

COUNTY OF LEE, VIRGINIA

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

COUNTY OF LEE, VIRGINIA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017

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COUNTY OF LEE, VIRGINIA
FINANCIAL STATEMENTS
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INTRODUCTORY SECTION

COUNTY OF LEE, VIRGINIA

BOARD OF SUPERVISORS

D. D. Leonard
Larry Mosley

Charles Slemple, Chair

Nathan Cope
Robert Smith

COUNTY SCHOOL BOARD

Pam Fannon
Debbie Jessee

Mike Kidwell, Chair

Ty Harber, Jr.
Rob Hines

COUNTY WELFARE BOARD

Joanne Eldridge
Michelle Warner

Noel Hall, Chair

Linda Wampler
Chanda Cope

OTHER OFFICIALS

Clerk of the Circuit Court	Rene Lamey
Commonwealth's Attorney	Harrison Fuller Cridlin
Commissioner of the Revenue	Christopher Jones
Treasurer	Rita McCann
Sheriff	Gary B. Parsons
Superintendent of Schools	Brian Austin
Director of Social Services	Trevor Hensley
County Administrator	Dane Poe
County Attorney	Stacy E. Munsey

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

**To the Honorable Members of the Board of Supervisors
County of Lee, Virginia
Jonesville, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit - School Board, each major fund, and the aggregate remaining fund information of the County of Lee, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County of Lee, Virginia'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 did not audit the financial statements of the Lee County Public Service Authority, Lee County Industrial Development Authority or the Lee County Hospital Authority, which, in aggregate, represents 79% of the total assets of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for the Lee County Public Service Authority, Lee County Industrial Development Authority and the Lee County Hospital Authority, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Lee, Virginia, as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, and schedules related to pension and OPEB funding on pages 70 and 71 through 76, respectively, 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 and other auditors 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

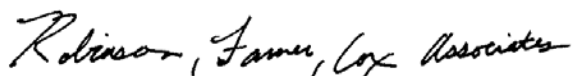
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Lee, Virginia's basic financial statements. The introductory section, other supplementary information, and other statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

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

The introductory section and other statistical information have 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 February 28, 2018, on our consideration of the County of Lee, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Lee, Virginia's internal control over financial reporting and compliance.



Blacksburg, Virginia
February 28, 2018

Basic Financial Statements

County of Lee, Virginia
Statement of Net Position
As of June 30, 2017

	Primary Government	Component Units			
	Governmental		Public Service	Industrial	Hospital
	Activities	School Board	Authority	Development	Authority
ASSETS					
Cash and cash equivalents	\$ 9,654,785	\$ 934,631	\$ 162,354	\$ 102,809	\$ 1,183
Cash held at school cafeterias	-	11,888	-	-	-
Receivables (net of allowance for uncollectibles):					
Taxes receivable	11,832,424	-	-	-	-
Accounts receivable	303,025	17,799	501,690	-	699
Notes receivable	2,062,365	-	-	196,093	-
Due from primary government	-	2,189,293	-	-	-
Due from other governmental units	1,536,371	2,819,427	263,510	2,420,000	-
Prepaid items	-	83,994	-	-	-
Restricted assets:					
Temporarily restricted:					
Cash and cash equivalents	-	2,231,969	711,171	-	-
Net pension asset	-	-	119,493	-	-
Capital assets (net of accumulated depreciation):					
Land	859,692	528,889	76,843	719,530	-
Buildings and improvements	15,714,938	6,276,894	51,267,086	2,278,341	1,624,298
Machinery and equipment	1,456,336	1,099,793	-	-	-
Construction in progress	-	-	1,170,292	-	-
Total assets	<u>\$ 43,419,936</u>	<u>\$ 16,194,577</u>	<u>\$ 54,272,439</u>	<u>\$ 5,716,773</u>	<u>\$ 1,626,180</u>
DEFERRED OUTFLOWS OF RESOURCES					
Items related to measurement of net pension liability	\$ 583,036	\$ 2,892,788	\$ 24,703	\$ -	\$ -
Pension contributions subsequent to measurement date	457,316	3,211,778	12,074	-	-
Total deferred outflows of resources	<u>\$ 1,040,352</u>	<u>\$ 6,104,566</u>	<u>\$ 36,777</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES					
Accounts payable	\$ 446,796	\$ 392,207	\$ 831,855	\$ 297	\$ 74,987
Accrued liabilities	-	3,438,832	18,360	-	-
Customers' deposits	-	-	129,321	-	-
Accrued interest payable	47,348	-	35,864	-	7,990
Due to component unit	2,189,293	-	-	-	-
Long-term liabilities:					
Due within one year	763,596	1,223,984	719,077	1,338,739	1,775,000
Due in more than one year	9,547,584	41,440,896	18,186,204	2,723,729	122,206
Total liabilities	<u>\$ 12,994,617</u>	<u>\$ 46,495,919</u>	<u>\$ 19,920,681</u>	<u>\$ 4,062,765</u>	<u>\$ 1,980,183</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	\$ 10,582,685	\$ -	\$ -	\$ -	\$ -
Deferred revenue - prepaid taxes	46,296	-	-	-	-
Items related to measurement of net pension liability	528,400	2,988,991	20,171	-	-
Total deferred inflows of resources	<u>\$ 11,157,381</u>	<u>\$ 2,988,991</u>	<u>\$ 20,171</u>	<u>\$ -</u>	<u>\$ -</u>
NET POSITION					
Net investment in capital assets	\$ 12,576,202	\$ 7,905,576	\$ 33,828,396	\$ 1,355,403	\$ (75,702)
Restricted:					
Imagination library	171	-	-	-	-
Community development	554,965	-	-	-	-
Cafeteria operations	-	811,073	-	-	-
Health Insurance	-	1,964,629	-	-	-
Retirement	-	24,781	-	-	-
Headstart program	-	14,478	-	-	-
Coal road expenses	3,460	-	-	-	-
Debt service	-	-	525,251	-	-
Unrestricted	7,173,492	(37,906,304)	14,717	298,605	(278,301)
Total net position	<u>\$ 20,308,290</u>	<u>\$ (27,185,767)</u>	<u>\$ 34,368,364</u>	<u>\$ 1,654,008</u>	<u>\$ (354,003)</u>

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

County of Lee, Virginia
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating		School Board	Component Units		
			Grants and Contributions	Capital Grants and Contributions		Public Service Authority	Industrial Development Authority	Hospital Authority
PRIMARY GOVERNMENT:								
Governmental activities:								
General government administration	\$ 1,280,155	\$ 127,341	\$ 243,029	\$ -	\$ -	\$ -	\$ -	\$ -
Judicial administration	1,031,469	5,018	792,588	-	-	-	-	-
Public safety	5,440,000	93,583	1,709,864	-	-	-	-	-
Public works	2,264,130	163,365	75,966	82,418	-	-	-	-
Health and welfare	8,210,746	-	6,679,966	-	-	-	-	-
Education	5,167,171	-	-	-	-	-	-	-
Parks, recreation, and cultural	572,794	7,796	-	-	-	-	-	-
Community development	388,366	12,499	-	156,465	-	-	-	-
Interest on long-term debt	184,699	-	-	-	-	-	-	-
Total governmental activities	\$ 24,539,530	\$ 409,602	\$ 9,501,413	\$ 238,883	\$ -	\$ -	\$ -	\$ -
Total primary government	\$ 24,539,530	\$ 409,602	\$ 9,501,413	\$ 238,883	\$ -	\$ -	\$ -	\$ -
COMPONENT UNIT:								
School Board	\$ 39,596,701	\$ 362,237	\$ 34,124,450	\$ -	\$ (5,110,014)	\$ -	\$ -	\$ -
Public Service Authority	5,694,967	3,036,539	-	639,521	-	(2,018,907)	-	-
Industrial Development Authority	1,305,160	-	-	-	-	-	(1,305,160)	-
Hospital Authority	252,870	-	-	-	-	-	-	(252,870)
Total component unit	\$ 46,849,698	\$ 3,398,776	\$ 34,124,450	\$ 639,521	\$ (5,110,014)	\$ (2,018,907)	\$ (1,305,160)	\$ (252,870)
General revenues:								
General property taxes					\$ -	\$ -	\$ -	\$ -
Other local taxes:								
Local sales and use taxes					-	-	-	-
Consumer's utility taxes					-	-	-	-
Bank Stock taxes					-	-	-	-
Motor vehicle licenses					-	-	-	-
Taxes on recordation and wills					-	-	-	-
Other local taxes					-	-	-	-
Unrestricted revenues from use of money and property					14,564	461	5,035	-
Miscellaneous					147,878	7,020	98,390	10,058
Contributions from Lee County					5,139,183	-	-	-
Grants and contributions not restricted to specific programs					-	-	-	-
Total general revenues					\$ 5,301,625	\$ 7,481	\$ 103,425	\$ 10,058
Change in net position					\$ 191,611	\$ (2,011,426)	\$ (1,201,735)	\$ (242,812)
Net position - beginning					\$ (27,377,378)	\$ 36,379,790	\$ 2,855,743	\$ (111,191)
Net position - ending					\$ (27,185,767)	\$ 34,368,364	\$ 1,654,008	\$ (354,003)

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

County of Lee, Virginia
Balance Sheet
Governmental Funds
As of June 30, 2017

	<u>General</u>	<u>Airport Project</u>	<u>Capital Improvements</u>	<u>Nonmajor Coal Road Improvement</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 8,947,168	\$ 588,868	\$ 116,111	\$ 2,638	\$ 9,654,785
Receivables (net of allowance for uncollectibles):					
Taxes receivable	11,832,424	-	-	-	11,832,424
Accounts receivable	302,203	-	-	822	303,025
Due from other governmental units	1,493,886	-	42,485	-	1,536,371
Notes receivable	2,062,365	-	-	-	2,062,365
Total assets	<u>\$ 24,638,046</u>	<u>\$ 588,868</u>	<u>\$ 158,596</u>	<u>\$ 3,460</u>	<u>\$ 25,388,970</u>
LIABILITIES					
Accounts payable	\$ 404,311	\$ -	\$ 42,485	\$ -	\$ 446,796
Due to component unit	2,189,293	-	-	-	2,189,293
Total liabilities	<u>\$ 2,593,604</u>	<u>\$ -</u>	<u>\$ 42,485</u>	<u>\$ -</u>	<u>\$ 2,636,089</u>
DEFERRED INFLOWS OF RESOURCES					
Unavailable revenue - property taxes	\$ 11,673,445	\$ -	\$ -	\$ -	\$ 11,673,445
Unavailable revenue - prepaid taxes	46,296	-	-	-	46,296
Total deferred inflows of resources	<u>\$ 11,719,741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,719,741</u>
FUND BALANCES					
Nonspendable:					
Notes receivable	\$ 2,062,365	\$ -	\$ -	\$ -	\$ 2,062,365
Restricted:					
Coal road expenses	-	-	-	3,460	3,460
Community development	554,965	-	-	-	554,965
Imagination library	171	-	-	-	171
Debt service	303,296	-	-	-	303,296
Assigned:					
County capital projects funds	-	-	9,917	-	9,917
School capital projects funds	-	-	106,194	-	106,194
Unassigned	7,403,904	588,868	-	-	7,992,772
Total fund balances	<u>\$ 10,324,701</u>	<u>\$ 588,868</u>	<u>\$ 116,111</u>	<u>\$ 3,460</u>	<u>\$ 11,033,140</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 24,638,046</u>	<u>\$ 588,868</u>	<u>\$ 158,596</u>	<u>\$ 3,460</u>	<u>\$ 25,388,970</u>

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

County of Lee, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
As of June 30, 2017

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$	11,033,140
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	859,692
Buildings and improvements		15,714,938
Machinery and equipment		1,456,336
		18,030,966

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.

Unavailable revenue - property taxes	\$	1,090,760
--------------------------------------	----	-----------

Pension contributions subsequent to the measurement date will be a reduction in the net pension liability in the next fiscal year and, therefore, are not reported in the funds

457,316

Items related to measurement of the net pension liability are considered to be deferred and will be amortized and recognized in pension expense over future years.

Deferred outflows of resources	\$	583,036
Deferred inflows of resources		(528,400)
		54,636

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds	\$	(2,012,000)
Lease revenue bonds		(2,420,000)
Unamortized bond premium		(153,908)
Capital leases		(868,856)
Accrued interest payable		(47,348)
Net pension liability		(3,845,582)
Landfill closure and postclosure liability		(68,934)
Compensated absences		(528,506)
Net OPEB obligation		(413,394)
		(10,358,528)

Net position of governmental activities

\$ 20,308,290

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

County of Lee, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	<u>General</u>	<u>Airport Project</u>	<u>Capital Improvements</u>	<u>Nonmajor Coal Road Improvement</u>	<u>Total</u>
REVENUES					
General property taxes	\$ 9,793,770	\$ -	\$ -	\$ -	\$ 9,793,770
Other local taxes	2,344,181	-	-	4,535	2,348,716
Permits, privilege fees, and regulatory licenses	60,884	-	-	-	60,884
Fines and forfeitures	1,065	-	-	-	1,065
Revenue from the use of money and property	93,281	-	-	130	93,411
Charges for services	351,928	-	-	-	351,928
Miscellaneous	180,866	-	-	-	180,866
Recovered costs	449,122	-	-	-	449,122
Intergovernmental:					
Commonwealth	7,496,147	-	-	-	7,496,147
Federal	3,603,681	156,465	82,418	-	3,842,564
Total revenues	<u>\$ 24,374,925</u>	<u>\$ 156,465</u>	<u>\$ 82,418</u>	<u>4,665</u>	<u>\$ 24,618,473</u>
EXPENDITURES					
Current:					
General government administration	\$ 1,379,545	\$ -	\$ -	\$ -	\$ 1,379,545
Judicial administration	1,051,408	-	-	-	1,051,408
Public safety	5,830,341	-	-	-	5,830,341
Public works	1,668,020	-	-	1,828	1,669,848
Health and welfare	8,295,771	-	-	-	8,295,771
Education	5,109,602	-	-	-	5,109,602
Parks, recreation, and cultural	377,744	-	-	-	377,744
Community development	307,508	-	82,418	-	389,926
Nondepartmental	32,662	-	-	-	32,662
Capital projects	90,168	2,186	-	-	92,354
Debt service:					
Principal retirement	535,454	-	-	-	535,454
Interest and other fiscal charges	186,966	-	-	-	186,966
Total expenditures	<u>\$ 24,865,189</u>	<u>\$ 2,186</u>	<u>\$ 82,418</u>	<u>\$ 1,828</u>	<u>\$ 24,951,621</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (490,264)</u>	<u>\$ 154,279</u>	<u>\$ -</u>	<u>\$ 2,837</u>	<u>\$ (333,148)</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 25,000	\$ -	\$ 106,194	\$ -	\$ 131,194
Transfers out	(106,194)	-	-	(25,000)	(131,194)
Issuance of capital leases	128,250	-	-	-	128,250
Total other financing sources (uses)	<u>\$ 47,056</u>	<u>\$ -</u>	<u>\$ 106,194</u>	<u>\$ (25,000)</u>	<u>\$ 128,250</u>
Net change in fund balances	\$ (443,208)	\$ 154,279	\$ 106,194	\$ (22,163)	\$ (204,898)
Fund balances - beginning	10,767,909	434,589	9,917	25,623	11,238,038
Fund balances - ending	<u>\$ 10,324,701</u>	<u>\$ 588,868</u>	<u>\$ 116,111</u>	<u>\$ 3,460</u>	<u>\$ 11,033,140</u>

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

County of Lee, Virginia
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, 2017

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

Net change in fund balances - total governmental funds		\$	(204,898)
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. This is the amount by which depreciation exceeded capital outlays in the current period.			
Capital outlays	\$	436,457	
Depreciation expenses		(1,142,609)	(706,152)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			
Increase (decrease) in unavailable revenue - property taxes	\$	(377,396)	
Increase (decrease) in unavailable revenue - tipping fees		(4,275)	
(Increase) decrease in deferred inflows of resources related to the net pension liability		496,953	115,282
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.			
Debt issued or incurred:			
Issuance of capital leases	\$	(128,250)	
Increase in landfill closure and postclosure liability		(46,251)	
Principal repayments:			
General obligation bonds		127,000	
Lease revenue bonds		71,000	
Capital leases		337,454	360,953
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.			
Decrease (increase) in compensated absences	\$	(4,805)	
Decrease (increase) in premiums		28,919	
Decrease (increase) in accrued interest payable		(26,652)	
Increase (decrease) in deferred outflows of resources related to pension		447,049	
(Increase) decrease in net pension liability		(717,076)	
(Increase) decrease in net OPEB obligation		(44,470)	(317,035)
Change in net position of governmental activities		\$	(751,850)

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

County of Lee, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
As of June 30, 2017

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 58,907
Total assets	<u>\$ 58,907</u>
LIABILITIES	
Amounts held for Social Services clients	\$ 58,907
Total liabilities	<u>\$ 58,907</u>

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

County of Lee, Virginia

Notes to Financial Statements June 30, 2017

Note 1-Summary of Significant Accounting Policies:

The financial statements of the County of Lee conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

A. Financial Reporting Entity

The County of Lee, Virginia is a political subdivision governed by an elected five-member Board of Supervisors. The accompanying financial statements present the 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. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units- The component unit columns in the financial statements include the financial data of the County's discretely presented component units. The component units are reported in separate columns to emphasize that they are legally separate from the County.

The Lee County School Board operates the elementary and secondary public schools in the County. School Board members are elected by popular vote. The School Board is fiscally dependent upon the County because the County approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board is presented as a governmental fund type and does not issue a separate financial statement.

The Lee County Public Service Authority provides water and sewer service to residents of Lee County. The County provides support to the Authority and appoints all of the Authority's Board members. As such, the Authority is considered a component unit of the County. The Authority issues separate financial statements that may be obtained by writing to P.O. Box 830, Jonesville, VA 24263.

The Lee County Industrial Development Authority (IDA) encourages and provides financing for industrial development in the County. The Industrial Development Authority board members are appointed by the Board of Supervisors. The Industrial Development Authority is fiscally dependent upon the County because the County provides significant funding and approves all debt issuances. In addition, the IDA does not have separate taxing powers. As such, the Authority is considered a component unit of the County. The Authority issues separate financial statements that may be obtained by writing to P.O. Box 912, Jonesville, VA 24263.

The Lee County Hospital Authority provides hospital services to the County. The Hospital Authority board members are appointed by the Board of Supervisors. The Hospital obtained a short-term loan from the County of \$1,700,000 to purchase a hospital building. As such, the Authority is considered a component unit of the County. The Authority issues separate financial statements that may be obtained by writing to P.O. Box 912, Jonesville, VA 24263.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

A. Financial Reporting Entity (continued)

Related Organizations - The County Board appoints board members to outside organizations, but the County's accountability for these organizations does not extend beyond making the appointments.

Jointly Governed Organizations:

The County and other localities participate in supporting the Lonesome Pine Regional Library. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2017, the County contributed \$222,082 to the Library.

The County, along with the Counties of Wise and Scott and the City of Norton participate in supporting the Planning District I Community Services Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2017, the County contributed \$109,350 to the Community Services Board.

The County, along with a number of other localities, participates in supporting the Southwest Virginia Regional Jail Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2017, the County paid \$2,103,232 to the Authority for inmate per diem charges.

The County and other localities participate in supporting the Appalachian Juvenile Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2017, the County contributed \$207,484 to the Commission.

B. Government-wide and fund financial statements

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 primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *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. Likewise, the *primary government* is reported separately from the legally separate *component units* for which the primary government is financially accountable.

The statement of net position is designed to display the financial position of the primary government (governmental activities) and its discretely presented component units. 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.

Notes to Financial Statements (continued)
June 30, 2017

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, if any, 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 the 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.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. 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 government 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.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County.

Licenses, permits, fines, and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The County's fiduciary fund is presented in the fund financial statements. Since by definition these assets are being held for the benefit of a third party and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide financial statements.

In the fund financial statements, financial transactions and accounts of the County are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

C. Measurement focus, basis of accounting, and financial statement presentation: (continued)

The County reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts and reports for all financial resources of the general government, except those required to be accounted for in other funds. The general fund includes the activities of the Virginia Public Assistance, Juror, Garage, Debt Service and Children's Services Act Funds.

The Capital Improvements and Airport Project funds are reported as major *capital projects funds*. Both funds account for and report financial resources that are restricted, committed, or assigned to expenditure for capital facilities.

The County reports the following nonmajor governmental fund:

The Coal Road Improvement fund is reported as the County's only nonmajor *special revenue fund*. Special Revenue Funds account for the proceeds of specific revenue sources (other than those dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

Additionally, the County reports the following fund types:

Fiduciary funds (trust and agency funds) account for assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. The Special Welfare Fund is reported as an agency fund.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are other charges between the government's functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance

1. Cash and cash equivalents

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act").

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e., the noncurrent portion of interfund loans).

Advances between funds, as reported in the fund financial statements, if any, are offset by nonspendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

3. Property taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of December 6th. Real estate taxes are payable on December 5th. Personal property taxes are due and collectible annually on December 5th. The County bills and collects its own property taxes.

4. Allowance for uncollectible accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$360,005 at June 30, 2017 and is comprised of \$335,593 in property taxes and \$24,412 in tipping fees.

5. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

6. Prepaid items

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

7. Capital assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, equipment, and infrastructure of the primary government, as well as the component units, is depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings	30
Building improvements	20-30
Structures, lines, and accessories	20-40
Machinery and equipment	4-30

8. Compensated absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The County accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

8. Long-term obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

9. Fund equity

The County reports fund balance in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The County of Lee, Virginia evaluated its funds at June 30, 2017 and classified fund balance into the following five categories:

Nonspendable -items that cannot be spent because they are not in spendable form, such as prepaid items and inventory or are required to be maintained intact (corpus of a permanent fund).

Restricted -items that are restricted by external parties such as creditors or imposed by grants, law or legislation

Committed -items that have been committed, modified, or rescinded by formal action by the entity's "highest level of decision-making authority"; which the County of Lee, Virginia considers to be the Board of Supervisors.

Assigned -items that have been allocated by committee action where the government's intent is to use the funds for a specific purpose. The County of Lee, Virginia considers this level of authority to be the Board of Supervisors or any Committee granted such authority by the Board of Supervisors.

Unassigned -this category is for any balances that have no restrictions placed upon them; 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 the County of Lee, Virginia's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The County has \$2,062,365 of nonspendable fund balance at year end that is related to notes receivable.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

10. 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.

11. Net Position Flow Assumption

Sometimes the County 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 County's policy to consider restricted - net position to have been depleted before unrestricted net position is applied.

12. 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 County's Retirement Plan, and the additions to/deductions from the County'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.

13. 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 (expenditure/expense) until then. The County has two items that qualify for reporting in this category. One item is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, changes in proportionate share, and the net difference between projected and actual earnings on pension plan investments. It is also comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on this item, reference the pension note.

Notes to Financial Statements (continued)
June 30, 2017

Note 1-Summary of Significant Accounting Policies: (continued)

D. Assets, liabilities, deferred outflows/inflows of resources and net position/fund balance (continued)

13. Deferred Outflows/Inflows of Resources (continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable and tipping fees receivable are reported in the governmental funds balance sheet. The unavailable property tax amount is comprised of uncollected property taxes due prior to June 30th, 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. The unavailable tipping fees are comprised of uncollected tipping fees that are not available for funding of current expenditures. Under the accrual basis, 2nd half installments of taxes 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, the differences between expected and actual experience related to the measurement of the net pension liability and the change in proportionate share of the net pension liability are reported as deferred inflows of resources. For more detailed information on these items, reference the pension note.

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Notes to Financial Statements (continued)
June 30, 2017

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary information

The following procedures are used by the County in establishing the budgetary data reflected in the financial statements:

1. Prior to April 1st, the County Administrator submits to the Board of Supervisors 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. All non-fiduciary funds have legally adopted budgets.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the departmental level. Only the Board of Supervisors can revise the appropriation for each department or category. The County Administrator is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, and the General Capital Projects Funds. The School Operating Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units. The County's practice is to appropriate Capital Projects by Project. Several supplemental appropriations were necessary during this fiscal year.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the County's accounting system.

B. Excess of expenditures over appropriations

For fiscal year 2017, no department expenditures exceeded appropriations.

C. Deficit fund equity

At June 30, 2017, there were no funds with a deficit balance.

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County of Lee, Virginia

Notes to Financial Statements (continued) June 30, 2017

Note 3-Deposits and Investments:

Deposits:

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

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

For the year ended June 30, 2017, neither the County nor its Component Unit-School Board had any investments.

Note 4-Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Primary Government	Component Unit School Board
<u>Commonwealth of Virginia:</u>		
Sales tax	\$ -	\$ 648,149
Categorical aid-shared expenses	197,418	-
Noncategorical aid	183,873	-
Virginia public assistance funds	191,531	-
Other categorical aid	5,780	1,550,000
<u>Federal Government:</u>		
Categorical aid	566,488	-
Prison funds	185,682	-
School grants	-	621,278
<u>Regional Jail:</u>		
Refund of contributions	205,599	-
Totals	<u>\$ 1,536,371</u>	<u>\$ 2,819,427</u>

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 5-Interfund/Component-Unit Obligations:

Component unit obligations at June 30, 2017 consisted of the following:

<u>Fund</u>	<u>Due to Primary Government/ Component Unit</u>	<u>Due from Primary Government/ Component Unit</u>
Primary Government:		
General Fund	<u>\$ -</u>	<u>\$ 2,189,293</u>
Component Unit:		
School Board:		
School Operating Fund	<u>\$ 2,189,293</u>	<u>\$ -</u>

Interfund transfers for the year ended June 30, 2017 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ 25,000	\$ 106,194
Capital Improvements Fund	106,194	-
Coal Road Improvement Fund	-	25,000
Total	<u>\$ 131,194</u>	<u>\$ 131,194</u>

The amounts above do not include notes receivable supported by a promissory note as described in Note 12.

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County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 6-Long-Term Obligations:

Primary Government - Governmental Activities Obligations:

The following is a summary of long-term obligation transactions of the County for the year ended June 30, 2017:

	Balance July 1, 2016	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2017
General obligation bonds	\$ 2,139,000	\$ -	\$ (127,000)	\$ 2,012,000
Premium on general obligation bond	182,827	-	(28,919)	153,908
Lease revenue bonds (1)	2,491,000	-	(71,000)	2,420,000
Net pension liability	3,128,506	2,318,305	(1,601,229)	3,845,582
Net OPEB obligation	368,924	68,470	(24,000)	413,394
Capital leases	1,078,060	128,250	(337,454)	868,856
Landfill closure and postclosure liability	22,683	46,251	-	68,934
Compensated absences	523,701	397,581	(392,776)	528,506
Total	<u>\$ 9,934,701</u>	<u>\$ 2,958,857</u>	<u>\$ (2,582,378)</u>	<u>\$ 10,311,180</u>

- (1) The lease revenue bond issued in fiscal year 2016 was issued through the Lee County Industrial Development Authority and is shown as due from other governments and is offset as a long-term liability in the Lee County IDA audit report.

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	General Obligation Bonds		Lease Revenue Bond	
	Principal	Interest	Principal	Interest
2018	\$ 44,000	\$ 86,248	\$ 54,000	\$ 80,764
2019	116,000	81,612	58,000	78,874
2020	123,000	76,421	58,000	76,916
2021	130,000	70,548	63,000	74,874
2022	137,000	64,341	62,000	72,765
2023-2027	587,000	230,451	519,000	321,317
2028-2032	600,000	104,025	741,000	210,279
2033-2037	275,000	9,852	865,000	74,672
Totals	<u>\$ 2,012,000</u>	<u>\$ 723,498</u>	<u>\$ 2,420,000</u>	<u>\$ 990,461</u>

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 6-Long-term Obligations: (continued)

Details of long-term obligations:

	<u>Total Amount</u>	<u>Amount Due Within One Year</u>
General Obligation Bonds:		
\$1,920,000 VPSA general obligation bond issued May 2013 maturing annually in principal installments varying from \$60,000 to \$140,000. Interest is payable annually at rates varying from and interest installments 3.05% to 5.05% through 2034.	\$ 1,660,000	\$ -
\$409,000 public facility bond issued May 2016 maturing annually in principal installments varying from \$44,000 to \$57,000. Interest is payable annually at 4.000% through 2024.	352,000	44,000
Subtotal	\$ 2,012,000	\$ 44,000
Plus: Premium on general obligation bond	153,908	-
Total General Obligation Bonds	\$ 2,165,908	\$ 44,000
Lease Revenue Bonds:		
\$2,491,000 lease revenue refunding bond issued May 2016 maturing annually in principal installments varying from \$71,000 to \$184,000. Interest is payable annually at 3.375% through 2037.	\$ 2,420,000	\$ 54,000
Other Obligations:		
Capital Leases (Note 15)	\$ 868,856	\$ 269,216
Landfill Closure and Postclosure Liability	68,934	-
Net Pension Liability	3,845,582	-
Net OPEB Obligation (Note 16)	413,394	-
Compensated Absences	528,506	396,380
Total Other Obligations	\$ 5,725,272	\$ 665,596
Total Long-Term Obligations	\$ 10,311,180	\$ 763,596

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 6-Long-term Obligations: (continued)

Discretely Presented Component Unit-School Board-Obligations:

The following is a summary of long-term obligation transactions of the Component Unit-School Board for the year ended June 30, 2017.

	Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017
Net pension liability	\$ 36,484,481	\$ 10,112,034	\$ (6,925,864)	\$ 39,670,651
Early retirement incentive plan liability	1,191,663	982,888	-	2,174,551
Compensated absences	835,796	610,729	(626,847)	819,678
Total	<u>\$ 38,511,940</u>	<u>\$ 11,705,651</u>	<u>\$ (7,552,711)</u>	<u>\$ 42,664,880</u>

Details of long-term obligations:

	Total Amount	Amount Due Within One Year
Other Obligations:		
Net pension liability	\$ 39,670,651	\$ -
Early retirement incentive plan liability	2,174,551	609,225
Compensated absences	819,678	614,759
Total Long-Term Obligations	<u>\$ 42,664,880</u>	<u>\$ 1,223,984</u>

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Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the County and (nonprofessional) employees of public school divisions 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
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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	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. Employees are eligible for 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.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		About the Hybrid Retirement Plan (Cont.) • 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.
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. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	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. 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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • 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. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.	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.	*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.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	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.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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.	Creditable Service Same as Plan 1.	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. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	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. <u>Defined Contributions 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. Members are always 100% vested in the contributions that they make.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
		Vesting (Cont.) <u>Defined Contributions</u> <u>Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
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.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) 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.		Calculating the Benefit (Cont.) <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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
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%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. 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.	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. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.	Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.	Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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. 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.	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. Political subdivisions hazardous duty employees: Same as Plan 1.	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. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.	Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%. <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. 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.	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%. <u>Eligibility:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2.

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <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: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • 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.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	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. 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.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Primary Government	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	110	165
Inactive members:		
Vested inactive members	14	8
Non-vested inactive members	23	21
Inactive members active elsewhere in VRS	40	41
Total inactive members	77	70
Active members	136	99
Total covered employees	323	334

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.

County of Lee, Virginia

Notes to Financial Statements (continued) June 30, 2017

Note 7-Pension Plan: (continued)

Contributions (continued)

The County's contractually required contribution rate for the year ended June 30, 2017 was 9.46% 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 County were \$457,316 and \$593,517 for the years ended June 30, 2017 and June 30, 2016, respectively.

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2017 was 28.62% 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 Lee County School Board's nonprofessional employees were \$550,277 and \$520,334 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The County's and Lee County School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2016. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the County's and Lee County School Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

Inflation	2.50%
Salary Increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, 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.

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Actuarial Assumptions - General Employees (continued)

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the County's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Actuarial Assumptions - Public Safety Employees (continued)

Inflation	2.50%
Salary Increases, including inflation	3.50% - 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, 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: 60% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) - Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)**Actuarial Assumptions - Public Safety Employees (continued)**

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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>
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the County and Lee County School Board (nonprofessional) Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 26,112,393	\$ 22,983,887	\$ 3,128,506
Changes for the year:			
Service cost	\$ 523,986	\$ -	\$ 523,986
Interest	1,779,690	-	1,779,690
Differences between expected and actual experience	(366,190)	-	(366,190)
Contributions - employer	-	593,517	(593,517)
Contributions - employee	-	250,978	(250,978)
Net investment income	-	390,544	(390,544)
Benefit payments, including refunds of employee contributions	(1,376,489)	(1,376,489)	-
Administrative expenses	-	(14,461)	14,461
Other changes	-	(168)	168
Net changes	\$ 560,997	\$ (156,079)	\$ 717,076
Balances at June 30, 2016	\$ 26,673,390	\$ 22,827,808	\$ 3,845,582

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Changes in Net Pension Liability

	Component Unit School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	\$ 14,032,317	\$ 7,836,836	\$ 6,195,481
Changes for the year:			
Service cost	\$ 173,589	\$ -	\$ 173,589
Interest	948,050	-	948,050
Differences between expected and actual experience	484,389	-	484,389
Contributions - employer	-	520,334	(520,334)
Contributions - employee	-	89,193	(89,193)
Net investment income	-	126,337	(126,337)
Benefit payments, including refunds of employee contributions	(977,492)	(977,492)	-
Administrative expenses	-	(4,950)	4,950
Other changes	-	(56)	56
Net changes	\$ 628,536	\$ (246,634)	\$ 875,170
Balances at June 30, 2016	\$ 14,660,853	\$ 7,590,202	\$ 7,070,651

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

The following presents the net pension liability of the County and Lee County School Board (nonprofessional) using the discount rate of 7.00%, as well as what the County's and Lee County School Board's (nonprofessional) net pension 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		
	(6.00%)	(7.00%)	(8.00%)
County			
Net Pension Liability (Asset)	\$ 7,151,153	\$ 3,845,582	\$ 1,089,114
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	\$ 8,598,066	\$ 7,070,651	\$ 5,772,696

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

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

For the year ended June 30, 2017, the County and Lee County School Board (nonprofessional) recognized pension expense of \$230,604 and \$678,159, respectively. At June 30, 2017, the County and Lee County School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit-School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 528,400	\$ 262,192	\$ 3,991
Net difference between projected and actual earnings on pension plan investments	583,036	-	198,596	-
Employer contributions subsequent to the measurement date	457,316	-	550,277	-
Total	\$ 1,040,352	\$ 528,400	\$ 1,011,065	\$ 3,991

\$457,316 and \$550,277 reported as deferred outflows of resources related to pensions resulting from the County's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. 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:

Year ended June 30	Primary Government	School Board (nonprofessional)
2018	\$ (246,983)	\$ 216,585
2017	(208,307)	38,373
2020	270,086	120,003
2021	239,840	81,836
Thereafter	-	-
Total	\$ 54,636	\$ 456,797

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Component Unit School Board (professional)

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system). Additional information regarding the plan description can be found in the first section of this note.

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 school divisions 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.

Each School Division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. The actuarially determined 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. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the School Board were \$2,661,501 and \$2,479,379 for the years ended June 30, 2017 and June 30, 2016, respectively.

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

At June 30, 2017, the school division reported a liability of \$32,600,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was .2326% as compared to .2407% at June 30, 2015.

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Component Unit School Board (professional) (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

For the year ended June 30, 2017, the school division recognized pension expense of \$2,342,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 1,056,000
Net difference between projected and actual earnings on pension plan investments	1,862,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	570,000	1,929,000
Employer contributions subsequent to the measurement date	<u>2,661,501</u>	<u>-</u>
Total	\$ <u><u>5,093,501</u></u>	\$ <u><u>2,985,000</u></u>

\$2,661,501 is reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. 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>	
2018	\$ (680,000)
2019	(680,000)
2020	556,000
2021	403,000
Thereafter	<u>(152,000)</u>
Total	\$ <u><u>(553,000)</u></u>

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Component Unit School Board (professional) (continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

Inflation	2.50%
Salary Increases, including inflation	3.50% - 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, 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:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 3 years and females set back 5 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 3 years

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 1 year and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Component Unit School Board (professional) (continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

		Teacher Employee Retirement Plan
Total Pension Liability	\$	44,182,326
Plan Fiduciary Net Position		<u>30,168,211</u>
Employer's Net Pension Liability (Asset)	\$	<u><u>14,014,115</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability		68.28%

The total pension 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 pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)**Component Unit School Board (professional) (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:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Notes to Financial Statements (continued)
June 30, 2017

Note 7-Pension Plan: (continued)

Component Unit School Board (professional) (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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, 2018, the rate contributed by the school division for the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, school divisions 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.

Sensitivity of the School Division's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net pension 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		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset)	\$ 46,471,400	\$ 32,600,000	\$ 21,173,312

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 8-Capital Assets:

Capital asset activity for the year ended June 30, 2017 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital assets, not being depreciated:				
Land	\$ 859,692	\$ -	\$ -	\$ 859,692
Construction in progress	1,458,024	90,645	(1,548,669)	-
Total capital assets not being depreciated	<u>\$ 2,317,716</u>	<u>\$ 90,645</u>	<u>\$ (1,548,669)</u>	<u>\$ 859,692</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 23,960,441	\$ 1,548,669	\$ -	\$ 25,509,110
Machinery and equipment	4,146,176	345,812	-	4,491,988
Total capital assets being depreciated	<u>\$ 28,106,617</u>	<u>\$ 1,894,481</u>	<u>\$ -</u>	<u>\$ 30,001,098</u>
Accumulated depreciation:				
Buildings and improvements	\$ (9,055,657)	\$ (738,515)	\$ -	\$ (9,794,172)
Machinery and equipment	(2,631,558)	(404,094)	-	(3,035,652)
Total accumulated depreciation	<u>\$ (11,687,215)</u>	<u>\$ (1,142,609)</u>	<u>\$ -</u>	<u>\$ (12,829,824)</u>
Total capital assets being depreciated, net	<u>\$ 16,419,402</u>	<u>\$ 751,872</u>	<u>\$ -</u>	<u>\$ 17,171,274</u>
Governmental activities capital assets, net	<u>\$ 18,737,118</u>	<u>\$ 842,517</u>	<u>\$ (1,548,669)</u>	<u>\$ 18,030,966</u>

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

Governmental activities:	
General government administration	\$ 24,068
Public safety	192,371
Public works	547,275
Health and welfare	128,034
Education	57,568
Parks, recreation, and culture	<u>193,293</u>
Total depreciation expense-primary government	<u>\$ 1,142,609</u>

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 8-Capital Assets: (continued)

Capital asset activity for the School Board for the year ended June 30, 2017 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 483,166	\$ 45,723	\$ -	\$ 528,889
Total capital assets not being depreciated	<u>\$ 483,166</u>	<u>\$ 45,723</u>	<u>\$ -</u>	<u>\$ 528,889</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 20,570,288	\$ 111,000	\$ -	\$ 20,681,288
Machinery and equipment	7,339,317	331,917	(432,508)	7,238,726
Total capital assets being depreciated	<u>\$ 27,909,605</u>	<u>\$ 442,917</u>	<u>\$ (432,508)</u>	<u>\$ 27,920,014</u>
Accumulated depreciation:				
Buildings and improvements	\$ (13,924,261)	\$ (480,133)	\$ -	\$ (14,404,394)
Machinery and equipment	(6,296,533)	(274,908)	432,508	(6,138,933)
Total accumulated depreciation	<u>\$ (20,220,794)</u>	<u>\$ (755,041)</u>	<u>\$ 432,508</u>	<u>\$ (20,543,327)</u>
Total capital assets being depreciated, net	<u>\$ 7,688,811</u>	<u>\$ (312,124)</u>	<u>\$ -</u>	<u>\$ 7,376,687</u>
Governmental activities capital assets, net	<u>\$ 8,171,977</u>	<u>\$ (266,401)</u>	<u>\$ -</u>	<u>\$ 7,905,576</u>

All depreciation above was charged to the education function of the Component Unit-School Board.

Note 9-Risk Management:

The County and its component unit-School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County and its component unit-School Board participate with other localities in a public entity risk pool for their coverage of building, crime, general liability and auto insurance with the Virginia Association of Counties Risk Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The County and its component unit-School Board remit contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The County and its component unit-School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 10-Commitments and Contingencies:

Contingencies

Federal programs in which the County and its component units participate were audited in accordance with the provisions of Uniform Guidance. Pursuant to these provisions all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, future disallowances of current grant program expenditures, if any, would be immaterial.

Corporate Loans Receivable

As of June 30, 2017, the County had issued loans to a number of community companies, as approved by the Lee County Industrial Development Authority. Due to the nature of the companies, the County is unsure of the collectability of these loans and, as such, has not recorded the loan amounts as receivables. The loans receivable balance at June 30, 2017 was \$129,160.

Note 11-Surety Bonds:

Primary Government:

<u>Travelers Casualty and Surety Company of America</u>	
Rene Lamey, Clerk of the Circuit Court	\$ 500,000
Rita McCann, Treasurer	400,000
Christopher Jones, Commissioner of the Revenue	3,000
Gary Parsons, Sheriff	30,000

Note 12-Notes Receivable:

Due From:*	Amount Outstanding:	Interest Rate	Security
Lee County Hospital Authority	\$ 1,782,990	0.40%	Building and equipment
Lee County IDA	246,875	0.00%	None
Lee County PSA	32,500	0.00%	None
Total	<u>\$ 2,062,365</u>		

*All of these notes receivable are due from discretely presented component units.

**The Lee County Hospital Authority's audit report included a going concern but the County beleives they will find permanent financing to reimburse the County.

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County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 13-Landfill Closure and Postclosure Liability:

State and federal laws and regulations required the County to place a final cover on its landfill site and to perform certain maintenance and monitoring functions at the site for ten years after closure. The County has closed its landfill. The \$68,934 liability is the total estimated post closure care liability at June 30, 2017 and represents what it would cost to perform all postclosure care in 2017. This liability also includes the estimated closure costs for the transfer station. Actual costs for postclosure monitoring may change due to inflation, deflation, changes in technology, or changes in regulations. The County uses the Commonwealth of Virginia's financial assurance mechanism to meet the Department of Environmental Quality's assurance requirements for landfill postclosure costs.

The County demonstrated financial assurance requirements for closure, postclosure care, and corrective action costs through the submission of a Local Governmental Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VA C20-70 of the Virginia Administrative Code.

Note 14-Unavailable/Deferred Revenue:

Unavailable revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred.

	Government-wide Statements Governmental Activities	Balance Sheet Governmental Funds
Unavailable property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures	\$ -	\$ 1,090,760
2nd half assessments due in December 2017	10,582,685	10,582,685
Prepaid property taxes due in December 2017 but paid in advance by taxpayers	46,296	46,296
	\$ 10,628,981	\$ 11,719,741

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 15-Capital Leases:

Primary Government:

The County has entered into lease agreements to finance the acquisition of the following equipment: five 2017 Ford Taurus for the Sheriff's department, five 2015 Chevrolet Impalas for the Sheriff's department, four 2014 Chevrolet Impalas for the Sheriff's department, four 2016 Ford Taurus Police Interceptors for the Sheriff's department, a 2016 Peterbilt 320 packer truck, a 2014 Freightliner Dump Truck, and a 2014 Kenworth Grapple Truck. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments at the date of inception.

The School Board has issued a lease purchase agreement to pay for supplies and non-capitalized energy management equipment. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments at the date of inception.

The capital assets acquired through capital leases are as follows:

	Governmental Activities
Capital Assets:	
Vehicles	\$ 862,069
Less: Accumulated depreciation	(277,380)
Total net capital assets	\$ 584,689

Note: Assets acquired through the School Board lease were not capitalized based on the School Board's asset capitalization policy.

Annual requirements to amortize lease agreements and related interest are as follows:

Fiscal Year Ended	Vehicle Lease	Energy Savings Lease	Total
2018	\$ 126,791	\$ 178,942	\$ 305,733
2019	126,788	178,942	305,730
2020	62,069	178,942	241,011
2021	-	95,752	95,752
Total minimum lease payments	\$ 315,648	\$ 632,578	\$ 948,226
Less: amount representing interest	(17,144)	(62,226)	(79,370)
Present value of minimum lease payments	\$ 298,504	\$ 570,352	\$ 868,856

Notes to Financial Statements (continued)
June 30, 2017

Note 16-Other Postemployment Benefits - Health Insurance:

From an accrual accounting perspective, the cost of postemployment health care benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in future years when it will be paid. In adopting the requirements of GASB Statement No. 45, the County recognizes the cost of postemployment health care in the year when the employee services are rendered, reports the accumulating liability, and provides information useful in assessing potential demands on the County’s future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

A. Plan Description

The County of Lee, Lee County School Board and the Lee County Department of Social Services administer single-employer healthcare plans (“the Plans”). The Plans provides for participation by eligible retirees and their dependents in the health insurance programs available to employees. The Plans will provide retiring employees the option to continue health insurance offered by the respective entities. To be eligible, the employee must meet the age and service criteria as set forth below.

<u>Organization</u>	<u>Eligibility Requirements</u>
County	Age 50 with 10 years of service or age 55 with 5 years of service
School Board	Age 50 with 20 years of service or age 65 with 5 years of service
Social Services Department	Age 50 with 10 years of service or age 55 with 5 years of service

The benefits, employee contributions, and the employer contributions are governed by the County, School Board or Social Services Board and can be amended through Board action. The Plans do not issue publicly available financial reports.

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County of Lee, Virginia

Notes to Financial Statements (continued) June 30, 2017

Note 16-Other Postemployment Benefits - Health Insurance: (Continued)

B. Funding Policy

Primary Government - County

The County of Lee, Virginia currently pays for post-retirement health care benefits on a pay-as-you-go basis. The County of Lee, Virginia currently has 88 employees that are eligible for the program. In addition, for retirees of the County of Lee, Virginia, 100 percent of premiums are the responsibility of the retiree. The rates were as follows at June 30, 2017:

Participants	Employee	Employee/Spouse	Family
Anthem KA 250 with comprehensive dental	\$ 609.00	\$ 1,127.00	\$ 1,644.00
Anthem KA 250 with preventative dental	595.00	1,101.00	1,607.00
Anthem KA Expanded with comprehensive dental	666.00	1,232.00	1,798.00
Anthem KA Expanded with preventative dental	652.00	1,206.00	1,760.00
Key Advantage 65	201.00	402.00	N/A

Primary Government - Social Services Department

The Social Services Department currently pays for post-retirement health care benefits on a pay-as-you-go basis. The Department has 46 active employees who are eligible for the program. In addition, for retirees of the Department, 100 percent of the premiums are the responsibility of the retiree. The rates were as follows at June 30, 2017:

Participants	Anthem PPO	Advantage 65
Employee	\$ 797.00	\$ 201.00
Employee / Spouse	1,474.00	402.00
Family	2,152.00	N/A

Discretely Presented Component Unit - School Board:

The School Board currently pays for post-retirement health care benefits on a pay-as-you-go basis. The School Board currently has 557 active employees who are eligible for the program. In addition, for retirees of the School Board, 100 percent of the premiums are the responsibility of the retiree. The rates were as follows at June 30, 2016:

Participants	Anthem PPO
Employee	\$ 636.75
Employee / Spouse	1,141.80
Employee / Child	783.75
Family	1,464.15

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 16-Other Postemployment Benefits - Health Insurance: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The County is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Primary Government:

The following table shows the components of the County and Social Services Department's annual OPEB costs for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligations:

	County	Social Services	Total
Annual required contribution	\$ 48,300	\$ 20,900	\$ 69,200
Interest on net OPEB obligation	9,105	3,807	12,912
Adjustment to annual required contribution	(9,619)	(4,023)	(13,642)
Annual OPEB cost (expense)	\$ 47,786	\$ 20,684	\$ 68,470
Contributions made	17,400	6,600	24,000
Increase in net OPEB obligation	\$ 30,386	\$ 14,084	\$ 44,470
Net OPEB obligation - beginning of year	260,139	108,785	368,924
Net OPEB obligation - ending of year	\$ 290,525	\$ 122,869	\$ 413,394

The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
County	6/30/2015	\$ 49,214	30.89%	\$ 229,493
	6/30/2016	51,546	40.55%	260,139
	6/30/2017	47,786	36.41%	290,525
Social Services	6/30/2015	\$ 17,137	19.26%	\$ 96,376
	6/30/2016	18,009	31.10%	108,785
	6/30/2017	20,684	31.91%	122,869

Notes to Financial Statements (continued)
June 30, 2017

Note 16-Other Postemployment Benefits - Health Insurance: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

Discretely Presented Component Unit - School Board:

The following table shows the components of the School Board's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the School Board's net OPEB obligation:

	School Board
Annual required contribution	\$ 600,000
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost (expense)	\$ 600,000
Contributions made	600,000
Increase in net OPEB obligation	\$ -
Net OPEB obligation - beginning of year	-
Net OPEB obligation - ending of year	\$ -

The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years were as follows:

	Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
School Board	6/30/2015	\$ 598,000	100%	\$ -
	6/30/2016	504,600	100%	-
	6/30/2017	600,000	100%	-

D. Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far in the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information, as it becomes available, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

County of Lee, Virginia

Notes to Financial Statements (continued)
June 30, 2017

Note 16-Other Postemployment Benefits - Health Insurance: (Continued)

D. Funded Status and Funding Progress (Continued)

Primary Government:

The funded status of the Plan as of June 30, 2017, the most recent actuarial valuation date, was as follows:

	County	Social Services
Actuarial accrued liability (AAL)	\$ 485,900	\$ 224,700
Actuarial value of plan assets	\$ -	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 485,900	\$ 224,700
Funded ratio (actuarial value of plan assets/AAL)	0.00%	0.00%
Covered payroll (active plan members)	\$ 3,155,900	\$ 1,466,200
UAAL as a percentage of covered payroll	15.40%	15.33%

Discretely Presented Component Unit - School Board:

The funded status of the Plan as of June 30, 2017, the most recent actuarial valuation date, was as follows:

	School Board
Actuarial accrued liability (AAL)	\$ 8,441,400
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability (UAAL)	\$ 8,441,400
Funded ratio (actuarial value of plan assets/AAL)	0.00%
Covered payroll (active plan members)	\$ 19,788,600
UAAL as a percentage of covered payroll	42.66%

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Notes to Financial Statements (continued)
June 30, 2017

Note 16-Other Postemployment Benefits - Health Insurance: (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Primary Government:

In the June 30, 2017 actuarial valuation, the projected unit credit method was used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. The actuarial assumptions for the County and Social Services Department included:

	<u>Assumptions</u>
Amortization period	30 years
Investment rate of return	3.50%
Health Care Trend Assumption	Getzen Trend Model 5.90% graded to 4.5% over 68 years
Payroll growth	3.00%

The UAAL is being amortized as a level dollar amount over the remaining amortization period, which at June 30, 2017, was 30 years. Amortizations are open ended in that they begin anew at each valuation date.

Discretely Presented Component Unit - School Board:

In the June 30, 2017 actuarial valuation, the projected unit credit method was used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. The actuarial assumptions for the School Board included:

	<u>Assumptions</u>
Amortization period	28.76 years
Investment rate of return	3.50%
Health Care Trend Assumption	Getzen Trend Model 7.50% graded to 4.30% over 69 years
Payroll growth	3.00%

The UAAL is being amortized as a level dollar amount over the remaining amortization period, which at June 30, 2017, was 28.76 years. Amortizations are open ended in that they begin anew at each valuation date.

Notes to Financial Statements (continued)
June 30, 2017

Note 17-Other Postemployment Benefits - VRS Health Insurance Credit:

Nonprofessional Employees - Discretely Presented Component Unit School Board

A. Plan Description

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the School Board, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 7.

B. Funding Policy

As a participating local political subdivision, the School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. Contribution rates were 0.99%, 0.93%, and 0.93%, of annual covered payroll for the years ending June 30, 2017, 2016, and 2015, respectively. The School Board's actual contributions to VRS for the years ending June 30, 2017, 2016, and 2015 were \$19,171, \$17,048, and \$16,332, respectively and equaled the required contributions for each year.

C. Annual OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions, is based on the annual required contribution (ARC). The School Board is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Notes to Financial Statements (continued)
June 30, 2017

Note 17-Other Postemployment Benefits - VRS Health Insurance Credit: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

For 2017, the School Board's annual contribution of \$19,171 equaled the annual required contribution and OPEB cost. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were for 2017 and preceding two years as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2017	\$ 19,171	100%	\$ -
6/30/2016	17,048	100%	-
6/30/2015	16,332	100%	-

D. Funded Status and Funding Progress

The funded status of the Plan as of June 30, 2016 (date of the most recent actuarial valuation), was as follows:

Actuarial accrued liability (AAL)	\$ 291,093
Actuarial value of plan assets	\$ 70,029
Unfunded actuarial accrued liability (UAAL)	\$ 221,064
Funded ratio (actuarial value of plan assets/AAL)	24.06%
Covered payroll (active plan members)	\$ 1,828,411
UAAL as a percentage of covered payroll	12.09%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

Note 17-Other Postemployment Benefits - VRS Health Insurance Credit: (Continued)

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2016, most recent actuarial valuation, the entry age normal cost method was used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. The actuarial assumptions included: inflation at 2.5%, payroll growth rate of 3% and investment rate of return at 7.00%. The UAAL is being amortized as a level dollar amount over the remaining amortization period, which at June 30, 2016, was 18-27 years. Amortizations are open ended in that they begin anew at each valuation date.

F. Professional Employees - Discretely Presented Component Unit School Board

Plan Description

The School Board participates in Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service.

A teacher, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$4 per year of creditable service. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive a monthly health insurance credit of \$4 multiplied by the smaller of (i) twice the amount of their creditable service or (ii) the amount of creditable service they would have completed at age 60 if they had remained in service to that age.

Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. Contribution rates were 1.11%, 1.06%, and 1.06%, of annual covered payroll for the years ending June 30, 2017, 2016, and 2015, respectively. The School Board's contributions to VRS for the years ending June 30, 2017, 2016, and 2015 were \$203,442, \$187,902, and \$189,201, respectively and equaled the required contributions for each year.

County of Lee, Virginia

Notes to Financial Statements (continued) June 30, 2017

Note 18-Self Health Insurance:

The Lee County School Board established a limited risk management program for health insurance. Premiums are paid into the Anthem health plan account from the School Board and are available to pay claims, reinsurance, and administrative costs of the program. During the fiscal year 2017, a total of \$4,161,464 was paid in benefits and administrative costs. Claims for the fiscal year totaled \$4,021,896. Incurred but not reported claims of \$267,340 have been accrued as a liability based primarily on actual cost incurred prior to June 30 but paid after year-end. Changes in the claims liability for the current and two prior fiscal years are as follows:

Fiscal Year	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2016-17	\$ 406,908	\$ 4,021,896	\$ (4,161,464)	\$ 267,340
2015-16	479,017	4,187,210	(4,259,319)	406,908
2014-15	265,302	4,706,486	(4,492,771)	479,017

As of June 30, 2017, the School Board held funds totaling \$2,231,969 for the payment of claims and costs associated with the self-health insurance program. These funds are reported as restricted cash in the accompanying financial statements.

Note 19-School Board Early Retirement Incentive Plan:

Lee County School Board offers an early retirement incentive plan to all full-time employees who are members of the Virginia Retirement System (VRS) and are eligible to retire with the VRS. The employee must have reached a specified age and years of service, as detailed in the individual plan, to participate. The School Board has offered various incentive plans, all offering different benefit options to the retiree. As of June 30, 2017, the balance owed to retired employees was \$2,174,551 and same has been recorded as a liability in the government-wide financial statements of the School Board.

Note 20-Subsequent Events:

On December 19, 2017, the County received a new promissory note as a result of the sale of the hospital by the Lee County Hospital Authority. The new owner of the local hospital signed a secured promissory note in the amount of \$1,500,000 to be repaid over 3 equal installments of \$500,000 due on the third, fourth, and fifth anniversary of the issuance of the note. This note was issued with zero interest. At June 30, 2017, the County had a note receivable of \$1,750,000 (additional accrued interest as well) with the Lee County Hospital Authority (a component unit of Lee County, Virginia). As of release of this report the County is still negotiating repayment of the difference.

Notes to Financial Statements (continued)
June 30, 2017

Note 21-Upcoming Pronouncements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

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.

Statement No. 86, *Certain Debt Extinguishment Issues*, improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The requirements of this Statement are effective for reporting periods beginning after June 15, 2017.

Notes to Financial Statements (continued)
June 30, 2017

Note 21-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.

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

Required Supplementary Information

County of Lee, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 9,197,750	\$ 9,197,750	\$ 9,793,770	\$ 596,020
Other local taxes	2,459,575	2,459,575	2,344,181	(115,394)
Permits, privilege fees, and regulatory licenses	41,400	44,261	60,884	16,623
Fines and forfeitures	2,900	2,900	1,065	(1,835)
Revenue from the use of money and property	85,466	85,466	93,281	7,815
Charges for services	310,766	310,766	351,928	41,162
Miscellaneous	38,000	182,257	180,866	(1,391)
Recovered costs	95,560	138,925	449,122	310,197
Intergovernmental:				
Commonwealth	8,345,150	8,625,565	7,496,147	(1,129,418)
Federal	3,619,608	3,802,685	3,603,681	(199,004)
Total revenues	\$ 24,196,175	\$ 24,850,150	\$ 24,374,925	\$ (475,225)
EXPENDITURES				
Current:				
General government administration	\$ 1,405,239	\$ 1,678,936	\$ 1,379,545	\$ 299,391
Judicial administration	1,070,115	1,123,245	1,051,408	71,837
Public safety	5,715,314	6,026,083	5,830,341	195,742
Public works	1,738,973	1,740,495	1,668,020	72,475
Health and welfare	9,391,652	9,718,575	8,295,771	1,422,804
Education	4,237,714	5,826,375	5,109,602	716,773
Parks, recreation, and cultural	340,641	407,424	377,744	29,680
Community development	329,149	425,148	307,508	117,640
Nondepartmental	50,000	66,003	32,662	33,341
Capital projects	101,000	331,496	90,168	241,328
Debt service:				
Principal retirement	535,454	535,675	535,454	221
Interest and other fiscal charges	184,297	185,644	186,966	(1,322)
Total expenditures	\$ 25,099,548	\$ 28,065,099	\$ 24,865,189	\$ 3,199,910
Excess (deficiency) of revenues over (under) expenditures	\$ (903,373)	\$ (3,214,949)	\$ (490,264)	\$ 2,724,685
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 25,000	\$ 25,000
Transfers out	-	-	(106,194)	(106,194)
Issuance of capital leases	-	-	128,250	128,250
Total other financing sources (uses)	\$ -	\$ -	\$ 47,056	\$ 47,056
Net change in fund balances	\$ (903,373)	\$ (3,214,949)	\$ (443,208)	\$ 2,771,741
Fund balances - beginning	903,373	3,214,949	10,767,909	7,552,960
Fund balances - ending	\$ -	\$ -	\$ 10,324,701	\$ 10,324,701

**County of Lee, Virginia
Schedule of OPEB Funding
For the Year Ended June 30, 2017**

Primary Government: County Retirees Health Insurance

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2017	\$ -	\$ 485,900	\$ 485,900	0.00%	\$ 3,155,900	15.40%
June 30, 2014	-	395,400	395,400	0.00%	2,973,200	13.30%
June 30, 2011	-	373,900	373,900	0.00%	2,539,000	14.73%

Primary Government: Social Services Retirees Health Insurance

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2017	\$ -	\$ 224,700	\$ 224,700	0.00%	\$ 1,466,200	15.33%
June 30, 2014	-	161,100	161,100	0.00%	1,445,900	11.14%
June 30, 2011	-	167,800	167,800	0.00%	1,687,900	9.94%

Discretely Presented Component Unit:School Board Non-Professional Health Insurance Credit

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2016	\$ 70,029	\$ 291,093	\$ 221,064	24.06%	\$ 1,828,411	12.09%
June 30, 2015	77,548	296,043	218,495	26.19%	1,697,341	12.87%
June 30, 2014	83,013	294,085	211,072	28.23%	1,667,316	12.66%

School Board Retirees Health Insurance

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2017	\$ -	\$ 8,441,400	\$ 8,441,400	0.00%	\$ 19,788,600	42.66%
June 30, 2015	-	4,466,600	4,466,600	0.00%	19,587,700	22.80%
June 30, 2013	-	6,916,900	6,916,900	0.00%	19,037,000	36.33%

County of Lee, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
Primary Government
For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 523,986	\$ 519,855	\$ 497,545
Interest	1,779,690	1,755,642	1,696,544
Differences between expected and actual experience	(366,190)	(556,334)	-
Benefit payments, including refunds of employee contributions	(1,376,489)	(1,374,746)	(1,324,920)
Net change in total pension liability	\$ 560,997	\$ 344,417	\$ 869,169
Total pension liability - beginning	26,112,393	25,767,976	24,898,807
Total pension liability - ending (a)	\$ 26,673,390	\$ 26,112,393	\$ 25,767,976
Plan fiduciary net position			
Contributions - employer	\$ 593,517	\$ 583,877	\$ 577,169
Contributions - employee	250,978	240,822	239,677
Net investment income	390,544	1,024,065	3,117,027
Benefit payments, including refunds of employee contributions	(1,376,489)	(1,374,746)	(1,324,920)
Administrative expense	(14,461)	(14,367)	(17,085)
Other	(168)	(215)	164
Net change in plan fiduciary net position	\$ (156,079)	\$ 459,436	\$ 2,592,032
Plan fiduciary net position - beginning	22,983,887	22,524,451	19,932,419
Plan fiduciary net position - ending (b)	\$ 22,827,808	\$ 22,983,887	\$ 22,524,451
County's net pension liability - ending (a) - (b)	\$ 3,845,582	\$ 3,128,506	\$ 3,243,525
Plan fiduciary net position as a percentage of the total pension liability	85.58%	88.02%	87.41%
Covered payroll	\$ 4,852,960	\$ 4,774,137	\$ 4,782,254
County's net pension liability as a percentage of covered payroll	79.24%	65.53%	67.82%

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.

County of Lee, Virginia
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios:
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2017

	2016	2015	2014
Total pension liability			
Service cost	\$ 173,589	\$ 182,298	\$ 176,934
Interest	948,050	944,384	932,718
Differences between expected and actual experience	484,389	(92,679)	-
Benefit payments, including refunds of employee contributions	(977,492)	(985,772)	(900,230)
Net change in total pension liability	\$ 628,536	\$ 48,231	\$ 209,422
Total pension liability - beginning	14,032,317	13,984,086	13,774,664
Total pension liability - ending (a)	\$ 14,660,853	\$ 14,032,317	\$ 13,984,086
Plan fiduciary net position			
Contributions - employer	\$ 520,334	\$ 498,642	\$ 412,585
Contributions - employee	89,193	86,145	83,036
Net investment income	126,337	347,642	1,098,282
Benefit payments, including refunds of employee contributions	(977,492)	(985,772)	(900,230)
Administrative expense	(4,950)	(5,081)	(6,222)
Other	(56)	(77)	58
Net change in plan fiduciary net position	\$ (246,634)	\$ (58,501)	\$ 687,509
Plan fiduciary net position - beginning	7,836,836	7,895,337	7,207,828
Plan fiduciary net position - ending (b)	\$ 7,590,202	\$ 7,836,836	\$ 7,895,337
School Division's net pension liability - ending (a) - (b)	\$ 7,070,651	\$ 6,195,481	\$ 6,088,749
Plan fiduciary net position as a percentage of the total pension liability	51.77%	55.85%	56.46%
Covered payroll	\$ 1,824,453	\$ 1,748,394	\$ 1,661,330
School Division's net pension liability as a percentage of covered payroll	387.55%	354.35%	366.50%

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.

County of Lee, Virginia
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan
For the Years Ended June 30, 2015 through June 30, 2017

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Employer's Proportion of the Net Pension Liability (Asset)	0.2326%	0.2407%	0.0234%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 32,600,000	\$ 30,289,000	\$ 28,300,000
Employer's Covered Payroll	17,634,275	17,714,196	17,188,687
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	184.87%	170.99%	164.64%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.28%	70.68%	70.88%

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.

County of Lee, Virginia
Schedule of Employer Contributions
For the Years Ended June 30, 2008 through June 30, 2017

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)
Primary Government					
2017	\$ 457,316	\$ 457,316	-	\$ 4,834,207	9.46%
2016	593,517	593,517	-	4,852,960	12.23%
2015	583,877	583,877	-	4,774,137	12.23%
2014	577,169	577,169	-	4,782,254	12.07%
2013	550,635	550,635	-	4,584,800	12.01%
2012	371,629	371,629	-	4,461,330	8.33%
2011	376,910	376,910	-	4,524,728	8.33%
2010	361,103	361,103	-	4,430,717	8.15%
2009	361,078	361,078	-	4,430,401	8.15%
2008	264,176	264,176	-	4,469,982	5.91%
Component Unit School Board (nonprofessional)					
2017	\$ 550,277	\$ 550,277	-	\$ 1,922,701	28.62%
2016	520,334	520,334	-	1,824,453	28.52%
2015	498,642	498,642	-	1,748,394	28.52%
2014	412,585	412,585	-	1,661,330	24.83%
2013	404,244	404,244	-	1,628,048	24.83%
2012	427,876	427,876	-	1,645,044	26.01%
2011	461,780	461,780	-	1,775,394	26.01%
2010	471,425	471,425	-	1,886,453	24.99%
2009	452,959	452,959	-	1,812,562	24.99%
2008	465,289	465,289	-	1,792,332	25.96%
Component Unit School Board (professional)					
2017	\$ 2,661,501	\$ 2,661,501	-	\$ 18,154,850	14.66%
2016	2,479,379	2,479,379	-	17,634,275	14.06%
2015	2,490,616	2,490,616	-	17,714,196	14.06%
2014	1,984,637	1,984,637	-	17,188,687	11.55%
2013	2,103,701	2,103,701	-	18,042,034	11.66%
2012	1,213,014	1,213,014	-	19,162,934	6.33%
2011	791,571	791,571	-	20,116,158	3.94%
2010	1,834,986	1,834,986	-	20,828,449	8.81%
2009	1,817,241	1,817,241	-	20,627,028	8.81%
2008	1,993,979	1,993,979	-	19,359,018	10.30%

Current year contributions are from County records and prior year contributions are from the VRS actuarial valuation performed each year.

County of Lee, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2017

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, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Other Supplementary Information

County of Lee, Virginia
 Capital Projects Fund - Airport Project
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2017

	Airport Project Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental:				
Commonwealth	\$ -	\$ 438,443	\$ -	\$ (438,443)
Federal	-	-	156,465	156,465
Total revenues	\$ -	\$ 438,443	\$ 156,465	\$ (281,978)
EXPENDITURES				
Capital projects	\$ -	\$ 438,443	\$ 2,186	\$ 436,257
Total expenditures	\$ -	\$ 438,443	\$ 2,186	\$ 436,257
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 154,279	\$ 154,279
Net change in fund balances	\$ -	\$ -	\$ 154,279	\$ 154,279
Fund balances - beginning	-	-	434,589	434,589
Fund balances - ending	\$ -	\$ -	\$ 588,868	\$ 588,868

County of Lee, Virginia
 Capital Projects Fund - Capital Improvements
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2017

	Capital Improvements Fund			
	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Intergovernmental:				
Federal	\$ -	\$ 39,933	\$ 82,418	\$ 42,485
Total revenues	\$ -	\$ 39,933	\$ 82,418	\$ 42,485
EXPENDITURES				
Current:				
Community development	\$ -	\$ 39,933	\$ 82,418	\$ (42,485)
Total expenditures	\$ -	\$ 39,933	\$ 82,418	\$ (42,485)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ 106,194	\$ 106,194
Net change in fund balances	\$ -	\$ -	\$ 106,194	\$ 106,194
Fund balances - beginning	-	-	9,917	9,917
Fund balances - ending	\$ -	\$ -	\$ 116,111	\$ 116,111

County of Lee, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Nonmajor Special Revenue Fund - Coal Road Improvement
For the Year Ended June 30, 2017

	Coal Road Improvement Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Other local taxes	\$ -	\$ 1,828	\$ 4,535	\$ 2,707
Revenue from the use of money and property	-	-	130	130
Total revenues	\$ -	\$ 1,828	\$ 4,665	\$ 2,837
EXPENDITURES				
Current:				
Public works	\$ -	\$ 1,828	\$ 1,828	\$ -
Total expenditures	\$ -	\$ 1,828	\$ 1,828	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 2,837	\$ 2,837
Net change in fund balances	\$ -	\$ -	\$ (22,163)	\$ (22,163)
Fund balances - beginning	-	-	25,623	25,623
Fund balances - ending	\$ -	\$ -	\$ 3,460	\$ 3,460

County of Lee, Virginia
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2017

	<u>Agency Funds</u>			
	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2017</u>
ASSETS				
Cash and cash equivalents				
Special Welfare Fund	\$ 70,542	\$ 71,427	\$ (83,062)	\$ 58,907
Total assets	<u>\$ 70,542</u>	<u>\$ 71,427</u>	<u>\$ (83,062)</u>	<u>\$ 58,907</u>
LIABILITIES				
Amounts held for others:				
Social Services clients	\$ 70,542	\$ 71,427	\$ (83,062)	\$ 58,907
Total liabilities	<u>\$ 70,542</u>	<u>\$ 71,427</u>	<u>\$ (83,062)</u>	<u>\$ 58,907</u>

County of Lee, Virginia
Combining Balance Sheet
Discretely Presented Component Unit - School Board
As of June 30, 2017

	School Operating Fund	School Head Start Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	920,153	\$ 14,478	\$ 934,631
Cash held at school cafeterias	11,888	-	11,888
Receivables (net of allowance for uncollectibles):			
Accounts receivable	17,799	-	17,799
Due from primary government	2,189,293	-	2,189,293
Due from other governmental units	2,819,427	-	2,819,427
Prepaid items	83,994	-	83,994
Total assets	<u>\$ 6,042,554</u>	<u>\$ 14,478</u>	<u>\$ 6,057,032</u>
LIABILITIES			
Accounts payable	\$ 124,867	\$ -	\$ 124,867
Accrued liabilities	3,438,832	-	3,438,832
Total liabilities	<u>\$ 3,563,699</u>	<u>\$ -</u>	<u>\$ 3,563,699</u>
FUND BALANCES			
Nonspendable	\$ 83,994	\$ -	\$ 83,994
Restricted:			
Head Start program	-	14,478	14,478
Cafeteria operations	811,073	-	811,073
Retirement	24,781	-	24,781
Unassigned	1,559,007	-	1,559,007
Total fund balances	<u>\$ 2,478,855</u>	<u>\$ 14,478</u>	<u>\$ 2,493,333</u>
Total liabilities and fund balances	<u>\$ 6,042,554</u>	<u>\$ 14,478</u>	<u>\$ 6,057,032</u>

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total fund balances per above \$ 2,493,333

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 528,889	
Buildings and improvements	6,276,894	
Machinery and equipment	<u>1,099,793</u>	7,905,576

Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.

1,964,629

Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.

Items related to the measurement of the net pension liability (2,988,991)

Pension contributions subsequent to the measurement date will be a reduction in the net pension liability in the next fiscal year and, therefore, are not reported in the funds

3,211,778

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Compensated absences	\$ (819,678)	
Early retirement incentive plan liability	(2,174,551)	
Net pension liability	(39,670,651)	
Deferred outflows of resources related to measurement of net pension liability	<u>2,892,788</u>	(39,772,092)

Net position of governmental activities \$ (27,185,767)

County of Lee, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2017

	School Operating Fund	School Head Start Fund	Total Governmental Funds
REVENUES			
Revenue from the use of money and property	\$ 4,840	\$ -	\$ 4,840
Charges for services	362,237	-	362,237
Miscellaneous	124,598	23,280	147,878
Recovered costs	1,068,042	73	1,068,115
Intergovernmental:			
Local government	5,090,421	-	5,090,421
Commonwealth	27,523,283	-	27,523,283
Federal	5,014,037	1,587,130	6,601,167
Total revenues	<u>\$ 39,187,458</u>	<u>\$ 1,610,483</u>	<u>\$ 40,797,941</u>
EXPENDITURES			
Current:			
Education	\$ 38,011,986	\$ 1,619,793	\$ 39,631,779
Total expenditures	<u>\$ 38,011,986</u>	<u>\$ 1,619,793</u>	<u>\$ 39,631,779</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 1,175,472</u>	<u>\$ (9,310)</u>	<u>\$ 1,166,162</u>
Net change in fund balances	\$ 1,175,472	\$ (9,310)	\$ 1,166,162
Fund balances - beginning	1,303,383	23,788	1,327,171
Fund balances - ending	<u>\$ 2,478,855</u>	<u>\$ 14,478</u>	<u>\$ 2,493,333</u>
Amounts reported for governmental activities in the Statement of Activities (Exhibit 2) are different because:			
Net change in fund balances - total governmental funds - per above			\$ 1,166,162
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. This is the amount by which depreciation exceeded capital outlays in the current period.			
Capital outlays		\$ 488,640	
Depreciation expenses		<u>(755,041)</u>	(266,401)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.			
(Increase) Decrease in deferred inflows of resources related to the net pension liability			998,557
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.			
(Increase) Decrease in compensated absences		\$ 16,118	
(Increase) Decrease in early retirement incentive plan liability		(982,888)	
(Increase) Decrease in net pension liability		(3,186,170)	
Increase (Decrease) in deferred outflows of resources related to pension		<u>2,372,980</u>	(1,779,960)
Internal service funds are used by management to charge the costs of certain activities, such as insurance to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.			73,253
Change in net position of governmental activities			<u><u>\$ 191,611</u></u>

County of Lee, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actuals
 Discretely Presented Component Unit - School Board
 For the Year Ended June 30, 2017

	School Operating Fund			School Head Start Fund			Variance with
	Budgeted Amounts		Actual	Budgeted Amounts		Final	Final Budget
	Original	Final		Original	Final	Actual	Positive (Negative)
REVENUES							
Revenue from the use of money and property	\$ 2,000	\$ 2,000	\$ 4,840	\$ -	\$ 2,840	\$ -	\$ -
Charges for services	349,035	349,035	362,237	-	13,202	-	-
Miscellaneous	600	600	124,598	-	123,998	-	23,280
Recovered costs	910,560	910,560	1,068,042	-	157,482	73	73
Intergovernmental:							
Local government	4,218,042	5,806,703	5,090,421	-	(716,282)	-	-
Commonwealth	27,200,009	27,200,009	27,523,283	-	323,274	-	-
Federal	3,798,894	3,798,894	5,014,037	1,370,586	1,215,143	1,619,793	(32,663)
Total revenues	\$ 36,479,140	\$ 38,067,801	\$ 39,187,458	\$ 1,370,586	\$ 1,119,657	\$ 1,610,483	\$ (9,310)
EXPENDITURES							
Current:							
Education	\$ 36,946,254	\$ 38,534,915	\$ 38,011,986	\$ 1,370,586	\$ 522,929	\$ 1,619,793	\$ -
Total expenditures	\$ 36,946,254	\$ 38,534,915	\$ 38,011,986	\$ 1,370,586	\$ 522,929	\$ 1,619,793	\$ -
Excess (deficiency) of revenues over (under) expenditures	\$ (467,114)	\$ (467,114)	\$ 1,175,472	\$ -	\$ 1,642,586	\$ (9,310)	\$ (9,310)
Net change in fund balances	\$ (467,114)	\$ (467,114)	\$ 1,175,472	\$ -	\$ 1,642,586	\$ (9,310)	\$ (9,310)
Fund balances - beginning	467,114	467,114	1,303,383	-	836,269	23,788	23,788
Fund balances - ending	\$ -	\$ -	\$ 2,478,855	\$ -	\$ 2,478,855	\$ 14,478	\$ 14,478

County of Lee, Virginia
Statement of Net Position
Discretely Presented Component Unit - School Board
Internal Service Fund
As of June 30, 2017

	Self- Insurance Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 2,231,969
Total assets	<u>\$ 2,231,969</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 267,340
Total liabilities	<u>\$ 267,340</u>
NET POSITION	
Restricted	\$ 1,964,629
Total net position	<u>\$ 1,964,629</u>

County of Lee, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Discretely Presented Component Unit - School Board
Internal Service Fund
For the Year Ended June 30, 2017

	Self- Insurance Fund
OPERATING REVENUES	
Charges for services:	
Insurance premiums	\$ 4,224,993
Total operating revenues	<u>\$ 4,224,993</u>
OPERATING EXPENSES	
Insurance claims and expenses	\$ 4,161,464
Total operating expenses	<u>\$ 4,161,464</u>
Operating income (loss)	<u>\$ 63,529</u>
NONOPERATING REVENUES (EXPENSES)	
Investment income	<u>\$ 9,724</u>
Change in net position	\$ 73,253
Total net position - beginning	1,891,376
Total net position - ending	<u><u>\$ 1,964,629</u></u>

County of Lee, Virginia
Statement of Cash Flows
Discretely Presented Component Unit - School Board
Internal Service Fund
For the Year Ended June 30, 2017

	Self- Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts for insurance premiums	\$ 4,224,993
Payments for premiums	(4,301,032)
Net cash provided by (used for) operating activities	<u>\$ (76,039)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	\$ 9,724
Net cash provided by (used for) investing activities	<u>\$ 9,724</u>
Net increase (decrease) in cash and cash equivalents	\$ (66,315)
Cash and cash equivalents - beginning	2,298,284
Cash and cash equivalents - ending	<u><u>\$ 2,231,969</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	<u>\$ 63,529</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Increase (decrease) in accounts payable	\$ (139,568)
Total adjustments	<u>\$ (139,568)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (76,039)</u></u>

County of Lee, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

Schedule 1
Page 1 of 5

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 5,869,000	\$ 5,869,000	\$ 5,879,674	\$ 10,674
Real and personal public service corporation taxes	510,000	510,000	556,261	46,261
Personal property taxes	1,691,500	1,691,500	1,934,181	242,681
Mobile home taxes	89,250	89,250	90,960	1,710
Machinery and tools taxes	516,500	516,500	682,745	166,245
Merchant's capital	67,500	67,500	69,131	1,631
Business personal property	194,000	194,000	197,050	3,050
Penalties	130,000	130,000	169,936	39,936
Interest	130,000	130,000	213,832	83,832
Total general property taxes	<u>\$ 9,197,750</u>	<u>\$ 9,197,750</u>	<u>\$ 9,793,770</u>	<u>\$ 596,020</u>
Other local taxes:				
Local sales and use taxes	\$ 1,343,000	\$ 1,343,000	\$ 1,258,894	\$ (84,106)
Consumers' utility and consumption taxes	436,000	436,000	432,668	(3,332)
Oil and gas severance taxes	8,700	8,700	5,700	(3,000)
Motor vehicle licenses	565,500	565,500	559,191	(6,309)
Bank stock taxes	57,000	57,000	30,521	(26,479)
Taxes on recordation and wills	47,200	47,200	55,473	8,273
Hotel and motel room taxes	2,000	2,000	1,582	(418)
Amusement tax	175	175	152	(23)
Total other local taxes	<u>\$ 2,459,575</u>	<u>\$ 2,459,575</u>	<u>\$ 2,344,181</u>	<u>\$ (115,394)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,400	\$ 2,400	\$ 2,489	\$ 89
Zoning and subdivision permits	3,700	3,700	2,911	(789)
Transfer fees	800	800	847	47
Gun permits	2,500	4,440	3,544	(896)
Contractor's licenses	4,000	4,000	2,536	(1,464)
Building permits	28,000	28,921	48,557	19,636
Total permits, privilege fees, and regulatory licenses	<u>\$ 41,400</u>	<u>\$ 44,261</u>	<u>\$ 60,884</u>	<u>\$ 16,623</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 2,900	\$ 2,900	\$ 1,065	\$ (1,835)
Revenue from use of money and property:				
Revenue from use of money	\$ 25,000	\$ 25,000	\$ 33,265	\$ 8,265
Revenue from use of property	60,466	60,466	60,016	(450)
Total revenue from use of money and property	<u>\$ 85,466</u>	<u>\$ 85,466</u>	<u>\$ 93,281</u>	<u>\$ 7,815</u>
Charges for services:				
Charges for excess clerk fees	\$ 1,600	\$ 1,600	\$ 793	\$ (807)
Charges for courthouse maintenance	6,000	6,000	5,351	(649)
Charges for courthouse security	30,000	30,000	28,757	(1,243)
Charges for Commonwealth's Attorney	3,000	3,000	3,160	160
Charges for inmates	2,050	2,050	3,942	1,892
Charges for aviation fuel	33,800	33,800	12,499	(21,301)
Charges for sanitation, waste removal and recycling	149,000	149,000	150,825	1,825
Charges for parks and recreation	6,000	6,000	7,796	1,796
Charges for administration fee of prison water billings	61,616	61,616	125,801	64,185
Charges for garage services	15,000	15,000	11,464	(3,536)
Other charges for services	2,700	2,700	1,540	(1,160)
Total charges for services	<u>\$ 310,766</u>	<u>\$ 310,766</u>	<u>\$ 351,928</u>	<u>\$ 41,162</u>
Miscellaneous:				
Miscellaneous	\$ 38,000	\$ 52,735	\$ 105,621	\$ 52,886
Contributions	-	7,419	9,039	1,620
Imagination library	-	26,103	13,758	(12,345)
Economic development	-	96,000	52,448	(43,552)
Total miscellaneous	<u>\$ 38,000</u>	<u>\$ 182,257</u>	<u>\$ 180,866</u>	<u>\$ (1,391)</u>

County of Lee, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
Health department	\$ -	\$ -	\$ 6,644	\$ 6,644
Insurance recovery	23,860	37,725	51,017	13,292
Welfare refunds and recoveries	-	-	103,566	103,566
Regional jail	-	-	205,599	205,599
Delinquent tax collection fees	8,700	17,934	14,286	(3,648)
Other recovered costs	63,000	83,266	68,010	(15,256)
Total recovered costs	\$ 95,560	\$ 138,925	\$ 449,122	\$ 310,197
Total revenue from local sources	\$ 12,231,417	\$ 12,421,900	\$ 13,275,097	\$ 853,197
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 108,000	\$ 108,000	\$ 97,357	\$ (10,643)
Mobile home titling tax	65,000	65,000	70,610	5,610
Motor vehicle rental tax	4,500	4,500	8,530	4,030
Telecommunications taxes	415,000	415,000	397,316	(17,684)
Grantor's tax	12,000	12,000	17,150	5,150
State recordation tax	21,000	21,000	17,341	(3,659)
Personal property tax relief funds	798,646	798,646	798,646	-
Total noncategorical aid	\$ 1,424,146	\$ 1,424,146	\$ 1,406,950	\$ (17,196)
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 393,199	\$ 393,199	\$ 388,231	\$ (4,968)
Sheriff	1,461,073	1,461,073	1,425,117	(35,956)
Commissioner of revenue	115,899	115,899	112,985	(2,914)
Treasurer	89,757	89,757	88,148	(1,609)
Registrar/electoral board	42,786	42,786	41,896	(890)
Clerk of the Circuit Court	302,966	302,966	316,776	13,810
Total shared expenses	\$ 2,405,680	\$ 2,405,680	\$ 2,373,153	\$ (32,527)
Other categorical aid:				
Public assistance and welfare administration	\$ 2,541,645	\$ 2,685,491	\$ 2,468,407	\$ (217,084)
Children's services act	1,623,855	1,623,855	910,745	(713,110)
Law enforcement grants	17,019	17,019	16,833	(186)
Litter control grant	10,500	10,546	10,546	-
Fire programs	71,800	71,800	72,468	668
Records preservation grant	-	28,202	28,202	-
Victim-witness grant	62,005	62,005	21,337	(40,668)
Four-for-life payments	18,500	18,500	18,819	319
VDOT litter grant	20,000	62,380	65,420	3,040
E-911 wireless grant	150,000	150,000	42,799	(107,201)
Asset forfeitures	-	7,393	49,660	42,267
Sheriff grants	-	58,548	10,808	(47,740)
Total other categorical aid	\$ 4,515,324	\$ 4,795,739	\$ 3,716,044	\$ (1,079,695)
Total categorical aid	\$ 6,921,004	\$ 7,201,419	\$ 6,089,197	\$ (1,112,222)
Total revenue from the Commonwealth	\$ 8,345,150	\$ 8,625,565	\$ 7,496,147	\$ (1,129,418)
Revenue from the federal government:				
Payments in lieu of taxes	\$ 180,000	\$ 180,000	\$ 191,465	\$ 11,465

County of Lee, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government: (Continued)				
Categorical aid:				
Public assistance and welfare administration	\$ 3,234,821	\$ 3,417,898	\$ 3,208,875	\$ (209,023)
Children's services act	91,939	91,939	91,939	-
Edward Byrne Memorial Justice Assistance Grant Program	18,750	18,750	20,465	1,715
Victim witness grant	38,042	38,042	38,042	-
State and community highway safety	20,000	20,000	16,854	(3,146)
Domestic violence grant	36,056	36,056	36,041	(15)
Total categorical aid	<u>\$ 3,439,608</u>	<u>\$ 3,622,685</u>	<u>\$ 3,412,216</u>	<u>\$ (210,469)</u>
Total revenue from the federal government	<u>\$ 3,619,608</u>	<u>\$ 3,802,685</u>	<u>\$ 3,603,681</u>	<u>\$ (199,004)</u>
Total General Fund	<u>\$ 24,196,175</u>	<u>\$ 24,850,150</u>	<u>\$ 24,374,925</u>	<u>\$ (475,225)</u>
Nonmajor Special Revenue Fund:				
Coal Road Improvement Fund:				
Revenue from local sources:				
Other local taxes:				
Coal road severance taxes	\$ -	\$ 1,828	\$ 4,535	\$ 2,707
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 130	\$ 130
Total revenue from local sources	<u>\$ -</u>	<u>\$ 1,828</u>	<u>\$ 4,665</u>	<u>\$ 2,837</u>
Total Coal Road Improvement Fund	<u>\$ -</u>	<u>\$ 1,828</u>	<u>\$ 4,665</u>	<u>\$ 2,837</u>
Capital Projects Funds:				
Airport Project Fund:				
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
State aviation grant	\$ -	\$ 438,443	\$ -	\$ (438,443)
Total revenue from the Commonwealth	<u>\$ -</u>	<u>\$ 438,443</u>	<u>\$ -</u>	<u>\$ (438,443)</u>
Revenue from the federal government:				
Categorical aid:				
Airport Improvement Grant	\$ -	\$ -	\$ 156,465	\$ 156,465
Total revenue from the federal government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 156,465</u>	<u>\$ 156,465</u>
Total Airport Project Fund	<u>\$ -</u>	<u>\$ 438,443</u>	<u>\$ 156,465</u>	<u>\$ (281,978)</u>
Capital Improvements Fund:				
Revenue from the federal government:				
Categorical aid:				
Community development block grant	\$ -	\$ 14,442	\$ 14,442	\$ -
ARC grants	-	25,491	67,976	42,485
Total categorical aid	<u>\$ -</u>	<u>\$ 39,933</u>	<u>\$ 82,418</u>	<u>\$ 42,485</u>
Total revenue from the federal government	<u>\$ -</u>	<u>\$ 39,933</u>	<u>\$ 82,418</u>	<u>\$ 42,485</u>
Total County Capital Improvements Fund	<u>\$ -</u>	<u>\$ 39,933</u>	<u>\$ 82,418</u>	<u>\$ 42,485</u>
Total Primary Government	<u>\$ 24,196,175</u>	<u>\$ 25,330,354</u>	<u>\$ 24,618,473</u>	<u>\$ (711,881)</u>

County of Lee, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	\$ 2,000	\$ 2,000	\$ 4,840	\$ 2,840
Charges for services:				
Charges for education	\$ 8,000	\$ 8,000	\$ 112	\$ (7,888)
Cafeteria sales	296,035	296,035	326,210	30,175
Payments from other localities	35,000	35,000	17,447	(17,553)
Transportation of pupils	10,000	10,000	18,468	8,468
Total charges for services	\$ 349,035	\$ 349,035	\$ 362,237	\$ 13,202
Miscellaneous revenue:				
Other miscellaneous	\$ 600	\$ 600	\$ 124,598	\$ 123,998
Recovered costs:				
JROTC revenues	\$ 102,000	\$ 102,000	\$ 111,427	\$ 9,427
Medicaid reimbursements	200,000	200,000	447,964	247,964
Insurance reimbursements	-	-	11,471	11,471
E-rate reimbursements	588,560	588,560	336,957	(251,603)
Other recovered costs	\$ 20,000	\$ 20,000	\$ 160,223	\$ 140,223
Total recovered costs	\$ 910,560	\$ 910,560	\$ 1,068,042	\$ 157,482
Total revenue from local sources	\$ 1,262,195	\$ 1,262,195	\$ 1,559,717	\$ 297,522
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Lee, Virginia	\$ 4,218,042	\$ 5,806,703	\$ 5,090,421	\$ (716,282)
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 3,741,652	\$ 3,741,652	\$ 3,649,075	\$ (92,577)
Basic school aid	12,598,461	12,598,461	12,679,510	81,049
VPSA school security grant	211,146	211,146	147,587	(63,559)
Gifted and talented	120,701	120,701	120,711	10
Remedial education	631,164	631,164	631,220	56
Enrollment loss	-	-	231,524	231,524
Special education	2,449,217	2,449,217	2,470,092	20,875
Textbook payment	1,013,283	1,013,283	191,158	(822,125)
Vocational standards of quality payments	-	-	5,704	5,704
Vocational adult education	-	-	20,242	20,242
Social security-instructional	865,021	865,021	865,098	77
Retirement-instructional	1,782,849	1,782,849	1,783,008	159
Group life	57,836	57,836	57,841	5
State lottery payments	361,951	361,951	217,098	(144,853)
Special education foster children	28,200	28,200	22,588	(5,612)
Special education homebound	64,550	64,550	69,081	4,531
Early reading intervention	111,101	111,101	105,682	(5,419)
Career and technology	56,722	56,722	29,217	(27,505)
School food programs	18,851	18,851	23,915	5,064
Vocational education	701,573	701,573	701,635	62
GED prep program	15,717	15,717	16,835	1,118
At risk payments	781,216	781,216	781,216	-
Alternative education	187,736	187,736	187,736	-
Primary class size	767,694	767,694	783,684	15,990
VPSA technology	386,000	386,000	1,550,000	1,164,000
Mentor teacher program	5,647	5,647	4,633	(1,014)
Standards of Learning algebra readiness	72,368	72,368	72,368	-
English as a second language	5,367	5,367	6,440	1,073
Other state funds	55,915	55,915	12,380	(43,535)
Breakfast after the bell	-	-	7,529	7,529
Early reading specialists initiative	108,071	108,071	78,476	(29,595)
Total categorical aid	\$ 27,200,009	\$ 27,200,009	\$ 27,523,283	\$ 323,274
Total revenue from the Commonwealth	\$ 27,200,009	\$ 27,200,009	\$ 27,523,283	\$ 323,274

County of Lee, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Rural and low income schools	\$ 67,000	\$ 67,000	\$ 59,535	\$ (7,465)
Title I	1,697,000	1,697,000	1,575,730	(121,270)
Title VI-B, special education flow-through	800,000	800,000	876,801	76,801
Vocational education	93,720	93,720	66,353	(27,367)
Title VI-B, special education pre-school	26,174	26,174	27,176	1,002
School food programs	1,113,000	1,113,000	2,263,136	1,150,136
Forest reserve funds	2,000	2,000	1,610	(390)
Improving teacher quality	-	-	143,579	143,579
Advanced placement incentive program	-	-	117	117
Total categorical aid	\$ 3,798,894	\$ 3,798,894	\$ 5,014,037	\$ 1,215,143
Total revenue from the federal government	\$ 3,798,894	\$ 3,798,894	\$ 5,014,037	\$ 1,215,143
Total School Operating Fund	\$ 36,479,140	\$ 38,067,801	\$ 39,187,458	\$ 1,119,657
Special Revenue Fund:				
School Head Start Fund:				
Revenue from local sources:				
Miscellaneous:				
Contributions	\$ -	\$ -	\$ 10,200	\$ 10,200
Other miscellaneous	-	-	13,080	13,080
Total miscellaneous	\$ -	\$ -	\$ 23,280	\$ 23,280
Recovered costs:				
Other recovered costs	\$ -	\$ -	\$ 73	\$ 73
Total revenue from local sources	\$ -	\$ -	\$ 23,353	\$ 23,353
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Head Start	\$ 1,370,586	\$ 1,619,793	\$ 1,445,668	\$ (174,125)
USDA	-	-	141,462	141,462
Total categorical aid	\$ 1,370,586	\$ 1,619,793	\$ 1,587,130	\$ (32,663)
Total revenue from the federal government	\$ 1,370,586	\$ 1,619,793	\$ 1,587,130	\$ (32,663)
Total School Head Start Fund	\$ 1,370,586	\$ 1,619,793	\$ 1,610,483	\$ (9,310)
Total Discretely Presented Component Unit - School Board	\$ 37,849,726	\$ 39,687,594	\$ 40,797,941	\$ 1,110,347

County of Lee, Virginia
Schedule of Expenditures - Budget and Actual
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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Board of supervisors	\$ 96,892	\$ 327,534	\$ 104,279	\$ 223,255
Housing authority	3,000	3,000	2,850	150
RADA	1,940	1,940	1,052	888
Total legislative	\$ 101,832	\$ 332,474	\$ 108,181	\$ 224,293
General and financial administration:				
County administrator	\$ 130,251	\$ 130,251	\$ 129,905	\$ 346
Audit services	66,300	66,300	63,335	2,965
Legal services	23,278	23,278	21,126	2,152
Commissioner of revenue	303,681	335,781	312,733	23,048
Central purchasing	37,287	37,287	22,592	14,695
Treasurer	270,693	270,693	264,712	5,981
Delinquent tax collections	32,500	43,455	45,880	(2,425)
Central accounting	52,740	52,740	51,450	1,290
Central garage	135,675	135,675	132,608	3,067
Data processing	56,011	56,011	53,728	2,283
Reassessment	-	-	73	(73)
Total general and financial administration	\$ 1,108,416	\$ 1,151,471	\$ 1,098,142	\$ 53,329
Board of elections:				
Electoral board and officials	\$ 69,686	\$ 69,686	\$ 51,664	\$ 18,022
Registrar	125,305	125,305	121,558	3,747
Total board of elections	\$ 194,991	\$ 194,991	\$ 173,222	\$ 21,769
Total general government administration	\$ 1,405,239	\$ 1,678,936	\$ 1,379,545	\$ 299,391
Judicial administration:				
Courts:				
Circuit court	\$ 66,293	\$ 76,512	\$ 63,125	\$ 13,387
General district court	5,500	8,410	7,164	1,246
Clerk of the circuit court	425,128	460,478	455,185	5,293
Juvenile and domestic relations court	4,560	4,560	1,802	2,758
Victim and witness assistance	100,047	100,562	59,378	41,184
Special magistrates	1,010	1,010	764	246
Total courts	\$ 602,538	\$ 651,532	\$ 587,418	\$ 64,114
Commonwealth's attorney:				
Commonwealth's attorney	\$ 467,577	\$ 471,713	\$ 463,990	\$ 7,723
Total judicial administration	\$ 1,070,115	\$ 1,123,245	\$ 1,051,408	\$ 71,837
Public safety:				
Law enforcement and traffic control:				
Sheriff	\$ 2,188,754	\$ 2,336,718	\$ 2,375,721	\$ (39,003)
Domestic violence	41,309	45,496	45,451	45
Courtroom security	27,313	27,313	15,952	11,361
E-911	506,690	658,908	490,609	168,299
School resource officer	75,000	75,000	74,147	853
Total law enforcement and traffic control	\$ 2,839,066	\$ 3,143,435	\$ 3,001,880	\$ 141,555
Fire and rescue services:				
Volunteer fire department	\$ 245,602	\$ 245,602	\$ 242,528	\$ 3,074
Emergency medical services	81,775	81,775	71,310	10,465
Emergency services	34,444	34,444	28,299	6,145
Total fire and rescue services	\$ 361,821	\$ 361,821	\$ 342,137	\$ 19,684
Correction and detention:				
Jail operations	\$ 2,123,405	\$ 2,123,405	\$ 2,103,232	\$ 20,173
Juvenile probation and detention	207,484	207,484	207,484	-
Total correction and detention	\$ 2,330,889	\$ 2,330,889	\$ 2,310,716	\$ 20,173

County of Lee, Virginia
Schedule of Expenditures - Budget and Actual
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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (Continued)				
Inspections:				
Building	\$ 82,181	\$ 82,181	\$ 71,881	\$ 10,300
Other protection:				
Animal control	\$ 100,857	\$ 107,257	\$ 103,347	\$ 3,910
Medical examiner	500	500	380	120
Total other protection	\$ 101,357	\$ 107,757	\$ 103,727	\$ 4,030
Total public safety	\$ 5,715,314	\$ 6,026,083	\$ 5,830,341	\$ 195,742
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ 500	\$ 500	\$ -	\$ 500
Sanitation and waste removal:				
Waste collection	\$ 778,207	\$ 778,207	\$ 747,381	\$ 30,826
Waste disposal	528,000	528,000	500,503	27,497
Landfill	50,000	51,476	58,173	(6,697)
Litter control	98,130	98,176	88,692	9,484
Total sanitation and waste removal	\$ 1,454,337	\$ 1,455,859	\$ 1,394,749	\$ 61,110
Maintenance of general buildings and grounds:				
General properties	\$ 284,136	\$ 284,136	\$ 273,271	\$ 10,865
Total public works	\$ 1,738,973	\$ 1,740,495	\$ 1,668,020	\$ 72,475
Health and welfare:				
Health:				
Supplement of local health department	\$ 247,520	\$ 247,520	\$ 219,071	\$ 28,449
Mental health and mental retardation:				
Community services board	\$ 109,350	\$ 109,350	\$ 109,350	\$ -
Welfare:				
Public assistance and welfare administration	\$ 8,798,882	\$ 9,125,805	\$ 7,729,221	\$ 1,396,584
Tax relief for the elderly	200,000	200,000	202,229	(2,229)
Other welfare services and contributions	35,900	35,900	35,900	-
Total welfare	\$ 9,034,782	\$ 9,361,705	\$ 7,967,350	\$ 1,394,355
Total health and welfare	\$ 9,391,652	\$ 9,718,575	\$ 8,295,771	\$ 1,422,804
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 19,672	\$ 19,672	\$ 19,181	\$ 491
Contribution to County School Board	4,218,042	5,806,703	5,090,421	716,282
Total education	\$ 4,237,714	\$ 5,826,375	\$ 5,109,602	\$ 716,773
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 37,500	\$ 71,500	\$ 71,500	\$ -
Tourism	50,814	57,494	23,430	34,064
Thomas Walker pool	30,245	30,245	34,629	(4,384)
Total parks and recreation	\$ 118,559	\$ 159,239	\$ 129,559	\$ 29,680
Library:				
Imagination Library	\$ -	\$ 26,103	\$ 26,103	\$ -
Lonesome Pine Regional Library	222,082	222,082	222,082	-
Total library	\$ 222,082	\$ 248,185	\$ 248,185	\$ -
Total parks, recreation, and cultural	\$ 340,641	\$ 407,424	\$ 377,744	\$ 29,680

County of Lee, Virginia
Schedule of Expenditures - Budget and Actual
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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development:				
Planning and community development:				
Lenowisco	\$ 41,878	\$ 41,878	\$ 41,878	\$ -
IDA	6,786	102,786	101,817	969
Board of zoning appeals	3,933	3,933	1,039	2,894
Planning commission	3,833	3,833	2,079	1,754
Community development	113,202	113,201	51,007	62,194
Lee County Airport	64,464	64,464	25,845	38,619
Public Service Authority	3,233	3,233	2,856	377
Total planning and community development	\$ 237,329	\$ 333,328	\$ 226,521	\$ 106,807
Environmental management:				
Contribution to soil and water district	\$ 31,000	\$ 31,000	\$ 31,000	\$ -
Cooperative extension program:				
Extension office	\$ 60,820	\$ 60,820	\$ 49,987	\$ 10,833
Total community development	\$ 329,149	\$ 425,148	\$ 307,508	\$ 117,640
Nondepartmental:				
General expenses	\$ -	\$ 44,211	\$ 25,539	\$ 18,672
Refunds	-	2,751	2,673	78
Miscellaneous	50,000	19,041	4,450	14,591
Total nondepartmental	\$ 50,000	\$ 66,003	\$ 32,662	\$ 33,341
Capital projects:				
Courthouse renovations	\$ 75,000	\$ 75,000	\$ -	\$ 75,000
Cooperative Extension Building	-	23,004	1,001	22,003
Solid Waste Transfer Station	26,000	233,492	89,167	144,325
Total capital projects	\$ 101,000	\$ 331,496	\$ 90,168	\$ 241,328
Debt service:				
Principal retirement	\$ 535,454	\$ 535,675	\$ 535,454	\$ 221
Interest and other fiscal charges	184,297	185,644	186,966	(1,322)
Total debt service	\$ 719,751	\$ 721,319	\$ 722,420	\$ (1,101)
Total General Fund	\$ 25,099,548	\$ 28,065,099	\$ 24,865,189	\$ 3,199,910

County of Lee, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2017

Schedule 2
Page 4 of 4

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Nonmajor Special Revenue Fund:				
Coal Road Improvement Fund:				
Public works:				
Maintenance of highways, streets, bridges and sidewalks:				
Highways, streets, bridges and sidewalks	\$ -	\$ 1,828	\$ 1,828	\$ -
Total Coal Road Improvement Fund	\$ -	\$ 1,828	\$ 1,828	\$ -
Capital Projects Funds:				
Airport Project Fund:				
Capital projects expenditures:				
Airport improvements	\$ -	\$ 438,443	\$ 2,186	\$ 436,257
Total Airport Project Fund	\$ -	\$ 438,443	\$ 2,186	\$ 436,257
Capital Improvements Fund:				
Community development:				
Planning and community development:				
Water and sewer contributions	\$ -	\$ 39,933	\$ 82,418	\$ (42,485)
Total Capital Improvements Fund	\$ -	\$ 39,933	\$ 82,418	\$ (42,485)
Total Primary Government	\$ 25,099,548	\$ 28,545,303	\$ 24,951,621	\$ 3,593,682
Discretely Presented Component Unit - School Board				
School Operating Fund:				
Education:				
Administration of schools:				
Administration and health	\$ 2,290,907	\$ 2,325,907	\$ 2,754,963	\$ (429,056)
Instruction costs:				
Instruction	\$ 25,745,100	\$ 25,955,100	\$ 25,260,566	\$ 694,534
Operating costs:				
Pupil transportation	\$ 1,952,141	\$ 2,337,141	\$ 2,062,097	\$ 275,044
Operation and maintenance of school plant	3,522,200	4,180,861	3,719,351	461,510
Food services and non-instructional operations	1,897,000	1,897,000	3,245,427	(1,348,427)
Facilities	206,856	206,856	256,062	(49,206)
Technology	1,332,050	1,632,050	713,520	918,530
Total operating costs	\$ 8,910,247	\$ 10,253,908	\$ 9,996,457	\$ 257,451
Total education	\$ 36,946,254	\$ 38,534,915	\$ 38,011,986	\$ 522,929
Total School Operating Fund	\$ 36,946,254	\$ 38,534,915	\$ 38,011,986	\$ 522,929
Special Revenue Fund:				
School Head Start Fund:				
Education:				
Operating costs:				
Operation of Head Start program	\$ 1,370,586	\$ 1,619,793	\$ 1,619,793	\$ -
Total School Head Start Fund	\$ 1,370,586	\$ 1,619,793	\$ 1,619,793	\$ -
Total Discretely Presented Component Unit - School Board	\$ 38,316,840	\$ 40,154,708	\$ 39,631,779	\$ 522,929

Other Statistical Information

Table 1

County of Lee, Virginia
Government-Wide Expenses by Function
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Total
2007-08	\$ 557,164	\$ 1,273,184	\$ 3,607,249	\$ 2,617,018	\$ 8,206,354	\$ 4,321,795	\$ 345,337	\$ 694,781	\$ 368,516	\$ 21,991,398
2008-09	1,123,200	1,222,940	4,039,816	2,338,333	8,149,399	3,912,437	307,986	343,616	403,879	21,841,606
2009-10	1,207,079	1,152,898	3,728,917	2,498,973	7,309,349	8,994,488	295,114	1,454,559	321,221	26,962,598
2010-11	1,100,035	1,181,231	3,761,689	2,179,475	6,434,758	4,266,223	402,555	327,909	261,726	19,915,601
2011-12	1,050,608	1,082,249	3,704,950	2,277,945	6,348,443	3,993,991	422,822	1,196,362	244,797	20,322,167
2012-13	1,147,160	1,067,011	4,321,233	2,253,377	6,580,988	4,805,659	456,913	407,271	192,257	21,231,869
2013-14	1,370,313	1,042,801	4,835,366	2,235,440	6,878,761	4,214,884	509,961	587,108	215,432	21,890,066
2014-15	1,674,667	1,032,393	4,797,009	2,598,554	7,868,449	4,785,003	529,431	377,682	164,480	23,827,668
2015-16	1,236,676	908,855	5,273,487	2,164,068	7,994,289	2,861,708	546,643	455,125	213,702	21,654,553
2016-17	1,280,155	1,031,469	5,440,000	2,264,130	8,210,746	5,167,171	572,794	388,366	184,699	24,539,530

Table 2

County of Lee, Virginia
Government-Wide Revenues
Last Ten Fiscal Years

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2007-08	\$ 420,338	\$ 10,053,368	\$ 843,033	\$	7,058,809	2,869,676	\$ 210,820	\$ 43,910	1,189,651	\$ 22,689,605
2008-09	368,012	9,507,496	845,418		8,758,438	3,172,765	125,842	460,635	1,004,111	24,242,717
2009-10	335,615	8,369,233	1,218,655		8,731,893	2,446,316	100,507	409,219	1,737,741	23,349,179
2010-11	345,714	8,678,963	807,259		9,247,438	2,596,805	70,945	177,251	1,679,537	23,603,912
2011-12	398,845	7,631,406	1,002,907		9,141,747	3,067,356	89,498	57,975	1,686,729	23,076,463
2012-13	466,567	7,867,563	470,920		8,977,620	2,656,106	90,635	103,975	1,792,153	22,425,539
2013-14	387,988	8,434,498	3,000		9,035,889	2,410,385	83,584	64,424	1,677,730	22,097,498
2014-15	391,806	9,174,855	17,000		9,284,419	2,437,621	88,767	130,475	1,583,800	23,108,743
2015-16	304,439	9,286,956	545,415		9,413,541	2,433,363	91,731	154,560	1,588,283	23,818,288
2016-17	409,602	9,501,413	238,883		9,416,374	2,348,716	93,411	180,866	1,598,415	23,787,680

Table 3

County of Lee, Virginia
General Governmental Expenditures by Function (1)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Non-departmental (3)	Capital Projects	Debt Service	Total
2007-08	\$ 1,126,093	\$ 1,329,479	\$ 4,150,778	\$ 2,191,306	\$ 8,306,912	\$ 39,831,214	\$ 344,500	\$ 273,627	\$ -	\$ 950,470	\$ 826,710	\$ 59,331,089
2008-09	1,347,515	1,236,003	4,324,096	1,913,309	8,250,829	41,642,557	256,764	285,096	-	2,869,181	1,700,772	63,826,122
2009-10	1,260,470	1,155,756	4,653,431	2,004,130	7,452,220	41,728,782	249,240	232,726	-	1,734,350	2,126,951	62,598,056
2010-11	1,196,698	1,191,147	4,404,622	1,735,871	6,628,546	38,993,294	280,748	248,688	25,575	927,691	597,032	56,229,912
2011-12	1,222,492	1,099,211	4,273,367	1,791,908	6,440,926	37,624,941	294,434	394,103	18,282	656,386	709,698	54,525,748
2012-13	1,340,114	1,080,177	4,385,599	1,739,984	6,586,407	35,969,716	311,964	409,339	12,615	568,813	2,817,438	55,222,166
2013-14	1,397,440	1,043,375	4,752,870	1,941,712	7,013,740	35,239,555	309,377	463,198	19,114	230,365	574,858	52,985,604
2014-15	1,816,613	1,070,181	4,861,877	2,114,023	7,945,407	36,103,450	337,321	376,291	19,883	106,284	537,961	55,289,291
2015-16	1,405,618	960,385	5,462,812	1,863,565	8,201,547	35,313,755	357,867	463,243	30,429	1,311,379	2,167,141	57,537,741
2016-17	1,379,545	1,051,408	5,830,341	1,669,848	8,295,771	39,650,960	377,744	389,926	32,662	92,354	722,420	59,492,979

(1) Includes General and Special Revenue Funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit.

(3) Transfer of grant proceeds.

Table 4

County of Lee, Virginia
General Governmental Revenues by Source (1)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2007-08	\$ 7,621,763	\$ 2,869,676	\$ 41,817	\$ 13,822	\$ 213,483	\$ 952,516	\$ 186,619	\$ 1,197,815	\$ 45,289,375	\$ 58,386,886
2008-09	9,204,997	3,172,765	35,095	13,631	127,859	933,709	580,723	1,340,376	48,143,652	63,552,807
2009-10	8,794,311	2,446,316	34,963	12,773	101,760	892,241	501,443	1,572,932	47,404,594	61,761,333
2010-11	8,872,816	2,596,805	29,075	10,365	89,504	812,361	217,799	2,585,373	43,791,720	59,005,818
2011-12	8,943,118	3,067,356	29,189	2,679	90,715	858,542	131,316	1,722,766	41,153,310	55,998,991
2012-13	8,974,349	2,656,106	31,861	2,957	91,606	912,199	209,358	1,115,623	38,934,262	52,928,321
2013-14	8,903,972	2,410,385	36,071	3,784	84,596	716,628	573,487	1,325,166	39,425,164	53,479,253
2014-15	9,356,898	2,437,621	65,553	2,557	89,609	670,028	163,916	1,243,334	41,532,295	55,561,811
2015-16	9,133,324	2,433,363	53,901	3,754	94,557	453,485	171,130	1,253,055	41,467,802	55,064,371
2016-17	9,793,770	2,348,716	60,884	1,065	98,251	714,165	328,744	1,517,237	45,463,161	60,325,993

(1) Includes General and Special Revenue Funds of the Primary Government and its Discretely Presented Component Units.

(2) Excludes contribution from Primary Government to Discretely Presented Component Unit.

Table 5

County of Lee, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years

Fiscal Year	Total Tax Levy (1, 2)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2007-08	\$ 8,018,912	\$ 7,782,705	97.05%	\$ 281,588	\$ 8,064,293	100.57%	\$ 2,048,761	25.55%
2008-09	9,041,126	8,418,889	93.12%	614,071	9,032,960	99.91%	1,304,221	14.43%
2009-10	8,630,941	8,126,279	94.15%	409,561	8,535,840	98.90%	1,315,201	15.24%
2010-11	8,656,848	7,982,430	92.21%	603,009	8,585,439	99.18%	1,304,876	15.07%
2011-12	8,806,899	8,232,502	93.48%	433,804	8,666,306	98.40%	1,369,817	15.55%
2012-13	8,832,738	8,184,060	92.66%	507,811	8,691,871	98.41%	1,431,419	16.21%
2013-14	8,726,504	7,917,499	90.73%	528,092	8,445,591	96.78%	1,685,412	19.31%
2014-15	8,840,676	8,058,024	91.15%	789,531	8,847,555	100.08%	1,556,832	17.61%
2015-16	8,846,998	8,172,731	92.38%	499,254	8,671,985	98.02%	1,761,686	19.91%
2016-17	8,970,226	8,319,766	92.75%	888,007	9,207,773	102.65%	1,424,410	15.88%

(1) Exclusive of penalties and interest.

(2) Adjusted for tax supplements and exonerations

Table 6

County of Lee, Virginia
Assessed Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate (2) (4)	Personal Property and Mobile Homes (3)	Machinery and Tools	Merchant's Capital	Public Utility (1) Real Estate and Personal Property	Total
2007-08	\$ 737,142,426	\$ 163,135,494	\$ 40,090,049	\$ 7,074,662	\$ 58,964,511	\$ 1,006,407,142
2008-09	731,569,173	171,073,559	38,699,260	6,067,485	55,408,083	1,002,817,560
2009-10	743,692,758	156,055,503	44,210,965	4,909,268	54,291,139	1,003,159,633
2010-11	869,405,405	152,842,581	31,162,330	4,828,599	68,718,093	1,126,957,008
2011-12	870,493,305	162,370,950	38,771,386	5,311,700	65,596,616	1,142,543,957
2012-13	877,247,929	150,930,178	39,381,465	5,506,494	69,780,906	1,142,846,972
2013-14	880,347,436	150,961,628	36,979,868	5,611,004	61,492,523	1,135,392,459
2014-15	893,516,153	157,875,864	35,105,052	5,005,906	67,704,281	1,159,207,256
2015-16	894,666,051	157,268,434	31,980,335	4,795,659	77,899,412	1,166,609,891
2016-17	943,846,489	162,526,640	24,656,658	4,974,615	88,010,662	1,224,015,064

(1) Assessed values are established by the State Corporation Commission.

(2) Includes minerals.

(3) Includes business property.

(4) Original assessments presented above.

Table 7

**County of Lee, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years**

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Merchant's Capital
2007-08	\$ 0.65	\$ 1.41	\$ 1.41	\$ 1.41
2008-09	0.75	2.00	2.00	1.25
2009-10	0.75	2.00	2.00	1.41
2010-11	0.65	2.00	2.00	1.41
2011-12	0.65	2.00	2.00	1.41
2012-13	0.65	2.00	2.00	1.41
2013-14	0.65	2.00	2.00	1.41
2014-15	0.65	2.00	2.00	1.41
2015-16	0.65	2.00	2.00	1.41
2016-17	0.62	2.00	2.00	1.41

(1) Per \$100 of assessed value.

Table 8

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

Fiscal Year	Population (1)	Assessed Value (in thousands)	Gross Bonded Debt (2)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2007-08	\$ 23,589	\$ 1,006,407	\$ 2,326,704	\$ 2,326,704	0.23%	\$ 99
2008-09	23,589	1,002,818	1,935,162	1,935,162	0.19%	82
2009-10	23,589	1,003,160	1,968,610	1,968,610	0.20%	83
2010-11	25,587	1,126,957	1,815,576	1,815,576	0.16%	71
2011-12	25,587	1,142,544	1,690,000	1,690,000	0.15%	66
2012-13	25,474	1,142,847	3,570,000	3,570,000	0.31%	140
2013-14	25,474	1,135,392	3,470,000	3,470,000	0.31%	136
2014-15	25,474	1,159,207	3,365,000	3,365,000	0.29%	132
2015-16	25,587	1,159,207	2,139,000	2,139,000	0.18%	84
2016-17	25,587	1,224,015	2,012,000	2,012,000	0.16%	79

(1) Bureau of the Census.

(2) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans.

Excludes revenue bonds, landfill closure/post-closure care liability, capital leases, and compensated absences.

Table 9

County of Lee, Virginia
Ratio of Annual Debt Service Expenditures for General Bonded Debt to
Total General Governmental Expenditures (1)
Last Ten Fiscal Years

Fiscal Year	Principal	Interest	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2007-08	\$ 545,725	\$ 280,985	\$ 826,710	\$ 59,331,089	1.39%
2008-09	1,202,282	498,490	1,700,772	63,826,122	2.66%
2009-10	1,808,388	318,563	2,126,951	62,598,056	3.40%
2010-11	341,966	255,066	597,032	56,229,912	1.06%
2011-12	591,884	247,753	839,637	54,525,748	1.54%
2012-13	2,616,243	201,195	2,817,438	55,133,698	5.11%
2013-14	349,153	225,705	574,858	52,985,604	1.08%
2014-15	338,578	199,383	537,961	55,289,291	0.97%
2015-16	1,901,338	237,595	2,138,933	57,537,741	3.72%
2016-17	535,454	186,966	722,420	59,492,979	1.21%

(1) Includes General and Special Revenue Funds of the Primary Government and its Discretely Presented Component Units.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

**To the Honorable Members of the Board of Supervisors
County of Lee, Virginia
Jonesville, 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 discretely presented component unit-School Board, each major fund, and the aggregate remaining fund information of the County of Lee, Virginia, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the County of Lee, Virginia's basic financial statements, and have issued our report thereon dated February 28, 2018. Our report includes a reference to other auditors who audited the financial statements of the discretely presented component unit - Lee County Public Service Authority, the discretely presented component unit - Lee County Industrial Development Authority, and the discretely presented component unit - Lee County Hospital Authority, as described in our report on the County of Lee, Virginia's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered County of Lee, 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 County of Lee, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of County of Lee, 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses [2017-001 and 2017-002].

Compliance and Other Matters

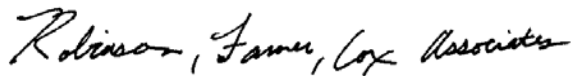
As part of obtaining reasonable assurance about whether County of Lee, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct 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*.

County of Lee, Virginia's Response to Findings

County of Lee, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. County of Lee, Virginia's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.



Blacksburg, Virginia
February 28, 2018

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Honorable Members of the Board of Supervisors
County of Lee, Virginia
Jonesville, Virginia

Report on Compliance for Each Major Federal Program

We have audited County of Lee, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of County of Lee, Virginia's major federal programs for the year ended June 30, 2017. County of Lee, Virginia's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

The County of Lee, Virginia's basic financial statements include the operations of the Lee County Public Service Authority, Lee County Industrial Development Authority, and Lee County Hospital Authority, which are not included in the schedule during the year ended June 30, 2017. Our audit, described below, did not include the operations of the Lee County Public Service Authority, Lee County Industrial Development Authority, or Lee County Hospital Authority because the component units engaged other auditors to perform their audit in accordance with *OMB Compliance Supplement*, if applicable.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of County of Lee, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about County of Lee, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, County of Lee, Virginia, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

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

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

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

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



Blacksburg, Virginia
February 28, 2018

County of Lee, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Subrecipient Expenditures
Department of Health and Human Services:				
Direct Payments:				
Head Start	93.600	Not applicable	\$ 1,445,668	
Pass Through Payments:				
Department of Social Services:				
Promoting Safe and Stable Families	93.556	0950115, 0950116	12,280	
Temporary Assistance for Needy Families	93.558	0400116, 0400117	486,280	
Refugee and Entrant Assistance - State Administered Programs	93.566	0500116, 0500117	1,548	
Low-Income Home Energy Assistance	93.568	0600416, 0600417	50,597	
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900116, 0900117	847	
Social Services Block Grant	93.667	1000116, 1000117	487,405	
Chafee Foster Care Independence Program	93.674	9150116, 9150117	4,604	
Chafee Education and Training Vouchers Program	93.599	9160116, 9160117	167	
Children's Health Insurance Program	93.767	0540116, 0540117	17,520	
Medical Assistance Program	93.778	1200116, 1200117	549,619	
Foster Care - Title IV-E	93.658	1100116, 1100117	603,484	
Adoption Assistance	93.659	1100116, 1100117	579,672	
Adoption and Legal Guardianship Incentive Payments	93.603	1130114	2,500	
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760116, 0760117	75,866	
			<u>\$ 4,318,057</u>	
Total Department of Health and Human Services			<u>\$ 4,318,057</u>	
Department of Agriculture:				
Direct Payments:				
Child and Adult Care Food Program	10.558	Not applicable	\$ 1,110,544	
Pass Through Payments:				
Child Nutrition Cluster:				
Department of Agriculture:				
Food Distribution (Note C)	10.555	Not available	\$ 107,187	
Department of Education:				
National School Lunch Program	10.555	APE40254	823,383	\$ 930,570
School Breakfast Program	10.553	APE40253		339,250
Fresh Fruit and Vegetable Program	10.582	APE40252		1,269,820
Child Nutrition Discretionary Grants Limited Availability	10.579	APE40622		5,422
Schools and Roads - Grants to States	10.665	APE43841		18,812
				1,610
Department of Social Services:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010116, 0010117 0040116, 0040117		428,425
				<u>\$ 2,834,633</u>
Total Department of Agriculture			<u>\$ 2,834,633</u>	
Department of Justice:				
Pass Through Payments:				
Department of Criminal Justice Service:				
Crime Victim Assistance	16.575	15WFAX0018	\$ 38,042	
Violence Against Women Formula Grants	16.588	15VAGX0043	36,041	
Edward Byrne Memorial Justice Assistance Grant (JAG) Program	16.738	Not available	20,465	
				<u>\$ 94,548</u>
Total Department of Justice			<u>\$ 94,548</u>	
Department of Transportation:				
Direct Payments:				
Airport Improvement Program	20.106	Not applicable	\$ 156,465	
Pass Through Payments:				
National Priority Safety Programs	20.616	M6OT-2017-57116-6765	12,838	
Alcohol Open Container Requirements	20.607	154AL-2016-56370-6570	4,016	
			<u>\$ 173,319</u>	
Total Department of Transportation			<u>\$ 173,319</u>	
Department of Housing and Urban Development:				
Pass Through Payments:				
Department of Housing and Community Development:				
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	HCD50790	\$ 14,442	\$ 14,442

County of Lee, Virginia
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2017

Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Subrecipient Expenditures
Department of Education:				
Pass Through Payments:				
Department of Education:				
Career and Technical Education - Basic Grants to States	84.048	APE61095	\$ 66,353	
Advanced Placement Incentive Program	84.330	APE60957	117	
Rural Education	84.358	APE43481	59,535	
Supporting Effective Instruction State Grant	84.367	APE61480	143,579	
Title I: Grants to Local Educational Agencies	84.010	APE42901	1,575,730	
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	APE43071	\$ 876,801	
Special Education - Preschool Grants	84.173	APE62521	27,176	903,977
Total Department of Education			\$ 2,749,291	
Appalachian Regional Commission (ARC):				
Direct Payments:				
Appalachian Area Development	23.002	Not applicable	\$ 67,976	\$ 67,976
Total Expenditures of Federal Awards			\$ 10,252,266	\$ 82,418

Notes to the Schedule of Expenditures of Federal Awards

Note A -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the County of Lee, Virginia and its discretely presented component unit - School Board under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance). Because the Schedule presents only a selected portion of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

Note B -- Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, Cost Principles for State, Local, and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity indentifying numbers are presented where available.

(3) The County did not elect an indirect cost rate because they only request direct costs for reimbursement.

Note C -- Food Donation

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2017, the Lee County School Board had food commodities totaling \$0 in inventory.

Note D -- Relationship to the Financial Statements:

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

Intergovernmental federal revenues per the basic financial statements:	
Primary government:	
General Fund	\$ 3,603,681
Payments in Lieu of Taxes	(191,465)
Airport Project Fund	156,465
Capital Improvements Fund	82,418
Total primary government	\$ 3,651,099
Component Unit School Board:	
School Operating Fund	\$ 5,014,037
School Head Start Fund	1,587,130
Total Component Unit School Board	\$ 6,601,167
Total expenditures of federal awards per the Schedule of Expenditures of Federal Awards	\$ 10,252,266

County of Lee, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section I - Summary of Auditors' Results**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.558	Child and Adult Care Food Program (CACFP)
84.027/84.173	Special Education Cluster
93.600	Head Start
93.659	Adoption Assistance
93.778	Medical Assistance Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$750,000
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Auditee qualified as low-risk auditee?	No
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County of Lee, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017

Section II - Financial Statement Findings**2017-001**

Criteria: Per Statement on Auditing Standards 115, an auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose *adjustments* necessary to comply with reporting standards is not a component of such controls.

Condition: The financial statements as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.

Effect of Condition: There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's or School Board's internal controls over financial reporting.

Cause of Condition: The County and School Board do not have proper controls in place to detect and correct adjustments in closing their year end financial statements.

Recommendation: The County and School Board should review the auditors' proposed audit adjustments for the fiscal year and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.

Management's Response: The County and School Board will review the auditors' proposed audit adjustments for the fiscal year and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

2017-002

Criteria: Reimbursement requests should be submitted in a timely fashion in order to match revenues with the expenses in according to accounting principles.

Condition: A review of the School Board's reimbursement requests for VPSA Grant funding disclosed requests that were not being made in a timely manner.

Effect of Condition: Reimbursements of local funds expended for grant funded programs are not being received in a timely manner.

Cause of Condition: The School Board does not have a process in place to ensure reimbursable grants are received in a timely fashion after expenses are incurred.

County of Lee, Virginia**Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section II - Financial Statement Findings (continued)**2017-002 (continued)**

Recommendation: Management should establish a policy requiring reimbursement requests to be submitted at a minimum of quarterly.

Management's Response: Management of the School Board concurs reimbursements should be submitted timely and will work to improve the reimbursement process.

Section III - Federal Award Findings

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

Section IV - Status of Prior Audit Findings

There were no prior audit findings related to federal awards.