

COUNTY OF FLOYD, VIRGINIA
FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 2012

COUNTY OF FLOYD, VIRGINIA

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INTRODUCTORY SECTION

COUNTY OF FLOYD, VIRGINIA
DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2012

BOARD OF SUPERVISORS

Case C. Clinger, Chairman
Virgil H. Allen, Vice Chairman
Joe D. Turman
J. Fred Gerald
Lauren D. Yoder

COUNTY SCHOOL BOARD

David R. Sulzen, Chairman
Margaret H. Hubbard, Vice Chairman
David W. Ingram
Douglas R. Phillips
Linda T. King

COUNTY SOCIAL SERVICES BOARD

Robert G. Stauffer, Chairman
Case C. Clinger
Judy Britt
David Harmon
James Richards

OTHER OFFICIALS

County Administrator
Assistant County Administrator
Chief Judge of the Circuit Court
Clerk of the Circuit Court
Commonwealth's Attorney
Commissioner of the Revenue
Treasurer
Sheriff
Superintendent of Schools
Social Services Director
County Attorney

Daniel J. Campbell
Terri W. Morris
Brett L. Geissler
Wendell G. Peters
Stephanie M. Shortt
Lisa D. Baker
Melissa M. Keith
Shannon B. Zeman
Kevin W. Harris
Carl E. Ayers
James Cornwell, Jr.

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the County of Floyd, Virginia (the "County") as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the County's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each discretely presented component unit, each major fund, and the remaining fund information of the County of Floyd, Virginia, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012 on our consideration of the County'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* and should be considered in assessing the results of our audit.

The County has not presented a management's discussion and analysis that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, as listed in the table of contents, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's financial statements as a whole. The introductory section and individual fund statements listed in the table of contents as other supplementary information, and the other information section are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The individual fund financial statements 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory and other information sections 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 9, 2012

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BASIC FINANCIAL STATEMENTS

COUNTY OF FLOYD, VIRGINIA

STATEMENT OF NET ASSETS

June 30, 2012

		Component Units		
	Governmental Activities	School Board	Economic Development Authority	Total
ASSETS				
Cash and cash equivalents (Note 2)	\$ 5,541,093	\$ 339,659	\$ 104,756	\$ 5,985,508
Receivables, net (Note 3)	575,360	-	145,881	721,241
Due from other governments (Note 4)	512,654	378,993	229,177	1,120,824
Prepaid items	100,650	1,458,855	-	1,559,505
Due from component units (Notes 5 and 12)	434,025	-	-	434,025
Inventories	-	18,764	-	18,764
Bond issue costs, net	90,958	4,989	-	95,947
Cash and cash equivalents, restricted (Note 2)	12,793	203,332	122,352	338,477
Capital assets: (Note 6)				
Nondepreciable	714,094	265,917	901,533	1,881,544
Depreciable, net	17,971,055	3,802,719	58,664	21,832,438
Total assets	25,952,682	6,473,228	1,562,363	33,988,273
LIABILITIES				
Accounts payable	197,661	42,091	-	239,752
Accrued payroll and related liabilities	-	1,683,624	-	1,683,624
Accrued interest payable	293,633	18,154	-	311,787
Due to primary government (Notes 5 and 12)	-	23,064	410,961	434,025
Grants payable	-	-	229,177	229,177
Unearned revenue (Note 3)	133,001	-	122,352	255,353
Self insurance claims liability (Note 16)	-	107,833	-	107,833
Long-term liabilities: (Note 7, 9, and 14)				
Due within one year	1,465,287	535,539	63,122	2,063,948
Due in more than one year	13,891,279	1,614,443	-	15,505,722
Total liabilities	15,980,861	4,024,748	825,612	20,831,221
NET ASSETS (DEFICIT)				
Invested in capital assets, net of related debt	4,904,550	3,021,205	549,236	8,474,991
Restricted for:				
Fire and rescue	741,597	-	-	741,597
Health insurance premiums	-	203,332	-	203,332
Rural development grants	-	-	6,826	6,826
Unrestricted	4,325,674	(776,057)	180,689	3,730,306
Total net assets	\$ 9,971,821	\$ 2,448,480	\$ 736,751	\$ 13,157,052

COUNTY OF FLOYD, VIRGINIA

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
Function	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Primary Government	Component Units		Total
						School Board	Economic Development Authority	
Primary Government:								
Governmental activities:								
General government administration	\$ 1,370,445	\$ 65,164	\$ 188,968	\$ -	\$ (1,116,313)			\$ (1,116,313)
Judicial administration	662,893	73,511	409,079	-	(180,303)			(180,303)
Public safety	3,369,356	425,713	1,101,985	-	(1,841,658)			(1,841,658)
Public works	1,344,955	196,967	386,855	-	(761,133)			(761,133)
Health and welfare	1,708,336	5,025	1,140,359	-	(562,952)			(562,952)
Education	4,907,803	-	-	-	(4,907,803)			(4,907,803)
Parks, recreational, and cultural	284,145	2,275	-	-	(281,870)			(281,870)
Community development	387,713	99,309	-	17,420	(270,984)			(270,984)
Interest on long-term debt	677,762	-	-	-	(677,762)			(677,762)
Total primary government	\$ 14,713,408	\$ 867,964	\$ 3,227,246	\$ 17,420	(10,600,778)			(10,600,778)
Component Units:								
School Board	\$ 17,967,253	\$ 575,690	\$ 12,846,408	\$ -		\$ (4,545,155)		(4,545,155)
Economic Development Authority	482,276	-	527,818	-			\$ 45,542	45,542
Total component units	\$ 18,449,529	\$ 575,690	\$ 13,374,226	\$ -		(4,545,155)	45,542	(4,499,613)
General revenues:								
Property taxes					9,978,277	-	-	9,978,277
Local sales and use taxes					722,537	-	-	722,537
Consumer utility taxes					771,177	-	-	771,177
Communication taxes					232,951	-	-	232,951
Motor vehicle taxes					394,184	-	-	394,184
Other local taxes					158,367	-	-	158,367
Intergovernmental revenue, unrestricted					950,845	-	-	950,845
Interest and investment income, unrestricted					37,118	-	5,751	42,869
Other					6,228	3,973	11,905	22,106
Contributions from primary government					-	4,510,579	8,325	4,518,904
Total general revenues					13,251,684	4,514,552	25,981	17,792,217
Change in net assets					2,650,906	(30,603)	71,523	2,691,826
Net assets beginning, as restated (Note 9)					7,320,915	2,479,083	665,228	10,465,226
Net assets ending					\$ 9,971,821	\$ 2,448,480	\$ 736,751	\$ 13,157,052

The Notes to Financial Statements are
an integral part of this statement.

COUNTY OF FLOYD, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Fire and Rescue Fund	Capital Projects Fund	School Capital Projects Fund	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 4,791,254	\$ 747,525	\$ -	\$ 2,314	\$ 5,541,093
Receivables, net	569,749	5,611	-	-	575,360
Due from other governments	512,654	-	-	-	512,654
Prepays	100,650	-	-	-	100,650
Due from component units	434,025	-	-	-	434,025
Due from other funds	242,579	-	-	-	242,579
Cash and cash equivalents, restricted	-	-	12,793	-	12,793
Total assets	<u>\$ 6,650,911</u>	<u>\$ 753,136</u>	<u>\$ 12,793</u>	<u>\$ 2,314</u>	<u>\$ 7,419,154</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 186,122	\$ 11,539	\$ -	\$ -	\$ 197,661
Due to other funds	-	-	242,579	-	242,579
Deferred revenue	548,572	-	-	-	548,572
Total liabilities	<u>734,694</u>	<u>11,539</u>	<u>242,579</u>	<u>-</u>	<u>988,812</u>
Fund balances (deficits):					
Nonspendable	777,254	-	-	-	777,254
Restricted	-	741,597	-	-	741,597
Committed for encumbrances	19,206	-	-	-	19,206
Assigned	570,991	-	-	2,314	573,305
Unassigned	4,548,766	-	(229,786)	-	4,318,980
Total fund balances (deficit)	<u>5,916,217</u>	<u>741,597</u>	<u>(229,786)</u>	<u>2,314</u>	<u>6,430,342</u>
Total liabilities and fund balances	<u>\$ 6,650,911</u>	<u>\$ 753,136</u>	<u>\$ 12,793</u>	<u>\$ 2,314</u>	
Adjustments for the Statement of Net Assets					
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.					18,685,149
Receivables on the statement of net assets that do not provide current financial resources are reported as deferred revenue in the funds.					415,571
Bond issuance costs are reported as expenditures in the governmental funds, but are amortized over the life of the debt obligation in the statement of net assets.					90,958
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds:					
Accrued interest				\$ (293,633)	
General obligation bonds				(12,875,145)	
Revenue bonds				(935,000)	
Deferred costs				107,841	
Bond premium				(29,971)	
Capital lease obligations				(139,282)	
Landfill postclosure				(1,165,605)	
Compensated absences				(319,404)	
					(15,650,199)
Net assets of governmental activities					<u>\$ 9,971,821</u>

COUNTY OF FLOYD, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

	General Fund	Fire and Rescue Fund	Capital Projects Fund	School Capital Projects Fund	Total Governmental Funds
REVENUES					
General property taxes	\$ 9,810,791	\$ 212,804	\$ -	\$ -	\$ 10,023,595
Other local taxes	2,249,172	-	-	-	2,249,172
Permits, privilege fees, and regulatory licenses	113,667	-	-	-	113,667
Fines and forfeitures	2,019	-	-	-	2,019
Revenue from use of money and property	80,318	-	-	-	80,318
Charges for services	657,036	-	-	-	657,036
Other	13,817	-	-	-	13,817
Recovered costs	44,909	-	-	-	44,909
Intergovernmental	4,150,107	55,807	-	-	4,205,914
Total revenues	17,121,836	268,611	-	-	17,390,447
EXPENDITURES					
Current:					
General government administration	1,344,702	-	-	-	1,344,702
Judicial administration	652,992	-	-	-	652,992
Public safety	2,735,062	417,054	-	-	3,152,116
Public works	1,156,775	-	-	-	1,156,775
Health and welfare	1,703,558	-	-	-	1,703,558
Education	4,516,292	-	-	-	4,516,292
Parks, recreation, and cultural	252,587	-	-	-	252,587
Community development	383,339	-	-	-	383,339
Debt service:					
Principal	1,102,143	93,744	-	-	1,195,887
Interest and other fiscal charges	672,514	12,324	-	-	684,838
Total expenditures	14,519,964	523,122	-	-	15,043,086
Excess (deficiency) of revenues over expenditures	2,601,872	(254,511)	-	-	2,347,361
OTHER FINANCING SOURCES (USES)					
Transfers in (Note 5)	143,465	-	-	-	143,465
Transfers out (Note 5)	-	(143,465)	-	-	(143,465)
Total other financing sources (uses)	143,465	(143,465)	-	-	-
Net change in fund balances	2,745,337	(397,976)	-	-	2,347,361
FUND BALANCES (DEFICIT) AT JULY 1	3,170,880	1,139,573	(229,786)	2,314	4,082,981
FUND BALANCES (DEFICIT) AT JUNE 30	<u>\$ 5,916,217</u>	<u>\$ 741,597</u>	<u>\$ (229,786)</u>	<u>\$ 2,314</u>	<u>\$ 6,430,342</u>

(Continued)

COUNTY OF FLOYD, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year Ended June 30, 2012

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balances of Governmental Funds to the Statement of Activities:**

Net change in fund balances – total governmental funds	\$ 2,347,361
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$936,657) exceeded capital outlay (\$104,393) in the current period.	(832,264)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(26,133)
The issuance of new long-term debt provides current financial resources while repayment of the principal of long-term debt (\$1,195,887) consumes the current financial resources of governmental funds; however, they have no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized (\$1,199) in the Statement of Activities. This amount is the net effect of these differences in the treatments of long-term debt and related items.	1,197,086
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:	
Decrease in accrued interest payable	\$ 24,566
Increase in compensated absences	(13,702)
Increase in landfill liability	(27,319)
Amortization of bond issue costs and other deferred costs	(18,689)
	<u>(35,144)</u>
Change in net assets of governmental activities	<u><u>\$ 2,650,906</u></u>

COUNTY OF FLOYD, VIRGINIA

STATEMENT OF NET ASSETS – FIDUCIARY FUNDS
June 30, 2012

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 21,175
	<u><u>21,175</u></u>
LIABILITIES	
Amounts held for others	\$ 21,175
	<u><u>21,175</u></u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The County of Floyd, Virginia (the “County”) is a political subdivision of the Commonwealth of Virginia governed under the County Administrator – Board of Supervisors form of government. The County engages in a comprehensive range of municipal services, including general government administration, judicial administration, public safety, public works, health and welfare, education, park, recreation, and cultural activities, and community development.

Discretely Presented Component Units: Discretely presented component units are entities that are legally separate from the County, but for which the County is financially accountable, or whose relationship with the County is such that exclusion would cause the County’s financial statements to be misleading or incomplete. They are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the County.

Floyd County School Board

The Floyd County School Board (the “School Board”) is responsible for elementary and secondary education within the County’s jurisdiction. The Board is comprised of five members elected by County voters. The School Board is fiscally dependent upon the County because the County Board of Supervisors approves the School Board budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of bonded debt. The School Board does not issue separate financial statements.

Floyd County Economic Development Authority

The Floyd County Economic Development Authority (the “EDA”) was created to encourage and provide financing for economic development in the County. The EDA’s directors are appointed by the Board of Supervisors and the County is financially accountable for the EDA in that it provides local funding for the EDA’s activities. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate economic development. The EDA is presented as a proprietary fund type and does not issue separate financial statements.

Jointly Governed Organizations: The following entities are excluded from the accompanying financial statements:

Floyd County Public Service Authority

The Floyd County Public Service Authority was created by the County and Town of Floyd to operate the water and sewer systems. All obligations of the Authority are payable from and secured by revenues derived from the operation of the water and sewer systems.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

A. Financial Reporting Entity (Continued)

Floyd-Floyd County Public Recreational Facilities Authority

The County, in conjunction with the Town of Floyd participates in the Floyd-Floyd County Public Recreational Facilities Authority. The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The County contributed \$47,500 to the Authority for the current year.

Montgomery-Floyd Regional Library

The County, in conjunction with Montgomery County, and the Towns of Christiansburg and Blacksburg, participates in the Montgomery-Floyd Regional Library. The governing board is composed of members from each of the participating localities. The County contributed \$205,087 to the Library for the current year.

New River Valley Community Services

The County and the Counties of Montgomery, Giles, Pulaski, and the City of Radford participate in supporting New River Valley Community Services ("NRVCS"). The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. The County contributed \$32,324 to NRVCS for the current year.

New River Valley Regional Jail Authority

The County, in conjunction with the Counties of Bland, Carroll, Giles, Grayson, and Pulaski, and the City of Radford, participates in the New River Regional Jail Authority (the "Authority"). Each member jurisdiction pays a per-diem charge for each day that one of its prisoners is at any regional jail facility. In accordance with the service agreement, the Authority has divided the per-diem charge into an operating component and a debt service component. The per-diem charge is based upon an assumed number of prisoner days, and is subject to adjustment at the end of each fiscal year. The County paid the Authority \$380,622 for the current year.

B. Government-Wide and Fund Financial Statements

Government-wide financial statements consist of a Statement of Net Assets and a Statement of Activities that report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of inter-fund 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. The County reports no business-type activities. Likewise, the *primary* government is reported separately from certain legally separate *component* units for which the primary government is financially accountable.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

Agency funds, a type of fiduciary fund, report only assets and liabilities; therefore, they do not have a measurement focus. Agency funds use the accrual basis of accounting to recognize assets and liabilities.

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available. Accordingly, real and personal property taxes are recorded as deferred revenue and receivables when levied, net of allowances for uncollectible amounts. Real and personal property taxes recorded at June 30 and received within the first 60 days after year end are included in tax revenues. Sales and utility taxes are recognized as revenues and amounts receivable when the underlying exchange transaction occurs. 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 specific funding are recognized when earned or at the time of the specific reimbursable expenditure. Revenues from general-purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

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

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments are recorded only when payment is due.

The County reports the following major governmental funds:

General Fund – This is the government’s primary operating fund. It accounts for all financial resources of the general government not required to be accounted for in other funds.

Fire and Rescue Fund – Special Revenue Funds account for the proceeds of specific revenue sources, (other than those derived from special assessments, expendable trusts, or dedicated for major capital projects) requiring separate accounting because of legal or regulatory provisions. The Fire and Rescue Fund accounts for the operations of volunteer fire and rescue services.

Capital Projects Fund – The Capital Projects Fund accounts for all financial resources used for the acquisition or construction of major capital facilities.

School Capital Projects Fund – The School Capital Projects Fund accounts for all bond proceeds and expenditures of financial resources related to the acquisition or construction of major school capital facilities.

In addition to its major funds, the County reports the following fund category:

Fiduciary Funds – Fiduciary funds are used to account for assets held by the County in a purely custodial capacity. The Special Welfare Fund is reported as an agency fund.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts in demand deposits, as well as short-term investments with a maturity date within three months of the date acquired.

Investments

Investments are stated at fair value.

Receivables

All account and property tax receivables are shown net of an allowance for uncollectibles. The allowance for uncollectible accounts is calculated using historical collection data, specific account analysis, and management's judgment.

Prepays

Payments made to vendors for services that will benefit periods beyond June 30 are reported as prepaids using the consumption method by recording a current asset for the prepaid amount at the time of purchase and reflecting the expenditure/expense in the year in which the services are consumed.

Inventories

Inventories consist of commodities received from the U.S. Department of Agriculture, which are valued at market in the school operating fund. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Capital Assets

Capital assets which include property, plant, and equipment are reported in the government-wide financial statements. The County does not own infrastructure assets. Capital assets are defined as items with an initial individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings and improvements	10-50 years
Equipment	5-12 years

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Compensated Absences

County and School Board employees are granted a specified number of days of leave with pay each year. The accumulated leave is accounted for as a liability in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only when the amounts have become due and payable.

Deferred and Unearned Revenue

Deferred revenue consists primarily of property taxes not collected within 60 days of year end, property taxes collected that are not yet due, and property taxes receivable which have been levied for a subsequent period.

Unearned revenue consists of taxes collected in advance by the County and grant funds received in advance of incurrence of eligible expenditures by EDA subrecipients.

Performance Grants Payable

Performance grants payable are recorded when, in management's opinion, failure by the grantee to meet the performance criteria is unlikely. Refunds of performance grants are reflected as revenues when collection is determined to be likely.

Long-term Liabilities

In the government-wide financial statements (and proprietary fund types in the fund financial statements), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as bond issuance costs, are deferred and amortized over the life of the bonds using the effective interest method or bonds outstanding 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, as well as bond issuance costs, during the current period but no long-term liabilities. 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. Repayments and issuance costs are reported as debt service expenditures.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results will differ from those estimates.

Fund Balances

Fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds.

The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, such as prepaid expenditures and inventory. It also includes the long-term amount of interfund loans.
- **Restricted** – 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** – Amounts constrained to specific purposes by the Board of Supervisors, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** – Amounts the County intends to use for a specified purpose; intent can be expressed by the Board of Supervisors or by the County Administrator who has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board establishes fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by the Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

Restricted Amounts

The County of Floyd applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when any of the unrestricted fund balance classifications could be used.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Encumbrances as of June 30 totaled \$19,206 in the general fund.

Pass Through Financing Leases and Installment Sales in EDA

The principal activities of the EDA represent pass through leases or installment sales. These agreements provide for periodic payments in amounts which are equal to the principal and interest payments due to project bond holders. The EDA has assigned all rights to such payments to the trustees, agents, or the holders of the bonds; and the lessees or purchasers have assumed responsibility for all operating costs such as utilities, repairs, and property taxes. In such cases, the EDA neither receives nor disburses funds. Although title to these properties may rest with the EDA, bargain purchase options or other provisions eliminate any equity interest that would otherwise be retained in the lease transactions. Deeds of trust secure outstanding bond obligations, and title will pass to the lessee or purchaser at such time as the bonds are fully paid. Although the EDA provides a conduit to execute such transactions, it does not retain either the benefits of asset ownership or the liability for bond liquidation. Accordingly, the EDA does not recognize associated assets, liabilities, rental income, or interest expense in its financial statements. Approximately \$9 million of these bonds were outstanding at year end.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

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

Investment Policy:

In accordance with the *Code* and other applicable law, including regulations, the County’s investment policy (Policy) permits investments in obligations of the United States or agencies thereof, prime quality commercial paper, non-negotiable certificates of deposit and time deposits of Virginia banks, negotiable certificates of deposit of domestic banks, banker’s acceptances with domestic banks, Commonwealth of Virginia and Virginia Local Government Obligations, repurchase agreements collateralized by the U. S. Treasury/Agency securities, the Virginia State Non-Arbitrage Program or other authorized Arbitrage Investment Management programs, and the State Treasurer’s Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool).

Pursuant to Sec. 2.1-234.7 of the *Code*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings and the fair value of the position in LGIP is the same as the value of the pool shares (i.e., the LGIP maintains a stable net asset value of \$1 per share).

The Policy limits investment maturities to five years maximum maturity for any negotiable certificate of deposit or any sovereign government obligation excluding those of the United States, to 15 years for any single corporate security, and five years for any single asset-backed security.

Credit Risk:

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than “A-1” (or its equivalent) from at least two of the following: Moody’s Investors Service, Standard and Poor’s, and Fitch Investor’s Service, provided that the issuing corporation has a net worth of at least \$50 million and its long-term debt is rated “A” or better by Moody’s and Standard and Poor’s. Banker’s acceptances and Certificates of Deposit maturing in less than one year must have a short-term debt rating of at least “A-1” by Standard and Poor’s and “P-1” by Moody’s Investor Service.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments (Continued)

Investments (Continued)

Concentration of Credit Risk:

The County has not adopted an investment policy for credit risk, which places limits on the amount it may invest in any one issuer.

Interest Rate Risk:

As of June 30 the only investment held by the County was \$12,793 of U.S. Treasury Securities Money Market Funds valued at fair value with a weighted average maturity of two days.

Custodial Credit Risk:

The Policy requires that all investment securities shall be held in safekeeping by a third-party and evidenced by safekeeping receipts. As required by the *Code*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30 all of the County’s investments are held in a bank’s trust department in the County’s name.

Deposits and investments are as follows:

		Component Units	
	Primary	School Board	EDA
	Government		
Deposits and investments:			
Cash on hand	\$ 1,700	\$ -	\$ -
Deposits	5,560,568	542,991	227,108
Investments	12,793	-	-
	<u>\$ 5,575,061</u>	<u>\$ 542,991</u>	<u>\$ 227,108</u>

The above items are reflected in the financial statements as follows:

		Component Units	
	Primary	School Board	EDA
	Government		
Statements of net assets:			
Cash and cash equivalents	\$ 5,541,093	\$ 339,659	\$ 104,756
Cash and cash equivalents, restricted	12,793	203,332	122,352
Fiduciary fund cash and cash equivalents	21,175	-	-
	<u>\$ 5,575,061</u>	<u>\$ 542,991</u>	<u>\$ 227,108</u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. Deposits and Investments (Continued)

Restricted Amounts:

Restricted cash and cash equivalents of \$12,793 at the primary government represent funds that must be used for pre-approved capital projects. Restricted cash and cash equivalents, restricted net assets, and the restricted fund balance – purpose restrictions at the School Board of \$203,332 relate to remaining Trigon stock proceeds, which are restricted by state legislation for specified purposes. Restricted cash and cash equivalents and restricted net assets, at the EDA represent grant revenues from the tobacco commission to be paid to subrecipients for future small business loans.

Note 3. Receivables, Deferred and Unearned Revenue, and Property Taxes

Receivables at June 30 are as follows:

	<u>Primary Government</u>	<u>Component Unit – EDA</u>
Receivables		
General fund:		
Taxes	\$ 741,081	\$ -
Accounts	305,777	5,333
Lease	-	16,412
Loans receivable	-	47,328
Note	-	76,808
Fire and rescue fund:		
Accounts	5,611	-
Gross receivables	<u>1,052,469</u>	<u>145,881</u>
Less:		
Allowance for uncollectible taxes	(290,199)	-
Allowance for uncollectible accounts	<u>(186,910)</u>	<u>-</u>
Total allowance	<u>(477,109)</u>	<u>-</u>
Net total receivables	<u><u>\$ 575,360</u></u>	<u><u>\$ 145,881</u></u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3. Receivables, Deferred and Unearned Revenue, and Property Taxes (Continued)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At June 30, the components of deferred and unearned revenue were as follows:

Property taxes receivable – unavailable	\$ 344,344
Advance collection of 2012-2013 property taxes – unearned	133,001
EMS billings receivable – unavailable	<u>71,227</u>
Total deferred revenue – governmental funds	548,572
Less deferrals for unavailability	<u>(415,571)</u>
Unearned revenue – statement of net assets	<u><u>\$ 133,001</u></u>

The County levies real estate taxes on all real property within its boundaries, except that exempted by statute, at a rate enacted by the Board of Supervisors on the assessed value of property (except public utility property) as determined by the Commissioner of Revenue. Public utility property is assessed by the Commonwealth. All real property is assessed at 100 percent of fair market value and reassessed every four years as of January 1. The Commissioner of Revenue, by authority of County ordinance, prorates billings for property incomplete as of January 1, but completed during the year.

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30, 2012 includes amounts not yet received from the January 1, 2012 levy (due June 5), less an allowance for uncollectibles. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are incorporated in the taxes receivable balance. The real estate tax rate was \$0.46 per \$100 of assessed value for calendar year 2011 and \$0.50 per \$100 of assessed value for calendar year 2012.

Personal property tax assessments on all motor vehicles is \$2.95 per \$100 assessed value. Personal property tax on business machinery and tools is \$1.55 per \$100 of assessed value. Personal property taxes for the calendar year are due on December 5. Personal property taxes do not create a lien on property.

Component Unit – Economic Development Authority:

The EDA is the lessor of certain land to a non-profit organization for a term of thirty years. The lease is classified as a direct financing lease since the lessee has the option to purchase the land at a bargain purchase during the term of the agreement. Monthly lease payments are \$100 through May 2035.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 3. Receivables, Deferred and Unearned Revenue, and Property Taxes (Continued)

The EDA sold property and a building during 2008. As a result of that transaction, a note receivable was issued in the amount of \$309,800. The note bears interest at a rate of 3.94% and extends through June 1, 2014. At year end, the remaining amortization of the note is as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>
2013	\$ 37,649	\$ 2,351
2014	<u>39,159</u>	<u>841</u>
	<u>\$ 76,808</u>	<u>\$ 3,192</u>

The EDA received \$149,000 in grants from United States Department of Agriculture – Rural Development for Rural Enterprise Grant assistance program. Using these grants, the EDA issued small business loans, up to \$20,000 individually, to local businesses to finance and facilitate business development in the area. Through June 30, 2012 the EDA issued six loans between \$200 and \$17,500 with interest rates between 2 and 4%, payments due monthly for either a 5 or 10 year period based on the individual agreement with the EDA. At June 30, the aggregated outstanding balances on these loans totaled \$47,328. The undisbursed funds of \$6,826 are included in restricted net assets on the Statement of Net Assets.

The EDA also received a grant from the Tobacco Commission to provide subrecipients with capital and operating funds to be used for economic development within the County. The Tobacco Commission advanced the County \$122,352, all of which has been recorded as unearned revenue until the subrecipients incur eligible expenditures.

Note 4. Due from Other Governments

Amounts due from other governments consist of the following:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>	<u>Component Unit – EDA</u>
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 135,273	\$ -	\$ -
State sales tax	-	363,294	-
Comprehensive services act	46,813	-	-
Utility and Consumption Tax	31,388	-	-
Public assistance	65,172	-	-
Recordation tax	7,696	-	-
Shared expenses and grants	110,466	15,699	-
Communications tax	115,846	-	-
Tobacco Commission	-	-	229,177
	<u>\$ 512,654</u>	<u>\$ 378,993</u>	<u>\$ 229,177</u>

(Continued)

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 5. Interfund and Component Unit Transactions

Amounts due from/to other funds consist of the following at June 30:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Capital Projects Fund	\$ <u>242,579</u>

The primary purpose of the interfund balance is for historical interfund borrowings to cover negative pooled unrestricted cash amounts in the Capital Projects Fund.

Interfund transfers are as follows:

<u>Transfer In Fund</u>	<u>Transfer out Fund</u>	<u>Amount</u>
General Fund	Fire and Rescue Fund	\$ <u>143,465</u>

The primary purpose of the interfund transfer is to transfer excess funds to the General Fund.

Amounts due to/from the primary government and its component units consist of the following:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary Government – General Fund	Component Unit – School Board	\$ 23,064
Primary Government – General Fund	Component Unit – EDA	<u>410,961</u>
		<u>\$ 434,025</u>

The School Board owed the General Fund as a result of the County funding the net of assets and liabilities of the schools less cash at year end.

The EDA owed the General Fund for historical advances for the purchase of land.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets

Primary Government

Capital asset activity for the year was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets, nondepreciable:				
Land	\$ 714,094	\$ -	\$ -	\$ 714,094
Capital assets, depreciable:				
Buildings and improvements	5,940,009	-	-	5,940,009
Equipment	6,511,559	104,393	517,202	6,098,750
School buildings	15,660,445	-	-	15,660,445
Capital assets, depreciable	<u>28,112,013</u>	<u>104,393</u>	<u>517,202</u>	<u>27,699,204</u>
Less accumulated depreciation for:				
Buildings and improvements	1,679,883	147,931	-	1,827,814
Equipment	4,713,567	397,215	517,202	4,593,580
School buildings	2,915,244	391,511	-	3,306,755
Total accumulated depreciation	<u>9,308,694</u>	<u>936,657</u>	<u>517,202</u>	<u>9,728,149</u>
Capital assets, depreciable, net	<u>18,803,319</u>	<u>(832,264)</u>	<u>-</u>	<u>17,971,055</u>
Governmental activities capital assets, net	<u>\$ 19,517,413</u>	<u>\$ (832,264)</u>	<u>\$ -</u>	<u>\$ 18,685,149</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 49,010
Judicial administration	9,901
Public safety	281,860
Public works	172,817
Education	391,511
Park, recreation, and cultural	31,558
	<u>\$ 936,657</u>

Included in Primary Government capital assets is various equipment with a total cost of \$480,005 and accumulated depreciation of \$375,800 financed by capital leases.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. Capital Assets (Continued)

Primary Government (Continued)

Discretely Presented Component Unit – School Board

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Reductions	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 265,917	\$ -	\$ -	\$ 265,917
Capital assets, depreciable:				
Buildings and improvements	5,201,969	-	-	5,201,969
Equipment	3,426,434	58,800	-	3,485,234
Capital assets, depreciable	8,628,403	58,800	-	8,687,203
Less accumulated depreciation for:				
Buildings and improvements	2,245,855	89,320	-	2,335,175
Equipment	2,370,930	178,379	-	2,549,309
Total accumulated depreciation	4,616,785	267,699	-	4,884,484
Capital assets, depreciable, net	4,011,618	(208,899)	-	3,802,719
Governmental activities capital assets, net	<u>\$ 4,277,535</u>	<u>\$ (208,899)</u>	<u>\$ -</u>	<u>\$ 4,068,636</u>

All depreciation expense of the School Board was charged to the Education function.

Included in School Board capital assets is various equipment and building improvements with a total cost of \$1,236,278 and accumulated depreciation of \$95,297, financed by a capital lease.

Discretely Presented Component Unit – Economic Development Authority

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Reductions	Ending Balance
Capital assets, nondepreciable:				
Land	\$ 901,533	\$ -	\$ -	\$ 901,533
Capital assets, depreciable:				
Equipment (not yet in service)	-	58,664	-	58,664
Capital assets, net	<u>\$ 901,533</u>	<u>\$ 58,664</u>	<u>-</u>	<u>\$ 960,197</u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance*	Additions	Reductions	Ending Balance	Due within One Year
Primary Government					
General obligation bonds	\$ 13,962,722	\$ -	\$ 1,087,577	\$ 12,875,145	\$ 1,105,474
Revenue bonds	955,000	-	20,000	935,000	20,000
Literary fund loans	28,657	-	28,657	-	-
Total bonds and loans	14,946,379	-	1,136,234	13,810,145	1,125,474
Capital leases	198,935	-	59,653	139,282	63,111
Landfill post-closure*	1,138,286	165,543	138,224	1,165,605	117,000
Compensated absences	305,702	166,553	152,851	319,404	159,702
	<u>\$ 16,589,302</u>	<u>\$ 332,096</u>	<u>\$ 1,486,962</u>	<u>\$ 15,434,436</u>	<u>\$ 1,465,287</u>
Component Unit – School Board:					
Capital leases	\$ 1,121,340	\$ -	\$ 68,920	\$ 1,052,420	\$ 70,908
Compensated absences	975,036	441,744	487,518	929,262	464,631
Other postemployment benefits	155,500	24,800	12,000	168,300	-
	<u>\$ 2,251,876</u>	<u>\$ 466,544</u>	<u>\$ 568,438</u>	<u>\$ 2,149,982</u>	<u>\$ 535,539</u>
Component Unit – EDA:					
Note payable	<u>\$ 97,666</u>	<u>\$ -</u>	<u>\$ 34,544</u>	<u>\$ 63,122</u>	<u>\$ 63,122</u>

* Beginning balance restated – See Note 9.

Debt service requirements of general obligation bonds, revenue bonds, and landfill post-closure are paid by the General Fund. Capital leases and compensated absences are paid by the General Fund, Fire and Rescue Fund, and School Operating Fund.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities (Continued)

The primary government's annual debt service requirements to maturity are as follows:

Governmental Activities						
Year Ended June 30	General Obligation		Revenue Bond		Capital Leases	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 1,105,474	562,059	\$ 20,000	\$ 46,100	\$ 63,111	\$ 4,375
2014	1,120,776	514,054	20,000	45,200	46,406	2,449
2015	1,138,880	464,090	20,000	44,250	29,765	624
2016	1,163,959	411,861	20,000	43,250	-	-
2017	1,006,522	363,214	20,000	42,250	-	-
2018-2022	4,148,165	992,944	130,000	193,000	-	-
2023-2027	3,191,369	359,855	165,000	156,375	-	-
2028-2032	-	-	210,000	109,500	-	-
2033-2037	-	-	270,000	50,000	-	-
2038-2042	-	-	60,000	1,500	-	-
	<u>\$12,875,145</u>	<u>\$ 3,668,077</u>	<u>\$ 935,000</u>	<u>\$ 731,425</u>	<u>\$ 139,282</u>	<u>\$ 7,448</u>

The discretely presented component units' annual debt service requirements to maturity are as follows:

Year Ended June 30	Discretely Presented Component Units			
	School Board		EDA	
	Capital Lease		Note Payable	
	Principal	Interest	Principal	Interest
2013	\$ 70,908	38,807	\$ 63,122	4,232
2014	73,592	36,123	-	-
2015	76,378	33,338	-	-
2016	79,269	30,467	-	-
2017	82,269	27,446	-	-
2018-2022	460,483	88,094	-	-
2023-2024	209,521	9,912	-	-
	<u>\$ 1,052,420</u>	<u>\$ 264,187</u>	<u>\$ 63,122</u>	<u>\$ 4,232</u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 7. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

Primary Government

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities
<u>General Obligation Bonds:</u>					
School Construction Bonds	4.90-6.35%	10-1992	07-2012	\$ 91,371	\$ 6,330
School Construction Bonds	5.10-6.10	12-1995	07-2015	2,835,979	697,166
School Construction Bonds	2.60-2.80	11-2000	07-2020	3,142,650	1,549,962
School Construction Bonds	4.25-5.00	11-2005	07-2025	10,259,045	7,485,987
Refunding Bonds	4.22	04-2006	07-2022	3,450,500	2,395,700
Public Improvement	1.10-1.40	02-2010	02-2020	920,000	740,000
					12,875,145
				Less deferred costs	(107,841)
					<u>\$ 12,767,304</u>
<u>Revenue Bond</u>					
	4.25-5.00%	07-2007	08-2037	\$ 1,000,000	\$ 935,000
				Plus bond premium	29,971
					<u>\$ 964,971</u>
<u>Capital Leases:</u>					
Equipment Lease	4.25%	10-2005	07-2014	\$ 255,005	\$ 85,043
Equipment Lease	4.07	02-2007	08-2013	225,000	54,239
					<u>\$ 139,282</u>
Discretely Presented Component Units					
School Board					
Capital Lease	3.75%	05-2008	01-2024	\$ 1,250,000	<u>\$ 1,052,420</u>
EDA					
Note Payable	6.50%	04-2002	11-2012	\$ 415,000	<u>\$ 63,122</u>

The EDA note payable is secured by a note receivable.

Prior Year Defeasance of Debt

In 2006, the County defeased certain bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service on the refunded bonds. As a result, the liability for those bonds has been removed from the financial statements. At June 30, \$820,000 of these bonds remains outstanding.

(Continued)

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 8. Short-Term Debt

The County issues tax anticipation notes in advance of property tax collections. These notes are used to fund operations until the collection of property taxes on June 5th and December 5th.

Short-term debt activity was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Tax anticipation notes	\$ -	\$ 2,500,000	\$ 2,500,000	\$ -

Note 9. Landfill Post-closure Care Costs

The County closed its former landfill site in 1995. In accordance with federal and state laws, the County placed a final cover on this site and was required to perform certain maintenance and monitoring functions for a minimum of ten years after closure.

Certain contaminants from the landfill were detected in the groundwater, which thereby extended the monitoring period in excess of the initial requirement. The County's current plan of remediation consists of monitored natural attenuation. This remedy consists of monitoring wells on the site for up to ten years. It is the County and its external engineer's belief that during the ten years, the groundwater contaminants will decrease to an acceptable level and the County will be released from all other monitoring requirements at this site. The estimated liability is based on the remedy proposed and accepted by the Virginia Department of Environmental Quality (DEQ). Actual costs may be higher due to inflation, changes in technology, changes in regulations, or other unforeseen circumstances. The cumulative amount of estimated post-closure care costs and corrective action to date for this site totals \$1,165,605. This amount is included in the long-term liabilities in the primary government.

Prior to 2012, the County applied monitoring expenditures to this post-closure liability, reducing the liability. However, the DEQ has not approved the County to enter the ten year run-out period and as a result the beginning liability has been increased \$501,731.

The County uses the financial test method of demonstrating assurance for post-closure care.

Note 10. Net Assets/Fund Balance

Deficit Unrestricted Net Assets: At June 30, an unrestricted net asset deficit of \$(776,057) existed in the Component-Unit School Board. This deficit is expected to be recovered through increasing revenues and decreasing ongoing expenses.

Deficit Fund Balance: At June 30, the capital projects fund had a fund balance deficit of \$(229,786). This deficit is expected to be recovered through ultimate forgiveness of amounts owed to the general fund.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 11. Significant Transactions of the County and Component Unit – School Board

Certain transactions between the County and School Board are explained here in detail to provide a more informed understanding of the operational relationship of the two entities and how such transactions are presented in the financial statements.

1. The School Board can neither levy taxes nor incur bonded debt under Virginia law. Therefore, the County issues debt “on behalf” of the School Board. The debt obligation is recorded as a liability of the County. The proceeds from the debt issued “on behalf” of the School Board are recorded in the County’s School Capital Projects Fund. This fund then accounts for capital expenditures relating to major school construction projects.
2. Debt service payments for school bonded debt are reported as part of the County in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.
3. Local governments in Virginia have a “tenancy in common” with the School Board whenever the locality incurs a financial obligation for school property which is payable over more than one year. In order to match the capital assets with the related debt, the legislation permits the primary government to report the portion of the school property related to the financial obligation as “jointly owned” assets. When the debt related to a particular capital asset is completely retired, the related capital asset, net of accumulated depreciation, is removed from the County’s financial statements and reported in the School Board’s financial statements. The School Board retains authority and responsibility over the operation and control of this property.
4. If all economic resources associated with school activities were reported with the School Board, its total expenditures would be as follows:

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 17,860,304
Principal and other debt service expenditures included in primary government (Exhibit 4)	<u>1,344,925</u>
Total expenditures for school activities	<u><u>\$ 19,205,229</u></u>

Note 12. Significant Transactions of the County and Component Unit – Economic Development Authority

The EDA was created to encourage economic development in the County. To that end, the County appropriates periodic contributions to the EDA. The County also periodically extends non-interest bearing loans for the purchase of certain capital items such as land and buildings. These advances are to be repaid from the sales of the properties and other revenues. There is no deed of trust held by the County for these properties. There were \$410,961 of such advances outstanding at year end.

In addition, the County provides certain industrial incentive grants to encourage development in the County. When the underlying requirements have been substantially met, these amounts are recorded by the EDA as payable to the grant recipient and as receivable from the County.

The County also provides personnel and office space to the EDA at no charge.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 13. Defined Benefit Pension Plan

A. Plan Description

The County and School Board contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent (professional) employees of public school divisions and participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

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

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

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

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 13. Defined Benefit Pension Plan (Continued)

A. Plan Description (Continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is -0-%. The VRS also provides death and disability benefits. Title 51.1 of the *Code of Virginia* (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the report may be obtained from the VRS Web site at <http://www.varetire.org/Pdf/Publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All of the 5.00% member contribution was assumed by the employer. In addition, the County and School Board are required to contribute the remaining amounts necessary to fund their participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2012 was 15.53% of annual covered payroll. The School Board's contribution rates for the fiscal year ended 2012 were 11.33% for professional employees and 12.37% for non-professional employees of annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2012, the County's and School Board's annual pension costs, including the employee share assumed by the County and School Board, of \$478,811 and \$1,237,917, respectively, were equal to their required and actual contributions. The 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) 7.50% investment rate of return net of administrative expenses, (b) projected salary increases ranging from 3.75% to 5.60% per year, for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) 2.50% per year cost-of-living adjustments. Both (a) and (b) include an inflation component of 2.50%. The actuarial value of the County and School Board assets is equal to the modified market value of assets. This method was determined using techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County and School Board's unfunded actuarial accrued liabilities are being amortized as a level percentage of payroll on an open basis within a period of 20 years or less.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 13. Defined Benefit Pension Plan (Continued)

Annual Pension Cost (Continued)

Three-Year Trend Information			
Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC	Net Pension Obligation
County of Floyd			
June 30, 2012	\$ 478,811	100%	\$ -
June 30, 2011	\$ 438,766	100%	\$ -
June 30, 2010	\$ 449,582	100%	\$ -
County of Floyd School Board – Non-Professional			
June 30, 2012	\$ 159,110	100%	\$ -
June 30, 2011	\$ 163,815	100%	\$ -
June 30, 2010	\$ 171,860	100%	\$ -

Funded Status and Funding Progress

The following schedules of funding progress present multi-year trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (ALL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County of Floyd						
June 30, 2011	\$ 9,626,819	\$ 12,485,722	\$ 2,858,903	77.10%	\$ 2,936,549	97.36%
June 30, 2010	\$ 9,289,200	\$ 12,299,832	\$ 3,010,632	75.52%	\$ 3,007,820	100.09%
June 30, 2009	\$ 9,098,651	\$ 11,075,780	\$ 1,977,129	82.15%	\$ 2,952,481	66.96%
County of Floyd Schools – Non-Professional						
June 30, 2011	\$ 5,244,333	\$ 6,797,739	\$ 1,553,406	77.15%	\$ 1,329,443	116.85%
June 30, 2010	\$ 5,222,275	\$ 6,557,816	\$ 1,335,541	79.63%	\$ 1,368,561	97.59%
June 30, 2009	\$ 5,365,246	\$ 5,978,727	\$ 613,482	89.74%	\$ 1,405,820	43.64%

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 14. Other Post-employment Benefits

Governmental Accounting Standards Board (GASB) Statement No. 45, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans* (OPEB) establishes standards for the measurement, recognition, and display of OPEB expense and related liabilities in the financial statements. The cost of post-employment healthcare benefits should be associated with the periods in which the cost occurs, rather than in the future years when it will be paid. The County does not have a liability related to OPEB as they do not offer any benefits to employees after their departure.

Floyd County Schools

Plan Description and Benefits Provided

The Schools provide post-employment medical and dental benefits to retirees and eligible dependents who elect to stay in the plans. At retirement, retirees may stay in one of two PPO plans with an additional choice of prescription drug benefits and can continue coverage under all the benefits until age 65 or becoming eligible for Medicare, whichever comes first. The retiree pays the premium for these benefits. The School Board may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate.

Participants are eligible for the plan upon eligibility to retire under the provisions of the Virginia Retirement System (VRS) and have a minimum of 15 years of service in VRS. The earliest retirement age is 50 with 15 years of service.

Membership

The number of participants at July 1, 2010, the date of the last required actuarial valuation, was 253, consisting of 243 active and 10 inactive participants.

Funding Policy

The Schools currently fund post-employment health care benefits on a pay-as-you-go basis. The Schools do not intend to establish a trust to pre-fund this liability.

Annual Other Post-employment Benefit Cost and Net OPEB Obligation

The following table shows the elements of the School's annual OPEB cost for the year and the changes in the School's net OPEB obligation for the fiscal year ended June 30.

Annual required contribution	\$ 25,100
Interest on net OPEB obligation	6,200
Adjustment to annual required contribution	<u>(6,500)</u>
Annual OPEB cost	24,800
Less contributions made	<u>(12,000)</u>
Increase in net OPEB obligation	12,800
Net OPEB obligation – beginning of year	<u>155,500</u>
Net OPEB obligation – end of year	<u><u>\$ 168,300</u></u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 14. Other Post-employment Benefits (Continued)

Annual Other Post-employment Benefit Cost and Net OPEB Obligation (Continued)

The School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010, 2011, and 2012 are as follows.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2012	\$ 24,800	48.39%	\$ 168,300
June 30, 2011	\$ 23,700	10.88%	\$ 155,500
June 30, 2010	\$ 110,400	39.69%	\$ 134,400

Funded Status and Funding Progress

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. Examples include assumptions about future employment, mortality, and healthcare cost trends. 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, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Required Supplementary Information
Schedule of Funding Progress – Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (ALL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentag of Covered Payroll
July 1, 2010	\$ -	\$ 289,300	\$ 289,300	0%	\$ 10,811,500	2.7%
July 1, 2008	\$ -	\$ 1,161,900	\$ 1,161,900	0%	\$ 11,053,200	10.5%

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 14. Other Post-employment Benefits (Continued)

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 the 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 include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the entry age normal cost method was used to determine liabilities. Under this cost method, the actuarial present value of projected benefits of every active participant as if the plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year. Under this method, inactive participants have no normal cost, and their actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The plan's total annual normal costs and actuarial liability are the sum of the individual participant amounts. The actuarial assumptions used a 4% discount rate. An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. Liabilities and costs shown are net of any retiree contributions.

Note 15. Operating Lease

The County leases a manufacturing building to Legacy, Inc. (Legacy). The agreement was for a ten-year term that initially ended on January 31, 2010. However, since the end of the initial term, the lease has been renewed annually for three additional one-year periods through January 31, 2013. The lease requires that Legacy maintain a certain level of employment at the facility or the County can declare the company in default of the lease agreement and take possession of the building. Legacy has an option to purchase the building at any time during the term of the lease agreement at a then determined fair market appraised value of the property. The 2013 minimum rental payments under this lease total \$25,200.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 16. Risk Management

General Liability and Other Insurance:

The County and its component units are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; workers' compensation claims; and natural disasters.

The County and School Board contract with the VACO Insurance Program to provide insurance coverage for these risks of loss. In the event of a loss deficit and depletion of all assets and available insurance of the League, the League may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The property coverage is for specific amounts based on values assigned to the insured properties. Liability coverage is for \$5,000,000.

Unemployment Insurance:

The County and School Board are fully self-insured for unemployment claims. The Virginia Employment Commission bills the County and School Board for all unemployment claims.

Healthcare Insurance:

The County provides coverage for employees through a policy with Blue Cross and Blue Shield. The County contributes the required premium amount for single coverage for each employee. Dependents of employee are also covered by the policy provided they pay the additional premium to the County. Total premiums for fiscal year 2012 paid by the County were approximately \$539,017.

The School Board has a professionally administered self-insurance program that provides health coverage for employees on a cost-reimbursement basis. Retired employees and dependents of employees of the School Board are also covered by the program, provided they pay the entire premium. Under the program, the School Board is obligated for claims payments. A stop loss insurance contract executed with Blue Cross and Blue Shield covers claims in excess of \$70,000 per covered individual and approximately \$1,265,000 in the aggregate. During the current fiscal year, total claims expense of \$1,023,880 which did not exceed the stop loss provisions, was incurred. This represents claims processed and an estimate, based on plan experience prior and subsequent to year end, for claims incurred but not reported (IBNR) as of June 30. The estimated liability, including reported and IBNR claims, was \$107,833 at year end. Additionally, included in prepaids at June 30 and excluded from claim payments below is approximately \$1,085,509 that has been paid in excess of claims to date. Changes in the reported liability during 2012 are as follows:

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2011	<u>\$ 129,000</u>	<u>\$ 1,023,880</u>	<u>\$ 1,045,047</u>	<u>\$ 107,833</u>

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 17. Commitments and Contingencies

Special Purpose Grants:

Special purpose grants are subject to audit to determine compliance with their requirements. Officials believe that if any refunds are required they will be immaterial.

Solid Waste Disposal Contract:

The County entered into an agreement on July 1, 2006 with the New River Resource Authority to pay on a per ton basis for disposal of the County's solid waste. The agreement is for a twenty-year period and specifies the County must pay for at least 10,850 tons of solid waste disposal annually. The County met the tonnage requirement for the current fiscal year at a total cost of \$347,205. The County does not bear any responsibility for closure or postclosure liabilities at the site.

Notes Payable of the EDA:

The County has issued expressions of intent to guarantee a portion of certain notes payable by the EDA. This is a nonbinding moral obligation to pay up to the guaranteed amount \$63,112 on behalf of the EDA if it is unable to repay these obligations.

Discretely Presented Component Unit – Economic Development Authority

Performance Agreement:

During the current year the EDA was awarded approximately \$1,200,000 of federal grants. Of this amount, the EDA expended \$508,561 for economic development initiatives. The remaining funds, along with private matching funds, will be used to construct a facility to be used by a corporation that has agreed to relocate its development and production activities to the County. The facility will be owned by the EDA and leased to the corporation. As part of the agreement, the corporation agrees to meet continuing employment targets.

Grants:

Three funding agencies have announced pledges to the EDA for the Innovation Center of Floyd. The Virginia Tobacco Indemnification Commission has committed \$1,169,000, the federal Economic Development Administration (f-EDA) has committed \$800,000, and the Appalachian Regional Commission has pledged \$369,000. The EDA made no pledge of cash to the project, but did commit 5 acres in the Floyd Regional Commerce Center to this project. Construction is anticipated to start in 2013 and will be completed by summer 2014. In addition, the EDA has opened a grant reimbursement line of credit with the Bank of Floyd up to \$250,000 to help bridge expenses.

The EDA also received a grant award of \$37,912.50 from the USDA Rural Development for a pilot project to help local companies grow through provision of access to professional services. The EDA pledged \$2,000 in cash to this and anticipates completing the project by June 2013.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 18. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, was issued to address service concession arrangements, which are a type of public-private or public-public partnership. The statement defines a service concession arrangement in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties. The requirements of this statement establish recognition, measurement, and disclosure requirements for these types of arrangements. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, modifies certain requirements for the inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present to be included as a component unit. The statement also amends the criteria for reporting of blended component units. For component units that are blended based on the “substantively the same governing body” criterion, it additionally requires that a financial benefit or financial burden relationship exist or that management of the primary government have operational responsibility for the activities of the component unit. The statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflow of Resources, and Net Position*, is intended to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government’s net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. This statement will be effective for the year ending June 30, 2013.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes standards for reclassification of certain items as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

COUNTY OF FLOYD, VIRGINIA
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 18. New Accounting Standards (Continued)

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

GASB Statement No. 67, *Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 25 and No. 50* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans* replaces the requirements of *GASB Statements No. 27 and No. 50* as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

Management has not yet evaluated the effects, if any, of adopting these standards.

Note 19. Related Party Transactions

During the year, the County, School Board, and EDA conducted transactions with a financial institution whose President was a voting member of the Board of the EDA. At June 30, the primary government and component units had approximately \$3,219,000 in deposits and \$85,000 in outstanding capital lease obligations with this institution, however, effective June 2012, this Board Member is no longer the President of that financial institution.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF FLOYD, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET TO ACTUAL
GENERAL FUND**

Year Ended June 30, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
General property taxes	\$ 9,696,483	\$ 9,696,483	\$ 9,810,791	\$ 114,308
Other local taxes	2,149,813	2,149,813	2,249,172	99,359
Permits, privilege fees, and regulatory licenses	98,800	98,800	113,667	14,867
Fines and forfeitures	20,500	20,500	2,019	(18,481)
Revenue from use of money and property	143,200	143,200	80,318	(62,882)
Charges for services	569,914	569,914	657,036	87,122
Other	3,650	3,650	13,817	10,167
Recovered costs	63,500	63,500	44,909	(18,591)
Intergovernmental	3,762,962	3,762,962	4,150,107	387,145
Total revenues	16,508,822	16,508,822	17,121,836	613,014
EXPENDITURES				
Current:				
General government administration	1,345,731	1,442,715	1,344,702	98,013
Judicial administration	600,323	683,139	652,992	30,147
Public safety	2,216,784	2,585,548	2,735,062	(149,514)
Public works	1,290,118	1,298,454	1,156,775	141,679
Health and welfare	2,153,821	2,151,946	1,703,558	448,388
Education	5,353,107	5,604,720	4,516,292	1,088,428
Parks, recreation, and cultural	320,037	320,037	252,587	67,450
Community development	736,395	750,272	383,339	366,933
Debt service:				
Principal	1,131,502	1,131,502	1,102,143	29,359
Interest and other fiscal charges	538,688	538,688	672,514	(133,826)
Total expenditures	15,686,506	16,507,021	14,519,964	1,987,057
Excess of revenues over expenditures	822,316	1,801	2,601,872	2,600,071
OTHER FINANCING SOURCES				
Transfers in	-	-	143,165	143,165
Total other financing sources	-	-	143,165	143,165
Net change in fund balances	\$ 822,316	\$ 1,801	\$ 2,745,337	\$ 2,743,236

COUNTY OF FLOYD, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET TO ACTUAL –
FIRE AND RESCUE FUND
Year Ended June 30, 2012**

	<u>Budgeted Amounts</u>		<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>
REVENUES			
General property taxes	\$ -	\$ -	\$ 212,804
Intergovernmental	55,279	55,279	55,807
Total revenues	55,279	55,279	268,611
EXPENDITURES			
Current:			
Public safety	325,415	350,513	417,054
Debt service:			
Principal	93,744	93,744	93,744
Interest and other fiscal charges	55,727	55,727	12,324
Total expenditures	474,886	499,984	523,122
Deficiency of revenues over expenditures	(419,607)	(444,705)	(254,511)
OTHER FINANCING USES			
Transfers out	-	-	(143,465)
Total other financing uses	-	-	(143,465)
Net change in fund balances	\$ (419,607)	\$ (444,705)	\$ (397,976)

COUNTY OF FLOYD, VIRGINIA

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2012

Note 1. Budgetary Information

The County follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to March 30, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the related financing.
- Public hearings are conducted to obtain citizen comments.
- Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- The Appropriations Resolution places legal restrictions on expenditures at the function level. The appropriation for each function can be revised only by the Board of Supervisors. The County Administrator is authorized to transfer budgeted amounts within the various functions; however, the Board of Supervisors must approve all budget amendments which appropriates funds from one function to another. The School Board is authorized to transfer budgeted amounts within the school system's categories.
- Formal budgetary integration is employed as a management control device during the year and budgets are legally adopted for the General Fund, Special Revenue Fund, and the two Capital Project Funds. The School Funds are integrated only at the level of legal adoption.
- All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- Appropriations lapse on June 30. Several supplemental appropriations were necessary during the year.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

OTHER SUPPLEMENTARY INFORMATION

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DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

School Operating Fund – This fund accounts for the operations of the School Board's elementary and high schools.

COUNTY OF FLOYD, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
BALANCE SHEET
June 30, 2012

	School Operating Fund
ASSETS	
Cash and cash equivalents	\$ 339,659
Due from other governments	378,993
Inventories	18,764
Prepays	1,458,855
Cash and cash equivalents, restricted	203,332
Total assets	<u>\$ 2,399,603</u>
LIABILITIES	
Accounts payable	\$ 42,091
Accrued payroll and related liabilities	1,683,624
Due to Primary Government	23,064
Self insurance claims liability	107,833
Total liabilities	<u>1,856,612</u>
FUND BALANCE	
Nonspendable	1,477,619
Restricted	203,332
Unassigned	<u>(1,137,960)</u>
Total fund balance	<u>542,991</u>
Total liabilities and fund balance	<u>\$ 2,399,603</u>
Adjustments for the Statement of Net Assets (Exhibit 1)	
Total fund balance	\$ 542,991
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,068,636
Debt issuance costs are reported as expenditures in the funds, but are amortized over the life of the debt obligation in the statement of net assets.	4,989
Long-term liabilities, including accrued interest payable, are not due and payable in the in the current period and, therefore, are not reported in the funds.	<u>(2,168,136)</u>
Net assets of governmental activities	<u>\$ 2,448,480</u>

COUNTY OF FLOYD, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
Year Ended June 30, 2012

	School Operating Fund
REVENUES	
Charges for services	\$ 575,690
Recovered costs	295,548
Other	3,973
Payments from Floyd County	4,510,579
Intergovernmental	12,550,860
Total revenues	<u>17,936,650</u>
EXPENDITURES	
Education:	
Instructional	11,943,221
Admission, attendance, and health	713,888
Transportation	1,546,067
Operations and maintenance	1,901,402
Food service	574,455
Facilities	58,800
Technology	1,012,756
Debt service:	
Principal	68,920
Interest and other fiscal charges	40,795
Total expenditures	<u>17,860,304</u>
Excess of revenues over expenditures	<u>76,346</u>
Net change in fund balance	76,346
FUND BALANCE AT JULY 1	<u>466,645</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 542,991</u></u>
Reconciliation to the Statement of Activities (Exhibit 2)	
Net change in fund balance – governmental fund	\$ 76,346
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$267,699) exceeded capitalized expenditures (\$58,800).	(208,899)
The repayment of the principal of long-term debt (\$68,920) consumes the the current financial resources of governmental funds but has no effect on net assets.	68,920
Governmental funds report the effect of issuance costs, whereas these amounts are deferred and amortized in the statement of activities.	(453)
Accrued interest on long term debt does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental fund	1,109
Compensated absences and other postemployment benefits are not due and payable at June 30, and therefore are not reported in the fund statements. This amount represents the current year change in compensated absences and other postemployment benefits.	<u>32,374</u>
Change in net assets of governmental activities.	<u><u>\$ (30,603)</u></u>

COUNTY OF FLOYD, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET TO ACTUAL –
SCHOOL OPERATING FUND
Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Charges for services	\$ -	\$ -	\$ 575,690	\$ 575,690
Recovered costs	471,745	471,745	295,548	(176,197)
Other	-	-	3,973	3,973
Payments from Floyd County	6,698,032	6,698,032	4,510,579	(2,187,453)
Intergovernmental	12,494,321	12,494,321	12,550,860	56,539
Total revenues	19,664,098	19,664,098	17,936,650	(1,727,448)
EXPENDITURES				
Education	18,209,458	18,209,458	17,750,589	458,869
Debt service:				
Principal	68,920	68,920	68,920	-
Interest and other fiscal charges	40,795	40,795	40,795	-
Total expenditures	18,319,173	18,319,173	17,860,304	458,869
Excess (deficiency) of revenues over expenditures	1,344,925	1,344,925	76,346	(1,268,579)
Net change in fund balance	\$ 1,344,925	\$ 1,344,925	\$ 76,346	\$ (1,268,579)

**DISCRETELY PRESENTED
COMPONENT UNIT – COUNTY OF FLOYD
ECONOMIC DEVELOPMENT AUTHORITY**

COUNTY OF FLOYD, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
FLOYD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF NET ASSETS
PROPRIETARY FUND
June 30, 2012

	Enterprise Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 104,756
Current portion of note receivable	37,649
Other receivables	5,333
Due from other governments	229,177
Cash and cash equivalents, restricted	122,352
Total current assets	499,267
Noncurrent assets:	
Long-term portion of note receivable	39,159
Lease receivable	16,412
Loans receivable	47,328
Capital assets:	
Nondepreciable	901,533
Depreciable, net	58,664
Total noncurrent assets	1,063,096
Total assets	1,562,363
LIABILITIES	
Current liabilities:	
Grants payable	229,177
Unearned revenue	122,352
Current portion of notes payable	63,122
Total current liabilities	414,651
Noncurrent liabilities:	
Due to primary government	410,961
Total noncurrent liabilities	410,961
Total liabilities	825,612
NET ASSETS	
Invested in capital assets, net of related debt	549,236
Restricted	6,826
Unrestricted	180,689
Total net assets	\$ 736,751

COUNTY OF FLOYD, VIRGINIA

**DISCRETELY PRESENTED COMPONENT UNIT
FLOYD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS – PROPRIETARY FUND
June 30, 2012**

	Enterprise Fund
OPERATING REVENUES	
Intergovernmental revenue	\$ 527,818
Payments from Floyd County	8,325
Other	11,905
Total operating revenues	548,048
OPERATING EXPENSES	
Economic development grant expenses	449,897
Performance grants	26,910
Total operating expenses	476,807
Operating income	71,241
NONOPERATING REVENUES (EXPENSES)	
Interest income	5,751
Interest expense	(5,469)
Net nonoperating revenues (expenses)	282
Change in net assets	71,523
NET ASSETS AT JULY 1	665,228
NET ASSETS AT JUNE 30	\$ 736,751

COUNTY OF FLOYD, VIRGINIA

DISCRETELY PRESENTED COMPONENT UNIT
FLOYD COUNTY ECONOMIC DEVELOPMENT AUTHORITY
STATEMENT OF CASH FLOWS –
PROPRIETARY FUND
June 30, 2012

	Enterprise Fund
OPERATING ACTIVITIES	
Payments from Floyd County	\$ 8,325
Intergovernmental revenue	420,993
Miscellaneous operating revenue	18,713
Operating loans disbursed	(22,385)
Principal received on operating loans	8,090
Payments for grant expenses	(219,620)
Payments for performance incentive grants	(28,010)
Net cash provided by operating activities	<u>186,106</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Increase in depreciable capital assets	(58,664)
Principal paid on capital debt	(34,544)
Interest paid on capital debt	(5,469)
Net cash used in capital and related financing activities	<u>(98,677)</u>
INVESTING ACTIVITIES	
Principal received on long-term note and lease receivable	36,538
Interest received	5,751
Net cash provided by noncapital financing activities	<u>42,289</u>
Net increase in cash and cash equivalents	129,718
CASH AND CASH EQUIVALENTS	
Beginning at July 1	<u>97,390</u>
Ending at June 30	<u><u>\$ 227,108</u></u>
RECONCILIATION TO STATEMENT OF NET ASSETS	
Cash and cash equivalents	\$ 104,756
Cash and cash equivalents, restricted	<u>122,352</u>
	<u><u>\$ 227,108</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 71,241
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities	
Decrease in other receivables	6,808
Increase in due from other governments	(229,177)
Increase in loans receivable	(14,295)
Increase in grants payable	229,177
Increase in unearned revenue	122,352
Net cash provided by operating activities	<u><u>\$ 186,106</u></u>

SUPPORTING SCHEDULE

COUNTY OF FLOYD, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
<u>Department of Agriculture:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Food Stamp Administration	10.561	\$ 138,090
<u>Department of Agriculture:</u>		
National School Lunch Program (Commodities)	10.555	56,153
<u>Department of Education:</u>		
National School Breakfast Program	10.553	114,196
National School Lunch Program	10.555	439,690
Summer Food Service Program for Children	10.559	85
Child Nutrition Discretionary Grants	10.579	5,832
<u>Direct Payments:</u>		
Rural Business Enterprise Grants	10.769	22,385
<u>Department of Commerce:</u>		
<u>Direct Payments:</u>		
Investments for Public Works and Economic Development Facilities	11.300	508,561
<u>Department of Justice:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Criminal Justice Services:</u>		
Violence Against Women Formula Grant	16.588	25,986
<u>Department of Motor Vehicles</u>		
<u>Pass-through Payments:</u>		
<u>Department of Transportation</u>		
State and Community Highway Safety	20.600	3,823
Alcohol Traffic Safety and Drunk Driving Prevention	20.601	9,373
<u>Department of Education:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Education:</u>		
Title I: Grants to Local Educational Agencies	84.010	463,323
Special Education - Grants to States	84.027	463,562
Vocational Education - Basic Grants to States	84.048	40,452
Special Education - Preschool Grants	84.173	22,513
English Language Acquisition Grants	84.365	162
Title II: Part A, Improving Teacher Quality	84.367	77,929
Statewide Data Systems - ARRA	84.384	22,440
Title I: Grants to Local Educational Agencies - ARRA	84.389	2,897
Special Education - Grants to States - ARRA	84.391	9,016
Special Education - Preschool Grants - ARRA	84.392	5,055
Education Jobs Fund - ARRA	84.410	201,855

(Continued)

COUNTY OF FLOYD, VIRGINIA

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2012

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>
<u>Department of Health and Human Services:</u>		
<u>Pass-through Payments:</u>		
<u>Department of Social Services:</u>		
Promoting Safe and Stable Families	93.556	\$ 12,167
Temporary Assistance for Needy Families	93.558	103,666
Refugee and Entrant Assistance - State Administered Programs	93.566	192
Low-Income Home Energy Assistance	93.568	8,385
Child Care and Development Block Grant	93.575	9,380
Child Care Mandatory and Matching Funds of the Child Care and Development	93.596	22,916
Chafee Education and Training Vouchers Programs	93.599	2,030
Child Welfare Services - State Grants	93.645	369
Foster Care - Title IV-E	93.658	85,574
Adoption Assistance	93.659	5,147
Social Service Block Grant	93.667	69,662
Chafee Foster Care Independence Program	93.674	2,329
Children's Health Insurance Program	93.767	3,693
Medical Assistance Program	93.778	83,168
Total Expenditures of Federal Awards		<u>\$ 3,042,056</u>

Note 1. Basis of Accounting

This schedule was prepared on the modified accrual basis.

Note 2. Nonmonetary Assistance

Nonmonetary assistance is reported in the Schedule of Expenditures of Federal Awards at the fair market value of the food commodities. At June 30, 2012, the School Board had food commodities totaling \$18,764 in inventory.

Note 3. Subrecipients

The federal expenditures of the Investments for Public Works and Economic Development Facilities grant include grants to subrecipient organizations as follows:

BC Genesis LLC	\$ 227,187
Hollingsworth & Vose Company	163,086
Total	<u>\$ 440,273</u>

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OTHER INFORMATION SECTION

TABLE 1

COUNTY OF FLOYD, VIRGINIA

FINANCIAL TRENDS INFORMATION

GOVERNMENTAL ACTIVITIES EXPENSES BY FUNCTION

Last Ten Years

(accrual basis of accounting)

UNAUDITED

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 Expenses
2012	\$ 1,370,445	\$ 662,893	\$ 3,369,356	\$ 1,344,955	\$ 1,708,336	\$ 4,907,803	\$ 284,145	\$ 387,713	\$ 677,762	\$ 14,713,408
2011	1,234,218	580,392	3,094,884	1,155,191	1,580,615	5,737,881	264,853	416,021	723,796	14,787,851
2010	1,670,581	582,654	3,104,849	1,139,165	1,756,824	5,591,957	300,663	339,872	792,376	15,278,941
2009	1,329,648	589,541	3,002,667	1,201,286	1,839,317	5,353,202	357,695	319,489	878,274	14,871,119
2008	1,238,309	614,973	2,963,673	1,142,179	1,716,772	5,656,376	198,542	377,031	989,579	14,897,434
2007	1,135,868	573,381	2,759,112	1,276,181	1,921,832	5,301,824	255,565	746,916	1,190,113	15,160,792
2006	927,876	567,858	2,994,236	1,836,566	1,863,696	5,460,860	344,679	211,288	723,327	14,930,386
2005	1,202,957	371,331	2,749,986	1,490,025	1,855,361	3,696,758	249,907	228,699	727,024	12,572,048
2004	1,012,663	256,957	2,546,802	1,469,729	1,784,591	5,206,933	252,671	754,031	718,053	14,002,430
2003	772,388	318,437	2,188,622	1,590,541	1,781,849	5,333,216	277,856	293,643	576,596	13,133,148

Note: The County implemented GASB 34 on June 30, 2003.

Source: Information derived from the financial report for the relevant year.

TABLE 2

COUNTY OF FLOYD, VIRGINIA

FINANCIAL TRENDS INFORMATION

GOVERNMENTAL ACTIVITIES REVENUES

Last Ten Fiscal Years

(accrual basis of accounting)

UNAUDITED

	PROGRAM REVENUES			GENERAL REVENUES					
Fiscal Year	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings	Miscellaneous	Intergovernmental Revenue, Unrestricted	Total Revenues
2012	\$ 867,964	\$ 3,227,246	\$ 17,420	\$ 9,978,277	\$ 2,279,216	\$ 37,118	\$ 6,228	\$ 950,845	\$ 17,364,314
2011	669,200	2,448,965	15,469	9,430,383	2,396,573	59,097	7,891	942,652	15,970,230
2010	903,722	2,544,873	72,088	9,690,586	2,169,806	112,664	50,799	905,044	16,449,582
2009	717,873	2,771,379	353,520	9,382,280	2,170,720	163,721	8,202	1,032,674	16,600,369
2008	682,316	2,779,406	269,252	9,289,566	2,361,844	167,601	1,257	966,850	16,518,092
2007	833,089	2,899,183	62,659	8,402,215	2,259,570	115,657	13,351	1,017,261	15,602,985
2006	349,762	4,694,250	-	7,865,835	2,029,472	157,624	140,402	1,132,051	16,369,396
2005	361,167	3,074,607	-	7,136,163	1,907,484	86,298	153,280	1,040,850	13,759,849
2004	280,839	2,421,104	-	8,956,170	1,872,247	94,336	170,253	1,336,857	15,131,806
2003	253,873	2,379,530	-	6,017,077	1,894,913	106,610	147,485	2,644,767	13,444,255

Note: The County implemented GASB 34 on June 30, 2003.

Source: Information derived from the financial report for the relevant year.

TABLE 3

COUNTY OF FLOYD, VIRGINIA

FINANCIAL TRENDS INFORMATION

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION

Last Ten Fiscal Years

UNAUDITED

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works (1)	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Debt Service	Total Expenditures
2012	\$ 1,344,702	\$ 652,992	\$ 3,152,116	\$ 1,156,775	\$ 1,703,558	\$ 17,860,304	\$ 252,587	\$ 383,339	\$ 1,880,725	\$ 28,387,098
2011	1,189,294	570,491	3,133,541	1,482,318	1,577,706	19,021,947	242,195	414,213	1,731,103	29,362,808
2010	1,628,664	572,753	2,898,201	1,177,625	1,751,651	20,204,293	269,105	338,392	2,068,342	30,909,026
2009	1,266,567	579,640	3,677,344	1,163,279	1,841,316	21,141,687	326,136	327,908	2,078,232	32,402,109
2008	1,183,135	605,257	2,992,836	1,146,413	1,715,900	19,417,079	1,316,756	377,031	2,126,635	30,881,042
2007	1,128,863	563,480	2,877,355	1,207,529	1,919,653	19,049,744	287,108	706,916	2,166,978	29,907,626
2006	920,395	559,783	2,968,520	1,841,280	1,861,215	17,964,584	344,679	186,217	921,892	27,568,565
2005	1,141,681	365,295	2,823,688	242,501	1,850,806	15,924,702	249,907	218,699	1,146,650	23,963,929
2004	969,791	302,046	2,674,664	226,060	1,808,472	16,180,338	252,671	744,030	1,069,286	24,227,358
2003	753,460	317,434	2,093,701	441,714	1,763,589	15,482,351	277,856	283,642	639,402	22,053,149

Note: Includes General and Special Revenue funds of the Primary Government and its Discretely Presented Component Unit – School Fund and excludes Capital Project funds.

(1) The Environmental fund was merged with the General fund in 2006. Prior year expenditures related to this fund are excluded.

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

Source: Information derived from the financial report for the relevant year.

TABLE 4

COUNTY OF FLOYD, VIRGINIA

FINANCIAL TRENDS INFORMATION

GENERAL GOVERNMENTAL REVENUES BY SOURCE

Last Ten Fiscal Years

UNAUDITED

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, and Regulatory Licenses	Fines and Foreitures	Revenue from Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (1)	Total Revenues
2012	\$ 10,023,595	\$ 2,249,172	\$ 113,667	\$ 2,019	\$ 80,318	\$ 1,232,726	\$ 17,790	\$ 340,457	\$ 16,756,774	\$ 30,816,518
2011	9,352,323	2,284,927	103,143	369	98,406	1,211,318	27,580	219,914	16,377,285	29,675,265
2010	9,622,323	2,156,204	105,299	21,515	155,864	1,134,792	48,767	267,145	17,755,770	31,267,679
2009	9,282,097	2,142,339	129,507	10,598	204,580	1,147,435	15,140	230,221	18,441,780	31,603,697
2008	9,250,277	2,327,988	160,041	18,329	201,309	960,068	1,135	314,590	17,337,978	30,571,715
2007	8,445,898	2,235,986	175,963	14,983	114,846	1,045,632	19,309	224,419	17,486,068	29,763,104
2006	7,939,696	2,029,472	164,375	18,935	79,359	586,462	309,675	30,148	16,115,388	27,273,510
2005	7,279,817	1,907,484	165,965	15,966	75,617	425,054	227,078	48,578	15,750,468	25,896,027
2004	8,621,865	1,872,247	85,462	12,006	99,305	380,180	324,366	26,754	14,070,406	25,492,591
2003	6,034,706	1,894,913	71,798	12,693	104,145	371,563	293,551	7,488	13,198,031	21,988,888

Note: Includes General and Special Revenue funds of the Primary Government and its Discretely Presented Component Unit – School Fund and excludes Capital Project funds.

(1) Excludes contribution from Primary Government to Discretely Presented Component Unit – School Board.

Source: Information derived from the financial report for the relevant year.

TABLE 5

COUNTY OF FLOYD, VIRGINIA

REVENUE CAPACITY INFORMATION
PROPERTY TAX LEVIES AND COLLECTIONS
Last Ten Fiscal Years
UNAUDITED

Years Ended June 30	Current Tax Levy (1)	Year of Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2012	\$ 11,503,857	\$ 11,199,325	97.35%	\$ -	\$ 11,199,325	97.35%
2011	11,198,967	10,865,523	97.02%	136,346	11,001,869	98.24%
2010	10,651,549	10,327,803	96.96%	101,822	10,522,002	98.78%
2009	10,169,940	9,156,946	90.04%	885,315	10,096,678	99.28%
2008	10,000,477	9,324,256	93.24%	621,299	9,983,012	99.83%
2007	9,393,042	9,268,424	98.67%	97,735	9,380,479	99.87%
2006	8,900,635	8,665,202	97.35%	214,993	8,897,296	99.96%
2005	8,099,888	7,780,381	96.06%	313,570	8,098,946	99.99%
2004	7,466,587	7,290,115	97.64%	172,977	7,465,939	99.99%
2003	6,787,806	6,627,377	97.64%	158,316	6,787,292	99.99%

(1) Exclusive of penalties and interest.

Source: County Administration

TABLE 6

COUNTY OF FLOYD, VIRGINIA

REVENUE CAPACITY INFORMATION

ASSESSED VALUE OF TAXABLE PROPERTY (1)

Last Ten Fiscal Years

UNAUDITED

Fiscal Year	Real Estate	Personal Property	Machinery and Tools	Public Service Corporation	Mobile Homes	Merchants' Capital	Total Assessed Value
2012	\$ 1,698,467,400	\$ 94,384,042	\$ 10,213,298	\$ 56,284,341	\$ 9,685,700	\$ 1,540,093	\$ 1,870,574,874
2011	1,685,064,100	93,824,459	7,233,844	50,096,979	9,685,500	1,668,037	1,847,572,919
2010	1,677,140,200	89,705,582	10,266,338	34,930,266	10,741,328	1,593,199	1,824,376,913
2009	1,336,291,100	97,479,299	10,550,891	36,023,932	10,139,861	938,652	1,491,423,735
2008	1,319,658,700	89,274,994	10,814,820	40,887,653	9,825,560	1,276,053	1,471,737,780
2007	1,303,732,200	85,566,684	10,058,232	44,475,792	9,558,570	1,302,163	1,454,693,641
2006	1,275,050,150	78,220,972	11,069,200	34,562,975	10,806,010	1,236,871	1,410,946,178
2005	858,206,303	79,235,147	11,308,357	38,973,214	10,412,764	1,227,486	999,363,271
2004	834,906,091	75,809,194	10,442,662	39,678,493	9,804,464	1,089,617	971,730,521
2003	759,005,537	75,681,742	10,563,406	39,183,104	9,707,384	1,239,698	895,380,871

(1) Assessed value is as of January 1 of the previous fiscal year; does not include tax exempt property.

Source – Commissioner of the Revenue/Real Estate Assessments

TABLE 7**COUNTY OF FLOYD, VIRGINIA**

PROPERTY TAX RATES
Last Ten Fiscal Years
UNAUDITED

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Merchant's Capital
2012	\$ 0.500	\$ 2.950	\$ 0.500	\$ 1.550	\$ 3.500
2011	0.470	2.700	0.470	1.550	3.500
2010	0.470	2.700	0.470	1.550	3.500
2009	0.600	2.700	0.600	1.550	3.500
2008	0.600	2.700	0.600	1.550	3.500
2007	0.600	2.700	0.600	1.550	3.500
2006	0.520	2.700	0.520	1.550	3.500
2005	0.640	2.700	0.640	1.550	3.500
2004	0.640	2.180	0.640	1.550	3.500
2003	0.610	2.180	0.610	1.550	3.500

Note: Per \$100 of assessed value.

Source: County Administration

TABLE 8

COUNTY OF FLOYD, VIRGINIA

DEBT CAPACITY INFORMATION

RATIOS OF GENERAL BONDED DEBT

Last Ten Fiscal Years

UNAUDITED

Fiscal Year	Population (1)	Assessed Value	General Bonded Debt (2)	Percentage of Actual Value of Taxable Property	Total General Bonded Debt Per Capita
2012	15,279	\$ 1,870,574,874	\$ 12,875,145	0.69%	\$ 843
2011	15,279	1,847,572,919	13,991,379	0.75%	916
2010	15,013	1,824,376,913	14,912,453	0.81%	993
2009	14,821	1,491,423,735	15,094,766	0.83%	1,018
2008	14,789	1,471,737,780	16,124,932	1.08%	1,090
2007	14,789	1,454,693,641	17,077,882	1.16%	1,155
2006	13,874	1,410,946,178	18,381,003	1.26%	1,325
2005	13,874	999,363,271	19,677,633	1.39%	1,418
2004	13,874	971,730,521	20,113,649	2.01%	1,450
2003	13,874	895,380,871	20,101,718	2.07%	1,449

(2) Includes all long-term general obligation bonded debt and literary fund loans. Excludes revenue bonds, landfill closure/post-closure care liability, capital leases, and compensated absences.

Source: (1) Bureau of the Census, County Administration, and financial report for the relevant year.

TABLE 9

COUNTY OF FLOYD, VIRGINIA

RATIO OF ANNUAL DEBT SERVICE EXPENDITURES FOR GENERAL BONDED
DEBT TO TOTAL GENERAL GOVERNMENTAL EXPENDITURES

Last Ten Fiscal Years

UNAUDITED

Fiscal Year	General Bonded Debt (1)		Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
	Principal	Interest			
2012	\$ 1,116,234	\$ 623,310	\$ 1,739,544	\$ 28,387,098	6.13%
2011	921,074	673,887	1,594,961	29,362,808	5.43%
2010	1,102,313	671,165	1,773,478	30,909,026	5.74%
2009	1,030,166	711,756	1,741,922	32,402,109	5.38%
2008	952,950	808,323	1,761,273	30,881,042	5.70%
2007	948,031	916,003	1,864,034	29,907,626	6.23%
2006	450,664	391,228	841,892	27,568,565	3.05%
2005	436,016	743,354	1,179,370	23,963,929	4.92%
2004	389,373	679,913	1,069,286	24,227,358	4.41%
2003	328,766	310,636	639,402	22,053,149	2.90%

Note: Includes General and Special Revenue fund of the Primary Government and its Discretely Presented Component Unit – School Fund and excludes Capital Project funds.

(1) Includes all long-term general obligation bonded debt and literary fund loans.

Excludes revenue bonds, landfill closure/post-closure care liability, capital leases, and compensated absences.

Source: Information derived from the financial report for the relevant year.

COMPLIANCE SECTION

**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 Floyd, Virginia

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the remaining fund information of the County of Floyd, Virginia (the "County"), as of and for the year ended June 30, 2012, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 9, 2012. 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 *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Internal Control over Financial Reporting

Management is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the internal control over financial reporting as a basis for designing our auditing procedures 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 internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 07-1 and 10-1 to be material weaknesses.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. **The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, and which are described in the accompanying schedule of findings and questioned costs as Items 12-2 through 12-6.**

We noted certain other matters that we reported to management in a separate letter dated November 9, 2012.

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the responses and accordingly we express no opinion on them.

This report is intended solely for the information and use of management, state and federal awarding agencies, and pass-through entities and the Board of Supervisors and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 9, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT
ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the County of Floyd, Virginia's (the "County") compliance with the types of compliance requirements described in the OMB Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of the major federal programs for the year ended June 30, 2012. The major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. Our responsibility is to express an opinion on compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on compliance with those requirements.

In our opinion, the County of Floyd, Virginia complied, in all material respects, with the 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, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, that are required to be reported in accordance with OMB Circular A-133 and that are described in the accompanying schedule of findings and questioned costs as items 10-2 and 12-1.

Internal Control over Compliance

Management is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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.

Our consideration of the 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 deficiencies, significant deficiencies, or material weaknesses. **We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.**

Management's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the responses and, accordingly, do not express an opinion on the responses.

This report is intended for the information of management, federal awarding agencies and pass-through entities, and the Board of Supervisors and is not intended to be, and should not be, used by anyone other than these specified parties.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 9, 2012

COUNTY OF FLOYD, VIRGINIA
SUMMARY OF COMPLIANCE MATTERS
June 30, 2012

As more fully described in the 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*, we performed tests of compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Comprehensive Services Act

Sheriff Internal Controls

State Agency Requirements

Education

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

COUNTY OF FLOYD, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unqualified opinion** on the financial statements.
2. **Two significant deficiencies** relating to the audit of the financial statements are reported in the Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*. **Both of the significant deficiencies were deemed to be material weaknesses.**
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unqualified opinion**.
6. The audit disclosed **one audit finding** relating to major programs.
7. The programs tested as major programs include:

<u>Name of Program:</u>	<u>CFDA #</u>
Child Nutrition Cluster	10.553, 10.555, 10.559
Title I	84.010, 84.389
Special Education Cluster	84.027, 84.173, 84.391, 84.392
Economic Development Cluster	11.300

8. The **threshold for** distinguishing Type A and B programs was **\$300,000**.
9. The County was **not** determined to be a **low-risk auditee**.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

07-1: Segregation of Duties (Material Weakness)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. A proper segregation of duties has not been established in functions related to payroll, accounts payable, accounts receivable, and cash disbursements.

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response – County:

Segregation of duties have been implemented to the best of our ability with limited staff. Specific segregation of duties have been outlined with auditors in their questionnaires.

COUNTY OF FLOYD, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)

07-1: Segregation of Duties (Material Weakness) (Continued)

Management's Response – School Board:

Given staff size, segregation of duties at the School Board is impractical at this time. Cross-training is implemented as time permits.

10-1: Audit Adjustments (Material Weakness)

Condition:

As noted in prior years, a significant number of audit adjustments were recorded to adjust for errors in transaction processing during the year and to correct year end accrual errors. The most significant adjustments were as follows:

- The School Board did not record balances or activity on its general ledger for certain deposit accounts, namely individual school cafeteria accounts and the lease proceeds account.
- Beginning fund balance for some funds per the general ledger did not agree to the prior year financial report.
- Significant errors in cash entries during the year and at year end required adjustment.
- Material errors were corrected in taxes receivable.
- Accounts payable, health insurance claims, short-term debt, and long-term debt were materially incorrect requiring adjustments.
- Current year EDA activity was not recorded with the County's General Ledger.
- Current year EMS activity was not recorded with the County's General Ledger.
- Significant errors in due from other governments required adjustment.
- Deferred revenue and allowance for uncollectible accounts were not recorded.

Recommendation:

Accounting procedures should be formulated to ensure all asset and liability accounts are recorded in the general ledger or clearly compiled in subsidiary ledgers for entity wide balances that are not recorded on the fund level general ledger. All balances should be periodically reconciled between the subsidiary ledgers and the general ledger, especially at year end, to ensure accurate financial reporting.

Management's Response:

Management acknowledges the recommendation. All known items are recorded at the time of audit fieldwork. Other items were identified by the auditors during audit testing. Reconciliations and other procedures will be implemented in the future to reduce the extent of these adjustments.

COUNTY OF FLOYD, VIRGINIA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

10-2: Cash Management (Applies to all major programs)

Condition:

The Schools requested reimbursement for certain expenditures before the cash was disbursed.

Management's Response:

We have improved this process during the year; however, for cash flow purposes and, as approved by the Commonwealth of Virginia Department of Education, we have continued this practice and will explore means of improving compliance with this requirement.

12-1: Child Nutrition Cluster – Reporting

Condition:

Noted one meal reimbursement report out of six tested that included incorrect meal counts. This resulted in an excess amount of monthly reimbursement funds. This error was adjusted in a subsequent month's request.

Recommendation:

All reimbursement reports should be reviewed to ensure accurate reporting and to prevent errors.

Management Response:

Management agrees with the above finding.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

12-2: Budget Appropriations

Condition:

After audit adjustments, expenditures exceeded budgeted appropriations in the general fund debt service and public safety categories and in the public safety category in the fire and rescue fund.

Recommendation:

Steps should be taken to ensure that excess expenditures over budgeted appropriations are approved by the Board of Supervisors and the budget amended accordingly.

Management's Response – County:

The Board of Supervisors met in June 2012 and additional budget appropriations were approved for known expenditures at that time. Auditors found additional expenditures during fieldwork.

COUNTY OF FLOYD, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

12-3 Public Accounts

Condition:

None of the five economic development authority accounts or the emergency medical services account at the Bank of Floyd were marked as public.

Recommendation:

Steps should be taken to ensure that all accounts that should be are in fact marked as public.

Management Response:

Management agrees with the above finding.

12-4 Conflict of Interest Statements

Condition:

Two conflict of interest statements out of forty one submitted were not dated properly or at all.

Recommendation:

Management should take steps to ensure that all conflict of interest statements are filed timely and appropriately in compliance with the *Code of Virginia*.

Management Response:

Management agrees with the above finding.

12-5 Unclaimed Property

Condition:

Two checks that totaled \$104.22 were older than one year as of July 1, 2011 and were not included in the November 1, 2011 unclaimed property report.

Recommendation:

Management should take steps to ensure that all appropriate checks are included on the unclaimed property report in compliance with the *Code of Virginia*.

Management Response:

Management agrees with the above finding.

COUNTY OF FLOYD, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2012

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA (Continued)

12-6 Contract Provisions

Condition:

Noted a contract that did not contain the proper nondiscrimination clauses as set forth in Section 2.2-4311 of the Va. Public Procurement Act.

Recommendation:

Management should take steps to ensure that all contracts entered into contain the appropriate contract provisions as required by the Va. Public Procurement Act.

Management Response:

Management agrees with the above finding.