

COUNTY OF WISE, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

**COUNTY OF WISE, VIRGINIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018**

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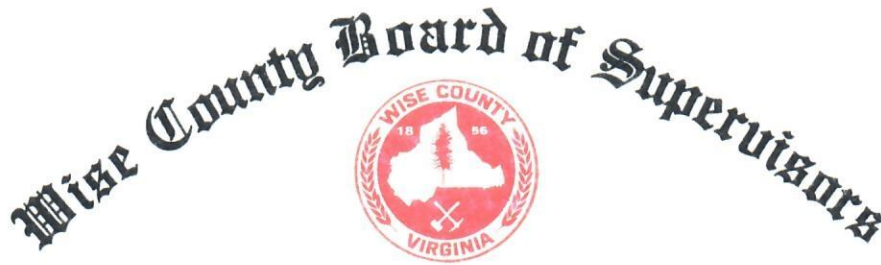
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INTRODUCTORY SECTION



Office of County Administrator

TELEPHONE 276-328-2321
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COURTHOUSE

WISE, VIRGINIA 24293

P.O. BOX 570
206 E. MAIN STREET

CAFR- LETTER OF TRANSMITTAL

January 8, 2019

To The Honorable Members of the Board of Supervisors
To the Citizens of Wise County
County of Wise, Virginia

I am pleased to present the Comprehensive Annual Financial Report of the County of Wise, Virginia, for the fiscal year ended June 30, 2018. Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the County. I believe the data, as presented, is accurate in all material respects; that it is presented in a manner designed to fairly set forth the financial position and results of operations of the County as measured by the financial activity of its various funds; and that all disclosures necessary to enable the reader to gain the maximum understanding of the County's financial affairs have been included.

The management of the County is responsible for establishing and maintaining an internal control structure to ensure the protection of the County assets. In developing and evaluating the County's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition; and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be diverted; and (2) the valuation of costs and benefits requires estimates and judgments by management.

All internal control evaluations occur within the above framework. I believe that the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

BUDGETARY CONTROLS

In addition to the internal accounting controls noted above, the County also maintains budgetary controls. These budgetary controls ensure compliance with provisions embodied in the annual appropriated budget approved by the Board of Supervisors. A budget is approved for the general, emergency numbers, sewer enterprise, and landfill enterprise funds. Within the General Fund budget, annual appropriations are made to supplement the Emergency Numbers, Sewer, and Landfill enterprise funds.

As a recipient of federal and state financial assistance, the County is also responsible for ensuring that adequate internal controls are in place to ensure and document compliance with applicable laws and regulations. The audit for the fiscal year ended June 30, 2018 has been completed and material violations of laws and regulations have been reported. The County adopts an annual budget by July 1 of each year required by 15.2-2503, Code of Virginia of 1950, as amended. A budget is not required for fiduciary funds. When necessary, the Board of Supervisors approves amendments to the adopted budget in accordance with 15.2-2507, Code of Virginia of 1950, as amended. Budgetary compliance is mentioned and reported at the department level. The budget expenditures, as implemented through appropriations that the Board makes quarterly, may be greater or less than contemplated in the original budget.

THE REPORTING ENTITY AND ITS SERVICES

The County of Wise report includes all funds and account groups of the "primary government." In Virginia, cities and counties are distinct units of government; therefore, the County is responsible for providing all services normally provided by a local government. These services include public safety, social services, recreation and cultural activities, and community development. For financial reporting purposes and in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34," the County has identified three discretely reported component units. The GASB statements establish the criteria used in making the component unit determination and whether to identify each as a blended component unit or discretely presented component unit. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as a part of the primary government. Because the component units identified do not meet this definition, the County School Board, Wise County Industrial Development Authority and the Wise County Public Service Authority are reported in a discrete presentation. Based upon GASB Statement No. 14 and No. 61 criteria, the School Board is a legally separate organization providing educational services to the public whose board is elected and is fiscally dependent on the local government.

Local Economy

Wise County is located in Southwest Virginia, approximately 50 miles northwest of Bristol, Virginia. The county encompasses a land area of 407 square miles with a population of 41,452. US routes 23 and 58 and State routes 83, 72, 74, 78, 160, 620, 646, 640 and 636 are the primary routes that transverse the County. Wise County has a diversified economy with manufacturing, trade services, coal mining, and agricultural sectors. Manufacturing activities include: hardwood flooring, carbonized coal products, and steel molding and fabrication. Wise County has a coal-fired utility plant that came online during calendar 2012. Service industries include: technology call centers, telecommunications, food, health care, education, and government. Agriculture remains important in Wise County's economy, with beef cattle the principal livestock, and apples, vineyard grapes, tobacco and hay as the cash crops.

Wise County has experienced an increase in unemployment recently due to the impact of layoffs in the coal industry. The unemployment rate is well above the national average but we have recently added some new facilities and there appears to be a slight uptrend in the coal and gas markets.

MAJOR INITIATIVES

For Fiscal Year 2018

Following the goals and objectives established by the County of Wise Board of Supervisors, and with the assistance and guidance of the County's Administrator, County Attorney, and County Finance Administrator, County staff agencies implemented and continued a number of specific "programs" designed to provide County residents with cost efficient government while enhancing their home and employment environment.

Major initiatives begun, continued, or implemented this fiscal year are:

- Discussion continues between Wise County and VDOT officials regarding development of Innovation Highway between US Route 58 and State Route 646 to service access to the Lonesome Pine Business and Technology Park, the Lonesome Pine Airport, UVA-Wise and the Wise County Fair Grounds. In November 2012 VDOT placed the Innovation Highway on the Six-Year-Plan and appropriated \$425,000 for preliminary engineering.
- Discussions began on a hydro electric plant to be located in Southwest Virginia. The legislation passed in 2017 indicates that nine counties and the City of Norton would share the associated tax revenue regardless of which County the facility was located in. If this project moves forward this could add substantial dollars to the Wise County budget. The counties were directed by legislators to work together to develop a "fair" revenue sharing formula.
- Wise County continued working on the five-year update to the County's Comprehensive Plan which was first completed in 1998 with a major focus on where we are, the direction of the County (both actual and desired) and planning for the next 5, 10, 15 and 20 years. This will be a "road map" for Wise County's future.
- Wise County provided coal severance funds to secure expansion of State Route 757 into a 3 lane road to facilitate development in that area. Construction began in Fiscal 2016 and was completed in late calendar year 2017. The new road will facilitate travel to and from Central High School.
- Spearhead Trails opened their first motorized trail system in St. Paul on June 25, 2013. With seventy-five miles of stacked loop OHV trail, the Mountain View Trail (MV) is open to the public. Permits are required to access the system and several local businesses serve as "partner retailers" selling trail passes and merchandise. There are also lodging accommodations for trail riders. Trail rangers patrol the system to ensure safety, verify permit compliance and act as ambassadors for visitors.
- Wise County IDA has acquired title, as a place holder, to the abandoned Norfolk-Southern Railway right-of-way between Appalachia and Big Stone Gap to develop a bicycle/pedestrian trail between the two towns. Engineering is complete and work is ongoing. Rail and ties have been removed. The VDOT MAP Grant has been processed. Additional structural engineering is now required to determine the stability and safety of the tunnels. The railroad right-of-way was transferred from the Wise County IDA to the Town of Appalachia in December 2014. The Town will assume full responsibility for development of the trailhead and further development and maintenance of the 1.81 mile segment of the trail. The trail was completed in late calendar 2017.

- The Wise County Industrial Development Authority and DP Facilities, Inc. announced in November 2015 that a 65,000 sq.ft. data center known as Mineral Gap would be built in the Wise County Technology Park. The facility opened in the Fall of 2016. This data center is a Tier III center and will accommodate a variety of tenants for their critical data backup needs. There will be approximately 30 full-time jobs at the facility. This project was made possible by VCEDA and the Virginia Tobacco Commission.

Prospects for the Future

- With the completion of the long awaited new High Knob Tower, plans are already underway by stakeholders and members of the High Knob Enhancement group to bring more attention to the assets of the High Knob Recreational area, the Jefferson National Forest and the entire area that surrounds it.
- Wise County is working diligently to acquire additional economic development projects. Hopes are to attract companies in the areas of aerial unmanned vehicles, additional data centers, and other companies to further diversify our economy. The coal and gas markets have slightly increased and there is hope for an upward trend that may bring some jobs and revenue back to Wise County.
- Working with the Crooked Road Board of Directors and the Executive Board of TCR, Wise County has begun plans along with the other 18 counties and 4 cities that make up the Crooked Road to bring to the entire footprint of the Crooked Road-a nine (9) day-330 mile long continuous Old Time and Bluegrass Music Festivals known as Mountains of Music Homecoming. Plans are underway to raise hundreds of thousands of dollars to promote and produce this music festival which is scheduled to take place June 8 through June 16, 2018. National acts will hopefully be scheduled for major venues of this region.
- The Wise County IDA continues to work with the Cumberland Airport Commission for the necessary physical expansion of the airport property to allow for installation of equipment necessary for instrument landing at the Lonesome Pine Airport.
- Wise County has made applications for a VDOT Enhancement Grant in the amount of \$425,000.00 - \$450,000.00 which will extend the Powell River Trails Project from Bee Rock Tunnel to the Powell River. Estimated Construction Cost of \$450,000. Work now is being completed under the administration of the LENOWISCO Planning Commission.
- An application for funding to construct a new water tank near the Wise Shopping Center. The tank will add additional capacity to better serve the Powell River, Guest River and Pound areas.
- The Clinch River Valley Initiative (CRVI) is an effort to build local economies in the coalfields of Southwest Virginia, focusing on the Clinch River which is one of the most bio-diverse river systems in North America. Wise County is working in conjunction with other counties and state agencies to assure the success of this effort and to maximize the benefits for Wise County. The primary goal of CRVI is to connect downtown revitalization, river access points, water quality, entrepreneurship and environmental education along the Clinch River. Long range planning includes development of the Clinch River State Park and the integration of access points, trails, and campgrounds along the Clinch River.

For the 2018-2019 Fiscal Year, the Board of Supervisors approved a General Fund Operating Budget of \$50,128,688.

Cash Management

Cash temporarily idle during the year was invested in time deposits and various authorized money market instruments. The amount of interest and dividends received was \$157,493. This is a slight increase from interest and dividends earned on temporary investments in Fiscal Year 2016-2017 when the interest on investments totaled \$146,619.

OTHER INFORMATION

Management's Discussion and Analysis

Generally accepted accounting principles require management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD& A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The County of Wise's MD&A can be found immediately following the report of the independent auditors.

Independent Auditor

The Commonwealth of Virginia requires an annual audit of the financial records and transactions of all departments of the County by independent certified public accountants selected by the Board of Supervisors. The County is required to undergo an annual single audit in conformity with the provisions of the Single Audit Act Amendments of 1996 and U.S. Office of Management and Budget's Uniform Guidance, Audits of States, Local Government and Non-Profit Organizations. Information related to this single audit, including the findings and recommendations, and auditor's reports on the internal control structure and compliance with laws and regulations, is contained in this report. These requirements have been complied with the auditor's opinion included in this report.

Acknowledgements

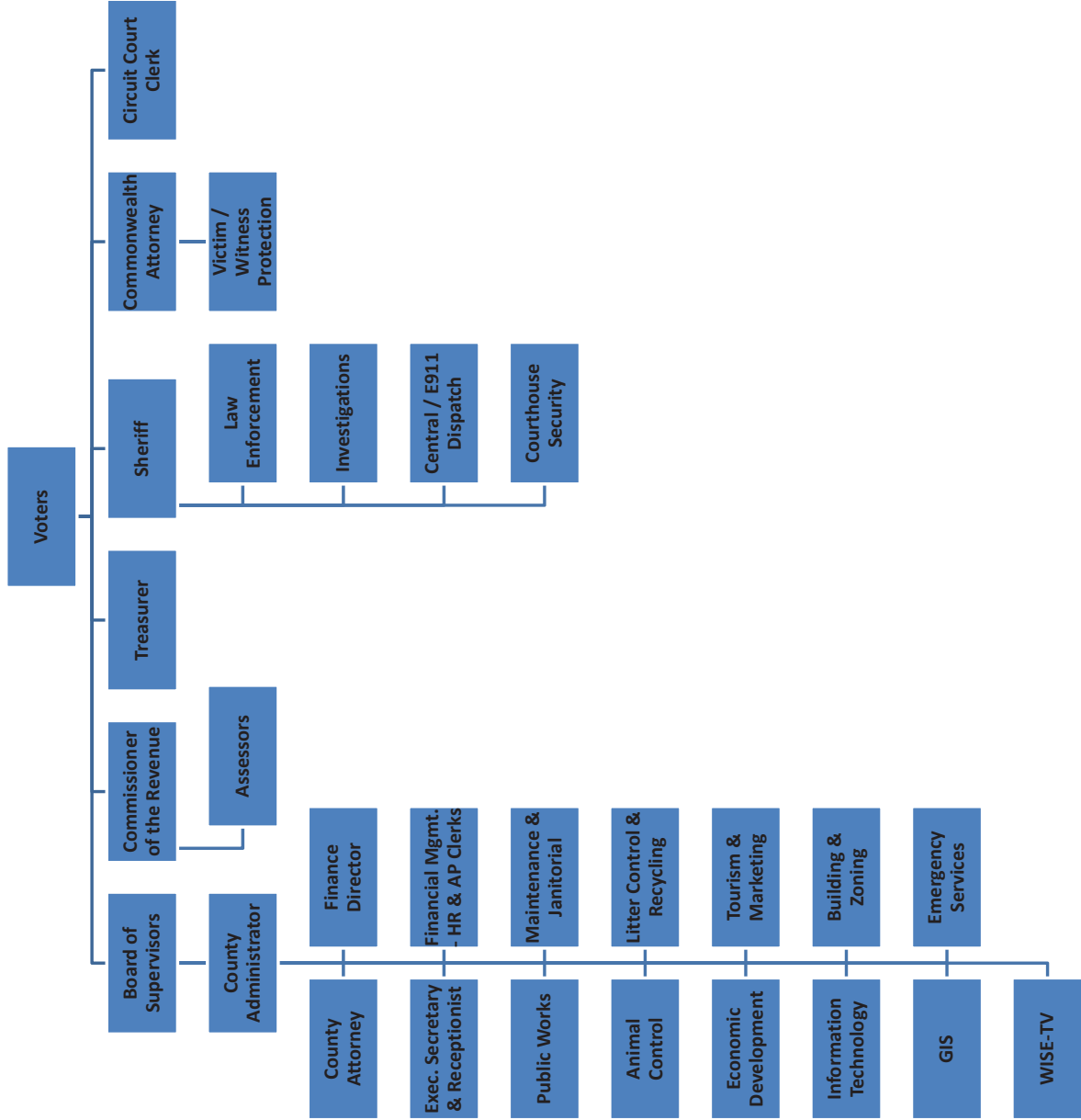
I would also like to thank the Board of Supervisors for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,



Michael W. Hatfield
County Administrator

Wise County, Virginia Organizational Structure Chart



COUNTY OF WISE, VIRGINIA

BOARD OF SUPERVISORS

| | | |
|------------------|-------------------------------------|------------------|
| Robert R. Adkins | Dana Kilgore, Chairperson | Ronald L. Shortt |
| Steve Bates | Robbie E. Robbins, Vice Chairperson | Fred Luntsford |
| J.H. Rivers | | Bobby Cassell |

COUNTY SCHOOL BOARD

| | | |
|----------------|--|------------------|
| Martha Jett | Larry Greear, Chairperson | Dr. Mark Raymond |
| Herbert Shortt | Phillip Bates, Vice Chairperson | John Graham |
| Donnese Kern | | Vicki Williams |
| | Judy Durham, Clerk of the School Board | |

PUBLIC SERVICE AUTHORITY

| | | |
|------------------------|----------------------------------|--------------------|
| J.H. Rivers, Treasurer | Ralph Gilley, Chairperson | Hibert Tackett Jr. |
| Worley Smith | Fred Luntsford, Vice Chairperson | Robert R. Adkins |
| Dana Kilgore | | Ruthie Rainey |

SOCIAL SERVICES BOARD

| | | |
|----------------|-----------------------------------|----------------|
| Gail Bryant | Charles Bennett, Chairperson | Danny Stallard |
| Bobby Cassell | John D. Cassell, Vice Chairperson | Steve Bates |
| Duane Miller | | Dianne Abbott |
| Charles Miller | | |

COUNTY OF WISE, VIRGINIA

OTHER OFFICIALS

COUNTY ADMINISTRATION

Interim County Administrator David L. Cox
County Attorney Karen T. Mullins

CONSTITUTIONAL OFFICERS

Clerk of the Circuit Court Jack Kennedy
Commonwealth's Attorney Charles Slemp
Commissioner of the Revenue Douglas Mullins Jr.
Treasurer Delores W. Smith
Sheriff Ronnie D. Oakes

COURTS

Chief Judge of the Circuit Court John C. Kilgore
Judge of the Circuit Court Chadwick Dotson
Judge of the Circuit Court Tammy McElvea
Chief Judge of the District Court Larry Lewis
Judge of the District Court Clarence "Bud" Phillips
Judge of Juvenile & Domestic Relations Court Elizabeth Wills
Judge of Juvenile & Domestic Relations Court Ronald Elkins

COMPONENT UNITS

Superintendent of Schools Greg Mullins
Director of Public Service Authority Allen Harrison

OTHER

Director of Social Services Jennifer Lilly

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Honorable Members of
the Board of Supervisors
County of Wise, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit-School Board, each major fund, and the aggregate remaining fund information of the County of Wise, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Public Service Authority (PSA) or the Industrial Development Authority (IDA), which represent 40.68% and 30.08% of the total assets of the discretely presented component units, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the PSA and IDA, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit-School Board, each major fund, and the aggregate remaining fund information of the County of Wise, Virginia, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 23 to the financial statements, in 2018, the County adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 23 to the financial statements, in 2018, the County restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 7-14, 134-135, and 136-155 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Supplementary and Other Information

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

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

The introductory section and other statistical information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019, on our consideration of the County of Wise, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of County of Wise, Virginia's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Wise, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 4, 2019



Office of County Administrator

TELEPHONE 276-328-2321
FAX 276-328-9780

COURTHOUSE

WISE, VIRGINIA 24293

P.O. BOX 570
206 E. MAIN STREET

January 8, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

To the Honorable Members of the Board of Supervisors
To the Citizens of Wise County
County of Wise, Virginia 24293

As management of the County of Wise, Virginia we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on page i-v of this report.

Financial Highlights

The assets and deferred outflows of the County exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$18,279,679 (net position). Of this amount, \$6,679,053 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

As of the close of the current fiscal year, the County's funds reported combined ending fund balances of \$22,918,814, a decrease of \$2,041,444 in comparison with the prior year. Approximately 68% of this total amount, \$15,579,209 is available for spending at the County's discretion (unassigned fund balance).

At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,579,209, or 31.1% of total general fund expenditures.

The County of Wise, Virginia's total governmental activity debt decreased by \$8,668,807 during the current fiscal year due largely to a decrease in the pension liability. Total capital leases payable for the Wise County Justice Center and a Lease Purchase Agreement for various capital equipment and improvements decreased by \$3,729,687.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements are composed of three components:

- Government-wide financial statements,
- Fund financial statements, and
- Notes to the financial statements.

Overview of the Financial Statements (Continued)

This report also contains required other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of activities presents information showing the County's assets and deferred outflows and liabilities and deferred inflows, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, courts, police protection, sanitation, social services, education, cultural events, and recreation.

The Government-wide financial statements include not only the County of Wise, Virginia itself (known as the primary government), but also a legally separate school district, Public Service Authority, and an Industrial Development Authority for which the County of Wise, Virginia is financially accountable. Financial information for these component units is reported separately from financial information presented for the primary government itself.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Wise, Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds - Governmental funds are used to account for essentially the same functions reported as Governmental activities in the government-wide financial statements. However, unlike the government-wide financial statement, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balance of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare to the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Overview of the Financial Statements (Continued)

The County maintains an individual governmental fund and many special revenue funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Special Revenue funds.

The County adopts an annual appropriated budget for its General Fund, Emergency Numbers and Law Library Funds. A budgetary comparison statement has been provided for those funds to demonstrate compliance with its budget.

Fiduciary funds - The County is the trustee, or fiduciary, for the County's agency funds. It is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. The County excludes these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations. Agency funds are County custodial funds used to provide accountability of client monies for which the County is custodian.

Notes to financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other Information - In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and presentation of combining financial statements for the discretely presented component unit School Board. The School Board does not issue separate financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a County's financial position. In the case of the County, assets and deferred outflows of the County exceeded its liabilities and deferred inflows by \$18,279,679 at the close of the most recent fiscal year.

A portion of the County's net position (51.2%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The county uses these capital assets to provide service to citizens: consequently, these assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Government-wide Financial Analysis (Continued)

| <u>County of Wise, Virginia's Net Position</u> | | |
|--|---|-----------------------|
| | <u>Primary Governmental Activities and Business-Type Activities</u> | |
| | <u>2017</u> | <u>2018</u> |
| Current and other assets | \$ 54,255,334 | \$ 51,230,486 |
| Capital assets | <u>81,906,864</u> | <u>79,919,173</u> |
| Total assets | <u>\$ 136,162,198</u> | <u>\$ 131,149,659</u> |
| Deferred outflows of resources | <u>\$ 2,570,516</u> | <u>\$ 1,648,768</u> |
| Long-term liabilities outstanding | \$ 95,183,329 | \$ 92,402,002 |
| Current liabilities | <u>5,666,096</u> | <u>2,213,598</u> |
| Total liabilities | <u>\$100,849,425</u> | <u>\$ 94,615,600</u> |
| Deferred inflows of resources | <u>\$ 17,682,047</u> | <u>\$ 19,903,148</u> |
| Net Investment in Capital Assets | \$5,636,306 | \$ 9,357,038 |
| Restricted- Capital Projects | 206,691 | 210,719 |
| Restricted -Other Purposes | 1,870,712 | 2,032,869 |
| Unrestricted | <u>12,487,533</u> | <u>6,679,053</u> |
| Total Net Position | <u>\$20,201,242</u> | <u>\$18,279,679</u> |

At the end of the current fiscal year, the County is able to report positive net position, both for the County as a whole and as well as for its separate governmental and business-type activities.

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Government-wide Financial Analysis (Continued)

Governmental Activities - Governmental and business-type activities increased the County's net position by \$1,754,600.

Key elements of this increase are as follows:

| County of Wise, Virginia's Change in Net Position | | |
|---|---|----------------------|
| | <u>Primary Governmental Activities and Business-Type Activities</u> | |
| | <u>2017</u> | <u>2018</u> |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 595,556 | \$ 563,324 |
| Operating grants and contributions | 16,720,043 | 16,509,679 |
| General Revenues: | | |
| Property taxes | \$ 26,728,694 | \$ 27,204,950 |
| Other Local taxes | 5,037,746 | 5,141,459 |
| Grants & Contributions | 2,672,630 | 2,673,735 |
| Other | 586,997 | 478,260 |
| Total revenues | <u>\$ 52,341,666</u> | <u>\$ 52,571,407</u> |
| Expenses | | |
| General government | \$ 3,515,659 | \$ 3,199,538 |
| Judicial administration | 2,864,928 | 2,994,850 |
| Public safety | 9,877,567 | 10,368,554 |
| Public works | 1,270,770 | 1,213,476 |
| Health and welfare | 10,836,164 | 10,837,850 |
| Education | 12,365,676 | 12,139,102 |
| Parks, recreation and culture | 958,367 | 954,346 |
| Community development | 4,470,285 | 2,764,056 |
| Interest | 2,430,958 | 2,366,473 |
| Business-type activities | <u>2,275,514</u> | <u>3,978,562</u> |
| Total expenses | <u>\$ 50,865,888</u> | <u>\$ 50,816,807</u> |
| | | |
| Increase (decrease) in Net Position | \$ 1,475,778 | \$ 1,754,600 |
| Net Position - beginning | <u>18,725,464</u> | <u>16,525,079</u> |
| Net Position - ending | <u>\$ 20,201,242</u> | <u>\$ 18,279,679</u> |

Fiscal year 2018 beginning net position is restated amount.

Financial Analysis of the County's Funds

As noted earlier, the County used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a County's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$22,918,814 a decrease of \$2,041,444. Approximately 68% of this total amount, \$15,579,209, constitutes unassigned fund balance, which is available for spending at the County's discretion. The remainder of fund balance is restricted, committed, and non-spendable to indicate that is not available for new spending because it has already been committed for:

- Landfill closure and post closure cost
- Future special revenue expenditures
- Future debt service
- Future employee benefits

The General Fund is the operating fund of the County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$15,579,209, while the total fund balance was \$20,686,884. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures.

Major and Non-Major special revenue and capital project funds have a total fund balance of \$2,231,930, all of which is restricted or committed for future projects. The fund balance increased \$169,678 during the current year.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were \$1,193,268 (increase in appropriations) and can be briefly summarized as follows:

- \$352,000 increase in general government administration
- \$54,724 increase in judicial administration
- \$417,127 increase in public safety expenditures
- \$40,000 increase in public work expenditures
- \$42,073 increase in education
- \$5,000 increase in parks, recreation, and cultural
- \$282,344 increase in community development

This increase was primarily due to additional funds being received from granting agencies.

Capital Asset and Debt Administration

Capital assets - The County's investment in capital assets for its governmental activities as of June 30, 2018 amounts to \$69,531,363 (net of accumulated depreciation). The County's investment in capital assets for its business-type activities as of June 30, 2018 amounts to \$10,387,810 (net of accumulated depreciation). This investment in capital assets includes land, buildings and equipment.

Change in Capital Assets

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|--------------------------------|--------------------------------|-----------------|---------------------------------|-----------------|
| | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> |
| Land | \$ 2,170,643 | \$ 2,195,643 | \$ 314,816 | \$ 314,816 |
| Construction in Progress | - | - | 43,675 | 43,675 |
| Buildings and infrastructure | 88,999,219 | 91,024,069 | 16,316,119 | 16,316,119 |
| Equipment | 6,242,525 | 6,634,655 | 4,858,155 | 5,051,320 |
| Total Capital Assets | \$ 97,412,387 | \$ 99,854,367 | \$ 21,532,765 | \$ 21,725,930 |
| Less: Accumulated Depreciation | \$ (26,551,483) | \$ (30,323,004) | \$ (10,486,805) | \$ (11,338,120) |
| Net Capital Assets | \$ 70,860,904 | \$ 69,531,363 | \$ 11,045,960 | \$ 10,387,810 |

Additional information on the County's capital assets can be found in Note 10.

Long-term obligations - At the end of the current fiscal year, the County had total governmental activity obligations of \$78,233,392, including claims, judgments, pension liabilities, OPEB liabilities, and compensated absences of \$12,563,126. The County had total business-type activity obligations outstanding of \$14,168,610, including claims, judgments, landfill closure and post closure liabilities, pension liabilities, OPEB liabilities, and compensated absences of \$9,590,847.

| | <u>Governmental Activities</u> | | <u>Business-type Activities</u> | |
|---|--------------------------------|---------------|---------------------------------|---------------|
| | <u>2017</u> | <u>2018</u> | <u>2017</u> | <u>2018</u> |
| Bonds | \$ 66,840,155 | \$ 65,517,165 | \$ 4,961,448 | \$ 4,430,667 |
| Capital Leases | 3,882,788 | 153,101 | 243,507 | 147,096 |
| Net Pension Liability | 11,502,215 | 8,176,346 | 781,533 | 465,464 |
| Net OPEB Liabilities | 4,065,661 | 3,766,409 | 171,486 | 148,437 |
| Landfill Closure/Post Closure Liability | - | - | 8,391,434 | 8,858,869 |
| Compensated Absences | 611,380 | 620,371 | 120,919 | 118,077 |
| Total Long-term Obligations | \$ 86,902,199 | \$ 78,233,392 | \$ 14,670,327 | \$ 14,168,610 |

Of the total governmental and business-type obligations, \$69,947,832 comprises debt backed by the full faith and credit of the County.

During the current fiscal year, the County's total primary government long-term obligations decreased by \$9,170,524. This is primarily due to principal payments offset by increased pension liability.

Additional information on the County of Wise, Virginia's long-term obligations can be found in Note 6 of this report.

Economic Factors

The unemployment rate is one of the factors considered in preparing the County's budget for the 2018 fiscal year. The September 2018 unemployment rate for the County is 4.7 percent, which is a decrease from the rate of 6.3 percent in 2017. This is higher than the state's unemployment rate of 2.9 percent and is above the national average rate of 3.9 percent as of September 2018.

All of these factors were considered in preparing the County's budget for the 2018 fiscal year.

Budget and Rates

The approved budget is \$50,128,688 for fiscal year 2018-2019. The tax rates for the 2018-2019 year are as follows: .62 per \$100 value for real estate, mobile home taxes, and public utilities real estate, 1.58 per \$100 of assessed value for personal property and public service personal property, 2.85 per \$100 of assessed value for merchants capital, and 1.41 per \$100 of assessed value for machinery and tools.

Acknowledgements

This financial report is designed to provide a general overview of the County of Wise, Virginia's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Mr. Michael W. Hatfield, County Finance Administrator, P.O. Box 570, Wise, Virginia 24293.

Basic Financial Statements

County of Wise, Virginia
Statement of Net Position
June 30, 2018

| | Primary Government | | | Component Units | | |
|--|----------------------------|-----------------------------|----------------|-----------------|-----------------------------|--|
| | Governmental Activities | Business-type Activities | Total | School Board | Public Service Authority | Industrial Development Authority |
| ASSETS | | | | | | |
| Cash and cash equivalents | \$ 10,514,409 | \$ 7,125 | \$ 10,521,534 | \$ 1,445,995 | \$ 868,807 | \$ 1,380,296 |
| Investments | 10,691,590 | 5,898,947 | 16,590,537 | 2,421,616 | - | - |
| Receivables (net of allowance for uncollectibles): | | | | | | |
| Taxes receivable | 19,015,669 | - | 19,015,669 | - | - | - |
| Other local taxes receivable | 162,535 | - | 162,535 | - | - | - |
| Accounts receivable | 166,393 | 88,257 | 254,650 | 1,255 | 531,896 | 1,422,219 |
| Notes receivable | - | - | - | - | - | - |
| Interest receivable | - | - | - | - | - | 43,637 |
| Due from component unit | 1,628,915 | - | 1,628,915 | - | - | - |
| Due from other governmental units | 2,562,652 | - | 2,562,652 | 1,844,898 | 301,245 | - |
| Internal balances | (222,102) | 222,102 | - | - | - | - |
| Prepaid items | 40,244 | - | 40,244 | 884,219 | - | - |
| Restricted assets: | | | | | | |
| Cash and cash equivalents | - | - | - | - | 1,946,359 | 379,401 |
| Property | - | - | - | - | - | 179,514 |
| Net pension asset | - | - | - | - | 236,327 | - |
| Other assets (net of amortization) | - | 453,750 | 453,750 | - | - | 168,000 |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Land | 2,195,643 | 314,816 | 2,510,459 | 1,973,463 | 209,683 | 3,151,648 |
| Buildings and improvements | 66,469,375 | - | 66,469,375 | 26,919,494 | 686,488 | 30,998,728 |
| Machinery and equipment | 866,345 | 294,475 | 1,160,820 | 2,453,776 | 443,638 | 1,558,918 |
| Infrastructure | - | 9,734,844 | 9,734,844 | - | 44,564,101 | - |
| Construction in progress | - | 43,675 | 43,675 | 232,585 | 3,324,992 | - |
| Total assets | \$ 114,091,668 | \$ 17,057,991 | \$ 131,149,659 | \$ 38,177,301 | \$ 53,113,536 | \$ 39,282,361 |
| DEFERRED OUTFLOWS OF RESOURCES | | | | | | |
| Pension related items | \$ 1,333,414 | \$ 71,383 | \$ 1,404,797 | \$ 5,457,356 | \$ 123,951 | \$ - |
| OPEB related items | 240,913 | 3,058 | 243,971 | 466,235 | 8,000 | - |
| Total deferred outflows of resources | \$ 1,574,327 | \$ 74,441 | \$ 1,648,768 | \$ 5,923,591 | \$ 131,951 | \$ - |
| LIABILITIES | | | | | | |
| Accounts payable | \$ 597,024 | \$ 110,622 | \$ 707,646 | \$ 859,501 | \$ 588,374 | \$ 90,793 |
| Salaries payable | 460,827 | 1,147 | 461,974 | - | 24,968 | - |
| Customer deposits | - | - | - | - | 426,795 | - |
| Accrued interest payable | 817,857 | 44,761 | 862,618 | - | 14,482 | 12,013 |
| Due to primary government | - | - | - | 1,628,915 | - | - |
| Unearned revenue | 181,360 | - | 181,360 | - | - | - |
| Long-term liabilities: | | | | | | |
| Due within one year | 1,892,246 | 728,853 | 2,621,099 | 348,066 | 393,660 | - |
| Due in more than one year | 76,341,146 | 13,439,757 | 89,780,903 | 62,015,730 | 7,205,051 | 11,398,639 |
| Total liabilities | \$ 80,290,460 | \$ 14,325,140 | \$ 94,615,600 | \$ 64,852,212 | \$ 8,653,330 | \$ 11,501,445 |
| DEFERRED INFLOWS OF RESOURCES | | | | | | |
| Deferred revenue - property taxes | \$ 16,703,551 | \$ - | \$ 16,703,551 | \$ - | \$ - | \$ - |
| Deferred charge on refunding | 314,106 | - | 314,106 | - | - | - |
| Pension related items | 2,074,811 | 298,529 | 2,373,340 | 9,337,095 | 189,112 | - |
| OPEB related items | 490,797 | 21,354 | 512,151 | 1,017,102 | 9,000 | - |
| Total deferred inflows of resources | \$ 19,583,265 | \$ 319,883 | \$ 19,903,148 | \$ 10,354,197 | \$ 198,112 | \$ - |
| NET POSITION | | | | | | |
| Net investment in capital assets | \$ 3,546,991 | \$ 5,810,047 | \$ 9,357,038 | \$ 31,384,573 | \$ 41,806,181 | \$ 25,732,874 |
| Restricted: | | | | | | |
| Construction | 210,719 | - | 210,719 | 657,893 | - | - |
| Wise Development funds | 72,857 | - | 72,857 | - | - | - |
| Asset forfeiture funds | 174,240 | - | 174,240 | - | - | - |
| Law library funds | 11,658 | - | 11,658 | - | - | - |
| Coal road funds | 1,774,114 | - | 1,774,114 | - | 332,409 | - |
| Debt services reserves | - | - | - | - | 1,014,793 | - |
| Dominion replacement funds | - | - | - | - | 153,673 | - |
| Community development | - | - | - | - | - | 558,915 |
| Textbooks | - | - | - | 290,604 | - | - |
| School Cafeteria | - | - | - | 2,173,789 | - | - |
| Unrestricted | 10,001,691 | (3,322,638) | 6,679,053 | (65,612,376) | 1,086,989 | 1,489,127 |
| Total net position | \$ 15,792,270 | \$ 2,487,409 | \$ 18,279,679 | \$ (31,105,517) | \$ 44,394,045 | \$ 27,780,916 |

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

County of Wise, Virginia
Statement of Activities
For the Year Ended June 30, 2018

| Functions/Programs | Program Revenues | | | Net (Expense) Revenue and Changes in Net Position | | | | |
|--|------------------|----------------------|------------------------------------|---|-------------------------|--------------------------|-----------------|----------------------------------|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Primary Government | | | |
| | | | | | Governmental Activities | Business-type Activities | Total | Component Units |
| | | | | | | | | School Board |
| | | | | | | | | Public Service Authority |
| | | | | | | | | Industrial Development Authority |
| PRIMARY GOVERNMENT: | | | | | | | | |
| Governmental activities: | | | | | | | | |
| General government administration | \$ 3,199,538 | \$ 280 | \$ 402,894 | \$ - | \$ (2,796,364) | \$ - | \$ (2,796,364) | |
| Judicial administration | 2,994,850 | 13,769 | 1,346,767 | - | (1,634,314) | - | (1,634,314) | |
| Public safety | 10,368,554 | 124,890 | 4,134,503 | - | (6,109,161) | - | (6,109,161) | |
| Public works | 1,213,476 | 12,986 | - | - | (1,200,490) | - | (1,200,490) | |
| Health and welfare | 10,837,850 | - | 9,009,564 | - | (1,828,286) | - | (1,828,286) | |
| Education | 12,139,102 | - | - | - | (12,139,102) | - | (12,139,102) | |
| Parks, recreation, and cultural | 954,346 | 12,134 | 4,500 | - | (937,712) | - | (937,712) | |
| Community development | 2,764,056 | - | 1,598,124 | - | (1,165,932) | - | (1,165,932) | |
| Interest on long-term debt | 2,366,473 | - | - | - | (2,366,473) | - | (2,366,473) | |
| Total governmental activities | \$ 46,838,245 | \$ 164,059 | \$ 16,496,352 | \$ - | \$ (30,177,834) | \$ - | \$ (30,177,834) | |
| Business-type activities: | | | | | | | | |
| Landfill | \$ 3,338,361 | \$ 399,265 | \$ 13,327 | \$ - | \$ - | \$ (2,925,769) | \$ (2,925,769) | |
| Sewer | 640,201 | - | - | - | - | (640,201) | (640,201) | |
| Total business-type activities | \$ 3,978,562 | \$ 399,265 | \$ 13,327 | \$ - | \$ - | \$ (3,565,970) | \$ (3,565,970) | |
| Total primary government | \$ 50,816,807 | \$ 563,324 | \$ 16,509,679 | \$ - | \$ (30,177,834) | \$ (3,565,970) | \$ (33,743,804) | |
| COMPONENT UNITS: | | | | | | | | |
| School Board | \$ 52,423,149 | \$ 662,444 | \$ 45,096,027 | \$ - | \$ - | \$ (6,664,678) | \$ (6,664,678) | \$ - |
| Public Service Authority | 4,449,465 | 3,305,148 | - | 2,814,542 | - | - | - | 1,670,225 |
| Industrial Development Authority | 3,150,845 | - | 1,123,309 | - | - | - | - | - |
| Total component units | \$ 60,023,459 | \$ 3,967,592 | \$ 46,219,336 | \$ 2,814,542 | \$ - | \$ (6,664,678) | \$ (6,664,678) | \$ (2,027,536) |
| General revenues: | | | | | | | | |
| General property taxes | | | | | \$ 27,204,950 | \$ - | \$ 27,204,950 | \$ - |
| Other local taxes: | | | | | | | | |
| Local sales and use taxes | | | | | 2,643,631 | - | 2,643,631 | - |
| Coal severance taxes | | | | | 1,698,341 | - | 1,698,341 | - |
| Consumers' utility taxes | | | | | 473,607 | - | 473,607 | - |
| Other local taxes | | | | | 325,880 | - | 325,880 | - |
| Unrestricted revenues from use of money and property | | | | | 145,404 | 49,412 | 194,816 | 22,810 |
| Miscellaneous | | | | | 247,952 | 35,492 | 283,444 | 268,549 |
| Payments from the County of Wise | | | | | - | - | - | 9,549,656 |
| Grants and contributions not restricted to specific programs | | | | | 2,673,735 | - | 2,673,735 | 109,836 |
| Gain (loss) on disposal of capital assets | | | | | - | - | - | 31,107 |
| Transfers | | | | | (3,675,000) | 3,675,000 | - | - |
| Total general revenues and transfers: | | | | | \$ 31,738,500 | \$ 3,759,904 | \$ 35,498,404 | \$ 167,923 |
| Change in net position | | | | | \$ 1,560,666 | \$ 193,934 | \$ 1,754,600 | \$ 1,838,148 |
| Net position - beginning, as restated | | | | | 14,231,604 | 2,293,475 | 16,525,079 | (34,281,854) |
| Net position - ending | | | | | \$ 15,792,270 | \$ 2,487,409 | \$ 18,279,679 | \$ (31,105,517) |
| | | | | | | | | \$ 44,394,045 |
| | | | | | | | | \$ 27,780,916 |

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

County of Wise, Virginia
Balance Sheet
Governmental Funds
June 30, 2018

| | General <u>Fund</u> | Coal Road Improvement <u>Fund</u> | Nonmajor Governmental <u>Funds</u> | <u>Total</u> |
|---|------------------------|---|--|----------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 9,588,792 | \$ 444,514 | \$ 481,103 | \$ 10,514,409 |
| Investments | 9,198,761 | 1,264,940 | 227,889 | 10,691,590 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Taxes receivable | 19,015,669 | - | - | 19,015,669 |
| Other local taxes receivable | 162,535 | - | - | 162,535 |
| Accounts receivable | 63,768 | 97,585 | 5,040 | 166,393 |
| Due from other funds | 229,948 | 57,263 | - | 287,211 |
| Due from component unit | 1,628,915 | - | - | 1,628,915 |
| Due from other governmental units | 2,562,652 | - | - | 2,562,652 |
| Prepaid items | 40,244 | - | - | 40,244 |
| Total assets | <u>\$ 42,491,284</u> | <u>\$ 1,864,302</u> | <u>\$ 714,032</u> | <u>\$ 45,069,618</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 449,030 | \$ 90,188 | \$ 57,806 | \$ 597,024 |
| Salaries payable | 460,827 | - | - | 460,827 |
| Unearned revenue | - | - | 181,360 | 181,360 |
| Due to other funds | 492,263 | - | 17,050 | 509,313 |
| Total liabilities | <u>\$ 1,402,120</u> | <u>\$ 90,188</u> | <u>\$ 256,216</u> | <u>\$ 1,748,524</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| Unavailable revenue - property taxes | \$ 20,402,280 | \$ - | \$ - | \$ 20,402,280 |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid items | \$ 40,244 | \$ - | \$ - | \$ 40,244 |
| Restricted: | | | | |
| Construction Fund | - | - | 210,719 | 210,719 |
| Coal Road Improvement Fund | - | 1,774,114 | - | 1,774,114 |
| Asset Forfeiture Fund | - | - | 174,240 | 174,240 |
| Wise Development Fund | - | - | 72,857 | 72,857 |
| Law Library Fund | 11,658 | - | - | 11,658 |
| Committed: | | | | |
| Debt Service | 4,549,862 | - | - | 4,549,862 |
| Assigned: | | | | |
| Drug Court Fund | 14,500 | - | - | 14,500 |
| IT Fund | 16,512 | - | - | 16,512 |
| Software Engineering Fund | 51,847 | - | - | 51,847 |
| Dog and Cat Sterilization Fund | 15,372 | - | - | 15,372 |
| Transient Occupancy Fund | 221,945 | - | - | 221,945 |
| Supervisor Fees - SWVCC Fund | 42,501 | - | - | 42,501 |
| E-Summons Fund | 119,536 | - | - | 119,536 |
| E-911 | 23,698 | - | - | 23,698 |
| Unassigned | 15,579,209 | - | - | 15,579,209 |
| Total fund balances | <u>\$ 20,686,884</u> | <u>\$ 1,774,114</u> | <u>\$ 457,816</u> | <u>\$ 22,918,814</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 42,491,284</u> | <u>\$ 1,864,302</u> | <u>\$ 714,032</u> | <u>\$ 45,069,618</u> |

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

County of Wise, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2018

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

| | | |
|--|----|------------|
| Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds | \$ | 22,918,814 |
|--|----|------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Jointly owned assets are included in the total capital assets.

| | | | |
|----------------------------|----|------------|------------|
| Land | \$ | 2,195,643 | |
| Buildings and improvements | | 66,469,375 | |
| Machinery and equipment | | 866,345 | 69,531,363 |

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

| | | |
|--------------------------------------|--|-----------|
| Unavailable revenue - property taxes | | 3,698,729 |
|--------------------------------------|--|-----------|

Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

| | | | |
|-----------------------|----|-----------|-----------|
| Pension related items | \$ | 1,333,414 | |
| OPEB related items | | 240,913 | 1,574,327 |

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

| | | | |
|--------------------------------|----|--------------|--------------|
| General obligation bonds | \$ | (50,028,003) | |
| Lease revenue notes | | (14,800,000) | |
| Capital leases | | (153,101) | |
| Unamortized premiums | | (689,162) | |
| Deferred charges on refundings | | (314,106) | |
| Accrued interest payable | | (817,857) | |
| Net OPEB liabilities | | (3,766,409) | |
| Net pension liability | | (8,176,346) | |
| Compensated absences | | (620,371) | (79,365,355) |

Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.

| | | | |
|-----------------------|----|-------------|-------------|
| Pension related items | \$ | (2,074,811) | |
| OPEB related items | | (490,797) | (2,565,608) |

| | | |
|---|----|------------|
| Net position of governmental activities | \$ | 15,792,270 |
|---|----|------------|

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

County of Wise, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

| | General <u>Fund</u> | Coal Road Improvement <u>Fund</u> | Nonmajor Governmental <u>Funds</u> | <u>Total</u> |
|--|------------------------|---|--|----------------|
| REVENUES | | | | |
| General property taxes | \$ 28,257,744 | \$ - | \$ - | \$ 28,257,744 |
| Other local taxes | 4,367,393 | 774,066 | - | 5,141,459 |
| Permits, privilege fees, and regulatory licenses | 32,224 | - | - | 32,224 |
| Fines and forfeitures | 51,381 | - | - | 51,381 |
| Revenue from the use of money and property | 127,665 | 17,711 | 28 | 145,404 |
| Charges for services | 80,454 | - | - | 80,454 |
| Miscellaneous | 79,492 | - | 168,460 | 247,952 |
| Recovered costs | 1,037,649 | - | - | 1,037,649 |
| Intergovernmental | 17,504,865 | - | 1,665,222 | 19,170,087 |
| Total revenues | \$ 51,538,867 | \$ 791,777 | \$ 1,833,710 | \$ 54,164,354 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government administration | \$ 3,778,223 | \$ - | \$ - | \$ 3,778,223 |
| Judicial administration | 3,416,029 | - | - | 3,416,029 |
| Public safety | 10,613,303 | - | 138,424 | 10,751,727 |
| Public works | 871,939 | 162,198 | - | 1,034,137 |
| Health and welfare | 11,201,751 | - | - | 11,201,751 |
| Education | 14,847,658 | - | - | 14,847,658 |
| Parks, recreation, and cultural | 909,574 | - | - | 909,574 |
| Community development | 633,003 | 527,732 | 740,545 | 1,901,280 |
| Nondepartmental | 53,370 | - | - | 53,370 |
| Capital projects | - | - | 888,805 | 888,805 |
| Debt service: | | | | |
| Principal retirement | 3,729,687 | - | - | 3,729,687 |
| Interest and other fiscal charges | 18,557 | - | - | 18,557 |
| Total expenditures | \$ 50,073,094 | \$ 689,930 | \$ 1,767,774 | \$ 52,530,798 |
| Excess (deficiency) of revenues over (under) expenditures | \$ 1,465,773 | \$ 101,847 | \$ 65,936 | \$ 1,633,556 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ 366,000 | \$ - | \$ 1,895 | \$ 367,895 |
| Transfers out | (4,042,895) | - | - | (4,042,895) |
| Total other financing sources (uses) | \$ (3,676,895) | \$ - | \$ 1,895 | \$ (3,675,000) |
| Net change in fund balances | \$ (2,211,122) | \$ 101,847 | \$ 67,831 | \$ (2,041,444) |
| Fund balances - beginning | 22,898,006 | 1,672,267 | 389,985 | 24,960,258 |
| Fund balances - ending | \$ 20,686,884 | \$ 1,774,114 | \$ 457,816 | \$ 22,918,814 |

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

County of Wise, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2018

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

| | | |
|--|----|-------------|
| Net change in fund balances - total governmental funds | \$ | (2,041,444) |
|--|----|-------------|

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation expense exceeded capital outlays in the current period.

| | | | |
|----------------------|----|-------------|-------------|
| Capital outlays | \$ | 392,130 | |
| Depreciation expense | | (2,074,955) | (1,682,825) |

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

| | | |
|--|--|---------|
| Transfer of capital assets from School Board | | 353,284 |
|--|--|---------|

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

| | | |
|----------------|--|-------------|
| Property taxes | | (1,052,794) |
|----------------|--|-------------|

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

| | | | |
|--------------------------|----|-----------|-----------|
| Principal Payments | | | |
| General obligation bonds | \$ | 1,200,000 | |
| Capital leases | | 3,729,687 | 4,929,687 |

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

| | | | |
|--------------------------------------|----|---------|-----------|
| Change in compensated absences | \$ | (8,991) | |
| Change in accrued interest payable | | 360 | |
| OPEB expense | | 219,724 | |
| Pension expense | | 692,121 | |
| Amortization of bond premium | | 122,990 | |
| Amortization of charges on refunding | | 28,554 | 1,054,758 |

| | | |
|---|----|-----------|
| Change in net position of governmental activities | \$ | 1,560,666 |
|---|----|-----------|

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

County of Wise, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2018

| | Enterprise Funds | | |
|--|------------------|------------|---------------|
| | Landfill | Sewer | |
| | Fund | Fund | Total |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 4,023 | \$ 3,102 | \$ 7,125 |
| Investments | 5,898,947 | - | 5,898,947 |
| Accounts receivables, net of allowances for uncollectibles | 88,257 | - | 88,257 |
| Due from other funds | 435,000 | - | 435,000 |
| Total current assets | \$ 6,426,227 | \$ 3,102 | \$ 6,429,329 |
| Noncurrent assets: | | | |
| Other assets (net of amortization) | \$ - | \$ 453,750 | \$ 453,750 |
| Capital assets: (net of related depreciation) | | | |
| Land | 314,816 | - | 314,816 |
| Machinery and equipment | 294,475 | - | 294,475 |
| Infrastructure | 9,542,590 | 192,254 | 9,734,844 |
| Construction in progress | 43,675 | - | 43,675 |
| Total capital assets | \$ 10,195,556 | \$ 192,254 | \$ 10,387,810 |
| Total noncurrent assets | \$ 10,195,556 | \$ 646,004 | \$ 10,841,560 |
| Total assets | \$ 16,621,783 | \$ 649,106 | \$ 17,270,889 |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pension related items | \$ 71,383 | \$ - | \$ 71,383 |
| OPEB related items | 3,058 | - | 3,058 |
| Total deferred outflows of resources | \$ 74,441 | \$ - | \$ 74,441 |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Accounts payable | \$ 65,043 | \$ 45,579 | \$ 110,622 |
| Accrued salaries | 1,147 | - | 1,147 |
| Due to other funds | - | 212,898 | 212,898 |
| Interest payable | 44,761 | - | 44,761 |
| Compensated absences - current portion | 88,558 | - | 88,558 |
| Bonds payable - current portion | 542,563 | - | 542,563 |
| Leases and other obligations - current portion | 97,732 | - | 97,732 |
| Total current liabilities | \$ 839,804 | \$ 258,477 | \$ 1,098,281 |
| Noncurrent liabilities: | | | |
| Landfill closure/postclosure liability | \$ 8,858,869 | \$ - | \$ 8,858,869 |
| Bonds payable - net of current portion | 3,888,104 | - | 3,888,104 |
| Leases and other obligations - net of current portion | 49,364 | - | 49,364 |
| Compensated absences | 29,519 | - | 29,519 |
| Net OPEB liabilities | 148,437 | - | 148,437 |
| Net pension liability | 465,464 | - | 465,464 |
| Total noncurrent liabilities | \$ 13,439,757 | \$ - | \$ 13,439,757 |
| Total liabilities | \$ 14,279,561 | \$ 258,477 | \$ 14,538,038 |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pension related items | \$ 298,529 | \$ - | \$ 298,529 |
| OPEB related items | 21,354 | - | 21,354 |
| Total deferred inflows of resources | \$ 319,883 | \$ - | \$ 319,883 |
| NET POSITION | | | |
| Net investment in capital assets | \$ 5,617,793 | \$ 192,254 | \$ 5,810,047 |
| Unrestricted | (3,521,013) | 198,375 | (3,322,638) |
| Total net position | \$ 2,096,780 | \$ 390,629 | \$ 2,487,409 |

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

County of Wise, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2018

| | Enterprise Funds | | |
|---|-----------------------|---------------------|-----------------------|
| | Landfill | Sewer | |
| | <u>Fund</u> | <u>Fund</u> | <u>Total</u> |
| OPERATING REVENUES | | | |
| Charges for services: | | | |
| Solid waste collections | \$ 399,265 | \$ - | \$ 399,265 |
| Miscellaneous | 4,861 | 30,631 | 35,492 |
| Total operating revenues | <u>\$ 404,126</u> | <u>\$ 30,631</u> | <u>\$ 434,757</u> |
| OPERATING EXPENSES | | | |
| Salaries and fringes | \$ 1,217,864 | \$ - | \$ 1,217,864 |
| Professional services | 101,482 | - | 101,482 |
| Repairs and maintenance | 55,778 | - | 55,778 |
| Operating materials and supplies | 21,093 | - | 21,093 |
| Vehicle supplies and fuel | 386,331 | - | 386,331 |
| Utilities | 74,955 | - | 74,955 |
| Office and insurance expenses | 18,353 | - | 18,353 |
| Improvements and closure costs | 467,435 | - | 467,435 |
| Miscellaneous | 45,875 | - | 45,875 |
| Sewer operation costs | - | 612,718 | 612,718 |
| Depreciation and amortization | 837,582 | 27,483 | 865,065 |
| Total operating expenses | <u>\$ 3,226,748</u> | <u>\$ 640,201</u> | <u>\$ 3,866,949</u> |
| Change in Net Position | <u>\$ (2,822,622)</u> | <u>\$ (609,570)</u> | <u>\$ (3,432,192)</u> |
| NONOPERATING REVENUES (EXPENSES) | | | |
| Investment income | \$ 49,412 | \$ - | \$ 49,412 |
| Grants | 13,327 | - | 13,327 |
| Interest expense | (111,613) | - | (111,613) |
| Total nonoperating revenues (expenses) | <u>\$ (48,874)</u> | <u>\$ -</u> | <u>\$ (48,874)</u> |
| Income (loss) before transfers | \$ (2,871,496) | \$ (609,570) | \$ (3,481,066) |
| Transfers in | 3,090,000 | 585,000 | 3,675,000 |
| Change in Net Position | <u>\$ 218,504</u> | <u>\$ (24,570)</u> | <u>\$ 193,934</u> |
| Total net position - beginning, as restated | \$ 1,878,276 | \$ 415,199 | \$ 2,293,475 |
| Total net position - ending | <u>\$ 2,096,780</u> | <u>\$ 390,629</u> | <u>\$ 2,487,409</u> |

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

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

| | Enterprise Funds | | |
|---|------------------|--------------|----------------|
| | Landfill | Sewer | Total |
| | Fund | Fund | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers and users | \$ 390,813 | \$ 30,631 | \$ 421,444 |
| Payments to suppliers | (704,256) | (612,726) | (1,316,982) |
| Payments to employees | (1,411,853) | - | (1,411,853) |
| Net cash provided by (used for) operating activities | \$ (1,725,296) | \$ (582,095) | \$ (2,307,391) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | | |
| Transfers from other funds | \$ 2,655,000 | \$ 585,000 | \$ 3,240,000 |
| Grants | 13,327 | - | 13,327 |
| Net cash provided by (used for) noncapital financing activities | \$ 2,668,327 | \$ 585,000 | \$ 3,253,327 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | | |
| Purchase of utility plant | \$ (193,165) | \$ - | \$ (193,165) |
| Principal payments on bonds and capital leases | (551,411) | - | (551,411) |
| Interest expense | (193,107) | - | (193,107) |
| Net cash provided by (used for) capital and related financing activities | \$ (937,683) | \$ - | \$ (937,683) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest income | \$ 49,412 | \$ - | \$ 49,412 |
| Net increase (decrease) in cash and cash equivalents | \$ 54,760 | \$ 2,905 | \$ 57,665 |
| Cash and cash equivalents - beginning (including investments of \$5,846,154) | 5,848,210 | 197 | 5,848,407 |
| Cash and cash equivalents - ending (including investments of \$5,898,947) | \$ 5,902,970 | \$ 3,102 | \$ 5,906,072 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Operating income (loss) | \$ (2,822,622) | \$ (609,570) | \$ (3,432,192) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Depreciation and amortization | \$ 837,582 | \$ 27,483 | \$ 865,065 |
| (Increase) decrease in accounts receivable | (13,313) | - | (13,313) |
| (Increase) decrease in deferred outflows related to net pension liability | 45,588 | - | 45,588 |
| (Increase) decrease in deferred outflows related to OPEB liabilities | 396 | - | 396 |
| Increase (decrease) in accrued salaries | 993 | - | 993 |
| Increase (decrease) in closure/postclosure liability | 467,435 | - | 467,435 |
| Increase (decrease) in accounts payable | (389) | (8) | (397) |
| Increase (decrease) in compensated absences | (2,842) | - | (2,842) |
| Increase (decrease) in net OPEB liabilities | (23,049) | - | (23,049) |
| Increase (decrease) in net pension liability | (316,069) | - | (316,069) |
| Increase (decrease) in deferred inflows related to net pension liability | 95,062 | - | 95,062 |
| Increase (decrease) in deferred inflows related to OPEB liabilities | 5,932 | - | 5,932 |
| Total adjustments | \$ 1,097,326 | \$ 27,475 | \$ 1,124,801 |
| Net cash provided by (used for) operating activities | \$ (1,725,296) | \$ (582,095) | \$ (2,307,391) |

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

County of Wise, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

| | <u>Agency Funds</u> |
|--|-------------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 201,829 |
| LIABILITIES | |
| Amounts held for social services clients | \$ 152,128 |
| Amounts held for other governments | 49,428 |
| Amounts held for youth services | 273 |
| Total liabilities | \$ 201,829 |

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

The County of Wise, Virginia was established by an act of the Virginia General Assembly in 1856. It is a political subdivision of the Commonwealth of Virginia operating under the board-administrator form of government. The Board of Supervisors consists of a chairman and seven other board members elected from four magisterial districts. The Board is responsible for appointing the County Administrator, County Attorney and County Finance Administrator. The County has taxing powers subject to statewide restrictions and tax limits.

The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component units - None

Discretely Presented Component Units - The component unit columns in the financial statements include the financial data of the County's discretely presented component units.

The County provides education through its own school system administered by the Wise County School Board (the School Board). The School Board has been classified as a discretely presented component unit in the financial reporting entity because it is legally separate, but financially dependent. The Board of Supervisors administers the School Board's appropriation of funds at the category level, approves transfers between categories and authorizes school debt issuances. The eight member school board is elected by Wise County voters with two members being elected per magisterial district. Financial statements of the School Board are included in a discretely presented component unit column and/or row of the government-wide financial statements, as well as in the supplementary information section. The School Board does not issue separate financial statements.

The County is financially accountable for the Wise County Industrial Development Authority (the IDA), including the appointment of the IDA's governing body, and the issuance of debt in conjunction with the IDA. Separate financial statements may be obtained from the Wise County Industrial Development Authority.

The County is financially accountable for the Wise County Public Service Authority (the Authority), including the appointment of the Authority's governing body, the contribution of a material amount of funds to the Authority, providing support agreements for the Authority's debt, and serving as the agent for grant receipts for the Authority's capital projects. Separate financial statements may be obtained from the Wise County Public Service Authority.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

A. Financial Reporting Entity (continued)

Related Organizations - The Wise County Redevelopment and Housing Authority is a related organization because the County's officials are responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointment.

Jointly Governed Organizations:

1. The County, along with the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Smyth, Tazewell, Washington, and the City of Norton, participates in supporting the Southwest Virginia Regional Jail Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2018, the County paid \$3,357,466 for services provided by the Authority.

2. The County, along with the Counties of Dickenson, Buchanan, Tazewell, Smyth, Washington, Russell, Scott, Lee, and the Cities of Bristol, and Norton, participates in supporting the Appalachian Juvenile Detention Commission. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2018, the County paid \$452,092 for services provided by the Commission.

3. The County, along with the Counties of Lee, Scott, and the City of Norton, participates in supporting the Planning District One Behavioral Health Services Board. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2018, the County provided an appropriation to the Board of \$174,150.

4. The County, along with the Counties of Dickenson, Lee, Scott, and the City of Norton, participates in supporting the Lonesome Pine Regional Library. The governing body of this organization is appointed by the respective governing bodies of the jurisdictions. For the fiscal year ended June 30, 2018, the County provided an appropriation to the Library of \$780,936.

5. The County, along with the Counties of Lee, Scott, and the City of Norton, participates in supporting the Lonesome Pine Office on Youth. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2018, the County provided an appropriation to the Office of \$23,014. In addition, the County provides payroll services for the Office at no charge.

6. The County, along with the Counties of Dickenson, Lee, Scott, and the City of Norton, participates in supporting the Lonesome Pine Airport (Cumberland Airport Commission). The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2018, the County provided an appropriation to the Airport of \$106,871.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

A. Financial Reporting Entity (continued)

7. The County, along with the Counties of Lee, Scott, and the City of Norton, participates in supporting LENOWISCO, a regional planning district. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the fiscal year ended June 30, 2018, the County provided an appropriation to LENOWISCO of \$66,684.

B. Government-wide and Fund Financial Statements

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

Statement of Net Position - The Statement of Net Position is designed to display financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

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

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

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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

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

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

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

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

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

The County reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds. The *General Fund* as reported in the County financial statements includes the following merged County funds: Law Library Fund, Emergency Numbers Fund, Dog and Cat Sterilization Fund, Community Corrections Fund, Information Technology Fund, Software Engineering Initiative Fund, Transient Occupancy Tax Fund, and the Drug Court Fund.

The *Coal Road Improvement Fund* is the government's only major special revenue fund. Revenues in this fund are derived from coal road severance taxes and dedicated to road improvement projects.

The nonmajor governmental funds of the County are:

The *Wise Development Fund* is a nonmajor special revenue fund of the County. Revenues in this fund are derived from coal road severance taxes and dedicated to road improvement projects.

The *Forfeited Assets Fund* is a nonmajor special revenue fund of the County. Revenues in this fund are derived from federal, state, and local asset forfeitures and related grants and dedicated to law enforcement services. The *Forfeited Assets Fund* as reported includes the merged Drug Seizure and Forfeiture Fund and the Special Fund of the Commonwealth Attorney.

The *Capital Projects Fund* accounts for financial resources to be used for the acquisition or construction of major capital facilities. The *Capital Projects Fund* is reported as a nonmajor capital project fund.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the County is that the cost of providing services to the general public be financed or recovered through user charges. The County reports the following enterprise funds:

The *Sewer Fund* accounts for the operations of the Riverview Sewer Project.

The *Landfill Fund* accounts for the activities of the landfill, including charges for services, expenses, assets, and related debts.

Additionally, the County reports the following fund types:

Fiduciary funds (Trust and Agency funds) account for assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds.

The School Board reports the following major governmental funds:

The *School Operating Fund* is the primary operating fund of the School Board and accounts for and reports all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from appropriations from the County of Wise, Virginia and state and federal grants. The *School Operating Fund* also includes the merged School Textbook Fund.

The *School Cafeteria Fund* accounts for and reports the proceeds from charges for services and state and federal grants and reports the expenditures of those funds on school nutrition services.

The *School Capital Projects Fund* accounts for all financial resources used for the acquisition or construction of major capital needs.

Additionally, the School Board reports the following fund types:

Internal Service Funds account for the financing of goods and services provided to other departments or agencies of the government on a cost reimbursement basis. The Internal Service Fund consists of a Self-Insurance Fund.

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Funds are charges to departments for sales and health insurance. Operating expenses for Internal Service 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 nonoperating revenues and expenses.

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

1. Cash and Cash Equivalents

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

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

2. Inventory

Inventories of material and supplies are recorded at cost, using the first-in, first-out method of valuation.

3. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

4. Property Taxes

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on May 31st and October 31st. The County bills and collects its own property taxes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

5. Coal Severance Taxes

Coal severance tax is assessed monthly based on the gross receipts of the mining operation for the preceding month. Coal severance taxes attach as an enforceable lien on the mining operation in the month of assessment. Taxes are payable in the month of assessment. The County bills and collects its own coal severance taxes.

6. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$787,890 at June 30, 2018 and is comprised solely of property taxes.

7. Use of Estimates

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

8. Prepaid Items

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

9. Capital Assets

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. 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. There was no interest capitalized in fiscal year 2018.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

9. Capital Assets (continued)

Property, plant, and equipment and infrastructure of the primary government, as well as the Component Unit - School Board, are depreciated using the straight line method over the following estimated useful lives:

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Buildings and improvements | 35-50 |
| Infrastructure | 35-50 |
| Machinery and equipment | 2-15 |

10. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County only has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liabilities measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has multiple types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability and net OPEB liabilities are reported as deferred inflows of resources. The final item is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. For more detailed information on these items, reference the related notes.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

11. Long-term Obligations

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

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

12. Compensated Absences

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

13. Pensions

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

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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

14. Fund Equity

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

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaid expenditures) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

The Board of Supervisors is the County's highest level of decision-making authority. This governing body has the authority to designate or rescind committed or assigned fund balance by a majority vote.

The County's Board of Supervisors has authorized the County Finance Administrator and County Treasurer to assign fund balance in accordance with the County's fund balance policy.

The County will maintain an unassigned fund balance in the general fund equal to 10% of expenditures/revenues. The County considers a balance of less than 10% to be cause for concern, barring unusual, or deliberate circumstances.

The County considers restricted fund balance to be spent when an expenditure is incurred for purposes for which restricted and unassigned, assigned, or committed fund balances are available, unless prohibited by legal documents or contracts. When an expenditure is incurred for purposes for which committed, assigned or unassigned amounts are available, the County considers committed fund balance to be spent first, then assigned fund balance, and lastly unassigned fund balance.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

15. Net Position

Net position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

16. Net Position Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the County's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

17. Other Postemployment Benefits (OPEB)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

17. Other Postemployment Benefits (OPEB) (Continued)

Line of Duty Act Program

The Virginia Retirement System (VRS) Line of Duty Act Program (LODA) was established pursuant to §9.1-400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The LODA Program provides death and health insurance benefits to eligible state employees and local government employees, including volunteers, who die or become disabled as a result of the performance of their duties as a public safety officer. In addition, health insurance benefits are provided to eligible survivors and family members. For purposes of measuring the net LODA OPEB liability, deferred outflows of resources and deferred inflows of resources related to the LODA OPEB, and related LODA OPEB expense, information about the fiduciary net position of the VRS LODA Program OPEB Plan and the additions to/deductions from the VRS LODA Program OPEB Plan's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Political Subdivision and Teacher Employee Health Insurance Credit Program

The County and Virginia Retirement System (VRS) Teacher Employee Health Insurance Credit (HIC) Programs were established pursuant to §51.1-1400 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 Teacher Employee HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired teachers. For purposes of measuring the net OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the Programs' OPEB, and the related OPEB expenses, information about the fiduciary net position of the County and VRS Teacher Employee HIC Programs; and the additions to/deductions from the County and VRS Teacher Employee HIC Programs' net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Investments are reported at fair value.

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary Information

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

1. Prior to March 30, the County Finance Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. All Funds of the County have legally adopted budgets with the exception of Agency Funds.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 2-Stewardship, Compliance, and Accountability: (Continued)

A. Budgetary Information (Continued)

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

B. Excess of expenditures over appropriations

At June 30, 2018, expenditures exceeded appropriations for several departments within the General and Capital Projects Funds.

C. Deficit fund equity

At June 30, 2018, no funds had deficit fund equity.

Note 3-Deposits and Investments:

Deposits

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3-Deposits and Investments: (Continued)

Investments

Statutes authorize the County 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).

Credit Risk of Debt Securities

At year end, the County was not exposed to any custodial credit risk for deposits or investments. The County limits deposits to those banks fully collateralized under the Commonwealth's Security for Public Deposits Act. The County policy in regards to investments requires that all investments be held in the County's name.

At June 30, 2018, the County did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

At year-end, the Primary Government's and the Component Unit - School Board's deposit and investment balances were as follows:

| County's Rated Debt Investments' Values | | | |
|---|---------------------|---------------------|---------------------|
| Rated Debt Investments | Unrated | Fair Quality Rating | |
| | | Aaf/S1 | AAAm |
| Primary Government: | | | |
| Demand and time deposits | \$ 6,904,924 | \$ - | \$ - |
| VML/VACO Pool | - | 5,409,043 | 4,256,241 |
| Virginia LGIP | - | - | 10,591 |
| Virginia SNAP fund | - | - | 9,738 |
| Total Primary Government | <u>\$ 6,904,924</u> | <u>\$ 5,409,043</u> | <u>\$ 4,276,570</u> |
| Component Unit - School Board: | | | |
| Demand and time deposits | \$ 1,018,273 | \$ - | \$ - |
| VML/VACO Pool | - | - | 1,403,343 |
| Total Component Unit - School Board | <u>\$ 1,018,273</u> | <u>\$ -</u> | <u>\$ 1,403,343</u> |

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 County has measured fair value of the above investments at the net asset value (NAV).

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3-Deposits and Investments: (continued)

External Investment Pools

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP and SNAP are not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Interest Rate Risk

The County has not adopted an investment policy for interest rate risk and had no investments subject to interest rate risk at June 30, 2018.

| Investment Maturities (in years) | | |
|-------------------------------------|----------------------|----------------------|
| Investment Type | Fair Value | Less than 1 Year |
| Primary Government: | | |
| Demand and time deposits | \$ 6,904,924 | \$ 6,904,924 |
| VML/VACO Pool | 9,665,284 | 9,665,284 |
| Virginia LGIP | 10,591 | 10,591 |
| Virginia SNAP fund | 9,738 | 9,738 |
| Total Primary Government | <u>\$ 16,590,537</u> | <u>\$ 16,590,537</u> |
| Component Unit - School Board: | | |
| Demand and time deposits | \$ 1,018,273 | \$ 1,018,273 |
| VML/VACO Pool | 1,403,343 | 1,403,343 |
| Total Component Unit - School Board | <u>\$ 2,421,616</u> | <u>\$ 2,421,616</u> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 4-Due from Other Governmental Units:

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

| | Primary Government | Component Unit School Board |
|--|-----------------------|--------------------------------|
| <u>Local Governments:</u> | | |
| City of Norton - shared expenses reimbursement | \$ 231,827 | \$ - |
| SWVA Regional Jail - shared expenses reimbursement | 340,714 | - |
| <u>Commonwealth of Virginia:</u> | | |
| Communications tax | 147,427 | - |
| State sales tax | 464,349 | - |
| Local sales tax | - | 502,764 |
| Non-categorical aid | 175,878 | - |
| Categorical aid - shared expenses | 332,890 | - |
| Categorical aid - Virginia Public Assistance funds | 234,142 | - |
| Categorical aid - Comprehensive Services Act funds | 201,884 | - |
| Categorical aid - other | 75,733 | - |
| <u>Federal Government:</u> | | |
| Categorical aid - Virginia Public Assistance funds | 326,713 | - |
| Categorical aid - other | 31,095 | 1,342,134 |
| Total Amount due from Other Governmental Units | <u>\$ 2,562,652</u> | <u>\$ 1,844,898</u> |

Note 5-Interfund/Component-Unit Obligations:

| Fund | Due to Primary Government/ Component Unit | Due from Primary Government/ Component Unit |
|--|---|---|
| <u>Primary Government:</u> | | |
| General Fund | <u>\$ -</u> | <u>\$ 1,628,915</u> |
| <u>Component Unit - School Board</u> | | |
| School Operating Fund | <u>\$ 1,628,915</u> | <u>\$ -</u> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 5-Interfund/Component-Unit Obligations: (Continued)

Interfund balances for the year ended June 30, 2018, consisted of the following:

| Fund | Due To | Due From |
|-------------------------------------|-------------------|-------------------|
| Primary Government: | | |
| <i>Major Governmental Funds:</i> | | |
| General Fund | \$ 492,263 | \$ 229,948 |
| Coal Road Fund | - | 57,263 |
| <i>Nonmajor Governmental Funds:</i> | | |
| Capital Projects Fund | 17,050 | - |
| <i>Enterprise Funds:</i> | | |
| Landfill Fund | - | 435,000 |
| Sewer Fund | 212,898 | - |
| Total Primary Government | <u>\$ 722,211</u> | <u>\$ 722,211</u> |

All balances are the results of time lag between dates that interfund goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made. The County expects all balances to be repaid within one year.

Interfund transfers for the year ended June 30, 2018, consisted of the following:

| Fund | Transfers In | Transfers Out |
|-------------------------------------|---------------------|---------------------|
| Primary Government: | | |
| <i>Major Governmental Funds:</i> | | |
| General Fund | \$ 366,000 | \$ 4,042,895 |
| <i>Nonmajor Governmental Funds:</i> | | |
| Forfeited Assets Fund | 1,895 | - |
| <i>Enterprise Funds:</i> | | |
| Sewer Fund | 585,000 | - |
| Landfill Fund | 3,090,000 | - |
| Total Primary Government | <u>\$ 4,042,895</u> | <u>\$ 4,042,895</u> |
| Component Unit - School Board: | | |
| <i>Major Governmental Funds:</i> | | |
| School Operating Fund | \$ - | \$ 16,392 |
| School Cafeteria Fund | 16,392 | - |
| School Capital Projects Fund | - | - |
| Total Component Unit - School Board | <u>\$ 16,392</u> | <u>\$ 16,392</u> |

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the General Fund to finance various programs accounted for in other funds in accordance with budgeting authorization.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6-Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness

The following is a summary of long-term obligation transactions of the County for the year ended June 30, 2018:

| | Beginning Balance, as restated | Increases/ Issuances | Decreases/ Retirements | Ending Balance |
|--------------------------|--------------------------------------|-------------------------|---------------------------|----------------------|
| General Obligation Bonds | \$ 51,228,003 | \$ - | \$ (1,200,000) | \$ 50,028,003 |
| Bond Premium | 812,152 | - | (122,990) | 689,162 |
| Lease Revenue Bonds | 14,800,000 | - | - | 14,800,000 |
| Capital Leases | 3,882,788 | - | (3,729,687) | 153,101 |
| Net Pension Liability | 11,502,215 | 4,715,637 | (8,041,506) | 8,176,346 |
| Net OPEB Liabilities | 4,065,661 | 433,398 | (732,650) | 3,766,409 |
| Compensated Absences | 611,380 | 467,526 | (458,535) | 620,371 |
| Total | <u>\$ 86,902,199</u> | <u>\$ 5,616,561</u> | <u>\$ (14,285,368)</u> | <u>\$ 78,233,392</u> |

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

| Year Ending June 30, | General Obligation Bonds | | Lease Revenue Bonds | |
|-------------------------|--------------------------|----------------------|----------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2019 | \$ 1,200,000 | \$ 2,172,750 | \$ - | \$ 325,600 |
| 2020 | 1,880,000 | 2,155,580 | 14,800,000 | 325,600 |
| 2021 | 2,020,000 | 2,117,705 | - | - |
| 2022 | 2,065,000 | 2,075,159 | - | - |
| 2023 | 2,570,947 | 2,009,407 | - | - |
| 2024-2028 | 16,083,179 | 8,542,103 | - | - |
| 2029-2033 | 13,803,877 | 5,328,147 | - | - |
| 2034-2037 | 10,405,000 | 828,512 | - | - |
| Totals | <u>\$ 50,028,003</u> | <u>\$ 25,229,363</u> | <u>\$ 14,800,000</u> | <u>\$ 651,200</u> |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6-Long-Term Obligations: (continued)

Primary Government - Governmental Activities Indebtedness (continued)

Details of long-term indebtedness:

| | Interest Rates | Date Issued | Final Maturity Date | Installment Amounts | Amount of Original Issue | Balance Governmental Activities | Amount Due Within One Year |
|----------------------------------|-------------------|----------------|---------------------------|------------------------------|--------------------------------|---------------------------------------|----------------------------------|
| General Obligation Bonds: | | | | | | | |
| VPSA General obligation bond | 3.67% | 11/9/2011 | 7/15/2036 | \$1,045,000 - \$1,870,000 a+ | \$ 29,265,000 | \$ 21,445,000 | \$ - |
| VPSA General obligation bond | 5.10% | 5/15/2008 | 7/15/2028 | \$310,947 - \$368,877 a+ | 5,834,463 | 2,373,003 | - |
| Refunding bond | 2.39-3.54% | 5/15/2014 | 7/15/2036 | \$680,000 - \$855,000 a+ | 13,910,000 | 13,910,000 | - |
| VPSA QSCB bond | 0.00% | 12/15/2011 | 12/1/2030 | \$300,000 - \$1,200,000 a+ | 15,000,000 | 12,300,000 | 1,200,000 |
| Total GO Bonds | | | | | | <u>\$ 50,028,003</u> | <u>\$ 1,200,000</u> |
| Lease Revenue Notes: | | | | | | | |
| Revenue bond - Public facilities | 2.20% | 4/22/2016 | 2/1/2020 | \$162,800 sa | \$ 14,800,000 | \$ 14,800,000 | \$ - |
| Deferred Amounts: | | | | | | | |
| Unamortized Premium | | | | | | | |
| \$29,265,000 VPSA GO bond | | | | | | \$ 278,917 | \$ 52,475 |
| \$13,910,000 Refunding bond | | | | | | 410,245 | 72,772 |
| Total Deferred Amounts | | | | | | <u>\$ 689,162</u> | <u>\$ 125,247</u> |
| Other Obligations: | | | | | | | |
| Capital leases | | | | | | \$ 153,101 | \$ 101,721 |
| Net pension liability | | | | | | 8,176,346 | - |
| Net OPEB liabilities | | | | | | 3,766,409 | - |
| Compensated absences | | | | | | 620,371 | 465,278 |
| Total Other Obligations | | | | | | <u>\$ 12,716,227</u> | <u>\$ 566,999</u> |
| Total Long-Term Obligations | | | | | | <u>\$ 78,233,392</u> | <u>\$ 1,892,246</u> |

(a+) - annual principal installments shown does not include semi-annual interest installments

(sa) - semi-annual interest installments

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6-Long-Term Obligations: (continued)

Primary Government - Business-type Activities Indebtedness

The following is a summary of long-term obligation transactions of the County for the year ended June 30, 2018:

| | Beginning Balance, as restated | Increases/ Issuances | Decreases/ Retirements | Ending Balance |
|--|--------------------------------------|-------------------------|---------------------------|----------------------|
| General Obligation Bonds | \$ 4,545,000 | \$ - | \$ (455,000) | \$ 4,090,000 |
| Bond Premium | 416,448 | - | (75,781) | 340,667 |
| Capital Leases | 243,507 | - | (96,411) | 147,096 |
| Landfill Closure/ Postclosure Liability | 8,391,434 | 467,435 | - | 8,858,869 |
| Net Pension Liability | 781,533 | 263,427 | (579,496) | 465,464 |
| Net OPEB Liabilities | 171,486 | 9,514 | (32,563) | 148,437 |
| Compensated Absences | 120,919 | 87,847 | (90,689) | 118,077 |
| Total | <u>\$ 14,670,327</u> | <u>\$ 828,223</u> | <u>\$ (1,329,940)</u> | <u>\$ 14,168,610</u> |

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

| Year Ending June 30, | General Obligation Bonds | |
|-------------------------|--------------------------|-------------------|
| | Principal | Interest |
| 2019 | \$ 475,000 | \$ 168,499 |
| 2020 | 500,000 | 145,789 |
| 2021 | 525,000 | 122,508 |
| 2022 | 545,000 | 101,953 |
| 2023 | 565,000 | 79,185 |
| 2024-2028 | 1,480,000 | 168,916 |
| Totals | <u>\$ 4,090,000</u> | <u>\$ 786,850</u> |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6-Long-Term Obligations: (continued)

Primary Government - Business-type Activities Indebtedness (continued)

Details of long-term indebtedness:

| | Interest Rates | Date Issued | Final Maturity Date | Installment Amounts | Amount of Original Issue | Balance Business-Type Activities | Amount Due Within One Year |
|--|-------------------|----------------|---------------------------|--------------------------|--------------------------------|--|----------------------------------|
| General Obligation Bonds: | | | | | | | |
| VRA General obligation bond | 2.48% | 6/5/2013 | 4/1/2028 | \$190,000 - \$320,000 a+ | \$ 3,450,000 | \$ 2,665,000 | \$ 215,000 |
| VRA General obligation bond | 3.28% | 5/25/2010 | 10/1/2022 | \$230,000 - \$310,000 a+ | 2,985,000 | 1,425,000 | 260,000 |
| Total GO Bonds | | | | | | <u>\$ 4,090,000</u> | <u>\$ 475,000</u> |
| Deferred Amounts: | | | | | | | |
| Unamortized Premium | | | | | | | |
| \$3,450,000 VRA GO bond | | | | | | \$ 291,395 | \$ 50,060 |
| \$2,985,000 VRA GO bond | | | | | | 49,272 | 17,503 |
| Total Deferred Amounts | | | | | | <u>\$ 340,667</u> | <u>\$ 67,563</u> |
| Other Obligations: | | | | | | | |
| Capital leases | | | | | | \$ 147,096 | \$ 97,732 |
| Landfill Closure/Postclosure Liability | | | | | | 8,858,869 | - |
| Net pension liability | | | | | | 465,464 | - |
| Net OPEB liabilities | | | | | | 148,437 | - |
| Compensated absences | | | | | | 118,077 | 88,558 |
| Total Other Obligations | | | | | | <u>\$ 9,737,943</u> | <u>\$ 186,290</u> |
| Total Long-Term Obligations | | | | | | <u>\$ 14,168,610</u> | <u>\$ 728,853</u> |

(a+) - annual principal installments shown does not include semi-annual interest installments

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 7-Long-Term Obligations-Component Unit School Board:

Discretely Presented Component Unit-School Board-Indebtedness

The following is a summary of long-term obligation transactions of the Component-Unit School Board for the year ended June 30, 2018:

| | Beginning Balance, as restated | Increases | Decreases | Ending Balance |
|-----------------------|--------------------------------------|----------------------|------------------------|----------------------|
| Capital leases | \$ 401,618 | \$ - | \$ (206,873) | \$ 194,745 |
| Net pension liability | 55,751,263 | 9,190,733 | (18,213,949) | 46,728,047 |
| Net OPEB liabilities | 15,996,200 | 1,070,928 | (1,962,975) | 15,104,153 |
| Compensated absences | 335,989 | 252,854 | (251,992) | 336,851 |
| Total | <u>\$ 72,485,070</u> | <u>\$ 10,514,515</u> | <u>\$ (20,635,789)</u> | <u>\$ 62,363,796</u> |

Details of long-term indebtedness:

| | Total Amount | Amount Due Within One Year |
|-----------------------------|---------------------|----------------------------------|
| Other Obligations: | | |
| Capital leases (Note 8) | \$ 194,745 | \$ 95,428 |
| Net pension liability | 46,728,047 | - |
| Net OPEB liabilities | 15,104,153 | - |
| Compensated absences | 336,851 | 252,638 |
| Total Long-Term Obligations | <u>\$62,363,796</u> | <u>\$ 348,066</u> |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Capital Leases:

Primary Government

The County has entered into lease agreements with U.S Bank for financing capital assets purchases for both the General Fund and the Enterprise-Landfill Fund.

The following is an analysis of the leases as of June 30, 2018:

| | Lease Obligation | | | Net Asset Value | | |
|---|------------------|---------------|------------|-----------------|---------------|------------|
| | Governmental | Business-type | Total | Governmental | Business-type | Total |
| | Activities | Activities | | Activities | Activities | |
| Various Capital Equipment, 1.36%, \$16,858 monthly payment including interest, maturity date Dec 21, 2020 | \$ 153,101 | \$ 147,096 | \$ 300,197 | \$ 263,177 | \$ 151,097 | \$ 414,274 |
| Total Capital Leases | \$ 153,101 | \$ 147,096 | \$ 300,197 | \$ 263,177 | \$ 151,097 | \$ 414,274 |

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2018, were as follows:

| Year Ending June 30, | Governmental | Business-type | Total |
|---------------------------------------|--------------|---------------|------------|
| | Activities | Activities | |
| | US Bank | US Bank | |
| 2019 | \$ 103,171 | \$ 99,125 | \$ 202,296 |
| 2020 | 51,585 | 49,562 | 101,147 |
| Subtotal | \$ 154,756 | \$ 148,687 | \$ 303,443 |
| Less, amount representing interest | (1,655) | (1,591) | (3,246) |
| Present Value of Lease Agreement | \$ 153,101 | \$ 147,096 | \$ 300,197 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Capital Leases: (Continued)

School Board

The School Board has entered into a lease agreement for energy renovations. This lease qualifies as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of its inception.

The following is an analysis of the capital leases as of June 30, 2018:

| | Lease Obligation | Net Asset Value |
|--|---------------------|--------------------|
| Energy building renovations, 4.00%, \$8,457 monthly payment including interest, maturity date June 20, 2020 | \$ 194,745 | \$ - |

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2018, were as follows:

| | Component Unit - School Board |
|------------------------------------|----------------------------------|
| Year Ending June 30, | Energy Renovations |
| 2019 | \$ 101,481 |
| 2020 | 101,481 |
| Subtotal | \$ 202,962 |
| Less, amount representing interest | (8,217) |
| Present Value of Lease Agreement | \$ 194,745 |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the County and (nonprofessional) employees of public school divisions are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report participate in the VRS plan through Wise County and the participating entities report their proportionate information on the basis of a cost-sharing plan.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

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 set out in the table below:

| RETIREMENT PLAN PROVISIONS | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> | <p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| | | <p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> | <p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p>Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p> |
| <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> | <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p> | <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| | | <p>Vesting (Cont.) <u>Defined Contribution Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p> |
| <p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit. | | Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions. |
| Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee. | Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee. | Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan. |
| Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer. | Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1. | Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable. |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. | 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 and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits. |
| Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. 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: <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. Defined Contribution Component: Not applicable. |

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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The County's contractually required employer contribution rate for the year ended June 30, 2018 was 9.95% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the political subdivision's plan was 11.06%.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the County were \$1,053,722 and \$1,007,941 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

At June 30, 2018, the County reported a liability of \$8,641,811 for its proportionate share of the net pension liability. The County'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. In order to allocate the net pension liability to all employers included in the plan, the County is required to determine its proportionate share of the net pension liability. Contributions to the plan as of June 30, 2017 and 2016 was used as a basis for allocation to determine the County's proportionate share of the net pension liability. At June 30, 2017 and 2016, the County's proportion was 98.8547% and 99.1244%, respectively.

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Actuarial Assumptions - General Employees

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

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Actuarial Assumptions - General Employees (continued)

Post-Disablement:

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

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

Largest 10 - Non-Hazardous Duty:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with Hazardous Duty Benefits in the County of Smyth Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

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

Post-Disablement:

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

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

Largest 10 - Hazardous Duty:

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

All Others (Non 10 Largest) - Hazardous Duty:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Long-Term Expected Rate of Return

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

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 County and Component Unit School Board (nonprofessional) Retirement Plans will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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.

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

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

| | Rate | | |
|--|---------------|--------------|--------------|
| | (6.00%) | (7.00%) | (8.00%) |
| County's proportionate share of the County Retirement Plan Net Pension Liability (Asset) | \$ 15,796,333 | \$ 8,641,811 | \$ 2,713,126 |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—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 County recognized pension expense of \$193,011. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Primary Government | |
|---|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ 229,920 | \$ 1,462,243 |
| Change in assumptions | - | 93,689 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 121,155 | 169,934 |
| Net difference between projected and actual earnings on pension plan investments | - | 647,474 |
| Employer contributions subsequent to the measurement date | 1,053,722 | - |
| Total | \$ 1,404,797 | \$ 2,373,340 |

\$1,053,722 reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| | Primary Government |
|--------------------|-----------------------|
| Year ended June 30 | |
| 2019 | \$ (1,127,776) |
| 2020 | (202,901) |
| 2021 | (252,957) |
| 2022 | (438,631) |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (nonprofessional)

Plan Description

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

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:

| | Component Unit School Board Nonprofessional |
|--|--|
| Inactive members or their beneficiaries currently receiving benefits | 187 |
| Inactive members: | |
| Vested inactive members | 10 |
| Non-vested inactive members | 18 |
| Inactive members active elsewhere in VRS | 24 |
| Total inactive members | 52 |
| Active members | 63 |
| Total covered employees | 302 |

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2018 was 17.08% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (nonprofessional) (continued)

Contributions (Continued)

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 Component Unit School Board's nonprofessional employees were \$248,630 and \$267,012 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The Component Unit School Board's (nonprofessional) 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.

Changes in Net Pension Liability

| | Component School Board (nonprofessional) | | |
|--|--|--|--|
| | Increase (Decrease) | | |
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at June 30, 2016 | \$ 12,369,860 | \$ 8,314,597 | \$ 4,055,263 |
| Changes for the year: | | | |
| Service cost | \$ 144,679 | \$ - | \$ 144,679 |
| Interest | 838,566 | - | 838,566 |
| Change in assumptions | 3,628 | - | 3,628 |
| Differences between expected and actual experience | (148,415) | - | (148,415) |
| Contributions - employer | - | 267,012 | (267,012) |
| Contributions - employee | - | 77,810 | (77,810) |
| Net investment income | - | 985,712 | (985,712) |
| Benefit payments, including refunds of employee contributions | (780,696) | (780,696) | - |
| Administrative expenses | - | (5,994) | 5,994 |
| Other changes | - | (866) | 866 |
| Net changes | \$ 57,762 | \$ 542,978 | \$ (485,216) |
| Balances at June 30, 2017 | \$ 12,427,622 | \$ 8,857,575 | \$ 3,570,047 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (nonprofessional) (continued)

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

The following presents the net pension liability of the Component Unit School Board (nonprofessional) using the discount rate of 7.00%, as well as what the Component Unit School Board's (nonprofessional) net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|---|--------------|------------------|--------------|
| | 1% Decrease | Current Discount | 1% Increase |
| | (6.00%) | (7.00%) | (8.00%) |
| Component Unit School Board (nonprofessional) | | | |
| Net Pension Liability (Asset) | \$ 4,938,629 | \$ 3,570,047 | \$ 2,410,226 |

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

For the year ended June 30, 2018, the Component Unit School Board (nonprofessional) recognized pension expense of (\$67,344). At June 30, 2018, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Component Unit School Board (nonprofessional) | |
|--|---|-------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 50,774 |
| Change in assumptions | 1,241 | |
| Net difference between projected and actual earnings on pension plan investments | - | 117,321 |
| Employer contributions subsequent to the measurement date | 248,630 | - |
| Total | \$ 249,871 | \$ 168,095 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (nonprofessional) (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

\$248,630 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board's (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| | | Component Unit School Board (nonprofessional) |
|--|---------------------------|---|
| | <u>Year ended June 30</u> | |
| | 2019 | \$ (137,499) |
| | 2020 | 48,391 |
| | 2021 | 6,092 |
| | 2022 | (83,838) |

Component Unit School Board (professional)

Plan Description

Additional information related to the plan description, plan contribution requirements, long-term expected rate of return, and discount rate is included in the first section of this note.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 16.32% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the School Board were \$4,203,485 and \$3,994,553 for the years ended June 30, 2018 and June 30, 2017, respectively.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (professional) (continued)

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

At June 30, 2018, the school division reported a liability of \$43,158,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2017 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the school division's proportion was 0.35093% as compared to 0.36888% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$2,113,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Component Unit School Board (professional) | |
|---|---|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 3,056,000 |
| Change in assumptions | 630,000 | |
| Net difference between projected and actual earnings on pension plan investments | - | 1,568,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 374,000 | 4,545,000 |
| Employer contributions subsequent to the measurement date | 4,203,485 | - |
| Total | \$ 5,207,485 | \$ 9,169,000 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (professional) (continued)

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

\$4,203,485 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| <u>Year ended June 30</u> | <u>Component Unit School Board (professional)</u> |
|---------------------------|---|
| 2019 | \$ (2,766,000) |
| 2020 | (1,309,000) |
| 2021 | (1,615,000) |
| 2022 | (2,060,000) |
| Thereafter | (415,000) |

Actuarial Assumptions

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

| | |
|---------------------------------------|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% - 5.95% |
| Investment rate of return | 7.0%, net of pension plan investment expenses, including inflation* |

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (professional) (continued)

Actuarial Assumptions (continued)

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9—Pension Plan: (continued)

Component Unit School Board (professional) (continued)

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2017, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

| | |
|---|-------------------------------------|
| | Teacher Employee Retirement Plan |
| Total Pension Liability | \$ 45,417,520 |
| Plan Fiduciary Net Position | 33,119,545 |
| Employers' Net Pension Liability (Asset) | <u>\$ 12,297,975</u> |
| | |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 72.92% |

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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

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

| | Rate | | |
|---|--------------------|-------------------------|--------------------|
| | <u>1% Decrease</u> | <u>Current Discount</u> | <u>1% Increase</u> |
| | <u>(6.00%)</u> | <u>(7.00%)</u> | <u>(8.00%)</u> |
| School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset) | \$ 64,449,000 | \$ 43,158,000 | \$ 25,546,000 |

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan'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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Capital Assets:

Capital asset activity for the year ended June 30, 2018 was as follows:

Primary Government:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|----------------|-----------|-------------------|
| Governmental Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 2,170,643 | \$ 25,000 | \$ - | \$ 2,195,643 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 88,999,219 | \$ 2,024,850 | \$ - | \$ 91,024,069 |
| Machinery and equipment | 6,242,525 | 392,130 | - | 6,634,655 |
| Total capital assets being depreciated | \$ 95,241,744 | \$ 2,416,980 | \$ - | \$ 97,658,724 |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ (21,091,426) | \$ (3,463,268) | \$ - | \$ (24,554,694) |
| Machinery and equipment | (5,460,057) | (308,253) | - | (5,768,310) |
| Total accumulated depreciation | \$ (26,551,483) | \$ (3,771,521) | \$ - | \$ (30,323,004) |
| Total capital assets being depreciated, net | \$ 68,690,261 | \$ (1,354,541) | \$ - | \$ 67,335,720 |
| Governmental activities capital assets, net | \$ 70,860,904 | \$ (1,329,541) | \$ - | \$ 69,531,363 |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Capital Assets: (continued)

Primary Government: (continued)

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|------------------------|---------------------|-------------|------------------------|
| Business-type Activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 314,816 | \$ - | \$ - | \$ 314,816 |
| Construction in progress | 43,675 | - | - | 43,675 |
| Total capital assets not being depreciated | <u>\$ 358,491</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 358,491</u> |
| Capital assets, being depreciated: | | | | |
| Infrastructure | \$ 16,316,119 | \$ - | \$ - | \$ 16,316,119 |
| Machinery and equipment | 4,858,155 | 193,165 | - | 5,051,320 |
| Total capital assets being depreciated | <u>\$ 21,174,274</u> | <u>\$ 193,165</u> | <u>\$ -</u> | <u>\$ 21,367,439</u> |
| Accumulated depreciation: | | | | |
| Infrastructure | \$ (6,154,896) | \$ (426,379) | \$ - | \$ (6,581,275) |
| Machinery and equipment | (4,331,909) | (424,936) | - | (4,756,845) |
| Total accumulated depreciation | <u>\$ (10,486,805)</u> | <u>\$ (851,315)</u> | <u>\$ -</u> | <u>\$ (11,338,120)</u> |
| Total capital assets being depreciated, net | <u>\$ 10,687,469</u> | <u>\$ (658,150)</u> | <u>\$ -</u> | <u>\$ 10,029,319</u> |
| Business-type Activities capital assets, net | <u>\$ 11,045,960</u> | <u>\$ (658,150)</u> | <u>\$ -</u> | <u>\$ 10,387,810</u> |

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

Governmental activities:

| | |
|--|--------------------|
| General governmental administration | \$ 59,390 |
| Judicial administration | 490 |
| Public safety | 260,295 |
| Public works | 289,113 |
| Health and welfare | 76,347 |
| Education | 3,041,114 |
| Parks, recreation, and cultural | 44,772 |
| Total depreciation expense - governmental activities | <u>\$3,771,521</u> |

Business-type activities:

| | |
|--------------|-------------------|
| Public works | <u>\$ 851,315</u> |
|--------------|-------------------|

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Capital Assets: (continued)

Business-type Other Assets:

The Sewer Enterprise Fund contains a balance of \$453,750 in Other Assets. This amount is for a connectivity fee with the City of Norton for the flow of wastewater. This agreement states that a fee of \$550,000 is for a forty year period and will be amortized over that period. Amortization in fiscal year 2018 was \$13,750 and accumulated amortization as of June 30, 2018 amounted to \$96,250.

Capital asset activity for the School Board for the year ended June 30, 2018 was as follows:

Discretely Presented Component Unit:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|------------------------|-----------------------|-----------------------|------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 1,998,463 | \$ - | \$ (25,000) | \$ 1,973,463 |
| Construction in progress | - | 232,585 | - | 232,585 |
| Total capital assets not being depreciated | <u>\$ 1,998,463</u> | <u>\$ 232,585</u> | <u>\$ (25,000)</u> | <u>\$ 2,206,048</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 64,761,742 | \$ - | \$ (2,024,850) | \$ 62,736,892 |
| Machinery and equipment | 10,414,842 | 1,020,517 | - | 11,435,359 |
| Total capital assets being depreciated | <u>\$ 75,176,584</u> | <u>\$ 1,020,517</u> | <u>\$ (2,024,850)</u> | <u>\$ 74,172,251</u> |
| Accumulated depreciation: | | | | |
| Buildings and improvements | \$ (35,928,540) | \$ (1,585,424) | \$ 1,696,566 | \$ (35,817,398) |
| Machinery and equipment | (8,606,883) | (374,700) | - | (8,981,583) |
| Total accumulated depreciation | <u>\$ (44,535,423)</u> | <u>\$ (1,960,124)</u> | <u>\$ 1,696,566</u> | <u>\$ (44,798,981)</u> |
| Total capital assets being depreciated, net | <u>\$ 30,641,161</u> | <u>\$ (939,607)</u> | <u>\$ (328,284)</u> | <u>\$ 29,373,270</u> |
| School board capital assets, net | <u>\$ 32,639,624</u> | <u>\$ (707,022)</u> | <u>\$ (353,284)</u> | <u>\$ 31,579,318</u> |

Note 11-Risk Management:

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12-Surety Bonds:

Primary Government:

| | |
|--|------------|
| <u>Constitutional Officer Risk Management Plan - Surety:</u> | |
| Jack Kennedy, Clerk of the Circuit Court | \$ 500,000 |
| Delores W. Smith, Treasurer | 500,000 |
| Douglas Mullins, Jr., Commissioner of the Revenue | 3,000 |
| Ronnie D. Oakes, Sheriff | 30,000 |
| <u>Travelers Casualty & Surety Co:</u> | |
| Public Officials Bond - Board of Supervisors | 3,000 |
| <u>United States Fidelity and Guaranty Company Surety:</u> | |
| Greg Mullins, Superintendent of Schools | 10,000 |
| <u>Fidelity & Deposit Company of Maryland-Surety:</u> | |
| Judy Clawson, Clerk of the School Board Deputy | \$ 10,000 |
| Judy Durham, Clerk of the School Board | 10,000 |
| All School Board Employees: Blanket Bond | 5,000 |
| All Social Services Employees: Blanket Bond | 100,000 |

Note 13-Landfill Closure and Postclosure Care Cost:

According to laws and regulations the County must perform closure and postclosure care to the Landfill as specified in Part V, Section 5.1.E of the Virginia Solid Waste Management Regulations (VR 672-20-10). The regulations require the County to close its facility in a manner that minimizes the need for further maintenance and controls, minimizes or eliminates the post-closure escape of uncontrolled leachate, surface runoff, decomposition gas, migration or waste decomposition products to the groundwater, surface water or to the atmosphere. The regulations also require that the County conduct postclosure care for ten years after the date of completing closure or for as long as leachate is generated, whichever is later.

The total estimated closure and postclosure care costs for the County's landfill operation is \$17,401,350. The accrued liability for these costs reported as of June 30, 2018 is based on the capacity of the landfill used to date. The landfill capacity used at year end is approximately 51% and the remaining life of the landfill is approximately 27 years. The remaining cost to be accrued in the future is as follows:

| | |
|---|---------------------|
| Total Estimated Liability | \$17,401,350 |
| Accrued Liability as of June 30, 2018 | <u>8,858,869</u> |
| Total Closure and Postclosure Care Costs Remaining to be Recognized | <u>\$ 8,542,481</u> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 13-Landfill Closure and Postclosure Care Cost: (continued)

It should be noted that the total estimated liability for the closure and post-closure care costs is only an estimate based on current projections. The estimates are reviewed by our engineer, Thompson & Litton, on an annual basis. Inflation factors are provided by the Department of Environmental Quality to apply to the estimates. Uncontrollable factors such as inflation, changes in technology, and changes in applicable laws and regulations may affect these projections.

The County demonstrated financial assurance requirements for closure and post-closure costs through the submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with 9 VAC 20-70-10 of the Virginia Administrative Code. The regulation requires local government owners and operators to maintain a financial mechanism, or combination of mechanisms, demonstrating assurance for the closure, post-closure care, and, if applicable, corrective actions costs associated with their owned and operated solid waste facilities. The County has fulfilled the requirements as set forth in the financial ratio test mechanism.

The County has a reserve fund designated for the purpose of landfill closure. The closure and post closure costs are being funded by an annual transfer from the general fund to this fund. As of June 30, 2018, the County has a balance of \$5,898,947 in this fund which is the aggregate funding to date including interest earned.

Note 14-Deferred/Unavailable Revenue:

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

| | Government-wide | |
|---|-------------------------|--------------------|
| | Statements | Balance Sheet |
| | Governmental Activities | Governmental Funds |
| Taxes receivable-2nd half installment | \$ 15,024,464 | \$ 15,024,464 |
| Prepaid taxes | 1,679,087 | 1,679,087 |
| Delinquent taxes receivable due prior to June 30 not collected within 60 day | - | 3,698,729 |
| Total | \$ 16,703,551 | \$ 20,402,280 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 15-Commitments and Contingencies:

Contingent Liabilities:

Federal programs in which the County and its component units participate were audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirement for Federal Awards*. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 16-Other Postemployment Benefits-Health Insurance:

In addition to the pension benefits described in Note 9, the County and School Board each administer a single-employer defined benefit healthcare plan. The plans provide postemployment health care benefits to all eligible permanent employees who meet the requirements under the County's and School Board's pension plans. The plans do not issue a publicly available financial report.

Benefits Provided

The Wise and Wise School Board Post-Retirement Medical Plans (the Plans) are single-employer defined benefit healthcare plans administered by the County and School Board. The Plans provide health insurance benefits to eligible retirees and their spouses. To be eligible, employees must meet the age and service criteria for immediate retirement benefits under VRS, which requires that the employee be age 50 with 10 years of service or permanently, totally disabled and injured in the line of duty. Additionally, the employee must be of full-time status in VRS and must be covered by the active plan at the time of retirement or disability. The benefit provisions, including employer and employee contributions, are governed by the County and School Board and can be amended through County and School Board action, respectively.

Plan Membership

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

| | County | School Board |
|---|------------|--------------|
| Total active employees with coverage | 239 | 507 |
| Total active employees without coverage | 30 | 190 |
| Total retirees with coverage | 13 | 76 |
| Total retirees without coverage | - | 1 |
| | <u>282</u> | <u>774</u> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

Contributions

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the County Board. The amount paid by the County and School Board for OPEB as the benefits came due during the year ended June 30, 2018 was \$105,155 and \$426,552, respectively.

Total OPEB Liability

The County and School Board's total OPEB liabilities were measured as of June 30, 2018.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|-----------------------------|---|
| Actuarial Cost Method | Entry Age Normal Percentage of Salary |
| Healthcare Cost Trend Rates | Medical rates start at 8% and decrease by varying amounts to an ultimate rate of 5% in 2029 |
| Salary Increases | 3.50% |
| Discount Rate | 3.87% as of June 30, 2018 and 3.58% as of July 1, 2017 |
| Inflation | 2.50% |

Mortality rates use RPH-2018 Total Dataset Mortality Table fully generational using scale MP-2018.

The actuarial assumptions used in the June 30, 2018 valuation were based on June 30, 2018 valuation with no adjustments to get to the measurement date. The methods, assumptions, and participant data used can be found in the June 30, 2018 actuarial valuation report.

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is based on a yield for 20-year tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher tax-exempt, high quality 20-year municipal bonds. The final equivalent single discount rate used for this year's valuation is 3.87% as of the end of the fiscal year with the expectation that the County and School Board will continue contributing the Actuarially Determined Contribution and paying the pay-go cost.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

Changes in the Total OPEB Liability

| | County | School Board |
|---|--------------|--------------|
| Balances at June 30, 2017 | \$ 1,991,234 | \$ 8,362,200 |
| Changes for the year: | | |
| Service cost | 100,914 | 435,248 |
| Interest cost | 73,033 | 307,380 |
| Difference between expected and actual experience | (280,453) | (361,926) |
| Changes in assumptions | (9,205) | (28,197) |
| Benefit payments | (105,155) | (426,552) |
| Net changes | (220,866) | (74,047) |
| Balances at June 30, 2018 | \$ 1,770,368 | \$ 8,288,153 |

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

The following amounts present the total OPEB liability of the County and School Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

| Primary Government | | | Component Unit School Board | | |
|--------------------|------------------|--------------|-----------------------------|------------------|--------------|
| Rate | | | Rate | | |
| 1% Decrease | Current Discount | 1% Increase | 1% Decrease | Current Discount | 1% Increase |
| (2.87%) | (3.87%) | (4.87%) | (2.87%) | (3.87%) | (4.87%) |
| \$ 1,930,244 | \$ 1,770,368 | \$ 1,625,124 | \$ 8,983,315 | \$ 8,288,153 | \$ 7,647,598 |

Sensitivity of the Employer's Proportionate Share of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the County and School Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

| Primary Government | | | Component Unit School Board | | |
|--------------------|---------------|--------------|-----------------------------|---------------|--------------|
| Rate | | | Rate | | |
| 1% Decrease | Current Trend | 1% Increase | 1% Decrease | Current Trend | 1% Increase |
| \$ 1,576,074 | \$ 1,770,368 | \$ 1,999,205 | \$ 7,421,104 | \$ 8,288,153 | \$ 9,294,868 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the County and School Board recognized OPEB expense in the amount of \$132,567 and \$677,607, respectively. At June 30, 2018, the County and School Board reported the following deferred outflows of resources and deferred inflows of resources related to OPEB:

| | Primary Government | | Component Unit School Board | |
|--|--------------------------------------|-------------------------------------|--------------------------------------|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 240,388 | \$ - | \$ 301,605 |
| Changes in assumptions | - | 7,892 | - | 23,497 |
| Total | <u>\$ -</u> | <u>\$ 248,280</u> | <u>\$ -</u> | <u>\$ 325,102</u> |

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense in future reporting periods as follows:

| Year ended June 30 | Primary Government | Component Unit School Board |
|--------------------|-----------------------|--------------------------------|
| 2019 | \$ (41,380) | \$ (65,021) |
| 2020 | (41,380) | (65,021) |
| 2021 | (41,380) | (65,021) |
| 2022 | (41,380) | (65,021) |
| 2023 | (41,380) | (65,018) |
| Thereafter | (41,380) | - |

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan):

Plan Description

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

| GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED) |
|---|
| <p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option |
| <p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p> |
| <p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p> |

Contributions

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Contributions (Continued)

Contributions to the Group Life Insurance Program from the County were \$56,773 and \$54,287 for the years ended June 30, 2018 and June 30, 2017, respectively.

Contributions to the Group Life Insurance Program from the Component Unit-School Board (non-professional) were \$7,692 and \$8,239 for the years ended June 30, 2018 and June 30, 2017, respectively.

Contributions to the Group Life Insurance Program from the Component Unit-School Board (professional) were \$134,827 and \$142,456 for the years ended June 30, 2018 and June 30, 2017, respectively.

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 County reported a liability of \$851,478 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2018, the Component Unit-School Board (nonprofessional) reported a liability of \$130,000 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2018, the Component Unit-School Board (professional) reported a liability of \$2,235,000 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 County's proportion was 0.05660% as compared to 0.05882% at June 30, 2016.

At June 30, 2017, the Component Unit-School Board (nonprofessional) proportion was 0.00859% as compared to 0.00909% at June 30, 2016.

At June 30, 2017, the Component Unit-School Board (professional) proportion was 0.14852% as compared to 0.15651% at June 30, 2016.

For the year ended June 30, 2018, the County recognized GLI OPEB expense of \$3,965. 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.

For the year ended June 30, 2018, the Component-Unit School Board (nonprofessional) recognized GLI OPEB expense of \$0. 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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

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

For the year ended June 30, 2018, the Component-Unit School Board (professional) recognized GLI OPEB expense of \$3,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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:

| | Primary Government | |
|--|--------------------|--------------|
| | Outflows | Inflows |
| | of Resources | of Resources |
| Differences between expected and actual experience | \$ - | \$ 19,825 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 31,720 |
| Change in assumptions | - | 43,615 |
| Changes in proportion | - | 32,711 |
| Employer contributions subsequent to the measurement date | 56,773 | - |
| Total | \$ 56,773 | \$ 127,871 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

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

| | Component Unit School Board (Nonprofessional) | | Component Unit School Board (Professional) | |
|--|--|-------------------------------------|---|-------------------------------------|
| | Deferred Outflows of Resources | Deferred Inflows of Resources | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual experience | \$ - | \$ 2,000 | \$ - | \$ 50,000 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 5,000 | - | 84,000 |
| Change in assumptions | - | 7,000 | - | 115,000 |
| Changes in proportion | - | 8,000 | - | 118,000 |
| Employer contributions subsequent to the measurement date | 7,692 | - | 134,827 | - |
| Total | \$ 7,692 | \$ 22,000 | \$ 134,827 | \$ 367,000 |

\$56,773, \$7,692, and \$134,827 reported as deferred outflows of resources related to the GLI OPEB resulting from the County's, Component-Unit School Board (Nonprofessional), and Component-Unit School Board (Professional), respectively, 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:

| Year Ended June 30 | Primary Government | Component Unit-School Board (Non- professional) | Component Unit-School Board (Professional) |
|-----------------------|-----------------------|--|---|
| 2019 | \$ (25,772) | \$ (4,000) | \$ (73,000) |
| 2020 | (25,772) | (4,000) | (73,000) |
| 2021 | (25,772) | (4,000) | (73,000) |
| 2022 | (25,772) | (4,000) | (73,000) |
| 2023 | (17,842) | (3,000) | (52,000) |
| Thereafter | (6,941) | (3,000) | (23,000) |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions

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

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

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

Mortality Rates - General State Employees

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - General State Employees (Continued)

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |

Mortality Rates - Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Teachers (Continued)

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

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

Mortality Rates - SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - SPORS Employees (Continued)

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

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

Mortality Rates - VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - VaLORS Employees (Continued)

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 50% to 35% |

Mortality Rates - JRS Employees

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - JRS Employees (Continued)

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

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

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

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

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

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

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

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

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

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

NET GLI OPEB Liability

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

| | | Group Life Insurance OPEB Program |
|--|----|--|
| Total GLI OPEB Liability | \$ | 2,942,426 |
| Plan Fiduciary Net Position | | 1,437,586 |
| Employers' Net GLI OPEB Liability (Asset) | \$ | <u>1,504,840</u> |
| 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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total 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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 17-Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

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

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

| | Rate | | |
|---|--------------|------------------|--------------|
| | 1% Decrease | Current Discount | 1% Increase |
| | (6.00%) | (7.00%) | (8.00%) |
| Proportionate share of the Group Life Insurance Program Net OPEB Liability: | | | |
| County | \$ 1,101,271 | \$ 851,478 | \$ 649,264 |
| Component Unit-School Board (Nonprofessional) | \$ 168,000 | \$ 130,000 | \$ 99,000 |
| Component Unit-School Board (Professional) | \$ 2,891,000 | \$ 2,235,000 | \$ 1,704,000 |

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.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program:**Component Unit School Board - Nonprofessional***Plan Description*

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision Health Insurance Credit Program upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

| POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS | |
|---|--|
| Eligible Employees The Political Subdivision Retiree Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and who retire with at least 15 years of service credit. | |
| Eligible employees of participating employers are enrolled automatically upon employment. They include: <ul style="list-style-type: none"> • Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. | |
| Benefit Amounts The political subdivision's Retiree Health Insurance Credit Program provides the following benefits for eligible employees: <ul style="list-style-type: none"> • <u>At Retirement</u> - For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. • <u>Disability Retirement</u>- For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month. | |
| Health Insurance Credit Program Notes: <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • No health insurance credit for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. • Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree. | |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (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 HIC OPEB plan:

| | <u>Number</u> |
|--|---------------|
| Inactive members or their beneficiaries currently receiving benefits | 41 |
| Active members | 63 |
| Total covered employees | <u>104</u> |

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The School Board (Nonprofessional)'s contractually required employer contribution rate for the year ended June 30, 2018 was 0.33% 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 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 from the School Board (Nonprofessional) to the Health Insurance Credit Program were \$4,882 and \$5,228 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net HIC OPEB Liability

The School Board (nonprofessional)'s net Health Insurance Credit OPEB liability was measured as of June 30, 2017. The total Health Insurance Credit OPEB 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.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions

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

| | |
|--|---|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| Locality - General employees | 3.5%-5.35% |
| Locality - Hazardous Duty employees | 3.5%-4.75% |
| Investment rate of return | 7.0%, net of investment expenses, including inflation* |

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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% |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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% |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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 HIC 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 HIC 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 HIC OPEB liability.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Changes in Net HIC OPEB Liability

| | Increase (Decrease) | | |
|---------------------------|---------------------------------------|--|---|
| | Total HIC OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net HIC OPEB Liability (Asset) (a) - (b) |
| Balances at June 30, 2016 | \$ 245,000 | \$ 186,000 | \$ 59,000 |
| Changes for the year: | | | |
| Service cost | \$ 3,000 | \$ - | \$ 3,000 |
| Interest | 17,000 | - | 17,000 |
| Assumption changes | (3,000) | - | (3,000) |
| Contributions - employer | - | 5,000 | (5,000) |
| Net investment income | - | 21,000 | (21,000) |
| Benefit payments | (17,000) | (17,000) | - |
| Other changes | (1,000) | 1,000 | (2,000) |
| Net changes | \$ (1,000) | \$ 10,000 | \$ (11,000) |
| Balances at June 30, 2017 | \$ 244,000 | \$ 196,000 | \$ 48,000 |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Sensitivity of the County's Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

The following presents the School Board (Nonprofessional)'s Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the School Board (Nonprofessional)'s net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|--|------------------------|-----------------------------|------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| School Board (Nonprofessional)'s Net HIC OPEB Liability | \$ 69,000 | \$ 48,000 | \$ 29,000 |

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB

For the year ended June 30, 2018, the School Board (Nonprofessional) recognized Health Insurance Credit Program OPEB expense of \$3,000. At June 30, 2018, the School Board (Nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to the School Board (Nonprofessional)'s Health Insurance Credit Program from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Net difference between projected and actual earnings on HIC OPEB plan investments | \$ - | \$ 6,000 |
| Change in assumptions | - | 3,000 |
| Employer contributions subsequent to the measurement date | 4,882 | - |
| Total | \$ 4,882 | \$ 9,000 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 18-Health Insurance Credit (HIC) Program: (Continued)

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB: (Continued)

\$4,882 reported as deferred outflows of resources related to the HIC OPEB resulting from the School Board (Nonprofessional)'s contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC 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 HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

Year Ended June 30

| | | |
|------|----|---------|
| 2019 | \$ | (2,000) |
| 2020 | | (2,000) |
| 2021 | | (2,000) |
| 2022 | | (2,000) |
| 2023 | | (1,000) |

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program 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.

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan):

Plan Description

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Employee Health Insurance Credit Program. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)*Plan Description (Continued)*

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

| TEACHER EMPLOYEE HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS |
|--|
| <p>Eligible Employees</p> <p>The Teacher Employee Retiree Health Insurance Credit Program was established July 1, 1993 for retired Teacher Employees covered under VRS who retire with at least 15 years of service credit.</p> <p>Eligible employees are enrolled automatically upon employment. They include:</p> <ul style="list-style-type: none"> • Full-time permanent (professional) salaried employees of public school divisions covered under VRS. |
| <p>Benefit Amounts</p> <p>The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees:</p> <ul style="list-style-type: none"> • At Retirement - For Teacher and other professional school employees who retire, the monthly benefit is \$4.00 per year of service per month with no cap on the benefit amount. • Disability Retirement - For Teacher and other professional school employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is either: <ul style="list-style-type: none"> ○ \$4.00 per month, multiplied by twice the amount of service credit, or ○ \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower. |
| <p>Health Insurance Credit Program Notes:</p> <ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree. |

Contributions

The contribution requirements for active employees is governed by §51.1-1401(E) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Each school division's contractually required employer contribution rate for the year ended June 30, 2018 was 1.23% of covered employee compensation for employees in the VRS Teacher Employee Health Insurance Credit Program. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate 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 from the school division to the VRS Teacher Employee Health Insurance Credit Program were \$318,834 and \$303,993 for the years ended June 30, 2018 and June 30, 2017, respectively.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB

At June 30, 2018, the school division reported a liability of \$4,403,000 for its proportionate share of the VRS Teacher Employee Health Insurance Credit Program Net OPEB Liability. The Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was measured as of June 30, 2017 and the total VRS Teacher Employee Health Insurance Credit Program OPEB liability used to calculate the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net VRS Teacher Employee Health Insurance Credit Program OPEB Liability was based on the school division's actuarially determined employer contributions to the VRS Teacher Employee Health Insurance Credit Program OPEB plan 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 school division's proportion of the VRS Teacher Employee Health Insurance Credit Program was 0.34702% as compared to 0.36886% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized VRS Teacher Employee Health Insurance Credit Program OPEB expense of \$322,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017, a portion of the VRS Teacher Employee Health Insurance Credit Program Net OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the school division reported deferred outflows of resources and deferred inflows of resources related to the VRS Teacher Employee Health Insurance Credit Program OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Net difference between projected and actual earnings on Teacher HIC OPEB plan investments | \$ - | \$ 8,000 |
| Change in assumptions | - | 45,000 |
| Change in proportion | - | 241,000 |
| Employer contributions subsequent to the measurement date | <u>318,834</u> | <u>-</u> |
| Total | <u>\$ 318,834</u> | <u>\$ 294,000</u> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Teacher Employee Health Insurance Credit Program OPEB Liabilities, Teacher Employee Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Teacher Employee Health Insurance Credit Program OPEB (Continued)

\$318,834 reported as deferred outflows of resources related to the Teacher Employee HIC OPEB resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Teacher Employee HIC 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 Teacher Employee HIC OPEB will be recognized in the Teacher Employee HIC OPEB expense in future reporting periods as follows:

| <u>Year Ended June 30</u> | | |
|---------------------------|----|----------|
| 2019 | \$ | (45,000) |
| 2020 | | (45,000) |
| 2021 | | (45,000) |
| 2022 | | (45,000) |
| 2023 | | (43,000) |
| Thereafter | | (71,000) |

Actuarial Assumptions

The total Teacher Employee HIC OPEB liability for the VRS Teacher Employee Health Insurance Credit Program was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

| | |
|--|---|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| Teacher employees | 3.5%-5.95% |
| Investment rate of return | 7.0%, net of investment expenses, including inflation* |

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Net Teacher Employee HIC OPEB Liability

The net OPEB liability (NOL) for the Teacher Employee Health Insurance Credit 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 VRS Teacher Employee Health Insurance Credit Program is as follows (amounts expressed in thousands):

| | | Teacher Employee HIC OPEB Plan |
|---|----|---|
| Total Teacher Employee HIC OPEB Liability | \$ | 1,364,702 |
| Plan Fiduciary Net Position | | 96,091 |
| Teacher Employee net HIC OPEB Liability (Asset) | \$ | <u>1,268,611</u> |
| | | |
| Plan Fiduciary Net Position as a Percentage of the Total Teacher Employee HIC OPEB Liability | | 7.04% |

The total Teacher Employee HIC OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Teacher Employee HIC 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.

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS 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 VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Discount Rate

The discount rate used to measure the total Teacher Employee HIC OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by each school division for the VRS Teacher Employee Health Insurance Credit Program 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, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the Teacher Employee HIC OPEB 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 Teacher Employee HIC OPEB liability.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

Sensitivity of the School Division's Proportionate Share of the Teacher Employee HIC Net OPEB Liability to Changes in the Discount Rate

The following presents the school division's proportionate share of the VRS Teacher Employee Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the school division's proportionate share of the net HIC OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | Rate | | |
|--|------------------------|-----------------------------|------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan Net HIC OPEB Liability | \$ 4,914,000 | \$ 4,403,000 | \$ 3,968,000 |

Teacher Employee HIC OPEB Fiduciary Net Position

Detailed information about the VRS Teacher Employee Health Insurance Credit 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.

Note 20—Line of Duty Act (LODA) Program:

Plan Description

All paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS) are automatically covered by the Line of Duty Act Program (LODA). As required by statute, the Virginia Retirement System (the System) is responsible for managing the assets of the program. Participating employers made contributions to the program beginning in FY 2012. The employer contributions are determined by the System's actuary using anticipated program costs and the number of covered individuals associated with all participating employers.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Plan Description (Continued)

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

| LINE OF DUTY ACT PROGRAM PLAN PROVISIONS |
|---|
| <p>Eligible Employees</p> <p>The eligible employees of the Line of Duty Act Program are paid employees and volunteers in hazardous duty positions in Virginia localities and hazardous duty employees who are covered under the Virginia Retirement System (VRS), the State Police Officers' Retirement System (SPORS), or the Virginia Law Officers' Retirement System (VALORS).</p> |
| <p>Benefit Amounts</p> <p>The Line of Duty Act Program provides death and health insurance benefits for eligible individuals:</p> <ul style="list-style-type: none"> • Death - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: <ul style="list-style-type: none"> ○ \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. ○ \$25,000 when the cause of death is attributed to one of the applicable presumptions and occurred earlier than five years after the retirement date. ○ An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • Health Insurance - The Line of Duty Act program provides health insurance benefits. <ul style="list-style-type: none"> ○ Prior to July 1, 2017, these benefits were managed through the various employer plans and maintained the benefits that existed prior to the employee's death or disability. These premiums were reimbursed to the employer by the LODA program. ○ Beginning July 1, 2017, the health insurance benefits are managed through the Virginia Department of Human Resource Management (DHRM). The health benefits are modeled after the State Employee Health Benefits Program plans and provide consistent, premium-free continued health plan coverage for LODA-eligible disabled individuals, survivors, and family members. Individuals receiving the health insurance benefits must continue to meet eligibility requirements as defined by the Line of Duty Act. |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Contributions

The contribution requirements for the Line of Duty Act Program are governed by §9.1-400.1 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies by the Virginia General Assembly. Each employer's contractually required employer contribution rate for the Line of Duty Act Program for the year ended June 30, 2018 was \$567.37 per covered full-time-equivalent employee. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and represents the pay-as-you-go funding rate and not the full actuarial cost of the benefits under the program. The actuarially determined pay-as-you-go rate was expected to finance the costs and related expenses of benefits payable during the year. Contributions to the Line of Duty Act Program from the entity were \$52,198 and \$53,049 for the years ended June 30, 2018 and June 30, 2017, respectively

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

At June 30, 2018, the entity reported a liability of \$1,293,000 for its proportionate share of the Net LODA OPEB Liability. The Net LODA OPEB Liability was measured as of June 30, 2017 and the total LODA OPEB liability used to calculate the Net LODA OPEB Liability was determined by an actuarial valuation as of that date. The entity's proportion of the Net LODA OPEB Liability was based on the entity's actuarially determined pay-as-you-go employer contributions to the LODA OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined pay-as-you-go employer contributions for all participating employers. At June 30, 2017, the entity's proportion was 0.49187% as compared to 0.43738% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$130,000. Since there was a change in proportionate share between measurement dates, a portion of the LODA OPEB expense was related to deferred amounts from changes in proportion.

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings on LODA OPEB plan investments | \$ - | \$ 2,000 |
| Change in assumptions | - | 134,000 |
| Change in proportion | 135,000 | - |
| Employer contributions subsequent to the measurement date | <u>52,198</u> | <u>-</u> |
| Total | \$ <u>187,198</u> | \$ <u>136,000</u> |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

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

\$52,198 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

Year Ended June 30

| | | |
|------|----|---------|
| 2019 | \$ | (1,000) |
|------|----|---------|

Actuarial Assumptions

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

| | |
|--|---|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| General state employees | 3.50%-5.35% |
| SPORS employees | 3.50%-4.75% |
| VaLORS employees | 3.50%-4.75% |
| Locality employees | 3.50%-4.75% |
| Medical cost trend rates assumption: | |
| Under age 65 | 7.75%-5.00% |
| Ages 65 and older | 5.75%-5.00% |
| Investment rate of return | 3.56%, net of OPEB plan investment expenses, including inflation* |

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 3.56%. However, since the difference was minimal, a more conservative 3.56% investment return assumption has been used. Since LODA is funded on a current-disbursement basis, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions (Contributions)

Mortality rates - General State Employees

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions (Contributions)

Mortality rates - SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions (Contributions)

Mortality rates - VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 50% to 35% |

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions (Contributions)

Mortality Rates - Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions (Contributions)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

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

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

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

Net LODA OPEB Liability

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

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

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

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on LODA OPEB Program's investments was set at 3.56% for this valuation. Since LODA is funded on a current-disbursement basis, it is not able to use the VRS Pooled Investments 7.00% assumption. Instead, the assumed annual rate of return of 3.56% was used since it approximates the risk-free rate of return. This Single Equivalent Interest Rate (SEIR) is the applicable municipal bond index rate based on the Bond Buyer General Obligation 20-year Municipal Bond Index published monthly by the Board of Governors of the Federal Reserve System as of the measurement date of June 30, 2017.

Discount Rate

The discount rate used to measure the total LODA OPEB liability was 3.56%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made per the VRS Statutes and that they will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by participating employers to the LODA OPEB Program will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly.

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

The following presents the covered employer's proportionate share of the net LODA OPEB liability using the discount rate of 3.56%, as well as what the covered employer's proportionate share of the net LODA OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.56%) or one percentage point higher (4.56%) than the current rate:

| | Discount Rate | | |
|---|------------------------|--------------------|------------------------|
| | 1% Decrease (2.56%) | Current (3.56%) | 1% Increase (4.56%) |
| County's proportionate share of the total LODA Net OPEB Liability | \$ 1,466,000 | \$ 1,293,000 | \$ 1,148,000 |

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 20—Line of Duty Act (LODA) Program: (Continued)

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

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

| | Health Care Trend Rates | | |
|---|---|---|---|
| | 1% Decrease (6.75% decreasing to 4.00%) | Current (7.75% decreasing to 5.00%) | 1% Increase (8.75% decreasing to 6.00%) |
| County's proportionate share of the total LODA Net OPEB Liability | \$ 1,097,000 | \$ 1,293,000 | \$ 1,535,000 |

LODA OPEB Fiduciary Net Position

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

Note 21—Litigation:

As of June 30, 2018, two claims have been filed against the County in regards to erroneous assessment of taxes for a combined total of \$760,000. The County is vigorously defending itself against the claims and does not believe that payout of same is probable or reasonably estimable as of the date of the report; therefore, no liability has been recognized in the financial statements.

Note 22—Concentration Risk:

Historically, the County has relied on taxes generated by the Coal Industry. Direct taxes remitted from same include coal and gas severance and machinery and tools taxes. In the past five years, general fund net revenue generated from these sources has declined significantly. This decline in revenue has occurred due to changes in environmental policies of the United States Government. The County does not anticipate significant changes in these policies to occur in the near term. As such, the County does not anticipate continued reliance on the aforementioned revenues. In addition, the County anticipates that other revenue sources will be negatively impacted by a shrinking coal economy; however, estimates (projections) of these declines are not readily available. To date, the County has not identified alternative sources of revenue to maintain historical budget levels.

COUNTY OF WISE, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 23—Adoption of Accounting Principles:

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

| | Governmental Activities | Business-type Activities | Component Unit - School Board |
|--|----------------------------|-----------------------------|----------------------------------|
| Net Position, July 1, 2017, as previously stated | \$ 17,792,839 | \$ 2,408,403 | \$ (20,997,703) |
| Implementation of GASB 75 | (3,561,235) | (114,928) | (13,284,151) |
| Net Position, July 1, 2017, as restated | <u>\$ 14,231,604</u> | <u>\$ 2,293,475</u> | <u>\$ (34,281,854)</u> |

Note 24—Upcoming Pronouncements:

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

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

NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 24—Upcoming Pronouncements: (continued)

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

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

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

Required Supplementary Information

County of Wise, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2018

| | Budgeted Amounts | | | | Variance with Final Budget - Positive (Negative) |
|---|------------------|----------------|-------------------|----|---|
| | Original | Final | Actual Amounts | | |
| REVENUES | | | | | |
| General property taxes | \$ 27,942,000 | \$ 27,989,073 | \$ 28,257,744 | \$ | 268,671 |
| Other local taxes | 4,676,205 | 4,676,205 | 4,367,393 | | (308,812) |
| Permits, privilege fees, and regulatory licenses | 37,500 | 37,500 | 32,224 | | (5,276) |
| Fines and forfeitures | 40,000 | 40,000 | 51,381 | | 11,381 |
| Revenue from the use of money and property | 112,500 | 112,500 | 127,665 | | 15,165 |
| Charges for services | 29,500 | 29,500 | 80,454 | | 50,954 |
| Miscellaneous | 248,500 | 303,700 | 79,492 | | (224,208) |
| Recovered costs | 539,500 | 539,500 | 1,037,649 | | 498,149 |
| Intergovernmental: | | | | | |
| Commonwealth | 12,061,147 | 12,467,856 | 12,629,323 | | 161,467 |
| Federal | 3,300,000 | 3,465,081 | 4,875,542 | | 1,410,461 |
| Total revenues | \$ 48,986,852 | \$ 49,660,915 | \$ 51,538,867 | \$ | 1,877,952 |
| EXPENDITURES | | | | | |
| Current: | | | | | |
| General government administration | \$ 3,442,597 | \$ 3,794,597 | \$ 3,778,223 | \$ | 16,374 |
| Judicial administration | 3,259,633 | 3,314,357 | 3,416,029 | | (101,672) |
| Public safety | 9,764,303 | 10,181,880 | 10,613,303 | | (431,423) |
| Public works | 1,174,005 | 1,214,005 | 871,939 | | 342,066 |
| Health and welfare | 11,075,810 | 11,075,810 | 11,201,751 | | (125,941) |
| Education | 15,283,473 | 15,325,546 | 14,847,658 | | 477,888 |
| Parks, recreation, and cultural | 947,137 | 952,137 | 909,574 | | 42,563 |
| Community development | 506,200 | 788,544 | 633,003 | | 155,541 |
| Nondepartmental | 34,137 | 34,137 | 53,370 | | (19,233) |
| Debt service: | | | | | |
| Principal retirement | 3,639,783 | 3,639,783 | 3,729,687 | | (89,904) |
| Interest and other fiscal charges | - | - | 18,557 | | (18,557) |
| Total expenditures | \$ 49,127,078 | \$ 50,320,796 | \$ 50,073,094 | \$ | 247,702 |
| Excess (deficiency) of revenues over (under) expenditures | \$ (140,226) | \$ (659,881) | \$ 1,465,773 | \$ | 2,125,654 |
| OTHER FINANCING SOURCES (USES) | | | | | |
| Transfers in | \$ 37,000 | \$ 37,000 | \$ 366,000 | \$ | 329,000 |
| Transfers out | (3,937,164) | (3,835,164) | (4,042,895) | | (207,731) |
| Total other financing sources (uses) | \$ (3,900,164) | \$ (3,798,164) | \$ (3,676,895) | \$ | 121,269 |
| Net change in fund balances | \$ (4,040,390) | \$ (4,458,045) | \$ (2,211,122) | \$ | 2,246,923 |
| Fund balances - beginning | 4,040,390 | 4,458,045 | 22,898,006 | | 18,439,961 |
| Fund balances - ending | \$ - | \$ - | \$ 20,686,884 | \$ | 20,686,884 |

County of Wise, Virginia
Special Revenue Fund - Coal Road Improvement Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2018

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|-------------------------|-------------------|---------------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| REVENUES | | | | |
| Other local taxes | \$ 900,000 | \$ 900,000 | \$ 774,066 | \$ (125,934) |
| Revenue from the use of money and property | - | - | 17,711 | 17,711 |
| Total revenues | <u>\$ 900,000</u> | <u>\$ 900,000</u> | <u>\$ 791,777</u> | <u>\$ (108,223)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public works | \$ 190,000 | \$ 190,000 | \$ 162,198 | \$ 27,802 |
| Community development | 710,000 | 710,000 | 527,732 | 182,268 |
| Total expenditures | <u>\$ 900,000</u> | <u>\$ 900,000</u> | <u>\$ 689,930</u> | <u>\$ 210,070</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 101,847</u> | <u>\$ 101,847</u> |
| Net change in fund balances | \$ - | \$ - | \$ 101,847 | \$ 101,847 |
| Fund balances - beginning | - | - | 1,672,267 | 1,672,267 |
| Fund balances - ending | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,774,114</u> | <u>\$ 1,774,114</u> |

County of Wise, Virginia
 Schedule of Employer's Proportionate Share of the Net Pension Liability (Asset)
 Primary Government and Component Unit School Board (professional)
 For the Years Ended June 30, 2015 through June 30, 2018

| Date (1) | Proportion of the Net Pension Liability (Asset) (NPLA) (2) | Proportionate Share of the NPLA (3) | Covered Payroll (4) | Proportionate Share of the NPLA as a Percentage of Covered Payroll (3)/(4) (5) | Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (Asset) (6) |
|--|--|---|---------------------------|---|---|
| Primary Government - County Retirement Plan (A) | | | | | |
| 2017 | 98.8547% | \$ 8,641,811 | \$ 10,346,115 | 83.53% | 84.34% |
| 2016 | 99.1244% | 12,283,747 | 10,456,826 | 117.47% | 77.87% |
| 2015 | 99.2317% | 9,438,135 | 10,518,844 | 89.73% | 82.24% |
| Component Unit School Board (professional) | | | | | |
| 2017 | 0.3509% | \$ 43,158,000 | \$ 27,395,796 | 157.54% | 72.92% |
| 2016 | 0.3689% | 51,696,000 | 28,122,127 | 183.83% | 68.28% |
| 2015 | 0.3846% | 48,405,000 | 28,625,391 | 169.10% | 70.68% |
| 2014 | 0.4036% | 48,771,000 | 29,497,431 | 165.34% | 70.88% |

(A) During fiscal year 2016, the County's presentation was changed to a cost-sharing presentation. Information prior to this period is not available.

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

County of Wise, Virginia
Schedule of Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Years Ended June 30, 2015 through June 30, 2018

| | 2017 | 2016 | 2015 | 2014 |
|--|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | |
| Service cost | \$ 144,679 | \$ 150,120 | \$ 158,445 | \$ 153,753 |
| Interest | 838,566 | 863,535 | 854,409 | 840,738 |
| Differences between expected and actual experience | (148,415) | (573,018) | (46,397) | - |
| Changes in assumptions | 3,628 | - | - | - |
| Benefit payments, including refunds of employee contributions | (780,696) | (813,973) | (858,196) | (740,191) |
| Net change in total pension liability | \$ 57,762 | \$ (373,336) | \$ 108,261 | \$ 254,300 |
| Total pension liability - beginning | 12,369,860 | 12,743,196 | 12,634,935 | 12,380,635 |
| Total pension liability - ending (a) | <u>\$ 12,427,622</u> | <u>\$ 12,369,860</u> | <u>\$ 12,743,196</u> | <u>\$ 12,634,935</u> |
| Plan fiduciary net position | | | | |
| Contributions - employer | \$ 267,012 | \$ 262,641 | \$ 272,831 | \$ 205,764 |
| Contributions - employee | 77,810 | 79,498 | 83,286 | 84,864 |
| Net investment income | 985,712 | 139,335 | 385,024 | 1,226,210 |
| Benefit payments, including refunds of employee contributions | (780,696) | (813,973) | (858,196) | (740,191) |
| Administrative expense | (5,994) | (5,576) | (5,702) | (6,930) |
| Other | (866) | (61) | (80) | 65 |
| Net change in plan fiduciary net position | \$ 542,978 | \$ (338,136) | \$ (122,837) | \$ 769,782 |
| Plan fiduciary net position - beginning | 8,314,597 | 8,652,733 | 8,775,570 | 8,005,788 |
| Plan fiduciary net position - ending (b) | <u>\$ 8,857,575</u> | <u>\$ 8,314,597</u> | <u>\$ 8,652,733</u> | <u>\$ 8,775,570</u> |
| School Division's net pension liability - ending (a) - (b) | \$ 3,570,047 | \$ 4,055,263 | \$ 4,090,463 | \$ 3,859,365 |
| Plan fiduciary net position as a percentage of the total pension liability | 71.27% | 67.22% | 67.90% | 69.45% |
| Covered payroll | \$ 1,584,431 | \$ 1,629,068 | \$ 1,669,474 | \$ 1,700,246 |
| School Division's net pension liability as a percentage of covered payroll | 225.32% | 248.93% | 245.02% | 226.99% |

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

County of Wise, Virginia
Schedule of Employer Contributions - Pension
For the Years Ended June 30, 2009 through June 30, 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess)* (3) | Employer's Covered Employee Payroll (4) | Contributions as a % of Covered Employee Payroll (5) |
|--|--|---|--|---|---|
| Primary Government | | | | | |
| 2018 | \$ 1,207,506 | \$ 1,053,722 | \$ 153,784 | \$ 10,917,731 | 9.65% |
| 2017 | 1,151,234 | 1,007,941 | 143,293 | 10,346,115 | 9.74% |
| 2016 | 1,329,063 | 1,072,374 | 256,689 | 10,456,826 | 10.26% |
| 2015 | 1,336,945 | 1,069,766 | 267,179 | 10,518,844 | 10.17% |
| 2014 | 1,130,659 | 791,968 | 338,691 | 10,140,435 | 7.81% |
| 2013 | 1,054,605 | 738,696 | 315,909 | 9,458,338 | 7.81% |
| 2012 | 666,270 | 666,270 | - | 9,215,355 | 7.23% |
| 2011 | 676,893 | 676,893 | - | 9,362,287 | 7.23% |
| 2010 | 626,472 | 626,472 | - | 9,434,815 | 6.64% |
| 2009 | 617,020 | 617,020 | - | 9,292,464 | 6.64% |
| Component Unit School Board (nonprofessional) | | | | | |
| 2018 | \$ 248,630 | \$ 248,630 | \$ - | \$ 1,479,309 | 16.81% |
| 2017 | 267,012 | 267,012 | - | 1,584,431 | 16.85% |
| 2016 | 331,027 | 264,897 | 66,130 | 1,629,068 | 16.26% |
| 2015 | 339,237 | 272,831 | 66,406 | 1,669,474 | 16.34% |
| 2014 | 275,950 | 205,764 | 70,186 | 1,700,246 | 12.10% |
| 2013 | 271,233 | 202,380 | 68,853 | 1,671,183 | 12.11% |
| 2012 | 202,132 | 202,132 | - | 1,669,133 | 12.11% |
| 2011 | 217,026 | 217,026 | - | 1,792,122 | 12.11% |
| 2010 | 228,389 | 228,389 | - | 2,031,932 | 11.24% |
| 2009 | 232,562 | 232,562 | - | 2,069,053 | 11.24% |
| Component Unit School Board (professional) | | | | | |
| 2018 | \$ 4,203,485 | \$ 4,203,485 | \$ - | \$ 25,921,458 | 16.22% |
| 2017 | 3,994,553 | 3,994,553 | - | 27,395,796 | 14.58% |
| 2016 | 3,943,479 | 3,943,479 | - | 28,122,127 | 14.02% |
| 2015 | 4,140,057 | 4,140,057 | - | 28,625,391 | 14.46% |
| 2014 | 4,914,272 | 4,914,272 | - | 29,497,431 | 16.66% |
| 2013 | 5,360,684 | 5,360,684 | - | 28,273,650 | 18.96% |
| 2012 | 3,638,140 | 3,638,140 | - | 29,796,396 | 12.21% |
| 2011 | 3,058,813 | 3,058,813 | - | 23,859,696 | 12.82% |

*The difference relates to the County and School Board using an agreed upon reduced rate from the VRS. This amount will impact the calculation of the net pension liability in the next fiscal year.

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

Schedule is intended to show information for 10 years. Component Unit School Board (professional) information is not available prior to 2011; however, additional years will be included as they become available.

County of Wise, Virginia
Notes to Required Supplementary Information - Pension
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

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

Largest 10 - Non-Hazardous Duty:

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

Largest 10 - Hazardous Duty:

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

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

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

All Others (Non 10 Largest) - Hazardous Duty:

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

Component Unit School Board - Professional Employees

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

County of Wise, Virginia
 Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
 Healthcare OPEB Plan - Primary Government
 For the Year Ended June 30, 2018

| | 2018 |
|---|---------------------|
| Total OPEB liability | |
| Service cost | \$ 100,914 |
| Interest | 73,033 |
| Changes in assumptions | (9,205) |
| Differences between expected and actual experience | (280,453) |
| Benefit payments | (105,155) |
| Net change in total OPEB liability | \$ (220,866) |
| Total OPEB liability - beginning | 1,991,234 |
| Total OPEB liability - ending | <u>\$ 1,770,368</u> |
| County payroll | N/A |
| County's total OPEB liability (asset) as a percentage of covered-employee or covered payroll | N/A |

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

County of Wise, Virginia
 Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
 Healthcare OPEB Plan - School Board
 For the Year Ended June 30, 2018

| | 2018 |
|--|---------------------|
| Total OPEB liability | |
| Service cost | \$ 435,248 |
| Interest | 307,380 |
| Changes in assumptions | (28,197) |
| Differences between expected and actual experience | (361,926) |
| Benefit payments | (426,552) |
| Net change in total OPEB liability | \$ (74,047) |
| Total OPEB liability - beginning | 8,362,200 |
| Total OPEB liability - ending | <u>\$ 8,288,153</u> |
| School Board payroll | \$ 29,734,870 |
| School Board's total OPEB liability (asset) as a percentage of covered-employee or covered payroll | 27.9% |

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

County of Wise, Virginia
Notes to Required Supplementary Information - Health Insurance Plan
For the Year Ended June 30, 2018

Valuation Date: 6/30/2018
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

County and School Board

Methods and assumptions used to determine OPEB liability:

| | |
|-----------------------|---|
| Actuarial Cost Method | Entry Age Normal Percentage of Salary |
| Discount Rate | 3.87% as of June 30, 2018 and 3.58% as of July 1, 2017 |
| Inflation | 2.50% |
| Healthcare Trend Rate | Medical rates start at 8% and decrease by varying amounts to an ultimate rate of 5% in 2029 |
| Salary Scale | 3.50% |
| Retirement Age | The average age at retirement is 62 |
| Mortality Rates | The mortality rates was calculated using the RPH-2018 Total Dataset Mortality Table fully generational using scale MP-2018. |

County of Wise, Virginia
Schedule of County's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---|---|---|---|--|---|
| <u>Primary Government:</u> | | | | | |
| 2017 | 0.0566% | \$ 851,478 | \$ 10,346,115 | 8.23% | 48.86% |
| <u>Component Unit School Board (nonprofessional):</u> | | | | | |
| 2017 | 0.0086% | \$ 130,000 | \$ 1,584,431 | 8.20% | 48.86% |
| <u>Component Unit School Board (professional):</u> | | | | | |
| 2017 | 0.1485% | \$ 2,235,000 | \$ 27,395,796 | 8.16% | 48.86% |

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

County of Wise, Virginia
Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2009 through June 30, 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|--|---|---|---|---|
| <u>Primary Government:</u> | | | | | |
| 2018 | \$ 56,773 | \$ 56,773 | \$ - | \$ 10,917,731 | 0.52% |
| 2017 | 54,287 | 54,287 | - | 10,346,115 | 0.52% |
| <u>Component Unit School Board (nonprofessional):</u> | | | | | |
| 2018 | \$ 7,692 | \$ 7,692 | \$ - | \$ 1,479,309 | 0.52% |
| 2017 | 8,239 | 8,239 | - | 1,584,431 | 0.52% |
| 2016 | 7,837 | 7,837 | - | 1,632,719 | 0.48% |
| 2015 | 8,013 | 8,013 | - | 1,669,474 | 0.48% |
| 2014 | 8,161 | 8,161 | - | 1,700,245 | 0.48% |
| 2013 | 8,022 | 8,022 | - | 1,671,251 | 0.48% |
| 2012 | 4,712 | 4,712 | - | 1,682,775 | 0.28% |
| 2011 | 5,024 | 5,024 | - | 1,794,368 | 0.28% |
| 2010 | 4,130 | 4,130 | - | 1,529,747 | 0.27% |
| 2009 | 5,632 | 5,632 | - | 2,086,034 | 0.27% |
| <u>Component Unit School Board (professional):</u> | | | | | |
| 2018 | \$ 134,827 | \$ 134,827 | \$ - | \$ 25,921,458 | 0.52% |
| 2017 | 142,456 | 142,456 | - | 27,395,796 | 0.52% |
| 2016 | 135,002 | 135,002 | - | 28,125,471 | 0.48% |
| 2015 | 137,246 | 137,246 | - | 28,593,019 | 0.48% |
| 2014 | 141,665 | 141,665 | - | 29,513,563 | 0.48% |
| 2013 | 135,711 | 135,711 | - | 28,273,180 | 0.48% |
| 2012 | 83,652 | 83,652 | - | 29,875,563 | 0.28% |
| 2011 | 87,414 | 87,414 | - | 31,219,385 | 0.28% |
| 2010 | 67,243 | 67,243 | - | 24,904,871 | 0.27% |
| 2009 | 91,814 | 91,814 | - | 34,005,264 | 0.27% |

Schedule is intended to show information for 10 years. *Information prior to the 2017 valuation is not available for the County as multiple employers participate in the plan. However, additional years will be included as they become available.*

County of Wise, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

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

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

General State Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |

Teachers

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

SPORS Employees

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

ValORS Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better fit experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 50% to 35% |

County of Wise, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018 (Continued)

JRS Employees

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers - Hazardous Duty Employees

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

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

County of Wise, Virginia
Schedule of Changes in the School Board (Nonprofessional)'s Net OPEB Liability and Related Ratios
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

| | 2017 |
|---|--------------|
| Total HIC OPEB Liability | |
| Service cost | \$ 3,000 |
| Interest | 17,000 |
| Changes in assumptions | (3,000) |
| Benefit payments | (17,000) |
| Other changes | (1,000) |
| Net change in total HIC OPEB liability | \$ (1,000) |
| Total HIC OPEB Liability - beginning | 245,000 |
| Total HIC OPEB Liability - ending (a) | \$ 244,000 |
| Plan fiduciary net position | |
| Contributions - employer | \$ 5,000 |
| Net investment income | 21,000 |
| Benefit payments | (17,000) |
| Other | 1,000 |
| Net change in plan fiduciary net position | \$ 10,000 |
| Plan fiduciary net position - beginning | 186,000 |
| Plan fiduciary net position - ending (b) | \$ 196,000 |
| School Board (Nonprofessional)'s net HIC OPEB liability - ending (a) - (b) | \$ 48,000 |
| Plan fiduciary net position as a percentage of the total HIC OPEB liability | 80.33% |
| Covered payroll | \$ 1,584,431 |
| School Board (Nonprofessional)'s net HIC OPEB liability as a percentage of covered payroll | 3.03% |

Schedule is intended to show information for 10 years. Information prior to the 2018 valuation is not available. However, additional years will be included as they become available.

County of Wise, Virginia
Schedule of Employer Contributions - School Board (Nonprofessional)
Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2009 through June 30, 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|------|--|---|---|---|---|
| 2018 | \$ 4,882 | \$ 4,882 | \$ - | \$ 1,479,309 | 0.33% |
| 2017 | 5,228 | 5,228 | - | 1,584,431 | 0.33% |
| 2016 | 5,864 | 5,864 | - | 1,629,068 | 0.36% |
| 2015 | 6,010 | 6,010 | - | 1,669,474 | 0.36% |
| 2014 | 6,800 | 6,800 | - | 1,700,245 | 0.40% |
| 2013 | 6,690 | 6,690 | - | 1,672,583 | 0.40% |
| 2012 | 7,177 | 7,177 | - | 1,669,133 | 0.43% |
| 2011 | 7,706 | 7,706 | - | 1,792,121 | 0.43% |
| 2010 | 13,207 | 13,207 | - | 2,031,931 | 0.65% |
| 2009 | 13,448 | 13,448 | - | 2,069,053 | 0.65% |

County of Wise, Virginia
Notes to Required Supplementary Information
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

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

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers - Hazardous Duty Employees

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

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

County of Wise, Virginia
Schedule of School Board's Share of Net OPEB Liability
Teacher Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

| Date (1) | Employer's Proportion of the Net HIC OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net HIC OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total HIC OPEB Liability (6) |
|-------------|---|---|---|--|---|
| | | | | (5) | |
| 2017 | 0.3470% \$ | 4,403,000 \$ | 27,395,796 | 16.07% | 7.04% |

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

County of Wise, Virginia
Schedule of Employer Contributions
Teacher Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2009 through June 30, 2018

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|------|--|---|---|---|---|
| 2018 | \$ 318,834 | \$ 318,834 | \$ - | \$ 25,921,458 | 1.23% |
| 2017 | 303,993 | 303,993 | - | 27,386,749 | 1.11% |
| 2016 | 298,130 | 298,130 | - | 28,125,471 | 1.06% |
| 2015 | 303,086 | 303,086 | - | 28,593,019 | 1.06% |
| 2014 | 327,600 | 327,600 | - | 29,513,563 | 1.11% |
| 2013 | 313,527 | 313,527 | - | 28,245,719 | 1.11% |
| 2012 | 178,624 | 178,624 | - | 29,770,762 | 0.60% |
| 2011 | 186,613 | 186,613 | - | 31,102,222 | 0.60% |
| 2010 | 258,499 | 258,499 | - | 24,855,692 | 1.04% |
| 2009 | 365,889 | 365,889 | - | 33,878,657 | 1.08% |

County of Wise, Virginia
Notes to Required Supplementary Information
Teacher Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

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

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

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

County of Wise, Virginia
Schedule of Employer's Share of Net LODA OPEB Liability
Line of Duty Act Program (LODA)
For the Year Ended June 30, 2018

| Date (1) | Employer's Proportion of the Net LODA OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) (3) | Covered- Employee Payroll * (4) | Employer's Proportionate Share of the Net LODA OPEB Liability (Asset) as a Percentage of its Covered-Employee Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total LODA OPEB Liability (6) |
|-------------|--|--|--|--|--|
| 2017 | 0.4919% \$ | 1,293,000 | n/a | n/a | 1.30% |

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

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

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

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Covered- Employee Payroll * (4) | Contributions as a % of Covered - Employee Payroll (5) |
|------|--|---|---|--|---|
| 2018 | \$ 52,198 | \$ 52,198 | \$ - | n/a | n/a |
| 2017 | 53,049 | 53,049 | - | n/a | n/a |

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

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

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

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

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

General State Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 |
| Retirement Rates | Lowered rates at older ages and changed final retirement from 70 to 75 |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 25% |

SPORS Employees

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

ValORS Employees

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience |
| Retirement Rates | Increased age 50 rates, and lowered rates at older ages |
| Withdrawal Rates | Adjusted rates to better fit experience at each year age and service through 9 years of service |
| Disability Rates | Adjusted rates to better match experience |
| Salary Scale | No change |
| Line of Duty Disability | Decreased rate from 50% to 35% |

Employees in the Largest Ten Locality Employers with Public Safety Employees

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

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

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

Other Supplementary Information

County of Wise, Virginia
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2018

| | Special Revenue Funds | | Capital Projects | |
|--|-----------------------|-----------------------|-------------------|-------------------|
| | Wise Development Fund | Forfeited Assets Fund | Fund | Total |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 255,480 | \$ 186,581 | \$ 39,042 | \$ 481,103 |
| Investments | - | - | 227,889 | 227,889 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts receivable | - | - | 5,040 | 5,040 |
| Total assets | <u>\$ 255,480</u> | <u>\$ 186,581</u> | <u>\$ 271,971</u> | <u>\$ 714,032</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 1,263 | \$ 12,341 | \$ 44,202 | \$ 57,806 |
| Due to other funds | - | - | 17,050 | 17,050 |
| Unearned revenue | 181,360 | - | - | 181,360 |
| Total liabilities | <u>\$ 182,623</u> | <u>\$ 12,341</u> | <u>\$ 61,252</u> | <u>\$ 256,216</u> |
| FUND BALANCES | | | | |
| Restricted: | | | | |
| Capital Projects | \$ - | \$ - | \$ 210,719 | \$ 210,719 |
| Wise Development | 72,857 | - | - | 72,857 |
| Asset forfeiture funds | - | 174,240 | - | 174,240 |
| Total fund balances | <u>\$ 72,857</u> | <u>\$ 174,240</u> | <u>\$ 210,719</u> | <u>\$ 457,816</u> |
| Total liabilities and fund balances | <u>\$ 255,480</u> | <u>\$ 186,581</u> | <u>\$ 271,971</u> | <u>\$ 714,032</u> |

County of Wise, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2018

| | <u>Special Revenue Funds</u> | | <u>Capital</u> | |
|---|------------------------------|--------------------------|--------------------------|--------------------------|
| | <u>Wise</u> | <u>Forfeited</u> | <u>Projects</u> | |
| | <u>Development</u> | <u>Assets</u> | <u>Fund</u> | <u>Total</u> |
| | <u>Fund</u> | <u>Fund</u> | | |
| REVENUES | | | | |
| Revenue from the use of money and property | \$ - | \$ 28 | \$ - | \$ 28 |
| Miscellaneous | - | 133,609 | 34,851 | 168,460 |
| Intergovernmental: | | | | |
| Commonwealth | - | 67,098 | - | 67,098 |
| Federal | 740,142 | - | 857,982 | 1,598,124 |
| Total revenues | <u>\$ 740,142</u> | <u>\$ 200,735</u> | <u>\$ 892,833</u> | <u>\$ 1,833,710</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Public safety | \$ - | \$ 138,424 | \$ - | \$ 138,424 |
| Community development | 740,545 | - | - | 740,545 |
| Capital projects | - | - | 888,805 | 888,805 |
| Total expenditures | <u>\$ 740,545</u> | <u>\$ 138,424</u> | <u>\$ 888,805</u> | <u>\$ 1,767,774</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ (403)</u> | <u>\$ 62,311</u> | <u>\$ 4,028</u> | <u>\$ 65,936</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | <u>\$ -</u> | <u>1,895</u> | <u>\$ -</u> | <u>\$ 1,895</u> |
| Net change in fund balances | <u>\$ (403)</u> | <u>\$ 64,206</u> | <u>\$ 4,028</u> | <u>\$ 67,831</u> |
| Fund balances - beginning | <u>73,260</u> | <u>110,034</u> | <u>206,691</u> | <u>389,985</u> |
| Fund balances - ending | <u><u>\$ 72,857</u></u> | <u><u>\$ 174,240</u></u> | <u><u>\$ 210,719</u></u> | <u><u>\$ 457,816</u></u> |

County of Wise, Virginia
Combining Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

| | Agency Funds | | | |
|--|-----------------------------------|-----------------------------------|---|--------------|
| | Special Welfare <u>Fund</u> | Local Sales Tax <u>Fund</u> | Lonesome Pine Youth Services <u>Fund</u> | <u>Total</u> |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 152,128 | \$ 49,428 | \$ 273 | \$ 201,829 |
| LIABILITIES | | | | |
| Amounts held for social services clients | \$ 152,128 | \$ - | \$ - | \$ 152,128 |
| Amounts held for other governments | - | 49,428 | - | 49,428 |
| Amounts held for youth services | - | - | 273 | 273 |
| Total liabilities | \$ 152,128 | \$ 49,428 | \$ 273 | \$ 201,829 |

County of Wise, Virginia
Combining Statement of Changes in Assets and Liabilities
Agency Funds
June 30, 2018

| | Agency Funds | | | |
|-------------------|----------------------------|----------------------------|--|-------------------|
| | Special Welfare Fund | Local Sales Tax Fund | Lonesome Pine Youth Services Fund | Total |
| Assets: | | | | |
| Beginning Balance | \$ 121,485 | \$ 46,178 | \$ 10,273 | \$ 177,936 |
| Additions | 161,862 | - | 70,000 | 231,862 |
| Deletions | (131,219) | 3,250 | (80,000) | (207,969) |
| Ending Balance | <u>\$ 152,128</u> | <u>\$ 49,428</u> | <u>\$ 273</u> | <u>\$ 201,829</u> |
| Liabilities: | | | | |
| Beginning Balance | \$ 121,485 | \$ 46,178 | \$ 10,273 | \$ 177,936 |
| Additions | 161,862 | - | 70,000 | 231,862 |
| Deletions | (131,219) | 3,250 | (80,000) | (207,969) |
| Ending Balance | <u>\$ 152,128</u> | <u>\$ 49,428</u> | <u>\$ 273</u> | <u>\$ 201,829</u> |

County of Wise, Virginia
Combining Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2018

| | School Operating Fund | School Cafeteria Fund | School Capital Projects Fund | Total |
|--|-----------------------------|-----------------------------|---------------------------------------|---------------------|
| ASSETS | | | | |
| Cash and cash equivalents | \$ 329,291 | \$ 458,811 | \$ 657,893 | \$ 1,445,995 |
| Investments | 693,845 | 1,727,771 | - | 2,421,616 |
| Receivables (net of allowance for uncollectibles): | | | | |
| Accounts receivable | - | 1,255 | - | 1,255 |
| Due from other governmental units | 1,844,898 | - | - | 1,844,898 |
| Prepaid items | 884,219 | - | - | 884,219 |
| Total assets | <u>\$ 3,752,253</u> | <u>\$ 2,187,837</u> | <u>\$ 657,893</u> | <u>\$ 6,597,983</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 845,453 | \$ 14,048 | \$ - | \$ 859,501 |
| Due to primary government | 1,628,915 | - | - | 1,628,915 |
| Total liabilities | <u>\$ 2,474,368</u> | <u>\$ 14,048</u> | <u>\$ -</u> | <u>\$ 2,488,416</u> |
| FUND BALANCES | | | | |
| Nonspendable: | | | | |
| Prepaid items | \$ 884,219 | \$ - | \$ - | \$ 884,219 |
| Restricted: | | | | |
| School cafeteria | - | 2,173,789 | - | 2,173,789 |
| School construction | - | - | 657,893 | 657,893 |
| Committed: | | | | |
| Textbooks | 290,604 | - | - | 290,604 |
| Unassigned | 103,062 | - | - | 103,062 |
| Total fund balances | <u>\$ 1,277,885</u> | <u>\$ 2,173,789</u> | <u>\$ 657,893</u> | <u>\$ 4,109,567</u> |
| Total liabilities and fund balances | <u>\$ 3,752,253</u> | <u>\$ 2,187,837</u> | <u>\$ 657,893</u> | <u>\$ 6,597,983</u> |

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

| | | | |
|--|--|--------------------|------------------------|
| Total fund balances per above | | | \$ 4,109,567 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | | |
| Land | | \$ 1,973,463 | |
| Construction in progress | | 232,585 | |
| Buildings and improvements | | 26,919,494 | |
| Machinery and equipment | | <u>2,453,776</u> | 31,579,318 |
| Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds. | | | |
| Pension related items | | \$ 5,457,356 | |
| OPEB related items | | <u>466,235</u> | 5,923,591 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | | | |
| Net pension liability | | \$ (46,728,047) | |
| Net OPEB liabilities | | (15,104,153) | |
| Capital leases | | (194,745) | |
| Compensated absences | | <u>(336,851)</u> | (62,363,796) |
| Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds. | | | |
| Pension related items | | \$ (9,337,095) | |
| OPEB related items | | <u>(1,017,102)</u> | (10,354,197) |
| Net position of governmental activities | | | <u>\$ (31,105,517)</u> |

County of Wise, Virginia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2018

| | School Operating Fund | School Cafeteria Fund | School Capital Projects Fund | Total |
|---|-----------------------------|-----------------------------|---------------------------------------|----------------------|
| REVENUES | | | | |
| Revenue from the use of money and property | \$ 13,647 | \$ 9,162 | \$ - | \$ 22,809 |
| Charges for services | 199,991 | 462,453 | - | 662,444 |
| Miscellaneous | 232,440 | - | 36,109 | 268,549 |
| Recovered costs | 1,304,934 | - | - | 1,304,934 |
| Intergovernmental: | | | | |
| Local government | 14,797,056 | - | - | 14,797,056 |
| Commonwealth | 37,188,946 | 46,351 | 388,000 | 37,623,297 |
| Federal | 5,073,906 | 2,398,824 | - | 7,472,730 |
| Total revenues | <u>\$ 58,810,920</u> | <u>\$ 2,916,790</u> | <u>\$ 424,109</u> | <u>\$ 62,151,819</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Education | \$ 54,244,475 | \$ 2,634,827 | \$ - | \$ 56,879,302 |
| Capital projects | - | - | - | - |
| Debt service: | | | | |
| Principal retirement | 1,406,873 | - | - | 1,406,873 |
| Interest and other fiscal charges | 2,511,805 | - | - | 2,511,805 |
| Total expenditures | <u>\$ 58,163,153</u> | <u>\$ 2,634,827</u> | <u>\$ -</u> | <u>\$ 60,797,980</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>\$ 647,767</u> | <u>\$ 281,963</u> | <u>\$ 424,109</u> | <u>\$ 1,353,839</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | \$ - | \$ 16,392 | \$ - | \$ 16,392 |
| Transfers out | (16,392) | - | - | (16,392) |
| Total other financing sources (uses) | <u>\$ (16,392)</u> | <u>\$ 16,392</u> | <u>\$ -</u> | <u>\$ -</u> |
| Net change in fund balances | \$ 631,375 | \$ 298,355 | \$ 424,109 | \$ 1,353,839 |
| Fund balances - beginning | 646,510 | 1,875,434 | 233,784 | 2,755,728 |
| Fund balances - ending | <u>\$ 1,277,885</u> | <u>\$ 2,173,789</u> | <u>\$ 657,893</u> | <u>\$ 4,109,567</u> |
| Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because: | | | | |
| Net change in fund balances - total governmental funds - per above | | | | \$ 1,353,839 |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlays in the current period. | | | | |
| Capital asset additions | | | \$ 1,253,102 | |
| Depreciation in current year | | | <u>(1,960,124)</u> | (707,022) |
| The net effect of various miscellaneous transactions involving capital assets (I.e., sales, trade-ins, and donations) is to decrease net position. | | | | |
| Transfer of capital assets to the County | | | | (353,284) |
| The issuance of capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also government funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the net effect of these differences in the treatment of long-term debt and related items. | | | | |
| Capital leases - principal payments | | | | 206,873 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds. | | | | |
| (Increase) decrease in compensated absences | | | \$ (862) | |
| Pension expense | | | 2,405,906 | |
| OPEB expense | | | <u>271,387</u> | 2,676,431 |
| Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities. | | | | |
| | | | | (500) |
| Change in net position of governmental activities | | | | <u>\$ 3,176,337</u> |

County of Wise, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
Governmental Funds
For the Year Ended June 30, 2018

| | School Operating Fund | | | | School Cafeteria Fund | | | | School Capital Projects Fund | | | |
|---|-----------------------|---------------|---------------|---|-----------------------|--------------|--------------|---|------------------------------|------------|------------|---|
| | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) | Budgeted Amounts | | Actual | Variance with Final Budget Positive (Negative) |
| | Original | Final | | | Original | Final | | | Original | Final | | |
| REVENUES | | | | | | | | | | | | |
| Revenue from the use of money and property | \$ 18,000 | \$ 18,000 | \$ 13,647 | (4,353) | \$ - | \$ - | \$ 9,162 | \$ 9,162 | \$ - | \$ - | \$ - | \$ - |
| Charges for services | 154,500 | 154,500 | 199,991 | 45,491 | 1,038,000 | 1,038,000 | 462,453 | (575,547) | - | - | - | - |
| Miscellaneous | 150,000 | 150,000 | 232,440 | 82,440 | - | - | - | - | - | - | 36,109 | 36,109 |
| Recovered costs | 1,713,700 | 1,713,700 | 1,304,934 | (408,766) | - | - | - | - | - | - | - | - |
| Intergovernmental: | | | | | | | | | | | | |
| Local government | 12,022,000 | 12,022,000 | 14,797,056 | 2,775,056 | - | - | - | - | - | - | - | - |
| Commonwealth | 36,345,325 | 36,345,325 | 37,188,946 | 843,621 | 42,637 | 42,637 | 46,351 | 3,714 | 388,000 | 388,000 | 388,000 | - |
| Federal | 3,626,838 | 3,626,838 | 5,073,906 | 1,447,068 | 1,820,000 | 1,820,000 | 2,398,824 | 578,824 | - | - | - | - |
| Total revenues | \$ 54,030,363 | \$ 54,030,363 | \$ 58,810,920 | \$ 4,780,557 | \$ 2,900,637 | \$ 2,900,637 | \$ 2,916,790 | \$ 16,153 | \$ 388,000 | \$ 388,000 | \$ 424,109 | \$ 36,109 |
| EXPENDITURES | | | | | | | | | | | | |
| Current: | | | | | | | | | | | | |
| Education | \$ 54,344,200 | \$ 54,344,200 | \$ 54,244,475 | \$ 99,725 | \$ 2,974,800 | \$ 2,974,800 | \$ 2,634,827 | \$ 339,973 | \$ - | \$ - | \$ - | \$ - |
| Capital projects | - | - | - | - | - | - | - | - | - | - | - | - |
| Debt service: | | | | | | | | | | | | |
| Principal retirement | - | - | 1,406,873 | (1,406,873) | - | - | - | - | - | - | - | - |
| Interest and other fiscal charges | - | - | 2,511,805 | (2,511,805) | - | - | - | - | - | - | - | - |
| Total expenditures | \$ 54,344,200 | \$ 54,344,200 | \$ 58,163,153 | \$ (3,818,953) | \$ 2,974,800 | \$ 2,974,800 | \$ 2,634,827 | \$ 339,973 | \$ - | \$ - | \$ - | \$ - |
| Excess (deficiency) of revenues over (under) expenditures | \$ (313,837) | \$ (313,837) | \$ 647,767 | \$ 961,604 | \$ (74,163) | \$ (74,163) | \$ 281,963 | \$ 356,126 | \$ 388,000 | \$ 388,000 | \$ 424,109 | \$ 36,109 |
| OTHER FINANCING SOURCES (USES) | | | | | | | | | | | | |
| Transfers in | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 16,392 | \$ 16,392 | \$ - | \$ - | \$ - | \$ - |
| Transfers out | - | - | (16,392) | (16,392) | - | - | - | - | - | - | - | - |
| Total other financing sources (uses) | \$ - | \$ - | \$ (16,392) | \$ (16,392) | \$ - | \$ - | \$ 16,392 | \$ 16,392 | \$ - | \$ - | \$ - | \$ - |
| Net change in fund balances | \$ (313,837) | \$ (313,837) | \$ 631,375 | \$ 945,212 | \$ (74,163) | \$ (74,163) | \$ 298,355 | \$ 372,518 | \$ 388,000 | \$ 388,000 | \$ 424,109 | \$ 36,109 |
| Fund balances - beginning | - | - | 646,510 | 646,510 | - | - | 1,875,434 | 1,875,434 | - | - | 233,784 | 233,784 |
| Fund balances - ending | \$ (313,837) | \$ (313,837) | \$ 1,277,885 | \$ 1,591,722 | \$ (74,163) | \$ (74,163) | \$ 2,173,789 | \$ 2,247,952 | \$ 388,000 | \$ 388,000 | \$ 657,893 | \$ 269,893 |

County of Wise, Virginia
Statement of Net Position
Discretely Presented Component Unit - School Board
Internal Service Fund
June 30, 2018

| | Self- Insurance <u>Fund</u> |
|--|-----------------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ - |
| Total assets | <u>\$ -</u> |
| LIABILITIES | |
| Current liabilities: | |
| Due to other funds | \$ - |
| Total liabilities | <u>\$ -</u> |
| NET POSITION | |
| Restricted for health insurance claims | \$ - |
| Total net position | <u><u>\$ -</u></u> |

County of Wise, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Discretely Presented Component Unit - School Board
Internal Service Fund
For the Year Ended June 30, 2018

| | Self- Insurance <u>Fund</u> |
|---|-----------------------------------|
| OPERATING REVENUES | |
| Charges for services: | |
| Insurance premiums | \$ - |
| Total operating revenues | <u>\$ -</u> |
| OPERATING EXPENSES | |
| Insurance claims and expenses | \$ 501 |
| Total operating expenses | <u>\$ 501</u> |
| Operating income (loss) | <u>\$ (501)</u> |
| NONOPERATING REVENUES (EXPENSES) | |
| Investment income | <u>\$ 1</u> |
| Total nonoperating revenues (expenses) | <u>\$ 1</u> |
| Change in net position | \$ (500) |
| Total net position - beginning | 500 |
| Total net position - ending | <u><u>\$ -</u></u> |

County of Wise, Virginia
Statement of Cash Flows
Discretely Presented Component Unit - School Board
Internal Service Fund
For the Year Ended June 30, 2018

| | Self- Insurance <u>Fund</u> |
|---|-----------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Payments for premiums | \$ (3,001) |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends received | \$ 1 |
| Net increase (decrease) in cash and cash equivalents | \$ (3,000) |
| Cash and cash equivalents - beginning | 3,000 |
| Cash and cash equivalents - ending | <u>\$ -</u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ (501) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| (Increase) decrease in due from other funds | (2,500) |
| Total adjustments | <u>\$ (2,500)</u> |
| Net cash provided by (used for) operating activities | <u>\$ (3,001)</u> |

SUPPORTING SCHEDULES

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

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| General Fund: | | | | |
| Revenue from local sources: | | | | |
| General property taxes: | | | | |
| Real Property Tax | \$ 11,207,000 | \$ 11,207,000 | \$ 11,639,607 | \$ 432,607 |
| Real and Personal PSC Tax | 8,742,710 | 8,742,710 | 8,626,504 | (116,206) |
| Personal Property Tax | 5,867,290 | 5,867,290 | 5,225,193 | (642,097) |
| Mobile Home Tax | 175,000 | 175,000 | 195,413 | 20,413 |
| Machinery and Tools Tax | 950,000 | 997,073 | 1,007,428 | 10,355 |
| Merchants Capital Tax | 750,000 | 750,000 | 780,203 | 30,203 |
| DMV stops/administration fees | - | - | 201,593 | 201,593 |
| Penalties | 250,000 | 250,000 | 271,359 | 21,359 |
| Interest | - | - | 310,444 | 310,444 |
| Total general property taxes | \$ 27,942,000 | \$ 27,989,073 | \$ 28,257,744 | \$ 268,671 |
| Other local taxes: | | | | |
| Local Sales and Use Tax | \$ 2,900,000 | \$ 2,900,000 | \$ 2,643,631 | \$ (256,369) |
| Consumers' Utility Tax | 425,000 | 425,000 | 473,607 | 48,607 |
| Consumption Tax | 100,000 | 100,000 | 97,384 | (2,616) |
| Coal Severance Tax | 900,000 | 900,000 | 924,275 | 24,275 |
| Utility License Tax | 12,705 | 12,705 | 25,984 | 13,279 |
| Transient Occupancy Tax | 25,000 | 25,000 | 56,209 | 31,209 |
| Bank Stock Tax | - | - | 19,086 | 19,086 |
| Taxes on Recordation and Wills | 313,500 | 313,500 | 127,217 | (186,283) |
| Total other local taxes | \$ 4,676,205 | \$ 4,676,205 | \$ 4,367,393 | \$ (308,812) |
| Permits, privilege fees, and regulatory licenses: | | | | |
| Building permits | \$ 30,000 | \$ 30,000 | \$ 19,111 | \$ (10,889) |
| Zoning permits | - | - | 2,600 | 2,600 |
| Animal licenses | 7,500 | 7,500 | 7,615 | 115 |
| Land use application fees | - | - | 150 | 150 |
| Erosion and sediment permits | - | - | 2,748 | 2,748 |
| Total permits, privilege fees, and regulatory licenses | \$ 37,500 | \$ 37,500 | \$ 32,224 | \$ (5,276) |
| Fines and forfeitures: | | | | |
| Court fines and forfeitures | \$ 40,000 | \$ 40,000 | \$ 51,381 | \$ 11,381 |
| Revenue from use of money and property: | | | | |
| Revenue from use of money | \$ 80,000 | \$ 80,000 | \$ 90,342 | \$ 10,342 |
| Revenue from use of property | 32,500 | 32,500 | 37,323 | 4,823 |
| Total revenue from use of money and property | \$ 112,500 | \$ 112,500 | \$ 127,665 | \$ 15,165 |
| Charges for services: | | | | |
| Charges for law enforcement and traffic control | \$ - | \$ - | \$ 3,395 | \$ 3,395 |
| Charges for electronic summons | - | - | 37,890 | 37,890 |
| Charges for Community Corrections | - | - | 12,134 | 12,134 |
| Courthouse maintenance fees | 25,000 | 25,000 | 12,986 | (12,014) |
| Court recording fees | - | - | 9,514 | 9,514 |
| Charges for Commonwealth's Attorney | 4,500 | 4,500 | 4,255 | (245) |
| Other Charges for Services | - | - | 280 | 280 |
| Total charges for services | \$ 29,500 | \$ 29,500 | \$ 80,454 | \$ 50,954 |
| Miscellaneous: | | | | |
| Miscellaneous revenue | \$ 248,500 | \$ 303,700 | \$ 79,492 | \$ (224,208) |
| Recovered costs: | | | | |
| Recovered costs - City of Norton shared services | \$ - | \$ - | \$ 231,826 | \$ 231,826 |
| Recovered costs - Pre-trial services | - | - | 227,600 | 227,600 |
| Recovered costs - Social Services | 350,000 | 350,000 | 137,673 | (212,327) |
| Recovered costs - Health Department | - | - | 54,909 | 54,909 |
| Recovered costs - other | 189,500 | 189,500 | 385,641 | 196,141 |
| Total recovered costs | \$ 539,500 | \$ 539,500 | \$ 1,037,649 | \$ 498,149 |
| Total revenue from local sources | \$ 33,625,705 | \$ 33,727,978 | \$ 34,034,002 | \$ 306,024 |

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

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| General Fund: (Continued) | | | | |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Noncategorical aid: | | | | |
| Motor vehicles carriers' tax | \$ 138,500 | \$ 138,500 | \$ 138,861 | \$ 361 |
| Mobile home titling tax | 75,000 | 75,000 | 112,822 | 37,822 |
| Motor vehicle rental tax | 4,500 | 4,500 | 4,379 | (121) |
| State recordation tax | - | - | 29,427 | 29,427 |
| Communications tax | 900,000 | 900,000 | 918,063 | 18,063 |
| Personal property tax relief act funds | - | - | 1,380,233 | 1,380,233 |
| Total noncategorical aid | \$ 1,118,000 | \$ 1,118,000 | \$ 2,583,785 | \$ 1,465,785 |
| Categorical aid: | | | | |
| Shared expenses: | | | | |
| Commonwealth's attorney | \$ 743,641 | \$ 743,641 | \$ 740,545 | \$ (3,096) |
| Sheriff | 2,362,212 | 2,362,212 | 2,166,152 | (196,060) |
| Commissioner of revenue | 197,388 | 197,388 | 197,775 | 387 |
| Treasurer | 162,761 | 162,761 | 162,798 | 37 |
| Registrar/electoral board | 53,000 | 53,000 | 42,321 | (10,679) |
| Clerk of the Circuit Court | 490,688 | 495,412 | 511,157 | 15,745 |
| Total Shared Expenses | \$ 4,009,690 | \$ 4,014,414 | \$ 3,820,748 | \$ (193,666) |
| Other categorical aid: | | | | |
| Victim witness grant | \$ 94,108 | \$ 94,108 | \$ 21,715 | \$ (72,393) |
| Pre-trial services grant | 800,566 | 800,566 | - | (800,566) |
| SW VA Corrections grant | 644,033 | 644,033 | 1,231,177 | 587,144 |
| Law enforcement grants | 104,000 | 134,384 | 60,994 | (73,390) |
| Drug court grant | - | - | 44,026 | 44,026 |
| Four for life grant | 34,000 | 34,000 | 31,784 | (2,216) |
| Emergency services grants | 107,500 | 457,500 | 27,532 | (429,968) |
| Hazmat mitigation | - | 7,500 | 54,449 | 46,949 |
| Fire Program Funds | 84,500 | 98,601 | 89,101 | (9,500) |
| Library grants | - | - | 4,500 | 4,500 |
| Public assistance | 5,064,750 | 5,064,750 | 3,024,201 | (2,040,549) |
| Comprehensive services act | - | - | 1,151,216 | 1,151,216 |
| GIS wireless | - | - | 350,000 | 350,000 |
| CCRP circuit court | - | - | 6,222 | 6,222 |
| Sheriff grants | - | - | 127,873 | 127,873 |
| Total other categorical aid | \$ 6,933,457 | \$ 7,335,442 | \$ 6,224,790 | \$ (1,110,652) |
| Total categorical aid | \$ 10,943,147 | \$ 11,349,856 | \$ 10,045,538 | \$ (1,304,318) |
| Total revenue from the Commonwealth | \$ 12,061,147 | \$ 12,467,856 | \$ 12,629,323 | \$ 161,467 |
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Noncategorical aid: | | | | |
| Payments in lieu of tax | \$ - | \$ - | \$ 89,950 | \$ 89,950 |
| Categorical aid: | | | | |
| Homeland security | \$ - | \$ - | \$ 142,150 | \$ 142,150 |
| Law enforcement grants | - | 165,081 | 38,426 | (126,655) |
| Crime victim assistance | - | - | 67,128 | 67,128 |
| Violence against women grant | - | - | 34,191 | 34,191 |
| Public assistance | 3,300,000 | 3,300,000 | 4,484,147 | 1,184,147 |
| Hazard mitigation grant | - | - | 19,550 | 19,550 |
| Total categorical aid | \$ 3,300,000 | \$ 3,465,081 | \$ 4,785,592 | \$ 1,320,511 |
| Total revenue from the federal government | \$ 3,300,000 | \$ 3,465,081 | \$ 4,875,542 | \$ 1,410,461 |
| Total General Fund | \$ 48,986,852 | \$ 49,660,915 | \$ 51,538,867 | \$ 1,877,952 |

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

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| Special Revenue Funds: | | | | |
| Coal Road Improvement Fund: | | | | |
| Revenue from local sources: | | | | |
| Other local taxes: | | | | |
| Coal road taxes | \$ 900,000 | \$ 900,000 | \$ 774,066 | \$ (125,934) |
| Revenue from use of money and property: | | | | |
| Revenue from the use of money | \$ - | \$ - | \$ 17,711 | \$ 17,711 |
| Total revenue from local sources | \$ 900,000 | \$ 900,000 | \$ 791,777 | \$ (108,223) |
| Total Coal Road Improvement Fund | \$ 900,000 | \$ 900,000 | \$ 791,777 | \$ (108,223) |
| Nonmajor Special Revenue Funds: | | | | |
| Wise Development Fund: | | | | |
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| Research Cooperative Agreement - NASA | \$ - | \$ - | \$ 740,142 | \$ 740,142 |
| Total Wise Development Fund | \$ - | \$ - | \$ 740,142 | \$ 740,142 |
| Forfeited Assets Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from the use of money | \$ - | \$ - | \$ 28 | \$ 28 |
| Miscellaneous: | | | | |
| Other miscellaneous | \$ - | \$ - | \$ 133,609 | \$ 133,609 |
| Total revenue from local sources | \$ - | \$ - | \$ 133,637 | \$ 133,637 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Asset forfeiture funds | \$ - | \$ - | \$ 67,098 | \$ 67,098 |
| Total Forfeited Assets Fund | \$ - | \$ - | \$ 200,735 | \$ 200,735 |
| Nonmajor Capital Projects Funds: | | | | |
| Capital Projects Fund: | | | | |
| Revenue from local sources: | | | | |
| Miscellaneous: | | | | |
| Other miscellaneous | \$ - | \$ - | \$ 34,851 | \$ 34,851 |
| Intergovernmental: | | | | |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| RODA, OSAKA & Stonegate | \$ - | \$ - | \$ 857,982 | \$ 857,982 |
| Total Capital Projects Fund | \$ - | \$ - | \$ 892,833 | \$ 892,833 |
| Total Primary Government | \$ 49,886,852 | \$ 50,560,915 | \$ 54,164,354 | \$ 3,603,439 |

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

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| Discretely Presented Component Unit - School Board: | | | | |
| School Operating Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from the use of money | \$ 18,000 | \$ 18,000 | \$ 7,652 | \$ (10,348) |
| Revenue from the use of property | - | - | 5,995 | 5,995 |
| Total revenue from use of money and property | \$ 18,000 | \$ 18,000 | \$ 13,647 | \$ (4,353) |
| Charges for services: | | | | |
| Tuition and payments from other divisions | \$ 154,500 | \$ 154,500 | \$ 199,991 | \$ 45,491 |
| Total charges for services | \$ 154,500 | \$ 154,500 | \$ 199,991 | \$ 45,491 |
| Miscellaneous revenue: | | | | |
| Other miscellaneous | \$ 150,000 | \$ 150,000 | \$ 232,440 | \$ 82,440 |
| Recovered costs: | | | | |
| Other recovered costs | \$ 1,713,700 | \$ 1,713,700 | \$ 1,304,934 | \$ (408,766) |
| Total recovered costs | \$ 1,713,700 | \$ 1,713,700 | \$ 1,304,934 | \$ (408,766) |
| Total revenue from local sources | \$ 2,036,200 | \$ 2,036,200 | \$ 1,751,012 | \$ (285,188) |
| Intergovernmental: | | | | |
| Revenues from local governments: | | | | |
| Contribution from County of Wise, Virginia | \$ 12,022,000 | \$ 12,022,000 | \$ 14,797,056 | \$ 2,775,056 |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Share of state sales tax | \$ 5,908,700 | \$ 5,908,700 | \$ 5,958,726 | \$ 50,026 |
| Basic Aid | 17,890,718 | 17,890,718 | 18,385,581 | 494,863 |
| Remedial summer education | 95,494 | 95,494 | 91,453 | (4,041) |
| Regular foster care | - | - | 17,039 | 17,039 |
| Special education | 1,774,762 | 1,774,762 | 1,683,857 | (90,905) |
| Alternative education | 324,410 | 324,410 | 326,427 | 2,017 |
| Algebra readiness | 101,545 | 101,545 | 106,593 | 5,048 |
| Mentor teacher program | 2,738 | 2,738 | 1,489 | (1,249) |
| Social security fringe benefits | 1,122,706 | 1,122,706 | 1,148,456 | 25,750 |
| Group life fringe benefits | 75,913 | 75,913 | 77,654 | 1,741 |
| Retirement fringe benefits | 2,573,034 | 2,573,034 | 2,632,049 | 59,015 |
| Governor's School | 34,000 | 34,000 | 33,930 | (70) |
| Early reading intervention | 146,017 | 146,017 | 134,048 | (11,969) |
| Adult education | 299,300 | 299,300 | 105,219 | (194,081) |
| Homebound education | - | - | 52,885 | 52,885 |
| Vocation education | 756,395 | 756,395 | 774,036 | 17,641 |
| At risk payments | 745,209 | 745,209 | 991,155 | 245,946 |
| Primary class size | 1,054,431 | 1,054,431 | 1,011,595 | (42,836) |
| At risk 4 year olds | 718,438 | 718,438 | 718,934 | 496 |
| English as a second language | - | - | 12,972 | 12,972 |
| Textbook/lottery payments | 457,434 | 457,434 | 448,674 | (8,760) |
| GED prep program | - | - | 24,881 | 24,881 |
| Gifted and talented | 191,779 | 191,779 | 196,178 | 4,399 |
| Remedial education | 799,079 | 799,079 | 817,407 | 18,328 |
| Project graduation | - | - | 4,485 | 4,485 |
| Salary supplement | 178,005 | 178,005 | 182,089 | 4,084 |
| Other state funds | - | - | 129,775 | 129,775 |
| Lottery support for schools | 1,095,218 | 1,095,218 | 1,121,359 | 26,141 |
| Total categorical aid | \$ 36,345,325 | \$ 36,345,325 | \$ 37,188,946 | \$ 843,621 |
| Total revenue from the Commonwealth | \$ 36,345,325 | \$ 36,345,325 | \$ 37,188,946 | \$ 843,621 |

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

| <u>Fund, Major and Minor Revenue Source</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| Discretely Presented Component Unit - School Board: (Continued) | | | | |
| School Operating Fund: (Continued) | | | | |
| Intergovernmental: (Continued) | | | | |
| Revenue from the federal government: | | | | |
| Noncategorical aid: | | | | |
| QSCB federal interest subsidy | \$ - | \$ - | \$ 595,425 | \$ 595,425 |
| Categorical aid: | | | | |
| Title I | \$ 1,500,000 | \$ 1,500,000 | \$ 2,072,059 | \$ 572,059 |
| Special education | 1,320,354 | 1,320,354 | 1,355,699 | 35,345 |
| Title VI-B, preschool | - | - | 35,732 | 35,732 |
| Vocational education | 120,973 | 120,973 | 130,027 | 9,054 |
| Improving teacher quality | 289,211 | 289,211 | 364,781 | 75,570 |
| Title VI rural education | - | - | 124,433 | 124,433 |
| Title IV Part A 84.424 | - | - | 32,954 | 32,954 |
| JROTC | - | - | 29,879 | 29,879 |
| Forest reserve | 5,000 | 5,000 | 60,079 | 55,079 |
| Basic adult education | 391,300 | 391,300 | 272,838 | (118,462) |
| Total categorical aid | \$ 3,626,838 | \$ 3,626,838 | \$ 4,478,481 | \$ 851,643 |
| Total revenue from the federal government | \$ 3,626,838 | \$ 3,626,838 | \$ 5,073,906 | \$ 1,447,068 |
| Total School Operating Fund | \$ 54,030,363 | \$ 54,030,363 | \$ 58,810,920 | \$ 4,780,557 |
| School Cafeteria Fund: | | | | |
| Revenue from local sources: | | | | |
| Revenue from use of money and property: | | | | |
| Revenue from the use of money | \$ - | \$ - | \$ 9,162 | \$ 9,162 |
| Charges for services: | | | | |
| Cafeteria sales | \$ 1,038,000 | \$ 1,038,000 | \$ 462,453 | \$ (575,547) |
| Total revenue from local sources | \$ 1,038,000 | \$ 1,038,000 | \$ 471,615 | \$ (566,385) |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| School food program grant | \$ 42,637 | \$ 42,637 | \$ 46,351 | \$ 3,714 |
| Revenue from the federal government: | | | | |
| Categorical aid: | | | | |
| School food program grant | \$ 1,820,000 | \$ 1,820,000 | \$ 2,398,824 | \$ 578,824 |
| Total School Cafeteria Fund | \$ 2,900,637 | \$ 2,900,637 | \$ 2,916,790 | \$ 16,153 |
| Capital Projects Fund: | | | | |
| School Capital Projects Fund: | | | | |
| Revenue from local sources: | | | | |
| Miscellaneous: | | | | |
| Other miscellaneous | \$ - | \$ - | \$ 36,109 | \$ 36,109 |
| Intergovernmental: | | | | |
| Revenue from the Commonwealth: | | | | |
| Categorical aid: | | | | |
| Technology grant | \$ 388,000 | \$ 388,000 | \$ 388,000 | \$ - |
| Total School Capital Projects Fund | \$ 388,000 | \$ 388,000 | \$ 424,109 | \$ 36,109 |
| Total Discretely Presented Component Unit - School Board | \$ 57,319,000 | \$ 57,319,000 | \$ 62,151,819 | \$ 4,832,819 |

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

Schedule 2
Page 1 of 4

| <u>Fund, Function, Activity and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|---------------|---|
| General Fund: | | | | |
| General government administration: | | | | |
| Legislative: | | | | |
| Board of Supervisors | \$ 285,437 | \$ 287,437 | \$ 289,890 | \$ (2,453) |
| General and financial administration: | | | | |
| County Administrator | \$ 552,177 | \$ 552,177 | \$ 560,989 | \$ (8,812) |
| Legal services | 183,703 | 183,703 | 183,314 | 389 |
| Commissioner of Revenue | 731,832 | 731,832 | 695,485 | 36,347 |
| Assessor | 116,408 | 116,408 | 144,483 | (28,075) |
| Treasurer | 695,330 | 695,330 | 684,546 | 10,784 |
| Data Processing | 198,125 | 198,125 | 179,933 | 18,192 |
| GIS | 294,434 | 644,434 | 647,351 | (2,917) |
| Total general and financial administration | \$ 2,772,009 | \$ 3,122,009 | \$ 3,096,101 | \$ 25,908 |
| Board of elections: | | | | |
| Electoral Board | \$ 11,005 | \$ 11,005 | \$ 11,081 | \$ (76) |
| Registrar | 374,146 | 374,146 | 381,151 | (7,005) |
| Total board of elections | \$ 385,151 | \$ 385,151 | \$ 392,232 | \$ (7,081) |
| Total general government administration | \$ 3,442,597 | \$ 3,794,597 | \$ 3,778,223 | \$ 16,374 |
| Judicial administration: | | | | |
| Courts: | | | | |
| Circuit court | \$ 132,678 | \$ 132,678 | \$ 145,956 | \$ (13,278) |
| General district court | 8,102 | 8,102 | 5,527 | 2,575 |
| Juvenile and domestic court clerk | 6,176 | 6,176 | 5,746 | 430 |
| Juvenile and domestic relations court | 453,674 | 453,674 | 452,092 | 1,582 |
| Clerk of the circuit court | 919,506 | 924,230 | 946,938 | (22,708) |
| Sheriff - court services | 530,341 | 580,341 | 661,559 | (81,218) |
| Magistrate | 3,181 | 3,181 | 3,946 | (765) |
| Victim witness | 94,056 | 94,056 | 89,925 | 4,131 |
| Law library | - | - | 18,861 | (18,861) |
| Total courts | \$ 2,147,714 | \$ 2,202,438 | \$ 2,330,550 | \$ (128,112) |
| Commonwealth's Attorney: | | | | |
| Commonwealth's Attorney | \$ 1,111,919 | \$ 1,111,919 | \$ 1,085,479 | \$ 26,440 |
| Total judicial administration | \$ 3,259,633 | \$ 3,314,357 | \$ 3,416,029 | \$ (101,672) |
| Public safety: | | | | |
| Law enforcement and traffic control: | | | | |
| Sheriff - law enforcement | \$ 3,454,579 | \$ 3,543,160 | \$ 3,692,341 | \$ (149,181) |
| Dispatcher/E911 | 329,500 | 329,500 | 799,505 | (470,005) |
| Total law enforcement and traffic control | \$ 3,784,079 | \$ 3,872,660 | \$ 4,491,846 | \$ (619,186) |
| Fire and rescue services: | | | | |
| Volunteer fire departments | \$ 355,001 | \$ 369,102 | \$ 367,522 | \$ 1,580 |
| Ambulance and rescue services | 242,201 | 256,701 | 253,485 | 3,216 |
| Total fire and rescue services | \$ 597,202 | \$ 625,803 | \$ 621,007 | \$ 4,796 |
| Correction and detention: | | | | |
| Southwest Virginia Regional Jail | \$ 3,273,466 | \$ 3,273,466 | \$ 3,357,466 | \$ (84,000) |
| Pre-trial services | 800,566 | 855,766 | 860,026 | (4,260) |
| SWVA Community Corrections Center | 644,033 | 644,033 | 598,194 | 45,839 |
| Total correction and detention | \$ 4,718,065 | \$ 4,773,265 | \$ 4,815,686 | \$ (42,421) |
| Inspections: | | | | |
| Building inspector | \$ 289,337 | \$ 289,337 | \$ 265,374 | \$ 23,963 |
| Other protection: | | | | |
| Animal control | \$ 251,546 | \$ 251,546 | \$ 210,613 | \$ 40,933 |
| Emergency services | 124,074 | 369,269 | 208,777 | 160,492 |
| Total other protection | \$ 375,620 | \$ 620,815 | \$ 419,390 | \$ 201,425 |
| Total public safety | \$ 9,764,303 | \$ 10,181,880 | \$ 10,613,303 | \$ (431,423) |

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

Schedule 2
Page 2 of 4

| <u>Fund, Function, Activity and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------|---|
| General Fund: (Continued) | | | | |
| Public works: | | | | |
| Maintenance of general buildings and grounds: | | | | |
| General properties | \$ 1,174,005 | \$ 1,214,005 | \$ 871,939 | \$ 342,066 |
| Health and welfare: | | | | |
| Health: | | | | |
| Local health department | \$ 518,080 | \$ 518,080 | \$ 511,940 | \$ 6,140 |
| Mental health and mental retardation: | | | | |
| Mental health | \$ 174,150 | \$ 174,150 | \$ 174,150 | \$ - |
| Welfare: | | | | |
| Welfare administration | \$ 7,620,160 | \$ 7,620,160 | \$ 8,387,728 | \$ (767,568) |
| Property tax relief | - | - | 386,673 | (386,673) |
| Comprehensive Services Act | 2,656,600 | 2,656,600 | 1,634,940 | 1,021,660 |
| Youth Service Board | 83,806 | 83,806 | 83,306 | 500 |
| Agency on Aging | 23,014 | 23,014 | 23,014 | - |
| Total welfare | \$ 10,383,580 | \$ 10,383,580 | \$ 10,515,661 | \$ (132,081) |
| Total health and welfare | \$ 11,075,810 | \$ 11,075,810 | \$ 11,201,751 | \$ (125,941) |
| Education: | | | | |
| Other instructional costs: | | | | |
| Contribution to School Board | \$ 15,232,871 | \$ 15,274,944 | \$ 14,797,056 | \$ 477,888 |
| Contribution to Community College | 50,602 | 50,602 | 50,602 | - |
| Total education | \$ 15,283,473 | \$ 15,325,546 | \$ 14,847,658 | \$ 477,888 |
| Parks, recreation, and cultural: | | | | |
| Parks and recreation: | | | | |
| Recreation Authority | \$ 63,000 | \$ 63,000 | \$ 45,000 | \$ 18,000 |
| Cultural enrichment: | | | | |
| Cultural organizations | \$ 101,510 | \$ 106,510 | \$ 83,638 | \$ 22,872 |
| Library: | | | | |
| Regional library | \$ 782,627 | \$ 782,627 | \$ 780,936 | \$ 1,691 |
| Total parks, recreation, and cultural | \$ 947,137 | \$ 952,137 | \$ 909,574 | \$ 42,563 |
| Community development: | | | | |
| Planning and community development: | | | | |
| Economic development | \$ 108,302 | \$ 108,302 | \$ 94,365 | \$ 13,937 |
| Community development | 98,494 | 108,494 | 176,392 | (67,898) |
| Contribution to Housing Authority | 10,000 | 10,000 | 10,000 | - |
| Contribution to Cumberland Airport Commission | 106,871 | 106,871 | 106,871 | - |
| Contribution to LENOWISCO | 66,684 | 66,684 | 66,684 | - |
| Planning Commission | 6,500 | 6,500 | 6,425 | 75 |
| Community Project- Transient Occupancy | - | - | 40,271 | (40,271) |
| Software Engineering Initiative | - | - | 16,500 | (16,500) |
| Technology Initiative | - | - | - | - |
| Contribution to Industrial Development Authority | - | 268,309 | - | 268,309 |
| Total planning and community development | \$ 396,851 | \$ 675,160 | \$ 517,508 | \$ 157,652 |
| Cooperative extension program: | | | | |
| Virginia Tech Extension Office | \$ 109,349 | \$ 113,384 | \$ 115,495 | \$ (2,111) |
| Total community development | \$ 506,200 | \$ 788,544 | \$ 633,003 | \$ 155,541 |
| Nondepartmental: | | | | |
| Nondepartmental | \$ 34,137 | \$ 34,137 | \$ 53,370 | \$ (19,233) |
| Debt service: | | | | |
| Principal retirement | \$ 3,639,783 | \$ 3,639,783 | \$ 3,729,687 | \$ (89,904) |
| Interest and other fiscal charges | - | - | 18,557 | (18,557) |
| Total debt service | \$ 3,639,783 | \$ 3,639,783 | \$ 3,748,244 | \$ (108,461) |
| Total General Fund | \$ 49,127,078 | \$ 50,320,796 | \$ 50,073,094 | \$ 247,702 |

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

Schedule 2
Page 3 of 4

| <u>Fund, Function, Activity and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|---|----------------------------|-------------------------|----------------------|---|
| Special Revenue Funds: | | | | |
| Coal Road Improvement Fund: | | | | |
| Public Works: | | | | |
| Maintenance of Highways, Streets, Bridges, and Sidewalks: | | | | |
| Coal road projects | \$ 190,000 | \$ 190,000 | \$ 162,198 | \$ 27,802 |
| Community Development: | | | | |
| Planning and community development: | | | | |
| Distribution to Towns | \$ 180,000 | \$ 180,000 | \$ 146,448 | \$ 33,552 |
| Community development | 530,000 | 530,000 | 381,284 | 148,716 |
| Total planning and community development | <u>\$ 710,000</u> | <u>\$ 710,000</u> | <u>\$ 527,732</u> | <u>\$ 182,268</u> |
| Total community development | <u>\$ 710,000</u> | <u>\$ 710,000</u> | <u>\$ 527,732</u> | <u>\$ 182,268</u> |
| Total Coal Road Improvement Fund | <u>\$ 900,000</u> | <u>\$ 900,000</u> | <u>\$ 689,930</u> | <u>\$ 210,070</u> |
| Nonmajor Special Revenue Funds: | | | | |
| Wise Development Fund: | | | | |
| Community Development: | | | | |
| Planning and community development: | | | | |
| Community project | \$ 1,135,077 | \$ 1,135,077 | \$ 740,545 | \$ 394,532 |
| Total Wise Development Fund | <u>\$ 1,135,077</u> | <u>\$ 1,135,077</u> | <u>\$ 740,545</u> | <u>\$ 394,532</u> |
| Forfeited Assets Fund: | | | | |
| Public safety: | | | | |
| Law enforcement and traffic control: | | | | |
| Sheriff - law enforcement | \$ - | \$ - | \$ 138,424 | \$ (138,424) |
| Total Forfeited Asset Fund | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 138,424</u> | <u>\$ (138,424)</u> |
| Nonmajor Capital Projects Funds: | | | | |
| Capital Projects Fund: | | | | |
| Capital Projects: | | | | |
| Capital projects: | | | | |
| RODA, OSAKA & Stonegate | \$ - | \$ - | \$ 888,805 | \$ (888,805) |
| Total Capital Projects Fund | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 888,805</u> | <u>\$ (888,805)</u> |
| Total Primary Government | <u>\$ 51,162,155</u> | <u>\$ 52,355,873</u> | <u>\$ 52,530,798</u> | <u>\$ (174,925)</u> |
| Discretely Presented Component Unit - School Board | | | | |
| School Operating Fund: | | | | |
| Education: | | | | |
| Administration of schools: | | | | |
| Administration and health services | \$ 2,613,364 | \$ 2,613,364 | \$ 2,524,073 | \$ 89,291 |
| Instruction costs: | | | | |
| Instructional costs | \$ 39,743,786 | \$ 39,743,786 | \$ 39,818,900 | \$ (75,114) |
| Technology | 1,604,700 | 1,604,700 | 1,452,259 | 152,441 |
| Total instruction costs | <u>\$ 41,348,486</u> | <u>\$ 41,348,486</u> | <u>\$ 41,271,159</u> | <u>\$ 77,327</u> |
| Operating costs: | | | | |
| Pupil transportation | \$ 3,435,150 | \$ 3,435,150 | \$ 3,667,528 | \$ (232,378) |
| Operation and maintenance of school plant | 6,947,200 | 6,947,200 | 6,781,715 | 165,485 |
| Total operating costs | <u>\$ 10,382,350</u> | <u>\$ 10,382,350</u> | <u>\$ 10,449,243</u> | <u>\$ (66,893)</u> |
| Total education | <u>\$ 54,344,200</u> | <u>\$ 54,344,200</u> | <u>\$ 54,244,475</u> | <u>\$ 99,725</u> |
| Debt service: | | | | |
| Principal retirement | \$ - | \$ - | \$ 1,406,873 | \$ (1,406,873) |
| Interest and other fiscal charges | - | - | 2,511,805 | (2,511,805) |
| Total debt service | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 3,918,678</u> | <u>\$ (3,918,678)</u> |
| Total School Operating Fund | <u>\$ 54,344,200</u> | <u>\$ 54,344,200</u> | <u>\$ 58,163,153</u> | <u>\$ (3,818,953)</u> |

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

Schedule 2
Page 4 of 4

| <u>Fund, Function, Activity and Element</u> | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance with Final Budget - Positive (Negative)</u> |
|--|----------------------------|--------------------------|--------------------------|---|
| Discretely Presented Component Unit - School Board (Continued) | | | | |
| School Cafeteria Fund: | | | | |
| Education: | | | | |
| School food services: | | | | |
| Administration of school food program | \$ 2,974,800 | \$ 2,974,800 | \$ 2,634,827 | \$ 339,973 |
| Total School Cafeteria Fund | <u>\$ 2,974,800</u> | <u>\$ 2,974,800</u> | <u>\$ 2,634,827</u> | <u>\$ 339,973</u> |
| Total Discretely Presented Component Unit - School Board | <u>\$ 57,319,000</u> | <u>\$ 57,319,000</u> | <u>\$ 60,797,980</u> | <u>\$ (3,478,980)</u> |

OTHER STATISTICAL INFORMATION

Table 1

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

| Fiscal Year | General Government Administration | Judicial Administration | Public Safety | Public Works | Health and Welfare | Education | Parks, Recreation, and Cultural | Community Development | Interest on Long-Term Debt | Landfill | Sewer | Total |
|-------------|-----------------------------------|-------------------------|---------------|--------------|--------------------|---------------|---------------------------------|-----------------------|----------------------------|--------------|------------|---------------|
| 2017-18 | \$ 3,199,538 | \$ 2,994,850 | \$ 10,368,554 | \$ 1,213,476 | \$ 10,837,850 | \$ 12,139,102 | \$ 954,346 | \$ 2,764,056 | \$ 2,366,473 | \$ 3,338,361 | \$ 640,201 | \$ 50,816,807 |
| 2016-17 | 3,515,659 | 2,864,928 | 9,877,567 | 1,270,770 | 10,836,164 | 12,365,676 | 958,367 | 4,470,285 | 2,430,958 | 1,633,053 | 642,461 | 50,865,888 |
| 2015-16 | 2,860,095 | 2,610,691 | 9,786,433 | 1,312,160 | 10,168,893 | 12,576,685 | 960,030 | 3,653,709 | 2,527,285 | 3,691,980 | 654,744 | 50,802,705 |
| 2014-15 | 2,751,264 | 2,865,850 | 10,012,966 | 2,124,587 | 10,961,298 | 13,878,690 | 958,043 | 4,693,677 | 2,317,504 | 3,730,221 | 583,948 | 54,878,048 |
| 2013-14 | 3,000,826 | 2,769,871 | 9,700,296 | 2,619,880 | 10,961,298 | 18,185,662 | 1,024,785 | 4,455,867 | 793,150 | 3,998,594 | 597,251 | 58,107,480 |
| 2012-13 | 2,513,670 | 2,917,968 | 9,558,466 | 1,379,473 | 13,967,744 | 17,014,461 | 1,050,295 | 7,652,569 | 723,949 | 3,856,656 | 299,792 | 60,935,043 |
| 2011-12 | 3,189,330 | 2,955,941 | 8,033,901 | 1,380,443 | 14,372,186 | 16,628,227 | 1,030,994 | 10,917,533 | 183,724 | 3,856,963 | 277,990 | 62,827,232 |
| 2010-11 | 3,374,197 | 2,716,081 | 8,250,120 | 968,626 | 13,988,102 | 15,496,497 | 938,174 | 14,042,957 | 196,450 | 4,305,943 | 366,436 | 64,643,583 |
| 2009-10 | 3,228,759 | 2,721,904 | 7,782,248 | 1,120,083 | 13,776,969 | 14,945,799 | 936,592 | 7,418,010 | 58,824 | 4,823,735 | 352,225 | 57,165,148 |
| 2008-09 | 3,735,285 | 2,633,756 | 7,408,890 | 1,063,159 | 13,845,186 | 15,078,593 | 921,759 | 7,246,421 | 62,256 | 4,657,337 | 567,182 | 57,219,824 |

Table 2

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

| Fiscal Year | PROGRAM REVENUES | | | GENERAL REVENUES | | | | | | |
|-------------|----------------------|------------------------------------|----|------------------------|-------------------|----------------------------------|---------------|-------------------------------------|---------------|--|
| | Charges for Services | Operating Grants and Contributions | | General Property Taxes | Other Local Taxes | Unrestricted Investment Earnings | Miscellaneous | Grants and Contributions | | |
| | | | | | | | | Not Restricted to Specific Programs | Total | |
| 2017-18 | \$ 563,324 | \$ 16,509,679 | \$ | \$ 27,204,950 | \$ 5,141,459 | \$ 194,816 | \$ 283,444 | \$ 2,673,735 | \$ 52,571,407 | |
| 2016-17 | 595,556 | 16,720,043 | | 26,728,694 | 5,037,746 | 213,113 | 373,884 | 2,672,630 | 52,341,666 | |
| 2015-16 | 619,667 | 14,811,290 | | 32,254,084 | 5,570,865 | 157,597 | 495,169 | 2,690,261 | 56,598,933 | |
| 2014-15 | 601,008 | 14,144,688 | | 28,854,059 | 6,883,053 | 128,728 | 223,044 | 2,714,740 | 53,549,320 | |
| 2013-14 | 1,239,369 | 14,643,641 | | 27,604,620 | 8,173,503 | 194,916 | 171,736 | 2,749,240 | 54,777,025 | |
| 2012-13 | 1,114,258 | 13,711,562 | | 25,491,426 | 10,143,685 | 356,140 | 171,280 | 6,167,096 | 57,155,447 | |
| 2011-12 | 1,182,154 | 13,268,121 | | 26,638,980 | 16,737,347 | 423,101 | 633,049 | 7,215,291 | 66,098,043 | |
| 2010-11 | 1,143,986 | 15,764,232 | | 23,473,279 | 18,476,831 | 686,825 | 754,500 | 6,176,531 | 66,476,184 | |
| 2009-10 | 1,147,645 | 15,426,236 | | 19,130,788 | 15,925,898 | 429,080 | 451,750 | 6,247,142 | 58,758,539 | |
| 2008-09 | 972,339 | 13,557,097 | | 18,084,464 | 19,044,322 | 1,028,585 | 530,020 | 5,421,662 | 58,638,489 | |

Table 3

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

| Fiscal Year | General Government Administration | Judicial Administration | Public Safety | Public Works | Health and Welfare | Education (2) | Parks, Recreation, and Cultural | Community Development | Capital Projects | Non-departmental | Debt Service | Total |
|-------------|-----------------------------------|-------------------------|---------------|--------------|--------------------|---------------|---------------------------------|-----------------------|------------------|------------------|--------------|---------------|
| 2017-18 | \$ 3,778,223 | \$ 3,416,029 | \$ 10,751,727 | \$ 1,034,137 | \$ 11,201,751 | \$ 56,929,904 | \$ 909,574 | \$ 1,901,280 | \$ - | \$ 53,370 | \$ 7,666,922 | \$ 97,642,917 |
| 2016-17 | 3,519,972 | 3,097,648 | 10,213,833 | 983,523 | 10,954,895 | 56,309,363 | 912,816 | 3,064,163 | - | 37,956 | 3,436,914 | 92,531,083 |
| 2015-16 | 3,146,419 | 3,019,965 | 9,877,258 | 1,055,334 | 10,569,884 | 57,410,224 | 914,479 | 3,503,080 | - | 60,434 | 3,676,266 | 93,233,343 |
| 2014-15 | 3,285,764 | 3,074,056 | 9,576,684 | 2,077,283 | 11,029,381 | 57,715,704 | 912,492 | 3,682,521 | - | 57,579 | 3,486,386 | 94,897,850 |
| 2013-14 | 3,081,896 | 2,940,326 | 9,426,268 | 2,519,806 | 10,837,444 | 80,413,534 | 990,679 | 4,439,420 | 3,888 | - | 19,059,349 | 133,712,610 |
| 2012-13 | 3,085,457 | 2,879,973 | 9,419,726 | 3,269,650 | 13,910,634 | 63,144,019 | 1,017,808 | 7,033,875 | 27,096 | - | 19,732,283 | 123,520,521 |
| 2011-12 | 3,049,267 | 2,958,240 | 8,224,502 | 1,593,160 | 14,389,802 | 68,732,735 | 1,003,598 | 10,912,901 | 67,857 | - | 687,471 | 111,619,533 |
| 2010-11 | 3,279,988 | 2,715,362 | 8,220,283 | 852,349 | 13,994,945 | 63,341,364 | 895,284 | 14,043,807 | 75,140 | - | 737,911 | 108,156,433 |
| 2009-10 | 2,991,817 | 2,669,072 | 7,530,719 | 1,841,285 | 13,879,772 | 70,492,718 | 894,648 | 7,439,329 | 268,434 | - | 479,134 | 108,486,928 |
| 2008-09 | 2,974,848 | 2,598,386 | 7,246,622 | 1,628,213 | 13,999,745 | 72,029,937 | 879,848 | 7,079,993 | 624,294 | - | 522,233 | 109,584,119 |

(1) Includes General and Special Revenue funds of the Primary Government and its Discretely Presented Component Unit-School Board. Excludes Capital Projects fund.

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

Table 4

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

| Fiscal Year | General Property Taxes | Other Local Taxes | Permits, Privilege Fees, Regulatory Licenses | Fines and Forfeitures | Revenue from the Use of Money and Property | Charges for Services | Miscellaneous | Recovered Costs | Inter- governmental (2) | Total |
|----------------|------------------------------|-------------------------|---|-----------------------------|--|----------------------------|---------------|--------------------|----------------------------|----------------|
| | | | | | | | | | | |
| 2017-18 | \$ 28,257,744 | \$ 5,141,459 | \$ 32,224 | \$ 51,381 | \$ 168,213 | \$ 742,898 | \$ 481,650 | \$ 2,342,583 | \$ 63,408,132 | \$ 100,626,284 |
| 2016-17 | 25,809,760 | 5,037,746 | 40,627 | 33,510 | 185,173 | 916,476 | 287,399 | 2,280,388 | 61,379,322 | 95,970,401 |
| 2015-16 | 30,520,943 | 5,570,865 | 67,852 | 45,052 | 138,691 | 1,026,242 | 528,163 | 3,878,644 | 60,314,143 | 102,090,595 |
| 2014-15 | 28,731,239 | 6,883,053 | 35,717 | 51,141 | 126,847 | 1,079,470 | 2,363,457 | 3,113,965 | 59,886,528 | 102,271,417 |
| 2013-14 | 27,259,792 | 8,173,503 | 52,913 | 106,243 | 237,308 | 1,357,273 | 819,939 | 478,379 | 61,156,088 | 99,641,438 |
| 2012-13 | 24,182,703 | 10,143,685 | 34,091 | 116,480 | 372,688 | 1,299,770 | 488,317 | 816,163 | 64,383,078 | 101,836,975 |
| 2011-12 | 25,862,730 | 16,753,643 | 58,453 | 66,934 | 444,372 | 1,708,891 | 1,046,635 | 312,202 | 65,331,850 | 111,585,710 |
| 2010-11 | 21,869,359 | 18,427,933 | 55,621 | 29,023 | 724,632 | 1,485,405 | 689,093 | 417,114 | 67,340,209 | 111,038,389 |
| 2009-10 | 18,726,850 | 15,906,381 | 50,992 | 35,352 | 472,975 | 1,629,097 | 1,274,689 | 390,135 | 75,652,751 | 114,139,222 |
| 2008-09 | 18,116,122 | 18,924,049 | 69,524 | 40,603 | 1,075,909 | 1,357,206 | 2,175,678 | 682,036 | 65,414,555 | 107,855,682 |

(1) Includes General and Special Revenue funds of the Primary Government and its Discretely Presented Component Unit-School Board. Excludes Capital Projects fund.

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

Table 5

County of Wise, Virginia
Property Tax Levies and Collections
Last Ten Fiscal Years (3)

| Fiscal Year | Total Tax Levy (1,2) | Current Tax Collections (1,2) | Percent of Levy Collected | Delinquent Tax Collections (1) | Total Tax Collections (2) | Percent of Total Tax Collections to Tax Levy | Outstanding Delinquent Taxes (1), (3) | Percent of Delinquent Taxes to Tax Levy |
|-------------|----------------------|-------------------------------|---------------------------|--------------------------------|---------------------------|--|---------------------------------------|---|
| 2017-18 | \$ 28,208,775 | \$ 25,812,255 | 91.50% | \$ 3,243,919 | \$ 29,056,174 | 103.00% | \$ 4,713,100 | 16.71% |
| 2016-17 | 27,902,652 | 25,405,674 | 91.05% | 1,456,012 | 26,861,686 | 96.27% | 5,589,033 | 20.03% |
| 2015-16 | 32,710,717 | 30,332,337 | 92.73% | 1,192,584 | 31,524,921 | 96.37% | 4,770,122 | 14.58% |
| 2014-15 | 29,575,091 | 28,696,533 | 97.03% | 925,793 | 29,622,326 | 100.16% | 3,196,436 | 10.81% |
| 2013-14 | 27,668,374 | 26,671,809 | 96.40% | 203,205 | 26,875,014 | 97.13% | 3,125,435 | 11.30% |
| 2012-13 | 25,969,822 | 25,101,645 | 96.66% | 357,581 | 25,459,226 | 98.03% | 2,604,089 | 10.03% |
| 2011-12 | 25,696,491 | 24,973,016 | 97.18% | 421,499 | 25,394,515 | 98.82% | - | 0.00% |
| 2010-11 | 20,644,079 | 19,660,958 | 95.24% | 507,100 | 20,168,058 | 97.69% | - | 0.00% |
| 2009-10 | 19,861,934 | 18,777,570 | 94.54% | 751,303 | 19,528,873 | 98.32% | - | 0.00% |
| 2008-09 | 18,782,322 | 18,013,570 | 95.91% | 675,283 | 18,688,853 | 99.50% | - | 0.00% |

(1) Exclusive of penalties and interest.

(2) Includes amount received under the Personal Property Tax Relief Act.

(3) Only 6 years available.

Table 6

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

| Fiscal Year | Real Estate (1) | Personal Property | Machinery and Tools | | | | Merchant's Capital | Mobile Homes | Public Service (2) | Total |
|----------------|--------------------|----------------------|---------------------------|---------------|---------------|------------------|-----------------------|-----------------|-----------------------|-------|
| | | | | | | | | | | |
| 2017-18 | \$ 1,881,275,247 | \$ 419,166,849 | \$ 53,805,715 | \$ 28,638,275 | \$ 34,457,077 | \$ 1,439,558,790 | \$ 3,856,901,953 | | | |
| 2016-17 | 1,866,684,682 | 403,135,802 | 75,302,775 | 29,753,723 | 34,442,807 | 1,461,492,404 | 3,870,812,193 | | | |
| 2015-16 | 1,856,050,530 | 408,020,785 | 122,528,345 | 32,109,973 | 34,320,660 | 2,180,583,683 | 4,633,613,976 | | | |
| 2014-15 | 1,882,864,270 | 427,550,149 | 184,405,660 | 34,551,733 | 33,849,030 | 1,358,254,710 | 3,921,475,552 | | | |
| 2013-14 | 1,947,361,669 | 400,495,555 | 244,969,850 | 34,979,151 | 40,491,360 | 1,430,798,105 | 4,099,095,690 | | | |
| 2012-13 | 2,035,910,348 | 416,493,632 | 279,241,765 | 35,960,355 | 40,456,220 | 582,525,325 | 3,390,587,645 | | | |
| 2011-12 | 1,783,287,784 | 414,733,423 | 305,819,130 | 35,346,281 | 41,181,520 | 590,253,866 | 3,170,622,004 | | | |
| 2010-11 | 1,741,463,965 | 370,590,217 | 257,961,483 | 32,586,054 | 39,163,119 | 112,093,168 | 2,553,858,006 | | | |
| 2009-10 | 1,610,887,320 | 358,482,416 | 259,709,887 | 32,705,319 | 44,779,700 | 81,741,495 | 2,388,306,137 | | | |
| 2008-09 | 1,569,201,913 | 344,388,992 | 289,224,955 | 29,678,518 | 43,365,050 | 77,578,527 | 2,353,437,955 | | | |

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission-includes all property types.

Table 7

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

| Fiscal Year | Real Estate | Personal Property | Machinery & Tools | Merchant's Capital | Mobile Homes |
|----------------|----------------|----------------------|----------------------|-----------------------|-----------------|
| 2017-18 | \$ 0.60/0.62 | \$ 1.56 | \$ 1.41 | \$ 2.85 | 0.60 |
| 2016-17 | 0.60 | 1.56 | 1.41 | 2.85 | 0.60 |
| 2015-16 | 0.60 | 1.56 | 1.41 | 2.85 | 0.60 |
| 2014-15 | 0.60 | 1.56 | 1.41 | 2.85 | 0.60 |
| 2013-14 | 0.60 | 1.56 | 1.41 | 2.85 | 0.60 |
| 2012-13 | 0.57 | 1.49 | 1.41 | 2.85 | 0.57 |
| 2011-12 | 0.57 | 1.49 | 1.41 | 2.85 | 0.57 |
| 2010-11 | 0.57 | 1.49 | 1.15 | 2.85 | 0.57 |
| 2009-10 | 0.57 | 1.49 | 1.15 | 2.85 | 0.57 |
| 2008-09 | 0.57 | 1.49 | 1.15 | 2.85 | 0.57 |

(1) Per \$100 of assessed value.

Table 8

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

| Fiscal Year | Population (1) | Assessed Value (in thousands) (2) | Gross Bonded Debt (3) | Less: | Net Bonded Debt | Ratio of Net Bonded Debt to Assessed Value | Net Bonded Debt per Capita |
|----------------|----------------|---|-----------------------------|--|-----------------------|--|-------------------------------------|
| | | | | Debt Service Monies Available | | | |
| 2017-18 | 41,452 | \$ 3,856,902 | \$ 68,918,003 | \$ - | 68,918,003 | 1.79% | \$ 1,663 |
| 2016-17 | 41,452 | 3,870,812 | 70,573,003 | - | 70,573,003 | 1.82% | 1,703 |
| 2015-16 | 41,452 | 4,633,614 | 71,308,003 | - | 71,308,003 | 1.54% | 1,720 |
| 2014-15 | 41,452 | 4,099,096 | 72,009,743 | - | 72,009,743 | 1.76% | 1,737 |
| 2013-14 | 41,452 | 3,390,588 | 75,113,615 | - | 75,113,615 | 2.22% | 1,812 |
| 2012-13 | 41,452 | 3,390,588 | 76,546,570 | - | 76,546,570 | 2.26% | 1,847 |
| 2011-12 | 41,452 | 3,170,622 | 74,397,155 | - | 74,397,155 | 2.35% | 1,795 |
| 2010-11 | 41,452 | 2,553,858 | 15,605,695 | - | 15,605,695 | 0.61% | 376 |
| 2009-10 | 42,209 | 2,388,306 | 16,595,724 | - | 16,595,724 | 0.69% | 393 |
| 2008-09 | 42,209 | 2,353,438 | 14,674,156 | - | 14,674,156 | 0.62% | 348 |

(1) Bureau of the Census.

(2) Real property assessed at 100% of fair market value.

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

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

Table 9

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

| Fiscal Year | Total Debt Service | Total General Governmental Expenditures | Ratio of Debt Service to General Governmental Expenditures |
|-------------|--------------------|---|--|
| 2017-18 | \$ 7,666,922 | \$ 97,642,917 | 7.85% |
| 2016-17 | 3,436,914 | 92,531,083 | 3.71% |
| 2015-16 (2) | 3,676,266 | 93,233,343 | 3.94% |
| 2014-15 | 3,486,386 | 94,897,850 | 3.67% |
| 2013-14 (2) | 4,359,349 | 133,712,610 | 3.26% |
| 2012-13 (2) | 5,732,283 | 123,520,521 | 4.64% |
| 2011-12 | 687,471 | 111,619,533 | 0.62% |
| 2010-11 | 737,911 | 108,156,433 | 0.68% |
| 2009-10 | 479,134 | 108,486,928 | 0.44% |
| 2008-09 | 522,233 | 109,584,119 | 0.48% |

(1) Includes all governmental funds of the Primary Government and Special Revenue funds of the Discretely Presented Component Unit-School Board.

(2) Excludes refunding debt service.

Table 10

County of Wise, Virginia
Schedule of Legal Debt Margin
For the Year Ended June 30, 2018

| | | |
|--|----|---------------------|
| Legal Debt Limit | | |
| 10% of Assessed Value of Taxable Real Estate (Including public utility real estate) | \$ | 332,057,389 |
| Less: Net bonded debt | | <u>(68,918,003)</u> |
| Legal margin for creation of additional debt | \$ | 263,139,386 |

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Members of
the Board of Supervisors
County of Wise, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit-School Board, each major fund, and the aggregate remaining fund information of the County of Wise, Virginia, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County of Wise, Virginia's basic financial statements, and have issued our report thereon dated January 4, 2019. Our report includes a reference to other auditors who audited the financial statements of the Public Service Authority (PSA) and the Industrial Development Authority (IDA), as described in our report on the County of Wise, Virginia's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County of Wise, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County of Wise, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Wise, Virginia's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses (2018-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Wise, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

County of Wise, Virginia's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 4, 2019

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Honorable Members of
the Board of Supervisors
County of Wise, Virginia

Report on Compliance for Each Major Federal Program

We have audited the County of Wise, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County of Wise, Virginia's major federal programs for the year ended June 30, 2018. The County of Wise, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the County of Wise, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
January 4, 2019

County of Wise, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

| Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|---|-------------------------|
| Department of Health and Human Services: | | | |
| Pass Through Payments: | | | |
| Department of Social Services: | | | |
| Promoting Safe and Stable Families | 93.556 | 0950115, 0950116 | \$ 21,241 |
| Temporary Assistance for Needy Families | 93.558 | 0400116, 0400117 | 723,845 |
| Refugee and Entrant Assistance - State Administered Programs | 93.566 | 0500116, 0500117 | 943 |
| Low-Income Home Energy Assistance | 93.568 | 0600416, 0600417 | 89,822 |
| Child Care Mandatory and Matching Funds of the Child Care and Development Fund | 93.596 | 0760116, 0760117 | 104,215 |
| Chafee Education and Training Vouchers Program | 93.599 | 9160115, 9160116 | (2,400) |
| Adoption and Legal Guardianship Incentive Payments | 93.603 | 1130113 | 2,930 |
| Stephanie Tubbs Jones Child Welfare Services Program | 93.645 | 0900116 | 2,217 |
| Foster Care - Title IV-E | 93.658 | 1100116, 1100117 | 658,710 |
| Adoption Assistance | 93.659 | 1120116, 1120117 | 914,813 |
| Social Services Block Grant | 93.667 | 1000116, 1000117 | 540,262 |
| Chafee Foster Care Independence Program | 93.674 | 9150116, 9150117 | 16,743 |
| Children's Health Insurance Program | 93.767 | 0540116, 0540117 | 27,873 |
| Medical Assistance Program | 93.778 | 1200116, 1200117 | 699,681 |
| Total Department of Health and Human Services | | | \$ 3,800,895 |
| Department of Agriculture: | | | |
| Direct payments: | | | |
| Rural Development: | | | |
| Community Facilities Loans and Grants | 10.766 | Not applicable | \$ 50,000 |
| Pass Through Payments: | | | |
| Child Nutrition Cluster: | | | |
| Virginia Department of Agriculture & Consumer Services: Food Distribution-Schools (Note C) | 10.555 | Not applicable | \$ 151,370 |
| Department of Education: National School Lunch Program | 10.555 | 40254 | 1,690,929 \$ 1,842,299 |
| Virginia Department of Agriculture & Consumer Services: Summer Food Service Program for Children (Note C) | 10.559 | Not applicable | 2,171 |
| School Breakfast Program | 10.553 | 40253 | 554,354 \$ 2,398,824 |
| Department of Education: Schools and Roads Program - Grants to States | 10.665 | 43841 | 60,079 |
| Department of Social Services: State Administrative Matching Grants for Supplemental Nutrition Assistance Program | 10.561 | 0010116, 0010117 0040116, 0040117 | 683,252 |
| Total Department of Agriculture | | | \$ 3,192,155 |
| National Aeronautics and Space Administration: | | | |
| Direct payments: | | | |
| NASA - Wise County DEVELOP (Science) | 43.001 | Not applicable | \$ 740,142 |
| Department of Housing and Urban Development: | | | |
| Pass Through Payments: | | | |
| Department of Housing and Community Development: Community Development Block Grants/State's Program and Non-entitlement Grants in Hawaii | 14.228 | 50790 | \$ 857,982 |
| Department of Justice: | | | |
| Pass Through Payments: | | | |
| Department of Criminal Justice Services: Violence Against Women Formula Grants | 16.588 | 46500, 86515 | \$ 34,191 |
| Crime Victim Assistance | 16.575 | 86015 | 67,128 |
| Total Department of Justice | | | \$ 101,319 |
| Department of Defense: | | | |
| Direct payments: | | | |
| JROTC | 12.XXX | Not applicable | \$ 29,879 |
| Department of Transportation: | | | |
| Pass Through Payments: | | | |
| Department of Motor Vehicles: State and Community Highway Safety | 20.600 | Not available | \$ 38,426 |

County of Wise, Virginia
Schedule of Expenditures of Federal Awards (Continued)
For the Year Ended June 30, 2018

| Federal Grantor/State Pass - Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-through Entity Identifying Number | Federal Expenditures |
|---|---------------------------|---|-------------------------|
| Department of Education: | | | |
| Pass Through Payments: | | | |
| Department of Education: | | | |
| Adult Education - Basic Grants to States | 84.002 | 42801, 61111, 61112 | \$ 272,838 |
| Title I Grants to Local Educational Agencies | 84.010 | 42901, 42999 | 2,072,059 |
| Special Education Cluster: | | | |
| Special Education: Grants to States | 84.027 | 43071, 60180, 61110 | \$ 1,355,699 |
| Special Education: Preschool Grants | 84.173 | 62521 | 1,391,431 |
| Career and Technical Education Basic Grants to States | 84.048 | 61095 | 130,027 |
| Student Support and Academic Enrichment Program | 84.424 | Not available | 32,954 |
| Rural Education | 84.358 | 43481 | 124,433 |
| Supporting Effective Instruction State Grant | 84.367 | 61480 | 364,781 |
| Total Department of Education | | | \$ 4,388,523 |
| Department of Homeland Security: | | | |
| Pass Through Payments: | | | |
| Department of Emergency Management: | | | |
| Emergency Management Performance Grants | 97.042 | 6274400, 6274500 | \$ 8,025 |
| Homeland Security Grant Program | 97.067 | 6270500, 110274 | 103,675 |
| Total Department of Homeland Security | | | \$ 111,700 |
| Total Expenditures of Federal Awards | | | \$ 13,261,021 |

Note A -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Wise County, Virginia under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County of Wise, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County of Wise, Virginia.

Note B -- Summary of Significant Accounting Policies

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.
- (3) De Minimis Cost Rate - The County did not elect to use the 10-percent de minimis indirect cost rate allowed under Uniform Guidance.

Note C -- Food Donation:

Nonmonetary assistance is reported in the Schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, The Wise County School Board had no food commodities in inventory.

Note D -- Subrecipients:

No awards were passed through to subrecipients.

Note E -- Outstanding Balance of Federal Loans:

The County did not have any loans or loan guarantees which are subject to reporting requirements for the current year.

Note F -- Relationship to Financial Statements:

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

| | |
|---|---------------|
| Primary government: | |
| General Fund | \$ 4,875,542 |
| Wise Development Fund | 740,142 |
| Capital Projects Fund | 857,982 |
| Less: Payment in lieu of taxes | (89,950) |
| Total primary government: | \$ 6,383,716 |
| Component Unit School Board: | |
| School Operating Fund | \$ 5,073,906 |
| School Cafeteria Fund | 2,398,824 |
| Less: QSCB interest subsidy | (595,425) |
| Total component unit school board: | \$ 6,877,305 |
| Total federal expenditures per the Schedule of Expenditures of Federal Awards | \$ 13,261,021 |

County of Wise, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

| CFDA # | Name of Federal Program or Cluster |
|----------------------|--|
| 84.010 | Title I Grants to Local Educational Agencies |
| 10.553/10.555/10.559 | Child Nutrition Cluster |
| 43.001 | NASA - Wise County DEVELOP (Science) |
| 93.659 | Adoption Assistance |

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

County of Wise, Virginia

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2018

Section II - Financial Statement Findings

2018-001

| | |
|------------------------|---|
| Criteria: | Per Statement on Auditing Standards 115, an auditee should have sufficient controls in place to produce financial statements in accordance with applicable standards. Furthermore, reliance on the auditor to propose adjustments necessary to comply with reporting standards is not a component of such controls. |
| Condition: | Trial balances as presented for audit did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements. |
| Cause of Condition: | There was an inadequate review of source documents, and as a result, management failed to identify and record the necessary adjustments. Staff was also limited due to the departure of key personnel after year end. |
| Effect of Condition: | There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the internal controls over financial reporting. |
| Recommendation: | The County and School Board should review the proposed audit adjustments and incorporate same in the next year's financial statements presented for audit. |
| Management's Response: | Management agrees with this finding and will continue to work toward having the trial balances more complete and ready for the audit process. |

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings or questioned costs.

Section IV - Status of Prior Audit Findings and Questioned Costs

2017-001

This finding is repeated in the current year as 2018-001