County of Craig, Virginia

Annual Financial Report

For the Year Ended June 30, 2016

COUNTY OF CRAIG, VIRGINIA
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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ANNUAL FINANCIAL REPORT
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County of Craig, Virginia

BOARD OF SUPERVISORS

	Martha Murphy, Chair	
Carl Bailey		Jesse Spence, Vice Chair
Casey McKenzie		Rusty Zimmerman
	Clay Goodman, Clerk	

COUNTY SCHOOL BOARD

	Pat Myers, Chair	
Darlene Stanley, Vice Chair		James Stephens
Susan Crenshaw		Aaron Calfee
	Sonja Switzer, Clerk	

COUNTY WELFARE BOARD

	Malisa Stephens, Chair	
Barbara Charlton, Vice Chair		Phyllis Tripp
Millie Harrison		Susan Dillon

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	Trevor Craddick
Superintendent of Schools	Jeanette Warwick
Director of Social Services	James T. Weber
County Administrator	Clay Goodman
County Attorney	James Cornwell

FINANCIAL SECTION

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, 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, 2016, and the related notes to the financial statements, which collectively comprise the County of Craig, Virginia's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the County adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, 79 Certain External Investment Pools and Pool Participants, and 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. 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 the schedules related to pension and OPEB funding on pages 67 and 68-73, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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, and other statistical information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

Other Information (continued)

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2016, 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 the County of Craig, Virginia's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 21, 2016

Basic Financial Statements

Exhibit 1

County of Craig, Virginia
Statement of Net Position
June 30, 2016

	Primary Government Governmental Activities		Component Unit School Board		Component Unit IDA
ASSETS					
Cash and cash equivalents	$	2,158,308	$ 628,016	$	60,144
Investments		268,760	-		-
Receivables (net of allowance for uncollectibles):					
Taxes receivable		1,548,442	-		-
Accounts receivable		53,023	-		435
Notes receivable		-	-		14,225
Due from component unit		236,642	-		-
Due from other governments		242,298	225,588		-
Prepaid items		-	21,088		-
Capital assets not being depreciated:					
Land		256,435	79,830		362,094
Construction in progress		628,256	-		-
Capital assets, net of accumulated depreciation:					
Buildings and improvements		5,685,094	1,212,241		1,036,633
Machinery, equipment, and vehicles		665,804	253,741		-
Total assets	$	11,743,062	$ 2,420,504	$	1,473,531
DEFERRED OUTFLOWS OF RESOURCES					
Pension contributions subsequent to measurement date	$	160,130	$ 532,019	$	-
Items related to measurement of net pension liability		71,129	38,497		-
Total deferred outflows of resources	$	231,259	$ 570,516	$	-
LIABILITIES					
Accounts payable	$	110,715	$ 26,537	$	141
Accrued payroll liabilities		-	594,419		-
Accrued interest payable		50,515	-		-
Due to primary government		-	236,642		-
Unearned revenues		-	-		1,165
Noncurrent liabilities:					
Due within one year		423,731	55,951		-
Due in more than one year		2,894,496	6,322,550		-
Total liabilities	$	3,479,457	$ 7,236,099	$	1,306
DEFERRED INFLOWS OF RESOURCES					
Deferred revenue - property taxes	$	1,364,687	$ -	$	-
Items related to measurement of net pension liability		178,747	692,849		-
Total deferred inflows of resources	$	1,543,434	$ 692,849	$	-
NET POSITION					
Net investment in capital assets	$	4,491,167	$ 1,545,812	$	1,398,727
Restricted:					
Stormwater		1,944	-		-
Unrestricted		2,458,319	(6,483,740)		73,498
Total Net Position	$	6,951,430	$ (4,937,928)	$	1,472,225

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

Exhibit 2

County of Craig, Virginia
Statement of Activities
For the Year Ended June 30, 2016

		Program Revenues			Net (Expense) Revenue and Changes in Net Position		
			Operating	Capital	Primary Government	Component Units	
		Charges for	Grants and	Grants and			
Functions/Programs	**Expenses**	**Services**	**Contributions**	**Contributions**	**Total**	**School Board**	**IDA**
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	$ 739,661	$ 1,920	$ 175,971	$ -	$ (561,770)		
Judicial administration	304,096	894	219,123	-	(84,079)		
Public safety	1,467,324	135,748	861,530	-	(470,046)		
Public works	579,770	8,270	7,498	-	(564,002)		
Health and welfare	1,222,920	-	844,313	-	(378,607)		
Education	1,843,269	-	-	-	(1,843,269)		
Parks, recreation, and cultural	37,456	-	6,971	-	(30,485)		
Community development	142,775	740	-	-	(142,035)		
Interest on long-term debt	140,070	-	-	-	(140,070)		
Total primary government	$ 6,477,341	$ 147,572	$ 2,115,406	$ -	$ (4,214,363)		
COMPONENT UNITS:							
School Board	$ 7,217,617	$ 141,687	$ 5,018,819	$ 114,728		$ (1,942,383)	$ -
IDA	45,097	-	-	-		-	(45,097)
Total component units	$ 7,262,714	$ 141,687	$ 5,018,819	$ 114,728		$ (1,942,383)	$ (45,097)
General revenues:							
General property taxes					$ 3,502,061	$ -	$ -
Other local taxes:							
Local sales and use taxes					162,135	-	-
Consumers' utility taxes					116,072	-	-
Consumption taxes					12,483	-	-
Franchise license taxes					5,161	-	-
Motor vehicle licenses					109,092	-	-
Recordation tax					27,452	-	-
Hotel and motel room taxes					19,418	-	-
Restaurant food taxes					83,754	-	-
Unrestricted revenues from use of money and property					80,207	83	13,912
Miscellaneous					68,671	344,886	3,687
Contributions from the County of Craig					-	1,681,821	-
Grants and contributions not restricted to specific programs					665,593	-	-
Total general revenues					$ 4,852,099	$ 2,026,790	$ 17,599
Change in net position					$ 637,736	$ 84,407	$ (27,498)
Net position - beginning					6,313,694	(5,022,335)	1,499,723
Net position - ending					$ 6,951,430	$ (4,937,928)	$ 1,472,225

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

Exhibit 3

County of Craig, Virginia
Balance Sheet
Governmental Fund
June 30, 2016

	General
ASSETS	
Cash and cash equivalents	$ 2,158,308
Investments	268,760
Receivables (net of allowance for uncollectibles):	
Taxes receivable	1,548,442
Accounts receivable	53,023
Due from component unit	236,642
Due from other governments	242,298
Total assets	$ 4,507,473
LIABILITIES	
Accounts payable	$ 110,715
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue - property taxes	$ 1,562,067
FUND BALANCE	
Restricted:	
Stormwater management	$ 1,944
Committed:	
Law library	9,790
Courthouse maintenance	4,260
Assigned:	
Public assistance	10,983
Commons	115,520
Memorial	2,971
Capital projects	794,078
Unassigned	1,895,145
Total fund balance	$ 2,834,691
Total liabilities, deferred inflows of resources, and fund balance	$ 4,507,473

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

Exhibit 4

County of Craig, Virginia
Reconciliation of the Balance Sheet of Governmental Fund
To the Statement of Net Position
June 30, 2016

Amounts reported for governmental activities in the statement of net position are different because:		
Fund balance per Exhibit 3 - Balance Sheet - Governmental Fund		$ 2,834,691
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	$ 256,435	
Buildings and improvements	5,685,094	
Machinery, equipment, and vehicles	665,804	
Construction in progress	628,256	7,235,589
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		$ 197,380
Pension contributions subsequent to the measurement date will be a reduction in the net pension liability in the next fiscal year and, therefore, are not reported in the funds.		160,130
Items related to measurement of the net pension liability are considered to be deferred and will be amortized and recognized in pension expense over future years.		
Deferred outflows of resources	$ 71,129	
Deferred inflows of resources	(178,747)	(107,618)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
General obligation bonds	$ (2,560,997)	
Capital lease	(183,425)	
Compensated absences	(62,442)	
Accrued interest payable	(50,515)	
Transfer station closure	(15,116)	
Net pension liability	(496,247)	(3,368,742)
Net position of governmental activities		$ 6,951,430

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

County of Craig, Virginia
Statement of Revenues, Expenditures, and Change in Fund Balance
Governmental Fund
For the Year Ended June 30, 2016

	General
REVENUES	
General property taxes	$ 3,491,806
Other local taxes	535,567
Permits, privilege fees, and regulatory licenses	25,773
Fines and forfeitures	4,275
Revenue from the use of money and property	80,207
Charges for services	117,524
Miscellaneous	68,671
Recovered costs	172,230
Intergovernmental:	
Commonwealth	2,227,641
Federal	553,358
Total revenues	$ 7,277,052
EXPENDITURES	
Current:	
General government administration	$ 807,913
Judicial administration	308,648
Public safety	1,715,254
Public works	524,366
Health and welfare	1,232,970
Education	1,693,269
Parks, recreation, and cultural	32,586
Community development	307,491
Nondepartmental	29,267
Capital projects	255,149
Debt service:	
Principal retirement	366,823
Interest and other fiscal charges	147,797
Total expenditures	$ 7,421,533
Excess (deficiency) of revenues over (under) expenditures	$ (144,481)
Net change in fund balance	$ (144,481)
Fund balance - beginning	2,979,172
Fund balance - ending	$ 2,834,691

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

Exhibit 6

County of Craig, Virginia
Reconciliation of Statement of Revenues,
Expenditures, and Change in Fund Balance of Governmental Fund
To the Statement of Activities
For the Year Ended June 30, 2016

Amounts reported for governmental activities in the statement of activities are different because:		
Net change in fund balance - governmental fund		$ (144,481)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Capital asset additions	$ 699,669	
Depreciation expense	(336,579)	363,090
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position.		(10,188)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Increase (decrease) in unavailable revenue - property taxes	$ 10,255	
(Increase) decrease in deferred inflows related to the net pension liability	225,276	235,531
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.		
Principal payments:		
General obligation bonds	$ 342,929	
Capital leases	23,894	366,823
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	$ 7,261	
Increase (decrease) in deferred outflows related to the net pension liability	65,635	
(Increase) decrease in net pension liability	(253,527)	
(Increase) decrease in accrued interest payable	7,727	
(Increase) decrease in transfer station closure liability	(135)	(173,039)
Change in net position of governmental activities		$ 637,736

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

Exhibit 7

County of Craig, Virginia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2016

	Agency Funds
ASSETS	
Cash and cash equivalents	$ 216,400
LIABILITIES	
Amounts held for child care	$ 186,246
Amounts held for social services clients	30,154
Total liabilities	$ 216,400

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

Note 1—Summary of Significant Accounting Policies:

The financial statements of the 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, 2016.

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.

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, 2016, 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 (governmental 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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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.

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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 uncollectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues. Sales and utility taxes, which are collected by the state or utilities and subsequently remitted to the County, are recognized as revenues and receivables upon collection by the state or utility, which is generally in the month preceding receipt by the County.

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

The County's fiduciary 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. 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 and the Child Care Fund. These funds utilize the accrual basis of accounting. Fiduciary Funds are not included in the government-wide financial statements.

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

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

The Component Unit School Board reports the following major governmental funds:

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.

School Cafeteria Fund - This fund of the School Board accounts and reports for all revenues and expenditures applicable to the cafeteria operations of the public school system. Revenues are derived primarily from charges for services, and state and federal grants. The School Cafeteria 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 1st, the County Administrator submits to the County Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1st. The operating and capital budget includes proposed expenditures and the means of financing them. The following funds have legally adopted budgets: General Fund, School Operating Fund, and the School Cafeteria Fund.

2. Public hearings are conducted to obtain citizen comments.

3. Prior to June 30th, 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 and School Cafeteria Funds are integrated only at the level of legal adoption.

6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

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

D. Budgets and Budgetary Accounting (Continued)

7. Appropriations lapse on June 30th 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 30th.

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, 2016, there were not any funds/departments that over expended appropriations.

Deficit fund equity

At June 30, 2016, 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/Investments

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

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

2. 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 noncurrent 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."

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

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

3. Property Taxes

Property is assessed at its value on January 1st. Property taxes attach as an enforceable lien on property as of January 1st. 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.

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 $22,533 at June 30, 2016 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 acquisition value at the date of donation.

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

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

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

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

7. Capital Assets (Continued)

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:

Assets	Years
Buildings	40
Building improvements	40
Machinery, equipment, and vehicles	4-30

8. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. 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.

The remainder of this page is left blank intentionally.

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

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

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

The Board of Supervisors is the County's highest level of decision-making authority 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.

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

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has two items that qualify for reporting in this category. The first item is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. The other item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has two types of items that qualify for reporting in this category. Under a modified accrual basis of accounting, unavailable revenue representing property taxes receivable is reported in the governmental funds balance sheet. This amount is comprised of uncollected property taxes due prior to June 30, 2nd half installments levied during the fiscal year but due after June 30th, and amounts prepaid on the 2nd half installments and is deferred and recognized as an inflow of resources in the period that the amount becomes available. Under the accrual basis, 2nd half installments levied during the fiscal year but due after June 30th and amounts prepaid on the 2nd half installments are reported as deferred inflows of resources. In addition, certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

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.

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

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

12. Net Position (Continued)

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.

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. Pensions

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

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

F. Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*

The County implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the County to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the County's financial statement as a result of the implementation of Statement No. 72.

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The County implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the County's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 2.

Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The County early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Note 2—Deposits and Investments:

Deposits:

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

Investments:

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

Credit Risk of Debt Securities:

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

The County's and School's rated debt investments as of June 30, 2016 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

County's Rated Debt Investments' Values

Rated Debt Investments	**Fair Quality Ratings**	
	AAAm	
Local Government Investment Pool (LGIP)	$	268,760

Concentration of Credit Risk:

At June 30, 2016, 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:

Investment type	Value	Less than 1yr
Local Government Investment Pool (LGIP)	$ 268,760	$ 268,760

Note 2—Deposits and Investments: (Continued)

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 pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 3—Due from Other Governmental Units:

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

	Primary Government	Component Unit School Board
Commonwealth of Virginia:		
Local sales tax	$ 28,147	$ -
State sales tax	-	142,936
Noncategorical aid	22,795	-
Categorical aid-Shared expenses	66,581	-
Categorical aid-Welfare payments	15,143	-
Categorical aid-CSA	56,883	-
Categorical aid-Other	14,576	-
Federal Government:		
Categorical aid-Welfare payments	23,456	-
Categorical aid-Education	-	82,652
Categorical aid-Public safety	14,717	-
Totals	$ 242,298	$ 225,588

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Note 4—Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness:

The following is a summary of long-term obligation transactions of the County for the year ended June 30, 2016:

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General obligation bonds	$ 2,903,926	$ -	$ (342,929)	$ 2,560,997
Capital lease	207,319	-	(23,894)	183,425
Compensated absences	69,703	15,016	(22,277)	62,442
Transfer station closure liability	14,981	135	-	15,116
Net pension liability	242,720	789,893	(536,366)	496,247
Total	$ 3,438,649	$ 805,044	$ (925,466)	$ 3,318,227

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

Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest
2017	$ 352,454	$ 123,952
2018	362,216	105,409
2019	372,226	86,336
2020	382,499	66,719
2021	392,311	47,283
2022-2023	699,291	34,896
Totals	$ 2,560,997	$ 464,595

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Note 4—Long-Term Obligations: (Continued)

Details of long-term indebtedness:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
General Obligation Bonds:						
General obligation bond	4.25-5.625%	05/01/01	05/01/22	$ 1,400,000	$ 585,000	$ 85,000
VPSA general obligation bond	2.35-5.84%	02/02/03	07/15/22	5,210,980	1,975,997	267,454
Total General Obligation Bonds					$ 2,560,997	$ 352,454
Other Long-Term Obligations:						
Capital lease (Note 6)					$ 183,425	$ 24,445
Compensated absences					62,442	46,832
Transfer station closure liability					15,116	-
Net pension liability					496,247	-
Total Other Long-Term Obligations					$ 757,230	$ 71,277
Total Long-Term Obligations					$ 3,318,227	$ 423,731

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

The following is a summary of long-term obligation transactions of the School Board for the year ended June 30, 2016:

	Balance July 1, 2015	Increase	Decrease	Balance June 30, 2016
Compensated absences	$ 103,835	$ 48,642	$ (77,876)	$ 74,601
Net pension liability	6,226,691	1,521,376	(1,444,167)	6,303,900
Total	$ 6,330,526	$ 1,570,018	$ (1,522,043)	$ 6,378,501

Details of long-term indebtedness:

	Total Amount	Amount Due Within One Year
Other Obligations:		
Compensated absences	$ 74,601	$ 55,951
Net pension liability	6,303,900	-
Total Long-Term Obligations	$ 6,378,501	$ 55,951

Note 6—Capital Lease:

Primary Government

In June of 2013, the County entered into a lease agreement to finance the acquisition of a compactor, containers, and other equipment at the Craig County Solid Waste Transfer Station. The assets are part of construction in progress at June 30, 2016 of $628,256. 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.

The future minimum lease obligations and the net present value of minimum lease payments as of June 30, 2016, were as follows:

Year Ending June 30,	Transfer Station Equipment
2017	$ 28,514
2018	28,514
2019	28,514
2020	28,514
2021	28,514
2022-2023	57,028
Subtotal	$ 199,598
Less: amount representing interest	(16,173)
Present Value of Lease Agreement	$ 183,425

Note 7—Pension Plan:

Plan Description

All full-time, salaried permanent employees of the County of Craig, Virginia and (nonprofessional) employees of public school divisions are automatically covered by VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		About the Hybrid Retirement Plan (Cont.) • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • School division employees

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Hybrid Opt-In Election (Cont.)
The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</td>
<td>Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</td>
<td>Eligible Members (Cont.)
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.
Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</td>
</tr>
<tr>
<td>Retirement Contributions
Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</td>
<td>Retirement Contributions
Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</td>
<td>Retirement Contributions
A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan.</td>
</tr>
</table>

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Retirement Contributions (Cont.) Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions (Cont.)** Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions (Cont.)** Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit.

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Creditable Service (Cont.)
It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</td><td></td><td>Creditable Service (Cont.)
<u>Defined Benefit Component: (Cont.)</u>
It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

<u>Defined Contributions Component:</u>
Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</td></tr>
<tr><td>Vesting
Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.</td><td>Vesting
Same as Plan 1.</td><td>Vesting
<u>Defined Benefit Component:</u>
Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</td></tr>
</table>

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		Vesting (Cont.) **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1. The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

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Note 7—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Service Retirement Multiplier **VRS:** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer. **Normal Retirement Age** **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Service Retirement Multiplier** **VRS:** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1. **Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable. **Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

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

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Note 7—Pension Plan: (Continued)

Plan Description (Continued)

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

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<u>Note 7—Pension Plan</u>: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
• The member retires on disability.
The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1.</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1 and Plan 2.</td>
</tr>
</table>

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates:** • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Note 7—Pension Plan: (Continued)

Plan Description (Continued)

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

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 7—Pension Plan: (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Primary Government	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	27	7
Inactive members:		
Vested inactive members	16	1
Non-vested inactive members	10	5
Inactive members active elsewhere in VRS	11	3
Total inactive members	37	9
Active members	35	20
Total covered employees	99	36

Contributions

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

The County's contractually required contribution rate for the year ended June 30, 2016 was 11.67% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the County were $160,130 and $165,490 for the years ended June 30, 2016 and June 30, 2015, respectively.

Note 7—Pension Plan: (Continued)

Contributions (Continued)

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 13.23% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were $42,879 and $55,133 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The County's and Component Unit School Board's (nonprofessional) net pension liabilities were measured as of June 30, 2015. The total pension liabilities used to calculate the net pension liabilities were determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the County's and Component Unit School Board's (nonprofessional) Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

Note 7—Pension Plan: (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 7—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the County's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.50%
Salary Increases, including inflation	3.50% - 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

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

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Note 7—Pension Plan: (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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Note 7—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

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Note 7—Pension Plan: (Continued)

Discount Rate

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

Changes in Net Pension Liability

	Primary Government Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 6,799,501	$ 6,556,781	$ 242,720
Changes for the year:			
Service cost	$ 204,611	$ -	$ 204,611
Interest	464,354	-	464,354
Differences between expected and actual experience	116,725	-	116,725
Contributions - employer	-	165,490	(165,490)
Contributions - employee	-	70,729	(70,729)
Net investment income	-	300,147	(300,147)
Benefit payments, including refunds of employee contributions	(331,733)	(331,733)	-
Administrative expenses	-	(4,142)	4,142
Other changes	-	(61)	61
Net changes	$ 453,957	$ 200,430	$ 253,527
Balances at June 30, 2015	$ 7,253,458	$ 6,757,211	$ 496,247

Note 7—Pension Plan: (Continued)

Changes in Net Pension Liability

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	$ 1,658,764	$ 1,486,073	$ 172,691
Changes for the year:			
Service cost	$ 54,544	$ -	$ 54,544
Interest	114,416	-	114,416
Differences between expected and actual experience	19,496	-	19,496
Contributions - employer	-	55,133	(55,133)
Contributions - employee	-	20,837	(20,837)
Net investment income	-	69,197	(69,197)
Benefit payments, including refunds of employee contributions	(48,491)	(48,491)	-
Administrative expenses	-	(904)	904
Other changes	-	(16)	16
Net changes	$ 139,965	$ 95,756	$ 44,209
Balances at June 30, 2015	$ 1,798,729	$ 1,581,829	$ 216,900

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Note 7—Pension Plan: (Continued)

Sensitivity of the Net Pension Liability/(Asset) to Changes in the Discount Rate

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
County			
Net Pension Liability (Asset)	$ 1,345,295	$ 496,247	$ (216,610)
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	$ 429,513	$ 216,900	$ 36,954

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

For the year ended June 30, 2016, the County and Component Unit School Board (nonprofessional) recognized pension expense of $122,612 and $34,754, respectively. At June 30, 2016, the County and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 71,129	$ -	$ 13,497	$ -
Change in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension plan investments	-	178,747	-	38,849
Employer contributions subsequent to the measurement date	160,130	-	42,879	-
Total	$ 231,259	$ 178,747	$ 56,376	$ 38,849

Note 7—Pension Plan: (Continued)

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

$160,130 and $42,879 reported as deferred outflows of resources related to pensions resulting from the County's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government	Component Unit School Board (nonprofessional)
2017	$ (24,342)	$ (9,334)
2018	(44,405)	(9,334)
2019	(69,937)	(13,834)
2020	31,066	7,150
2021	-	-
Total	$ (107,618)	$ (25,352)

Component Unit School Board (professional)

Plan Description

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

Contributions

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

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Contributions (Continued)

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended, the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were $489,140 and $518,231 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of $6,087,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.0484% as compared to 0.0501% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of $409,403. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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Note 7—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 84,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	373,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	25,000	197,000
Employer contributions subsequent to the measurement date	489,140	-
Total	$ 514,140	$ 654,000

$489,140 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2017	$ (203,000)
2018	(203,000)
2019	(203,000)
2020	11,000
2021	(31,000)
Total	$ (629,000)

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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

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

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Note 7—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions (Continued)

Mortality rates:

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

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

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

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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Note 7—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Long-Term Expected Rate of Return

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

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

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

Note 7—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Discount Rate

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

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

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

	Rate		
	(6.00%)	**(7.00%)**	**(8.00%)**
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset)	$ 8,907,000	$ 6,087,000	$ 3,765,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 8—Capital Assets:

Primary Government

Capital asset activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 256,435	$ -	$ -	$ 256,435
Construction in progress	516,568	254,786	(143,098)	628,256
Total capital assets not being depreciated	$ 773,003	$ 254,786	$ (143,098)	$ 884,691
Capital assets, being depreciated:				
Buildings and improvements	$ 9,276,280	$ -	$ -	$ 9,276,280
Machinery and equipment	1,331,075	587,981	(148,834)	1,770,222
Total capital assets being depreciated	$ 10,607,355	$ 587,981	$ (148,834)	$ 11,046,502
Accumulated depreciation:				
Buildings and improvements	$ (3,352,520)	$ (238,666)	$ -	$ (3,591,186)
Machinery and equipment	(1,145,151)	(97,913)	138,646	(1,104,418)
Total accumulated depreciation	$ (4,497,671)	$ (336,579)	$ 138,646	$ (4,695,604)
Total capital assets being depreciated, net	$ 6,109,684	$ 251,402	$ (10,188)	$ 6,350,898
Governmental activities capital assets, net	$ 6,882,687	$ 506,188	$ (153,286)	$ 7,235,589

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

Governmental activities:	
General government administration	$ 38,359
Judicial administration	328
Public safety	66,661
Public works	54,702
Health and welfare	18,649
Education	150,000
Parks, recreation, and culture	4,870
Community development	3,010
Total depreciation expense-governmental activities	$ 336,579

Note 8—Capital Assets: (Continued)

Discretely Presented Component Unit – School Board

Capital asset activity for the School Board for the year ended June 30, 2016 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	$ 79,830	$ -	$ -	$ 79,830
Capital assets, being depreciated:				
Buildings and improvements	$ 3,581,100	$ 91,160	$ (25,186)	$ 3,647,074
Machinery and equipment	1,065,759	-	(12,741)	1,053,018
Total capital assets being depreciated	$ 4,646,859	$ 91,160	$ (37,927)	$ 4,700,092
Accumulated depreciation:				
Buildings and improvements	$ (2,394,566)	$ (65,453)	$ 25,186	$ (2,434,833)
Machinery and equipment	(730,331)	(81,687)	12,741	(799,277)
Total accumulated depreciation	$ (3,124,897)	$ (147,140)	$ 37,927	$ (3,234,110)
Total capital assets being depreciated, net	$ 1,521,962	$ (55,980)	$ -	$ 1,465,982
Governmental activities capital assets, net	$ 1,601,792	$ (55,980)	$ -	$ 1,545,812

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.

Note 10—Contingent Liabilities:

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

Note 11—Surety Bonds:

Primary Government:

Fidelity and 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
Trevor Craddick, 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
Clay Goodman, County Administrator		2,000
Department of Social Services-blanket bond		30,000
Western Surety Company:		
Department of Social Services-blanket bond	$	30,000

Component Unit-School Board:

Western Surety Company:		
Jeanette D. Warwick, 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

Note 12—Deferred/Unavailable Revenue:

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

		Government-wide Statements		Balance Sheet
		Governmental Activities		Governmental Funds
Primary Government:				
Deferred property tax revenue representing uncollected property tax billings that are not available for the funding of current expenditures.	$	1,304,622	$	1,502,002
Prepaid property taxes due in December 2016, but paid in advance by taxpayers.		60,065		60,065
Total deferred/unavailable revenue	$	1,364,687	$	1,562,067

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

County

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.

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

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 2016 was 0.04% of annual covered payroll.

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 2016, the County's contribution of $101 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 2016 and the preceding two years are as follows:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
County	6/30/2016	$ 101	100.00%	-
	6/30/2015	106	100.00%	-
	6/30/2014	289	100.00%	-

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	$ 31,771
Actuarial value of plan assets	38,701
Unfunded actuarial accrued liability (UAAL)	$ (6,930)
Funded ratio (actuarial value of plan assets/AAL)	121.81%
Covered payroll (active plan members)	$ 265,704
UAAL as a percentage of covered payroll	-2.61%

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

D. Funded Status and Funding Progress (Continued)

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

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

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, 2015 was 28 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.

Professional Employees – Discretely Presented Component Unit School Board

A. Plan Description

The School Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is a cost sharing, multiple-employer defined benefit plan managed 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.

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

Professional Employees – Discretely Presented Component Unit School Board (Continued)

A. Plan Description (Continued)

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.

B. Funding Policy

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 1.06% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2016, 2015, and 2014 were $37,227, $39,095, and $35,570, respectively, and equaled the required contributions.

Note 14—Commitments and Contingencies:

Construction Contracts:

	Original Contract	Amount Paid As of 6/30/2016	Remaining Contract Amount	Accounts Payable
Primary Government:				
Price Buildings - Transfer station Project	$ 498,515	$ 493,567	$ 4,948	$ 40,336
Mattern and Craig - Transfer station Project	46,960	45,260	1,700	-
Total Contracts	$ 545,475	$ 538,827	$ 6,648	$ 40,336

Operating Leases:
On November 30, 2008, the County entered into a lease agreement with Botetourt County, Virginia for rent of the jail. The County has agreed to pay Botetourt County, Virginia $104,416 each year through fiscal year 2032.

Note 15—Litigation:

As of June 30, 2016, there were no matters of litigation involving the County which would materially affect the County's financial position should any court decisions on pending matters not be favorable.

Note 16—Transfer Station:

The County maintains and operates a transfer station and reports a liability in accordance with State and Federal laws for closure of the transfer station. The County reports an estimated liability of $15,116 as of June 30, 2016. Closure care requirements are mandated under the United States Environmental Protection Agency (EPA) rule, "Solid Waste Disposal Facility Criteria", and are subject to revisions by the EPA. Federal and state regulations require owners of municipal landfills and transfer stations to demonstrate financial responsibility for closure care, postclosure care, and corrective costs arising from operations of such facilities. The County has demonstrated financial assurance requirements for closure and postclosure care through submission of a Local Government Financial Test to the Virginia Department of Environmental Quality in accordance with Section 9VAC20-70 of the Virginia Administrative Code.

Note 17—Upcoming Pronouncements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

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

Statement No. 77, *Tax Abatement Disclosures,* will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Note 17-Upcoming Pronouncements: (Continued)

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

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

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

Required Supplementary Information

Exhibit 8

County of Craig, Virginia
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget -
			Actual	Positive
	Original	Final	Amounts	(Negative)
REVENUES				
General property taxes	$ 3,579,100	$ 3,579,100	$ 3,491,806	$ (87,294)
Other local taxes	499,500	499,500	535,567	36,067
Permits, privilege fees, and regulatory licenses	29,040	29,132	25,773	(3,359)
Fines and forfeitures	4,200	4,200	4,275	75
Revenue from the use of money and property	90,588	90,588	80,207	(10,381)
Charges for services	86,200	96,349	117,524	21,175
Miscellaneous	32,450	93,258	68,671	(24,587)
Recovered costs	160,335	174,095	172,230	(1,865)
Intergovernmental:				
Commonwealth	1,984,589	2,381,134	2,227,641	(153,493)
Federal	491,500	510,069	553,358	43,289
Total revenues	$ 6,957,502	$ 7,457,425	$ 7,277,052	$ (180,373)
EXPENDITURES				
Current:				
General government administration	$ 731,986	$ 841,593	$ 807,913	$ 33,680
Judicial administration	289,447	313,205	308,648	4,557
Public safety	1,290,287	1,856,343	1,715,254	141,089
Public works	494,239	562,177	524,366	37,811
Health and welfare	1,336,006	1,336,006	1,232,970	103,036
Education	2,000,674	2,088,734	1,693,269	395,465
Parks, recreation, and cultural	33,934	34,947	32,586	2,361
Community development	288,514	337,686	307,491	30,195
Nondepartmental	68,771	29,811	29,267	544
Capital projects	-	378,960	255,149	123,811
Debt service:				
Principal retirement	369,200	369,200	366,823	2,377
Interest and other fiscal charges	146,107	146,107	147,797	(1,690)
Total expenditures	$ 7,049,165	$ 8,294,769	$ 7,421,533	$ 873,236
Excess (deficiency) of revenues over (under) expenditures	$ (91,663)	$ (837,344)	$ (144,481)	$ 692,863
Net change in fund balances	$ (91,663)	$ (837,344)	$ (144,481)	$ 692,863
Fund balances - beginning	91,663	837,344	2,979,172	2,141,828
Fund balances - ending	$ -	$ -	$ 2,834,691	$ 2,834,691

Exhibit 9

County of Craig, Virginia
Schedule of OPEB Funding Progress
For the Year Ended June 30, 2015

Primary Government:

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)
6/30/2015	$ 38,701	$ 31,771	$ (6,930)	121.81%	$ 265,704	-2.61%
6/30/2014	40,132	31,904	(8,228)	125.79%	265,704	-3.10%
6/30/2013	37,577	32,720	(4,857)	114.84%	327,736	-1.48%

Exhibit 10

County of Craig, Virginia
Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Primary Government
For the Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	$ 204,611	$ 204,353
Interest	464,354	442,058
Changes of benefit terms	-	-
Changes in assumptions	-	-
Differences between expected and actual experience	116,725	-
Benefit payments, including refunds of employee contributions	(331,733)	(324,060)
Net change in total pension liability	$ 453,957	$ 322,351
Total pension liability - beginning	6,799,501	6,477,150
Total pension liability - ending (a)	$ 7,253,458	$ 6,799,501
Plan fiduciary net position		
Contributions - employer	$ 165,490	$ 126,032
Contributions - employee	70,729	71,845
Net investment income	300,147	905,225
Benefit payments, including refunds of employee contributions	(331,733)	(324,060)
Administrative expense	(4,142)	(4,941)
Other	(61)	47
Net change in plan fiduciary net position	$ 200,430	$ 774,148
Plan fiduciary net position - beginning	6,556,781	5,782,633
Plan fiduciary net position - ending (b)	$ 6,757,211	$ 6,556,781
County's net pension liability - ending (a) - (b)	$ 496,247	$ 242,720
Plan fiduciary net position as a percentage of the total pension liability	93.16%	96.43%
Covered payroll	$ 1,418,081	$ 1,437,339
County's net pension liability as a percentage of covered payroll	34.99%	16.89%

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

Exhibit 11

County of Craig, Virginia
Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Component Unit School Board (nonprofessional)
For the Year Ended June 30, 2016

		2015		2014
Total pension liability				
Service cost	$	54,544	$	56,017
Interest		114,416		106,519
Changes of benefit terms		-		-
Changes in assumptions		-		-
Differences between expected and actual experience		19,496		-
Benefit payments, including refunds of employee contributions		(48,491)		(50,930)
Net change in total pension liability	$	139,965	$	111,606
Total pension liability - beginning		1,658,764		1,547,158
Total pension liability - ending (a)	$	1,798,729	$	1,658,764
Plan fiduciary net position				
Contributions - employer	$	55,133	$	45,582
Contributions - employee		20,837		20,422
Net investment income		69,197		201,832
Benefit payments, including refunds of employee contributions		(48,491)		(50,930)
Administrative expense		(904)		(1,065)
Other		(16)		10
Net change in plan fiduciary net position	$	95,756	$	215,851
Plan fiduciary net position - beginning		1,486,073		1,270,222
Plan fiduciary net position - ending (b)	$	1,581,829	$	1,486,073
School Division's net pension liability - ending (a) - (b)	$	216,900	$	172,691
Plan fiduciary net position as a percentage of the total pension liability		87.94%		89.59%
Covered payroll	$	416,726	$	408,442
School Division's net pension liability as a percentage of covered payroll		52.05%		42.28%

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

Exhibit 12

County of Craig, Virginia
Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan
For the Year Ended June 30, 2016

	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.0484%	0.0501%
Employer's Proportionate Share of the Net Pension Liability (Asset)	$ 6,087,000	$ 6,054,000
Employer's Covered Payroll	3,593,879	3,673,798
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	169.37%	164.79%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.68%	70.88%

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

Exhibit 13

County of Craig, Virginia
Schedule of Employer Contributions
For the Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess)* (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2016	$ 160,130	$ 160,130	$ -	$ 1,372,151	11.67%
2015	165,490	165,490	-	1,418,081	11.67%
2014	178,374	126,055	52,319	1,437,339	8.77%
2013	179,079	126,553	52,526	1,443,020	8.77%
2012	139,685	139,685	-	1,592,757	8.77%
2011	141,624	141,624	-	1,614,868	8.77%
2010	124,845	124,845	-	1,644,855	7.59%
2009	125,800	125,800	-	1,657,441	7.59%
2008	91,896	91,896	-	1,620,747	5.67%
2007	87,719	87,719	-	1,547,068	5.67%
Component Unit School Board (nonprofessional)					
2016	$ 42,879	$ 42,879	$ -	$ 324,104	13.23%
2015	55,133	55,133	-	416,726	13.23%
2014	52,771	45,582	7,189	408,442	11.16%
2013	51,615	44,574	7,041	399,498	11.16%
2012	44,823	44,823	-	401,641	11.16%
2011	45,124	45,124	-	404,336	11.16%
2010	27,481	27,481	-	407,731	6.74%
2009	27,959	27,959	-	414,829	6.74%
2008	25,801	25,801	-	405,679	6.36%
2007	23,877	23,877	-	375,430	6.36%
Component Unit School Board (professional)					
2016	$ 489,140	$ 489,140	$ -	$ 3,478,947	14.06%
2015	518,231	518,231	-	3,574,007	14.50%
2014	428,365	428,365	-	3,673,798	11.66%
2013	544,812	544,812	-	4,672,487	11.66%
2012	231,969	231,969	-	3,664,602	6.33%
2011	140,519	140,519	-	3,575,558	3.93%
2010	227,734	227,734	-	3,445,295	6.61%
2009	316,050	316,050	-	3,587,398	8.81%
2008	355,592	355,592	-	3,452,347	10.30%
2007	322,561	322,561	-	3,506,095	9.20%

*The difference relates to the County and School Board using an agreed upon reduced rate from VRS. These amounts impacted the calculation of the net pension liability in subsequent years.

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

County of Craig, Virginia
Notes to Required Supplementary Information
For the Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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

Other Supplementary Information

Exhibit 15

County of Craig, Virginia
Combining Statement of Changes in Assets and Liabilities
Agency Funds
For the Year Ended June 30, 2016

	Balance Beginning of Year	Additions	Deletions	Balance End of Year
Assets				
Current Assets				
Cash and cash equivalents				
Child Care Fund	$ 55,514	$ 476,004	$ (345,272)	$ 186,246
Special Welfare Fund	25,428	16,672	(11,946)	30,154
Total Assets	$ 80,942	$ 492,676	$ (357,218)	$ 216,400
Liabilities				
Amounts held for child care	$ 55,514	$ 476,004	$ (345,272)	$ 186,246
Amounts held for social services clients	25,428	16,672	(11,946)	30,154
Total Liabilities	$ 80,942	$ 492,676	$ (357,218)	$ 216,400

County of Craig, Virginia
Balance Sheet
Discretely Presented Component Unit - School Board
June 30, 2016

	School Operating Fund	School Cafeteria Fund	Total
ASSETS			
Cash and cash equivalents	$ 574,319	$ 53,697	$ 628,016
Due from other funds	39,980	-	39,980
Due from other governmental units	223,199	2,389	225,588
Total assets	$ 837,498	$ 56,086	$ 893,584
LIABILITIES			
Accounts payable	$ 26,537	$ -	$ 26,537
Accrued payroll liabilities	574,319	20,100	594,419
Due to other funds	-	39,980	39,980
Due to primary government	236,642	-	236,642
Total liabilities	$ 837,498	$ 60,080	$ 897,578
FUND BALANCE			
Unassigned:	$ -	$ (3,994)	$ (3,994)
Total fund balance	$ -	$ (3,994)	$ (3,994)
Total liabilities and fund balance	$ 837,498	$ 56,086	$ 893,584

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Fund balance per above		$ (3,994)
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	$ 79,830	
Buildings and improvements	1,212,241	
Machinery and equipment	253,741	1,545,812
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability		(692,849)
Pension contributions subsequent to the measurement date will be a reduction in the net pension liability to the next fiscal year and, therefore, are not reported in the funds.		532,019
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	$ (74,601)	
Net pension liability	(6,303,900)	
Deferred outflows of resources related to pension measurement:		
Changes in proportionate share of net pension liability	25,000	
Changes in difference between actual and expected experience	13,497	(6,340,004)
Certain items reported as expenditures in the fund statements are deferred and shown as assets on the statement of net position.		
Prepaid items		21,088
Net position of governmental activities		$ (4,937,928)

Exhibit 17

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, 2016

	School Operating Fund	School Cafeteria Fund	Total
REVENUES			
Charges for services	$ -	$ 141,687	$ 141,687
Revenue from the use of money and property	-	83	83
Miscellaneous	344,886	-	344,886
Intergovernmental:			
Local government	1,681,821	-	1,681,821
Commonwealth	4,210,057	7,036	4,217,093
Federal	608,528	214,926	823,454
Total revenues	$ 6,845,292	$ 363,732	$ 7,209,024
EXPENDITURES			
Current:			
Education	$ 6,845,292	$ 377,534	$ 7,222,826
Excess (deficiency) of revenues over (under) expenditures	$ -	$ (13,802)	$ (13,802)
Net change in fund balance	$ -	$ (13,802)	$ (13,802)
Fund balance - beginning	-	9,808	9,808
Fund balance - ending	$ -	$ (3,994)	$ (3,994)

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Net change in fund balance - governmental fund - per above		$ (13,802)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the depreciation exceeded capital outlays in the current period.		
Capital outlays	$ 91,160	
Depreciation expense	(147,140)	(55,980)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
(Increase) decrease in deferred inflows of resources related to the net pension liability	$ 296,091	
One-time payment to VRS Teacher Plan from Virginia Literary Fund	93,000	389,091
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	$ 29,234	
Increase (decrease) in deferred outflows of resources related to the net pension liability	(34,770)	
(Increase) decrease in net pension liability	(170,209)	(175,745)
Certain items reported as expenditures in the fund statements are deferred		
Increase (decrease) in prepaid items		(59,157)
Change in net position of governmental activities		$ 84,407

County of Craig, Virginia
Schedule of Revenues, Expenditures, and Change in Fund Balances - Budget and Actual
Discretely Presented Component Unit - School Board
For the Year Ended June 30, 2016

	School Operating Fund				School Cafeteria Fund			
	Budgeted Amounts			Variance with Final Budget Positive	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)	Original	Final	Actual	(Negative)
REVENUES								
Charges for services	$ -	$ -	$ -	$ -	$ 160,109	$ 160,109	$ 141,687	$ (18,422)
Revenue from the use of money and property	-	-	-	-	-	-	83	83
Miscellaneous	319,287	319,287	344,886	25,599	-	-	-	-
Intergovernmental:								
Local government	1,989,226	2,077,286	1,681,821	(395,465)	-	-	-	-
Commonwealth	4,144,559	4,144,559	4,210,057	65,498	6,976	6,976	7,036	60
Federal	415,159	415,159	608,528	193,369	180,000	180,000	214,926	34,926
Total revenues	$ 6,868,231	$ 6,956,291	$ 6,845,292	$ (110,999)	$ 347,085	$ 347,085	$ 363,732	$ 16,647
EXPENDITURES								
Current:								
Education	$ 6,868,231	$ 6,956,291	$ 6,845,292	$ 110,999	$ 385,534	$ 385,534	$ 377,534	$ 8,000
Excess (deficiency) of revenues over (under) expenditures	$ -	$ -	$ -	$ -	$ (38,449)	$ (38,449)	$ (13,802)	$ 24,647
Net change in fund balance	$ -	$ -	$ -	$ -	$ (38,449)	$ (38,449)	$ (13,802)	$ 24,647
Fund balance - beginning	-	-	-	-	38,449	38,449	9,808	(28,641)
Fund balance - ending	$ -	$ -	$ -	$ -	$ -	$ -	$ (3,994)	$ (3,994)

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
Revenue from local sources:				
General property taxes:				
Real property taxes	$ 2,770,000	$ 2,770,000	$ 2,684,123	$ (85,877)
Real and personal public service corporation taxes	82,000	82,000	107,925	25,925
Personal property taxes	600,000	600,000	596,238	(3,762)
Mobile home taxes	17,100	17,100	18,703	1,603
Machinery and tools taxes	50,000	50,000	31,929	(18,071)
Merchant's capital	10,000	10,000	11,039	1,039
Penalties	30,000	30,000	25,995	(4,005)
Interest	20,000	20,000	15,854	(4,146)
Total general property taxes	$ 3,579,100	$ 3,579,100	$ 3,491,806	$ (87,294)
Other local taxes:				
Local sales and use taxes	$ 145,000	$ 145,000	$ 162,135	$ 17,135
Consumers' utility taxes	114,000	114,000	116,072	2,072
Consumption taxes	12,000	12,000	12,483	483
Franchise license taxes	5,000	5,000	5,161	161
Motor vehicle licenses	114,000	114,000	109,092	(4,908)
Recordation tax	25,000	25,000	27,452	2,452
Hotel and motel room taxes	14,500	14,500	19,418	4,918
Restaurant food taxes	70,000	70,000	83,754	13,754
Total other local taxes	$ 499,500	$ 499,500	$ 535,567	$ 36,067
Permits, privilege fees, and regulatory licenses:				
Animal licenses	$ 9,000	$ 9,092	$ 8,663	$ (429)
Transfer fees	200	200	232	32
Zoning, subdivision permits, and erosion and sediment control	800	800	740	(60)
Building permits	19,040	19,040	16,138	(2,902)
Total permits, privilege fees, and regulatory licenses	$ 29,040	$ 29,132	$ 25,773	$ (3,359)
Fines and forfeitures:				
Court fines and forfeitures	$ 4,000	$ 4,000	$ 3,466	$ (534)
Interest on fines	100	100	186	86
Law library costs	100	100	623	523
Total fines and forfeitures	$ 4,200	$ 4,200	$ 4,275	$ 75
Revenue from use of money and property:				
Revenue from use of money	$ 8,000	$ 8,000	$ 4,932	$ (3,068)
Revenue from use of property	82,588	82,588	75,275	(7,313)
Total revenue from use of money and property	$ 90,588	$ 90,588	$ 80,207	$ (10,381)
Charges for services:				
Charges for courthouse maintenance	$ 1,000	$ 1,000	$ 1,702	$ 702
Charges for courthouse security	6,000	6,000	4,912	(1,088)
Document production costs	500	500	1,688	1,188
Charges for Commonwealth's Attorney	300	300	271	(29)
Charges for sanitation and waste removal	3,000	3,000	6,568	3,568
Charges for emergency medical services	75,000	85,149	101,466	16,317
Jail admission fees	400	400	917	517
Total charges for services	$ 86,200	$ 96,349	$ 117,524	$ 21,175

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Miscellaneous revenue:				
Miscellaneous	$ 32,450	$ 93,258	$ 68,671	$ (24,587)
Recovered costs:				
Mt Castle salary reimbursement	$ 131,015	$ 138,355	$ 135,405	$ (2,950)
LOA - special welfare	24,720	24,720	22,958	(1,762)
Other recovered costs	4,600	11,020	13,867	2,847
Total recovered costs	$ 160,335	$ 174,095	$ 172,230	$ (1,865)
Total revenue from local sources	$ 4,481,413	$ 4,566,222	$ 4,496,053	$ (70,169)
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Rolling stock tax	$ -	$ -	$ 308	$ 308
Mobile home titling tax	3,000	3,000	4,702	1,702
Grantor's tax	5,000	5,000	9,219	4,219
State recordation tax	33,000	33,000	9,803	(23,197)
Communication tax	117,000	117,000	111,689	(5,311)
Personal property tax relief funds	341,055	341,055	341,055	-
Total noncategorical aid	$ 499,055	$ 499,055	$ 476,776	$ (22,279)
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	$ 70,023	$ 70,023	$ 69,956	$ (67)
Sheriff	475,521	475,521	471,907	(3,614)
Commissioner of revenue	68,780	68,780	68,323	(457)
Treasurer	73,601	73,601	73,734	133
Registrar/electoral board	25,262	30,392	33,914	3,522
Clerk of the Circuit Court	129,874	146,216	149,167	2,951
Total shared expenses	$ 843,061	$ 864,533	$ 867,001	$ 2,468
Other categorical aid:				
Welfare payments	$ 169,855	$ 169,855	$ 159,808	$ (10,047)
CSA payments	417,067	417,067	386,107	(30,960)
Litter control grant	-	7,498	7,498	-
Four-for-life	-	5,738	5,738	-
Fire program	-	22,000	20,000	(2,000)
Library grant	6,963	6,963	6,971	8
State E-911 program	42,000	192,000	115,143	(76,857)
VJCCA grant	6,588	6,588	-	(6,588)
State seizures	-	-	8,262	8,262
Emergency preparedness grant	-	189,837	174,337	(15,500)
Total other categorical aid	$ 642,473	$ 1,017,546	$ 883,864	$ (133,682)
Total categorical aid	$ 1,485,534	$ 1,882,079	$ 1,750,865	$ (131,214)
Total revenue from the Commonwealth	$ 1,984,589	$ 2,381,134	$ 2,227,641	$ (153,493)

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Noncategorical aid:				
Payments in lieu of taxes	$ 156,000	$ 156,000	$ 188,817	$ 32,817
Categorical aid:				
Welfare payments	$ 307,000	$ 307,000	$ 297,765	$ (9,235)
CSA	-	-	633	633
DMV grants	-	10,828	14,152	3,324
Sheriff grants	-	1,141	2,763	1,622
Forest Reserve	21,000	21,000	20,168	(832)
Emergency services grants	7,500	7,500	22,460	14,960
Forest service grant	-	6,600	6,600	-
Total categorical aid	$ 335,500	$ 354,069	$ 364,541	$ 10,472
Total revenue from the federal government	$ 491,500	$ 510,069	$ 553,358	$ 43,289
Total General Fund	$ 6,957,502	$ 7,457,425	$ 7,277,052	$ (180,373)
Total Primary Government	$ 6,957,502	$ 7,457,425	$ 7,277,052	$ (180,373)
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Miscellaneous revenue:				
Miscellaneous	$ 319,287	$ 319,287	$ 344,886	$ 25,599
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Craig, Virginia	$ 1,989,226	$ 2,077,286	$ 1,681,821	$ (395,465)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	$ 800,933	$ 800,933	$ 804,293	$ 3,360
Basic school aid	1,887,186	1,887,186	1,960,165	72,979
Foster care	5,893	5,893	-	(5,893)
Gifted and talented	18,767	18,767	19,312	545
Special education	323,025	323,025	332,408	9,383
Special education regional payments	239,880	239,880	182,677	(57,203)
Textbook payment	38,420	38,420	39,536	1,116
Jobs for Virginia graduates	13,500	13,500	25,000	11,500
Early intervention	13,018	13,018	13,018	-
Vocational standards of quality payments	84,250	84,250	86,697	2,447
Fringe benefits	374,932	374,932	385,824	10,892
Occupational prep	-	-	139	139
Homebound education	3,601	3,601	3,624	23
Vocational education - equipment	6,194	6,194	2,996	(3,198)
At-risk payments	64,703	64,703	66,647	1,944
Remedial assistance	87,450	87,450	77,918	(9,532)
Primary class size	27,283	27,283	29,432	2,149
VPSA technology payment	102,000	102,000	114,728	12,728
Standards of Learning algebra readiness	8,897	8,897	8,897	-

County of Craig, Virginia
Schedule of Revenues - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Major and Minor Revenue Source	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the Commonwealth: (Continued)				
Categorical aid: (Continued)				
Compensation supplement	$ 35,187	$ 35,187	$ 36,209	$ 1,022
Other state funds	9,440	9,440	20,537	11,097
Total categorical aid	$ 4,144,559	$ 4,144,559	$ 4,210,057	$ 65,498
Total revenue from the Commonwealth	$ 4,144,559	$ 4,144,559	$ 4,210,057	$ 65,498
Revenue from the federal government:				
Categorical aid:				
Title I	$ 164,790	$ 164,790	$ 179,664	$ 14,874
Forest reserve fund	-	-	114,284	114,284
Title VI-B, special education flow-through	161,400	161,400	208,458	47,058
Vocational education	13,120	13,120	20,680	7,560
Title VI-B, special education pre-school	6,589	6,589	7,063	474
Title III, Impact aid	45,700	45,700	50,996	5,296
Title II, Part A	23,560	23,560	27,383	3,823
Total categorical aid	$ 415,159	$ 415,159	$ 608,528	$ 193,369
Total revenue from the federal government	$ 415,159	$ 415,159	$ 608,528	$ 193,369
Total School Operating Fund	$ 6,868,231	$ 6,956,291	$ 6,845,292	$ (110,999)
School Cafeteria Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	$ -	$ -	$ 83	$ 83
Charges for services:				
Cafeteria sales	$ 160,109	$ 160,109	$ 141,687	$ (18,422)
Total revenue from local sources	$ 160,109	$ 160,109	$ 141,770	$ (18,339)
Categorical aid:				
School food program grant	$ 6,976	$ 6,976	$ 7,036	$ 60
Total revenue from the Commonwealth	$ 6,976	$ 6,976	$ 7,036	$ 60
Revenue from the federal government:				
Categorical aid:				
School food program grant	$ 180,000	$ 180,000	$ 214,926	$ 34,926
Total revenue from the federal government	$ 180,000	$ 180,000	$ 214,926	$ 34,926
Total School Cafeteria Fund	$ 347,085	$ 347,085	$ 363,732	$ 16,647
Total Discretely Presented Component Unit - School Board	$ 7,215,316	$ 7,303,376	$ 7,209,024	$ (94,352)

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity, and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund:				
General government administration:				
Legislative:				
Board of supervisors	$ 30,960	$ 28,960	$ 22,380	$ 6,580
General and financial administration:				
County administrator	$ 110,704	$ 112,704	$ 110,271	$ 2,433
Commissioner of revenue	160,143	164,643	160,440	4,203
Audit	60,800	59,300	62,838	(3,538)
Treasurer	195,809	200,011	195,832	4,179
Accounting/purchasing	51,694	51,694	51,304	390
Technology/data processing	49,786	49,786	44,829	4,957
Total general and financial administration	$ 628,936	$ 638,138	$ 625,514	$ 12,624
Board of elections:				
Electoral board and officials	$ 29,353	$ 124,483	$ 111,573	$ 12,910
Registrar	42,737	50,012	48,446	1,566
Total board of elections	$ 72,090	$ 174,495	$ 160,019	$ 14,476
Total general government administration	$ 731,986	$ 841,593	$ 807,913	$ 33,680
Judicial administration:				
Courts:				
Circuit court	$ 6,400	$ 6,400	$ 4,361	$ 2,039
General district court	2,757	2,757	1,519	1,238
Clerk of the circuit court	183,728	202,384	202,826	(442)
Total courts	$ 192,885	$ 211,541	$ 208,706	$ 2,835
Commonwealth's attorney:				
Commonwealth's attorney	$ 96,562	$ 101,664	$ 99,942	$ 1,722
Total judicial administration	$ 289,447	$ 313,205	$ 308,648	$ 4,557
Public safety:				
Law enforcement and traffic control:				
Sheriff	$ 782,399	$ 916,451	$ 872,313	$ 44,138
Fire and rescue services:				
Public safety	$ 76,455	$ 160,477	$ 137,954	$ 22,523
Emergency medical services	132,755	455,070	431,157	23,913
E-911	49,200	64,200	31,923	32,277
Total fire and rescue services	$ 258,410	$ 679,747	$ 601,034	$ 78,713
Correction and detention:				
Care of prisoners	$ 16,000	$ 43,575	$ 33,711	$ 9,864
Contribution to Regional Jail	104,416	104,416	104,416	-
Total correction and detention	$ 120,416	$ 147,991	$ 138,127	$ 9,864
Inspections:				
Building	$ 63,642	$ 63,642	$ 61,647	$ 1,995

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity, and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Public safety: (Continued)				
Other protection:				
Animal control	$ 61,864	$ 44,956	$ 39,133	$ 5,823
Medical examiner	350	350	80	270
Forest service	3,206	3,206	2,920	286
Total other protection	$ 65,420	$ 48,512	$ 42,133	$ 6,379
Total public safety	$ 1,290,287	$ 1,856,343	$ 1,715,254	$ 141,089
Public works:				
Sanitation and waste removal:				
Refuse collection and disposal	$ 313,852	$ 393,006	$ 362,532	$ 30,474
Contribution to PSA	5,000	5,000	5,000	-
Litter control grant	-	3,199	3,356	(157)
Total sanitation and waste removal	$ 318,852	$ 401,205	$ 370,888	$ 30,317
Maintenance of general buildings and grounds:				
Maintenance of properties	$ 175,387	$ 160,972	$ 153,478	$ 7,494
Total public works	$ 494,239	$ 562,177	$ 524,366	$ 37,811
Health and welfare:				
Health:				
Supplement of local health department	$ 58,000	$ 58,000	$ 58,000	$ -
Mental health and mental retardation:				
Blue Ridge Community Services Board	$ 5,000	$ 5,000	$ 5,000	$ -
Welfare:				
Welfare administration	$ 698,006	$ 698,006	$ 613,093	$ 84,913
Children's Services Act (CSA)	575,000	575,000	556,877	18,123
Total welfare	$ 1,273,006	$ 1,273,006	$ 1,169,970	$ 103,036
Total health and welfare	$ 1,336,006	$ 1,336,006	$ 1,232,970	$ 103,036
Education:				
Other instructional costs:				
Contribution to Community College	$ 11,448	$ 11,448	$ 11,448	$ -
Contribution to County School Board	1,989,226	2,077,286	1,681,821	395,465
Total education	$ 2,000,674	$ 2,088,734	$ 1,693,269	$ 395,465
Parks, recreation, and cultural:				
Cultural enrichment:				
League of older Americans	$ 1,200	$ 1,200	$ 1,200	$ -
Library:				
Regional library	$ 32,734	$ 33,747	$ 31,386	$ 2,361
Total parks, recreation, and cultural	$ 33,934	$ 34,947	$ 32,586	$ 2,361

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity, and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
General Fund: (Continued)				
Community development:				
Planning and community development:				
Community development	$ 865	$ 1,339	$ 1,114	$ 225
Zoning board	1,000	-	-	-
Planning	2,885	885	509	376
Tourism	8,725	11,944	9,485	2,459
Contribution to Virginia's First Regional IFA	10,884	10,884	10,844	40
New Castle commons	88,136	129,911	106,498	23,413
Fifth planning district	4,509	4,509	4,509	-
Total planning and community development	$ 117,004	$ 159,472	$ 132,959	$ 26,513
Environmental management:				
Mountain Castle - soil conservation	$ 134,015	$ 141,355	$ 140,598	$ 757
Erosion and sediment control	2,500	1,864	909	955
Total environmental management	$ 136,515	$ 143,219	$ 141,507	$ 1,712
Cooperative extension program:				
Extension office	$ 34,995	$ 34,995	$ 33,025	$ 1,970
Total community development	$ 288,514	$ 337,686	$ 307,491	$ 30,195
Nondepartmental:				
Fringe benefits	$ 18,552	$ 29,811	$ 29,267	$ 544
Contingencies	50,219	-	-	-
Total nondepartmental	$ 68,771	$ 29,811	$ 29,267	$ 544
Capital projects:				
Transfer station	$ -	$ 228,960	$ 183,662	$ 45,298
E911 tower and equipment	-	150,000	71,487	78,513
Total capital projects	$ -	$ 378,960	$ 255,149	$ 123,811
Debt service:				
Principal retirement	$ 369,200	$ 369,200	$ 366,823	$ 2,377
Interest and other fiscal charges	146,107	146,107	147,797	(1,690)
Total debt service	$ 515,307	$ 515,307	$ 514,620	$ 687
Total General Fund	$ 7,049,165	$ 8,294,769	$ 7,421,533	$ 873,236
Total Primary Government	$ 7,049,165	$ 8,294,769	$ 7,421,533	$ 873,236
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Executive administration services	$ 528,469	$ 537,469	$ 536,600	$ 869
Instruction costs:				
Instruction costs	$ 4,857,637	$ 4,909,137	$ 4,897,039	$ 12,098
Technology	359,347	329,847	285,238	44,609
Total instruction costs	$ 5,216,984	$ 5,238,984	$ 5,182,277	$ 56,707

County of Craig, Virginia
Schedule of Expenditures - Budget and Actual
Governmental Funds
For the Year Ended June 30, 2016

Fund, Function, Activity, and Element	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Discretely Presented Component Unit - School Board: (continued)				
School Operating Fund: (Continued)				
Education: (Continued)				
Operating costs:				
Pupil transportation	$ 498,541	$ 480,541	$ 490,674	$ (10,133)
Operation and maintenance of school plant	624,237	699,297	635,741	63,556
Total operating costs	$ 1,122,778	$ 1,179,838	$ 1,126,415	$ 53,423
Total education	$ 6,868,231	$ 6,956,291	$ 6,845,292	$ 110,999
Total School Operating Fund	$ 6,868,231	$ 6,956,291	$ 6,845,292	$ 110,999
School Cafeteria Fund:				
Education:				
School food services:				
Administration of school food program	$ 385,534	$ 385,534	$ 377,534	$ 8,000
Total School Cafeteria Fund	$ 385,534	$ 385,534	$ 377,534	$ 8,000
Total Discretely Presented Component Unit - School Board	$ 7,253,765	$ 7,341,825	$ 7,222,826	$ 118,999

Other Statistical Information

Table 1

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	Total
2015-16	$ 739,661	$ 304,096	$ 1,467,324	$ 579,770	$ 1,222,920	$ 1,843,269	$ 37,456	$ 142,775	$ 140,070	$ 6,477,341
2014-15	687,049	282,082	1,488,590	460,013	1,222,584	2,524,567	35,161	157,523	159,707	7,017,276
2013-14	791,988	323,664	1,324,152	609,729	1,043,298	2,119,299	34,833	139,465	177,884	6,564,312
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

Table 2

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

	PROGRAM REVENUES			GENERAL REVENUES					
Fiscal Year	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
2015-16	$ 147,572	$ 2,115,406	$ -	$ 3,502,061	$ 535,567	$ 80,207	$ 68,671	$ 665,593	$ 7,115,077
2014-15	130,563	1,920,486	-	3,528,790	536,953	75,408	50,351	630,602	6,873,153
2013-14	98,996	1,731,459	313,600	3,394,671	499,033	84,783	72,073	635,965	6,830,580
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

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

Table 3

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	Education (2)	Parks, Recreation, and Cultural	Community Development	Capital Projects	Non-departmental	Debt Service	Total
2015-16	$ 807,913	$ 308,648	$ 1,715,254	$ 524,366	$ 1,232,970	$ 7,234,274	$ 32,586	$ 307,491	$ 255,149	$ 29,267	$ 514,620	$ 12,962,538
2014-15	683,263	291,281	1,319,777	530,378	1,241,655	7,908,590	30,291	289,719	360,736	29,242	522,932	13,207,864
2013-14	698,893	315,527	1,233,002	732,380	1,066,647	7,592,779	31,137	250,823	-	33,105	530,908	12,485,201
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

(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 - School Board.

Table 4

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

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2015-16	$ 3,491,806	$ 535,567	$ 25,773	$ 4,275	$ 80,207	$ 117,524	$ 413,557	$ 172,230	$ 7,963,316	$ 12,804,255
2014-15	3,495,927	536,953	33,583	3,535	75,408	93,445	372,363	161,472	7,734,458	12,507,144
2013-14	3,405,962	499,033	28,680	5,007	84,986	219,868	386,507	147,064	7,510,744	12,287,851
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

(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 - School Board.

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
2015-16	$ 3,818,731	$ 3,684,660	96.49%	$ 106,352	$ 3,791,012	99.27%	$ 266,353	6.97%
2014-15	3,855,268	3,632,756	94.23%	155,833	3,788,589	98.27%	252,169	6.54%
2013-14	3,736,546	3,543,990	94.85%	156,332	3,700,322	99.03%	234,129	6.27%
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%

(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 (1)	Personal Property and Mobile Homes (3)	Machinery and Tools	Merchant's Capital	Public Utilities (1)(2)	Total
2015-16	$ 490,384,380	$ 35,729,749	$ 1,463,786	$ 316,819	$ 16,609,743	$ 544,504,477
2014-15	487,617,041	36,560,925	1,735,986	303,551	14,601,241	540,818,744
2013-14	485,172,230	34,622,620	2,040,191	285,556	14,212,421	536,333,018
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

(1) Real estate is assessed at 100% of fair market value.
(2) Assessed values are established by the State Corporation Commission.
(3) Personal property is assessed at 100% of fair market value.

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
2015-16	$ 0.56	$ 3.00	$ 2.20	$ 3.50
2014-15	0.56	3.00	2.20	3.50
2013-14	0.54/0.56	3.00	2.20	3.50
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

(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
2015-16	5,190	$ 544,504	$ 2,560,997	0.47%	$ 493
2014-15	5,190	540,819	2,903,926	0.54%	560
2013-14	5,190	536,333	3,237,055	0.60%	624
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

(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 literary fund loans.
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
2015-16	$ 366,823	$ 147,797	$ 514,620	$ 12,962,538	3.97%
2014-15	356,483	166,449	522,932	13,207,864	3.96%
2013-14	347,371	183,537	530,908	12,485,201	4.25%
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%

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

COMPLIANCE SECTION

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

To the Honorable Members of
the Board of Supervisors
County of Craig, 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 County of Craig, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise County of Craig, Virginia's basic financial statements and have issued our report thereon November 21, 2016.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses [2016-001 and 2016-002].

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, Farmer, Cox Associates

Blacksburg, Virginia
November 21, 2016

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

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

Report on Compliance for Each Major Federal Program

We have audited County of Craig, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of County of Craig, Virginia's major federal programs for the year ended June 30, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the County of 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County of 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, 2016.

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. 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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of County of 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Blacksburg, Virginia
November 21, 2016

County of Craig, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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 from:					
Department of Social Services:					
Promoting Safe and Stable Families	93.556	0950114, 0950115			$ 7,537
Temporary Assistance for Needy Families	93.558	0400115, 0400116			46,286
Refugee and Entrant Assistance - State Administered Programs	93.566	0500115, 0500116			53
Low-Income Home Energy Assistance	93.568	0600415, 0600416			5,375
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760115, 0760116			10,371
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900115, 0900116			299
Foster Care - Title IV-E	93.658	1100115, 1100116			42,727
Adoption Assistance	93.659	1120115, 1120116			13,782
Social Services Block Grant	93.667	1000115, 1000116			32,084
Chafee Foster Care Independence Program	93.674	9150115, 9150116			527
Children's Health Insurance Program	93.767	0540115, 0540116			2,420
Medical Assistance Program	93.778	1200115, 1200116			75,601
Total Department of Health and Human Services					$ 237,062
DEPARTMENT OF AGRICULTURE:					
Pass through payments from:					
Department of Social Services:					
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010115, 0010116 0040115, 0040116			$ 61,336
State Department of Agriculture:					
Cooperative Forestry Assistance	10.664	15-LE11080818-005			6,600
Child Nutrition Cluster:					
Food Distribution (Note 3)	10.555	Not available	$ 25,697		
Department of Education:					
National School Lunch Program	10.555	40623	158,153	$ 183,850	
School Breakfast Program	10.553	40591		31,076	
Total Child Nutrition Cluster					214,926
Schools and Roads - Grants to States	10.665	43841			134,452
Total Department of Agriculture					$ 417,314
DEPARTMENT OF JUSTICE:					
Pass through payments from:					
Department of Criminal Justice Services:					
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Not available			$ 2,763
DEPARTMENT OF TRANSPORTATION:					
Pass through payments from:					
Department of Motor Vehicles:					
National Priority Safety Programs - MAP 21 Incentive	20.616	M2HVE-2015-55422-6161			$ 2,300
Alcohol Open Container Requirements	20.607	154AL-2015-55390-6129 154AL-2016-56213-6129			11,852
Total Department of Transportation					$ 14,152
DEPARTMENT OF HOMELAND SECURITY:					
Pass through payments from:					
Department of Emergency Management:					
Emergency Management Performance Grants	97.042	52742			$ 15,000
Homeland Security Grant Program	97.067	15VA-HSGP-0472			7,460
Total Department of Homeland Security					$ 22,460

County of Craig, Virginia
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

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		$ 50,996
Pass through payments from:				
Department of Education:				
Title I: Grants to Local Educational Agencies	84.010	42901		179,664
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	43071	$ 208,458	
Special Education - Preschool Grants	84.173	62521	7,063	
Total Special Education Cluster (IDEA)				$ 215,521
Career and Technical Education: Basic Grants to States	84.048	61095		20,680
Supporting Effective Instruction State Grant	84.367	61480		27,383
Total Department of Education				$ 494,244
Total Expenditures of Federal Awards				$ 1,187,995

Notes to Schedule of Expenditures of Federal Awards

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the County of Craig, Virginia and its discretely presented component units under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the County, it is not intended to and does not present the financial position, changes in net position, or cash flows of the County.

Note 2 -- Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
(2) Pass-through entity identifying numbers are presented where available.
(3) The County did not elect an indirect cost rate because they only request direct costs for reimbursement.

Note 3 -- Food Distribution
Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, Craig County, Virginia did not report any commodity inventory, as it was immaterial to the financials.

Note 4 -- Subrecipients
No awards were passed through to subrecipients.

Note 5 -- 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	$ 553,358
Less: Payment in lieu of taxes	(188,817)
Total primary government	$ 364,541
Component Unit School Board:	
School Operating Fund	$ 608,528
School Cafeteria Fund	214,926
Total Component Unit Schools	$ 823,454
Total federal expenditures per the Schedule of Expenditures of Federal Awards	$ 1,187,995

County of Craig, Virginia
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

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

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster
84.027/84.173	Special Education Cluster
84.010	Title I: Grants to Local Educational Agencies

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

Section II - Financial Statement Findings

2016-001

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.

2016-002

Criteria:	Per Statement on Auditing Standards 115 (SAS 115), identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness exists.
Condition:	The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Cause of Condition:	The County and School Board did not relay their procedural changes in the annual reversion of funds back to the County to their consultant during fiscal year 2016 and going forward. In addition, the School Board is not timely requesting funds from reimbursable grants.
Effect of Condition:	There is more than a remote likelihood that a misstatement of the financial statements that is more than inconsequential will not be prevented or detected by the County's and School Board's internal controls over financial reporting.

Section II - Financial Statement Findings (Continued)

2016-002 (Continued)

Recommendation:	The County's new appropriation and carryover policy should reduce the confusion regarding the carryover going forward. We recommend the School Board continue to make an effort to request funds in a more timely manner.
Management's Response:	The School Board will make an effort to request funds on a timely basis in order to provide accurate financial statements.

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Audit Findings

There are no findings from the prior year related to federal awards.