

COUNTY OF RUSSELL, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2018

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

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INTRODUCTORY SECTION

COUNTY OF RUSSELL, VIRGINIA

BOARD OF SUPERVISORS

Rebecca Dye, Chairman	
Tim Lovelace, Vice Chairman	Lou Wallace
Carl Rhea	David Eaton
Steve Breeding	Mark Mitchell

COUNTY SCHOOL BOARD

Donnie Ramey, Chairman	
Wayne Bostic, Vice Chairman	Charlie Collins
Cynthia Compton	Jeffrey Cook
Linda Garrett	Alex Zachwieja, Jr.

SOCIAL SERVICES BOARD

Bill Hale, Chairman	
Rebecca Dye, Vice Chairman	Roger Brown
Laurel Rasnick	Brian Ferguson

OTHER OFFICIALS

Clerk of the Circuit Court.....	Ann S. McReynolds
Commonwealth's Attorney	Zack A. Stoots
Commissioner of the Revenue.....	Randy N. Williams
Treasurer	Patrick Thompson
Sheriff.....	Steve Dye
Superintendent of Schools	Dr. Gregory A. Brown
Director of Social Services	Patrick Brunty
County Administrator	Lonzo Lester
County Attorney	Matthew Crum

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

**To the Members of the Board of Supervisors
County of Russell, Virginia
Lebanon, Virginia**

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Russell, 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 Industrial Development Authority (IDA) or the Russell County Public Service Authority (PSA) which represents 29%, 25%, 4%, and 4%, respectively, of the assets and revenues of the discretely presented component units. 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 IDA and PSA 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 reports 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Russell, 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 25 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 25 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 budgetary comparison information and schedules related to pension and OPEB funding on pages 127-129 and 130-151 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information

Supplementary and Other Information

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

The other introductory section and 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 March 19, 2019, on our consideration of the County of Russell, 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 Russell, 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 Russell, Virginia's internal control over financial reporting and compliance.

Polina, Fawcett, & Associates

Blacksburg, Virginia
March 19, 2019

Basic Financial Statements

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

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
ASSETS			
Cash and cash equivalents	\$ 6,101,553	\$ -	\$ 6,101,553
Receivables (net of allowance for uncollectibles):			
Taxes receivable	9,028,386	-	9,028,386
Accounts receivable	712,752	9,449	722,201
Grants receivable	-	-	-
Due from component unit	1,308,691	-	1,308,691
Due from other governmental units	1,711,439	-	1,711,439
Inventories	-	-	-
Prepaid items	-	-	-
Restricted assets:			
Cash and cash equivalents	702,085	49,575	751,660
Investments	2	-	2
Noncurrent assets:			
Net pension asset	-	-	-
Capital assets (net of accumulated depreciation):			
Land	643,695	-	643,695
Land rights	-	-	-
Buildings and improvements	17,373,871	-	17,373,871
Machinery and equipment	2,021,246	-	2,021,246
Utility plant in service	-	2,599,524	2,599,524
Construction in progress	-	-	-
Accumulated depreciation	-	-	-
Total assets	\$ 39,603,720	\$ 2,658,548	\$ 42,262,268
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 911,501	\$ 3,287	\$ 914,788
OPEB related items	113,151	-	113,151
Total deferred outflows of resources	\$ 1,024,652	\$ 3,287	\$ 1,027,939
LIABILITIES			
Accounts payable	\$ 1,853,808	\$ 26,517	\$ 1,880,325
Construction payables	-	-	-
Accrued liabilities	1,805	-	1,805
Customer deposits	-	-	-
Accrued interest payable	195,735	1,487	197,222
Reconciled overdraft	-	-	-
Due to other funds	-	-	-
Line of credit	-	-	-
Due to primary government	-	-	-
Long-term liabilities:			
Due within one year	1,898,889	22,907	1,921,796
Due in more than one year	22,004,446	619,896	22,624,342
Total liabilities	\$ 25,954,683	\$ 670,807	\$ 26,625,490
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ 5,479,451	\$ -	\$ 5,479,451
Pension related items	1,132,368	8,514	1,140,882
OPEB related items	203,929	-	203,929
Total deferred inflows of resources	\$ 6,815,748	\$ 8,514	\$ 6,824,262
NET POSITION			
Net investment in capital assets	\$ 7,929,664	\$ 1,996,539	\$ 9,926,203
Restricted:			
Coal Road	253,863	-	253,863
Construction	-	-	-
Asset forfeiture funds	520,823	-	520,823
Debt service and bond covenants	-	49,575	49,575
Environmental waste	-	-	-
Unrestricted (deficit)	(846,409)	(63,600)	(910,009)
Total net position (deficit)	\$ 7,857,941	\$ 1,982,514	\$ 9,840,455

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

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

	Component Units			
	School Board	Industrial Development Authority	Russell County Public Service Authority	Castlewood Water and Sewage Authority
ASSETS				
Cash and cash equivalents	\$ 837,970	\$ 293,618	\$ 77,659	\$ -
Receivables (net of allowance for uncollectibles):				
Taxes receivable	-	-	-	-
Accounts receivable	12,344	57,697	334,756	184,077
Grants receivable	-	-	31,958	189,847
Due from component unit	-	-	-	-
Due from other governmental units	1,578,145	-	-	34,056
Inventories	-	-	24,787	-
Prepaid items	356,575	-	-	23,252
Restricted assets:				
Cash and cash equivalents	-	-	308,212	166,536
Investments	-	-	-	-
Noncurrent assets:				
Net pension asset	-	-	49,783	-
Capital assets (net of accumulated depreciation):				
Land	5,636,345	3,063,017	110,332	130,080
Land rights	-	-	-	12,292
Buildings and improvements	9,534,325	13,576,290	107,097	234,447
Machinery and equipment	1,825,650	-	-	885,963
Utility plant in service	-	-	22,725,070	11,455,103
Construction in progress	-	3,846,351	1,700,734	343,315
Accumulated depreciation	-	-	(7,571,954)	-
Total assets	\$ 19,781,354	\$ 20,836,973	\$ 17,898,434	\$ 13,658,968
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 4,193,849	\$ -	\$ 66,791	\$ 34,600
OPEB related items	366,511	-	-	4,334
Total deferred outflows of resources	\$ 4,560,360	\$ -	\$ 66,791	\$ 38,934
LIABILITIES				
Accounts payable	\$ 145,068	\$ 13,947	\$ 166,278	\$ 136,080
Construction payables	-	-	-	231,557
Accrued liabilities	1,033,075	-	66,876	24,515
Customer deposits	-	-	18,898	84,035
Accrued interest payable	-	62,106	6,782	7,746
Reconciled overdraft	-	-	-	50,462
Due to other funds	-	-	-	-
Line of credit	-	-	-	319,557
Due to primary government	1,108,691	200,000	-	-
Long-term liabilities:				
Due within one year	544,062	721,417	359,371	215,386
Due in more than one year	46,858,132	12,227,156	6,553,509	5,513,541
Total liabilities	\$ 49,689,028	\$ 13,224,626	\$ 7,171,714	\$ 6,582,879
DEFERRED INFLOWS OF RESOURCES				
Deferred revenue - property taxes	\$ -	\$ -	\$ -	\$ -
Pension related items	4,304,850	-	84,170	23,471
OPEB related items	545,606	-	-	3,000
Total deferred inflows of resources	\$ 4,850,456	\$ -	\$ 84,170	\$ 26,471
NET POSITION				
Net investment in capital assets	\$ 16,996,320	\$ 7,537,085	\$ 10,158,399	\$ 7,190,461
Restricted:				
Coal Road	-	-	-	-
Construction	-	-	687	-
Asset forfeiture funds	-	-	-	-
Debt service and bond covenants	-	-	91,312	82,501
Environmental waste	-	-	212,170	-
Unrestricted (deficit)	(47,194,090)	75,262	246,773	(184,410)
Total net position (deficit)	\$ (30,197,770)	\$ 7,612,347	\$ 10,709,341	\$ 7,088,552

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

Program Revenues					Net (Expense) Revenue and Changes in Net Position					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Component Units			
					Governmental Activities	Business-type Activities	School Board	Industrial Development Authority	Russell County Public Service Authority	Castlewood Water and Sewage Authority
PRIMARY GOVERNMENT:										
Governmental activities:										
General government administration	\$ 2,003,925	\$ -	\$ 325,674	\$ -	\$ (1,678,251)	\$ -	\$ (1,678,251)			
Judicial administration	2,259,365	14,337	752,952	-	(1,492,076)	-	(1,492,076)			
Public safety	6,409,699	140,704	2,015,263	-	(4,253,732)	-	(4,253,732)			
Public works	3,262,221	216,566	12,359	-	(3,033,296)	-	(3,033,296)			
Health and welfare	9,191,297	-	8,196,109	-	(995,188)	-	(995,188)			
Education	8,613,945	-	-	-	(8,613,945)	-	(8,613,945)			
Parks, recreation, and cultural	583,009	6,887	89,421	-	(486,701)	-	(486,701)			
Community development	957,043	50,982	-	-	(906,061)	-	(906,061)			
Interest on long-term debt	499,803	-	-	-	(499,803)	-	(499,803)			
Total governmental activities	\$ 33,780,307	\$ 429,476	\$ 11,391,778	\$ -	\$ (21,959,053)	\$ -	\$ (21,959,053)			
Business-type activities:										
Dante Sewer	\$ 388,981	\$ 117,134	\$ -	\$ -	\$ -	\$ (271,847)	\$ (271,847)			
Total primary government	\$ 34,169,288	\$ 546,610	\$ 11,391,778	\$ -	\$ (21,959,053)	\$ (271,847)	\$ (22,230,900)			
COMPONENT UNITS:										
School Board	\$ 40,391,373	\$ 365,945	\$ 33,003,129	\$ -		\$ (7,022,299)	\$ (7,022,299)	\$ -	\$ -	\$ -
Industrial Development Authority	1,180,453	-	-	-		-	(1,180,453)	-	-	-
Russell County Public Service Authority	2,126,731	1,686,033	-	141,234		-	-	(299,464)	-	-
Castlewood Water and Sewage Authority	1,849,066	1,451,589	-	383,776		-	-	-	-	(13,701)
Total component units	\$ 45,547,623	\$ 3,503,567	\$ 33,003,129	\$ 525,010		\$ (7,022,299)	\$ (1,180,453)	\$ (299,464)	\$ (13,701)	
General revenues:										
General property taxes					\$ 17,446,217	\$ -	\$ -	\$ -	\$ -	\$ -
Other local taxes:										
Local sales and use taxes					1,852,781	-	-	-	-	-
Coal road and severance taxes					729,276	-	-	-	-	-
Consumers' utility taxes					533,653	-	-	-	-	-
Motor vehicle licenses					21,162	-	-	-	-	-
Other local taxes					253,317	-	-	-	-	-
Unrestricted revenues from use of money and property					254,538	-	6,910	1,072,155	1,860	1,212
Miscellaneous					233,890	-	301,063	-	-	-
Payments from the County of Russell, Virginia					-	-	7,632,473	483,749	12,839	-
Grants and contributions not restricted to specific programs					2,340,315	-	-	383,917	257,054	-
Transfers					(161,306)	161,306	-	-	-	-
Total general revenues and transfers					\$ 23,503,843	\$ 161,306	\$ 7,940,446	\$ 1,939,821	\$ 271,753	\$ 1,212
Change in net position					\$ 1,544,790	\$ (110,541)	\$ 1,434,249	\$ 918,147	\$ 759,368	\$ (27,711)
Net position (deficit) - beginning, as restated					6,313,151	2,093,055	8,406,206	(31,115,917)	6,852,979	10,737,052
Net position (deficit) - ending					\$ 7,857,941	\$ 1,982,514	\$ 9,840,455	\$ (30,197,770)	\$ 7,612,347	\$ 10,709,341
Net position (deficit) - ending										\$ 7,088,552

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

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

	<u>General</u>	<u>Coal Road</u>	<u>Workforce Investment Board</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 4,336,366	\$ -	\$ 45,799	\$ 4,382,165
Receivables (net of allowance for uncollectibles):				
Taxes receivable	9,028,386	-	-	9,028,386
Accounts receivable	101,529	22,838	-	124,367
Due from other funds	534,614	65,105	-	599,719
Due from component unit	1,308,691	-	-	1,308,691
Due from other governmental units	1,429,321	-	282,118	1,711,439
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents	520,823	181,262	-	702,085
Investments	2	-	-	2
Total assets	<u>\$ 17,259,732</u>	<u>\$ 269,205</u>	<u>\$ 327,917</u>	<u>\$ 17,856,854</u>
LIABILITIES				
Accounts payable	\$ 518,302	\$ 15,342	\$ 221,895	\$ 755,539
Accrued liabilities	1,805	-	-	1,805
Due to other funds	65,105	-	111,220	176,325
Total liabilities	<u>\$ 585,212</u>	<u>\$ 15,342</u>	<u>\$ 333,115</u>	<u>\$ 933,669</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 8,971,375	\$ -	\$ -	\$ 8,971,375
FUND BALANCES				
Restricted:				
Coal Road	\$ -	\$ 253,863	\$ -	\$ 253,863
Asset forfeiture funds	520,823	-	-	520,823
Energy Lease Project	2	-	-	2
Assigned:				
Sheriff Funds	41,665	-	-	41,665
Library Donations	37,124	-	-	37,124
Knox Creek Coal Insurance	415	-	-	415
Law Library	46,967	-	-	46,967
Housing	12,124	-	-	12,124
Health and Fitness	8,247	-	-	8,247
Unassigned	7,035,778	-	(5,198)	7,030,580
Total fund balances	<u>\$ 7,703,145</u>	<u>\$ 253,863</u>	<u>\$ (5,198)</u>	<u>\$ 7,951,810</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 17,259,732</u>	<u>\$ 269,205</u>	<u>\$ 327,917</u>	<u>\$ 17,856,854</u>

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

County of Russell, 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	\$	7,951,810
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	643,695	
Buildings and improvements		17,373,871	
Machinery and equipment		2,021,246	20,038,812

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

Unavailable revenue - property taxes		3,491,924
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Deferred outflows of resources are not available to pay for current-period expenditures and, therefore, are not reported in the funds.

Pension related items	\$	911,501	
OPEB related items		113,151	1,024,652

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

786,110

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

Bonds and literary loans	\$	(10,079,729)	
Capital leases		(5,671,743)	
Unamortized premium		(182,491)	
Accrued interest payable		(195,735)	
Landfill accrued closure and postclosure liability		(286,910)	
Net OPEB liabilities		(2,166,808)	
Compensated absences		(579,384)	
Net pension liability		(4,936,270)	(24,099,070)

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

Pension related items	\$	(1,132,368)	
OPEB related items		(203,929)	(1,336,297)

Net position of governmental activities

\$ 7,857,941

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

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

	<u>General</u>	<u>Coal Road</u>	<u>Workforce Investment Board</u>	<u>Total</u>
REVENUES				
General property taxes	\$ 16,390,872	\$ -	\$ -	\$ 16,390,872
Other local taxes	3,025,550	364,639	-	3,390,189
Permits, privilege fees, and regulatory licenses	68,668	-	-	68,668
Fines and forfeitures	16,708	-	-	16,708
Revenue from the use of money and property	252,400	332	-	252,732
Charges for services	344,100	-	-	344,100
Miscellaneous	233,890	-	-	233,890
Recovered costs	601,532	-	117,140	718,672
Intergovernmental:				
Commonwealth	8,494,082	-	-	8,494,082
Federal	2,805,219	-	2,432,792	5,238,011
Total revenues	\$ 32,233,021	\$ 364,971	\$ 2,549,932	\$ 35,147,924
EXPENDITURES				
Current:				
General government administration	\$ 2,177,595	\$ -	\$ -	\$ 2,177,595
Judicial administration	2,397,387	-	-	2,397,387
Public safety	6,554,101	-	-	6,554,101
Public works	3,137,540	193,840	-	3,331,380
Health and welfare	7,113,432	-	2,488,011	9,601,443
Education	7,878,848	-	-	7,878,848
Parks, recreation, and cultural	566,272	-	-	566,272
Community development	1,083,779	-	-	1,083,779
Nondepartmental	158,828	-	-	158,828
Capital projects	3,322,326	-	-	3,322,326
Debt service:				
Principal retirement	1,422,008	-	-	1,422,008
Interest and other fiscal charges	471,413	-	-	471,413
Total expenditures	\$ 36,283,529	\$ 193,840	\$ 2,488,011	\$ 38,965,380
Excess (deficiency) of revenues over (under) expenditures	\$ (4,050,508)	\$ 171,131	\$ 61,921	\$ (3,817,456)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (403,382)	\$ -	\$ -	\$ (403,382)
Issuance of capital leases	321,811	-	-	321,811
Total other financing sources (uses)	\$ (81,571)	\$ -	\$ -	\$ (81,571)
Net change in fund balances	\$ (4,132,079)	\$ 171,131	\$ 61,921	\$ (3,899,027)
Fund balances - beginning	11,835,224	82,732	(67,119)	11,850,837
Fund balances - ending	\$ 7,703,145	\$ 253,863	\$ (5,198)	\$ 7,951,810

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

County of Russell, Virginia
Reconciliation of the 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	\$ (3,899,027)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	\$ 4,319,237	
Reversion of assets back to the School Board (net)	(175,436)	
Depreciation expense	<u>(1,044,118)</u>	3,099,683

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) net assets.	(127,374)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Property taxes	1,055,345
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The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations 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 obligations 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 obligations and related items.

Issuance of long-term obligations:		
Capital leases	\$ (321,811)	
Principal Payments:		
Bonds, literary loans, and notes	1,183,462	
Capital leases	238,546	
Decrease (increase) in estimated liability:		
Landfill closure and postclosure liability	<u>(5,073)</u>	1,095,124

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	\$ (24,963)	
(Increase) decrease in accrued interest payable	(45,194)	
OPEB expense	(46,501)	
Amortization of bond premiums	16,804	
Pension expense	<u>657,492</u>	557,638

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.	(236,599)
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Change in net position of governmental activities	<u>\$ 1,544,790</u>
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The accompanying notes to the financial statements are an integral part of this statement.

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

	Enterprise Fund Dante Fund	Internal Service Fund Self Health Insurance
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ 1,719,388
Interest receivable	48	-
Accounts receivable, net of allowance for uncollectibles	9,401	588,385
Total current assets	\$ 9,449	\$ 2,307,773
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (in custody of others)	\$ 49,575	\$ -
Capital assets:		
Utility plant in service	\$ 5,240,699	\$ -
Less accumulated depreciation	(2,641,175)	-
Total capital assets	\$ 2,599,524	\$ -
Total noncurrent assets	\$ 2,649,099	\$ -
Total assets	\$ 2,658,548	\$ 2,307,773
DEFERRED OUTFLOWS OF RESOURCES		
Pension related items	\$ 3,287	\$ -
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 26,517	\$ 1,098,269
Accrued interest payable	1,487	-
Due to other funds	-	423,394
Revenue bonds - current portion	22,907	-
Total current liabilities	\$ 50,911	\$ 1,521,663
Noncurrent liabilities:		
Revenue bonds - net of current portion	\$ 580,078	\$ -
Net pension liability	39,818	-
Total noncurrent liabilities	\$ 619,896	\$ -
Total liabilities	\$ 670,807	\$ 1,521,663
DEFERRED INFLOWS OF RESOURCES		
Pension related items	\$ 8,514	\$ -
NET POSITION		
Net investment in capital assets	\$ 1,996,539	\$ -
Restricted for debt service and bond covenants	49,575	-
Unrestricted	(63,600)	786,110
Total net position	\$ 1,982,514	\$ 786,110

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

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

	Enterprise Fund Dante Fund	Internal Service Fund Self Health Insurance
OPERATING REVENUES		
Charges for services:		
Sewer revenues	\$ 117,134	\$ -
Insurance premiums	-	7,026,688
Total operating revenues	<u>\$ 117,134</u>	<u>\$ 7,026,688</u>
OPERATING EXPENSES		
Salaries and benefits	\$ 67,364	\$ -
Professional services	18,033	-
Utilities	2,055	-
Materials and supplies	77,218	-
Office expenses	34,206	-
Insurance claims and expenses	-	7,507,169
Depreciation	131,017	-
Total operating expenses	<u>\$ 329,893</u>	<u>\$ 7,507,169</u>
Operating income (loss)	<u>\$ (212,759)</u>	<u>\$ (480,481)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	\$ -	\$ 1,806
Contribution to Castlewood PSA	(31,469)	-
Interest expense	(27,619)	-
Total nonoperating revenues (expenses)	<u>\$ (59,088)</u>	<u>\$ 1,806</u>
Income (loss) before transfers	<u>\$ (271,847)</u>	<u>\$ (478,675)</u>
Transfers in	\$ 161,306	\$ 242,076
Change in net position	<u>\$ (110,541)</u>	<u>\$ (236,599)</u>
Total net position - beginning	2,093,055	1,022,709
Total net position - ending	<u><u>\$ 1,982,514</u></u>	<u><u>\$ 786,110</u></u>

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

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

	Enterprise Fund Dante Fund	Internal Service Fund Self Health Insurance
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 114,981	\$ -
Receipts for insurance premiums	-	6,931,654
Payments to suppliers	(128,552)	-
Payments to employees	(64,817)	-
Payments for premiums	-	(7,338,101)
Net cash provided by (used for) operating activities	<u>\$ (78,388)</u>	<u>\$ (406,447)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	<u>\$ 161,306</u>	<u>\$ 665,470</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds	\$ (23,775)	\$ -
Contribution to Castlewood PSA	(31,469)	-
Interest payments	(27,674)	-
Net cash provided by (used for) capital and related financing activities	<u>\$ (82,918)</u>	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	<u>\$ -</u>	<u>\$ 3,580</u>
Net increase (decrease) in cash and cash equivalents	\$ -	\$ 262,603
Cash and cash equivalents - beginning	49,575	1,456,785
Cash and cash equivalents - ending	<u><u>\$ 49,575</u></u>	<u><u>\$ 1,719,388</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	<u>\$ (212,759)</u>	<u>\$ (480,481)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	\$ 131,017	\$ -
(Increase) decrease in accounts receivable	(2,153)	(95,034)
(Increase) decrease in deferred outflows of resources	16,527	-
Increase (decrease) in accounts payable	2,960	169,068
Increase (decrease) in deferred inflows of resources	5,690	-
Increase (decrease) in net pension liability	(19,670)	-
Total adjustments	<u>\$ 134,371</u>	<u>\$ 74,034</u>
Net cash provided by (used for) operating activities	<u><u>\$ (78,388)</u></u>	<u><u>\$ (406,447)</u></u>

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

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

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 72,638
Total assets	<u>\$ 72,638</u>
LIABILITIES	
Amounts held for Social Services clients	\$ 61,336
Amounts held for VASAP	11,302
Total liabilities	<u>\$ 72,638</u>

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

COUNTY OF RUSSELL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2018

Note 1-Summary of Significant Accounting Policies:

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

Blended component units - None

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

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

The Industrial Development Authority of Russell County, Virginia (IDA) encourages and provides financing for industrial development in Russell County. The financial statements of the IDA have been included because the County appoints the governing body and has made moral obligation resolutions to finance deficits of any kind or nature that may occur each year subject to annual appropriation. Complete financial statements of the IDA can be obtained in writing at 137 Highland Drive, Lebanon, VA 24266.

The Russell County Public Service Authority (PSA) provides water and sewer service to residents of Russell County. The Authority is fiscally dependent on the County because the County appoints the governing body and has financing guarantees involving the Authority. Complete financial statements of the PSA can be obtained in writing at 7341 Swords Creek Road, Swords Creek, VA 24649.

The Castlewood Water and Sewage Authority of Russell County provides water and sewer service to residents of Russell County. The Authority is fiscally dependent on the County because the County appoints the governing body and has financing guarantees involving the Authority. Complete financial statements of the Authority can be obtained in writing at P.O. Box 655, Castlewood, VA 24224.

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

A. Financial Reporting Entity (Continued)

Related Organizations - The County's officials are also 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 - The County, in conjunction with other local jurisdictions, participates in supporting the Southwest Virginia Regional Jail and the Cumberland Mountain Community Services Board. The governing bodies of these organizations are appointed by the respective governing bodies of the participating jurisdictions. During the year, the County contributed \$2,726,262 to the Regional Jail and \$39,996 to the Community Services Board. The County does not have any ongoing financial responsibility for these Organizations.

B. Government-wide and Fund Financial Statements

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 government-wide Statement of Net Position is designed to display the financial position of the primary government (governmental and business-type activities) and its component units. Governments report all capital assets, including infrastructure, in the government-wide statement of net position and 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 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 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 uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

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

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

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

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 government 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 includes the activities of the Social Services, Dog Tag, Damage Stamp, Law Library, Knox Creek, Cannery, Health and Fitness, Housing, CSA, Litter, Valley Heights Subdivision, and Road Improvements funds. The aforementioned Funds have been merged with the General Fund for financial reporting purposes.

The Coal Road and Workforce Investment Board Funds serve as the County's major *Special Revenue Funds*. The Coal Road Fund accounts for and reports financial resources to be used for improvements to roads used in conjunction with coal mining and other expenses allowable by the Code of Virginia, (1950), as amended. The Workforce Investment Board Fund accounts for and reports financial resources to be used for workforce development benefiting the County.

The government reports the following major proprietary funds:

The County operates a water treatment system. The activities of the system are accounted for in the Dante fund.

Additionally, the government 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, or to other governments, on a cost reimbursement basis. The Internal Service Fund consists of the Self Health Insurance Fund.

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. Agency funds include the Special Welfare Fund and VASAP Fund. The Special Welfare Fund includes activity of the Title XX and the SSI Fund, which have all been merged for financial reporting purposes.

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.

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

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

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

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

2. Investments

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

3. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "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."

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

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

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

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. Real estate taxes are payable in installments on June 5th and December 5th. Personal property taxes are due and collectible on December 5th. The County bills and collects its own property taxes.

5. 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 \$740,835 at June 30, 2018 and is comprised solely of property taxes.

6. 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.

7. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities 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 one year. 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 and business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during fiscal year 2018.

NOTES TO 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)

7. Capital Assets (Continued)

Property, plant, 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	40
Building improvements	40
Structures, lines, and accessories	20-40
Machinery and equipment	4-30
Utility plant in service	40

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. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until then. The County has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of 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 two 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 30th, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of

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

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

9. Deferred Outflows/Inflows of Resources (Continued)

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 pension liability and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

10. 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.

11. Pensions

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

12. 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.

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

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

12. 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.

13. 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.

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

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

13. Long-term Obligations (Continued)

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.

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 highest level of decision-making authority and the formal action that is required to establish, modify or rescind a fund balance commitment is a resolution approved by the Board of Supervisors. The resolution must either be approved or rescinded as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.

The Board of Supervisors has authorized the County Administrator as the official authorized to assign fund balance to a specific purpose as approved by the fund balance policy.

The County of Russell will maintain an unassigned fund balance in the general fund equal to 16% of the expenditures/operating revenues (two months). The County considers a balance of less than 10% to be a cause for concern, barring unusual or deliberate circumstances.

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 (Continued)

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.

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.

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 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 the Industrial Development Authority Fund and Agency Funds.
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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

4. The Appropriations Resolution places legal restrictions on expenditures at the departmental level. Only the Board of Supervisors can revise the appropriation for each department or category. The County Administrator is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund and the Special Revenue Funds. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units.
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

The CSA Fund, Litter Fund, and Law Library Fund had excess expenditures over appropriations in the current year.

C. Deficit fund equity

At June 30, 2018, the Workforce Investment Board Fund 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.

Investments:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 3-Deposits and Investments: (Continued)Interest Rate Risk:

The County has not adopted an investment policy for interest rate risk. Investments subject to interest rate risk are presented below along with their corresponding maturities.

Investment Maturities (in years)		
Investment Type	Fair Value	1 Year
SNAP	\$ 2	\$ 2

Custodial Credit Risk (Investments):

The County's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

County's Rated Debt Investments' Values	
Rated Debt Investments	Ratings
	AAAm
SNAP	\$ 2

External Investment Pool:

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

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NOTES TO 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 Government:</u>		
Southwest Virginia Regional Jail	\$ 51,605	\$ -
People - One Stop Partner	6,185	-
<u>Commonwealth of Virginia:</u>		
Local sales tax	320,074	-
State sales tax	-	508,931
Non-categorical aid	157,223	-
Categorical aid-shared expenses	199,374	-
Categorical aid-Virginia Public Assistance funds	181,221	-
Categorical aid-Workforce Investment funds	22,315	-
Categorical aid-other	73,546	-
Categorical aid-Comprehensive Services Act funds	197,913	-
<u>Federal Government:</u>		
Categorical aid-Virginia Public Assistance funds	214,954	-
Categorical aid-Workforce Investment funds	253,618	-
Categorical aid-other	33,411	-
School federal programs	-	1,069,214
Total Amount Due from Other Governmental Units	\$ <u>1,711,439</u>	\$ <u>1,578,145</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>1,308,691</u>
<u>Component Unit:</u>		
School Board	\$ 1,108,691	\$ -
IDA	<u>200,000</u>	<u>-</u>
Total	\$ <u>1,308,691</u>	\$ <u>1,308,691</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

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

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ -	\$ 403,382
Dante Fund	161,306	-
Internal Service Fund - Health Insurance	242,076	-
Total	<u>\$ 403,382</u>	<u>\$ 403,382</u>
Primary Government:	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 534,614	\$ 65,105
Coal Road Fund	65,105	-
Workforce Investment Board Fund	-	111,220
Internal Service Fund - Health Insurance	-	423,394
Total	<u>\$ 599,719</u>	<u>\$ 599,719</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.

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NOTES TO 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:

	Balance July 1, 2017, as restated	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018
General obligation bonds	\$ 6,648,210	\$ -	\$ (697,908)	\$ 5,950,302
Literary loans	684,700	-	(282,792)	401,908
Revenue bonds	3,930,281	-	(202,762)	3,727,519
Deferred Amounts:				
Bond premiums	199,295	-	(16,804)	182,491
Capital leases	5,588,478	321,811	(238,546)	5,671,743
Landfill closure/ postclosure liability	281,837	5,073	-	286,910
Net OPEB liabilities	2,298,527	188,314	(320,033)	2,166,808
Compensated absences	554,421	440,779	(415,816)	579,384
Net pension liability	6,775,817	2,989,367	(4,828,914)	4,936,270
Total	<u>\$ 26,961,566</u>	<u>\$ 3,945,344</u>	<u>\$ (7,003,575)</u>	<u>\$ 23,903,335</u>

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

Year Ending June 30,	General Obligation Bonds		Literary Loans		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 707,390	\$ 266,406	\$ 229,246	\$ 8,038	\$ 231,187	\$ -
2020	732,715	232,070	102,646	3,453	231,187	-
2021	728,164	198,108	45,016	1,400	231,187	-
2022	629,683	166,196	12,500	500	231,187	-
2023	648,148	135,946	12,500	250	231,187	-
2024-2028	1,889,237	362,840	-	-	1,155,935	-
2029-2033	582,620	46,551	-	-	1,065,842	-
2034-2038	28,315	4,265	-	-	349,807	-
2039	4,030	64	-	-	-	-
Totals	<u>\$ 5,950,302</u>	<u>\$ 1,412,446</u>	<u>\$ 401,908</u>	<u>\$ 13,641</u>	<u>\$ 3,727,519</u>	<u>\$ -</u>

COUNTY OF RUSSELL, VIRGINIA

NOTES TO 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
<u>General Obligation Bonds:</u>							
General obligation bond	5.75%	1988	2028	\$13,063-41,261 a+	\$ 672,000	\$ 311,521	\$ 26,076
General obligation bond	4.50%	1999	2039	\$2,518-6,183 a+	119,530	87,471	2,634
General obligation bond	4.10%-5.23%	1999	2019	\$25,000 a+	510,000	50,000	25,000
General obligation bond	4.98%-5.10%	2000	2021	\$94,999-115,952 a+	1,802,210	337,624	109,186
General obligation bond	2.35%-5.10%	2002	2023	\$213,799-272,702 a+	4,382,954	1,292,167	244,407
General obligation bond	4.60%-5.10%	2006	2027	\$147,228-197,458 a+	3,205,190	1,621,519	165,087
General obligation bond	4.60%-5.10%	2009	2030	\$55,000-110,000 a+	1,485,000	1,050,000	65,000
General obligation bond	3.05%-5.05%	2010	2031	\$55,000-120,000 a+	1,620,000	1,200,000	70,000
Total General Obligation Bonds						\$ 5,950,302	\$ 707,390
<u>Revenue Bonds:</u>							
Revenue bond	0.00%	11/28/2001	2033	\$15,595 sa	\$ 935,690	\$ 436,655	\$ 31,190
Revenue bond	0.00%	11/28/2001	2033	\$27,708 sa	1,678,400	803,266	55,416
Revenue bond	0.00%	11/28/2001	2025	\$8,612 sa	344,477	155,015	11,483
Revenue bond	0.00%	11/1/2002	2033	\$13,707 sa	822,366	397,477	27,412
Revenue bond	0.00%	3/10/2005	2036	\$9,276 sa	556,538	324,647	18,551
Revenue bond	0.00%	10/14/2005	2036	\$1,524 sa	91,439	54,863	3,048
Revenue bond	0.00%	10/14/2005	2037	\$31,779 sa	1,906,717	1,175,810	63,557
Revenue bond	0.00%	4/28/2006	2037	\$6,925 sa	415,513	256,233	13,851
Revenue bond	0.00%	3/30/2007	2037	\$3,340 sa	197,179	123,553	6,679
Total Revenue Bonds						\$ 3,727,519	\$ 231,187
Plus:							
Unamortized Premium						\$ 182,491	\$ 16,804
Total General Obligation and Revenue Bonds						\$ 9,860,312	\$ 955,381

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

(sa) - semi-annual installments including interest, if applicable

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COUNTY OF RUSSELL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 6-Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness (Continued)

Details of long-term indebtedness: (Continued)

	Interest Rates	Date Issued	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<u>Literary loans:</u>							
Literary loan	2.00%	1/1/2000	2020	\$57,757 a+	\$ 1,155,140	\$ 115,514	\$ 57,757
Literary loan	2.00%	3/15/1999	2019	\$55,700 a+	1,114,086	55,786	55,786
Literary loan	2.00%	3/15/1999	2019	\$8,200 a+	161,449	5,649	5,649
Literary loan	2.00%	6/15/1999	2019	\$21,134 a+	422,680	21,134	21,134
Literary loan	2.00%	6/15/1999	2019	\$44,020 a+	880,411	44,031	44,031
Literary loan	2.00%	11/15/2000	2021	\$24,689 a+	493,789	74,076	24,689
Literary loan	3.00%	12/15/2000	2021	\$7,700 a+	154,118	23,218	7,700
Literary loan	2.00%	7/1/2003	2023	\$12,500 a+	250,000	62,500	12,500
Total Literary Loans						\$ 401,908	\$ 229,246
<u>Other Obligations:</u>							
Capital Leases (Note 7)						\$ 5,671,743	\$ 279,724
Landfill Closure and Postclosure Liability						286,910	-
Net OPEB Liabilities						2,166,808	-
Compensated Absences						579,384	434,538
Net Pension Liability						4,936,270	-
Total Other Obligations						\$ 13,641,115	\$ 714,262
Total Long-term Obligations						\$ 23,903,335	\$ 1,898,889

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NOTES TO 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 Enterprise Fund for the year ended June 30, 2018:

	Balance July 1, 2017	Issuances	Retirements	Balance June 30, 2018
Revenue bonds	\$ 626,760	\$ -	\$ (23,775)	\$ 602,985
Net pension liability	59,488	23,698	(43,368)	39,818
Total	<u>\$ 686,248</u>	<u>\$ 23,698</u>	<u>\$ (67,143)</u>	<u>\$ 642,803</u>

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

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2019	\$ 22,907	\$ 26,665
2020	23,960	25,612
2021	25,060	24,512
2022	26,212	23,360
2023	27,416	22,156
2024-2028	157,168	90,691
2029-2033	196,743	51,117
2034-2036	123,519	7,723
Totals	<u>\$ 602,985</u>	<u>\$ 271,836</u>

Details of long-term indebtedness:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Business-Type Activities	Amount Due Within One Year
<u>Revenue Bonds:</u>						
Revenue bond	4.50%	4/10/1996	2036	\$ 900,000	\$ 602,985	\$ 22,907
<u>Other Obligations:</u>						
Net pension liability					\$ 39,818	\$ -
Total Long-term Obligations					<u>\$ 642,803</u>	<u>\$ 22,907</u>

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 6-Long-Term Obligations: (Continued)**Component Unit - School Board Indebtedness

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

	Balance July 1, 2017, as restated	Increases	Decreases	Balance June 30, 2018
Net OPEB liabilities	\$ 13,490,296	\$ 742,545	\$ (1,379,046)	\$ 12,853,795
Compensated absences	717,123	546,135	(537,842)	725,416
Net pension liability	38,707,394	5,744,026	(10,628,437)	33,822,983
Total	<u>\$ 52,914,813</u>	<u>\$ 7,032,706</u>	<u>\$ (12,545,325)</u>	<u>\$ 47,402,194</u>

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
<u>Other Obligations:</u>		
Net OPEB Liabilities	\$ 12,853,795	\$ -
Compensated Absences	725,416	544,062
Net Pension Liability	33,822,983	-
Total Other Obligations	<u>\$ 47,402,194</u>	<u>\$ 544,062</u>

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 7-Capital Leases:Primary Government

The County has entered into a lease agreement to finance energy savings equipment and school buses for the School Board. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of minimum lease payments at the dates of inception.

The capital assets acquired through the capital leases are as follows:

	Energy Savings Equipment	School Bus Lease
	<u> </u>	<u> </u>
Machinery and equipment	\$ 5,411,473	\$ 421,811
Less: Accumulated depreciation	<u>-</u>	<u>(23,843)</u>
Net capital asset	<u>\$ 5,411,473</u>	<u>\$ 397,968</u>

Energy savings equipment was placed in service at year end and will start depreciating in 2019.

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,	Capital Leases
	<u> </u>
2019	\$ 515,449
2020	535,879
2021	539,722
2022	432,130
2023	435,842
2024-2028	2,190,596
2029-2033	2,101,475
2034-2037	<u>1,726,153</u>
Subtotal	\$ 8,477,246
Less, amount representing interest	<u>(2,805,503)</u>
Present Value of Lease Agreement	<u>\$ 5,671,743</u>

Note 8-Pension Plan:*Plan Description*

All full-time, salaried permanent employees of the County and (nonprofessional) employees of the 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 County of Russell, Virginia 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 8-Pension Plan: (Continued)***Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.	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.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • School division employees • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
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.	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.	

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	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. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-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.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Not applicable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

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

Note 8-Pension Plan: (Continued)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-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 <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: •Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Plan Description 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.

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 contribution rate for the year ended June 30, 2018 was 12.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the County were \$760,630 and \$718,233 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 \$4,976,088 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. Credible compensation 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, 2018 and 2017, the County's proportion was 99.2986% and 98.6202%, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in Russell County's Retirement Plan and the Russell 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates: (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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-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's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

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

Mortality rates: (Continued)

Post-Disablement:

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

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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Note 8-Pension Plan: (Continued)*Long-Term Expected Rate of Return*

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.60%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Russell County Retirement Plan, Russell County School Board Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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 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		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
County's proportionate share of the County Retirement Plan Net Pension Liability	\$ 8,900,550	\$ 4,976,088	\$ 1,710,915

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 8-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 \$100,383. 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	\$ -	\$ 780,672
Net difference between projected and actual earnings on pension plan investments	-	360,210
Change in proportionate share	23,273	-
Change in assumptions	130,885	-
Employer contributions subsequent to the measurement date	760,630	-
Total	<u>\$ 914,788</u>	<u>\$ 1,140,882</u>

\$760,630 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 ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government
2019	\$ (624,070)
2020	(135,288)
2021	19,934
2022	(247,300)
Thereafter	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-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	141
Inactive members:	
Vested inactive members	7
Non-vested inactive members	14
Inactive members active elsewhere in VRS	13
Total inactive members	34
Active members	119
Total covered employees	294

Contributions

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2018 was 17.28% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$443,320 and \$457,088 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 8-Pension Plan: (Continued)****Component Unit School Board (nonprofessional) (Continued)***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 Unit-School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 17,021,192	\$ 11,234,798	\$ 5,786,394
Changes for the year:			
Service cost	\$ 241,584	\$ -	\$ 241,584
Interest	1,149,952	-	1,149,952
Changes of assumptions	32,003	-	32,003
Differences between expected and actual experience	340,261	-	340,261
Contributions - employer	-	450,897	(450,897)
Contributions - employee	-	127,268	(127,268)
Net investment income	-	1,325,272	(1,325,272)
Benefit payments, including refunds of employee contributions	(1,186,620)	(1,186,620)	-
Administrative expenses	-	(8,059)	8,059
Other changes	-	(1,167)	1,167
Net changes	\$ 577,180	\$ 707,591	\$ (130,411)
Balances at June 30, 2017	\$ 17,598,372	\$ 11,942,389	\$ 5,655,983

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Component Unit School Board (nonprofessional)			
Net Pension Liability	\$ 7,529,767	\$ 5,655,983	\$ 4,067,054

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 \$446,006. 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	\$ 228,265	\$ 84,471
Change in assumptions	21,264	-
Net difference between projected and actual earnings on pension plan investments	-	153,379
Employer contributions subsequent to the measurement date	443,320	-
Total	\$ 692,849	\$ 237,850

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 8-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)*

\$443,320 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 ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2019	\$ (66,558)
2020	181,535
2021	8,793
2022	(112,091)
Thereafter	-

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 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 \$2,958,000 and \$2,607,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 8-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 \$28,167,000 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 0.22904% as compared to 0.23491% at June 30, 2016.

For the year ended June 30, 2018, the school division recognized pension expense of \$1,718,000. 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	\$ -	\$ 1,995,000
Net difference between projected and actual earnings on pension plan investments	-	1,023,000
Change of assumptions	411,000	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	132,000	1,049,000
Employer contributions subsequent to the measurement date	2,958,000	-

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-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*

\$2,958,000 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 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>	
2019	\$ (1,467,000)
2020	(322,000)
2021	(470,000)
2022	(1,076,000)
Thereafter	(189,000)

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 8-Pension Plan: (Continued)

Component Unit School Board (professional) (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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 8-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		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability	\$ 42,063,000	\$ 28,167,000	\$ 16,673,000

Note 8-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 9-Primary Government Other Postemployment Benefits-Health Insurance:

Plan Description

In addition to the pension benefits described in Note 8, the County administers a single-employer defined benefit healthcare plan, The Russell County OPEB Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the County's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees to include Medical, Dental, and Vision insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the County who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. Benefits for both the retiree and their dependent spouse are provided for their respective lifetimes. If the retiree predeceases the spouse, the spouse is eligible to continue their health coverage.

Plan Membership

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

Active Employees	160
Retirees and Spouses	5
Total	<u>165</u>

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 Board of Supervisors. The amount paid by the County for OPEB as the benefits came due during the year ended June 30, 2018 was \$18,508.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9-Primary Government Other Postemployment Benefits-Health Insurance: (Continued)*Total OPEB Liability*

The County's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of July 1, 2017.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 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, level percentage of pay
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.00% in 2017 and gradually declines to 4.20% by the year 2094.
Salary Increase Rates	The salary increase rate starts at 5.35% for 1 year of service and gradually declines to 3.50% increase for 20 or more years of service.
Retirement Age	The average age at retirement is 62.
Mortality Rates	The mortality rates for active and healthy retirees were calculated using the RP-2014 Employee Rates Table with scale BB to 2020; males 90% of rates; females set forward 1 year. 35% of death are assumed to be service related. The mortality rates for disabled retirees were calculated using the RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male. The mortality rates for retirees were calculated using the RP-2014 Post-Retirement Mortality Rates 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.

The date of the most recent actuarial experience study for which significant assumptions were based is not available

Discount Rate

The discount rates are based on the Bond Buyer 20-year Bond Go Index as of their respective measurement dates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 9-Primary Government Other Postemployment Benefits-Health Insurance: (Continued)*Changes in Total OPEB Liability*

	Primary Government Total OPEB Liability
Balances at June 30, 2017	\$ 364,554
Changes during Year:	
Service Cost	16,038
Interest on Total OPEB Liability	13,000
Effect of Assumptions Changes or Inputs	(11,427)
Benefit Payments	(18,508)
Net Changes	\$ (897)
Balances at June 30, 2018	\$ 363,657

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the County, 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:

Rate		
1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$ 395,440	\$ 363,657	\$ 334,699

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the County, 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 (5.00% decreasing to an ultimate rate of 3.20%) or one percentage point higher (7.00% decreasing to an ultimate rate of 5.20%) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.00% decreasing to 3.20%)	Healthcare Cost Trend (6.00% decreasing to 4.20%)	1% Increase (7.00% decreasing to 5.20%)
\$ 323,413	\$ 363,657	\$ 410,941

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 9-Primary Government 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 recognized OPEB expense in the amount of \$27,280. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 9,669

Amounts reported as deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (1,758)
2020	(1,758)
2021	(1,758)
2022	(1,758)
Thereafter	(2,637)

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.

Note 10-Component Unit School Board Other Postemployment Benefits-Health Insurance:*Plan Description*

In addition to the pension benefits described in Note 8, the School Board administers a single-employer defined benefit healthcare plan, the Russell County Public Schools OPEB Plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the Schools Board's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees to include Medical, Dental, and Vision insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the School Board who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. Benefits for both the retiree and their dependent spouse are provided for their respective lifetimes. If the retiree predeceases the spouse, the spouse is eligible to continue their health coverage.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Component Unit School Board Other Postemployment Benefits-Health Insurance:
(Continued)

Plan Membership

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

Active employees	555
Retirees and Spouses	<u>77</u>
Total	<u><u>632</u></u>

Contributions

The School 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 School Board. The amount paid by the School Board for OPEB as the benefits came due during the year ended June 30, 2018 was \$490,936.

Total OPEB Liability

The School Board's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of July 1, 2017.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Component Unit School Board Other Postemployment Benefits-Health Insurance:
(Continued)

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 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, level percentage of pay
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.00% in 2017 and gradually declines to 4.20% by the year 2094.
Salary Increase Rates	The salary increase rate starts at 5.35% for 1 year of service and gradually declines to 3.50% for 20 or more years of service.
Retirement Age	The average age at retirement is 62.
Mortality Rates	The mortality rates for active and healthy retirees were calculated using the RP-2014 Employee Rates Table with scale BB to 2020; males 90% of rates; females set forward 1 year. 35% of death are assumed to be service related. The mortality rates for disabled retirees were calculated using the RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male. The mortality rates for retirees were calculated using the RP-2014 Post-Retirement Mortality Rates 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.

The date of the most recent actuarial experience study for which significant assumptions were based is not available

Discount Rate

The discount rates are based on the Bond Buyer 20-Year Bond GO Index as of their respective measurement dates.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Component Unit School Board Other Postemployment Benefits-Health Insurance:
(Continued)

Changes in Total OPEB Liability

	Component Unit School Board Total OPEB Liability
Balances at June 30, 2017	\$ 7,892,296
Changes during Year:	
Service Cost	235,586
Interest on Total OPEB Liability	275,959
Effect of Assumptions Changes or Inputs	(205,110)
Benefit Payments	(490,936)
Net Changes	\$ (184,501)
Balances at June 30, 2018	\$ 7,707,795

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the 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:

Rate		
1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$ 8,271,289	\$ 7,707,795	\$ 7,176,005

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the 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 (5.00% decreasing to an ultimate rate of 3.20%) or one percentage point higher (7.00% decreasing to an ultimate rate of 5.20%) than the current healthcare cost trend rates:

Rates		
Healthcare Cost		
1% Decrease (5.00% decreasing to 3.20%)	Trend (6.00% decreasing to 4.20%)	1% Increase (7.00% decreasing to 5.20%)
\$ 6,909,242	\$ 7,707,795	\$ 8,640,169

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 10-Component Unit School Board Other Postemployment Benefits-Health Insurance:
(Continued)

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

For the year ended June 30, 2018, the School Board recognized OPEB expense in the amount of \$477,360. At June 30, 2018, the School Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 170,925

Amounts reported as deferred inflows of resources related to the OPEB plan will be recognized in OPEB expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (34,185)
2020	(34,185)
2021	(34,185)
2022	(34,185)
Thereafter	(34,185)

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

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Note 11—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
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board 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.

Note 11—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)**GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)****Benefit Amounts**

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

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

Reduction in Benefit Amounts

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

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

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

Contributions

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

Note 11—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Contributions (Continued)

Contributions to the Group Life Insurance Program from the County were \$32,161 and \$29,665 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 (nonprofessional) were \$13,673 and \$13,806 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 \$95,556 and \$93,780 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 \$465,000 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2018, the Component Unit School Board (nonprofessional) reported a liability of \$216,000 for its proportionate share of the Net GLI OPEB Liability.

At June 30, 2018, the Component Unit School Board (professional) reported a liability of \$1,471,000 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 0.03093% as compared to 0.03074% at June 30, 2016.

At June 30, 2017, the Component Unit School Board (nonprofessional) proportion was 0.01439% as compared to 0.01474% at June 30, 2016.

At June 30, 2017, the Component Unit School Board (professional) proportion was 0.09777% as compared to 0.09983% at June 30, 2016.

For the year ended June 30, 2018, the County recognized GLI OPEB expense of \$8,000. 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.

For the year ended June 30, 2018, the Component Unit School Board (nonprofessional) recognized GLI OPEB expense of \$1,000. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11—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 \$10,000. 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		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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 10,000	\$ -	\$ 5,000	\$ -	\$ 33,000
Changes in proportion	-	-	-	5,000	-	30,000
Changes in assumptions	-	24,000	-	11,000	-	76,000
Net difference between projected and actual earnings on OPEB plan investments	-	18,000	-	8,000	-	55,000
Employer contributions subsequent to the measurement date	32,161	-	13,673	-	95,556	-
Total	<u>\$ 32,161</u>	<u>\$ 52,000</u>	<u>\$ 13,673</u>	<u>\$ 29,000</u>	<u>\$ 95,556</u>	<u>\$ 194,000</u>

\$32,161, \$13,673, and \$95,556 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 (nonprofessional)	Component Unit School Board (professional)
2019	\$ (11,000)	\$ (6,000)	\$ (40,000)
2020	(11,000)	(6,000)	(40,000)
2021	(11,000)	(6,000)	(40,000)
2022	(11,000)	(6,000)	(40,000)
2023	(6,000)	(4,000)	(26,000)
Thereafter	(2,000)	(1,000)	(8,000)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 11—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.

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.

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:

Note 11—Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

Actuarial Assumptions (Continued)

Mortality Rates - General State Employees (Continued)

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.

Note 11—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.

Note 11—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.

Note 11—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.

Note 11—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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 11—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.

Note 11—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.

Note 11—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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 11—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.

Note 11—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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 11—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	\$ 602,000	\$ 465,000	\$ 354,000
Component Unit School Board (nonprofessional)	\$ 280,000	\$ 216,000	\$ 165,000
Component Unit School Board (professional)	\$ 1,902,000	\$ 1,471,000	\$ 1,121,000

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.

Note 12—Health Insurance Credit (HIC) Program:*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: • 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: • <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: • 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 12—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>Primary Government</u>	<u>Component Unit School Board (nonprofessional)</u>
Inactive members or their beneficiaries currently receiving benefits	<u>14</u>	<u>65</u>
Inactive members:		
Vested inactive members	2	-
Total inactive members	<u>2</u>	<u>-</u>
Active members	32	119
Total covered employees	<u><u>48</u></u>	<u><u>184</u></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 County's contractually required employer contribution rate for the year ended June 30, 2018 was 0.28% of covered employee compensation. The Component Unit School Board's (nonprofessional) contractually required employer contribution rate for the year ended June 30, 2018 was 1.20% 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 County to the Health Insurance Credit Program were \$4,374 and \$3,736 for the years ended June 30, 2018 and June 30, 2017, respectively. Contributions from the Component Unit School Board (nonprofessional) to the Health Insurance Credit Program were \$31,329 and \$31,742 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12—Health Insurance Credit (HIC) Program: (Continued)

Net HIC OPEB Liability

The County and Component Unit School Board's (nonprofessional) 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.

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.

Note 12—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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12—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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12—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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 12—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%

Note 12—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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 12—Health Insurance Credit (HIC) Program: (Continued)***Changes in Net HIC OPEB Liability – Primary Government*

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 107,364	\$ 80,391	\$ 26,973
Changes for the year:			
Service cost	\$ 1,785	\$ -	\$ 1,785
Interest	7,343	-	7,343
Assumption changes	(1,681)	-	(1,681)
Contributions - employer	-	3,731	(3,731)
Net investment income	-	9,214	(9,214)
Benefit payments	(4,926)	(4,926)	-
Administrative expenses	-	(148)	148
Other changes	-	472	(472)
Net changes	\$ 2,521	\$ 8,343	\$ (5,822)
Balances at June 30, 2017	\$ 109,885	\$ 88,734	\$ 21,151

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 12—Health Insurance Credit (HIC) Program: (Continued)***Changes in Net HIC OPEB Liability – Component Unit School Board (nonprofessional)*

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 581,000	\$ (33,000)	\$ 614,000
Changes for the year:			
Service cost	\$ 12,000	\$ -	\$ 12,000
Interest	17,000	-	17,000
Assumption changes	(42,000)	-	(42,000)
Contributions - employer	-	32,000	(32,000)
Net investment income	-	-	-
Benefit payments	(34,000)	(34,000)	-
Net changes	\$ (47,000)	\$ (2,000)	\$ (45,000)
Balances at June 30, 2017	\$ 534,000	\$ (35,000)	\$ 569,000

Sensitivity of the County's and Component Unit School Board's (nonprofessional) Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

The following presents the County's and Component Unit School Board's (nonprofessional) Health Insurance Credit Program net HIC OPEB liability using the discount rate of 7.00%, as well as what the County's and Component Unit School Board's (nonprofessional) 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%)
County's			
Net HIC OPEB Liability	\$ 30,698	\$ 21,151	\$ 12,909
Component Unit School Board's (nonprofessional)			
Net HIC OPEB Liability	\$ 629,000	\$ 569,000	\$ 519,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 12—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*

For the year ended June 30, 2018, the County and Component Unit School Board (nonprofessional) recognized Health Insurance Credit Program OPEB expense of \$2,169 and \$20,872, respectively. At June 30, 2018, the County and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to the County's and Component Unit School Board's (nonprofessional) Health Insurance Credit Program from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on HIC OPEB plan investments	\$ -	\$ 2,894	\$ -	\$ 1,929
Change in assumptions	-	1,366	-	36,752
Employer contributions subsequent to the measurement date	4,374	-	31,329	-
Total	\$ 4,374	\$ 4,260	\$ 31,329	\$ 38,681

\$4,374 and \$31,329 reported as deferred outflows of resources related to the HIC OPEB resulting from the County and Component Unit School Board (nonprofessional) 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	Primary Government	Component Unit School Board (nonprofessional)
2019	\$ (1,038)	\$ (10,283)
2020	(1,038)	(10,283)
2021	(1,038)	(10,283)
2022	(1,040)	(7,832)
2023	(106)	-

Note 12—Health Insurance Credit (HIC) Program: (Continued)

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.

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Note 13—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.

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
Eligible Employees 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. Eligible employees are enrolled automatically upon employment. They include: • Full-time permanent (professional) salaried employees of public school divisions covered under VRS.
Benefit Amounts The Teacher Employee Retiree Health Insurance Credit Program provides the following benefits for eligible employees: • 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: - o \$4.00 per month, multiplied by twice the amount of service credit, or - o \$4.00 per month, multiplied by the amount of service earned had the employee been active until age 60, whichever is lower.
Health Insurance Credit Program Notes: • 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.

Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

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 \$225,953 and \$199,561 for the years ended June 30, 2018 and June 30, 2017, respectively.

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 \$2,890,000 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 0.22781% as compared to 0.23490% 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 \$223,000. 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 13—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)

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	\$ -	\$ 5,000
Change in assumptions	-	30,000
Change in proportion	-	78,000
Employer contributions subsequent to the measurement date	<u>225,953</u>	<u>-</u>
Total	<u>\$ 225,953</u>	<u>\$ 113,000</u>

\$225,953 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:

Year Ended June 30

2019	\$ (18,000)
2020	(18,000)
2021	(18,000)
2022	(18,000)
2023	(16,000)
Thereafter	(25,000)

Note 13—Teacher Employee Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 13—Teacher Employee Health Insurance Credit (HIC) 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

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
	<u>OPEB Plan</u>
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.

Note 13—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	2.50%
	*Expected arithmetic nominal return		<u>7.30%</u>

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

Discount Rate

The discount rate used to measure the total 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 13—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	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee HIC OPEB Plan			
Net HIC OPEB Liability	\$ 3,225,000	\$ 2,890,000	\$ 2,605,000

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.

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Note 14—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.

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
Eligible Employees 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).
Benefit Amounts The Line of Duty Act Program provides death and health insurance benefits for eligible individuals: • <u>Death</u> - The Line of Duty Act program death benefit is a one-time payment made to the beneficiary or beneficiaries of a covered individual. Amounts vary as follows: - o \$100,000 when a death occurs as the direct or proximate result of performing duty as of January 1, 2006, or after. - o \$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. - o An additional \$20,000 benefit is payable when certain members of the National Guard and U.S. military reserves are killed in action in any armed conflict on or after October 7, 2001. • <u>Health Insurance</u> - The Line of Duty Act program provides health insurance benefits. - o 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. - o 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14—Line of Duty Act (LODA) Program:

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 \$53,616 and \$54,041 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 \$1,317,000 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 0.50108% as compared to 0.49189% at June 30, 2016.

For the year ended June 30, 2018, the entity recognized LODA OPEB expense of \$119,000. 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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 14—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)*

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on LODA OPEB plan investments	\$ -	\$ 2,000
Change in assumptions	-	136,000
Change in proportion	23,000	-
Employer contributions subsequent to the measurement date	<u>53,616</u>	<u>-</u>
Total	<u>\$ 76,616</u>	<u>\$ 138,000</u>

\$53,616 reported as deferred outflows of resources related to the LODA OPEB resulting from the entity's contributions subsequent to the measurement date will be recognized as a reduction of the Net LODA OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the LODA OPEB will be recognized in LODA OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (14,000)
2020	(14,000)
2021	(14,000)
2022	(14,000)
2023	(14,000)
Thereafter	(45,000)

Note 14—Line of Duty Act (LODA) Program: (Continued)*Actuarial Assumptions*

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

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

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality rates - General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality rates - SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality rates - VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability 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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers with Public Safety Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 14—Line of Duty Act (LODA) Program: (Continued)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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%

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 14—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.

Note 14—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	\$ 1,493,000	\$ 1,317,000	\$ 1,170,000

Note 14—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	\$ 1,118,000	\$ 1,317,000	\$ 1,564,000

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.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018**Note 15-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	\$ 568,695	\$ 75,000	\$ -	\$ 643,695
Construction in progress	2,089,147	-	(2,089,147)	-
Total capital assets not being depreciated	<u>\$ 2,657,842</u>	<u>\$ 75,000</u>	<u>\$ (2,089,147)</u>	<u>\$ 643,695</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 24,572,095	\$ 5,411,473	\$ -	\$ 29,983,568
Machinery and equipment	4,957,781	921,911	(565,980)	5,313,712
Total capital assets being depreciated	<u>\$ 29,529,876</u>	<u>\$ 6,333,384</u>	<u>\$ (565,980)</u>	<u>\$ 35,297,280</u>
Accumulated depreciation:				
Buildings and improvements	\$ (12,023,984)	\$ (585,713)	\$ -	\$ (12,609,697)
Machinery and equipment	(3,097,231)	(458,405)	263,170	(3,292,466)
Total accumulated depreciation	<u>\$ (15,121,215)</u>	<u>\$ (1,044,118)</u>	<u>\$ 263,170</u>	<u>\$ (15,902,163)</u>
Total capital assets being depreciated, net	<u>\$ 14,408,661</u>	<u>\$ 5,289,266</u>	<u>\$ (302,810)</u>	<u>\$ 19,395,117</u>
Governmental activities capital assets, net	<u>\$ 17,066,503</u>	<u>\$ 5,364,266</u>	<u>\$ (2,391,957)</u>	<u>\$ 20,038,812</u>

During the fiscal year, the County transferred five buses to the Component Unit - School Board with an original cost of \$334,164 and accumulated depreciation of \$158,728 (net book value of \$175,436).

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type Activities:				
Capital assets, being depreciated:				
Utility plant	\$ 5,240,699	\$ -	\$ -	\$ 5,240,699
Accumulated depreciation:				
Utility plant	\$ (2,510,158)	\$ (131,017)	\$ -	\$ (2,641,175)
Total capital assets being depreciated, net	<u>\$ 2,730,541</u>	<u>\$ (131,017)</u>	<u>\$ -</u>	<u>\$ 2,599,524</u>
Business-type activities capital assets, net	<u>\$ 2,730,541</u>	<u>\$ (131,017)</u>	<u>\$ -</u>	<u>\$ 2,599,524</u>

COUNTY OF RUSSELL, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 15-Capital Assets: (Continued)

Primary Government: (Continued)

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

Governmental activities:

General government administration	\$	18,623
Judicial administration		11,581
Public safety		274,776
Public works		96,808
Health and welfare		34,441
Education		573,063
Parks, recreation, and cultural		31,152
Community development		3,674
Total depreciation expense-governmental activities	\$	<u>1,044,118</u>

Business-type activities:

Sewer Authority	\$	<u>131,017</u>
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Capital asset activity for the School Board for the year ended June 30, 2018 was as follows:

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 5,636,345	\$ -	\$ -	\$ 5,636,345
Capital assets, being depreciated:				
Buildings and improvements	\$ 25,313,576	\$ 301,868	\$ -	\$ 25,615,444
Machinery and equipment	7,435,332	682,781	(461,235)	7,656,878
Total capital assets being depreciated	<u>\$ 32,748,908</u>	<u>\$ 984,649</u>	<u>\$ (461,235)</u>	<u>\$ 33,272,322</u>
Accumulated depreciation:				
Buildings and improvements	\$ (15,390,261)	\$ (690,858)	\$ -	\$ (16,081,119)
Machinery and equipment	(5,691,759)	(600,704)	461,235	(5,831,228)
Total accumulated depreciation	<u>\$ (21,082,020)</u>	<u>\$ (1,291,562)</u>	<u>\$ 461,235</u>	<u>\$ (21,912,347)</u>
Total capital assets being depreciated, net	<u>\$ 11,666,888</u>	<u>\$ (306,913)</u>	<u>\$ -</u>	<u>\$ 11,359,975</u>
Governmental activities capital assets, net	<u>\$ 17,303,233</u>	<u>\$ (306,913)</u>	<u>\$ -</u>	<u>\$ 16,996,320</u>

During the fiscal year, the County transferred five buses to the Component Unit - School Board with an original cost of \$334,164 and accumulated depreciation of \$158,728 (net book value of \$175,436).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 16-Risk Management:

The County and its Component Unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County and the related Component Unit - School Board participate 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 this risk pool jointly and severally agrees to assume, pay and discharge any liability. The County and the School Board pay 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.

Note 17-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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions of this guidance all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, future disallowances of current grant program expenditures, if any, would be immaterial.

Note 18-Surety Bonds:

<u>Fidelity & Deposit Company of Maryland-Surety:</u>	
Ann S. McReynolds, Clerk of the Circuit Court	\$ 1,010,000
Patrick Thompson, Treasurer	400,000
Randy N. Williams, Commissioner of the Revenue	3,000
Steve Dye, Sheriff	30,000
All constitutional officers' employees: blanket bond	50,000
 <u>Hartford Company - Surety:</u>	
Tammy Caldwell - Clerk of the School Board	\$ 10,000
All school employees: blanket bond	10,000
 <u>USF&G Insurance Co. - Surety:</u>	
All Social Services employees-blanket bond	\$ 100,000

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 19-Landfill Closure and Postclosure Care Cost:

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The total estimated closure and postclosure care liability at June 30, 2018 is \$286,910. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and postclosure in 2018. Actual costs for closure and postclosure monitoring may change due to inflation, deflation, changes in technology or changes in regulations. The County uses the Commonwealth of Virginia's financial assurance mechanism to meet the Department of Environmental Quality's assurance requirements for landfill closure and postclosure costs.

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

Note 20-Deferred/Unavailable Revenue:

Deferred revenue/unavailable revenue represent 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.

	Statement of Net Position	Balance Sheet
	Governmental Activities	Governmental Funds
2nd half taxes due December 2018	\$ 5,213,068	\$ 5,213,068
Delinquent taxes due prior to June 30, 2018	-	3,413,211
Prepaid taxes	209,470	209,470
Prorated tax	56,913	56,913
Special assessment	-	78,713
Total deferred/unavailable revenue	\$ 5,479,451	\$ 8,971,375

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 21-Self Health Insurance:

The County of Russell, Virginia established a limited risk management program for health insurance. Premiums are paid into the health plan fund from the County and School Board and are available to pay claims, and administrative costs of the program. During the fiscal year 2018, a total of \$8,007,169 was paid in benefits and administrative costs. The risk assumed by the County and School Board is based on the number of participants in the program. The risk varies by the number of participants and their specific plan type. As of June 30, 2018, the County and School Board were exposed to risk which represents the difference between the claims to date and the ceiling liability as calculated based on enrollment levels and health plan coverage. Additional costs in excess of the ceiling liability are covered as part of the contract with the County. Incurred but not reported claims of \$1,098,269 have been accrued as a liability based primarily on actual cost incurred prior to June 30 but paid after year-end. Interfund premiums are based primarily upon the insured funds' claims experience and are reported as quasi-external interfund transactions. Changes in the claims liability during fiscal year 2018 and the two preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Balance at Beginning of Fiscal Year</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2017-18	\$ 929,201	\$ 7,676,237	\$ (7,507,169)	\$ 1,098,269
2016-17	683,320	8,033,165	(7,787,284)	929,201
2015-16	888,250	5,756,196	(5,961,126)	683,320

Note 22-Moral Obligation:

The County has signed a support agreement that backs certain debt obligations of the Russell County Public Service Authority (a component unit of the County). In the agreement, the Board of Supervisors has a moral obligation to fund the Russell County Public Service Authority in amounts sufficient to cover debt service issued during fiscal year 2014 in the amount of \$700,843. To date, the County of Russell, Virginia has provided funds sufficient to cover such debt service.

In addition, the Board of Supervisors also provides financing guarantees to the Castlewood Water and Sewage Authority.

Note 23-Operating Lease:

The County has signed a lease agreement with the Industrial Development Authority of Russell County to pay rent equivalent to the required debt service as it relates to the Russell County Government Center. To date, the County of Russell, Virginia has provided funds sufficient to cover such debt service. As of June 30, 2018, the outstanding balance of the loan was \$3,391,300.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 23-Operating Lease: (Continued)

Future required rent payments are as follows:

Year Ending June 30,	Operating Lease	
	Principal	Interest
2019	\$ 390,000	\$ 74,898
2020	399,100	65,825
2021	408,700	56,199
2022	418,400	46,514
2023	428,300	36,600
2024-2026	1,346,800	47,997
Totals	<u>\$ 3,391,300</u>	<u>\$ 328,033</u>

Note 24-Litigation:

As of June 30, 2018, the County's Attorney reports one matter to be disclosed as a possible liability to the County. A company, located in the County, has appealed its 2014 business personal property tax assessment issued by the Commissioner of the Revenue of Russell County, Virginia. The company claims the assessment is based on equipment that is used to support manufacturing and is therefore non-taxable. The company is seeking a refund of their payment in the amount of \$677,914.11.

The same company has also appealed its 2017 business personal property tax of \$1,192,915.82 making a similar claim as noted above. As of June 30, 2018, this amount had not been paid but was included in property tax receivables of the County.

The County's attorney estimates the risk of loss to the County on both claims to be low to fair and therefore, no liability has been booked for either amount.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 25-Adoption of Accounting Principles:

The County and Component Unit School Board 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 and Component Unit School Board 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	Component Unit School Board
Net Position, July 1, 2017, as previously stated	\$ 8,343,923	\$ (19,371,832)
GASB 75 Implementation	(2,030,772)	(11,744,085)
Net Position, July 1, 2017, as restated	<u>\$ 6,313,151</u>	<u>\$ (31,115,917)</u>

Note 26-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.

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2018

Note 26-Upcoming Pronouncements: (Continued)

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 Russell, Virginia
General 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</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
General property taxes	\$ 16,347,862	\$ 16,347,862	\$ 16,390,872	\$ 43,010
Other local taxes	3,072,069	3,082,999	3,025,550	(57,449)
Permits, privilege fees, and regulatory licenses	33,200	33,200	68,668	35,468
Fines and forfeitures	14,400	14,400	16,708	2,308
Revenue from the use of money and property	343,000	343,000	252,400	(90,600)
Charges for services	336,200	336,200	344,100	7,900
Miscellaneous	216,600	216,600	233,890	17,290
Recovered costs	438,500	438,500	601,532	163,032
Intergovernmental:				
Commonwealth	8,610,491	8,610,491	8,494,082	(116,409)
Federal	3,002,559	3,002,559	2,805,219	(197,340)
Total revenues	\$ 32,414,881	\$ 32,425,811	\$ 32,233,021	\$ (192,790)
EXPENDITURES				
Current:				
General government administration	\$ 1,803,077	\$ 2,052,508	\$ 2,177,595	\$ (125,087)
Judicial administration	2,196,775	2,056,435	2,397,387	(340,952)
Public safety	6,067,997	5,726,378	6,554,101	(827,723)
Public works	3,068,494	3,829,041	3,137,540	691,501
Health and welfare	7,748,121	8,223,076	7,113,432	1,109,644
Education	8,004,850	8,450,204	7,878,848	571,356
Parks, recreation, and cultural	541,486	556,488	566,272	(9,784)
Community development	924,972	916,987	1,083,779	(166,792)
Nondepartmental	377,268	544,673	158,828	385,845
Capital projects	-	-	3,322,326	(3,322,326)
Debt service:				
Principal retirement	1,232,709	1,232,709	1,422,008	(189,299)
Interest and other fiscal charges	471,413	471,413	471,413	-
Total expenditures	\$ 32,437,162	\$ 34,059,912	\$ 36,283,529	\$ (2,223,617)
Excess (deficiency) of revenues over (under) expenditures	\$ (22,281)	\$ (1,634,101)	\$ (4,050,508)	\$ (2,416,407)
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (200,000)	\$ (223,877)	\$ (403,382)	\$ (179,505)
Issuance of capital leases	-	-	321,811	321,811
Total other financing sources (uses)	\$ (200,000)	\$ (223,877)	\$ (81,571)	\$ 142,306
Net change in fund balances	\$ (222,281)	\$ (1,857,978)	\$ (4,132,079)	\$ (2,274,101)
Fund balances - beginning	222,281	1,857,978	11,835,224	9,977,246
Fund balances - ending	\$ -	\$ -	\$ 7,703,145	\$ 7,703,145

County of Russell, Virginia
Special Revenue Fund - Coal Road 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</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Other local taxes	\$ 150,000	\$ 150,000	\$ 364,639	\$ 214,639
Revenue from the use of money and property	-	-	332	332
Total revenues	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 364,971</u>	<u>\$ 214,971</u>
EXPENDITURES				
Current:				
Public works	\$ 150,000	\$ 192,390	\$ 193,840	\$ (1,450)
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (42,390)</u>	<u>\$ 171,131</u>	<u>\$ 213,521</u>
Net change in fund balances	\$ -	\$ (42,390)	\$ 171,131	\$ 213,521
Fund balances - beginning	-	42,390	82,732	40,342
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 253,863</u>	<u>\$ 253,863</u>

County of Russell, Virginia
Special Revenue Fund - Workforce Investment Board 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</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u> <u>Positive</u> <u>(Negative)</u>
REVENUES				
Recovered costs	\$ -	\$ -	\$ 117,140	\$ 117,140
Intergovernmental:				
Federal	2,969,127	2,969,127	2,432,792	(536,335)
Total revenues	<u>\$ 2,969,127</u>	<u>\$ 2,969,127</u>	<u>\$ 2,549,932</u>	<u>\$ (419,195)</u>
EXPENDITURES				
Current:				
Health and welfare	\$ 2,746,846	\$ 2,746,846	\$ 2,488,011	\$ 258,835
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 222,281</u>	<u>\$ 222,281</u>	<u>\$ 61,921</u>	<u>\$ (160,360)</u>
Net change in fund balances	\$ 222,281	\$ 222,281	\$ 61,921	\$ (160,360)
Fund balances (deficit) - beginning	-	-	(67,119)	(67,119)
Fund balances (deficit) - ending	<u>\$ 222,281</u>	<u>\$ 222,281</u>	<u>\$ (5,198)</u>	<u>\$ (227,479)</u>

County of Russell, Virginia
Schedule of Employer's Proportionate Share of the Net Pension Liability
For the Years Ended June 30, 2015 through June 30, 2018

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
Primary Government - County Retirement Plan					
2017	99.2986%	\$ 4,976,088	\$ 4,808,206	103.49%	84.04%
2016	98.6202%	6,835,305	5,467,426	125.02%	77.80%
2015	99.1179%	5,970,089	5,368,165	111.21%	80.39%
2014	99.1179%	5,782,839	5,440,419	106.29%	80.53%
Component Unit School Board (professional)					
2017	0.22904%	\$ 28,167,000	\$ 17,982,879	156.63%	72.92%
2016	0.23491%	32,921,000	17,914,579	183.77%	68.28%
2015	0.23337%	29,373,000	17,363,701	169.16%	70.68%
2014	0.23360%	28,229,000	17,083,236	165.24%	70.88%

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

County of Russell, 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	\$ 241,584	\$ 228,855	\$ 261,697	\$ 263,958
Interest	1,149,952	1,151,059	1,132,997	1,116,022
Differences between expected and actual experience	340,261	(240,897)	20,402	-
Changes in assumptions	32,003	-	-	-
Benefit payments, including refunds of employee contributions	(1,186,620)	(1,123,037)	(1,191,112)	(1,083,833)
Net change in total pension liability	\$ 577,180	\$ 15,980	\$ 223,984	\$ 296,147
Total pension liability - beginning	17,021,192	17,005,212	16,781,228	16,485,081
Total pension liability - ending (a)	<u>\$ 17,598,372</u>	<u>\$ 17,021,192</u>	<u>\$ 17,005,212</u>	<u>\$ 16,781,228</u>
Plan fiduciary net position				
Contributions - employer	\$ 450,897	\$ 460,715	\$ 425,544	\$ 423,435
Contributions - employee	127,268	128,274	120,010	130,388
Net investment income	1,325,272	187,821	515,108	1,629,758
Benefit payments, including refunds of employee contributions	(1,186,620)	(1,123,037)	(1,191,112)	(1,083,833)
Administrative expense	(8,059)	(7,361)	(7,577)	(9,166)
Other	(1,167)	(82)	(108)	86
Net change in plan fiduciary net position	\$ 707,591	\$ (353,670)	\$ (138,135)	\$ 1,090,668
Plan fiduciary net position - beginning	11,234,798	11,588,468	11,726,603	10,635,935
Plan fiduciary net position - ending (b)	<u>\$ 11,942,389</u>	<u>\$ 11,234,798</u>	<u>\$ 11,588,468</u>	<u>\$ 11,726,603</u>
School Division's net pension liability - ending (a) - (b)	\$ 5,655,983	\$ 5,786,394	\$ 5,416,744	\$ 5,054,625
Plan fiduciary net position as a percentage of the total pension liability	67.86%	66.00%	68.15%	69.88%
Covered payroll	\$ 2,147,811	\$ 2,648,956	\$ 2,434,577	\$ 2,612,301
School Division's net pension liability as a percentage of covered payroll	263.34%	218.44%	222.49%	193.49%

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 Russell, Virginia
Schedule of Employer Contributions - Pension Plans
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in		Contribution	Employer's	Contributions
	Contractually	Relation to			
	Required	Contractually	Deficiency	Covered	as a % of
	Contribution	Required	(Excess)	Payroll	Covered
	(1)	(2)	(3)	(4)	Payroll
					(5)
Primary Government					
2018	\$ 760,630	\$ 760,630	\$ -	\$ 6,125,536	12.42%
2017	718,233	718,233	-	4,808,206	14.94%
2016	807,684	807,684	-	5,467,426	14.77%
2015	794,360	794,360	-	5,368,165	14.80%
Component Unit School Board (nonprofessional)					
2018	\$ 443,320	\$ 443,320	\$ -	\$ 2,610,768	16.98%
2017	457,088	457,088	-	2,147,811	21.28%
2016	464,892	464,892	-	2,648,956	17.55%
2015	425,544	425,544	-	2,434,577	17.48%
2014	424,238	424,238	-	2,612,301	16.24%
2013	434,345	434,345	-	2,674,538	16.24%
2012	386,243	386,243	-	2,745,156	14.07%
2011	384,524	384,524	-	2,732,933	14.07%
2010	412,281	412,281	-	2,823,842	14.60%
2009	422,641	422,641	-	2,894,798	14.60%
Component Unit School Board (professional)					
2018	\$ 2,958,000	\$ 2,958,000	\$ -	\$ 18,374,518	16.10%
2017	2,607,000	2,607,000	-	17,982,879	14.50%
2016	2,503,615	2,503,615	-	17,914,579	13.98%
2015	2,509,000	2,509,000	-	17,363,701	14.45%
2014	1,991,484	1,991,484	-	17,083,236	11.66%
2013	2,037,610	2,037,610	-	17,475,216	11.66%
2012	1,164,108	1,164,108	-	18,390,325	6.33%
2011	700,575	700,575	-	17,826,341	3.93%
2010	1,685,523	1,685,523	-	19,131,926	8.81%
2009	1,766,705	1,766,705	-	20,053,407	8.81%

Contributions are from County records.

Schedule is intended to show information for 10 years. Prior to 2015, VASAP's information was consolidated in the County's totals and presented in the County report. Therefore, sufficient information to allocate the prior year balances is not available. Additional years will be included as they become available.

County of Russell, Virginia
Notes to Required Supplementary Information - Pension Plans
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 is not material.

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

Largest 10 - Non-Hazardous Duty:

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

Largest 10 - Hazardous Duty:

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

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

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

All Others (Non 10 Largest) - Hazardous Duty:

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

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 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 Russell, Virginia
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Primary Government
For the Year Ended June 30, 2018

	2018
Total OPEB liability	
Service cost	\$ 16,038
Interest	13,000
Changes in assumptions	(11,427)
Benefit payments	(18,508)
Net change in total OPEB liability	\$ (897)
Total OPEB liability - beginning	364,554
Total OPEB liability - ending	\$ 363,657
 Covered payroll	 \$ 6,190,566
 County's total OPEB liability (asset) as a percentage of covered payroll	 5.87%

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

County of Russell, Virginia
Notes to Required Supplementary Information - County OPEB
For the Year Ended June 30, 2018

Valuation Date: 7/1/2017
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal, level percentage of pay
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.00% in 2017 and gradually declines to 4.20% by the year 2094.
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service.
Retirement Age	The average age at retirement is 62.
Mortality Rates	The mortality rates for active and healthy retirees were calculated using the RP-2014 Employee Rates Table with scale BB to 2020; males 90% of rates; females set forward 1 year. 35% of death are assumed to be service related. The mortality rates for disabled retirees were calculated using the RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male. The mortality rates for retirees were calculated using the RP-2014 Post-Retirement Mortality Rates 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.

County of Russell, Virginia
Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios
Component Unit School Board
For the Year Ended June 30, 2018

	2018
Total OPEB liability	
Service cost	\$ 235,586
Interest	275,959
Changes in assumptions	(205,110)
Benefit payments	(490,936)
Net change in total OPEB liability	\$ (184,501)
Total OPEB liability - beginning	7,892,296
Total OPEB liability - ending	\$ 7,707,795
 Covered payroll	 \$ 20,503,347
 School Board's total OPEB liability (asset) as a percentage of covered payroll	 37.59%

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

County of Russell, Virginia
Notes to Required Supplementary Information - School OPEB
For the Year Ended June 30, 2018

Valuation Date: 7/1/2017
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal, level percentage of pay
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50%
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.00% in 2017 and gradually declines to 4.20% by the year 2094.
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service.
Retirement Age	The average age at retirement is 62.
Mortality Rates	The mortality rates for active and healthy retirees were calculated using the RP-2014 Employee Rates Table with scale BB to 2020; males 90% of rates; females set forward 1 year. 35% of death are assumed to be service related. The mortality rates for disabled retirees were calculated using the RP-2014 Disabled Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male. The mortality rates for retirees were calculated using the RP-2014 Post-Retirement Mortality Rates 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.

County of Russell, Virginia
Schedule of Employer'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)
Primary Government					
2017	0.0309%	\$ 465,000	\$ 5,704,306	8.15%	48.86%
Component Unit School Board (nonprofessional)					
2017	0.0144%	\$ 216,000	\$ 2,654,927	8.14%	48.86%
Component Unit School Board (professional)					
2017	0.0978%	\$ 1,471,000	\$ 18,034,586	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 Russell, 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)
Primary Government					
2018	\$ 32,161	\$ 32,161	\$ -	\$ 6,184,666	0.52%
2017	29,665	29,665	-	5,704,306	0.52%
2016	26,515	26,515	-	5,524,027	0.48%
2015	26,057	26,057	-	5,428,571	0.48%
2014	26,130	26,130	-	5,443,723	0.48%
2013	26,774	26,774	-	5,577,961	0.48%
2012	15,361	15,361	-	5,486,088	0.28%
2011	15,435	15,435	-	5,512,595	0.28%
2010	11,068	11,068	-	5,497,130	0.20%
2009	14,652	14,652	-	5,426,743	0.27%
Component Unit School Board (nonprofessional)					
2018	\$ 13,673	\$ 13,673	\$ -	\$ 2,629,348	0.52%
2017	13,806	13,806	-	2,654,927	0.52%
2016	12,715	12,715	-	2,648,956	0.48%
2015	11,849	11,849	-	2,468,575	0.48%
2014	12,548	12,548	-	2,614,141	0.48%
2013	12,838	12,838	-	2,674,538	0.48%
2012	7,686	7,686	-	2,745,156	0.28%
2011	7,652	7,652	-	2,735,933	0.28%
2010	5,527	5,527	-	2,832,847	0.20%
2009	7,816	7,816	-	2,894,798	0.27%
Component Unit School Board (professional)					
2018	\$ 95,556	\$ 95,556	\$ -	\$ 18,376,099	3.63%
2017	93,780	93,780	-	18,034,586	3.53%
2016	86,114	86,114	-	17,940,378	3.25%
2015	83,384	83,384	-	17,371,656	3.38%
2014	82,222	82,222	-	17,129,577	3.15%
2013	83,953	83,953	-	14,490,261	3.14%
2012	51,461	51,461	-	18,378,975	1.87%
2011	49,914	49,914	-	17,826,341	1.82%
2010	36,866	36,866	-	19,131,926	1.30%
2009	54,144	54,144	-	20,053,407	1.87%

County of Russell, 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 Russell, Virginia
Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

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 Russell, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Primary Government
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

	2017
Total HIC OPEB Liability	
Service cost	\$ 1,785
Interest	7,343
Changes in assumptions	(1,681)
Benefit payments	(4,926)
Net change in total HIC OPEB liability	\$ 2,521
Total HIC OPEB Liability - beginning	107,364
Total HIC OPEB Liability - ending (a)	\$ 109,885
 Plan fiduciary net position	
Contributions - employer	\$ 3,731
Net investment income	9,214
Benefit payments	(4,926)
Administrative expense	(148)
Other	472
Net change in plan fiduciary net position	\$ 8,343
Plan fiduciary net position - beginning	80,391
Plan fiduciary net position - ending (b)	\$ 88,734
 Employer's net HIC OPEB liability - ending (a) - (b)	\$ 21,151
 Plan fiduciary net position as a percentage of the total HIC OPEB liability	 80.75%
 Covered payroll	 \$ 1,332,239
 Employer's net HIC OPEB liability as a percentage of covered payroll	 1.59%

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 Russell, Virginia
Schedule of Changes in the Employer's Net OPEB Liability and Related Ratios
Component Unit School Board (nonprofessional)
Health Insurance Credit Program (HIC)
For the Year Ended June 30, 2018

	2017
Total HIC OPEB Liability	
Service cost	\$ 12,000
Interest	17,000
Changes in assumptions	(42,000)
Benefit payments	(34,000)
Net change in total HIC OPEB liability	\$ (47,000)
Total HIC OPEB Liability - beginning	581,000
Total HIC OPEB Liability - ending (a)	\$ 534,000
 Plan fiduciary net position	
Contributions - employer	\$ 32,000
Benefit payments	(34,000)
Net change in plan fiduciary net position	\$ (2,000)
Plan fiduciary net position - beginning	(33,000)
Plan fiduciary net position - ending (b)	\$ (35,000)
 Employer's net HIC OPEB liability - ending (a) - (b)	\$ 569,000
 Plan fiduciary net position as a percentage of the total HIC OPEB liability	-6.55%
 Covered payroll	\$ 2,645,183
 Employer's net HIC OPEB liability as a percentage of covered payroll	21.51%

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 Russell, Virginia
Schedule of Employer Contributions
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)
Primary Government					
2018	\$ 4,374	\$ 4,374	\$ -	\$ 1,562,251	0.28%
2017	3,736	3,736	-	1,332,239	0.28%
2016	3,572	3,572	-	1,190,516	0.30%
2015	3,321	3,321	-	1,106,909	0.30%
2014	757	757	-	1,081,402	0.07%
2013	3,902	3,902	-	5,574,375	0.07%
2012	3,289	3,289	-	5,481,250	0.06%
2011	3,304	3,304	-	5,506,789	0.06%
2010	7,661	7,661	-	5,472,384	0.14%
2009	7,576	7,576	-	5,411,426	0.14%
Component Unit School Board (nonprofessional)					
2018	\$ 31,329	\$ 31,329	\$ -	\$ 2,610,768	1.20%
2017	31,742	31,742	-	2,645,183	1.20%
2016	25,165	25,165	-	2,648,956	0.95%
2015	23,128	23,128	-	2,434,577	0.95%
2014	15,413	15,413	-	2,612,301	0.59%
2013	15,780	15,780	-	2,674,538	0.59%

County of Russell, 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 Russell, 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)
2017	0.22781% \$	2,890,000 \$	17,978,510	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 Russell, 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	\$ 225,953	\$ 225,953	\$ -	\$ 18,370,145	1.23%
2017	199,561	199,561	-	17,978,510	1.11%
2016	189,859	189,859	-	17,911,244	1.06%
2015	183,923	183,923	-	17,351,215	1.06%
2014	189,622	189,622	-	17,083,023	1.11%
2013	193,975	193,975	-	17,475,216	1.11%
2012	110,342	110,342	-	18,390,325	0.60%
2011	106,958	106,958	-	17,826,341	0.60%
2010	142,001	142,001	-	19,131,926	0.74%
2009	216,577	216,577	-	20,053,407	1.08%

County of Russell, 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 Russell, 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	0.50108% \$	1,317,000	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 Russell, Virginia
Schedule of Employer Contributions
Line of Duty Act Program (LODA)
For the Years Ended June 30, 2016 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	\$ 53,616	\$ 53,616	\$ -	N/A	N/A
2017	54,041	54,041	-	N/A	N/A
2016	47,993	47,993	-	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 the 2016 valuation is not available. However, additional years will be included as they become available.

County of Russell, 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

FIDUCIARY FUNDS

Special Welfare - The Special Welfare fund accounts for those funds belonging to individuals entrusted to the local social services agency, such as foster care children.

VASAP - The VASAP fund accounts for those funds belonging to the Southwest Virginia Alcohol Safety Action Program. The County is the fiscal agent for this program.

County of Russell, Virginia
Combined Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2018

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Assets				
Cash and cash equivalents				
Special Welfare Fund	\$ 66,789	\$ 74,014	\$ (79,467)	\$ 61,336
VASAP Fund	10,545	171,682	(170,925)	11,302
Total Assets	<u>\$ 77,334</u>	<u>\$ 245,696</u>	<u>\$ (250,392)</u>	<u>\$ 72,638</u>
Liabilities				
Amounts held for Social Services clients	\$ 66,789	\$ 74,014	\$ (79,467)	\$ 61,336
Amounts held for VASAP	10,545	171,682	(170,925)	11,302
Total Liabilities	<u>\$ 77,334</u>	<u>\$ 245,696</u>	<u>\$ (250,392)</u>	<u>\$ 72,638</u>

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund accounts for and reports the operations of the County's school system. Financing is provided by the State and Federal governments as well as contributions from the General Fund.

County of Russell, Virginia
Balance Sheet
Governmental Funds - Discretely Presented Component Unit - School Board
June 30, 2018

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 837,970
Receivables (net of allowance for uncollectibles):	
Accounts receivable	12,344
Due from other governmental units	1,578,145
Prepaid items	356,575
Total assets	<u>\$ 2,785,034</u>
LIABILITIES	
Accounts payable	\$ 145,068
Accrued liabilities	1,033,075
Due to primary government	1,108,691
Total liabilities	<u>\$ 2,286,834</u>
FUND BALANCES	
Nonspendable:	
Prepaid items	\$ 356,575
Committed:	
Textbook purchases	345,940
Regional Adult Education	287,676
Unassigned	(491,991)
Total fund balances	<u>\$ 498,200</u>
Total liabilities and fund balances	<u>\$ 2,785,034</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 498,200
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 5,636,345
Buildings and improvements	9,534,325
Machinery and equipment	<u>1,825,650</u>
	16,996,320
Deferred outflows of resources are not available to apy for current period expenditures and, therefore, are not reported in the funds.	
Pension related items	\$ 4,193,849
OPEB related items	<u>366,511</u>
	4,560,360
Long-term liabilities, including early retirement incentives, are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	\$ (725,416)
Net OPEB liabilities	(12,853,795)
Net pension liability	<u>(33,822,983)</u>
	(47,402,194)
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reported in the funds.	
Pension related items	\$ (4,304,850)
OPEB related items	<u>(545,606)</u>
	(4,850,456)
Net position of governmental activities	<u>\$ (30,197,770)</u>

County of Russell, Virginia
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
REVENUES	
Revenue from the use of money and property	\$ 6,910
Charges for services	365,945
Miscellaneous	301,063
Recovered costs	812,746
Intergovernmental:	
Local government	7,457,037
Commonwealth	27,460,759
Federal	5,542,370
Total revenues	<u>\$ 41,946,830</u>
EXPENDITURES	
Current:	
Education	<u>\$ 42,063,117</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (116,287)</u>
Net change in fund balances	\$ (116,287)
Fund balances - beginning	614,487
Fund balances - ending	<u><u>\$ 498,200</u></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	\$ (116,287)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	
Capital outlays	\$ 650,485
Reversion of assets back to the School Board (net)	175,436
Depreciation expense	<u>(1,132,834)</u> (306,913)
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	\$ (8,293)
OPEB expense	118,517
Pension expense	<u>1,231,123</u> 1,341,347
Change in net position of governmental activities	<u><u>\$ 918,147</u></u>

County of Russell, Virginia
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2018

	School Operating Fund			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 6,000	\$ 6,000	\$ 6,910	\$ 910
Charges for services	559,554	559,554	365,945	(193,609)
Miscellaneous	165,000	165,000	301,063	136,063
Recovered costs	571,914	571,914	812,746	240,832
Intergovernmental:				
Local government	7,912,901	7,912,901	7,457,037	(455,864)
Commonwealth	27,823,930	27,823,930	27,460,759	(363,171)
Federal	5,053,907	5,777,427	5,542,370	(235,057)
Total revenues	\$ 42,093,206	\$ 42,816,726	\$ 41,946,830	\$ (869,896)
EXPENDITURES				
Current:				
Education	\$ 42,093,206	\$ 42,816,726	\$ 42,063,117	\$ 753,609
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (116,287)	\$ (116,287)
Net change in fund balances	\$ -	\$ -	\$ (116,287)	\$ (116,287)
Fund balances - beginning	-	-	614,487	614,487
Fund balances - ending	\$ -	\$ -	\$ 498,200	\$ 498,200

Supporting Schedules

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

Schedule 1
Page 1 of 6

<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	\$ 8,000,000	\$ 8,000,000	\$ 8,061,640	\$ 61,640
Real and Personal PSC Tax	1,650,000	1,650,000	2,237,147	587,147
Personal Property Tax	4,240,000	4,240,000	3,617,799	(622,201)
Mobile Home Tax	114,000	114,000	116,223	2,223
Machinery and Tools Tax	810,000	810,000	881,655	71,655
Merchants Capital	35,000	35,000	37,192	2,192
Mineral Tax	1,050,000	1,050,000	991,838	(58,162)
Penalties	145,000	145,000	143,713	(1,287)
Interest	303,862	303,862	303,665	(197)
Total general property taxes	\$ 16,347,862	\$ 16,347,862	\$ 16,390,872	\$ 43,010
Other local taxes:				
Local Sales and Use Tax	\$ 2,052,169	\$ 2,063,099	\$ 1,852,781	\$ (210,318)
Consumers' Utility Tax	550,000	550,000	533,653	(16,347)
Consumption Taxes	85,000	85,000	75,614	(9,386)
Coal Severance Tax	250,000	250,000	364,637	114,637
Bank Stock Tax	10,900	10,900	23,838	12,938
Grantee tax	94,000	94,000	133,942	39,942
Motor Vehicle Licenses	-	-	21,162	21,162
Taxes on Recordation and Wills	30,000	30,000	19,923	(10,077)
Total other local taxes	\$ 3,072,069	\$ 3,082,999	\$ 3,025,550	\$ (57,449)
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 1,900	\$ 1,900	\$ 1,579	\$ (321)
Building permits	30,000	30,000	64,340	34,340
Other permits and other licenses	1,300	1,300	2,749	1,449
Total permits, privilege fees, and regulatory licenses	\$ 33,200	\$ 33,200	\$ 68,668	\$ 35,468
Fines and forfeitures:				
Court fines and forfeitures	\$ 14,400	\$ 14,400	\$ 16,708	\$ 2,308
Revenue from use of money and property:				
Revenue from use of money	\$ 28,000	\$ 28,000	\$ 88,720	\$ 60,720
Revenue from use of property	315,000	315,000	163,680	(151,320)
Total revenue from use of money and property	\$ 343,000	\$ 343,000	\$ 252,400	\$ (90,600)
Charges for services:				
Charges for sanitation and waste removal	\$ 185,000	\$ 185,000	\$ 207,328	\$ 22,328
Charges for courthouse security	51,000	51,000	39,740	(11,260)
Charges for cannery operations	65,000	65,000	48,233	(16,767)
Charges for commonwealth attorney	6,000	6,000	11,271	5,271
Charges for courthouse maintenance	10,000	10,000	9,238	(762)
Charges for jail and inmate fees	4,000	4,000	14,072	10,072
Charges for district court	-	-	3,066	3,066
Charges for library	11,700	11,700	6,887	(4,813)
Other charges for services	3,500	3,500	4,265	765
Total charges for services	\$ 336,200	\$ 336,200	\$ 344,100	\$ 7,900

County of Russell, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous:				
Other miscellaneous revenue	\$ 206,600	\$ 206,600	\$ 68,023	\$ (138,577)
Sale of property/surplus	10,000	10,000	164,380	154,380
Valley Heights revenue	-	-	1,487	1,487
Total miscellaneous	\$ 216,600	\$ 216,600	\$ 233,890	\$ 17,290
Recovered costs:				
Social services	\$ 246,000	\$ 246,000	\$ 61,440	\$ (184,560)
Health department	50,000	50,000	40,500	(9,500)
School resource officer	88,000	88,000	101,557	13,557
Insurance recoveries	-	-	20,262	20,262
Industrial development	20,000	20,000	29,880	9,880
Other Recovered Costs	34,500	34,500	347,893	313,393
Total recovered costs	\$ 438,500	\$ 438,500	\$ 601,532	\$ 163,032
Total revenue from local sources	\$ 20,801,831	\$ 20,812,761	\$ 20,933,720	\$ 120,959
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicles carriers' tax	\$ 157,000	\$ 157,000	\$ 3	\$ (156,997)
Mobile home titling tax	60,000	60,000	77,782	17,782
Motor vehicle rental tax	8,100	8,100	3,476	(4,624)
Communications tax	900,000	900,000	787,213	(112,787)
State recordation tax	17,800	17,800	34,838	17,038
Personal property tax relief act funds	1,437,003	1,437,003	1,437,003	-
Total noncategorical aid	\$ 2,579,903	\$ 2,579,903	\$ 2,340,315	\$ (239,588)
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 364,000	\$ 364,000	\$ 404,433	\$ 40,433
Sheriff	1,400,000	1,400,000	1,448,468	48,468
Commissioner of revenue	181,050	181,050	159,992	(21,058)
Treasurer	113,000	113,000	113,767	767
Medical examiner	400	400	-	(400)
Registrar/electoral board	43,800	43,800	42,321	(1,479)
Clerk of the Circuit Court	269,300	269,300	307,369	38,069
Total Shared Expenses	\$ 2,371,550	\$ 2,371,550	\$ 2,476,350	\$ 104,800
Other categorical aid:				
Victim witness grant	\$ 35,000	\$ 35,000	\$ 9,840	\$ (25,160)
E911 Grant	-	-	19,041	19,041
GIS	3,500	3,500	4,700	1,200
E911 state funds	45,000	45,000	49,559	4,559
Asset forfeiture funds	-	-	270,318	270,318
EMS grants	-	-	29,040	29,040
Fire Program Funds	71,000	71,000	79,640	8,640
Library grants	98,000	98,000	89,421	(8,579)
Litter control grants	30,000	30,000	12,359	(17,641)

County of Russell, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid: (Continued)				
Public assistance	\$ 2,262,807	\$ 2,262,807	\$ 2,132,469	\$ (130,338)
Comprehensive services act	1,088,731	1,088,731	892,952	(195,779)
School resource officer grants	-	-	67,465	67,465
Workforce investment	25,000	25,000	-	(25,000)
Health department	-	-	15,719	15,719
Other state funds	-	-	4,894	4,894
Total other categorical aid	<u>\$ 3,659,038</u>	<u>\$ 3,659,038</u>	<u>\$ 3,677,417</u>	<u>\$ 18,379</u>
Total categorical aid	<u>\$ 6,030,588</u>	<u>\$ 6,030,588</u>	<u>\$ 6,153,767</u>	<u>\$ 123,179</u>
Total revenue from the Commonwealth	<u>\$ 8,610,491</u>	<u>\$ 8,610,491</u>	<u>\$ 8,494,082</u>	<u>\$ (116,409)</u>
Revenue from the federal government:				
Categorical aid:				
Emergency management grants	\$ 114,000	\$ 114,000	\$ 9,996	\$ (104,004)
Law enforcement grants	-	-	9,979	9,979
Violence against women	-	-	24,882	24,882
Victim witness grant	-	-	31,310	31,310
DMV ground transportation safety grant	-	-	6,875	6,875
Public assistance	2,888,559	2,888,559	2,722,177	(166,382)
Total categorical aid	<u>\$ 3,002,559</u>	<u>\$ 3,002,559</u>	<u>\$ 2,805,219</u>	<u>\$ (197,340)</u>
Total revenue from the federal government	<u>\$ 3,002,559</u>	<u>\$ 3,002,559</u>	<u>\$ 2,805,219</u>	<u>\$ (197,340)</u>
Total General Fund	<u>\$ 32,414,881</u>	<u>\$ 32,425,811</u>	<u>\$ 32,233,021</u>	<u>\$ (192,790)</u>
Special Revenue Funds:				
Coal Road Fund:				
Revenue from local sources:				
Other local taxes:				
Coal road taxes	\$ 150,000	\$ 150,000	\$ 364,639	\$ 214,639
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 332	\$ 332
Total revenue from local sources	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 364,971</u>	<u>\$ 214,971</u>
Total Coal Road Fund	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ 364,971</u>	<u>\$ 214,971</u>

County of Russell, Virginia
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Special Revenue Funds: (Continued)				
Workforce Investment Board Fund:				
Revenue from local sources:				
Recovered costs:				
Other recovered costs	\$ -	\$ -	\$ 117,140	\$ 117,140
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Workforce Investment	\$ 2,969,127	\$ 2,969,127	\$ 2,432,792	\$ (536,335)
Total revenue from the federal government	\$ 2,969,127	\$ 2,969,127	\$ 2,432,792	\$ (536,335)
Total Workforce Investment Board Fund	\$ 2,969,127	\$ 2,969,127	\$ 2,549,932	\$ (419,195)
Total Primary Government	\$ 35,534,008	\$ 35,544,938	\$ 35,147,924	\$ (397,014)
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	\$ -	\$ -	\$ 410	\$ 410
Revenue from the use of property	6,000	6,000	6,500	500
Total revenue from use of money and property	\$ 6,000	\$ 6,000	\$ 6,910	\$ 910
Charges for services:				
Cafeteria sales	\$ 400,000	\$ 400,000	\$ 319,347	\$ (80,653)
Tuition payments	5,000	5,000	-	(5,000)
Drivers Ed fees	14,000	14,000	11,580	(2,420)
Other charges for services	-	-	127	127
Regional Adult Education	138,554	138,554	34,057	(104,497)
GED Testing fees	2,000	2,000	834	(1,166)
Total charges for services	\$ 559,554	\$ 559,554	\$ 365,945	\$ (193,609)
Miscellaneous:				
Other miscellaneous	\$ 165,000	\$ 165,000	\$ 301,063	\$ 136,063
Recovered costs:				
Insurance recoveries	\$ -	\$ -	\$ 92,298	\$ 92,298
Extra duties revenue	23,000	23,000	18,588	(4,412)
Dual Enrollment	300,000	300,000	402,489	102,489
Sale of Equipment and Supplies	10,000	10,000	32,098	22,098
Reimburse Health Services	187,414	187,414	223,316	35,902
Other recovered costs	51,500	51,500	43,957	(7,543)
Total recovered costs	\$ 571,914	\$ 571,914	\$ 812,746	\$ 240,832
Total revenue from local sources	\$ 1,302,468	\$ 1,302,468	\$ 1,486,664	\$ 184,196
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Russell, Virginia	\$ 7,912,901	\$ 7,912,901	\$ 7,457,037	\$ (455,864)

County of Russell, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 4,206,002	\$ 4,206,002	\$ 3,976,978	\$ (229,024)
Basic Aid	12,953,476	12,953,476	12,666,525	(286,951)
Remedial summer education	221,185	221,185	212,781	(8,404)
Regular foster care	31,828	31,828	11,700	(20,128)
Gifted and talented	135,023	135,023	132,832	(2,191)
Remedial education	599,164	599,164	589,444	(9,720)
Special education	1,639,966	1,639,966	1,613,360	(26,606)
Textbook payment	308,809	308,809	303,799	(5,010)
Career and Technical Education	95,391	95,391	47,366	(48,025)
Alternative education	909,505	909,505	937,977	28,472
Algebra readiness	65,598	65,598	67,818	2,220
Mentor teacher program	2,738	2,738	2,689	(49)
Social security fringe benefits	812,950	812,950	799,762	(13,188)
Group life	56,260	56,260	55,347	(913)
Retirement fringe benefits	1,862,191	1,862,191	1,831,980	(30,211)
Supplemental support	-	-	128,378	128,378
Early reading intervention	87,140	87,140	84,650	(2,490)
Adult Education	31,563	31,563	31,197	(366)
Homebound education	26,501	26,501	26,685	184
Vocation education	213,626	213,626	251,479	37,853
Advanced placement incentive	130,480	130,480	-	(130,480)
At risk payments	628,606	628,606	639,291	10,685
Primary class size	793,433	793,433	764,004	(29,429)
Technology	463,600	463,600	638,636	175,036
Jobs for Virginia Graduates	25,000	25,000	25,000	-
Industry Certification Costs	3,135	3,135	3,278	143
At risk four-year olds	565,108	565,108	565,108	-
School Food	24,642	24,642	26,322	1,680
English as a second language	4,997	4,997	6,996	1,999
Project graduation	8,981	8,981	8,980	(1)
GED prep programs	15,717	15,717	77,839	62,122
Lottery payments	771,093	771,093	759,275	(11,818)
Tobacco Commission	30,000	30,000	69,348	39,348
Adult literacy	99,595	99,595	82,515	(17,080)
Special education-foster care	-	-	9,193	9,193
Other state funds	627	627	12,227	11,600
Total categorical aid	\$ 27,823,930	\$ 27,823,930	\$ 27,460,759	\$ (363,171)
Total revenue from the Commonwealth	\$ 27,823,930	\$ 27,823,930	\$ 27,460,759	\$ (363,171)
Revenue from the federal government:				
Categorical aid:				
Basic Adult Education	\$ 325,848	\$ 325,848	\$ 308,902	\$ (16,946)
Title I	1,095,188	1,095,188	1,319,925	224,737
Special Education	1,156,775	1,156,775	1,009,359	(147,416)
Title VI-B, preschool	35,432	35,432	35,432	-
Vocational education	72,648	72,648	84,109	11,461

County of Russell, Virginia
Schedule of Revenues - Budget and Actual
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<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government: (Continued)				
Categorical aid: (Continued)				
School Food Program	\$ 1,195,000	\$ 1,195,000	\$ 1,702,432	\$ 507,432
Improving teacher quality	222,330	222,330	142,090	(80,240)
Title IV part A	-	-	25,915	25,915
21st century grant	609,237	1,332,757	846,870	(485,887)
Rural and low income schools	81,449	81,449	67,336	(14,113)
Other federal funds	260,000	260,000	-	(260,000)
Total categorical aid	<u>\$ 5,053,907</u>	<u>\$ 5,777,427</u>	<u>\$ 5,542,370</u>	<u>\$ (235,057)</u>
Total revenue from the federal government	<u>\$ 5,053,907</u>	<u>\$ 5,777,427</u>	<u>\$ 5,542,370</u>	<u>\$ (235,057)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 42,093,206</u>	<u>\$ 42,816,726</u>	<u>\$ 41,946,830</u>	<u>\$ (869,896)</u>

County of Russell, Virginia
Schedule of Expenditures - Budget and Actual
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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Board of supervisors	\$ 211,935	\$ 184,665	\$ 242,355	\$ (57,690)
General and financial administration:				
County administrator	\$ 335,441	\$ 322,581	\$ 356,337	\$ (33,756)
Independent auditor	69,500	69,500	69,400	100
Commissioner of the revenue	307,704	304,166	316,253	(12,087)
Real estate assessor	127,247	274,305	210,992	63,313
Treasurer	427,040	392,235	469,081	(76,846)
Auto decals	-	-	1,035	(1,035)
Procurement	124,502	90,331	158,414	(68,083)
Total general and financial administration	\$ 1,391,434	\$ 1,453,118	\$ 1,581,512	\$ (128,394)
Board of elections:				
Electoral Board	\$ 84,883	\$ 299,435	\$ 236,966	\$ 62,469
General Registrar	114,825	115,290	116,762	(1,472)
Total board of elections	\$ 199,708	\$ 414,725	\$ 353,728	\$ 60,997
Total general government administration	\$ 1,803,077	\$ 2,052,508	\$ 2,177,595	\$ (125,087)
Judicial administration:				
Courts:				
Circuit Court	\$ 124,223	\$ 132,471	\$ 118,143	\$ 14,328
General District Court	15,800	16,895	14,600	2,295
Special Magistrates	9,400	10,794	7,994	2,800
Clerk's Office	411,039	402,166	427,740	(25,574)
Sheriff Courts	934,165	868,071	1,018,049	(149,978)
Victim and Witness Assistance	60,556	59,012	63,384	(4,372)
Law Library	-	-	1,334	(1,334)
Total courts	\$ 1,555,183	\$ 1,489,409	\$ 1,651,244	\$ (161,835)
Commonwealth's attorney:				
Commonwealth's Attorney	\$ 641,592	\$ 567,026	\$ 746,143	\$ (179,117)
Total judicial administration	\$ 2,196,775	\$ 2,056,435	\$ 2,397,387	\$ (340,952)
Public safety:				
Law enforcement and traffic control:				
Sheriff	\$ 2,014,904	\$ 1,784,822	\$ 2,304,354	\$ (519,532)
Dare program	3,000	3,103	2,685	418
Total law enforcement and traffic control	\$ 2,017,904	\$ 1,787,925	\$ 2,307,039	\$ (519,114)
Fire and rescue services:				
Volunteer Fire Departments	\$ 203,200	\$ 199,300	\$ 286,740	\$ (87,440)
Ambulance Rescue Squad	189,875	193,672	186,073	7,599
Total fire and rescue services	\$ 393,075	\$ 392,972	\$ 472,813	\$ (79,841)
Correction and detention:				
Operation of Jail	\$ 2,488,745	\$ 2,251,227	\$ 2,726,262	\$ (475,035)

County of Russell, Virginia
Schedule of Expenditures - Budget and Actual
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For the Year Ended June 30, 2018

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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (Continued)				
Correction and detention: (Continued)				
Probation Office	\$ 283,477	\$ 346,743	\$ 220,206	\$ 126,537
Total correction and detention	\$ 2,772,222	\$ 2,597,970	\$ 2,946,468	\$ (348,498)
Inspections:				
Building inspector	\$ 115,240	\$ 111,268	\$ 121,189	\$ (9,921)
Other protection:				
Forestry Service	\$ 11,804	\$ 11,804	\$ 11,804	\$ -
Enhanced 911	580,439	638,800	522,029	116,771
Medical Examiner	400	260	560	(300)
Emergency Services	112,113	137,782	90,346	47,436
Animal Control	64,800	47,597	81,853	(34,256)
Total other protection	\$ 769,556	\$ 836,243	\$ 706,592	\$ 129,651
Total public safety	\$ 6,067,997	\$ 5,726,378	\$ 6,554,101	\$ (827,723)
Public works:				
Sanitation and waste removal:				
Landfill	\$ 1,814,396	\$ 2,173,254	\$ 1,421,596	\$ 751,658
Refuse collection	214,029	214,029	169,114	44,915
Litter Coordinator	-	-	94,342	(94,342)
Total sanitation and waste removal	\$ 2,028,425	\$ 2,387,283	\$ 1,685,052	\$ 702,231
Maintenance of general buildings and grounds:				
General properties	\$ 1,040,069	\$ 1,441,758	\$ 1,452,488	\$ (10,730)
Total public works	\$ 3,068,494	\$ 3,829,041	\$ 3,137,540	\$ 691,501
Health and welfare:				
Health:				
Health Department	\$ 340,000	\$ 340,000	\$ 339,860	\$ 140
Mental health and mental retardation:				
Cumberland Mountain Community Services Board	\$ 42,000	\$ 44,000	\$ 39,996	\$ 4,004
Welfare:				
Social services	\$ 6,192,365	\$ 6,386,913	\$ 5,166,426	\$ 1,220,487
Comprehensive Services Act	1,088,731	1,365,218	1,481,326	(116,108)
Appalachian Agency for Senior Citizens	85,025	86,945	85,024	1,921
Other health and welfare	-	-	800	(800)
Total welfare	\$ 7,366,121	\$ 7,839,076	\$ 6,733,576	\$ 1,105,500
Total health and welfare	\$ 7,748,121	\$ 8,223,076	\$ 7,113,432	\$ 1,109,644
Education:				
Other instructional costs:				
Contributions to County School Board	\$ 7,912,901	\$ 8,343,774	\$ 7,457,037	\$ 886,737
Capital Outlay - Lease purchase payment	-	-	421,811	(421,811)

County of Russell, Virginia
Schedule of Expenditures - Budget and Actual
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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Education: (Continued)				
Other instructional costs: (Continued)				
SVCC Contribution	\$ 91,949	\$ 106,430	\$ -	\$ 106,430
Total education	\$ 8,004,850	\$ 8,450,204	\$ 7,878,848	\$ 571,356
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation Park	\$ 157,157	\$ 153,483	\$ 182,734	\$ (29,251)
Health and fitness	64,387	77,354	63,993	13,361
Total parks and recreation	\$ 221,544	\$ 230,837	\$ 246,727	\$ (15,890)
Library:				
Public Library	\$ 319,942	\$ 325,651	\$ 319,545	\$ 6,106
Total parks, recreation, and cultural	\$ 541,486	\$ 556,488	\$ 566,272	\$ (9,784)
Community development:				
Planning and community development:				
Planning Commission	\$ 18,250	\$ 18,250	\$ 13,650	\$ 4,600
Community Development	-	-	14,000	(14,000)
Industrial Development	504,930	504,930	524,249	(19,319)
PSA Contributions	230,765	230,765	350,494	(119,729)
Cumberland Plateau	30,000	25,000	35,000	(10,000)
Highway Safety Commission	3,500	2,025	4,975	(2,950)
Canneries	30,000	30,000	43,707	(13,707)
Tourism	6,000	6,000	1,568	4,432
Total planning and community development	\$ 823,445	\$ 816,970	\$ 987,643	\$ (170,673)
Environmental management:				
Soil and Water Conservation	\$ 35,236	\$ 35,236	\$ 34,236	\$ 1,000
Cooperative extension program:				
VPI Extension	\$ 66,291	\$ 64,781	\$ 61,900	\$ 2,881
Total community development	\$ 924,972	\$ 916,987	\$ 1,083,779	\$ (166,792)
Nondepartmental:				
Nondepartmental	\$ 377,268	\$ 544,673	\$ 158,828	\$ 385,845
Capital projects:				
School projects	\$ -	\$ -	\$ 3,322,326	\$ (3,322,326)
Debt service:				
Principal payments	\$ 1,232,709	\$ 1,232,709	\$ 1,422,008	\$ (189,299)
Interest Expense	471,413	471,413	471,413	-
Total debt service	\$ 1,704,122	\$ 1,704,122	\$ 1,893,421	\$ (189,299)
Total General Fund	\$ 32,437,162	\$ 34,059,912	\$ 36,283,529	\$ (2,223,617)

County of Russell, 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>
Special Revenue Funds:				
Coal Road Fund:				
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Maintenance of highways, streets, bridges and sidewalks	\$ 125,000	\$ -	\$ -	\$ -
Virginia coalfield	25,000	192,390	193,840	(1,450)
Total Public Works	\$ 150,000	\$ 192,390	\$ 193,840	\$ (1,450)
Total Coal Road Fund	\$ 150,000	\$ 192,390	\$ 193,840	\$ (1,450)
Workforce Investment Board Fund:				
Health and Welfare:				
Welfare:				
Workforce Investment	\$ 2,746,846	\$ 2,746,846	\$ 2,488,011	\$ 258,835
Total Primary Government	\$ 35,334,008	\$ 36,999,148	\$ 38,965,380	\$ (1,966,232)
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration and health services	\$ 1,830,324	\$ 1,830,324	\$ 1,941,927	\$ (111,603)
Instruction costs:				
Instructional costs	\$ 30,394,390	\$ 31,117,910	\$ 30,413,607	\$ 704,303
Technology	852,906	852,906	826,275	26,631
Total instruction costs	\$ 31,247,296	\$ 31,970,816	\$ 31,239,882	\$ 730,934
Operating costs:				
Pupil transportation	\$ 2,773,923	\$ 2,773,923	\$ 2,485,201	\$ 288,722
Operation and maintenance of school plant	4,447,743	4,447,743	4,427,461	20,282
Food service and non-instructional	1,793,920	1,793,920	1,968,646	(174,726)
Total operating costs	\$ 9,015,586	\$ 9,015,586	\$ 8,881,308	\$ 134,278
Total education	\$ 42,093,206	\$ 42,816,726	\$ 42,063,117	\$ 753,609
Total School Operating Fund	\$ 42,093,206	\$ 42,816,726	\$ 42,063,117	\$ 753,609
Total Discretely Presented Component Unit - School Board	\$ 42,093,206	\$ 42,816,726	\$ 42,063,117	\$ 753,609

Other Statistical Information

Table 1

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare (1)	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Sewer Authority	Total
2017-18	\$ 2,003,925	\$ 2,259,365	\$ 6,409,699	\$ 3,262,221	\$ 9,191,297	\$ 8,613,945	\$ 583,009	\$ 957,043	\$ 499,803	\$ 388,981	\$ 34,169,288
2016-17	2,085,083	2,290,688	6,395,713	3,152,142	9,535,001	9,519,958	552,562	992,839	515,428	454,634	35,494,048
2015-16	2,099,001	2,080,921	5,999,917	3,547,942	8,926,570	7,744,464	481,145	1,025,246	342,729	441,642	32,689,577
2014-15	1,772,163	1,945,227	6,352,397	3,725,640	8,115,359	7,596,324	514,678	1,023,371	385,445	430,426	31,861,030
2013-14	1,702,984	2,039,186	6,005,354	4,381,728	7,169,883	8,943,324	546,171	1,687,428	457,095	403,848	33,337,001
2012-13	1,269,473	2,097,469	5,908,601	4,592,807	8,285,584	7,484,972	529,959	2,173,719	498,401	441,349	33,282,334
2011-12	2,267,145	2,119,900	5,296,188	6,060,973	8,397,896	4,589,631	539,126	3,493,655	522,300	410,664	33,697,478
2010-11	1,691,031	2,112,758	5,091,612	4,003,987	8,592,042	5,681,243	563,123	3,191,256	756,064	423,945	32,107,061
2009-10	1,828,631	2,219,866	4,234,145	5,549,934	6,070,091	5,897,486	560,735	1,491,257	728,202	434,552	29,014,899
2008-09	1,706,342	2,243,005	4,013,947	6,055,397	5,982,456	5,471,573	541,087	4,826,721	758,753	407,145	32,006,426

(1) 2010-2011 is the first year the Workforce Investment Board is included.

Table 2

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES					
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes (2)	Unrestricted Revenue from use of Money and Property	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs (1)	Total
2017-18	\$ 546,610	\$ 11,391,778	\$ -	\$ -	\$ 17,446,217	\$ 3,390,189	\$ 254,538	\$ 233,890	\$ 2,340,315	\$ 35,603,537
2016-17	414,700	11,862,113	-	-	17,065,361	3,297,225	185,677	91,300	2,493,045	35,409,421
2015-16	430,589	10,616,989	61,200		15,198,122	3,781,925	223,008	180,343	2,501,627	32,993,803
2014-15	468,117	9,648,228	-		15,762,013	4,635,427	257,108	226,621	2,553,497	33,551,011
2013-14	445,727	8,991,231	320,311		15,749,617	4,873,857	359,952	86,115	2,562,116	33,388,926
2012-13	398,711	9,822,073	-		14,686,993	5,079,612	45,865	60,479	2,580,839	32,674,572
2011-12	488,408	9,677,480	761,738		13,142,777	6,881,302	77,226	138,135	2,445,435	33,612,501
2010-11	337,064	10,635,876	-		13,683,476	6,340,919	89,819	177,669	2,638,202	33,903,025
2009-10	393,362	7,473,127	-		13,004,381	6,123,807	106,848	173,322	2,465,451	29,740,298
2008-09	481,092	7,376,521	-		12,889,357	7,779,265	153,807	346,880	1,771,674	30,798,596

(1) 2009-10 is the first year State Communications tax is classified as grants and contributions not restricted to specific programs.

Table 3

County of Russell, 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 (3)	Education (2)	Parks, Recreation, and Cultural	Community Development (4)	Non-departmental	Debt Service	Total
2017-18	\$ 2,177,595	\$ 2,397,387	\$ 6,554,101	\$ 3,331,380	\$ 9,601,443	\$ 42,484,928	\$ 566,272	\$ 1,083,779	\$ 158,828	\$ 1,893,421	\$ 70,249,134
2016-17	1,829,925	2,326,471	7,012,800	3,480,788	9,950,089	40,397,495	522,426	1,008,002	147,991	1,935,190	68,611,177
2015-16	1,787,592	2,193,822	6,914,427	3,529,620	9,209,141	39,874,115	468,670	1,048,554	515,527	1,747,721	67,289,189
2014-15	1,717,342	2,011,601	6,839,477	3,962,315	8,354,018	39,320,723	480,741	1,046,895	112,482	1,946,577	65,792,171
2013-14	1,651,589	2,039,720	5,955,754	4,500,894	7,412,261	38,945,001	507,694	1,701,241	112,027	1,810,023	64,636,204
2012-13	1,797,929	2,096,382	5,742,101	4,744,331	8,334,736	40,161,416	488,706	2,283,910	423,737	2,869,820	68,943,068
2011-12	2,060,380	2,114,097	5,509,998	6,515,152	8,518,725	40,540,127	484,891	2,442,356	305,904	2,526,021	71,017,651
2010-11	1,712,850	2,106,641	5,226,797	4,102,279	8,662,052	40,273,694	556,723	2,311,048	103,820	2,537,376	67,593,280
2009-10	1,837,926	2,213,724	4,100,376	5,491,432	6,906,934	41,066,362	497,417	1,557,445	9,095	2,504,631	66,185,342
2008-09	1,702,193	2,236,691	4,383,789	6,093,232	6,672,387	42,452,183	547,104	3,925,736	56,093	2,547,424	70,616,832

(1) Includes General and Special Revenue funds of the Primary Government and the operating fund of its Discretely Presented Component Unit - School Board. Excludes Capital Projects.

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

(3) 2010-2011 is the first year the Workforce Investment Board is included.

(4) In 2010-2011 the County paid \$1,508,677 towards the IDA debt.

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes (3)	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the		Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2), (3)	Total
					Use of Money and Property	Use of Money and Property					
2017-18	\$ 16,390,872	\$ 3,390,189	\$ 68,668	\$ 16,708	\$ 259,642	\$ 259,642	\$ 710,045	\$ 534,953	\$ 1,531,418	\$ 46,735,222	\$ 69,637,717
2016-17	17,415,482	3,297,225	32,009	18,804	186,397	186,397	684,981	342,528	1,651,000	46,597,608	70,226,034
2015-16	15,071,101	3,781,925	30,258	14,136	223,772	223,772	676,644	426,624	1,607,321	44,977,461	66,809,242
2014-15	15,746,635	4,635,427	40,342	2,334	251,962	251,962	776,757	472,339	1,338,279	44,426,079	67,690,154
2013-14	16,011,500	4,873,857	40,292	31,151	352,852	352,852	803,470	307,398	1,121,491	41,977,914	65,519,925
2012-13	14,696,587	5,079,612	34,152	14,955	39,878	39,878	951,229	352,993	1,588,307	44,418,919	67,176,632
2011-12	12,813,407	6,881,302	28,272	24,567	65,238	65,238	1,162,800	394,657	1,139,070	46,119,628	68,628,941
2010-11	13,548,896	6,340,919	22,834	1,206	73,514	73,514	1,101,993	416,883	898,399	47,717,709	70,122,353
2009-10	12,841,457	6,123,807	45,877	1,049	74,279	74,279	998,548	293,467	1,732,861	43,856,378	65,967,723
2008-09	12,540,392	7,779,265	39,662	1,168	117,983	117,983	1,148,414	643,861	1,884,165	45,438,632	69,593,542

(1) Includes General and Special Revenue funds of the Primary Government and its Discretely Presented Component Unit - School Board. Excludes Capital Projects.

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

(3) 2009-10 is the first year State Communications tax is classified as noncategorical state aid.

Table 5

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of		Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
						Total Tax Collections to Tax Levy			
2017-18	\$ 17,975,777	\$ 16,002,677	89.02%	\$ 1,377,820	\$ 17,380,497	96.69%	\$	4,476,207	24.90%
2016-17	18,121,006	16,441,108	90.73%	1,946,062	18,387,170	101.47%		3,734,590	20.61%
2015-16	17,361,249	14,744,908	84.93%	1,312,236	16,057,144	92.49%		4,096,565	23.60%
2014-15	17,704,326	15,716,165	88.77%	994,555	16,710,720	94.39%		3,823,404	21.60%
2013-14	17,616,878	16,022,072	90.95%	895,532	16,917,604	96.03%		3,914,585	22.22%
2012-13	16,328,495	14,812,738	90.72%	953,671	15,766,409	96.56%		4,786,523	29.31%
2011-12	14,681,089	13,185,991	89.82%	723,190	13,909,181	94.74%		4,693,121	31.97%
2010-11	14,682,949	13,329,182	90.78%	1,330,697	14,659,879	99.84%		3,847,456	26.20%
2009-10	14,169,807	13,038,906	92.02%	886,480	13,925,386	98.28%		3,624,318	25.58%
2008-09	14,091,178	13,212,582	93.76%	496,787	13,709,369	97.29%		3,506,132	24.88%

(1) Exclusive of penalties and interest.

Table 6

County of Russell, 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	\$ 1,437,419,342	\$ 321,810,049	\$ 56,429,665	\$ 5,992,268	\$ 20,380,636	\$ 288,824,827	\$			2,130,856,787
2016-17	1,424,285,595	327,638,704	57,050,690	5,716,770	20,726,176	265,575,303				2,100,993,238
2015-16	1,435,763,539	298,654,470	58,791,092	5,876,008	21,377,908	243,897,231				2,064,360,248
2014-15	1,426,948,990	300,976,802	71,451,300	6,084,205	21,500,580	240,244,298				2,067,206,175
2013-14	1,420,301,334	297,609,286	92,212,643	6,061,014	21,820,581	315,700,293				2,153,705,151
2012-13	1,323,141,655	292,809,049	86,317,454	5,631,601	23,486,868	230,027,520				1,961,414,147
2011-12	1,214,673,535	251,383,699	60,747,073	5,340,902	23,401,571	269,503,982				1,825,050,762
2010-11	1,197,720,260	235,114,151	82,948,411	5,136,529	23,320,148	326,871,285				1,871,110,784
2009-10	1,181,352,276	224,871,200	96,552,183	5,402,115	22,864,821	253,750,196				1,784,792,791
2008-09	1,153,488,246	239,254,757	93,960,621	5,501,882	23,139,220	234,196,018				1,749,540,744

(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 Russell, Virginia
Property Tax Rates (1)
Last Ten Fiscal Years

Fiscal Year	Real Estate (2)	Personal Property	Machinery & Tools	Merchant's Capital	Mobile Homes
2017-18	\$ 0.63	\$ 1.95	\$ 1.65	\$ 0.65	\$ 0.63
2016-17	0.63	1.95	1.65	0.65	0.63
2015-16	0.63	1.65	1.65	0.65	0.63
2014-15	0.63	1.65	1.65	0.65	0.63
2013-14	0.56/0.63	1.65	2.00	0.65	0.56
2012-13	0.70/0.56	1.65	1.65	0.65	0.70
2011-12	0.61/0.70	1.65	1.65	0.65	0.61
2010-11	0.61	1.65	1.65	0.65	0.61
2009-10	0.61	1.65	1.65	0.65	0.61
2008-09	0.61	1.65	1.65	0.65	0.61

(1) Per \$100 of assessed value.

(2) 2nd half due December/1st half due June of fiscal year.

Table 8

County of Russell, 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)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2017-18	28,897	\$ 2,130,857	\$ 6,534,701	\$ 6,534,701	0.31%	\$ 226
2016-17	28,897	2,100,993	7,532,205	7,532,205	0.36%	261
2015-16	28,897	2,064,360	7,930,656	7,930,656	0.38%	274
2014-15	28,897	2,067,206	8,951,609	8,951,609	0.43%	310
2013-14	28,897	2,153,705	9,955,282	9,955,282	0.46%	345
2012-13	28,897	1,961,414	10,865,788	10,865,788	0.55%	376
2011-12	28,897	1,825,051	12,666,629	12,666,629	0.69%	438
2010-11	28,897	1,871,111	14,066,729	14,066,729	0.75%	487
2009-10	28,790	1,784,793	15,315,245	15,315,245	0.86%	532
2008-09	28,790	1,749,541	14,878,819	14,878,819	0.85%	517

(1) Bureau of the Census.

(2) Real property assessed at 100% of the 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 Russell, 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	\$ 1,893,421	\$ 70,249,134	2.70%
2016-17	1,935,190	68,611,177	2.82%
2015-16	1,747,721	67,289,189	2.60%
2014-15	1,946,577	65,792,171	2.96%
2013-14	1,810,023	64,636,204	2.80%
2012-13	2,869,820	68,943,068	4.16%
2011-12	2,526,021	71,017,651	3.56%
2010-11	2,537,376	67,593,280	3.75%
2009-10	2,504,631	66,185,342	3.78%
2008-09	2,547,424	70,616,832	3.61%

(1) Includes all governmental funds of the Primary Government and funds of the Discretely Presented Component Unit-School Board.

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 Members of the Board of Supervisors
County of Russell, Virginia
Lebanon, 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 units - School Board, each major fund, and the aggregate remaining fund information of the County of Russell, 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 Russell, Virginia's basic financial statements and have issued our report thereon dated March 19, 2019. Our report includes a reference to other auditors who audited the financial statements of the Industrial Development Authority and the Russell County Public Service Authority, as described in our report on the County of Russell, 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 the separately by those auditors.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County of Russell, 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 Russell, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of the County of Russell, 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 Russell, 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 Russell, Virginia's Response to Findings

County of Russell, Virginia's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. County of Russell, 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.



Blacksburg, Virginia
March 19, 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 Members of the Board of Supervisors
County of Russell, Virginia
Lebanon, Virginia**

Report on Compliance for Each Major Federal Program

We have audited the County of Russell, 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 Russell, Virginia's major federal programs for the year ended June 30, 2018. County of Russell, 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 Russell, 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 Russell, 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 Russell, Virginia's compliance.

Opinion on Each Major Federal Program

In our opinion, the County of Russell, 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 Russell, 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 Russell, 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 Russell, 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 a 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, Fawcett, & Associates

Blacksburg, Virginia
March 19, 2019

County of Russell, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/State Pass - Through Grantor/ Program Cluster or Title	Federal CFDA Number	Pass-through Entity Identifying Number		Federal Expenditures	Expenditures to Subrecipients
Department of Health and Human Services:					
Pass Through Payments:					
Department of Social Services:					
Promoting Safe and Stable Families	93.556	0950116, 0950117		\$ 29,482	\$ -
Temporary Assistance for Needy Families	93.558	0400117, 0400118		326,650	-
Refugee and Entrant Assistance - State Administered Programs	93.566	0500117, 0500118		490	-
Low-Income Home Energy Assistance	93.568	0600417, 0600418		47,088	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760117, 0760118		54,677	-
Refugee and Entrant Assistance-Discretionary Grants	93.576	9160116		1,480	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900116, 0900117		1,171	-
Foster Care - Title IV-E	93.658	1100117, 1100118		510,030	-
Adoption Assistance	93.659	1120117, 1120118		593,561	-
Social Services Block Grant	93.667	1000117, 1000118		406,141	-
Chafee Foster Care Independence Program	93.674	9150117, 9150118		5,015	-
Children's Health Insurance Program	93.767	0540117, 0540118		14,214	-
Medical Assistance Program	93.778	1200117, 1200118		370,446	-
Total Department of Health and Human Services				\$ 2,360,445	\$ -
Department of Agriculture:					
Pass Through Payments:					
Child Nutrition Cluster:					
Department of Agriculture:					
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 111,698		
Department of Education:					
National School Lunch Program	10.555	40623, 40254	1,033,946	\$ 1,145,644	
School Breakfast Program	10.553	40591, 40253		319,158	
Summer Feeding Program	10.559	Not available		210,553	\$ 1,675,355
Department of Education:					
Child and Adult Care Food Program	10.558	Not available		27,077	
Department of Social Services:					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010117, 0010118 0040117, 0040118		361,732	-
Total Department of Agriculture				\$ 2,064,164	\$ -
Department of Justice:					
Pass Through Payments:					
Department of Criminal Justice Services:					
Violence Against Women Formula Grants	16.588	Not available		\$ 24,882	\$ -
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not available		9,979	-
Crime Victim Assistance	16.575	Not available		31,310	-
Total Department of Justice				\$ 66,171	\$ -
Department of Transportation:					
Pass Through Payments:					
Department of Motor Vehicles:					
Alcohol Open Container Requirements	20.607	Not available		\$ 6,875	\$ -
Department of Education:					
Pass Through Payments:					
Department of Education:					
Adult Education - Basic Grants to States	84.002	42801, 61111		\$ 308,902	\$ -
Title I: Grants to Local Educational Agencies	84.010	42901		1,319,925	-
Special Education Cluster:					
Special Education - Grants to States	84.027	43071	\$ 1,009,359		-
Special Education - Preschool Grants	84.173	62521	35,432	1,044,791	-
Career and Technical Education: Basic Grants to States	84.048	61095		84,109	-
Twenty-First Century Community Learning Centers	84.287	60565		846,870	-
State Grants for Innovative Programs	84.298	Not available		10,681	-
Rural Education	84.358	43481		56,655	-
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	61480		142,090	-
Student Support and Academic Enrichment Program	84.424	60281		25,915	-
Total Department of Education				\$ 3,839,938	\$ -

County of Russell, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2018

Federal Grantor/State Pass - Through Grantor/ Program Cluster or Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
Department of Labor:				
Pass Through Payments:				
Virginia Community College System:				
Workforce Investment Act Cluster:				
WIOA Adult Program	17.258	LWA 1-16-02, 1-17-02	\$ 647,162	\$ 390,054
WIOA Youth Activities	17.259	LWA 1-16-02, 1-17-02	618,871	373,003
WIOA Dislocated Worker Formula Grants	17.278	LWA 1-16-02, 1-17-02	659,891	397,726
Workforce Investment Act Cluster Total			<u>\$ 1,925,924</u>	<u>\$ 1,160,783</u>
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277	Not available	397,292	-
H-1B Job Training Grants	17.268	Not available	<u>83,622</u>	<u>-</u>
Total Department of Labor			<u>\$ 2,406,838</u>	<u>\$ 1,160,783</u>
Appalachian Regional Commission:				
Pass Through Payments:				
Virginia Community College System:				
Appalachian Regional Development	23.002	Not available	<u>\$ 25,954</u>	<u>\$ -</u>
Department of Homeland Security:				
Pass Through Payments:				
Department of Emergency Management:				
Homeland Security Grant Program	97.004	Not available	<u>\$ 9,996</u>	<u>\$ -</u>
Total Expenditures of Federal Awards			<u><u>\$ 10,780,381</u></u>	<u><u>\$ 1,160,783</u></u>

Notes to Schedule of Expenditures of Federal Awards:

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of County of Russell, 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 County of Russell, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of County of Russell, Virginia.

Note 2 -- 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 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) The County did not elect the 10% de minimis indirect cost rate because they only request direct costs for reimbursement.

Note 3 -- Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2018, Russell County, Virginia had food commodities totaling \$0 in inventory.

Note 4 -- Relationship to the Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:	
Primary government:	
General Fund	\$ 2,805,219
Workforce Investment Board Fund	<u>2,432,792</u>
Total primary government	<u>\$ 5,238,011</u>
Component Unit School Board:	
School Operating Fund	<u>\$ 5,542,370</u>
Total expenditures of federal awards per the basic financial statements	<u><u>\$ 10,780,381</u></u>

County of Russell, 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 financial reporting:
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:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I: Grants to Local Educational Agencies
10.553/10.555/10.559	Child Nutrition Cluster
84.027/84.173	Special Education Cluster
84.287	Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between Type A
and Type B programs: \$750,000

Auditee qualified as low-risk auditee? No

County of Russell, Virginia

Schedule of Findings and Questioned Costs (Continued) For The Year Ended June 30, 2018

Section II - Financial Statement Findings

2018-001

Criteria:	Per Statement on Auditing Standards 115 (SAS 115), identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness exists.
Condition:	The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Cause of Condition:	The County does not have proper controls in place to detect and correct errors in closing their year-end financial statements.
Effect of Condition:	There is a reasonable possibility that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal controls over financial reporting.
Recommendation:	The County should review the auditors' proposed audit adjustments for 2018 and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The County Administrator will review the auditors' proposed audit adjustments for 2018 and will develop a plan of action with the Treasurer to ensure that all adjusting entries are made prior to final audit fieldwork next year.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

Findings 2017-001 was repeated in the current year as 2018-001. Finding 2017-002 was removed in fiscal year 2018 due to the excess of expenditures not being materials to the financial statements.