LEE COUNTY
PUBLIC SERVICE AUTHORITY

FINANCIAL REPORT

June 30, 2018

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DIRECTORS

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Robert Horton
Roger Gates
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& Consultants

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Lee County Public Service Authority
Jonesville, Virginia

Report on the Financial Statements

We have audited the accompanying statement of net position of the Lee County Public Service Authority, a component unit of the County of Lee, Virginia as of June 30, 2018, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the Lee County Public Service Authority'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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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 Authorities, Boards, and Commissions*, 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 of 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 auditor's 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Lee County Public Service Authority, as of June 30, 2018, and the respective changes in financial position and its cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedules of Required Supplementary Information, including the other postemployment benefits (OPEB) and pension related schedules and required supplementary information, on pages 46 through 50 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 an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the 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 Government 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 1, 2019, on our consideration of the Lee County Public Service Authority's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 Lee County Public Service Authority's internal control over financial reporting and compliance.

Thrower, Blanton & Associates, P.C.

THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants
Norton, Virginia
February 1, 2019

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INDEPENDENT AUDITOR'S 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

The Board of Directors
The Lee County Public Service Authority
Jonesville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America, and 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 Boards, Commissions and Authorities* , issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Lee County Public Service Authority, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Lee County Public Service Authority's basic financial statements, and have issued our report thereon dated February 1, 2019.

Internal Control Over Financial Reporting
In planning and performing our audit of the financial statements for the year ended June 30, 2018, we considered the Lee County Public Service Authority's internal control over financial reporting (internal control) to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the Authority's financial statements, but not for the purposes of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority'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 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 the internal control was for the limited purpose described in the preceding paragraph of this section and was not designed to identify all deficiencies in the internal control that might be, material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control that we consider to be material weaknesses. We consider the deficiencies described in the separately issued schedule of findings and responses to be material weaknesses. (Ref. 2018-001)

The Board of Directors
The Lee County Public Service Authority
Jonesville, Virginia
Page 2
(*Independent Auditor's 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)*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Lee County Public Service Authority's financial statements are free of 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*.

Response to Findings

The Lee County Public Service Authority's response to the findings identified in our audit is described in the separately issued schedule of findings and responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Lee County Public Service Authority in a separate letter dated February 1, 2019.

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 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.

Thrower, Blanton & Associates, P.C.

THROWER, BLANTON & ASSOCIATES, P.C.
Certified Public Accountants

Norton, Virginia
February 1, 2019

LEE COUNTY PUBLIC SERVICE AUTHORITY
Jonesville, Virginia
STATEMENT OF NET POSITION
June 30, 2018

ASSETS	
Current Assets:	
Cash and cash equivalents	241,586
Accounts receivable, net	560,870
Due from other governmental units	21,588
Total current assets	824,044
Noncurrent Assets:	
Restricted current assets:	
Cash and cash equivalents	551,751
Net pension asset	197,681
Capital assets, net	50,234,022
Total noncurrent assets	50,983,454
Total Assets	51,807,498
DEFERRED OUTFLOWS OF RESOURCES	
Items related to measurement of net pension liability	4,492
Pension contributions subsequent to measurement date	11,669
OPEB contributions subsequent to measurement date	2,998
Total Deferred Outflows of Resources	19,159
Total Assets and Deferred Outflows of Resources	**$ 51,826,657**
LIABILITIES	
Current Liabilities:	
Accounts payable	145,577
Accrued payroll liabilities	23,754
Customers' deposits	136,484
Accrued interest payable	35,259
Compensated absences-current portion	58,540
Current maturities of bonds payable	732,746
Total current liabilities	1,132,360
Noncurrent Liabilities:	
Compensated absences-net of current portion	25,088
Other post employment benefits liability	48,000
Bonds payable-net of current portion	17,455,149
Note payable long term	32,500
Total noncurrent liabilities	17,560,737
Total Liabilities	18,693,097
DEFERRED INFLOWS OF RESOURCES	
Deferred pension	56,849
Deferred OPEB	5,000
Total Deferred Inflows of Resources	61,849
NET POSITION	
Net investment in capital assets	32,046,127
Restricted for debt service, bond covenants, and net pension asset	603,932
Unrestricted (deficit)	421,652
Total Net Position	$ 33,071,711
Total Liabilities, Deferred Inflows of Resources, and Net Position	**$ 51,826,657**

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

LEE COUNTY PUBLIC SERVICE AUTHORITY
Jonesville, Virginia
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

OPERATING REVENUES:	
Charges for services	3,530,670
Miscellaneous	16,327
Total operating revenues	3,546,997
OPERATING EXPENSES:	
Wages and benefits	932,669
Water purchased	460,686
Utilities	216,630
Equipment repair and replacement	78,543
Professional fees	67,041
Insurance	38,688
Transportation	87,748
Supplies - chemical	26,253
Management services	34,051
Supplies - office	47,861
Telephone	21,275
Supplies - other	64,441
Testing	40,058
Licenses and permits	19,467
Miscellaneous	50,827
Training expenses	5,106
Advertising	1,165
Depreciation	3,157,395
Total operating expenses	5,349,904
Operating income (loss)	(1,802,907)
NON-OPERATING REVENUES (EXPENSES):	
Investment earnings	498
Insurance proceeds	57,144
Forgiveness of debt	111,598
Interest expense	(398,110)
Total non-operating revenues (expenses)	(228,870)
CAPITAL CONTRIBUTIONS AND CONSTRUCTION GRANTS	622,816
CHANGE IN NET POSITION	(1,408,961)
TOTAL NET POSITION, BEGINNING AS RESTATED	34,480,672
TOTAL NET POSITION, ENDING	**33,071,711**

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

LEE COUNTY PUBLIC SERVICE AUTHORITY
Jonesville, Virginia
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2018

OPERATING ACTIVITIES:		
Receipts from customers and users		3,494,980
Payments to suppliers		(1,698,802)
Payments to and for employees		(927,081)
Net cash provided by operating activities		869,097
CAPITAL AND RELATED FINANCING ACTIVITIES:		
Acquisition and construction of capital assets		(877,196)
Principal payments on debt		(722,859)
Contributed capital and grant revenue		622,816
Insurance proceeds		57,144
Proceeds from indebtedness		257,429
Forgiveness of debt		111,598
Interest payments		(398,715)
Net cash provided (used) by capital and related financing activities		(949,783)
CASH FLOWS INVESTING ACTIVITIES:		
Interest and dividend revenue		498
Net cash provided (used) by investing activities		498
Net decrease in cash and cash equivalents		(80,188)
Cash and Cash Equivalents at Beginning of Year		873,525
Cash and Cash Equivalents at June 30, 2018		
Unrestricted	241,586	
Restricted	551,751	
Cash and Cash Equivalents at End of Year		793,337
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)		(1,802,907)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation		3,157,395
Provision for compensated absences		25,480
Net pension obligation		(20,894)
Net OPEB obligation		1,002
Change in Assets and Liabilities:		
(Increase) decrease in accounts receivable		182,742
Increase (decrease) in operating accounts payable		(680,884)
Increase (decrease) in customer deposits		7,163
TOTAL ADJUSTMENTS		2,672,004
NET CASH PROVIDED BY OPERATING ACTIVITIES		869,097
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital asset purchases included in accounts payable at year end		$ -

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

Note 1. Summary of Significant Accounting Policies

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Government Accounting Standards Board (GASB).

The following is a summary of the more significant policies:

A. The Financial Reporting Entity

The Authority is a discretely presented component unit of the County of Lee, Virginia. The Authority provides water and sewer service to citizens of Lee County, Virginia. The Authority's systems were largely purchased with grant and loan proceeds from the Federal Government.

B. Basis of Accounting

Proprietary Funds - The accrual basis of accounting is used for the Authority. Under the accrual method, revenues are recognized when earned and expenses are recognized when incurred. The Proprietary Funds apply all applicable Governmental Accounting Standards Board (GASB) pronouncements and all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund are charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the financial statements. Capital assets are defined by the Authority 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 estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not to be capitalized.

Note 1. Summary of Significant Accounting Policies (Continued)

C. Capital assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or prior fiscal year.

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Water & Sewer System	20-40
Equipment	3-10
Buildings	10-30

D. Allowance for Uncollectible Accounts

The Authority calculates its allowance for uncollectible accounts using historical collection data. At June 30, 2018, there was an allowance of $157,915 recorded.

E. Cash, Cash Equivalents and Investments

For the purposes of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less. Certificates of deposits are reported in the accompanying financial statements as cash and cash equivalents.

F. 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.

G. Restricted Assets

Included in restricted cash and cash equivalents are amounts held in debt service reserve accounts in the amount of $406,251and $197,681 related to the Net Pension Asset for a total restricted amount of $603,932.

H. Net Position

Net position is the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets.

Note 1. Summary of Significant Accounting Policies (Continued)

I. 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 Authority's Retirement Plan and the additions to/deductions from the Authority 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.

J. Other Postemployment Benefits (OPEB)

Group Life Insurance

The VRS Group Life Insurance Program is a multiple employer, cost sharing plan. It provided coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to §51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers.

K. Deferred Outflows/Inflows of Resources

The Authority reports deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense) until the applicable period. Deferred inflows of resources represent 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 a future period.

Employer pension and other postemployment benefit (OPEB) contributions made after the net pension liability measurement date of June 30, 2017 and prior to the reporting date of June 30, 2018, have been reported as deferred outflows of resources in the Statement of Net Position as of June 30, 2018. This will be applied to the net pension and OPEB liabilities in the next fiscal year.

Differences between the projected and actual pension and OPEB earnings as of the actuarial measurement date of June 30, 2017 have been reported as a deferred inflow of resources. This difference will be recognized in pension and OPEB expense over a closed five-year period.

Note 2. Cash and Investments:

A. Deposits

All cash of the Authority is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the Code of Virginia or covered by federal depository insurance.

B. Investments

Statutes authorize the Authority 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). The Authority did not have any investments at June 30, 2018 or for the year then ended.

Note 2. Cash and Investments (Continued):

C. Fair Value Measurements

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

D. Credit Risk

As required by state statute, the Authority requires that commercial paper have a short-term debt rating of no less than "A-1" (or equivalent) from a nationally recognized statistical rating organization.

E. Concentration of Credit Risk

Deposits and investments held by any single issuer that exceeded 5% are as follows:

Powell Valley National Bank	39%
Lee Bank & Trust	61%

Note 3. Capital Assets and Depreciation

A summary of changes in capital assets for the year follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, non-depreciable				
Land and land improvements	$ 76,843	$ -	$ -	$ 76,843
Construction in progress	1,170,292	605,236	(1,763,528)	12,000
Capital assets, non-depreciable	$ 1,247,135	$ 605,236	$ (1,763,528)	$ 88,843
Capital assets, depreciable				
Automobiles	127,890	6,500	(15,216)	119,174
Equipment	644,017	15,632	-	659,649
Water and sewer systems	84,865,257	2,013,356	-	86,878,613
Capital assets, depreciable	$ 85,637,164	$ 2,035,488	$ -	$ 87,657,436
Less: accumulated depreciation	$ 34,370,078	$ (3,157,395)	$ 15,216	$ (37,512,257)
Capital assets, depreciable, net	$ 51,267,086	$ 1,121,907	$ -	$ 50,145,179
Capital assets, net	$ 52,514,221	$ (516,671)	$ (1,763,528)	$ 50,234,022

Note 4. Proprietary Debt

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

Year Ending June 30,	Water and Sewer Revenue Bonds Principal	Interest
2019	$ 732,746	$ 390,968
2020	744,583	379,129
2021	753,380	366,532
2022	641,110	356,333
2023	650,392	347,050
2024-2028	3,034,130	1,582,902
2029-2033	3,614,825	1,292,103
2034-2038	2,840,846	962,869
2039-2043	2,554,447	587,015
2044-2048	1,718,033	229,982
2049-2053	533,403	19,468
Totals	$ 18,187,895	$ 6,514,349

Changes in Long-Term Debt:

The following is a summary of changes in long-term obligations of the Authority for the fiscal year ended June 30, 2018:

	Balance July 1, 2017	Issuances	Retirements	Balance June 30, 2018
Revenue bonds	$ 18,653,325	$ 257,429	$ (722,859)	$ 18,187,895
Notes payable	32,500	-	-	32,500
Compensated absences	58,148	50,353	24,873	83,628
OPEB liability	161,308	-	(113,308)	48,000
Total	$ 18,905,281	$ 275,024	$ (836,167)	$ 18,344,138

Note 4. Proprietary Debt (Continued):

Details of Long-term Indebtedness:

		Total Amount		Amount Due Within One Year
Revenue Bonds:				
Rural Development revenue bond issued October 17, 1991, bearing interest at 5%, maturing monthly with interest and principal payments of $293 through 2029 (original issuance $59,600).	$	26,747	$	2,129
Rural Development revenue bond issued September 29, 1993, bearing interest at 5%, maturing monthly with interest and principal payments of $1,276 through 2033 (original issuance $261,900).		159,923		7,508
Rural Development revenue bond issued November 27, 1992, bearing interest at 4.5%, maturing monthly with interest and principal payments of $1,265 through 2033 (original issuance $275,500).		165,912		7,875
Rural Development revenue bond issued May 23, 2002, bearing interest at 4.5%, maturing monthly with interest and principal payments of $929 through 2042 (original issuance $202,300).		162,228		3,928
Rural Development revenue bond issued November 15, 2001. This loan bears interest at 3.25%, maturing monthly with interest and principal payments of $989 through 2042 (original issuance $258,000).		193,102		5,676
Virginia Resource Authority loan up to $1,061,572 at 2.5% interest for 30 year term. Issued $100,139 during fiscal year ending 6/30/18. Loan payments begin six months after project completion.		1,035,620		25,043

NOTE 4 – PROPRIETARY DEBT: (Continued)

Details of Long-term Indebtedness: (Continued)

	Total Amount	Amount Due Within One Year
Revenue Bonds: (Continued)		
Rural Development revenue bond issued December 12, 2002. This bond bears interest at 4.5%, with interest and principal payments in the amount of $1,612 through 2043 (original issuance $351,000).	$ 285,210	$ 6,646
Rural Development revenue bond issued April 23, 2003. Interest accrues on this bond at 4.5%. Principal and interest payments of $2,640 are due monthly and continue through 2042 (original issuance $575,100).	471,176	10,697
Rural Development revenue bond issued September 25, 2003. Interest accrues on this bond at 4.25%. Principal and interest payments of $3,522 continue monthly through 2038 (original issuance $795,000).	639,085	15,401
$1,450,000 bond issued August 26, 2005, with interest only payments due on August 26, 2006 and 2007. Interest accrues on this bond at 4.125%. Monthly principal and interest payment of $6,308 begin September 26, 2007 and continue through 2045.	1,233,463	25,288
$1,853,950 bond issued December 10, 1999. This loan bears interest at 3%. Principal and interest payments of $63,136 began January 1, 2002, and continue semi-annually thereafter until the obligation is paid in full.	359,695	117,468
Rural Development revenue bond issued May 2, 2008. This loan bears interest at 4.125%. Interest only payments are due on May 2, 2009 and May 2, 2010. Principal and interest payments of $2,393 begin June 2, 2010 and continue monthly through 2041.	492,306	8,748
Virginia Resource Authority loan up to $1,100,000 at 0% interest for 20 year term. Issued $23,870 during fiscal year. Loan payments begin six month after project completion.	1,017,014	55,000

NOTE 4 – PROPRIETARY DEBT: (Continued)

Details of Long-term Indebtedness: (Continued)

	Total Amount	Amount Due Within One Year
Revenue Bonds: (Continued)		
$762,203 bond issued April 23, 2003, at 0% with semi-annual payments of $12,703 due August 1st and February 1st through 2034.	$ 419,235	$ 25,369
$1,020,000 bond issued December 12, 2002, at 0% with semi-annual payments of $17,000 due May 1st and November 1st through 2033.	527,000	34,000
$861,891 bond issued July 13, 2000, at 0% interest with semi-annual payments of $14,355 due May 1st and November 1st through 2031.	373,240	28,711
$1,073,793 bond issued May 23, 2002, at 0% interest with semi-annual payments of $17,897 due July 1st and January 1st through 2033.	536,896	35,793
$56,807 bond issued November 15, 2001, at 0% interest with semi-annual payments of $947 due May 1st and November 1st through 2032.	26,531	1,895
$57,821 bond issued November 15, 2001, at 0% interest with semi-annual payments of $964 due April 1st and October 1st through 2032.	27,947	1,927
$87,500 bond issued February 5, 2004, at 0% interest with semi-annual payments of $1,458 due June 1st and December 1st through 2033.	45,208	2,917

NOTE 4 – PROPRIETARY DEBT: (Continued)
Details of Long-term Indebtedness: (Continued)

	Total Amount	Amount Due Within One Year
Revenue bonds (Continued)		
$426,517 bond issued May 27, 2005, at 0% interest with semi-annual payments of $7,109, due December 1st and June 1st through 2036.	$ 248,253	$ 13,792
$413,889 bond issued April 29, 2005, at 0% interest with semi-annual payments of $6,898, due May 1st and November 1st through 2035.	226,315	12,932
$474,083 bond issued June 29, 2006, at 0% interest with semi-annual payments of $7,902, due December 1st and June 1st through December 1, 2036.	289,650	15,803
$91,450 bond issued May 28, 2009, at 0% interest with semiannual payments of $1,524 due November 1st and May 1st through 2039.	52,291	2,491
$989,200 Rural Development revenue bond issued January 7, 2010. This bond bears interest at 4%, with interest and principal payments in the amount of $4,224 through 2050.	907,762	14,726
$1,308,000 Rural Development revenue bond issued October 7, 2009. This bond bears interest at 4.25% with interest and principal payments in the amount of $5,795 through 2049.	1,200,628	18,876
Virginia Resource Authority loan up to $75,000 at 2.5% interest for 30 year term. Issued $59,958 during fiscal year. Loan payments begin six months after project completion.	72,265	1,784
Virginia Resource Authority loan up to $133,420 at 2.5% interest for 30 year term. Issued $674,133 during fiscal year. Loan payments begin six months after project completion.	817,056	19,852

NOTE 4 – PROPRIETARY DEBT: (Continued)

Details of Long-term Indebtedness: (Continued)

	Total Amount	Amount Due Within One Year
Revenue Bonds: (Continued)		
$743,466 bond issued October 14, 2009, at 0% interest with semi annual payments of $24,776 due March 1st and September 1st through 2041.	$ 1,138,761	$ 49,551
Rural Development bond issued December 16, 2010, at 3.75% interest with interest only payments for December 2011 and 2012. Monthly payments of $5,958 due January 2013 through 2027.	1,340,501	21,619
$450,000 bond issued November 4, 2010, at 2.25% interest with interest only payments for November 2011 and 2012. Monthly payments of $1,472 due December 2012 through 2049.	405,166	8,635
$779,752 bond issued October 27, 2011, at 0% interest with semi annual payments of $13,527 due February 1st and August 1st.	630,951	27,055
$719,433 bond issued December 21, 2010, at 0% interest with semi annual payments of $11,997 due March 1st and September 1st.	575,866	23,994
$1,007,925 bond issued September 6, 2012, at 0% interest with semi annual payments of $26,171 due April 1 and October 1 starting in 2014.	798,561	52,341
Rural Development revenue bond issued May 2, 2012. This bond bears interest at 2%, with interest only payments through May 2014, and interest and principal payments in the amount of $4,396 from June 2013 through 2036.	1,286,331	27,276
Total Revenue Bonds	$ 18,187,895	$ 732,746

NOTE 5 – NOTES PAYABLE

The Authority has been approved for a line of credit with Powell Valley National Bank in the amount of $450,000. The line of credit was approved on June 15, 2009 for two water projects, the Ingle Chapel and Old Woodway Road Phase II. The Authority did not use the line of credit as of June 30, 2018.

The Authority entered into a loan agreement with the County of Lee for the total issuance amount of $65,000 with a provision for forgiveness of half the issued debt upon completion of the Stone Mountain Health Services connection. The loan was issued June 23, 2016 with 0% interest and five equal annual payments of principal to begin on the sixth anniversary of the agreement. As of June 30, 2018 the Authority has an outstanding balance on the loan of $32,500.

NOTE 6– COMPENSATED ABSENCES:

In accordance with GASB Statement 16 "Accounting and Financial Reporting Principals for Claims and Judgments and Compensated Absences", the Lee County Public Service Authority has accrued the liability arising from outstanding claims and judgments and compensated absences.

Lee County Public Service Authority employees earn 10 days or two weeks of vacation after they have been employed with the Authority for one year. After 5 years of service employees receive 15 days and after 10 years of service 18 days annually are earned. Vacation time accrues monthly up to a maximum amount equal to twice the annual leave employees are eligible to receive. Maximum accrual would then be 20, 30 or 40 days, based on length of service.

Employees receive 10 days of sick leave each year. Sick leave accrues at one twelfth of the annual amount (.83 days) each month starting at the end of the first full month of employment.

Employees who work overtime hours will receive compensatory time (Comp time) at the convenience of the department at the rate of one and one-half hours for each hour of overtime worked. Certain categories of exemptions for overtime compensation have been established for employees considered exempt and not normally entitled to overtime compensation.

At June 30, 2018, the Lee County Public Service Authority had outstanding accrued vacation, sick and comp time leave of $77,685 and related outstanding accrued payroll taxes of $5,943

NOTE 7 – DEFINED BENEFIT PENSION PLAN

Plan Description

All full-time, salaried permanent employees of the Lee County Public Service Authority, the "Authority", are automatically covered by the VRS Retirement Plan upon employment. This multi-employer agent plan is 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 a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are as follows:

NOTE 7 - DEFINED BENEFIT PENSION PLAN (Continued):

RETIREMENT PLAN PROVISIONS		
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.	**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.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund. **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.	**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.	**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* • 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 member was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

The Hybrid Retirement Plan's effective date for eligible VRS 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. 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.	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. 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.	• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under 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 Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**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.
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	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

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 the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the 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** **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. 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. **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

		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. 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** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1 **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
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.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

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%. **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 Plan1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **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 that 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. **Political subdivision hazardous duty employees:** Not applicable.
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>** 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.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

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 and have 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 employee:** 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. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component:</u>** **VRS:** Age 60 with at least five years (60 months) of creditable service. **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%.	**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%.	**Cost-of-Living Adjustment (COLA) in Retirement** **<u>Defined Benefit Component:</u>** Same as Plan 2. **<u>Defined Contribution Component:</u>** Not applicable.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • 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.	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

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.	**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.	**Disability Coverage** Employees of political subdivisions (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 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** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	1
Inactive members:	
Vested inactive members	2
Non-vested Inactive members	6
Inactive members active elsewhere in VRS	9
Total inactive members	17
Active members	19
Total covered employees	37

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 5.00% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2018 was 2.63% 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 Authority were $11,669 and $12,074 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Net Pension Liability

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5 percent
Salary increases, including inflation	3.5 percent – 5.35 percent
Investment rate of return	7.0 percent, 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:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Actuarial Assumptions – General Employees (continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Large 10 - Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 20%

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Update to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increase rate from 14% to 15%

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	69.00%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
	100.00%		4.80%
Inflation			2.50%
* Expected arithmetic nominal return			7.30%

* The above allocation provides a one-year return of 7.3%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.5%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that system member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority's Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at June 30, 2016	$ 585,995	$ 705,488	$ (119,493)
Changes for the year:			
Service Cost	48,624	-	48,624
Interest	40,047	-	40,047
Changes of assumptions	(19,765)		(19,765)
Differences between expected and actual experience	(19,811)	-	(19,811)
Contributions - employer	-	12,754	(12,754)
Contributions - employee	-	27,490	(27,490)
Net investment income	-	87,601	(87,601)
Benefit payments, including refunds	-	-	-
of employee contributions	(27,798)	(27,798)	-
Administrative expenses	-	(483)	483
Other changes	-	(79)	79
Net changes	21,297	99,485	(78,188)
Balance at June 30, 2017	$ 607,292	$ 804,973	$ (197,681)

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

The following presents the net pension liability of the Authority using the discount rate of 7.00%, as well as what the Authority's 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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net Pension Liability	$ (86,433)	$ (197,681)	$ (286,602)

NOTE 7 – DEFINED BENEFIT PENSION PLAN (Continued):

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

For the year ended June 30, 2018, the Authority recognized pension expense of $8,545. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 4,492	$ 28,743
Change in assumptions	-	15,613
Net difference between projected and actual earnings on pension plan investments	-	12,493
Employer contributions subsequent to the measurement date	11,669	-
Total	$ 16,161	$ 56,849

$11,669 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2019	(20,489)
2020	(10,707)
2021	(7,563)
2022	(13,598)
2023	-
Thereafter	-
	$ (52,357)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the Pension Plan

At June 30, 2018, the Authority reported a payable of $3,998 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OBEB plans, for public employer groups in the Commonwealth of Virginia.

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City Schools Board Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

Benefit Amounts

The benefits payable under the Group Life Insurance Program have several components.

- **Natural Death Benefit** – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit.
- **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
  - Accidental dismemberment benefit
  - Safety belt benefit
  - Repatriation benefit
  - Felonious assault benefit
  - Accelerated death benefit option

Reduction in benefit Amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were $2,998 and $3,031 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

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

At June 30, 2018, the entity reported a liability of $52,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .00300% as compared to .00316% at June 30, 2016.

For the year ended June 30, 2018, the Lee County Public Service Authority recognized GLI OPEB expense of $48,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	2,000
Change in assumptions	-	2,000
Changes in proportion	-	-
Employer contributions subsequent to the measurement date	2,998	
Total	$ 2,998	$ 5,000

$2,998 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

Year Ending June 30	Increase (Reduction) to OPEB Expense
2019	$ (1,000)
2020	(1,000)
2021	(1,000)
2022	(1,000)
2023	(1,000)
Thereafter	-
	$ (5,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates – Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

Post-Disablement:

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

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

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

Mortality rates – Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

Net GLI OPEB Liability

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

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

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

Long-Term Expected Rate of Return

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

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

NOTE 8 - GROUP LIFE INSURANCE - OTHER POST EMPLOYMENT BENEFITS (Continued)

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

	1.00% Decrease 6.00%	Current Discount Rate (7.00%)	1.00% Increase 8.00%
Employer's proportionate share of the Group Life Insurance Program	$ 62,000	$ 48,000	$ 37,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Payables to the VRS Group Life Insurance OPEB Plan

At June 30, 2018, the Authority reported a payable of $641 for the outstanding amount of contributions to the group life insurance plan required for the year ended June 30, 2018.

NOTE 9 - CONTINGENT LIABILITIES:

During the current fiscal year Federal programs in which the organization participates were not audited in accordance with the requirements of the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal* Awards (Uniform Guidance). The Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

Litigation

The Lee County Public Service Authority has been granted a temporary injunction against the Town of Pennington Gap. The town is defending this action and is currently seeking a monetary judgement against the Lee County Public Service Authority. There is no monetary request for damages against the Town by the Lee County PSA

NOTE 10 – RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates with other entities in a public entity risk pool for their coverage of property insurance and workers compensation with VACO. The Authority pays an annual premium to the pool for coverage. The agreement for the formation of the pool provides that the pool will be self-sustaining through member premiums. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority remits contributions and assessments based upon classifications 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 in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for other risks of loss. Settled claims resulting from these risks have not exceeded commercial coverage in any of the past three fiscal years.

Note 11 - ADOPTION OF NEW STANDARD AND PRIOR PERIOD RESTATEMENT

In the current year, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard replaces the requirements of GASB Statements No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensive and comparably measure the annual costs of the other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

The following is a summary of the restatement of net position from the adoption of GASB Statement No. 75.

Net position, June 30, 2017, as previously stated	$ 34,368,364
Recognition of other postemployment benefit liabilities and deferred outflows in accordance with GASB 75	112,308
Net position, June 30, 2017, as restated	$ 34,480,672

NOTE 12 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 1, 2019, which is the date that the Authority's financial statements were available to be issued. On July 19, 2018, a memorandum of understanding was signed for the Authority to take over operations of the St. Charles Water and Sewer Authority. This event also resulted in the eventual assumption by the PSA of the outstanding debt to VRA and Rural Development, and the current liabilities, as well as the transfer of existing assets.

Note 13. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective. The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Major Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

Note 13. New Accounting Standards (Continued)

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

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LEE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY AND RELATED RATIOS
GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
JUNE 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 48,624	$ 47,597	$ 48,824	$ 43,949
Interest	40,047	34,913	32,136	27,583
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(19,811)	7,298	(34,325)	-
Changes in assumptions	(19,765)	-	-	-
Benefit payments, including refunds of employee contributions	(27,798)	(5,148)	(8,769)	(4,221)
Net change in total pension liability	21,297	84,660	37,866	67,311
Total pension liability - beginning	585,995	501,335	463,469	396,158
Total pension liability - ending	$ 607,292	$ 585,995	$ 501,335	$ 463,469
Plan fiduciary net position				
Contributions - employer	$ 12,754	$ 20,628	$ 19,415	$ 30,788
Contributions - employee	27,490	25,236	23,653	20,077
Net investment income	87,601	12,550	28,166	77,866
Benefit paymenets, including refunds of employee contribution	(27,798)	(5,148)	(8,769)	(4,221)
Administrative expense	(483)	(377)	(345)	(375)
Other	(79)	(5)	(6)	4
Net change in total pension liability	99,485	52,884	62,114	124,139
Total pension liability - beginning	705,488	652,604	590,490	466,351
Total pension liability - ending	$ 804,973	$ 705,488	$ 652,604	$ 590,490
Political subdivision's net pension liability - ending	$ (197,681)	$ (119,493)	$ (151,269)	$ (127,021)
Plan fiduciary net postion as a percentage of the total pension liability	132.55%	120.39%	130.17%	127.41%
Covered - employee payroll	$ 564,749	$ 540,962	$ 532,642	$ 469,533
Political subdivision's net pension liability as a percentage of covered-employee payroll	-35.00%	-22.09%	-28.40%	-27.05%

1) Fiscal year 2015 was fthe first year of GASB 68 implementation; therefore only four years are shown herein.

LEE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER PENSION CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2018	$ 11,669	$ 11,669	$ -	$ 576,718	2.02%
2017	12,074	12,074	-	564,749	2.14%
2016	20,756	20,756	-	540,962	3.84%
2015	20,873	20,873	-	532,642	3.92%
2014	21,847	21,847	-	469,533	4.65%
2013	32,738	32,738	-	419,260	7.81%
2012	21,847	21,847	-	452,226	4.83%
2011	20,891	20,891	-	441,195	4.74%
2010	24,233	24,233	-	446,468	5.43%

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

LEE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY - VRS GLI
June 30, 2018

Entity Fiscal Year Ended June 30 *	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2018	0.003%	52,000	564,749	9.21%	48.86%

* The amounts presented have a measurement date of the previous fiscal year end

This schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the measurement period, which is the twelve months prior to the entity's fiscal year.

LEE COUNTY PUBLIC SERVICE AUTHORITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
Virginia Retirement System - Group Life Insurance - General Employees					
2018	2,998	2,998	-	576,718	0.52%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

LEE COUNTY PUBLIC SERVICE AUTHORITY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2018

Note 1. Change of benefit terms

Pension

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement 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, 2017 are not material.

Other Postemployment Benefits (OPEB)

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

Note 2. Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 -- Non-Hazardous Duty:

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

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

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

Largest 10 -- Hazardous Duty/Public Safety Employees:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled		Update to more current mortality table--RP 2014 projected to 2020
Retirement Rates		Lowered rates at older ages
Withdrawal Rates		Adjusted rates to better fit experience
Disability Rates		Increased rates
Salary Scale		No change
Line of Duty Disability		Increase rate from 60% to 70%
Applicable to:		Pension, GLI OPEB

All Others (Non 10 Largest) -- Hazardous Duty/Public Safety Employees:

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

LEE COUNTY PUBLIC SERVICE AUTHORITY
Jonesville, Virginia
Statement of Revenues, Expenses, and Changes in Net Position by Department
For the Year Ended June 30, 2018

	Water	Sewer	Total
OPERATING REVENUES			
Charges for services:			
Water/sewer revenues	2,230,777	1,299,893	3,530,670
Miscellaneous	10,315	6,012	16,327
Total operating revenues	2,241,092	1,305,905	3,546,997
OPERATING EXPENSES			
Wages and benefits	$ 589,260	$ 343,409	932,669
Water purchased	350,816	109,870	460,686
Utilities	93,222	123,408	216,630
Equipment repair and replacement	67,898	10,645	78,543
Professional fees	42,357	24,684	67,041
Insurance	24,443	14,245	38,688
Transportation	63,313	24,435	87,748
Supplies - chemical	9,513	16,740	26,253
Management services	5,567	28,484	34,051
Supplies - office	39,362	8,499	47,861
Telephone	17,631	3,644	21,275
Supplies - other	50,951	13,490	64,441
Testing	15,341	24,717	40,058
Licenses and permits	16,560	2,907	19,467
Miscellaneous	32,112	18,715	50,827
Training expenses	3,226	1,880	5,106
Advertising	736	429	1,165
Depreciation	1,994,842	1,162,553	3,157,395
Total operating expenses	3,417,150	1,932,754	5,349,904
Operating income (loss)	(1,176,058)	(626,849)	(1,802,907)
NONOPERATING REVENUES (EXPENSES)			
Intergovernmental revenue:			
Investment earnings	$ 315	$ 183	498
Insurance proceeds	36,104	21,040	57,144
Forgiveness of debt	111,598	-	111,598
Interest expense	(358,371)	(39,739)	(398,110)
Total nonoperating revenues (expenses)	(290,147)	(290,147)	(290,147)
Income (loss) before contributions	(1,386,412)	(645,365)	(2,031,777)
CAPITAL CONTRIBUTIONS AND CONSTRUCTION GRANTS	622,816	-	622,816
CHANGE IN NET POSITION	(763,596)	(645,365)	(1,408,961)

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