341,030)
Interest expense	(38,904)	(7,725)	(46,629)
Net cash provided by (used for) capital and related financing activities	<u>\$ (331,467)</u>	<u>\$ (282,589)</u>	<u>\$ (614,056)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest income	\$ 28,246	\$ 12,267	\$ 40,513
Net cash provided by (used for) investing activities	<u>\$ 28,246</u>	<u>\$ 12,267</u>	<u>\$ 40,513</u>
Net increase (decrease) in cash and cash equivalents	\$ 298,130	\$ 175,372	\$ 473,502
Cash and cash equivalents - beginning, including restricted cash and cash equivalents of \$954,000 and \$1,893,339	<u>2,777,747</u>	<u>3,733,083</u>	<u>6,510,830</u>
Cash and cash equivalents - ending, including restricted cash and cash equivalents of \$902,677 and \$2,212,105	<u>\$ 3,075,877</u>	<u>\$ 3,908,455</u>	<u>\$ 6,984,332</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ 95,090	\$ 412,175	\$ 507,265
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	351,380	357,346	708,726
(Increase) decrease in accounts receivable	(35,037)	(17,744)	(52,781)
(Increase) decrease in due from other funds	4,556	(143,781)	(139,225)
(Increase) decrease in due from other governmental units	-	(2)	(2)
(Increase) decrease in inventory	7,265	473	7,738
Increase (decrease) in compensated absences	(5,078)	(3,996)	(9,074)
Increase (decrease) in accrued payroll	1,322	334	1,656
Increase (decrease) in due to other funds	206,885	(130,526)	76,359
Increase (decrease) in accounts payable	(9,590)	(18,135)	(27,725)
(Increase) decrease in net pension asset	(46,665)	(35,809)	(82,474)
Increase (decrease) in net OPEB liability	(497)	(760)	(1,257)
(Increase) decrease in deferred outflows of resources - OPEB related	(1,493)	(2,280)	(3,773)
Increase (decrease) in deferred inflows of resources - OPEB related	1,436	2,193	3,629
(Increase) decrease in deferred outflows of resources - pension related	16,001	12,280	28,281
Increase (decrease) in deferred inflows of resources - pension related	18,148	13,926	32,074
Increase (decrease) in customer deposits	(2,372)	-	(2,372)
Total adjustments	<u>\$ 506,261</u>	<u>\$ 33,519</u>	<u>\$ 539,780</u>
Net cash provided by (used for) operating activities	<u>\$ 601,351</u>	<u>\$ 445,694</u>	<u>\$ 1,047,045</u>

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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018

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).

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

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

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

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

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

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

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

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

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

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

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

Property taxes, sales taxes, franchise taxes, licenses, 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, 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, 2018.

E. Expenditures and Appropriations

Expenditures did not exceed appropriations in any fund at June 30, 2018.

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 \$90,757 at June 30, 2018. The allowance for uncollectible billings in the water and sewer funds are \$75,579 and \$51,403, 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. The Town reported capitalized interest in the amount of \$0 for fiscal year 2018.

K. Compensated Absences

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

L. Long-term Obligations

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

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

M. Use of Estimates

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

N. Intergovernmental Agreements

Water Services Agreement:

The Town has an agreement in place with Isle of Wight County to provide water to certain areas of Isle of Wight County. The initial agreement was entered into in August 2010 for a term of five years at the rate of \$3.90 per 1,000 gallons. The rate was increased to \$5.99 effective January 1, 2012 as part of utility rate increases adopted by the Town council. The rate was increased again as of July 1, 2013 to \$6.41 per 1,000 gallons. On June 7, 2016 the Town Council approved a new agreement that reduced the water rate to 6.10 per 1,000 gallons. The effective date of the agreement is July 1, 2016 for a term of 2 years.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

N. Intergovernmental Agreements (Continued)

Sanitary Sewer Public Utility Agreement:

The Town has an agreement in place with Isle of Wight County to provide sewer services to certain areas of Isle of Wight County at the rate of \$1.50 per month for each residential and commercial connection within the area. The initial agreement was entered into in March 2010 and expired in March 2015. Payment continued after the expiration date on a monthly basis based on the terms of the expired agreement. A new agreement was approved at the June 7, 2016 Town Council meeting that increased sewer charges to \$2.50 per 1,000 gallons. The effective date of the agreement is July 1, 2016 for a term of 2 years.

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 2018 was \$222,160.

Erosion and Sediment Control Plan:

The Town has a memorandum of agreement with Isle of Wight County to develop an erosion and sediment control plan for each zoning permit that it issues. There was no expenditure related to this agreement in fiscal year 2018.

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 2018 was nominal and is not currently tracked or reported separately by the Town.

Law Enforcement Mutual Aid Agreement:

The Town has entered into a mutual aid agreement with several other localities to provide police and sheriff support across jurisdictional lines. There was no expenditure related to this agreement in fiscal year 2018.

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 2018 was \$205,001.

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)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The 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. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's 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.

Line of Duty Act Program

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 employees 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. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and related LODA OPEB expense, information about the fiduciary net position of the VRS LODA Program OPEB Plan and the additions to/deductions from the VRS LODA Program OPEB Plan's 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

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

T. Fund Equity

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

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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments

As of June 30, 2018, the Town had the following investments:

<u>Town's Rated Debt Investments</u>	
<u>Rated Debt Investments Value</u>	<u>Standard & Poor's</u>
	<u>AAf</u>
VACO/VML Virginia Investment Pool \$	<u>511,675</u>
Total	<u>\$ 511,675</u>

Investment Credit Policy

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

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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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, 2018 (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	\$ 511,675	\$ 511,675
Total investments	\$ 511,675	\$ 511,675

* 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.
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

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Restricted and Designated Cash

Restricted cash and cash equivalents of the Town’s governmental funds and activities at June 30, 2018, are detailed as follows:

	<u>General</u>	<u>Highway Maintenance</u>	<u>Business-type Activities</u>	
			<u>Water</u>	<u>Sewer</u>
South Church Street projects \$	36,449	\$ -	\$ -	\$ -
Pinewood Heights escrow	73,250	-	-	-
Police Department	37,025	-	-	-
SNAP program	2,219	-	-	-
Highway maintenance	-	106,086	-	-
Debt service	-	-	815,642	-
Compliance escrow	-	-	-	2,212,105
Customer deposits	-	-	87,035	-
Total	<u>\$ 148,943</u>	<u>\$ 106,086</u>	<u>\$ 902,677</u>	<u>\$ 2,212,105</u>

Fair Value Measurements

Fair value for investments is determined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. The three-level fair value hierarchy prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Significant observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 2—DEPOSITS AND INVESTMENTS: (CONTINUED)

Fair Value Measurements

The Town reports the following investments:

	Total June 30, 2018	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
VACO/VML Virginia Investment Pool	\$ 511,675	\$ 511,675	\$ -	\$ -
Total	\$ 511,675	\$ 511,675	\$ -	\$ -

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	\$ 1,118,958	\$ -	\$ -	\$ 1,118,958
Windsor Castle	99,500	-	-	99,500
Museum	180,235	-	-	180,235
Escrow	216,888	616,998	1,150,458	1,984,344
Total	\$ 1,615,581	\$ 616,998	\$ 1,150,458	\$ 3,383,037

NOTE 3—RECEIVABLES:

Accounts receivable are detailed as follows:

	Governmental Activities	Business-type Activities
Property taxes	\$ 1,904,418	\$ -
Consumer utility taxes	16,322	-
Consumption taxes	4,103	-
Interest	83	-
Transient occupancy tax	68,598	-
Meals tax	255,408	-
Other	492	-
Water and sewer billings	-	721,556
Total	\$ 2,249,424	\$ 721,556
Allowance for uncollectibles	(90,757)	(126,982)
Net receivables	\$ 2,158,667	\$ 594,574

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 4—DUE FROM/TO OTHER GOVERNMENTS:

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

Governmental Activities:	<u>Due From</u>	<u>Due To</u>
Commonwealth:		
Communications Tax	\$ 34,756	\$ -
VDEM Disaster Grants Public Assistance	20,595	
Other	<u>7,338</u>	<u>26,770</u>
Due from/to Commonwealth	<u>\$ 62,689</u>	<u>\$ 26,770</u>
Isle of Wight County:		
Local Sales Tax	\$ 94,292	\$ -
Fines	6,095	-
Other	<u>525</u>	<u>203,305</u>
Due from/to Isle of Wight County	<u>\$ 100,912</u>	<u>\$ 203,305</u>
Due from Federal Government:		
CDBG	\$ 3,000	\$ -
VDEM Disaster Grants Public Assistance	90,864	
VDOT construction	<u>32,613</u>	<u>-</u>
Due from Federal Government	<u>\$ 126,477</u>	<u>\$ -</u>
Total	<u>\$ 290,078</u>	<u>\$ 230,075</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, 2018, the balances are as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Primary Government:		
General Fund	\$ 1,100,920	\$ 410,188
Highway Fund	402,037	-
Capital Projects Fund	8,151	43
Enterprise Funds:		
Water Fund	-	819,300
Sewer Fund	203,693	485,270
Total	<u>\$ 1,714,801</u>	<u>\$ 1,714,801</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 6—CAPITAL ASSETS:

The following is a summary of changes in capital assets:

Governmental Activities:	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 9,833,637	\$ 36,000	\$ -	\$ 9,869,637
Construction in progress	3,055,348	1,453,978	202,417	4,306,909
Total capital assets not being depreciated	<u>\$ 12,888,985</u>	<u>\$ 1,489,978</u>	<u>\$ 202,417</u>	<u>\$ 14,176,546</u>
Capital assets being depreciated:				
Art collections	\$ 118,466	\$ -	\$ -	\$ 118,466
Buildings and system	6,161,025	17,329	-	6,178,354
Improvements other than buildings	1,769,770	-	-	1,769,770
Machinery and equipment	1,302,159	124,720	21,605	1,405,274
Vehicles	1,535,583	75,535	-	1,611,118
Infrastructure	9,609,119	195,499	-	9,804,618
Total capital assets being depreciated	<u>\$ 20,496,122</u>	<u>\$ 413,083</u>	<u>\$ 21,605</u>	<u>\$ 20,887,600</u>
Accumulated depreciation:				
Art collections	\$ (107,929)	\$ -	\$ -	\$ (107,929)
Buildings and system	(2,007,445)	(195,158)	-	(2,202,603)
Improvements other than buildings	(860,757)	(70,986)	-	(931,743)
Machinery and equipment	(905,010)	(104,744)	(21,515)	(988,239)
Vehicles	(1,158,689)	(133,214)	-	(1,291,903)
Infrastructure	(3,820,300)	(317,119)	-	(4,137,419)
Total accumulated depreciation	<u>\$ (8,860,130)</u>	<u>\$ (821,221)</u>	<u>\$ (21,515)</u>	<u>\$ (9,659,836)</u>
Net capital assets being depreciated	<u>\$ 11,635,992</u>	<u>\$ (408,138)</u>	<u>\$ 90</u>	<u>\$ 11,227,764</u>
Capital assets, net	<u>\$ 24,524,977</u>	<u>\$ 1,081,840</u>	<u>\$ 202,507</u>	<u>\$ 25,404,310</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Business-type Activities:	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Capital assets not being depreciated:				
Land	\$ 204,481	\$ -	\$ -	\$ 204,481
Construction in progress	15,364	3,740	15,364	3,740
Total capital assets not being depreciated	<u>\$ 219,845</u>	<u>\$ 3,740</u>	<u>\$ 15,364</u>	<u>\$ 208,221</u>
Capital assets being depreciated:				
Buildings and system	\$ 11,586,211	\$ 11,839	\$ -	\$ 11,598,050
Equipment	5,145,585	400,343	-	5,545,928
Infrastructure	11,701,990	6,675	-	11,708,665
Improvements other than buildings	135,227	-	-	135,227
Vehicles	400,992	1,744	-	402,736
Total capital assets being depreciated	<u>\$ 28,970,005</u>	<u>\$ 420,601</u>	<u>\$ -</u>	<u>\$ 29,390,606</u>
Accumulated depreciation:				
Buildings and system	\$ (4,021,196)	\$ (203,624)	\$ -	\$ (4,224,820)
Equipment	(2,555,902)	(302,149)	-	(2,858,051)
Infrastructure	(7,166,711)	(162,569)	-	(7,329,280)
Improvements other than buildings	(37,434)	(6,761)	-	(44,195)
Vehicles	(293,721)	(33,623)	-	(327,344)
Total accumulated depreciation	<u>\$ (14,074,964)</u>	<u>\$ (708,726)</u>	<u>\$ -</u>	<u>\$ (14,783,690)</u>
Net capital assets being depreciated	<u>\$ 14,895,041</u>	<u>\$ (288,125)</u>	<u>\$ -</u>	<u>\$ 14,606,916</u>
Capital assets, net	<u>\$ 15,114,886</u>	<u>\$ (284,385)</u>	<u>\$ 15,364</u>	<u>\$ 14,815,137</u>

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

Governmental activities:	
General government administration	\$ 42,386
Public safety	176,313
Public works (Highways and streets)	427,746
Parks, recreation and cultural	174,776
Total governmental activities	<u>\$ 821,221</u>
Business-type activities	<u>\$ 708,726</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 6—CAPITAL ASSETS: (CONTINUED)

Contract Commitments

Contract commitments of the Town at June 30, 2018 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	\$ 64,522	\$ 788,279
Intersection Improvement - Benns Church Blvd./258/Rt. 10	96,523	83,947
MUNIS Conversion	127,905	85,621
Clontz Park Boat Ramp	40,726	843,958
Sports Complex	3,265,900	432,594
Sports Complex - Building	659,010	1,568
Sewer Manhole Rehabilitation	3,740	71,260
Total	<u>\$ 4,258,326</u>	<u>\$ 2,307,227</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, 2017, the interest rate being charged to the Town was 3.58% and there was no balance outstanding. The unsecured line expired on April 30, 2018.

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, 2017, the interest rate being charged to the Town was 2.9% and there was no balance outstanding. The unsecured line was to expire on July 31, 2017; however, the line was renewed and expired July 31, 2018. The line was subsequently renewed through July 31, 2019.

In October 2016, the Town entered into a line of credit agreement with Farmers Bank of Windsor, VA in the amount of \$5,000,000. The non-revolving line of credit was converted to a fixed note in October 2017.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS:

Governmental activities obligations

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

	Balance July 1, 2017 *	Issuances/ Additions	Retirements/ Reductions	Balance June 30, 2018
General obligation bond payable	\$ 514,445	\$ -	\$ (24,893)	\$ 489,552
Notes payable	329,940	4,635,000	(234,041)	4,730,899
Line of credit	2,665,447	1,969,553	(4,635,000)	-
Capital leases	-	48,630	(12,551)	36,079
Net OPEB liabilities	532,128	-	(55,650)	476,478
Compensated absences	197,240	-	(8,514)	188,726
Totals	<u>\$ 4,239,200</u>	<u>\$ 6,653,183</u>	<u>\$ (4,970,649)</u>	<u>\$ 5,921,734</u>

* GASB Statement No. 75 was implemented as of July 1, 2017. The beginning balance for net OPEB liabilities was restated.

Details of Long-term Obligations

In April 2011, the primary government issued Taxable General Obligation Bonds of \$638,907 pursuant to a sales contract entered into with the County of Isle of Wight in February 2011. Principal payments will be made in eight annual installments beginning January 2012 with a balloon payment of \$489,552 due no later than December 2019. Interest is calculated at 4% to 5.50% per annum and made in semiannual installments, which began in February 2011. The bonds were issued for the purpose of providing funds for various public improvement projects, including but not limited to, the acquisition of land for public safety and administration offices. At June 30, 2018, the balance of the bond payable was \$489,552.

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

Year Ending June 30,	Bond Payable		Notes Payable		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 489,552	\$ 28,033	\$ 326,683	\$ 89,925	\$ 16,022	\$ 659
2020	-	-	333,574	83,034	16,952	358
2021	-	-	340,616	75,992	3,105	35
2022	-	-	347,814	68,794	-	-
2023	-	-	345,125	61,451	-	-
2024-2028	-	-	1,559,989	216,860	-	-
2029-2033	-	-	1,477,098	62,810	-	-
Total	<u>\$ 489,552</u>	<u>\$ 28,033</u>	<u>\$ 4,730,899</u>	<u>\$ 658,866</u>	<u>\$ 36,079</u>	<u>\$ 1,052</u>

The line of credit was converted to a fixed note payable in October 2017.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Details of Long-term Obligations (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
Bonds Payable:		
\$638,907 General Obligation Bond Series 2011 dated September 8, 2011 with principal payable semi-annually, bearing interest at 4.00% to 5.50% payable semi-annually. A balloon payment is due January 1, 2019 per an agreement with the County of Isle of Wight.	\$ 489,552	\$ 489,552
Notes Payable:		
\$434,300 note payable dated April 24, 2015. Payments due annually with the final installment due 2023, bearing interest at 3.05%.	\$ 275,090	53,609
\$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%.	4,455,809	273,074
Total Notes Payable	<u>\$ 4,730,899</u>	<u>\$ 326,683</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.	\$ 18,300	\$ 9,150
\$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%.	17,779	6,872
Total Capital Leases	<u>\$ 36,079</u>	<u>\$ 16,022</u>
Compensated Absences (Note 9)	<u>\$ 188,726</u>	<u>\$ 66,566</u>
Net OPEB liabilities (Note 11)	<u>\$ 476,478</u>	<u>\$ -</u>
Total governmental activities obligations	<u>\$ 5,921,734</u>	<u>\$ 898,823</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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, 2017 *</u>	<u>Issuances/ Additions</u>	<u>Retirements/ Reductions</u>	<u>Balance June 30, 2018</u>
General obligation bonds payable	\$ 2,633,000	\$ -	\$ (327,000)	\$ 2,306,000
Note payable	-	365,000	(14,030)	350,970
Line of Credit	365,000	-	(365,000)	-
Net OPEB liabilities	35,873	-	(3,350)	32,523
Compensated absences	44,089	-	(9,074)	35,015
Totals	<u>\$ 3,077,962</u>	<u>\$ 365,000</u>	<u>\$ (718,454)</u>	<u>\$ 2,724,508</u>

* GASB Statement No. 75 was implemented as of July 1, 2017. The beginning balance for net OPEB liabilities was restated.

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 outstanding for business-type activities are as follows:

Year Ending June 30,	General Obligation Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2019	\$ 329,000	\$ 34,587	21,504	6,480
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
2023-2027	-	-	122,928	17,075
2028-2032	-	-	116,320	4,946
Total	<u>\$ 2,306,000</u>	<u>\$ 114,187</u>	<u>\$ 350,970</u>	<u>\$ 50,221</u>

The line of credit was converted to a fixed note payable in October 2017.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Business-type obligations: (Continued)

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
\$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.	\$ 560,000	\$ 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>1,746,000</u>	<u>206,000</u>
Total Bonds Payable	<u>\$ 2,306,000</u>	<u>\$ 329,000</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>\$ 350,970</u>	<u>\$ 21,504</u>
Compensated Absences (Note 10)	<u>\$ 35,015</u>	<u>\$ 13,278</u>
Net OPEB liabilities (Note 11)	<u>\$ 32,523</u>	<u>\$ -</u>
Total business-type obligations	<u><u>\$ 2,724,508</u></u>	<u><u>\$ 363,782</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, 2018, accumulated vacation and sick leave for the governmental funds amounted to \$188,726 of which \$66,566 is short-term.

At June 30, 2018, accumulated vacation and sick leave for the proprietary funds amounted to \$35,015 of which \$13,278 is short-term.

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.

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. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> Political subdivision employees* School division employees Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member’s total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contribution Component: (Cont.)</u></p> <ul style="list-style-type: none"> • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Plan Description: (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage (Cont.)	Disability Coverage (Cont.)	Disability Coverage (Cont.) Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.</p>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Primary Government</u>
Inactive members or their beneficiaries currently receiving benefits	24
Inactive members:	
Vested inactive members	10
Non-vested inactive members	13
Inactive members active elsewhere in VRS	<u>31</u>
Total inactive members	54
Active members	<u>62</u>
Total covered employees	<u><u>140</u></u>

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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Town's contractually required employer contribution rate for the year ended June 30, 2018 was 5.67% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$152,960 and \$156,370 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Net Pension Asset

The Town's net pension assets were measured as of June 30, 2017. The total pension liabilities used to calculate the net pension assets were determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

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.

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

Mortality rates: (Continued)

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, 2016 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%

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%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

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, 2016, 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, 2017.

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.

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

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

Mortality rates: (Continued)

The actuarial assumptions used in the June 30, 2016 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%

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%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

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%.

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. Through the fiscal year ending June 30, 2019, 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, 2019 on, participating employers are assumed 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

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, 2016	\$ 7,975,823	\$ 8,621,724	\$ (645,901)
Changes for the year:			
Service cost	\$ 345,672	\$ -	\$ 345,672
Interest	549,789	-	549,789
Benefit changes	-	-	-
Differences between expected and actual experience	107,895	-	107,895
Assumption changes	(39,355)	-	(39,355)
Contributions - employer	-	200,069	(200,069)
Contributions - employee	-	139,642	(139,642)
Net investment income	-	1,064,028	(1,064,028)
Benefit payments, including refunds	(243,397)	(243,397)	-
Refunds of employee contributions	-	-	-
Administrative expenses	-	(5,926)	5,926
Other changes	-	(955)	955
Net changes	<u>\$ 720,604</u>	<u>\$ 1,153,461</u>	<u>\$ (432,857)</u>
Balances at June 30, 2017	<u>\$ 8,696,427</u>	<u>\$ 9,775,185</u>	<u>\$ (1,078,758)</u>

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		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Town Net Pension Liability (Asset)	\$ 257,938	\$ (1,078,758)	\$ (2,173,010)

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 10—PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2018, the Town recognized pension expense of \$80,553. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 82,894	\$ 21,688
Change in assumptions	-	29,516
Net difference between projected and actual earnings on pension plan investments	-	147,353
Employer contributions subsequent to the measurement date	<u>152,960</u>	<u>-</u>
Total	<u>\$ 235,854</u>	<u>\$ 198,557</u>

\$152,960 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, 2019. 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 Government</u>
2019	\$ (75,494)
2020	43,100
2021	8,208
2022	(91,477)
2023	-
Thereafter	-

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS:

Group Life Insurance:

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance 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 Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance 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 Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none">• City of Richmond• City of Portsmouth• City of Roanoke• City of Norfolk• Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee’s covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program 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.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

Contributions

The contribution requirements for the Group Life Insurance 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 Group Life Insurance 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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 \$15,029 and \$14,833 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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 Group Life Insurance Program OPEB

At June 30, 2018, the Town reported a liability of \$233,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion for the Town was .01547% as compared to .01467% at June 30, 2016.

For the year ended June 30, 2018, the Town recognized GLI OPEB expense of \$5,000. 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.

At June 30, 2018, 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	\$ -	\$ 5,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	9,000
Change in assumptions	-	12,000
Changes in proportion	12,000	-
Employer contributions subsequent to the measurement date	<u>15,029</u>	<u>-</u>
Total	<u>\$ 27,029</u>	<u>\$ 26,000</u>

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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 Group Life Insurance Program OPEB (Continued)

\$15,029 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, 2019. 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>
2019	\$ (3,000)
2020	(3,000)
2021	(3,000)
2022	(3,000)
2023	(1,000)
Thereafter	(1,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 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 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	Adjusted rates to better match experience
Salary Scale	No change

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS 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.

The actuarial assumptions used in the June 30, 2016 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 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - VaLORS 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.

The actuarial assumptions used in the June 30, 2016 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 and reduced margin for future improvement in accordance with experience
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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 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	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

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.

The actuarial assumptions used in the June 30, 2016 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%

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

Group Life Insurance: (Continued)

Actuarial Assumptions: (Continued)

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.

The actuarial assumptions used in the June 30, 2016 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, 2018 (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, 2016 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, 2018 (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, 2016 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 Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
		<hr/>
Total GLI OPEB Liability	\$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$	<hr/> <hr/> 1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

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, 2018 (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:

<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	2.50%
		*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%.

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 ending June 30, 2019, 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. From July 1, 2019 on, employers are assumed 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, 2018 (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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Town's proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 301,000	\$ 233,000	\$ 178,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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

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 Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. 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.

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

The specific information for the LODA Program OPEB, including eligibility, coverage and benefits is set out in the table below:

LINE OF DUTY ACT PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The eligible employees of the Line of Duty Act Program are 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).</p>
<p>Benefit Amounts</p> <p>The Line of Duty Act Program provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • <u>Death</u> - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <ul style="list-style-type: none"> ○ \$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. ○ 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. • <u>Health Insurance</u> - The Line of Duty Act program provides health insurance benefits. <ul style="list-style-type: none"> ○ 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 Line of Duty Act.

Contributions

The contribution requirements for the Line of Duty Act Program 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 Line of Duty Act Program for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 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 Line of Duty Act Program from the entity were \$10,780 and \$11,347 for the years ended June 30, 2018 and June 30, 2017, respectively.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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, 2018, the Town reported a liability of \$276,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 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, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was .10521% as compared to .11167% at June 30, 2016.

For the year ended June 30, 2018, 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, 2018, 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>
Change in assumptions	\$ -	\$ 29,000
Change in proportion	-	16,000
Employer contributions subsequent to the measurement date	<u>10,780</u>	<u>-</u>
Total	<u>\$ 10,780</u>	<u>\$ 45,000</u>

\$10,780 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, 2019. 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>	
2019	\$ (6,000)
2020	(6,000)
2021	(6,000)
2022	(6,000)
2023	(6,000)
Thereafter	(15,000)

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

Actuarial Assumptions

The total LODA OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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%
Investment rate of return	3.56%, 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 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

Mortality rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males 115% of rates; females 130% of rates.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2016 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Mortality rates - SPORS 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

Actuarial Assumptions: (Continued)

Mortality rates - SPORS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 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 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

Mortality rates - VaLORS 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: (CONTINUED)

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

Actuarial Assumptions: (Continued)

Mortality rates - VaLORS Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 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 and reduced margin for future improvement in accordance with experience
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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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: (Continued)

The actuarial assumptions used in the June 30, 2016 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 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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: (Continued)

The actuarial assumptions used in the June 30, 2016 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%

Changes to the LODA Program Associated with HB 1345 (2016) and HB 2243 (2017)

The following changes were made to the LODA Program as a result of legislation in 2016 and 2017, but were specifically not considered in the June 30, 2016 actuarial valuation results which were rolled forward to the measurement date of June 30, 2017. There was no current actuarial experience on which to base the adjustments and the combined impact of the changes was not considered to be material to the final results. These changes will be factored into future actuarial valuations for the LODA Program.

- The discontinuance of spouse health care coverage, if a covered spouse divorces a disabled employee or a covered surviving spouse remarries.
- The potential for VRS's periodic review of the disability status of a disabled employee.
- For those beneficiaries who become eligible for health care benefits as the result of a disability occurring after June 30, 2017, the suspension of health care benefits in years when VRS certifies current income exceeds salary at the time of the disability, indexed for inflation.
- The extension of health care benefits for dependent children to age 26.
- The expansion of the definition of presumption of death or disability to include infectious diseases.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (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 Line of Duty Act Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Line of Duty Act Program is as follows (amounts expressed in thousands):

	<u>LODA Program</u>
Total LODA OPEB Liability	\$ 266,252
Plan Fiduciary Net Position	3,461
Employers' Net OPEB Liability (Asset)	<u>\$ 262,791</u>
Plan Fiduciary Net Position as a Percentage of the Total LODA OPEB Liability	1.30%

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 3.56% 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 3.56% 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 published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. 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 ending June 30, 2019, 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, 2018 (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 3.56%, 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 (2.56%) or one percentage point higher (4.56%) than the current rate:

	Discount Rate		
	1% Decrease (2.56%)	Current (3.56%)	1% Increase (4.56%)
Town's proportionate share of the total LODA Net OPEB Liability	\$ 313,000	\$ 276,000	\$ 245,000

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

Because the Line of Duty Act 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	\$ 234,000	\$ 276,000	\$ 328,000

LODA OPEB Fiduciary Net Position

Detailed information about the Line of Duty Act Program Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-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, 2018 (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, 2018, the Town's aggregate general obligation indebtedness was \$103,530,498 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.

TOWN OF SMITHFIELD, VIRGINIA

Notes to Financial Statements
As of June 30, 2018 (Continued)

NOTE 15—COMMITMENTS:

The Town of Smithfield has completed two phases of a four phase community improvement project in its Pinewood Heights neighborhood. One resident relocation remains for Phase II as well as demolition of its associated unit, but the grant portion of the project has been closed. The remaining resident is a renter who is transitioning to a homeowner and has faced continued delays with sewer infrastructure on his relocation property.

On February 19, 2016, the Town was awarded a contract for Phase III that expired on February 18, 2018. The contract was extended for six months until August 18, 2018, but an additional request was approved to move the extended date to February 19, 2019. This phase consists of 5 owner occupied units, 4 Section 8 rental units, 8 market rate rentals, one vacant housing unit, and two vacant parcels for a total of 20 properties. The budget for Phase III includes a community improvement grant of \$1,000,000 from DHCD and \$1,323,335 in leverage funds as follows: \$43,000 from the Suffolk Redevelopment & Housing Authority (SRHA) for Section 8 rents, \$43,000 from Isle of Wight Home funds, and \$1,237,335 from the Town of Smithfield. As of June 30, 2018, the Town had acquired and relocated all five owner-occupied units. The Town had also purchased one vacant lot, 3 Section 8 units, and 8 market rate properties and relocated 2 section 8 and 7 market rate renters. One section 8 renter and one market rate renter become homeowners through the relocation process. To date, the Town has expended \$2,216,141 on Phase III of which \$990,000 was eligible for grant reimbursement. Of that amount, \$384,364 was spent in FY2018 with \$173,075 eligible for reimbursement.

Upon completion of Phase III, the Town plans to close out the project with Phase IV. The Town expects to fund its portion of the remainder of Phase III as well as Phase IV with meals tax revenues that have been dedicated to the project. In FY2018, the Town collected \$1,764,357 in total meals tax revenues with 2% of its 6.25% tax rate (\$567,545) dedicated to Pinewood.

NOTE 16—UPCOMING PRONOUNCEMENTS:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

NOTE 16—UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring 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. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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, 2018 (Continued)

NOTE 17—ADOPTION OF ACCOUNTING PRINCIPLES:

The Town implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Town implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the following restatement of net position:

	Governmental Activities <u>Net Position</u>	Business - type Activities		<u>Total</u>
		<u>Water Fund Net Position</u>	<u>Sewer Fund Net Position</u>	
Net Position as reported at July 1, 2017	\$ 29,509,745	\$ 9,337,768	\$ 8,753,286	\$ 18,091,054
Implementation of GASB Statement No. 75/85	<u>(507,221)</u>	<u>(13,365)</u>	<u>(20,415)</u>	<u>(33,780)</u>
Net Position as restated at July 1, 2017	<u>\$ 29,002,524</u>	<u>\$ 9,324,403</u>	<u>\$ 8,732,871</u>	<u>\$ 18,057,274</u>

This page intentionally left blank

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, 2018

	General Fund			
	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 2,400,111	\$ 2,431,664	\$ 2,524,997	\$ 93,333
Other local taxes	3,249,835	3,314,120	3,454,719	140,599
Permits, privilege fees, and regulatory licenses	24,500	40,000	35,938	(4,062)
Fines and forfeitures	60,000	60,000	55,144	(4,856)
Revenue from the use of money and property	224,600	268,600	333,756	65,156
Miscellaneous	124,820	199,799	208,605	8,806
Intergovernmental:				
Commonwealth	700,996	700,996	719,901	18,905
Federal	165,000	1,356,013	427,941	(928,072)
Total revenues	\$ 6,949,862	\$ 8,371,192	\$ 7,761,001	\$ (610,191)
EXPENDITURES				
Current:				
General government administration	\$ 1,272,815	\$ 1,247,650	\$ 1,185,804	\$ 61,846
Public safety	2,514,713	2,515,326	2,288,658	226,668
Public works	902,853	909,253	850,706	58,547
Parks, recreation, and cultural	2,472,564	1,799,164	1,716,056	83,108
Community development	402,682	918,548	742,362	176,186
Capital projects	1,638,229	3,098,475	1,682,879	1,415,596
Debt service:				
Principal retirement	532,308	272,387	271,485	902
Interest and other fiscal charges	117,728	122,028	119,401	2,627
Total expenditures	\$ 9,853,892	\$ 10,882,831	\$ 8,857,351	\$ 2,025,480
Excess (deficiency) of revenues over (under) expenditures	\$ (2,904,030)	\$ (2,511,639)	\$ (1,096,350)	\$ 1,415,289
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	\$ -	\$ 48,630	\$ 48,630	\$ -
Line of credit draws	2,229,553	1,969,553	1,969,553	-
Sale of land	10,000	10,000	-	(10,000)
Total other financing sources (uses)	\$ 2,239,553	\$ 2,028,183	\$ 2,018,183	\$ (10,000)
Net change in fund balances	\$ (664,477)	\$ (483,456)	\$ 921,833	\$ 1,405,289
Fund balances - beginning	664,477	483,456	7,661,218	7,177,762
Fund balances - ending	\$ -	\$ -	\$ 8,583,051	\$ 8,583,051

Highway Maintenance Fund
 Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2018

	Highway Maintenance Fund			
	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES				
Revenue from the use of money and property	\$ 185	\$ 185	\$ 254	\$ 69
Intergovernmental:				
Commonwealth	<u>1,169,688</u>	<u>1,189,305</u>	<u>1,189,305</u>	<u>-</u>
Total revenues	<u>\$ 1,169,873</u>	<u>\$ 1,189,490</u>	<u>\$ 1,189,559</u>	<u>\$ 69</u>
EXPENDITURES				
Current:				
Public works	<u>\$ 1,169,873</u>	<u>\$ 1,334,625</u>	<u>\$ 1,056,559</u>	<u>\$ 278,066</u>
Total expenditures	<u>\$ 1,169,873</u>	<u>\$ 1,334,625</u>	<u>\$ 1,056,559</u>	<u>\$ 278,066</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (145,135)</u>	<u>\$ 133,000</u>	<u>\$ 278,135</u>
Net change in fund balances	\$ -	\$ (145,135)	\$ 133,000	\$ 278,135
Fund balances - beginning	<u>-</u>	<u>145,135</u>	<u>141,609</u>	<u>(3,526)</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 274,609</u>	<u>\$ 274,609</u>

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 345,672	\$ 331,525	\$ 327,359	\$ 321,427
Interest	549,789	508,641	467,961	429,561
Differences between expected and actual experience	107,895	(38,766)	6,227	-
Changes in assumptions	(39,355)	-	-	-
Benefit payments, including refunds of employee contributions	(243,397)	(183,768)	(257,044)	(147,781)
Net change in total pension liability	\$ 720,604	\$ 617,632	\$ 544,503	\$ 603,207
Total pension liability - beginning	7,975,823	7,358,188	6,813,685	6,210,478
Total pension liability - ending (a)	\$ 8,696,427	\$ 7,975,820	\$ 7,358,188	\$ 6,813,685
Plan fiduciary net position				
Contributions - employer	\$ 200,069	\$ 175,435	\$ 169,828	\$ 225,366
Contributions - employee	139,642	139,731	126,764	133,560
Net investment income	1,064,028	152,635	365,835	1,071,092
Benefit payments, including refunds of employee contributions	(243,397)	(183,768)	(257,044)	(147,781)
Administrative expense	(5,926)	(5,063)	(4,907)	(5,531)
Other	(955)	(63)	(78)	57
Net change in plan fiduciary net position	\$ 1,153,461	\$ 278,907	\$ 400,398	\$ 1,276,763
Plan fiduciary net position - beginning	8,621,724	8,342,817	7,942,419	6,665,656
Plan fiduciary net position - ending (b)	\$ 9,775,185	\$ 8,621,724	\$ 8,342,817	\$ 7,942,419
Town's net pension (asset) liability - ending (a) - (b)	\$ (1,078,758)	\$ (645,904)	\$ (984,629)	\$ (1,128,734)
Plan fiduciary net position as a percentage of the total pension liability	112.40%	108.10%	113.38%	116.57%
Covered payroll	\$ 2,850,144	\$ 2,636,184	\$ 2,541,822	\$ 2,522,284
Town's net pension (asset) liability as a percentage of covered payroll	-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, 2009 through June 30, 2018

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)		
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%
2009	113,530	113,530	-	2,375,112	4.78%

Notes to Required Supplementary Information
Pension
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

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 Share of Net OPEB Liability
 Group Life Insurance Program
 For the Year Ended June 30, 2018

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)
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, 2018

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)
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, 2018

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:

General State 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

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	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

ValORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
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
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

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 Program (LODA)
 For the Year Ended June 30, 2018

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)
2017	0.1052% \$	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 one year of data is available. However, additional years will be included as they become available.

Schedule of Employer Contributions
 Line of Duty Act Program (LODA)
 For the Years Ended June 30, 2017 through June 30, 2018

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)
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 Program (LODA)
 For the Year Ended June 30, 2018

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:

General State 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
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 match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Notes to Required Supplementary Information
 Line of Duty Act Program (LODA)
 For the Year Ended June 30, 2018

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

This page intentionally left blank

Supporting Schedules

This page intentionally left blank

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2018

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	\$ 1,710,000	\$ 1,741,553	\$ 1,749,157	\$ 7,604
Real and personal public service corporation taxes	31,026	31,026	31,390	364
Personal property and machinery & tools taxes	621,500	621,500	685,517	64,017
Penalties	25,970	25,970	43,624	17,654
Interest	11,615	11,615	15,309	3,694
Total general property taxes	<u>\$ 2,400,111</u>	<u>\$ 2,431,664</u>	<u>\$ 2,524,997</u>	<u>\$ 93,333</u>
Other local taxes:				
Local sales and use taxes	\$ 340,000	\$ 356,000	\$ 357,917	\$ 1,917
Cigarette taxes	169,000	169,000	171,029	2,029
Bank stock taxes	136,955	136,955	148,697	11,742
Business license tax	367,600	379,225	393,708	14,483
Utility license taxes	192,000	192,000	197,901	5,901
Transient taxes	190,000	190,000	203,892	13,892
Meals tax	1,662,840	1,691,000	1,764,357	73,357
Vehicle licenses	140,500	149,000	165,043	16,043
Peg Channel capital fee	1,940	1,940	2,471	531
Consumption tax	49,000	49,000	49,704	704
Total other local taxes	<u>\$ 3,249,835</u>	<u>\$ 3,314,120</u>	<u>\$ 3,454,719</u>	<u>\$ 140,599</u>
Permits, privilege fees, and regulatory licenses:				
Permits and other licenses	\$ 24,500	\$ 40,000	\$ 35,938	\$ (4,062)
Total permits, privilege fees, and regulatory licenses	<u>\$ 24,500</u>	<u>\$ 40,000</u>	<u>\$ 35,938</u>	<u>\$ (4,062)</u>
Fines and forfeitures:				
Police fines	\$ 60,000	\$ 60,000	\$ 55,144	\$ (4,856)
Total fines and forfeitures	<u>\$ 60,000</u>	<u>\$ 60,000</u>	<u>\$ 55,144</u>	<u>\$ (4,856)</u>
Revenue from use of money and property:				
Interest	\$ 6,000	\$ 50,000	\$ 65,204	\$ 15,204
Revenue from use of property	218,600	218,600	268,552	49,952
Total revenue from use of money and property	<u>\$ 224,600</u>	<u>\$ 268,600</u>	<u>\$ 333,756</u>	<u>\$ 65,156</u>
Miscellaneous:				
Miscellaneous	\$ 12,120	\$ 12,120	\$ 17,205	\$ 5,085
VML insurance safety grant	3,500	3,500	3,971	471
Donations	109,200	170,479	177,614	7,135
Insurance recoveries	-	13,700	9,815	(3,885)
Total miscellaneous	<u>\$ 124,820</u>	<u>\$ 199,799</u>	<u>\$ 208,605</u>	<u>\$ 8,806</u>
Total revenue from local sources	<u>\$ 6,083,866</u>	<u>\$ 6,314,183</u>	<u>\$ 6,613,159</u>	<u>\$ 298,976</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Communications tax	\$ 225,000	\$ 225,000	\$ 216,435	\$ (8,565)
PPTRA	240,795	240,795	240,795	-
Auto rental tax	3,800	3,800	3,532	(268)
Rolling stock tax	16	16	119	103
Total noncategorical aid	<u>\$ 469,611</u>	<u>\$ 469,611</u>	<u>\$ 460,881</u>	<u>\$ (8,730)</u>

Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2018 (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	\$ 166,736	\$ 166,736	\$ 166,736	\$ -
Total shared expenses	<u>\$ 166,736</u>	<u>\$ 166,736</u>	<u>\$ 166,736</u>	<u>\$ -</u>
Other categorical aid:				
Fire programs fund	\$ 25,637	\$ 25,637	\$ 27,043	\$ 1,406
Virginia Commission of Arts Grant	5,000	5,000	4,500	(500)
Virginia Department of Emergency Management	28,500	28,500	33,235	4,735
Urban Funds	-	-	24,355	24,355
TRIAD	2,250	2,250	-	(2,250)
SNAP program fund	30	30	-	(30)
Litter control grant	3,232	3,232	3,151	(81)
Total other categorical aid	<u>\$ 64,649</u>	<u>\$ 64,649</u>	<u>\$ 92,284</u>	<u>\$ 27,635</u>
Total categorical aid	<u>\$ 231,385</u>	<u>\$ 231,385</u>	<u>\$ 259,020</u>	<u>\$ 27,635</u>
Total revenue from the Commonwealth	<u>\$ 700,996</u>	<u>\$ 700,996</u>	<u>\$ 719,901</u>	<u>\$ 18,905</u>
Revenue from the federal government:				
Categorical aid:				
Federal Grants - Bulletproof Vest Partnership	\$ 3,500	\$ -	\$ -	\$ -
Highway Planning and Construction	-	1,041,295	108,242	(933,053)
FEMA - Disaster Grants Public Assistance	161,500	161,500	146,624	(14,876)
Pinewood Heights CDBG Relocation Grant	-	153,218	173,075	19,857
Total categorical aid	<u>\$ 165,000</u>	<u>\$ 1,356,013</u>	<u>\$ 427,941</u>	<u>\$ (928,072)</u>
Total revenue from the federal government	<u>\$ 165,000</u>	<u>\$ 1,356,013</u>	<u>\$ 427,941</u>	<u>\$ (928,072)</u>
Total General Fund	<u>\$ 6,949,862</u>	<u>\$ 8,371,192</u>	<u>\$ 7,761,001</u>	<u>\$ (610,191)</u>
Highway Maintenance Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Interest	\$ 185	\$ 185	\$ 254	\$ 69
Total revenue from local sources	<u>\$ 185</u>	<u>\$ 185</u>	<u>\$ 254</u>	<u>\$ 69</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Street and highway maintenance	\$ 1,169,688	\$ 1,189,305	\$ 1,189,305	\$ -
Total revenue from the Commonwealth	<u>\$ 1,169,688</u>	<u>\$ 1,189,305</u>	<u>\$ 1,189,305</u>	<u>\$ -</u>
Total Highway Maintenance Fund	<u>\$ 1,169,873</u>	<u>\$ 1,189,490</u>	<u>\$ 1,189,559</u>	<u>\$ 69</u>
Total Primary Government	<u>\$ 8,119,735</u>	<u>\$ 9,560,682</u>	<u>\$ 8,950,560</u>	<u>\$ (610,122)</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2018

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Town Council	\$ 243,024	\$ 243,024	\$ 216,985	\$ 26,039
Town Manager	504,529	512,630	490,484	22,146
Treasurer	525,262	491,996	478,335	13,661
Total general government administration	<u>\$ 1,272,815</u>	<u>\$ 1,247,650</u>	<u>\$ 1,185,804</u>	<u>\$ 61,846</u>
Public safety:				
Law enforcement and traffic control:				
Police department	\$ 2,265,563	\$ 2,265,563	\$ 2,043,614	\$ 221,949
Total law enforcement and traffic control	<u>\$ 2,265,563</u>	<u>\$ 2,265,563</u>	<u>\$ 2,043,614</u>	<u>\$ 221,949</u>
Fire and rescue services:				
Fire department	\$ 38,637	\$ 39,250	\$ 40,043	\$ (793)
E-911 dispatch	210,513	210,513	205,001	5,512
Total fire and rescue services	<u>\$ 249,150</u>	<u>\$ 249,763</u>	<u>\$ 245,044</u>	<u>\$ 4,719</u>
Total public safety	<u>\$ 2,514,713</u>	<u>\$ 2,515,326</u>	<u>\$ 2,288,658</u>	<u>\$ 226,668</u>
Public works:				
Public works engineering, trash removal:				
Engineering, trash removal, maintenance	\$ 746,282	\$ 746,282	\$ 690,099	\$ 56,183
Maintenance of general buildings and grounds:				
Public buildings	\$ 156,571	\$ 162,971	\$ 160,607	\$ 2,364
Total public works	<u>\$ 902,853</u>	<u>\$ 909,253</u>	<u>\$ 850,706</u>	<u>\$ 58,547</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 182,194	\$ 182,194	\$ 159,005	\$ 23,189
BSV Parking Lot	1,500	1,500	2,400	(900)
Clontz Park	1,550	1,550	1,273	277
Farmers Market	3,000	3,000	3,000	-
Fireworks	2,000	2,000	2,000	-
Fishing Pier	-	-	1,800	(1,800)
Haydens Lane Maintenance	1,000	1,000	95	905
Veterans War Memorial	750	750	2,367	(1,617)
Isle of Wight Arts League	10,000	9,000	9,000	-
Jersey Park Playground	750	750	-	750
Museum	155,352	155,352	145,945	9,407
Pinewood Playground	500	500	140	360
Regional Library	4,888	4,888	4,888	-
Smithfield Center	347,892	347,892	310,053	37,839
Waterworks Lake Park and Dam	500	500	500	-
Sports Complex	50,000	37,600	22,004	15,596
Windsor Castle Park	1,710,688	1,050,688	1,051,586	(898)
Total parks, recreation, and cultural	<u>\$ 2,472,564</u>	<u>\$ 1,799,164</u>	<u>\$ 1,716,056</u>	<u>\$ 83,108</u>

Schedule of Expenditures - Budget and Actual
 Governmental Funds
 For the Year Ended June 30, 2018 (Continued)

Fund, Function, Activity, and Elements	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Community development:				
Planning and community development:				
APVA Courthouse	\$ 4,000	\$ 4,000	\$ 4,000	\$ -
Chamber of Commerce	6,000	6,000	6,000	-
Christian Outreach	11,500	11,500	11,500	-
Genieve Shelter	7,200	7,200	7,200	-
Hampton Roads Planning District	9,731	9,731	9,901	(170)
YMCA Project	50,000	50,000	50,000	-
CDBG and Pinewood Heights	40,043	524,356	360,059	164,297
TRIAD	3,120	3,120	1,990	1,130
Tourism Bureau	233,088	233,088	222,160	10,928
Tax Relief for Elderly & Veterans	-	31,553	31,552	1
Western Tidewater Free Clinic	38,000	38,000	38,000	-
Total community development	<u>\$ 402,682</u>	<u>\$ 918,548</u>	<u>\$ 742,362</u>	<u>\$ 176,186</u>
Capital projects:				
Function:				
General Government - Treasurer	\$ 84,250	\$ 84,250	\$ 41,523	\$ 42,727
Public Safety - Police	85,150	85,150	88,735	(3,585)
Public Works - other	21,251	1,063,118	135,874	927,244
Public Works - public buildings	43,275	51,825	49,885	1,940
Public Works - Waterworks Park & Dam	225,000	225,000	180,322	44,678
Parks, Recreation and Cultural - Sports Complex	1,159,303	1,495,803	1,113,500	382,303
Parks, Recreation and Cultural - Smithfield Center	10,000	17,329	17,329	-
Parks, Recreation and Cultural - Clontz Park	10,000	40,000	19,711	20,289
Community Development - property acquisition	-	36,000	36,000	-
Total capital projects	<u>\$ 1,638,229</u>	<u>\$ 3,098,475</u>	<u>\$ 1,682,879</u>	<u>\$ 1,415,596</u>
Debt service:				
Principal retirement and interest	\$ 532,308	\$ 272,387	\$ 271,485	\$ 902
Interest and other fiscal charges	117,728	122,028	119,401	2,627
Total debt service	<u>\$ 650,036</u>	<u>\$ 394,415</u>	<u>\$ 390,886</u>	<u>\$ 3,529</u>
Total General Fund	<u>\$ 9,853,892</u>	<u>\$ 10,882,831</u>	<u>\$ 8,857,351</u>	<u>\$ 2,025,480</u>
Highway Maintenance Fund:				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highway maintenance	\$ 1,132,252	\$ 1,297,004	\$ 1,038,796	\$ 258,208
Highway capital outlay	37,621	37,621	17,763	19,858
Total Highway Maintenance Fund	<u>\$ 1,169,873</u>	<u>\$ 1,334,625</u>	<u>\$ 1,056,559</u>	<u>\$ 278,066</u>
Total Primary Government	<u>\$ 11,023,765</u>	<u>\$ 12,217,456</u>	<u>\$ 9,913,910</u>	<u>\$ 2,303,546</u>

Other Statistical Information

TOWN OF SMITHFIELD, VIRGINIA

Net Position by Component
Last Ten Fiscal Years

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Governmental activities				
Net investment in capital assets	\$ 20,147,780	\$ 21,015,145	\$ 21,084,936	\$ 19,325,305
Restricted	423,552	1,258,418	1,896,404	130,778
Unrestricted	8,680,771	7,236,182	6,507,589	6,366,159
Total governmental activities net position	<u>\$ 29,252,103</u>	<u>\$ 29,509,745</u>	<u>\$ 29,488,929</u>	<u>\$ 25,822,242</u>
Business-type activities				
Net investment in capital assets	\$ 12,182,289	\$ 12,145,829	\$ 12,022,648	\$ 12,041,397
Restricted	3,033,839	2,764,024	2,261,716	2,118,384
Unrestricted	3,521,849	3,181,201	3,268,468	2,914,632
Total business-type activities net position	<u>\$ 18,737,977</u>	<u>\$ 18,091,054</u>	<u>\$ 17,552,832</u>	<u>\$ 17,074,413</u>
Primary government				
Net investment in capital assets	\$ 32,330,069	\$ 33,160,974	\$ 33,107,584	\$ 31,366,702
Restricted	3,457,391	4,022,442	4,158,120	2,249,162
Unrestricted	12,202,620	10,417,383	9,776,057	9,280,791
Total primary government net position	<u>\$ 47,990,080</u>	<u>\$ 47,600,799</u>	<u>\$ 47,041,761</u>	<u>\$ 42,896,655</u>

Table 1

	2014	2013	2012	2011	2010	2009
\$	19,858,407	\$ 20,341,956	\$ 20,238,480	\$ 16,855,409	\$ 15,757,552	\$ 14,036,786
	161,059	176,929	-	-	1,526,185	776,333
	5,125,703	4,478,388	2,877,537	4,112,055	2,606,432	2,789,245
\$	<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>	<u>17,602,364</u>
\$	12,149,969	\$ 12,456,082	\$ 12,248,298	\$ 12,153,344	\$ 8,383,785	\$ 7,726,696
	1,793,475	1,509,709	2,233,571	1,440,224	4,399,841	-
	2,694,709	2,397,006	1,657,184	2,750,516	2,841,075	6,980,698
\$	<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>	<u>14,707,394</u>
\$	32,008,376	\$ 32,798,038	\$ 32,486,778	\$ 29,008,753	\$ 24,141,337	\$ 21,763,482
	1,954,534	1,686,638	2,233,571	1,440,224	5,926,026	776,333
	7,820,412	6,875,394	4,534,721	6,862,571	5,447,507	9,769,943
\$	<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>	<u>32,309,758</u>

TOWN OF SMITHFIELD, VIRGINIA

Change in Net Position
Last Ten Fiscal Years

	2018	2017	2016	2015
Expenses				
Governmental activities:				
General government administration	\$ 1,193,699	\$ 1,172,634	\$ 1,053,933	\$ 1,003,355
Public safety	2,412,254	2,501,166	2,395,527	2,364,059
Public works	2,303,138	2,460,615	2,462,073	2,287,246
Parks, recreation, and cultural	1,892,333	1,468,199	945,848	916,654
Community development	742,362	1,903,649	1,144,472	1,039,243
Interest on long-term debt	127,571	50,342	44,266	41,771
Total governmental activities expenses	<u>\$ 8,671,357</u>	<u>\$ 9,556,605</u>	<u>\$ 8,046,119</u>	<u>\$ 7,652,328</u>
Business-type activities:				
Water	\$ 1,548,749	\$ 1,623,458	\$ 1,535,791	\$ 1,751,634
Sewer	838,798	930,017	972,556	1,011,978
Total business-type activities expenses	<u>\$ 2,387,547</u>	<u>\$ 2,553,475</u>	<u>\$ 2,508,347</u>	<u>\$ 2,763,612</u>
Total primary government expenses	<u>\$ 11,058,904</u>	<u>\$ 12,110,080</u>	<u>\$ 10,554,466</u>	<u>\$ 10,415,940</u>
Program Revenue				
Governmental activities:				
Charges for services:	\$ 91,082	\$ 97,832	\$ 91,602	\$ 105,848
Operating grants and contributions	1,743,669	1,862,264	1,305,965	1,263,354
Capital grants and contributions	132,597	957,221	3,555,770	150,800
Total governmental activities program revenues	<u>\$ 1,967,348</u>	<u>\$ 2,917,317</u>	<u>\$ 4,953,337</u>	<u>\$ 1,520,002</u>
Business-type activities:				
Charges for services:				
Water	\$ 1,591,685	\$ 1,598,568	\$ 1,590,719	\$ 1,624,519
Sewer	1,236,027	1,241,163	1,201,638	1,214,154
Operating grants and contributions	-	-	-	-
Capital grants and contributions	182,580	217,840	150,444	211,594
Total business-type activities program revenues	<u>\$ 3,010,292</u>	<u>\$ 3,057,571</u>	<u>\$ 2,942,801</u>	<u>\$ 3,050,267</u>
Total primary government program revenues	<u>\$ 4,977,640</u>	<u>\$ 5,974,888</u>	<u>\$ 7,896,138</u>	<u>\$ 4,570,269</u>
Governmental activities	\$ (6,704,009)	\$ (6,639,288)	\$ (3,092,782)	\$ (6,132,326)
Business-type activities	622,745	504,096	434,454	286,655
Total primary government net expense	<u>\$ (6,081,264)</u>	<u>\$ (6,135,192)</u>	<u>\$ (2,658,328)</u>	<u>\$ (5,845,671)</u>
General Revenues and Other Changes in Net Position				
Governmental activities:				
Taxes				
Property taxes	\$ 2,495,373	\$ 2,244,184	\$ 2,432,132	\$ 2,304,590
Franchise taxes	197,901	190,102	137,832	130,227
Sales taxes	357,917	367,527	330,898	313,161
Other taxes	2,898,901	2,817,556	2,712,974	2,585,464
Grants and contributions not restricted to specific programs	460,881	682,356	473,672	480,541
Gain (Loss) on disposition of capital assets	-	6,268	289,162	17,028
Revenues from use of property and money	334,010	234,640	271,179	239,991
Miscellaneous	208,605	117,471	111,620	178,676
Transfers	-	-	-	-
Other-Insurance Recoveries	-	-	-	-
Total governmental activities	<u>\$ 6,953,588</u>	<u>\$ 6,660,104</u>	<u>\$ 6,759,469</u>	<u>\$ 6,249,678</u>
Business-type activities:				
Miscellaneous	\$ 17,445	\$ 11,539	\$ 26,793	\$ 15,663
Other-Insurance Recoveries	-	-	-	-
Revenues from use of property and money	40,513	22,587	17,172	13,117
Total business-type activities	<u>\$ 57,958</u>	<u>\$ 34,126</u>	<u>\$ 43,965</u>	<u>\$ 28,780</u>
Total primary government	<u>\$ 7,011,546</u>	<u>\$ 6,694,230</u>	<u>\$ 6,803,434</u>	<u>\$ 6,278,458</u>
Change in Net Position				
Governmental activities	\$ 249,579	\$ 20,816	\$ 3,666,687	\$ 117,352
Business-type activities	680,703	538,222	478,419	315,435
Total primary government	<u>\$ 930,282</u>	<u>\$ 559,038</u>	<u>\$ 4,145,106</u>	<u>\$ 432,787</u>

Table 2

	2014	2013	2012	2011	2010	2009
\$	964,395	\$ 1,008,448	\$ 849,523	\$ 873,583	\$ 861,980	\$ 1,088,173
	2,397,623	2,363,849	2,357,991	2,453,686	2,416,984	2,458,180
	2,388,421	2,090,010	2,209,701	1,813,720	1,874,892	2,258,612
	826,369	691,306	740,853	806,902	599,380	594,077
	1,004,920	646,422	458,015	561,600	805,672	365,494
	35,648	43,342	34,721	57,712	13,760	18,451
\$	<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>	<u>\$ 6,782,987</u>
\$	1,632,400	\$ 1,546,489	\$ 1,637,463	\$ 895,899	\$ 871,765	\$ 925,985
	1,121,187	1,245,035	1,594,505	1,078,458	985,978	1,085,367
\$	<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>\$ 2,011,352</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>	<u>\$ 8,794,339</u>
\$	92,796	\$ 85,572	\$ 539,710	\$ 509,445	\$ 560,155	\$ 582,030
	1,268,617	1,335,108	1,394,579	1,287,831	1,182,407	1,175,835
	374,394	1,516,875	2,281,395	1,202,583	2,548,708	7,204,294
\$	<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>	<u>\$ 8,962,159</u>
\$	1,626,650	\$ 1,594,540	\$ 1,521,884	\$ 1,299,332	\$ 1,432,182	\$ 1,466,705
	1,201,756	1,181,471	1,370,018	1,357,910	1,167,007	912,995
	-	-	-	-	-	2,574
	178,369	212,202	120,586	18,737	184,334	16,975
\$	<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>\$ 2,399,249</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>	<u>\$ 11,361,408</u>
\$	(5,881,569)	\$ (3,905,822)	\$ (2,435,120)	\$ (3,567,344)	\$ (2,281,398)	\$ 2,179,172
	253,188	196,689	(219,480)	701,622	925,780	387,897
\$	<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>	<u>\$ 2,567,069</u>
\$	2,498,772	\$ 2,352,590	\$ 2,602,423	\$ 2,670,808	\$ 2,707,054	\$ 2,717,017
	134,609	116,784	131,046	143,231	141,404	92,375
	293,935	259,165	323,039	263,813	263,029	284,054
	2,319,444	2,209,427	1,905,360	1,722,320	1,704,845	1,726,986
	480,105	493,914	-	7,637	7,025	19,405
	28,142	18,722	(900,500)	(355,905)	(507,496)	-
	205,654	193,830	306,049	46,373	70,247	77,219
	68,804	138,522	19,269	4,796	12,201	-
	-	-	-	(41,000)	41,000	41,000
	-	4,124	34,018	9,219	12,551	29,028
\$	<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>	<u>\$ 4,987,084</u>
\$	10,642	\$ 7,543	\$ 3,091	\$ -	\$ -	\$ -
	-	7,110	-	-	-	-
	11,526	12,402	14,449	17,761	32,527	108,275
\$	<u>22,168</u>	<u>\$ 27,055</u>	<u>\$ 14,449</u>	<u>\$ 17,761</u>	<u>\$ 32,527</u>	<u>\$ 108,275</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>	<u>\$ 5,095,359</u>
\$	147,896	\$ 1,881,256	\$ 1,985,584	\$ 903,948	\$ 2,170,462	\$ 7,166,256
	275,356	223,744	(205,031)	719,383	958,307	496,172
\$	<u>423,252</u>	<u>\$ 2,105,000</u>	<u>\$ 1,780,553</u>	<u>\$ 1,623,331</u>	<u>\$ 3,128,769</u>	<u>\$ 7,662,428</u>

TOWN OF SMITHFIELD, VIRGINIA

Fund Balances of Governmental Funds
Last Ten Fiscal Years

	2018	2017	2016	2015	2014
General Fund					
Reserved	\$ -	\$ -	\$ -	\$ -	-
Unreserved	-	-	-	-	-
Nonspendable	86,943	47,593	87,451	37,522	2,128
Restricted	148,943	1,116,809	1,800,803	130,778	161,059
Committed	1,398,693	1,245,015	203,984	144,384	22,444
Unassigned	6,948,472	5,251,801	5,331,092	5,353,610	4,878,078
Total general fund	\$ 8,583,051	\$ 7,661,218	\$ 7,423,330	\$ 5,666,294	\$ 5,063,709
All Other Governmental Funds					
Unreserved, reported in:					
Special revenue funds	\$ -	\$ -	\$ -	\$ -	-
Capital project funds	-	-	-	-	-
Restricted, reported in:					
Special revenue funds	274,609	141,609	95,601	-	-
Assigned, reported in:					
Special revenue funds	-	-	-	83,872	38,064
Capital project funds	8,108	8,108	8,108	8,108	8,108
Unassigned, reported in:					
Special revenue funds	-	-	-	-	-
Total all other governmental funds	\$ 282,717	\$ 149,717	\$ 103,709	\$ 91,980	\$ 46,172
Total fund balances	\$ 8,865,768	\$ 7,810,935	\$ 7,527,039	\$ 5,758,274	\$ 5,109,881

[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

	2013	2012	2011 [1]	2010	2009
\$	-	\$ -	\$ 1,174,566	\$ 1,508,460	\$ 1,078,373
	-	-	-	2,552,861	2,417,959
	36,723	-	-	-	-
	176,929	-	-	-	-
	19,903	-	638,907	-	-
	4,058,330	2,691,180	2,189,060	-	-
\$	<u>4,291,885</u>	<u>\$ 2,691,180</u>	<u>\$ 4,002,533</u>	<u>\$ 4,061,321</u>	<u>\$ 3,496,332</u>
\$	-	\$ -	\$ -	\$ 9,618	\$ (25,827)
	-	-	-	8,107	8,107
	-	-	-	-	145,062
	109,859	-	147,536	-	-
	8,108	8,108	8,107	-	-
	-	(7,007)	-	-	-
\$	<u>117,967</u>	<u>\$ 1,101</u>	<u>\$ 155,643</u>	<u>\$ 17,725</u>	<u>\$ 127,342</u>
\$	<u>4,409,852</u>	<u>\$ 2,692,281</u>	<u>\$ 4,158,176</u>	<u>\$ 4,079,046</u>	<u>\$ 3,623,674</u>

This page intentionally left blank

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
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
2009	1,304,222	2,421,575	2,314,279	7,383,665	1,077,460	-	222,188	15,041	14,738,430

[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		
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
2009	2,840,115	2,103,415	508,544	73,486	201,859	1,386	1,155,049	426,937	275,700	6,556,853	14,143,344

[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
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
2009	\$.16/\$100	\$1/\$100 \$.16/\$100[1]	\$.25/\$100	\$.15/\$100	\$.16/\$100	\$1/\$100

[1] Mobile home rate.

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
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%
2009	2,696,693	2,627,544	97.4%	46,683	2,674,227	99.2%	277,914	10.3%

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

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

[3] 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
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
2009	6,324 [2]	1,310,667,802	4,924,959	4,703,341	221,618	0.02%	35

[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			
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%
2009	222,188	15,041	237,229	14,738,430	1.61%

Computation of Legal Debt Margin
As of June 30, 2018

Total assessed value of taxed real property	\$	1,114,079,194
Debit limit - 10% of total assessed value	\$	111,407,919
Amount of debt applicable to debt limit - gross debt		<u>7,877,421</u>
Legal debt margin	\$	<u><u>103,530,498</u></u>

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

Function/Program	Full-time Equivalent Employees as of June 30,									
	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
General government										
Management services	4.40	4.18	3.40	3.40	3.40	3.33	2.80	2.80	3.11	3.43
Finance	6.80	6.91	6.95	5.80	5.80	5.80	4.71	4.12	4.79	4.60
Planning	1.85	1.85	1.85	2.00	2.15	2.35	2.35	2.35	2.35	2.50
Building	1.03	1.03	1.03	1.00	1.00	1.00	0.90	0.88	0.85	0.98
Other	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Police										
Officers	18.96	18.32	20.70	19.68	21.80	21.59	20.80	19.31	21.78	21.00
Civilians	4.70	4.70	4.70	4.59	3.77	3.80	2.46	3.82	4.35	3.82
Other public works										
Engineering	1.00	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80	0.80
Other	8.38	8.07	7.70	7.14	6.36	7.86	7.57	6.05	5.97	4.90
Park and recreation	9.15	9.35	8.99	9.43	6.56	5.33	4.92	5.08	5.26	4.23
Water	6.49	7.09	6.61	7.14	6.42	7.22	6.08	5.84	5.83	5.35
Wastewater	3.91	4.97	5.16	4.81	4.55	5.97	5.96	6.14	6.13	6.85
Total	67.47	68.07	68.69	66.59	63.41	65.85	60.15	57.99	62.02	59.26

TOWN OF SMITHFIELD, VIRGINIA

Operating Indicators by Function/Program
Last Ten Fiscal Years

Function/Program	2018	2017	2016	2015	2014
Police					
Physical arrests	160	200	164	170	279
Parking violations	5	39	74	60	22
Traffic violations	1,026	1,395	1,471	1,108	1,689
Refuse collection					
Refuse collected (tons per day) [1]	8.26	7.57	7.53	7.29	9.63
Recycling collected (tons per day) [1]	1.63	2.06	1.87	1.64	N/A
Other public works					
Street resurfacing (miles) [1]	3.36	2.34	1.56	2.52	1.5
Potholes repaired [1]	21	43	59	73	80
Water					
New connections	23	25	19	24	21
Water mains breaks	64	29	68	76	30
Average daily consumption (thousands of gallons)	768.88	787.22	816.87	829.31	835.8
Peak daily consumption (thousands of gallons)	1,139.67	1,819.12	1,782.13	1,886.87	1,949.25

[1] outsourced to subcontractors

Table 13

2013	2012	2011	2010	2009
268	199	271	362	387
23	21	20	99	48
1,662	1,041	1,387	1,817	1,991
33.13	32.57	33.69	9.45	9.70
N/A	N/A	N/A	N/A	N/A
1.25	1.23	1.40	1.82	6.25
85	83	87	79	48
28	10	17	31	41
25	35	4	11	22
828.59	822.07	810.72	824.47	806.24
1,968.15	1,821.23	1,879.39	2,159.77	1,734.77

TOWN OF SMITHFIELD, VIRGINIA

Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	2018	2017	2016	2015	2014
Police					
Stations	1	1	1	1	1
Patrol units	21	21	21	21	22
Fire stations	1	1	1	1	1
Other public works					
Street (miles)	48.02	48.02	47.02	47.02	47.02
Streetlights	707	705	705	705	704
Traffic signals	7	7	7	7	7
Park and recreation					
Acreage*	311.86	311.86	311.86	204.556	203.296
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)	1120	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

2013	2012	2011	2010	2009
1	1	1	1	1
22	22	21	22	21
1	1	1	1	1
47.11	47.11	47.11	47.11	47.11
704	704	687	686	684
7	7	7	7	7
203.296	203.296	201.901	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	625
38.25	38.25	38.25	38.25	38.25

This page intentionally left blank

Compliance

This page intentionally left blank

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, 2018, 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 30, 2018.

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 30, 2018