

COUNTY OF CRAIG, VIRGINIA

ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED JUNE 30, 2013

COUNTY OF CRAIG, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2013

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FINANCIAL REPORT
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INTRODUCTORY SECTION

COUNTY OF CRAIG, VIRGINIA

BOARD OF SUPERVISORS

Carl Bailey	Millie Harrison, Chair	Fred Craft, Vice Chair
Keith Dunbar		Martha Murphy
	Richard C. Flora, Clerk	

COUNTY SCHOOL BOARD

Darlene Stanley, Vice Chair	Dawna McDowell, Chair	James Stephens
Jennifer McPherson		Mike Jones
	Heather Duncan, Clerk	

COUNTY WELFARE BOARD

Millie Harrison, Vice Chair	Dan Early, Chair	James Fields
Phyllis Tripp		Opal Horn

OTHER OFFICIALS

Clerk of the Circuit Court.....	Sharon Oliver
Commonwealth's Attorney	Thaddeus R. Cox
Commissioner of the Revenue	Elizabeth C. Huffman
Treasurer	Jackie M. Parsons
Sheriff	Clifford Davidson
Superintendent of Schools.....	Kelly Wilmore
Director of Social Services.....	James T. Weber
County Administrator.....	Richard C. Flora
County Attorney	James Cornwell

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Supervisors
County of Craig, Virginia
New Castle, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component units, the major fund, and the aggregate remaining fund information of the County of Craig, Virginia, as of and for the year ended June 30, 2013, 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 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Craig, Virginia, as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013, the County adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. 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 schedule of pension and OPEB funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County of Craig, Virginia's basic financial statements. The introductory section, other supplementary information, supporting schedules, 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Information (continued)

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

The introductory section and 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 December 20, 2013, on our consideration of the County of Craig, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County of Craig, Virginia's internal control over financial reporting and compliance.

Robinson, Tamer, & Associates

Blacksburg, Virginia
December 20, 2013

Basic Financial Statements

County of Craig, Virginia
Statement of Net Position
June 30, 2013

	Primary Government Governmental Activities	Component Unit School Board	Component Unit IDA
ASSETS			
Cash and cash equivalents	\$ 2,776,446	\$ 126,429	\$ 45,849
Investments	267,320	-	-
Receivables (net of allowance for uncollectibles):			
Taxes receivable	1,453,658	-	-
Other local taxes receivable	51,203	-	-
Accounts receivable	-	-	233
Notes receivable	-	-	9,225
Due from component unit	279,561	-	-
Intergovernmental receivable	250,460	368,793	-
Prepaid items	-	60,402	-
Restricted assets:			
Temporarily restricted:			
Cash and cash equivalents	250,000	-	-
Capital assets not being depreciated:			
Land	137,635	79,830	362,094
Construction in progress	75,662	-	-
Capital assets, net of accumulated depreciation:			
Buildings and improvements	6,205,116	1,131,056	1,135,645
Machinery, equipment, and vehicles	289,541	274,915	-
Total Assets	<u>\$ 12,036,602</u>	<u>\$ 2,041,425</u>	<u>\$ 1,553,046</u>
LIABILITIES			
Accounts payable	\$ 34,169	\$ 63,049	\$ 57
Accrued liabilities	-	103,199	-
Accrued interest payable	70,637	-	-
Due to primary government	-	279,561	-
Unearned revenues	-	-	1,062
Noncurrent liabilities:			
Due within one year	424,588	54,512	-
Due in more than one year	3,545,992	25,202	-
Total Liabilities	<u>\$ 4,075,386</u>	<u>\$ 525,523</u>	<u>\$ 1,119</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	\$ 1,291,289	\$ -	\$ -
NET POSITION			
Net investment in capital assets	\$ 3,146,355	\$ 1,485,801	\$ 1,497,739
Restricted for:			
Cafeteria	-	49,413	-
Unrestricted (deficit)	3,523,572	(19,312)	54,188
Total Net Position	<u>\$ 6,669,927</u>	<u>\$ 1,515,902</u>	<u>\$ 1,551,927</u>

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

County of Craig, Virginia
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions		Primary Government	Component Units	
			Operating Grants and Contributions	Capital Grants and Contributions		Total	School Board IDA
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 755,333	\$ 1,167	\$ 159,063	\$ -	\$ -	(595,103)	
Judicial administration	296,577	999	219,699	-	-	(75,879)	
Public safety	1,329,756	58,854	610,522	-	-	(660,380)	
Public works	524,687	6,224	10,744	-	-	(507,719)	
Health and welfare	1,010,860	-	695,890	-	-	(314,970)	
Education	2,732,769	-	-	-	-	(2,732,769)	
Parks, recreation, and cultural	30,047	-	6,010	-	-	(24,037)	
Community development	103,568	840	-	-	-	(102,728)	
Interest on long-term debt	191,361	-	-	-	-	(191,361)	
Total primary government	\$ 6,974,958	\$ 68,084	\$ 1,701,928	\$ -	\$ -	(5,204,946)	
COMPONENT UNITS:							
School Board	\$ 7,180,718	\$ 148,575	\$ 5,003,272	\$ -	\$ -	(2,028,871)	\$ -
IDA	219,540	-	-	-	-	-	(219,540)
Total component units	\$ 7,400,258	\$ 148,575	\$ 5,003,272	\$ -	\$ -	(2,028,871)	\$ (219,540)
General revenues:					\$ 3,395,934	\$ -	\$ -
General property taxes							
Other local taxes:							
Local sales and use taxes					148,410	-	-
Consumers' utility taxes					115,125	-	-
Consumption taxes					12,639	-	-
Franchise license taxes					5,261	-	-
Motor vehicle licenses					114,372	-	-
Recordation tax					28,334	-	-
Hotel and motel room taxes					13,089	-	-
Restaurant food taxes					68,445	-	-
Unrestricted revenues from use of money and property					81,702	124	12,660
Miscellaneous					97,377	155,528	5,447
Contributions from the County of Craig					-	2,582,196	-
Grants and contributions not restricted to specific programs					622,697	-	-
Total general revenues					\$ 4,703,385	\$ 2,737,848	\$ 18,107
Change in net position					(501,561)	708,977	(201,433)
Net position - beginning, as restated					7,171,488	806,925	1,753,360
Net position - ending					\$ 6,669,927	\$ 1,515,902	\$ 1,551,927

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

County of Craig, Virginia
Balance Sheet
Governmental Funds
June 30, 2013

	General
ASSETS	
Cash and cash equivalents	\$ 2,776,446
Investments	267,320
Receivables (net of allowance for uncollectibles):	
Taxes receivable	1,453,658
Other local taxes receivable	51,203
Due from component unit	279,561
Intergovernmental receivable	250,460
Restricted assets:	
Temporarily restricted:	
Cash and cash equivalents	250,000
Total assets	<u>\$ 5,328,648</u>
LIABILITIES	
Accounts payable	<u>\$ 34,169</u>
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue-property taxes	<u>\$ 1,456,842</u>
FUND BALANCES	
Restricted:	
Compactor equipment capital lease	\$ 250,000
Committed:	
Law Library	8,036
Courthouse Maintenance	4,632
Assigned:	
Public Assistance	55,986
Commons	244,453
Memorial	3,001
Unassigned:	3,271,529
Total fund balances	<u>\$ 3,837,637</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,328,648</u>

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

County of Craig, Virginia
Reconciliation of the Balance Sheet of Governmental Funds
To the Statement of Net Position
June 30, 2013

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 3,837,637
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$ 137,635	
Buildings and improvements	6,205,116	
Machinery and equipment	289,541	
Construction in progress	75,662	6,707,954

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

Unavailable revenue-property taxes	165,553
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

General obligation bonds	\$ (3,561,599)	
Capital lease	(253,500)	
Compensated absences	(102,955)	
Accrued interest payable	(70,637)	
VRS net pension obligation	(52,526)	(4,041,217)

Net position of governmental activities	\$ 6,669,927
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The notes to the financial statements are an integral part of this statement.

County of Craig, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2013

	<u>General</u>
REVENUES	
General property taxes	\$ 3,410,578
Other local taxes	505,675
Permits, privilege fees, and regulatory licenses	25,889
Fines and forfeitures	4,661
Revenue from the use of money and property	81,702
Charges for services	37,534
Miscellaneous	82,377
Recovered costs	178,341
Intergovernmental revenues:	
Commonwealth	1,878,397
Federal	446,228
Total revenues	<u>\$ 6,651,382</u>
EXPENDITURES	
Current:	
General government administration	\$ 686,849
Judicial administration	288,615
Public safety	1,231,648
Public works	480,036
Health and welfare	995,082
Education	1,928,470
Parks, recreation, and cultural	30,047
Community development	241,045
Nondepartmental	69,512
Debt service:	
Principal retirement	316,581
Interest and other fiscal charges	197,000
Total expenditures	<u>\$ 6,464,885</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 186,497</u>
OTHER FINANCING SOURCES (USES)	
Issuance of capital lease	<u>\$ 253,500</u>
Net change in fund balances	\$ 439,997
Fund balances - beginning, as restated	<u>3,397,640</u>
Fund balances - ending	<u>\$ 3,837,637</u>

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

County of Craig, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Changes in Fund Balances of Governmental Funds
To the Statement of Activities
For the Year Ended June 30, 2013

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

Net change in fund balances - total governmental funds	\$ 439,997
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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 depreciation exceeded capital outlays in the current period.

Capital asset additions	\$ 57,109		
Reversion of assets to schools (net)	(654,299)		
Depreciation expense	<u>(328,826)</u>		(926,016)

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

Decrease (increase) in unavailable revenue-property taxes	(14,644)
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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 debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

Issuance of capital lease	\$ (253,500)		
Principal payments:			
General obligation bonds	<u>316,581</u>		63,081

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	\$ (17,092)		
(Increase) decrease in VRS net pension obligation	(52,526)		
(Increase) decrease in accrued interest payable	<u>5,639</u>		<u>(63,979)</u>

Change in net position of governmental activities	<u>\$ (501,561)</u>
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The notes to the financial statements are an integral part of this statement.

County of Craig, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2013

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 147,990
	<u>147,990</u>
LIABILITIES	
Amounts held for child care	\$ 119,916
Amounts held for social services clients	28,074
Total liabilities	\$ 147,990
	<u>147,990</u>

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

COUNTY OF CRAIG, VIRGINIA
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2013

Note 1—Summary of Significant Accounting Policies:

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

The basic criterion for determining whether a governmental department, agency, institution, commission, public authority, or other governmental organization should be included in a primary governmental unit’s reporting entity for basic financial statements is financial accountability. Financial accountability includes the appointment of a voting majority of the organization’s governing body and the ability of the primary government to impose its will on the organization or if there is a financial benefit/burden relationship. In addition, an organization which is fiscally dependent on the primary government should be included in its reporting entity. These financial statements present the County of Craig, Virginia (the primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the government’s operations, and so data from these units are combined with data of the primary government. Each discretely presented component unit, on the other hand, is reported in a separate column in the combined financial statements to emphasize it is legally separate from the government.

The County has no blended component units to be included for the fiscal year ended June 30, 2013.

Discretely Presented Component Units

Craig County School Board - The Craig 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 and does not issue a separate financial statement.

Craig County Industrial Development Authority - The Craig County Industrial Development Authority (IDA) encourages and provides financing for industrial development in the County. The IDA board members are appointed by the Board of Supervisors. The IDA is fiscally dependent upon the County. The Industrial Development Authority is presented as an enterprise fund type. The IDA issues separate financial statements that may be obtained from the County of Craig, Virginia.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

A. Financial Reporting Entity (Continued)

Related Organizations - The County is also responsible for appointing the members of the boards of other organizations, however, the County's accountability to these organizations does not extend beyond making the appointments.

Jointly Governed Organizations - The County, the County of Botetourt and the City of Roanoke participate in supporting the Blue Ridge Community Services Board. For the year ended June 30, 2013, the County contributed \$5,000 to the Community Services Board.

B. Government-Wide and Fund Financial Statements

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

The statement of net position is designed to display the financial position of the primary government (government and business-type activities) and its discretely presented 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 is broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

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

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

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

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

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

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

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

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

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

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for un-collectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County.

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

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

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

The government reports the following major governmental fund:

The *general fund* is the County's primary operating fund of the County. This fund is used to account for and report all financial resources except those required to be accounted for and reported in another fund. Revenues are derived primarily from property and other local taxes, state and federal distributions, licenses, permits, charges for service, and interest income. A significant part of the General Fund's revenues are used principally to finance the operations of the Component Unit School Board. The General Fund is considered a major fund for reporting purposes.

Additionally, the government reports the following fund types:

Fiduciary funds account for assets held by the County in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency funds, which include the Special Welfare Fund, Land Sale Fund, and Child Care Fund. These funds utilize the modified accrual basis of accounting described in the Governmental Fund Presentation. Fiduciary funds are not included in the government-wide financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

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

The component unit of the government reports the following major governmental fund:

School Operating Fund - This fund is the primary operating fund of the School Board and accounts and reports for all revenues and expenditures applicable to the general operations of the public school system. Revenues are derived primarily from charges for services, appropriations from the County of Craig, and state and federal grants. The School Operating Fund is considered a major fund of the School Board for financial reporting purposes.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Budgets and Budgetary Accounting

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

1. Prior to May 1, the County Administrator submits to the County 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. The following funds have legally adopted budgets: General Fund and the School Operating Fund.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the County Board of Supervisors can change the appropriation by function. The County Administrator is authorized to transfer budgeted amounts within general government activities or 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. The School Operating Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units. The County's practice is to appropriate capital projects by project.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

D. Budgets and Budgetary Accounting (Continued)

9. 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.

Excess of expenditures over appropriations

For the fiscal year ended June 30, 2013, the following functions of the School Board had expenditures that exceeded appropriations: Instruction, Pupil Transportation Services, and Technology.

Deficit fund equity

At June 30, 2013, there were no funds with deficit fund equity.

E. 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.

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

Investments for the government, as well as for its component units, are reported at fair value. The State Treasurer's Local Government Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

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

3. 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 on December 5th and June 5th. Personal property taxes are due and collectible annually on December 5th. The County bills and collects its own property taxes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

4. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$16,276 at June 30, 2013 and is comprised solely of property taxes.

5. Use of Estimates

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

6. Prepaid Items

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

7. Capital Assets

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Machinery and equipment	4-30

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance (Continued)

8. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The County accrues salary-related payments associated with the payment of compensated absences.

9. Long-Term Obligations

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

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

10. 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;

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

10. Fund Equity (Continued)

- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

The Board of Supervisors is the County's highest level of decision-making authority 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 to assign fund balance for a specific purpose as approved in the County's fund balance policy.

The County will maintain an unassigned fund balance in the general fund of 20% of expenditures/operating revenues. The County considers a balance of less than 12% to be cause for concern, barring unusual or deliberate circumstances.

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

11. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The County does not have any deferred outflows of resources as of June 30, 2013.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

11. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has one type of item that qualifies for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources.

12. 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.

The County's net position is classified as follows:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, and equipment less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset.

Restricted- This category includes resources for which the County is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the County and may be used at the County's discretion to meet current expenses for any lawful purposes.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

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

E. Assets, Deferred Outflows/Inflows of Resources, Liabilities, and Net Position/Fund Balance
(Continued)

13. Net Position Flow Assumption

Sometimes the County will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted—net position and unrestricted—net position in the 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.

14. Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board

The County implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and outflows of resources. The requirement of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

15. Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board

The County implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Note 2—Deposits and Investments:

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

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 2—Deposits and Investments: (Continued)

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).

Credit Risk of Debt Securities

The County has not adopted an investment policy for credit risk.

The County's rated debt investments as of June 30, 2013 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.

<u>County's Rated Debt Investments' Values</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings</u>
	<u>AAAm</u>
LGIP	\$ 267,320

Concentration of Credit Risk

At June 30, 2013, the County did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

Interest Rate Risk

At June 30, 2013, the County did not have any investments meeting the GASB 40 definition requiring interest rate risk disclosures.

External Investment Pool

The fair value of the positions in the external investment pool (Local Government Investment Pool (LGIP)) is the same as the value of the pool shares. As this pool is not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

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COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 3—Due from Other Governmental Units:

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

	Primary Government	Component Unit School Board
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 24,579	\$ -
State sales tax	-	133,410
Non-categorical aid	32,184	-
Categorical aid-shared expenses	66,540	-
Categorical aid-Welfare payments	17,072	-
Categorical aid-other	34,937	-
Comprehensive Services Act (CSA)	46,947	-
School VPSA Technology funds	-	95,220
<u>Federal Government:</u>		
Categorical aid-Welfare payments	28,201	-
School federal programs	-	140,163
Totals	\$ <u>250,460</u>	\$ <u>368,793</u>

Note 4—Long-Term Obligations:

Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligation transactions of the County for the year ended June 30, 2013:

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
General obligation bonds	\$ 3,878,180	\$ -	\$ (316,581)	\$ 3,561,599
Capital lease	-	253,500	-	253,500
Compensated absences	85,863	81,489	(64,397)	102,955
VRS net pension obligation	-	52,526	-	52,526
Total	\$ <u>3,964,043</u>	\$ <u>387,515</u>	\$ <u>(380,978)</u>	\$ <u>3,970,580</u>

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 4—Long-Term Obligations: (Continued)

Primary Government - Governmental Activity Indebtedness: (continued)

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

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2014	\$ 324,544	\$ 176,800
2015	333,629	159,689
2016	342,929	142,077
2017	352,454	123,952
2018	362,216	105,409
2019-2023	<u>1,845,827</u>	<u>235,236</u>
Totals	\$ <u>3,561,599</u>	\$ <u>943,163</u>

Details of long-term indebtedness:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<u>General Obligation Bonds:</u>						
General Obligation Bond	4.25-5.625%	05/01/01	05/01/22	\$ 1,400,000	\$ 810,000	\$ 70,000
VPSA General Obligation Bond	2.35-5.84%	02/02/03	07/15/22	5,210,980	<u>2,751,599</u>	<u>254,544</u>
Total Obligation Bonds					\$ 3,561,599	\$ 324,544
<u>Other Long-Term Obligations:</u>						
Capital Lease (Note 6)					\$ 253,500	\$ 22,828
Compensated Absences					102,955	77,216
VRS Net Pension Obligation					<u>52,526</u>	<u>-</u>
Total Other Long-Term Obligations					\$ 408,981	\$ 100,044
Total Long-Term Obligations					<u>\$ 3,970,580</u>	<u>\$ 424,588</u>

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 5—Long-Term Obligations-Component Unit School Board:

Discretely Presented Component Unit - School Board-Indebtedness:

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2013:

	Balance July 1, 2012	Increase	Decrease	Balance June 30, 2013
Compensated absences	\$ 71,621	\$ 54,778	\$ (53,716)	\$ 72,683
VRS net pension obligation	-	7,031	-	7,031
Total	\$ 71,621	\$ 61,809	\$ (53,716)	\$ 79,714

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
<u>Other Obligations:</u>		
Compensated absences	\$ 72,683	\$ 54,512
VRS net pension obligation	7,031	-
Total Long-Term Obligations	\$ 79,714	\$ 54,512

Note 6—Capital Lease:

Primary Government

In June of 2013, the County has entered into a lease agreement to finance the acquisition of a compactor, containers, and other equipment at the Craig County Solid Waste Transfer Station. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the minimum lease payments at the date of inception.

As of June 30, 2013, the equipment had not been acquired.

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2013, were as follows:

Year Ending June 30,	Transfer Station Equipment
2014	\$ 28,514
2015	28,514
2016	28,514
2017	28,514
2018	28,514
2019-2023	142,569
Subtotal	\$ 285,139
Less, amount representing interest	(31,639)
Present Value of Lease Agreement	\$ 253,500

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 7—Employee Retirement System and Defined Benefit Pension Plan:

A. Plan Description

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent and Cost-Sharing Multiple-Employer Defined Benefit Pension Plan
Administering Entity: Virginia Retirement System (System)

The County of Craig contributes to the Virginia Retirement System (VRS), an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for political subdivisions in the Commonwealth of Virginia.

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 7—Employee Retirement System and Defined Benefit Pension Plan: (Continued)

A. Plan Description (Continued)

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced benefit retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Primary Government:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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 being making the employee pay the 5% member contribution. This could be phased in over a period 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. In addition, the County of Craig, Virginia is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The County of Craig, Virginia's contribution rate for the fiscal year ended June 30, 2013 was 13.77% (including the member contribution of 5.00%) of annual covered payroll. However, the VRS certified rate was 17.41%, thus creating a net pension obligation.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013Note 7—Employee Retirement System and Defined Benefit Pension Plan: (Continued)B. Funding Policy (Continued)Discretely Presented Component Unit - School Board (Non-Professional):

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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 being making the employee pay the 5% member contribution. This could be phased in over a period 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. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended June 30, 2013 was 16.16% (including the member contributions of 5.00%) of annual covered payroll. However, the VRS certified rate was 17.92%, thus creating a net pension obligation.

C. Annual Pension Cost

For fiscal year 2013, the County of Craig, Virginia's annual pension cost of \$179,079 and \$51,615 for VRS was not equal to the County of Craig, Virginia's required and actual contributions for the County and the School Board Non-Professionals, respectively. The County's actual contribution was \$126,553 and the School Board's actual contribution for School Board Non-Professionals was \$44,584.

Three Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) ¹	Percentage of APC Contributed	Net Pension Obligation
Primary Government:				
County	6/30/2013	\$ 179,079	70.67%	\$ 52,526
	6/30/2012	140,353	100.00%	-
	6/30/2011	141,682	100.00%	-
Discretely Presented-Component Unit:				
School Board Non-Professional	6/30/2013	\$ 51,612	86.38%	\$ 7,031
	6/30/2012	44,823	100.00%	-
	6/30/2011	45,124	100.00%	-

¹ Employer portion only

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 7—Employee Retirement System and Defined Benefit Pension Plan: (Continued)

C. Annual Pension Cost (Continued)

Primary Government

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the County's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

Discretely Presented Component Unit - School Board (Non-Professional):

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the School Board's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The School Board's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

Primary Government:

As of June 30, 2012, the most recent actuarial valuation date, the plan was 78.89% funded. The actuarial accrued liability for benefits was \$6,746,353, and the actuarial value of assets was \$5,322,000, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,424,353. The covered payroll (annual payroll of active employees covered by the plan) was \$1,556,166, and ratio of the UAAL to the covered payroll was 91.53%.

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NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 7—Employee Retirement System and Defined Benefit Pension Plan: (Continued)

D. Funded Status and Funding Progress (Continued)

Discretely Presented Component Unit - School Board (Non-Instructional):

As of June 30, 2012, the most recent actuarial valuation date, the plan was 75.86% funded. The actuarial accrued liability for benefits was \$1,505,611 and the actuarial value of assets was \$1,142,165 resulting in an unfunded actuarial accrued liability (UAAL) of \$363,446. The covered payroll (annual payroll of active employees covered by the plan) was \$417,441, and ratio of the UAAL to the covered payroll was 87.07%.

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

E. Discretely Presented Component Unit School Board

PROFESSIONAL EMPLOYEES:

Plan Description

The Craig County School Board contributes to the Virginia Retirement System (VRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System. VRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia. The system issues a publicly available comprehensive annual financial report that includes financial report that includes financial statements and required supplementary information for VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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 being making the employee pay the 5% member contribution. This could be phased in over a period 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. In addition, the School Board is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the statute and approved by the VRS Board of Trustees. The School Board's contributions to the VRS for the fiscal years ended June 30, 2013, 2012 and 2011 were \$593,803, \$415,199, and \$319,297 (including the member contribution), respectively, and were equal to the required contributions for each year. These amounts represent 16.66%, 11.33%, and 8.93% (including the member contributions of 1% or 5%), of covered annual payroll for the fiscal years ended 2013, 2012, and 2011, respectively.

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 8—Capital Assets:

Primary Government

Capital asset activity for the year ended June 30, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 137,635	\$ -	\$ -	\$ 137,635
Construction in progress	70,281	5,381	-	75,662
Total capital assets not being depreciated	<u>\$ 207,916</u>	<u>\$ 5,381</u>	<u>\$ -</u>	<u>\$ 213,297</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 11,081,480	\$ -	\$ (2,000,000)	\$ 9,081,480
Machinery and equipment	1,230,646	51,728	(41,638)	1,240,736
Total capital assets being depreciated	<u>\$ 12,312,126</u>	<u>\$ 51,728</u>	<u>\$ (2,041,638)</u>	<u>\$ 10,322,216</u>
Accumulated depreciation:				
Buildings and improvements	\$ (3,988,269)	\$ (233,796)	\$ 1,345,701	\$ (2,876,364)
Machinery and equipment	(897,803)	(95,030)	41,638	(951,195)
Total accumulated depreciation	<u>\$ (4,886,072)</u>	<u>\$ (328,826)</u>	<u>\$ 1,387,339</u>	<u>\$ (3,827,559)</u>
Total capital assets being depreciated, net	<u>\$ 7,426,054</u>	<u>\$ (277,098)</u>	<u>\$ (654,299)</u>	<u>\$ 6,494,657</u>
Governmental activities capital assets, net	<u>\$ 7,633,970</u>	<u>\$ (271,717)</u>	<u>\$ (654,299)</u>	<u>\$ 6,707,954</u>

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

Governmental activities:	
General government administration	\$ 32,052
Judicial administration	1,684
Public safety	81,728
Public works	47,393
Health and welfare	15,969
Education	<u>150,000</u>
Total depreciation expense-governmental activities	<u>\$ 328,826</u>

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 8—Capital Assets: (Continued)

Discretely Presented Component Unit - School Board

Capital asset activity for the School Board for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 37,504	\$ 42,326	\$ -	\$ 79,830
Capital assets, being depreciated:				
Buildings and improvements	\$ 1,270,445	\$ 2,101,657	\$ -	\$ 3,372,102
Machinery and equipment	874,701	59,598	(48,675)	885,624
Total capital assets being depreciated	\$ 2,145,146	\$ 2,161,255	\$ (48,675)	\$ 4,257,726
Accumulated depreciation:				
Buildings and improvements	\$ (826,783)	\$ (1,414,263)	\$ -	\$ (2,241,046)
Machinery and equipment	(595,537)	(52,023)	36,851	(610,709)
Total accumulated depreciation	\$ (1,422,320)	\$ (1,466,286)	\$ 36,851	\$ (2,851,755)
Total capital assets being depreciated, net	\$ 722,826	\$ 694,969	\$ (11,824)	\$ 1,405,971
Governmental activities capital assets, net	\$ 760,330	\$ 737,295	\$ (11,824)	\$ 1,485,801

Note 9—Risk Management:

The County and its component unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County and its component unit - School Board participate with other localities in a public entity risk pool for their coverage of 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 its component unit - 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 in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The County and its component unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 10—Contingent Liabilities:

Federal programs in which the County and its component units participate were audited in accordance with the provisions of U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Pursuant to the provisions of this circular all major programs and certain other programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the Federal Government may subject grant programs to additional compliance tests, which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 11—Surety Bonds:

Primary Government:

Fidelity & Deposit Company of Maryland-Surety:

Sharon Oliver, Clerk of the Circuit Court	\$ 103,000
Jackie M. Parsons, Treasurer	300,000
Elizabeth C. Huffman, Commissioner of the Revenue	3,000
Clifford Davidson, Sheriff	30,000
The above constitutional officers' employees-blanket bond	50,000
Board of Supervisors	1,000

USF&G Insurance Company-Surety:

David Fridley, Animal Warden	\$ 1,000
Richard C. Flora, County Administrator	2,000
Department of Social Services-blanket bond	30,000

Western Surety Company:

Department of Social Services-blanket bond	\$ 30,000
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Component Unit-School Board:

Western Surety Company:

Kelly Wilmore, Superintendent of Schools	\$ 10,000
Heather Duncan, Payroll and bookkeeping	10,000
Sonja S. Switzer, Payroll and bookkeeping back-up	10,000
Each School Principal	10,000

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 12—Unearned/Unavailable Revenue:

Governmental funds report unearned revenue in connection with receivables for revenues not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable	\$ 1,407,018	\$ 1,236,070
Prepaid taxes	55,220	55,220
Total unearned/unavailable revenue for governmental funds	\$ 1,462,238	\$ 1,291,290

Note 13—Other Postemployment Benefits (OPEB)-VRS Health Insurance Credit:

A. Plan Description

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

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

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

B. Funding Policy

As a participating local political subdivision, the County is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2013 was 0.30% of annual covered payroll.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013Note 13—Other Postemployment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)C. Annual OPEB Cost and Net OPEB Obligation

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

For 2013, the County's contribution of \$726 was equal to the ARC and OPEB cost. The County's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the preceding two years are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (ARC)</u>	<u>Percentage of ARC Contributed</u>	<u>Net OPEB Obligation</u>
Primary Government:				
County	6/30/2013	\$ 726	100.00%	-
	6/30/2012	2,080	100.00%	-
	6/30/2011	2,100	100.00%	-

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 50,425
Actuarial value of plan assets	\$ 35,967
Unfunded actuarial accrued liability (UAAL)	\$ 14,458
Funded ratio (actuarial value of plan assets/AAL)	71.33%
Covered payroll (active plan members)	\$ 552,077
UAAL as a percentage of covered payroll	2.62%

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 13—Other Postemployment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)

D. Funded Status and Funding Progress (Continued)

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

E. Actuarial Methods and Assumptions

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2012 was 29 years.

The Retiree Health Insurance Credit benefit is based on a member's employer eligibility and his or her years of service. The monthly maximum credit amount cannot exceed the member's actual health insurance premium costs. The actuarial valuation for this plan assumes the maximum credit is payable for each eligible member. Since this benefit is a flat dollar amount multiplied by years of service and the maximum benefit is assumed, no assumption relating to healthcare cost trend rates is needed or applied.

F. Professional Employees - Discretely Presented Component Unit School Board

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

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

COUNTY OF CRAIG, VIRGINIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2013

Note 13—Other Postemployment Benefits (OPEB)-VRS Health Insurance Credit: (Continued)

F. Professional Employees - Discretely Presented Component Unit School Board (Continued)

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.11% of annual covered payroll. The School Board's contributions to VRS for the year ended June 30, 2013 was \$39,746 and equaled the required contributions.

Note 14—Commitments and Contingencies:

	Original Contract	Amount Paid As of 6/30/2013	Remaining Contract Amount	Accounts Payable	Retainage Payable
Mattern and Craig - Transfer Facility Project	\$ 82,700	\$ 75,600	\$ 7,100	\$ -	\$ -

Note 15—Litigation:

As of June 30, 2013, there were no matters of litigation involving the County which would materially affect the County's financial position should an court decisions on pending matters not be favorable.

Note 16—Restatement:

Beginning in fiscal year 2013, the Child Care Fund is no longer blended into the general fund but is reported as a fiduciary fund. Due to this change, the County has restated the net position as follows:

	Net Position	Fund Balance
As previously reported 6/30/12	\$ 7,409,906	\$ 3,636,058
Less; Child Care Fund equity	(238,418)	(238,418)
As restated 6/30/12	<u>\$ 7,171,488</u>	<u>\$ 3,397,640</u>

Note 17—Upcoming Pronouncements

The GASB has issued Statement No. 68, "Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27." This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The County has not determined the impact of this pronouncement on its financial statements.

Required Supplementary Information

County of Craig, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2013

	<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	\$ 3,287,264	\$ 3,287,264	\$ 3,410,578	\$ 123,314
Other local taxes	469,000	469,000	505,675	36,675
Permits, privilege fees, and regulatory licenses	30,700	30,700	25,889	(4,811)
Fines and forfeitures	1,200	1,200	4,661	3,461
Revenue from the use of money and property	105,000	105,000	81,702	(23,298)
Charges for services	11,300	32,286	37,534	5,248
Miscellaneous	115,400	200,381	82,377	(118,004)
Recovered costs	147,014	160,069	178,341	18,272
Intergovernmental revenues:				
Commonwealth	1,873,682	1,990,829	1,878,397	(112,432)
Federal	457,732	495,537	446,228	(49,309)
Total revenues	<u>\$ 6,498,292</u>	<u>\$ 6,772,266</u>	<u>\$ 6,651,382</u>	<u>\$ (120,884)</u>
EXPENDITURES				
Current:				
General government administration	\$ 674,096	\$ 712,384	\$ 686,849	\$ 25,535
Judicial administration	264,175	325,140	288,615	36,525
Public safety	1,124,896	1,358,062	1,231,648	126,414
Public works	472,167	502,656	480,036	22,620
Health and welfare	1,358,428	1,358,428	995,082	363,346
Education	2,039,874	2,079,874	1,928,470	151,404
Parks, recreation, and cultural	29,212	31,492	30,047	1,445
Community development	320,955	340,270	241,045	99,225
Nondepartmental	134,786	237,600	69,512	168,088
Debt service:				
Principal retirement	311,161	311,161	316,581	(5,420)
Interest and other fiscal charges	198,939	198,939	197,000	1,939
Total expenditures	<u>\$ 6,928,689</u>	<u>\$ 7,456,006</u>	<u>\$ 6,464,885</u>	<u>\$ 991,121</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (430,397)</u>	<u>\$ (683,740)</u>	<u>\$ 186,497</u>	<u>\$ 870,237</u>
OTHER FINANCING SOURCES (USES)				
Issuance of capital lease	\$ -	\$ -	\$ 253,500	\$ 253,500
Net change in fund balances	<u>\$ (430,397)</u>	<u>\$ (683,740)</u>	<u>\$ 439,997</u>	<u>\$ 1,123,737</u>
Fund balances - beginning, as restated	<u>430,397</u>	<u>627,177</u>	<u>3,397,640</u>	<u>2,770,463</u>
Fund balances - ending	<u>\$ -</u>	<u>\$ (56,563)</u>	<u>\$ 3,837,637</u>	<u>\$ 3,894,200</u>

County of Craig, Virginia
Schedule of Pension and OPEB Funding Progress
For the Year Ended June 30, 2013

Primary Government:

County Retirement Plan

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2) / (3)	Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ 5,322,000	\$ 6,746,353	\$ 1,424,353	78.89%	\$ 1,556,166	91.53%
6/30/2011	5,377,596	6,359,509	981,913	84.56%	1,566,678	62.67%
6/30/2010	5,259,000	6,487,303	1,228,303	81.07%	1,612,622	76.17%

County Other Postemployment Benefits Plan-VRS Health Insurance Credit

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2) / (3)	Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ 35,967	\$ 50,425	\$ 14,458	71.33%	\$ 552,077	2.62%
6/30/2011	37,152	49,793	12,641	74.61%	587,077	2.15%
6/30/2010	32,003	48,080	16,077	66.56%	1,612,622	1.00%

Discretely Presented Component Unit:

School Board Non-Professional Retirement Plan

Actuarial Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL) (3) - (2)	Funded Ratio of AAL (2) / (3)	Covered Payroll	UAAL as a % of Covered Payroll (4) / (6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
6/30/2012	\$ 1,142,165	\$ 1,505,611	\$ 363,446	75.86%	\$ 417,441	87.07%
6/30/2011	1,100,324	1,447,211	346,887	76.03%	409,694	84.67%
6/30/2010	1,017,292	1,359,342	342,050	74.84%	393,619	86.90%

Other Supplementary Information

County of Craig, Virginia
Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2013

	Balance Beginning of Year	<u>Additions</u>	<u>Deletions</u>	Balance End of Year
Assets				
Current Assets				
Cash and cash equivalents				
Child Care Fund	\$ 238,418	\$ 251,673	\$ (370,175)	\$ 119,916
Special Welfare Fund	31,420	17,953	(21,299)	28,074
Land Sale Fund	6,628	8	(6,636)	-
Total Assets	<u>\$ 276,466</u>	<u>\$ 269,634</u>	<u>\$ (398,110)</u>	<u>\$ 147,990</u>
Liabilities				
Amounts held for child care	\$ 238,418	\$ 251,673	\$ (370,175)	\$ 119,916
Amounts held for social services clients	31,420	17,953	(21,299)	28,074
Amounts held for land sales	6,628	8	(6,636)	-
Total Liabilities	<u>\$ 276,466</u>	<u>\$ 269,634</u>	<u>\$ (398,110)</u>	<u>\$ 147,990</u>

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

School Operating Fund - The School Operating Fund accounts for 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 Craig, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2013

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 126,429
Due from other governmental units	368,793
Total assets	<u>\$ 495,222</u>
LIABILITIES	
Accounts payable	\$ 63,049
Accrued payroll liabilities	103,199
Due to primary government	279,561
Total liabilities	<u>\$ 445,809</u>
FUND BALANCES	
Restricted:	
Cafeteria	\$ 49,413
Total fund balances	<u>\$ 49,413</u>
Total liabilities and fund balances	<u>\$ 495,222</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Total fund balances per above	\$ 49,413
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Land	\$ 79,830
Buildings and improvements	1,131,056
Machinery and equipment	<u>274,915</u>
	1,485,801
Long-term liabilities, including bonds payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	\$ (72,683)
VRS net pension obligation	<u>(7,031)</u>
	(79,714)
Certain items reported as expenditures in the fund statements are deferred and shown as assets on the statement of net position.	
Prepaid items	60,402
Net position of governmental activities	<u>\$ 1,515,902</u>

County of Craig, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds - Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2013

	School Operating Fund
REVENUES	
Charges for services	\$ 148,575
Revenue from the use of money and property	124
Miscellaneous	155,528
Intergovernmental revenues:	
Local government	1,927,897
Commonwealth	4,079,432
Federal	923,840
Total revenues	<u>\$ 7,235,396</u>
EXPENDITURES	
Current:	
Education	<u>\$ 7,242,911</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (7,515)</u>
Net change in fund balances	\$ (7,515)
Fund balances - beginning	<u>56,928</u>
Fund balances - ending	<u>\$ 49,413</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	\$ (7,515)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	
Capital asset additions	\$ 203,581
Reversion of assets to schools (net)	654,299
Depreciation expense	<u>(120,585)</u>
	737,295
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase net position.	
Capital asset deletions (net)	(11,824)
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	(1,062)
(Increase) decrease in VRS net pension obligation	<u>(7,031)</u>
	(8,093)
Certain items reported as expenditures in the fund statements are deferred and shown as assets on the statement of net position.	
Increase (decrease) in prepaid items	(886)
Change in net position of governmental activities	<u>\$ 708,977</u>

County of Craig, 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, 2013

	School Operating Fund			Variance with Final Budget Positive Negative
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Charges for services	\$ 179,515	\$ 179,515	\$ 148,575	\$ (30,940)
Revenue from the use of money and property	-	-	124	124
Miscellaneous	126,000	126,000	155,528	29,528
Intergovernmental revenues:				
Local government	2,039,301	2,079,301	1,927,897	(151,404)
Commonwealth	4,073,351	4,073,351	4,079,432	6,081
Federal	801,206	801,206	923,840	122,634
Total revenues	\$ 7,219,373	\$ 7,259,373	\$ 7,235,396	\$ (23,977)
EXPENDITURES				
Current:				
Education	\$ 7,219,373	\$ 7,259,373	\$ 7,242,911	\$ 16,462
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (7,515)	\$ (7,515)
Net change in fund balances	\$ -	\$ -	\$ (7,515)	\$ (7,515)
Fund balances - beginning	-	-	56,928	56,928
Fund balances - ending	\$ -	\$ -	\$ 49,413	\$ 49,413

Supporting Schedules

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,564,264	\$ 2,564,264	\$ 2,612,239	\$ 47,975
Real and personal public service corporation taxes	87,000	87,000	80,123	(6,877)
Personal property taxes	510,000	510,000	584,621	74,621
Mobile home taxes	16,000	16,000	17,524	1,524
Machinery and tools taxes	60,000	60,000	50,732	(9,268)
Merchant's capital	10,000	10,000	10,075	75
Penalties	25,000	25,000	31,013	6,013
Interest	15,000	15,000	24,251	9,251
Total general property taxes	\$ 3,287,264	\$ 3,287,264	\$ 3,410,578	\$ 123,314
Other local taxes:				
Local sales and use taxes	\$ 140,000	\$ 140,000	\$ 148,410	\$ 8,410
Consumers' utility taxes	113,000	113,000	115,125	2,125
Consumption taxes	12,000	12,000	12,639	639
Franchise license taxes	-	-	5,261	5,261
Motor vehicle licenses	116,000	116,000	114,372	(1,628)
Recordation tax	16,000	16,000	28,334	12,334
Hotel and motel room taxes	12,000	12,000	13,089	1,089
Restaurant food taxes	60,000	60,000	68,445	8,445
Total other local taxes	\$ 469,000	\$ 469,000	\$ 505,675	\$ 36,675
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 9,500	\$ 9,500	\$ 9,040	\$ (460)
Transfer fees	200	200	183	(17)
Zoning, subdivision permits and erosion and sediment control	1,000	1,000	840	(160)
Building permits	20,000	20,000	15,826	(4,174)
Total permits, privilege fees, and regulatory licenses	\$ 30,700	\$ 30,700	\$ 25,889	\$ (4,811)
Fines and forfeitures:				
Court fines and forfeitures	\$ 1,000	\$ 1,000	\$ 3,850	\$ 2,850
Interest on fines	100	100	124	24
Law library costs	100	100	687	587
Total fines and forfeitures	\$ 1,200	\$ 1,200	\$ 4,661	\$ 3,461
Revenue from use of money and property:				
Revenue from use of money	\$ 20,000	\$ 20,000	\$ 10,064	\$ (9,936)
Revenue from use of property	85,000	85,000	71,638	(13,362)
Total revenue from use of money and property	\$ 105,000	\$ 105,000	\$ 81,702	\$ (23,298)
Charges for services:				
Charges for law enforcement and traffic control	\$ 100	\$ 100	\$ -	\$ (100)
Charges for courthouse maintenance	1,500	1,500	1,570	70
Charges for courthouse security	6,000	6,000	6,606	606
Document production costs	100	100	984	884
Charges for Commonwealth's Attorney	100	100	312	212
Charges for sanitation and waste removal	3,000	3,000	4,654	1,654
Charges for emergency medical services	-	20,986	23,055	2,069
Jail admission fees	500	500	353	(147)
Total charges for services	\$ 11,300	\$ 32,286	\$ 37,534	\$ 5,248
Miscellaneous revenue:				
Miscellaneous	\$ 115,400	\$ 200,381	\$ 82,377	\$ (118,004)

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
Mt Castle salary reimbursement	\$ 145,414	\$ 145,701	\$ 141,315	\$ (4,386)
LOA - special welfare	-	-	20,878	20,878
Other recovered costs	1,600	14,368	16,148	1,780
Total recovered costs	<u>\$ 147,014</u>	<u>\$ 160,069</u>	<u>\$ 178,341</u>	<u>\$ 18,272</u>
Total revenue from local sources	<u>\$ 4,166,878</u>	<u>\$ 4,285,900</u>	<u>\$ 4,326,757</u>	<u>\$ 40,857</u>
Intergovernmental revenues:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	\$ 300	\$ 300	\$ -	\$ (300)
Mobile home titling tax	1,500	1,500	12,920	11,420
Grantor's tax	4,500	4,500	6,431	1,931
State recordation tax	8,000	8,000	8,996	996
Communication tax	102,000	102,000	118,123	16,123
Personal property tax relief funds	341,055	341,055	341,055	-
Total noncategorical aid	<u>\$ 457,355</u>	<u>\$ 457,355</u>	<u>\$ 487,525</u>	<u>\$ 30,170</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 67,298	\$ 67,298	\$ 65,928	\$ (1,370)
Sheriff	460,257	460,257	441,249	(19,008)
Commissioner of revenue	65,929	65,929	65,232	(697)
Treasurer	68,134	68,134	68,569	435
Registrar/electoral board	30,000	30,000	25,262	(4,738)
Clerk of the Circuit Court	124,274	154,598	152,124	(2,474)
Total shared expenses	<u>\$ 815,892</u>	<u>\$ 846,216</u>	<u>\$ 818,364</u>	<u>\$ (27,852)</u>
Other categorical aid:				
Welfare payments	\$ 74,899	\$ 74,899	\$ 140,898	\$ 65,999
CSA payments	474,345	474,345	324,702	(149,643)
Litter control grant	-	8,419	8,419	-
Four-for-life	-	5,617	5,617	-
Fire program	-	-	16,000	16,000
Library grant	6,191	6,191	6,010	(181)
State E-911 program	40,000	40,000	42,754	2,754
VJCCA grant	-	-	1,647	1,647
Local law enforcement block grant	-	-	1,004	1,004
Department of environmental quality grant	-	13,934	2,325	(11,609)
State seizures	-	3,567	6,749	3,182
Emergency medical services	5,000	57,232	9,737	(47,495)
Homeland security grants	-	3,054	6,646	3,592
Total other categorical aid	<u>\$ 600,435</u>	<u>\$ 687,258</u>	<u>\$ 572,508</u>	<u>\$ (114,750)</u>
Total categorical aid	<u>\$ 1,416,327</u>	<u>\$ 1,533,474</u>	<u>\$ 1,390,872</u>	<u>\$ (142,602)</u>
Total revenue from the Commonwealth	<u>\$ 1,873,682</u>	<u>\$ 1,990,829</u>	<u>\$ 1,878,397</u>	<u>\$ (112,432)</u>

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<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 revenues: (Continued)				
Revenue from the federal government:				
Noncategorical aid:				
Payments in lieu of taxes	\$ 65,000	\$ 65,000	\$ 135,172	\$ 70,172
Categorical aid:				
Welfare payments	\$ 361,732	\$ 361,732	\$ 230,290	\$ (131,442)
DMV grants	-	29,400	19,102	(10,298)
Sheriff Grant	-	905	-	(905)
Forest Reserve	25,000	25,000	21,675	(3,325)
Emergency management preparedness grant	-	-	32,489	32,489
Forest service grant	6,000	13,500	7,500	(6,000)
Total categorical aid	\$ 392,732	\$ 430,537	\$ 311,056	\$ (119,481)
Total revenue from the federal government	\$ 457,732	\$ 495,537	\$ 446,228	\$ (49,309)
Total Primary Government	\$ 6,498,292	\$ 6,772,266	\$ 6,651,382	\$ (120,884)
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Charges for services:				
Cafeteria sales	\$ 179,515	\$ 179,515	\$ 148,575	\$ (30,940)
Revenue from use of money and property:				
Revenue from use of money	\$ -	\$ -	\$ 124	\$ 124
Miscellaneous revenue:				
Miscellaneous	\$ 126,000	\$ 126,000	\$ 155,528	\$ 29,528
Total revenue from local sources	\$ 305,515	\$ 305,515	\$ 304,227	\$ (1,288)
Intergovernmental revenues:				
Revenues from local governments:				
Contribution from County of Craig, Virginia	\$ 2,039,301	\$ 2,079,301	\$ 1,927,897	\$ (151,404)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 751,777	\$ 751,777	\$ 756,803	\$ 5,026
Basic school aid	2,087,744	2,087,744	2,068,302	(19,442)
Foster care	2,800	2,800	3,124	324
Gifted and talented	21,436	21,436	21,320	(116)
Special education	290,324	290,324	288,744	(1,580)
Special education regional payments	-	-	66,801	66,801
Textbook payment	41,815	41,815	41,587	(228)
Jobs for Virginia graduates	15,000	15,000	13,500	(1,500)
Early intervention	6,404	6,404	10,673	4,269
Vocational standards of quality payments	89,008	89,008	88,523	(485)
Fringe benefits	364,420	364,420	362,436	(1,984)
Occupational prep	-	-	2,144	2,144
Homebound education	4,250	4,250	3,204	(1,046)

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<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 revenues: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Vocational education - equipment	\$ 6,124	\$ 6,124	\$ 2,878	\$ (3,246)
At risk payments	46,469	46,469	46,234	(235)
School food	6,159	6,159	6,666	507
Remedial assistance	96,668	96,668	79,224	(17,444)
Primary class size	71,685	71,685	67,385	(4,300)
VPSA technology payment	102,000	102,000	101,041	(959)
Standards of Learning algebra readiness	6,505	6,505	8,741	2,236
ISAEP	7,859	7,859	-	(7,859)
Supplemental support	39,634	39,634	38,923	(711)
Other state funds	15,270	15,270	1,179	(14,091)
Total categorical aid	<u>\$ 4,073,351</u>	<u>\$ 4,073,351</u>	<u>\$ 4,079,432</u>	<u>\$ 6,081</u>
Total revenue from the Commonwealth	<u>\$ 4,073,351</u>	<u>\$ 4,073,351</u>	<u>\$ 4,079,432</u>	<u>\$ 6,081</u>
Revenue from the federal government:				
Categorical aid:				
Adult Literacy	\$ 9,750	\$ 9,750	\$ -	\$ (9,750)
Title I	311,731	311,731	137,259	(174,472)
School improvement grant	-	-	220,426	220,426
Forest reserve fund	99,528	99,528	122,827	23,299
Title VI-B, special education flow-through	150,000	150,000	192,860	42,860
Vocational education	13,512	13,512	20,714	7,202
Title VI-B, special education pre-school	6,872	6,872	7,017	145
Title III, Impact aid	12,000	12,000	347	(11,653)
Title II, Part A	31,250	31,250	21,564	(9,686)
School breakfast program	25,000	25,000	41,479	16,479
School lunch program	140,000	140,000	158,164	18,164
Educational technology	1,563	1,563	1,183	(380)
Total categorical aid	<u>\$ 801,206</u>	<u>\$ 801,206</u>	<u>\$ 923,840</u>	<u>\$ 122,634</u>
Total revenue from the federal government	<u>\$ 801,206</u>	<u>\$ 801,206</u>	<u>\$ 923,840</u>	<u>\$ 122,634</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 7,219,373</u>	<u>\$ 7,259,373</u>	<u>\$ 7,235,396</u>	<u>\$ (23,977)</u>

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<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	\$ 29,960	\$ 50,644	\$ 46,755	\$ 3,889
General and financial administration:				
County administrator	\$ 106,056	\$ 106,164	\$ 104,303	\$ 1,861
Commissioner of revenue	142,658	143,984	141,942	2,042
Reassessment	4,650	50	-	50
Audit	59,000	59,000	57,693	1,307
Treasurer	167,517	170,226	170,351	(125)
Accounting/purchasing	49,168	49,679	48,607	1,072
Other general and financial administration	44,580	57,214	53,044	4,170
Total general and financial administration	\$ 573,629	\$ 586,317	\$ 575,940	\$ 10,377
Board of elections:				
Electoral board and officials	\$ 28,555	\$ 33,471	\$ 25,117	\$ 8,354
Registrar	41,952	41,952	39,037	2,915
Total board of elections	\$ 70,507	\$ 75,423	\$ 64,154	\$ 11,269
Total general government administration	\$ 674,096	\$ 712,384	\$ 686,849	\$ 25,535
Judicial administration:				
Courts:				
Circuit court	\$ 7,050	\$ 10,759	\$ 8,123	\$ 2,636
General district court	2,257	2,407	2,184	223
Clerk of the circuit court	167,227	219,306	189,929	29,377
Total courts	\$ 176,534	\$ 232,472	\$ 200,236	\$ 32,236
Commonwealth's attorney:				
Commonwealth's attorney	\$ 87,641	\$ 92,668	\$ 88,379	\$ 4,289
Total judicial administration	\$ 264,175	\$ 325,140	\$ 288,615	\$ 36,525
Public safety:				
Law enforcement and traffic control:				
Sheriff	\$ 760,771	\$ 905,581	\$ 805,252	\$ 100,329
Fire and rescue services:				
Public safety	\$ 68,003	\$ 85,162	\$ 84,876	\$ 286
Emergency medical services	29,940	96,335	91,741	4,594
E-911	19,850	19,850	15,679	4,171
Total fire and rescue services	\$ 117,793	\$ 201,347	\$ 192,296	\$ 9,051
Correction and detention:				
Care of prisoners	\$ 15,000	\$ 19,690	\$ 15,946	\$ 3,744
Contribution to Regional Jail	104,416	104,416	104,416	-
Total correction and detention	\$ 119,416	\$ 124,106	\$ 120,362	\$ 3,744
Inspections:				
Building	\$ 61,153	\$ 61,153	\$ 58,807	\$ 2,346

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<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)				
Other protection:				
Animal control	\$ 62,207	\$ 62,319	\$ 51,420	\$ 10,899
Medical examiner	350	350	305	45
Forest service	3,206	3,206	3,206	-
Total other protection	\$ 65,763	\$ 65,875	\$ 54,931	\$ 10,944
Total public safety	\$ 1,124,896	\$ 1,358,062	\$ 1,231,648	\$ 126,414
Public works:				
Sanitation and waste removal:				
Refuse collection and disposal	\$ 371,804	\$ 378,804	\$ 363,427	\$ 15,377
Contribution to PSA	5,000	5,000	5,000	-
Litter control grant	-	8,419	7,262	1,157
Total sanitation and waste removal	\$ 376,804	\$ 392,223	\$ 375,689	\$ 16,534
Maintenance of general buildings and grounds:				
Maintenance of properties	\$ 95,363	\$ 110,433	\$ 104,347	\$ 6,086
Total public works	\$ 472,167	\$ 502,656	\$ 480,036	\$ 22,620
Health and welfare:				
Health:				
Supplement of local health department	\$ 58,000	\$ 58,000	\$ 57,210	\$ 790
Mental health and mental retardation:				
Blue Ridge community services board	\$ 5,000	\$ 5,000	\$ 5,000	-
Welfare:				
Welfare administration	\$ 645,428	\$ 645,428	\$ 560,808	\$ 84,620
Comprehensive services act	650,000	650,000	372,064	277,936
Total welfare	\$ 1,295,428	\$ 1,295,428	\$ 932,872	\$ 362,556
Total health and welfare	\$ 1,358,428	\$ 1,358,428	\$ 995,082	\$ 363,346
Education:				
Other instructional costs:				
Contribution to Community College	\$ 573	\$ 573	\$ 573	-
Contribution to County School Board	2,039,301	2,079,301	1,927,897	151,404
Total education	\$ 2,039,874	\$ 2,079,874	\$ 1,928,470	\$ 151,404
Parks, recreation, and cultural:				
Cultural enrichment:				
League of older Americans	\$ 1,200	\$ 1,200	\$ 1,200	-
Virginia Institute of Government	500	500	-	500
Total cultural enrichment	\$ 1,700	\$ 1,700	\$ 1,200	\$ 500
Library:				
Regional library	\$ 27,512	\$ 29,792	\$ 28,847	\$ 945
Total parks, recreation, and cultural	\$ 29,212	\$ 31,492	\$ 30,047	\$ 1,445

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2013

<u>Fund, Function, Activity, and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development:				
Planning and community development:				
Community development	\$ 77,162	\$ 84,105	\$ 9,482	\$ 74,623
Zoning board	999	994	316	678
Planning	3,980	3,980	1,938	2,042
Tourism	5,000	5,000	4,099	901
Contribution to Virginia's First Regional IFA	-	10,844	10,844	-
New Castle commons	45,000	45,308	29,520	15,788
Fifth planning district	3,892	3,892	3,892	-
Total planning and community development	\$ 136,033	\$ 154,123	\$ 60,091	\$ 94,032
Environmental management:				
Mountain Castle-soil conservation	\$ 149,574	\$ 149,574	\$ 144,402	\$ 5,172
Cooperative extension program:				
Extension office	\$ 35,348	\$ 36,573	\$ 36,552	\$ 21
Total community development	\$ 320,955	\$ 340,270	\$ 241,045	\$ 99,225
Nondepartmental:				
Fringe benefits	\$ 36,502	\$ 105,041	\$ 48,743	\$ 56,298
State reimbursements	-	77,090	20,769	56,321
Contingencies	98,284	55,469	-	55,469
Total nondepartmental	\$ 134,786	\$ 237,600	\$ 69,512	\$ 168,088
Debt service:				
Principal retirement	\$ 311,161	\$ 311,161	\$ 316,581	\$ (5,420)
Interest and other fiscal charges	198,939	198,939	197,000	1,939
Total debt service	\$ 510,100	\$ 510,100	\$ 513,581	\$ (3,481)
Total Primary Government	\$ 6,928,689	\$ 7,456,006	\$ 6,464,885	\$ 991,121
Discretely Presented Component Unit - School Board				
School Operating Fund:				
Education:				
Administration of schools:				
Executive administration services	\$ 532,416	\$ 532,416	\$ 496,087	\$ 36,329
Instruction costs:				
Instruction costs	\$ 4,827,903	\$ 4,827,907	\$ 4,817,750	\$ 10,157
Technology	372,972	372,968	431,713	(58,745)
Total instruction costs	\$ 5,200,875	\$ 5,200,875	\$ 5,249,463	\$ (48,588)
School food services:				
Administration of school food program	\$ 374,749	\$ 374,749	\$ 383,711	\$ (8,962)
Operating costs:				
Pupil transportation	\$ 415,819	\$ 415,819	\$ 438,265	\$ (22,446)
Operation and maintenance of school plant	675,514	715,514	675,385	40,129
Other operating costs	20,000	20,000	-	20,000
Total operating costs	\$ 1,111,333	\$ 1,151,333	\$ 1,113,650	\$ 37,683
Total Discretely Presented Component Unit - School Board	\$ 7,219,373	\$ 7,259,373	\$ 7,242,911	\$ 16,462

Other Statistical Information

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Solid Waste Authority	Total
2012-13	\$ 755,333	\$ 296,577	\$ 1,329,756	\$ 524,687	\$ 1,010,860	\$ 2,732,769	\$ 30,047	\$ 103,568	\$ 191,361	\$ -	\$ 6,974,958
2011-12	771,452	275,294	1,264,434	492,085	1,641,432	1,961,795	36,364	188,737	204,612	-	6,836,205
2010-11	687,867	282,026	1,326,612	523,087	1,907,221	1,804,288	18,353	279,026	220,027	-	7,048,507
2009-10	742,649	285,286	1,377,673	468,835	2,026,183	1,792,748	11,933	125,532	236,686	-	7,067,525
2008-09	668,939	285,311	1,289,370	542,706	2,301,150	1,175,969	13,133	807,328	255,051	-	7,338,957
2007-08	645,233	271,315	1,014,886	529,366	2,181,454	1,452,411	16,915	96,785	272,401	-	6,480,766
2006-07	628,265	273,911	1,014,650	530,198	1,841,440	1,186,217	8,689	121,851	291,954	-	5,897,175
2005-06 (1)	474,071	257,274	945,224	477,356	1,401,127	1,201,685	10,747	120,820	301,256	-	5,189,560
2004-05	722,490	165,972	1,050,674	118,840	1,032,545	1,441,834	146,095	126,218	355,233	217,469	5,377,370
2003-04	570,826	163,104	835,503	163,381	1,104,874	1,946,449	2,581	294,265	346,661	333,060	5,760,704

(1) Solid waste activities are accounted for through the County's general fund.

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

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES						
	Charges for Services (1)	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total	
2012-13	\$ 68,084	\$ 1,701,928	\$ -	\$ 3,395,934	\$ 505,675	\$ 81,702	\$ 97,377	\$ 622,697	\$ 6,473,397	
2011-12	279,913	1,990,992	89,659	3,305,224	509,246	81,751	88,147	584,807	6,929,739	
2010-11	377,464	2,127,684	11,242	3,102,510	487,924	103,846	116,562	575,104	6,902,336	
2009-10	329,016	2,930,512	33,993	3,074,902	498,912	102,732	144,796	544,257	7,659,120	
2008-09	326,661	2,657,509	575,252	2,980,979	618,041	136,771	92,443	655,300	8,042,956	
2007-08	348,193	2,424,141	88,563	2,854,684	643,126	133,629	218,487	515,833	7,226,656	
2006-07	382,298	2,153,134	-	2,689,265	693,108	101,978	32,105	526,592	6,578,480	
2005-06	389,019	1,209,452	-	2,563,347	627,873	68,873	93,840	1,289,157	6,241,561	
2004-05	396,915	976,474	-	2,547,538	538,391	29,094	253,818	1,122,765	5,864,995	
2003-04	388,965	1,446,083	227,057	2,212,790	541,617	32,978	118,348	509,296	5,477,134	

(1) Beginning in 2012-2013, charges for child care services are reported in the fiduciary Child Care Fund.

County of Craig, 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	Parks, Recreation, and Cultural Education (2)		Community Development	Capital Projects	Non-departmental	Debt Service	Total											
	\$		\$	\$	\$	\$	\$	\$	\$	\$	\$	\$												
2012-13	\$	686,849	\$	288,615	\$	1,231,648	\$	480,036	\$	995,082	\$	7,243,484	\$	30,047	\$	241,045	\$	-	\$	69,512	\$	513,581	\$	11,779,899
2011-12		756,836		273,610		1,247,722		482,996		1,676,392		7,064,450		25,121		321,900		-		56,358		555,794		12,461,179
2010-11		673,402		289,089		1,395,669		475,083		1,997,644		7,143,778		29,595		457,847		305,814		65,290		579,303		13,412,514
2009-10		656,568		284,860		1,361,176		463,398		2,113,590		7,537,265		11,933		260,609		34,233		58,924		694,303		13,476,859
2008-09		639,441		283,640		1,214,742		491,744		2,397,067		6,945,831		13,133		815,055		39,800		42,662		703,859		13,586,974
2007-08		637,307		269,644		916,489		480,351		2,224,879		6,712,554		16,915		199,290		96,408		33,346		733,796		12,320,979
2006-07		574,869		272,240		1,046,275		478,700		1,916,964		6,889,717		8,689		200,215		-		49,058		744,020		12,180,747
2005-06		640,839		259,637		956,508		427,655		1,489,628		5,824,619		10,747		122,368		-		-		758,245		10,490,246
2004-05		706,349		166,850		1,025,131		80,776		1,103,672		5,805,805		146,095		126,218		-		-		645,500		9,806,396
2003-04		564,990		161,432		1,029,527		125,488		1,130,147		5,915,569		2,581		351,097		-		-		776,616		10,057,447

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

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

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

Fiscal Year	General		Other		Permits, Privilege Fees, Regulatory Licenses		Fines and Forfeitures		Revenue from the Use of Money and Property		Charges for Services		Miscellaneous		Recovered Costs		Inter- governmental (2)		Total
	Property Taxes	Taxes	Local Taxes	Taxes															
2012-13	\$ 3,410,578	\$	505,675	\$	25,889	\$	4,661	\$	81,826	\$	186,109	\$	237,905	\$	178,341	\$	7,327,897	\$	11,958,881
2011-12	3,257,197		509,246		23,335		5,801		81,886		414,432		299,252		202,123		7,668,001		12,461,273
2010-11	3,116,109		487,924		36,430		1,516		103,846		501,101		274,505		226,339		7,951,849		12,699,619
2009-10	2,994,988		498,912		25,641		1,759		102,732		460,194		362,333		283,696		9,095,019		13,825,274
2008-09	2,997,396		618,041		38,099		3,952		136,771		521,462		200,632		280,575		9,530,737		14,327,665
2007-08	2,851,787		643,126		34,181		3,813		133,629		496,453		410,478		202,776		8,128,290		12,904,533
2006-07	2,836,400		693,108		49,151		3,106		101,983		505,048		125,230		197,161		7,741,727		12,252,914
2005-06	2,587,871		627,873		54,468		4,697		69,810		489,981		211,181		165,256		7,060,993		11,272,130
2004-05	2,417,985		540,761		41,576		4,649		30,830		505,651		358,382		103,352		6,390,407		10,393,593
2003-04	2,299,874		541,617		45,948		42		30,231		479,924		208,965		161,766		6,041,629		9,809,996

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

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

Table 5

County of Craig, 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 (1,2)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2012-13	\$ 3,680,533	\$ 3,478,001	94.50%	\$ 218,368	\$ 3,696,369	100.43%	\$ 233,864	6.35%
2011-12	3,580,886	3,292,776	91.95%	256,343	3,549,119	99.11%	265,974	7.43%
2010-11	3,408,715	3,239,539	95.04%	166,571	3,406,110	99.92%	268,519	7.88%
2009-10	3,326,076	3,063,417	92.10%	230,319	3,293,736	99.03%	250,667	7.54%
2008-09	3,319,375	3,063,881	92.30%	243,260	3,307,141	99.63%	233,892	7.05%
2007-08	3,179,745	3,038,611	95.56%	113,253	3,151,864	99.12%	248,628	7.82%
2006-07	3,112,599	2,984,412	95.88%	55,907	3,040,319	97.68%	251,567	8.08%
2005-06	2,929,648	2,736,744	93.42%	230,670	2,967,414	101.29%	334,218	11.41%
2004-05	2,711,600	2,273,471	83.84%	388,249	2,661,720	98.16%	246,286	9.08%
2003-04	2,678,043	2,366,956	88.38%	224,318	2,591,274	96.76%	241,068	9.00%

(1) Exclusive of penalties and interest.

(2) Delinquent tax collections are exclusive of land redemptions.

Table 6

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

Fiscal Year	Real Estate	Personal Property and Mobile Homes	Machinery and Tools	Merchant's Capital	Public Utilities (1)	Total
2012-13	\$ 483,945,781	\$ 34,330,943	\$ 2,309,708	\$ 289,470	\$ 14,034,655	\$ 534,910,557
2011-12	456,489,768	33,674,308	2,528,832	282,742	12,698,689	505,674,339
2010-11	430,698,238	31,269,216	2,851,070	303,873	12,791,177	477,913,574
2009-10	425,617,100	30,353,841	3,364,084	337,655	12,131,935	471,804,615
2008-09	420,709,126	33,348,621	2,373,758	307,033	11,474,204	468,212,742
2007-08	417,065,460	28,019,882	2,052,211	230,853	12,866,981	460,235,387
2006-07	408,091,150	31,803,077	1,060,098	249,334	13,430,535	454,634,194
2005-06	339,757,365	30,421,248	817,160	239,243	10,200,472	381,435,488
2004-05	274,639,994	27,937,143	1,222,718	236,649	10,988,011	315,024,515
2003-04	270,208,122	28,102,191	1,573,107	215,800	10,719,107	310,818,327

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

Table 7

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

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Merchant's Capital
2012-13	\$ 0.54	\$ 3.00	\$ 2.20	\$ 3.50
2011-12	0.56/0.54	3.00	2.20	3.50
2010-11	0.56	3.00	2.20	3.50
2009-10	0.54/0.56	3.00	2.20	3.50
2008-09	0.54	3.00	2.20	3.50
2007-08	0.52/0.54	3.00	2.20	3.50
2006-07	0.52	3.00	2.20	3.50
2005-06	0.68	3.00	2.20	3.50
2004-05	0.66	3.00	2.20	3.50
2003-04	0.66	3.00	2.20	3.50

(1) Per \$100 of assessed value.

Table 8

County of Craig, 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)	Net Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2012-13	5,190	\$ 534,911	\$ 3,561,599	0.67%	\$ 686
2011-12	5,190	505,674	3,878,180	0.77%	747
2010-11	5,190	477,914	4,223,935	0.88%	814
2009-10	5,091	471,805	4,577,544	0.97%	899
2008-09	5,091	468,213	5,027,068	1.07%	987
2007-08	5,091	460,235	5,467,859	1.19%	1,074
2006-07	5,091	454,634	5,905,037	1.30%	1,160
2005-06	5,091	381,435	6,333,872	1.66%	1,244
2004-05	5,091	315,025	6,759,520	2.15%	1,328
2003-04	5,091	310,818	7,262,658	2.34%	1,427

(1) Bureau of the Census.

(2) Assessed at 100% of fair market value.

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and
Excludes net OPEB obligation, capital leases, and compensated absences.

Table 9

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

Fiscal Year	Principal	Interest (2)	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2012-13	\$ 316,581	\$ 197,000	\$ 513,581	\$ 11,779,899	4.36%
2011-12	345,755	210,039	555,794	12,461,179	4.46%
2010-11	353,609	225,694	579,303	13,412,514	4.32%
2009-10	449,524	244,779	694,303	13,476,859	5.15%
2008-09	440,791	263,068	703,859	13,586,974	5.18%
2007-08	452,622	281,174	733,796	12,320,979	5.96%
2006-07	443,398	300,622	744,020	12,180,747	6.11%
2005-06	439,379	318,866	758,245	10,490,246	7.23%
2004-05	290,206	355,294	645,500	9,806,396	6.58%
2003-04	379,576	397,040	776,616	10,057,447	7.72%

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

(2) Excludes bond issuance and other costs.

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

To the Board of Supervisors
County of Craig, Virginia
New Castle, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Craig, Virginia as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the County of Craig, Virginia's basic financial statements and have issued our report thereon dated December 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered County of Craig, Virginia's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of County of Craig, Virginia's internal control. Accordingly, we do not express an opinion on the effectiveness of County of Craig, Virginia's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses [2013-1 and 2013-2].

Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of Craig, 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 Craig, Virginia's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Famer, Cox Associates

Blacksburg, Virginia
December 20, 2013

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

To the Board of Supervisors
County of Craig, Virginia
New Castle, Virginia

Report on Compliance for Each Major Federal Program

We have audited County of Craig, Virginia, Virginia's compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of County of Craig, Virginia's major federal programs for the year ended June 30, 2013. County of Craig, 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 the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of County of Craig, 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about County of Craig, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, County of Craig, 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, 2013.

Report on Internal Control Over Compliance

Management of County of Craig, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

Report on Internal Control Over Compliance (continued)

In planning and performing our audit of compliance, we considered County of Craig, 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of County of Craig, Virginia's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Robinson, Turner, Cox Associates

Blacksburg, Virginia
December 20, 2013

County of Craig, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/State Pass - Through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	0950112, 0950113	\$ 4,306
Temporary Assistance for Needy Families	93.558	0400112, 0400113	42,745
Refugee and Entrant Assistance - State Administered Programs	93.566	0500112, 0500113	232
Low-Income Home Energy Assistance	93.568	0600412, 0600413	5,360
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760112, 0760113	10,792
Chafee Education and Training Vouchers Program	93.599	9160112	862
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900112, 0900113	184
Foster Care - Title IV-E	93.658	1100112, 1100113	33,698
Adoption Assistance	93.659	1120112, 1120113	6,815
Social Services Block Grant	93.667	1000112, 1000113	25,965
Chafee Foster Care Independence Program	93.674	9150112, 9150113	231
Children's Health Insurance Program	93.767	0540112, 0540113	1,406
Medical Assistance Program	93.778	1200112, 1200113	36,840
Total Department of Health and Human Services			\$ 169,436
Department of Agriculture:			
Direct Payments:			
Cooperative Forestry Assistance	10.664	Not applicable	\$ 7,500
Pass Through Payments:			
Child Nutrition Cluster:			
Department of Agriculture and Consumer Services:			
Food Distribution (Note 3)	10.555	Not applicable	\$ 20,271
Department of Education:			
National School Lunch Program	10.555	40623	137,893
National School Lunch Program Subtotal			\$ 158,164
School Breakfast Program	10.553	40591	41,479
Schools and Roads - Grants to States	10.665	43841	144,502
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010112, 0010113 0040112, 0040113	60,854
Total Department of Agriculture			\$ 412,499
Department of Transportation:			
Pass Through Payments:			
Department of Motor Vehicles:			
Alcohol Impaired Driving Countermeasures Incentive Grants	20.601	K8-2012-52247-4625	\$ 13,249
Alcohol Open Container Requirements	20.607	154AL-2013-53296-5011	5,853
Total Department of Transportation			\$ 19,102
Department of Homeland Security:			
Pass Through Payments:			
Department of Emergency Management:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	158	\$ 9,275
Emergency Management Performance Grants	97.042	52742	5,000
State Homeland Security Program	97.073	52700, 52702	18,214
Total Department of Homeland Security			\$ 32,489

County of Craig, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2013

Federal Grantor/State Pass - Through Grantor/ Program Title or Cluster	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
Department of Education:			
Direct Payments:			
Impact Aid	84.041	Not applicable	\$ 347
Pass Through Payments:			
Department of Education:			
Title I, Part A Cluster:			
Title I: Grants to Local Educational Agencies	84.010	42901	\$ 137,259
Special Education Cluster:			
Special Education - Grants to States	84.027	43071	192,860
Special Education - Preschool Grants	84.173	62521	7,017
Career and Technical Education: Basic Grants to States	84.048	61095	20,714
School Improvement Grants	84.377	43040	220,426
Education Technology State Grants	84.318	61600	1,183
Improving Teacher Quality State Grants	84.367	61480	21,564
Total Department of Education			\$ 601,370
Total Expenditures of Federal Awards			\$ 1,234,896

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Craig County, Virginia under programs of the federal government for the year ended June 30, 2013. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Because the Schedule presents only a selected portion of the operations of Craig County, Virginia, it is not intended to and does not present the financial position, changes in net position, or cash flows of Craig County, 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 OMB Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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, 2013, Craig County, Virginia did not report any commodity inventory, as it was immaterial to the financials.

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	\$ 446,228
Less: Payment in lieu of taxes	(135,172)

Total primary government	\$ 311,056
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Component Unit School Board:

School Operating Fund	\$ 923,840
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Total federal expenditures per the Schedule of Expenditures of Federal Awards	\$ 1,234,896
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County of Craig, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:
Material weaknesses identified? Yes

Significant deficiencies identified? None reported

Noncompliance material to financial statements noted? No

Federal Awards

Internal control over major programs:
Material weaknesses identified? No

Significant deficiencies 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 Circular A-133,
Section .510 (a)? No

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
84.027/84.173	Special Education Cluster
84.377	School Improvement Grants

Dollar threshold used to distinguish between Type A
and Type B programs: \$300,000

Auditee qualified as low-risk auditee? No

County of Craig, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section II - Financial Statement Findings

2013-1

Criteria:	A key concept of internal controls is the segregation of duties. No one employee should have access to both accounting records and related assets.
Condition:	The County and the School Board lack proper segregation of duties over the following functions: Collections in the Treasurer's office, Accounts Payable and Payroll at the County; and Accounts Payable and Payroll at the School Board.
Cause of Condition:	The County and School Board lack the funding to fully support a completely segregated finance department.
Effect of Condition:	There is more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal controls over financial reporting.
Recommendation:	Management should further try to segregate duties amongst current staff to help alleviate risk created by improper segregation of duties.
Management's Response:	Management acknowledges that internal controls over the functions listed above lack proper segregation of duties, however to alleviate same would require additional staff. Due to cost constraints, the County and School Board have decided not to address the aforementioned internal control deficiency.

2013-2

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 exist.
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 notice and correct errors in closing their year end financial statements.
Effect of Condition:	There is more than a remote likelihood 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.

County of Craig, Virginia

Schedule of Findings and Questioned Costs
Year Ended June 30, 2013

Section II - Financial Statement Findings (Continued)

2013-2 (Continued)

Recommendation:	The County should review the auditors' proposed audit adjustments for 2013 and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
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Management's Response:	The County will review the auditors' proposed audit adjustments for 2013 and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.
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Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

Financial Statement finding 2012-1 is recurring this year as 2013-1. Financial Statement finding 2012-2 and Federal Finding 2012-3 were corrected during this year.