

# COUNTY OF HIGHLAND, VIRGINIA



## FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

**COUNTY OF HIGHLAND, VIRGINIA**  
**FINANCIAL REPORT**  
**YEAR ENDED JUNE 30, 2016**

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## County of Highland, Virginia

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### Board of Supervisors

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Kevin Wagner, Chairman  
David Blanchard, Vice-Chairman  
Harry Sponaugle, Member

### County School Board

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Joseph T. Neil, Chairman  
Elizabeth H. Hefner, Vice-Chairperson  
John Moyers, Member

### Welfare Board Members

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Michael Boesch, Chairman  
Kim Billingsly, Member  
David W. Blanchard, Member

### Other Officials

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Clerk of the Circuit Court.....	Judy Hupman
Commissioner of the Revenue.....	Darlene Crummett
Commonwealth's Attorney .....	Melissa Ann Dowd
Sheriff.....	David A. Neil
Treasurer .....	Lois E. White
County Attorney .....	Melissa Ann Dowd
Building Official/Inspector .....	Joshua Simmons
Cooperative Extension Agent .....	Rodney Leech
Emergency Services Director.....	Harley Gardner
Fire Chief .....	Elmer Waybright
Health Director .....	Dr. Clifford W. Caplan
Chairman of Economic Development Authority .....	Nancy Witschey
Planning Commission Chairman.....	William Rich
Recycling Coordinator.....	Richard Waybright
Registrar .....	Alice Shumate
Senior Citizen Coordinator.....	Harmony Leonard
Social Services Director.....	Sarah Rexrode
Zoning Administrator.....	Joshua Simmons
County Administrator .....	Roberta A. Lambert
Superintendent of Schools.....	Dr. Thomas Schott

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT

### TO THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF HIGHLAND, VIRGINIA

#### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Highland, Virginia, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditors' Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Highland, Virginia, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Change in Accounting Principle***

As described in Note 1 to the financial statements, in 2016, the County adopted new accounting guidance, GASB Statement Nos. 79 Certain External Investment Pools and Pool Participants and 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension funding progress on pages 4-9, 71-73, and 74-78 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

### ***Other Information***

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

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



*Other Information (continued)*

The statistical information has 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 it.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2016, on our consideration of the County of Highland, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County of Highland, Virginia's internal control over financial reporting and compliance.

*Robinson, Finner, Cox Associates*

Staunton, Virginia  
November 18, 2016

## **Management's Discussion and Analysis**

The following is a narrative overview and analysis of the financial activities of the County of Highland, Virginia for the fiscal year ended June 30, 2016.

### **Financial Highlights**

#### **Government-wide Financial Statements**

The assets of the County of Highland, Virginia exceeded its liabilities at the close of the most recent fiscal year by \$6,900,165 (net position). Of this amount, \$4,579,503 is unrestricted, or may be used to meet the government's ongoing obligations to creditors and citizens. The School Board's net position was \$(158,590) of which \$(3,337,938) is unrestricted. (See Exhibit 1.)

The Government's net position increased by \$350,068, as restated, while the School Board's net position increased by \$118,583. (See Exhibit 2.)

#### **Fund Financial Statements**

At the end of the current fiscal year, the unassigned fund balance for the general fund was \$3,316,899, or 68 percent of the total general fund expenditures. (See Exhibit 3.) This amount includes taxes and accounts receivable reflected in the fiscal year 2016 budget as well as funds allocated to the School Board (fund balance re-appropriated) and County Capital Improvement Projects for fiscal year 2016.

As of the close of the current fiscal year, the County's governmental funds reported combined ending fund balances of \$4,728,402, an increase of \$179,898 in comparison with the prior year, as restated. (See Exhibit 3.)

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the County's basic financial statements. These statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Local government accounting and financial reporting originally focused on funds, which were designed to enhance and demonstrate fiscal accountability. Now to be accompanied by government-wide financial statements, the objective of operational accountability will also be met. These objectives will provide financial statement users with both justifications from the government that public monies have been used to comply with public decisions and as to whether operating objectives have been met efficiently and effectively and can continue to be met in the future.

#### **Government-wide Financial Statements**

Government-wide financial statements provide financial statement users with a general overview of County finances. The statements include all assets and liabilities using the accrual basis of accounting. All current year revenue and expenses are taken into account regardless of when cash is received or paid. Both the financial overview and accrual accounting factors are used in the reporting of a private-sector business. Two financial statements are used to present this information: 1) the statement of net position and 2) the statement of activities.

The statement of net position presents all of the County's permanent accounts, or assets, liabilities and net position. The difference between assets and liabilities is reported as net position. Increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. Other non-financial factors will also need to be considered to determine the overall financial position of the County.

The statement of activities presents information showing how the government's net position changed during the fiscal year. The statement is focused on the gross and net cost of various government functions, which are supported by general tax and other revenue. The statement of activities presents expenses before revenues, emphasizing that in government, revenues are generated for the express purpose of providing services rather than as an end in themselves.

Both government-wide financial statements separate governmental activities and business-type activities of the County. Governmental activities are principally supported by taxes and intergovernmental revenues. They include general government administration; judicial administration; public safety; public works; health and welfare; parks, recreation and cultural; and community development. Business-type activities recover all or a significant portion of their costs through user fees and charges. The County currently reports the McDowell Water System, Highland County Refuse Disposal and Recreation Commission as business-type activities.

The government-wide financial statements include, in addition to the primary government or County, three component units: 1) the Highland County School Board; 2) the McDowell Water System; and 3) the Highland County Economic Development Authority. Although the component units are legally separate entities, the County is accountable or financially accountable for them. A primary government is accountable for an organization if the primary government appoints a majority of the organization's governing body. A primary government is financially accountable if, in addition, either the government is able to impose its will on the organization or the organization is capable of imposing specific financial burdens on the primary government. For example, the primary government may approve debt issuances, rate structures and/or provide significant funding for operations of the component unit.

### Fund Financial Statements

The fund financial statements will be more familiar to past financial statement users. A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. The County's funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### Governmental funds

Governmental funds are used to account for essentially the same functions, or services, reported as governmental activities in the government-wide financial statements. Whereas the government-wide financial statements are prepared on the accrual basis of accounting, the governmental fund financial statements are prepared on the modified accrual basis of accounting. The focus of modified accrual reporting is on near-term inflows and outflows of financial resources and the balance of financial resources available at the end of the fiscal year. Since the governmental funds focus is narrower than that of the government-wide financial statements, a reconciliation between the two methods is provided on the exhibits following the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances.

#### Proprietary funds

There are two types of proprietary funds: enterprise funds which are established to account for the delivery of goods and services to the general public and internal service funds which account for the delivery of goods and services to other departments or agencies of the government. Proprietary funds use accrual basis accounting, similar to private sector business.

The McDowell Water System is a blended component unit of the County of Highland. This Fund and the Highland County Refuse Disposal Fund, a major fund of the County, meet proprietary fund classification criteria. The water system and refuse disposal financial statements are shown as enterprise funds in the County's fund financial statements. The water system provides a centralized source for the provision of water services to residents of the Village of McDowell and the refuse disposal provides a centralized source for the provision of refuse disposal for County residents and landowners.

The Highland County Recreation Commission is also a component unit of the County of Highland. The Recreation Commission provides for recreation activities of the County.

The Highland County Economic Development Authority is also a component unit of the County of Highland. The Economic Development Authority (EDA) provides economic development incentives and other assistance to private businesses. EDAs are separate political subdivisions of the Commonwealth and may own property, lease property, sell property, make grants, accept gifts, and have other powers but do not have taxing power.

#### Internal service funds

The County of Highland has no internal service funds.

#### Fiduciary funds

Fiduciary funds account for assets held by the government as a trustee or agent for another organization or individual. The County is responsible for ensuring that the assets reported in these funds are used for their intended purposes. Fiduciary funds are not reflected in the government-wide financial statements because the funds are not available to support the County's own activities. A separate statement of fiduciary net position and combining statements are provided in the report.

#### Notes to the financial statements

The notes provide additional information that is needed to fully understand the data provided in the government-wide and fund financial statements.

#### **Government-wide Financial Analysis**

As previously noted, net position may serve as a useful indicator of a government's financial position. For the County of Highland, assets exceeded liabilities by \$6,900,165 at the end of the fiscal year.

The County's net position is divided into two categories: 1) net investment in capital assets, and 2) unrestricted.

#### County of Highland's Net Position

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 6,454,391	\$ 6,260,546	\$ 869,868	\$ 840,483	\$ 7,324,259	\$ 7,101,029
Capital assets	<u>1,783,591</u>	<u>1,713,146</u>	<u>810,931</u>	<u>842,993</u>	<u>2,594,522</u>	<u>2,556,139</u>
Total	<u>\$ 8,237,982</u>	<u>\$ 7,973,692</u>	<u>\$ 1,680,799</u>	<u>\$ 1,683,476</u>	<u>\$ 9,918,781</u>	<u>\$ 9,657,168</u>
Deferred Outflows of Resources	\$ 184,040	\$ 176,673	\$ 5,457	\$ 5,321	\$ 189,497	\$ 181,994
Long-term liabilities	\$ 1,149,976	\$ 1,108,560	\$ 180,669	\$ 210,909	\$ 1,330,645	\$ 1,319,469
Other liabilities	<u>121,418</u>	<u>221,498</u>	<u>28,739</u>	<u>18,792</u>	<u>150,157</u>	<u>240,290</u>
Total	<u>\$ 1,271,394</u>	<u>\$ 1,330,058</u>	<u>\$ 209,408</u>	<u>\$ 229,701</u>	<u>\$ 1,480,802</u>	<u>\$ 1,559,759</u>
Deferred Inflows of Resources	\$ 1,711,515	\$ 1,708,104	\$ 15,796	\$ 21,202	\$ 1,727,311	\$ 1,729,306
Net investment in capital assets	\$ 1,638,325	\$ 1,624,207	\$ 663,491	\$ 690,502	\$ 2,301,816	\$ 2,314,709
Restricted	-	-	18,846	18,244	18,846	18,244
Unrestricted	<u>3,800,788</u>	<u>3,487,996</u>	<u>778,715</u>	<u>729,148</u>	<u>4,579,503</u>	<u>4,217,144</u>
Total net position - as restated	<u>\$ 5,439,113</u>	<u>\$ 5,112,203</u>	<u>\$ 1,461,052</u>	<u>\$ 1,437,894</u>	<u>\$ 6,900,165</u>	<u>\$ 6,550,097</u>

For the County, investment in capital assets (i.e., land, buildings, machinery, and equipment), net of related debt used to acquire those assets that is still outstanding, represents 33.36 percent of total net position. The County uses these capital assets to provide services to citizens; therefore, the assets are not available for future spending. Although the County's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of unrestricted net position, which is \$4,579,503 or 66.37 percent of total net position, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the fiscal year, the County is able to report a positive balance in both categories of net position.

During the current fiscal year, the government's net position increased by \$350,068, as restated.

### Governmental Activities

Governmental activities increased the County's net position by \$326,910.

### **County of Highland's Changes in Net Position**

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues:						
Program revenues:						
Charges for services	\$ 29,447	\$ 35,225	\$ 399,654	\$ 397,640	\$ 429,101	\$ 432,865
Operating grants and contributions	1,361,469	1,202,330	24,998	26,566	1,386,467	1,228,896
Capital grants and contributions	503,865	167,874	-	-	503,865	167,874
General revenues:						
General property taxes	3,240,477	3,116,520	-	-	3,240,477	3,116,520
Other local taxes	401,030	389,706	-	-	401,030	389,706
Use of money and property	39,808	42,337	367	383	40,175	42,720
Other	48,241	31,459	-	-	48,241	31,459
Grants and contributions not restricted to specific programs	283,538	260,911	-	-	283,538	260,911
Total Revenues	\$ 5,907,875	\$ 5,246,362	\$ 425,019	\$ 424,589	\$ 6,332,894	\$ 5,670,951
Expenses:						
General government	\$ 969,269	\$ 1,041,826	\$ -	\$ -	\$ 969,269	\$ 1,041,826
Judicial administration	261,868	243,105	-	-	261,868	243,105
Public safety	970,542	970,089	-	-	970,542	970,089
Public works	34,565	67,985	-	-	34,565	67,985
Health and welfare	454,484	370,547	-	-	454,484	370,547
Education	2,060,324	2,316,485	-	-	2,060,324	2,316,485
Parks, recreational, and cultural	84,826	90,404	-	-	84,826	90,404
Community development	756,201	288,549	-	-	756,201	288,549
Interest on long-term debt	2,586	5,038	-	-	2,586	5,038
Recreation Commission	-	-	52,814	42,973	52,814	42,973
Landfill	-	-	276,589	291,471	276,589	291,471
Water	-	-	58,758	66,707	58,758	66,707
Total	\$ 5,594,665	\$ 5,394,028	\$ 388,161	\$ 401,151	\$ 5,982,826	\$ 5,795,179
Increase in net position before transfers	\$ 313,210	\$ (147,666)	\$ 36,858	\$ 23,438	\$ 350,071	\$ (124,228)
Transfers	\$ 13,700	\$ 26,250	\$ (13,700)	\$ (26,250)	\$ -	\$ -
Increase / decrease in net position	\$ 326,910	\$ (121,416)	\$ 23,158	\$ (2,812)	\$ 350,068	\$ (124,228)
Net position, beginning - as restated	5,112,203	5,233,619	1,437,894	1,440,706	6,550,097	6,674,325
Net position, ending	\$ 5,439,113	\$ 5,112,203	\$ 1,461,052	\$ 1,437,894	\$ 6,900,165	\$ 6,550,097

## **Financial Analysis of the Government's Funds**

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

### **Governmental funds**

The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of financial resources. Such information is useful in assessing the County's financing requirements. Unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. At the end of the fiscal year, the County's governmental funds reported combined ending fund balances of \$4,728,402.

The general fund is the chief operating fund of the County. As of June 30, 2016, total fund balance of the general fund was \$3,950,582, of which \$3,316,899 was unassigned. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 68 percent and total fund balance represents 80.8 percent of total general fund expenditures, which includes contributions to the School Board component unit of \$1,837,837.

The fund balance of the County's general fund increased by \$190,999 during the current fiscal year.

### **Proprietary funds**

The County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the McDowell Water System, Highland County Refuse Disposal and Highland County Recreation Commission at the end of the year were \$778,715. Other factors concerning the finances of these funds were discussed in the County's business-type activities section of this letter.

## **General Fund Budgetary Highlights**

Differences between the original budgeted appropriations and the final amended budget appropriations were a \$762,380 increase, which is 13.8 percent of the total original budget. Differences between the original budgeted revenues and the final amended budget revenues were \$32,198, which is 0.6 percent of the total original budget.

## **Capital Asset and Debt Administration**

### **Capital assets**

The County's investment in capital assets for its governmental activities as of June 30, 2016 is \$2,594,522 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, and machinery and equipment.



**County of Highland, Virginia Capital Assets for Governmental Activities  
(net of depreciation)**

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 197,365	\$ 197,365	\$ 3,816	\$ 3,816	\$ 201,181	\$ 201,181
Buildings and improvements	1,144,719	1,202,112	-	-	1,144,719	1,202,112
Machinery and equipment	441,507	313,669	-	13,525	441,507	327,194
Utility plant and equipment	-	-	795,890	825,652	795,890	825,652
Furniture and equipment	-	-	11,225	-	11,225	-
Total	<u>\$ 1,783,591</u>	<u>\$ 1,713,146</u>	<u>\$ 810,931</u>	<u>\$ 842,993</u>	<u>\$ 2,594,522</u>	<u>\$ 2,556,139</u>

Additional information on the County's capital assets can be found in the notes to the financial statements.

**Long-term debt**

At the end of the fiscal year the County had the following outstanding debt:

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
General obligation bonds	\$ 44,731	\$ 88,939	\$ -	\$ -	\$ 44,731	\$ 88,939
Landfill closure/ post-closure liability	54,455	53,968	-	-	54,455	53,968
Revenue Bonds	-	-	147,440	152,491	147,440	152,491
Net Pension Obligation	806,470	837,803	23,913	49,282	830,383	887,085
Compensated absences	143,785	127,850	9,316	9,136	153,101	136,986
Capital Leases	100,535	-	-	-	100,535	-
Total	<u>\$ 1,149,976</u>	<u>\$ 1,108,560</u>	<u>\$ 180,669</u>	<u>\$ 210,909</u>	<u>\$ 1,330,645</u>	<u>\$ 1,319,469</u>

Legislation enacted in fiscal year ended June 30, 2002 requires that debt historically reported by the School Board be assumed by the Primary Government. The legislation affects the reporting of local school capital assets as well.

Additional information on the County's long-term debt can be found in the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the County is currently 3.1 percent, which is a decrease from the rate of 3.3 percent a year ago. This compares favorably to the state's average unemployment rate of 3.7 percent and the national average rate of 4.9 percent.
- Earnings on investments, in general, continue to remain low.
- It is expected that funding from the Commonwealth of Virginia will be further decreased for constitutional officers, ABC profits, and wine taxes, care of prisoners, library aid and education.

All of these factors were considered in preparing the County's budget for the 2017 fiscal year.

During fiscal year 2016, unassigned fund balance in the general fund increased \$63,284. Appropriations for County funds lapse at fiscal year end, with the exception of the Capital Projects Fund.

**Requests for Information**

This financial report is designed to provide readers with a general overview of the County of Highland's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Highland County Board of Supervisors, P. O. Box 130, Monterey, Virginia 24465.

## **BASIC FINANCIAL STATEMENTS**



## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

Statement of Net Position  
June 30, 2016

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
<b>ASSETS</b>					
Cash and cash equivalents	\$ 4,305,498	\$ 841,493	\$ 5,146,991	\$ 319,741	\$ 17,876
Receivables (net of allowance for uncollectibles):					
Taxes receivable	1,564,100	-	1,564,100	-	-
Accounts receivable	12,762	28,375	41,137	-	10,000
Notes receivable	10,000	-	10,000	-	-
Due from component unit	183,846	-	183,846	-	-
Due from other governmental units	365,997	-	365,997	182,691	-
Inventories	-	-	-	15,102	64
Prepaid items	12,188	-	12,188	18,857	-
Capital assets (net of accumulated depreciation):					
Land	197,365	3,816	201,181	13,035	-
Buildings and improvements	1,144,719	-	1,144,719	2,872,329	-
Machinery and equipment	441,507	-	441,507	293,984	-
Utility plant and equipment	-	807,115	807,115	-	-
Total assets	<u>\$ 8,237,982</u>	<u>\$ 1,680,799</u>	<u>\$ 9,918,781</u>	<u>\$ 3,715,739</u>	<u>\$ 27,940</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Pension contributions subsequent to measurement date	\$ 184,040	\$ 5,457	\$ 189,497	\$ 284,817	\$ -
Total Deferred Outflows of Resources	<u>\$ 184,040</u>	<u>\$ 5,457</u>	<u>\$ 189,497</u>	<u>\$ 437,817</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Accounts payable	\$ 85,844	\$ 22,580	\$ 108,424	\$ 13,162	\$ -
Accrued liabilities	-	-	-	319,742	-
Accrued interest payable	1,071	248	1,319	-	-
Due to primary government	-	-	-	183,846	-
Unearned revenue	34,503	5,911	40,414	-	-
Long-term liabilities:					
Due within one year	72,635	5,310	77,945	-	-
Due in more than one year	1,077,341	175,359	1,252,700	3,389,913	-
Total liabilities	<u>\$ 1,271,394</u>	<u>\$ 209,408</u>	<u>\$ 1,480,802</u>	<u>\$ 3,906,663</u>	<u>\$ -</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred revenue - property taxes	\$ 1,486,827	\$ -	\$ 1,486,827	\$ -	\$ -
Items related to measurement of net pension liability	224,688	15,796	240,484	405,483	-
Total deferred inflows of resources	<u>\$ 1,711,515</u>	<u>\$ 15,796</u>	<u>\$ 1,727,311</u>	<u>\$ 405,483</u>	<u>\$ -</u>
<b>NET POSITION</b>					
Net investment in capital assets	\$ 1,638,325	\$ 663,491	\$ 2,301,816	\$ 3,179,348	\$ -
Restricted:					
Debt service and bond covenants	-	18,846	18,846	-	-
Unrestricted	3,800,788	778,715	4,579,503	(3,337,938)	27,940
Total net position	<u>\$ 5,439,113</u>	<u>\$ 1,461,052</u>	<u>\$ 6,900,165</u>	<u>\$ (158,590)</u>	<u>\$ 27,940</u>

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

# County of Highland, Virginia

Statement of Activities  
Year Ended June 30, 2016

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Governmental Activities:				
General government administration	\$ 969,269	\$ 720	\$ 161,567	\$ -
Judicial administration	261,868	6,101	223,842	-
Public safety	970,542	22,626	701,256	-
Public works	34,565	-	-	503,865
Health and welfare	454,484	-	274,804	-
Education	2,060,324	-	-	-
Parks, recreation, and cultural	84,826	-	-	-
Community development	756,201	-	-	-
Interest on long-term debt	2,586	-	-	-
Total governmental activities	<u>\$ 5,594,665</u>	<u>\$ 29,447</u>	<u>\$ 1,361,469</u>	<u>\$ 503,865</u>
Business-type Activities:				
Refuse Disposal	\$ 276,589	\$ 320,544	\$ 7,498	\$ -
McDowell Water System	58,758	34,371	-	-
Recreation Commission	52,814	44,739	17,500	-
Total business-type activities	<u>\$ 388,161</u>	<u>\$ 399,654</u>	<u>\$ 24,998</u>	<u>\$ -</u>
Total primary government	<u>\$ 5,982,826</u>	<u>\$ 429,101</u>	<u>\$ 1,386,467</u>	<u>\$ 503,865</u>
COMPONENT UNIT:				
School Board	\$ 3,852,868	\$ 55,916	\$ 1,918,871	\$ -
Economic Development Authority	69,474	-	63,424	-
Total component unit	<u>\$ 3,922,342</u>	<u>\$ 55,916</u>	<u>\$ 1,982,295</u>	<u>\$ -</u>

## General revenues:

General property taxes

Other local taxes:

Local sales and use taxes

Consumers' utility taxes

Motor vehicle licenses

E-911 tax

Taxes on recordation and wills

Other local taxes

Unrestricted revenues from use of money and property

Miscellaneous

Grants and contributions not restricted to specific programs

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning, as restated

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
\$ (806,982)	\$ -	\$ (806,982)	\$ -	\$ -
(31,925)	-	(31,925)	-	-
(246,660)	-	(246,660)	-	-
469,300	-	469,300	-	-
(179,680)	-	(179,680)	-	-
(2,060,324)	-	(2,060,324)	-	-
(84,826)	-	(84,826)	-	-
(756,201)	-	(756,201)	-	-
(2,586)	-	(2,586)	-	-
<u>\$ (3,699,884)</u>	<u>\$ -</u>	<u>\$ (3,699,884)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ 51,453	\$ 51,453	\$ -	\$ -
-	(24,387)	(24,387)	-	-
-	9,425	9,425	-	-
<u>\$ -</u>	<u>\$ 36,491</u>	<u>\$ 36,491</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (3,699,884)</u>	<u>\$ 36,491</u>	<u>\$ (3,663,393)</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ (1,878,081)	\$ -
-	-	-	-	(6,050)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,878,081)</u>	<u>\$ (6,050)</u>
\$ 3,240,477	\$ -	\$ 3,240,477	\$ -	\$ -
138,331	-	138,331	-	-
135,842	-	135,842	-	-
55,960	-	55,960	-	-
27,344	-	27,344	-	-
18,425	-	18,425	-	-
25,128	-	25,128	-	-
39,808	367	40,175	-	10
48,241	-	48,241	53,863	-
283,538	-	283,538	1,942,801	-
13,700	(13,700)	-	-	-
<u>\$ 4,026,794</u>	<u>\$ (13,333)</u>	<u>\$ 4,013,461</u>	<u>\$ 1,996,664</u>	<u>\$ 10</u>
\$ 326,910	\$ 23,158	\$ 350,068	\$ 118,583	\$ (6,040)
5,112,203	1,437,894	6,550,097	(277,173)	33,980
<u>\$ 5,439,113</u>	<u>\$ 1,461,052</u>	<u>\$ 6,900,165</u>	<u>\$ (158,590)</u>	<u>\$ 27,940</u>

## **FUND FINANCIAL STATEMENTS**

Balance Sheet  
Governmental Funds  
June 30, 2016

	General	Virginia Public Assistance	E-911	County Capital Improvements	School Capital Projects	Other Governmental Funds	Total
<b>ASSETS</b>							
Cash and cash equivalents	\$ 3,731,344	\$ -	\$ 191,377	\$ 213,016	\$ 158,602	\$ 11,159	\$ 4,305,498
Receivables (net of allowance for uncollectibles):							
Taxes receivable	1,564,100	-	-	-	-	-	1,564,100
Accounts receivable	12,762	-	-	-	-	-	12,762
Notes receivable	10,000	-	-	-	-	-	10,000
Due from other funds	21,543	9,034	-	-	-	-	30,577
Due from component unit	183,846	-	-	-	-	-	183,846
Due from other governmental units	135,529	24,462	6,932	199,074	-	-	365,997
Prepaid items	10,188	-	-	2,000	-	-	12,188
Total assets	<u>\$ 5,669,312</u>	<u>\$ 33,496</u>	<u>\$ 198,309</u>	<u>\$ 414,090</u>	<u>\$ 158,602</u>	<u>\$ 11,159</u>	<u>\$ 6,484,968</u>
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 78,542	\$ 2,962	\$ 1,654	\$ 1,525	\$ -	\$ 1,161	\$ 85,844
Due to other funds	9,034	21,543	-	-	-	-	30,577
Unearned revenue - other	25,512	8,991	-	-	-	-	34,503
Total liabilities	<u>\$ 113,088</u>	<u>\$ 33,496</u>	<u>\$ 1,654</u>	<u>\$ 1,525</u>	<u>\$ -</u>	<u>\$ 1,161</u>	<u>\$ 150,924</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Unavailable revenue - property taxes	\$ 1,605,642	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,605,642
Total deferred inflows of resources	<u>\$ 1,605,642</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,605,642</u>
<b>Fund balances:</b>							
Nonspendable:							
Prepaid items	\$ 10,188	\$ -	\$ -	\$ 2,000	\$ -	\$ -	\$ 12,188
Notes receivable	10,000	-	-	-	-	-	10,000
Restricted:							
Recording equipment	768	-	-	-	-	-	768
Law library	7,298	-	-	-	-	-	7,298
Courthouse maintenance	29,061	-	-	-	-	-	29,061
E911	-	-	196,655	-	-	-	196,655
Forfeited assets	-	-	-	-	-	3,903	3,903
Committed:							
Assessor	118,615	-	-	-	-	-	118,615
Equipment replacement	109,430	-	-	-	-	-	109,430
Recreation commission	10,000	-	-	-	-	-	10,000
Auditor	4,333	-	-	-	-	-	4,333
Emergency food & shelter	4,529	-	-	-	-	-	4,529
Communications equipment	47,529	-	-	-	-	-	47,529
Regional jail	66,000	-	-	-	-	-	66,000
Comprehensive plan	15,000	-	-	-	-	-	15,000
Bus reserve	15,000	-	-	-	-	-	15,000
Transportation enhancement project	174,342	-	-	-	-	-	174,342
Veteran's memorial	6,499	-	-	-	-	-	6,499
Body armor	800	-	-	-	-	-	800
Assigned:							
Fire prevention programs	4,291	-	-	-	-	-	4,291
Special revenue funds	-	-	-	-	-	6,095	6,095
Capital projects funds	-	-	-	410,565	158,602	-	569,167
Unassigned	3,316,899	-	-	-	-	-	3,316,899
Total fund balances	<u>\$ 3,950,582</u>	<u>\$ -</u>	<u>\$ 196,655</u>	<u>\$ 412,565</u>	<u>\$ 158,602</u>	<u>\$ 9,998</u>	<u>\$ 4,728,402</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 5,669,312</u>	<u>\$ 33,496</u>	<u>\$ 198,309</u>	<u>\$ 414,090</u>	<u>\$ 158,602</u>	<u>\$ 11,159</u>	<u>\$ 6,484,968</u>

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

Reconciliation of the Balance Sheet of Governmental Funds  
To the Statement of Net Position  
June 30, 2016

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds	\$ 4,728,402
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,783,591
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable revenue in the funds.	(105,873)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.	184,040
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(1,151,047)</u>
Net position of governmental activities	<u>\$ 5,439,113</u>

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

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# County of Highland, Virginia

## Statement of Revenues, Expenditures, and Changes in Fund Balances

### Governmental Funds

Year Ended June 30, 2016

	General	Virginia Public Assistance	E-911	County Capital Improvements
<b>REVENUES</b>				
General property taxes	\$ 3,210,564	\$ -	\$ -	\$ -
Other local taxes	373,686	-	27,344	-
Permits, privilege fees, and regulatory licenses	12,167	-	-	-
Fines and forfeitures	4,148	-	-	-
Revenue from the use of money and property	39,808	-	-	-
Charges for services	13,132	-	-	-
Miscellaneous	43,445	1,649	-	-
Intergovernmental:				
Commonwealth	1,077,887	78,956	164,425	-
Federal	625,171	195,848	-	-
Total revenues	<u>\$ 5,400,008</u>	<u>\$ 276,453</u>	<u>\$ 191,769</u>	<u>\$ -</u>
<b>EXPENDITURES</b>				
Current:				
General government administration	\$ 961,166	\$ -	\$ -	\$ -
Judicial administration	277,099	-	-	-
Public safety	878,209	-	204,117	-
Public works	39,370	-	-	-
Health and welfare	108,754	350,564	-	-
Education	1,891,452	-	-	-
Parks, recreation, and cultural	57,867	-	-	-
Community development	166,290	-	-	-
Nondepartmental	7,412	-	-	-
Capital projects	503,877	-	-	194,364
Debt service:				
Principal retirement	-	-	-	18,073
Interest and other fiscal charges	-	-	-	-
Total expenditures	<u>\$ 4,891,496</u>	<u>\$ 350,564</u>	<u>\$ 204,117</u>	<u>\$ 212,437</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 508,512</u>	<u>\$ (74,111)</u>	<u>\$ (12,348)</u>	<u>\$ (212,437)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 71,913	\$ 106,409	\$ -	\$ 136,000
Transfers out	(389,426)	(32,298)	-	-
Issuance of capital leases	-	-	-	67,225
Total other financing sources (uses)	<u>\$ (317,513)</u>	<u>\$ 74,111</u>	<u>\$ -</u>	<u>\$ 203,225</u>
Net change in fund balances	\$ 190,999	\$ -	\$ (12,348)	\$ (9,212)
Fund balances - beginning, as restated	3,759,583	-	209,003	421,777
Fund balances - ending	<u>\$ 3,950,582</u>	<u>\$ -</u>	<u>\$ 196,655</u>	<u>\$ 412,565</u>

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

Exhibit 5

School Capital Projects	Other Governmental Funds	Total	
\$ -	\$ -	\$ 3,210,564	
-	-	401,030	
-	-	12,167	
-	-	4,148	
-	-	39,808	
-	-	13,132	
-	3,147	48,241	
-	6,585	1,327,853	
-	-	821,019	
<u>\$ -</u>	<u>\$ 9,732</u>	<u>\$ 5,877,962</u>	
\$ -	\$ -	\$ 961,166	
-	-	277,099	
-	6,382	1,088,708	
-	-	39,370	
-	-	459,318	
-	-	1,891,452	
-	-	57,867	
-	-	166,290	
-	-	7,412	
117,523	-	815,764	
57,805	-	75,878	
3,645	-	3,645	
<u>\$ 178,973</u>	<u>\$ 6,382</u>	<u>\$ 5,843,969</u>	
<u>\$ (178,973)</u>	<u>\$ 3,350</u>	<u>\$ 33,993</u>	
\$ 121,102	\$ -	\$ 435,424	
-	-	(421,724)	
64,980	-	132,205	
<u>\$ 186,082</u>	<u>\$ -</u>	<u>\$ 145,905</u>	
\$ 7,109	\$ 3,350	\$ 179,898	
151,493	6,648	4,548,504	
<u>\$ 158,602</u>	<u>\$ 9,998</u>	<u>\$ 4,728,402</u>	

Reconciliation of Statement of Revenues,  
Expenditures, and Changes in Fund Balances of Governmental Funds  
To the Statement of Activities  
Year Ended June 30, 2016

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

Net change in fund balances - total governmental funds	\$ 179,898
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.	70,445
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. The change in unavailable revenues reported as revenues in the governmental funds.	109,557
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The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(56,814)
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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.	<u>23,824</u>
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Change in net position of governmental activities	<u><u>\$ 326,910</u></u>
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The notes to the financial statements are an integral part of this statement.

Statement of Net Position  
 Proprietary Funds  
 June 30, 2016

	Enterprise Funds			
	McDowell Water System	Refuse Disposal	Recreation Commission	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 85,712	\$ 603,387	\$ 152,394	\$ 841,493
Accounts receivable	5,182	23,193	-	28,375
Total current assets	<u>\$ 90,894</u>	<u>\$ 626,580</u>	<u>\$ 152,394</u>	<u>\$ 869,868</u>
Noncurrent assets:				
Capital assets:				
Land	\$ 3,816	\$ -	\$ -	\$ 3,816
Utility plant and equipment	1,222,853	174,055	20,801	1,417,709
Accumulated depreciation	(502,414)	(98,604)	(9,576)	(610,594)
Total net capital assets	<u>\$ 724,255</u>	<u>\$ 75,451</u>	<u>\$ 11,225</u>	<u>\$ 810,931</u>
Total assets	<u>\$ 815,149</u>	<u>\$ 702,031</u>	<u>\$ 163,619</u>	<u>\$ 1,680,799</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension contributions subsequent to measurement date	\$ -	\$ 5,457	\$ -	\$ 5,457
Total deferred outflows of resources	<u>\$ -</u>	<u>\$ 5,457</u>	<u>\$ -</u>	<u>\$ 5,457</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	\$ 329	\$ 20,593	\$ 1,658	\$ 22,580
Accrued interest payable	248	-	-	248
Unearned revenue	-	-	5,911	5,911
Revenue bonds - current portion	5,310	-	-	5,310
Total current liabilities	<u>\$ 5,887</u>	<u>\$ 20,593</u>	<u>\$ 7,569</u>	<u>\$ 34,049</u>
Noncurrent liabilities:				
Revenue bonds - net of current portion	\$ 142,130	\$ -	\$ -	\$ 142,130
Compensated absences	-	9,316	-	9,316
Net pension liability	-	23,913	-	23,913
Total noncurrent liabilities	<u>\$ 142,130</u>	<u>\$ 33,229</u>	<u>\$ -</u>	<u>\$ 175,359</u>
Total liabilities	<u>\$ 148,017</u>	<u>\$ 53,822</u>	<u>\$ 7,569</u>	<u>\$ 209,408</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Items related to measurement of net pension liability	\$ -	\$ 15,796	\$ -	\$ 15,796
Total deferred inflows of resources	<u>\$ -</u>	<u>\$ 15,796</u>	<u>\$ -</u>	<u>\$ 15,796</u>
<b>NET POSITION</b>				
Net investment in capital assets	\$ 576,815	\$ 75,451	\$ 11,225	\$ 663,491
Restricted for debt service and bond covenants	18,846	-	-	18,846
Unrestricted	71,471	562,419	144,825	778,715
Total net position	<u>\$ 667,132</u>	<u>\$ 637,870</u>	<u>\$ 156,050</u>	<u>\$ 1,461,052</u>

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

Statement of Revenues, Expenses, and Changes in Net Position  
 Proprietary Funds  
 Year Ended June 30, 2016

	Enterprise Funds			
	McDowell Water System	Refuse Disposal	Recreation Commission	Total
<b>OPERATING REVENUES</b>				
Charges for services:				
Water revenues	\$ 34,371	\$ -	\$ -	\$ 34,371
Refuse disposal	-	300,853	-	300,853
Recycling revenues	-	3,869	-	3,869
Tire disposal	-	4,361	-	4,361
Program income	-	-	44,339	44,339
Operating grants	-	-	17,500	17,500
Other revenues	-	11,461	400	11,861
Total operating revenues	\$ 34,371	\$ 320,544	\$ 62,239	\$ 417,154
<b>OPERATING EXPENSES</b>				
Personal services	\$ 11,069	\$ 72,308	\$ -	\$ 83,377
Contractual services	2,850	172,351	3,869	179,070
Rentals and leases	-	-	4,574	4,574
Depreciation	29,762	-	2,300	32,062
Supplies	-	-	13,948	13,948
Staff expenses	-	-	1,429	1,429
Utilities	-	-	2,394	2,394
Other charges	8,296	31,930	24,300	64,526
Total operating expenses	\$ 51,977	\$ 276,589	\$ 52,814	\$ 381,380
Operating income (loss)	\$ (17,606)	\$ 43,955	\$ 9,425	\$ 35,774
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Intergovernmental revenue (expense)	\$ -	\$ 7,498	\$ -	\$ 7,498
Investment income	16	-	351	367
Interest expense	(6,781)	-	-	(6,781)
Total nonoperating revenues (expenses)	\$ (6,765)	\$ 7,498	\$ 351	\$ 1,084
Income before transfers	\$ (24,371)	\$ 51,453	\$ 9,776	\$ 36,858
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 1,300	\$ -	\$ -	\$ 1,300
Transfers out	-	(5,000)	(10,000)	(15,000)
Total other financing sources (uses)	\$ 1,300	\$ (5,000)	\$ (10,000)	\$ (13,700)
Change in net position	\$ (23,071)	\$ 46,453	\$ (224)	\$ 23,158
Total net position - beginning	690,203	591,417	156,274	1,437,894
Total net position - ending	\$ 667,132	\$ 637,870	\$ 156,050	\$ 1,461,052

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

Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2016

	Enterprise Funds			
	McDowell Water System	Refuse Disposal	Recreation Commission	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 34,377	\$ 312,174	\$ 64,504	\$ 411,055
Payments to suppliers	(11,094)	(197,121)	(22,321)	(230,536)
Payments to employees	(11,069)	(103,039)	-	(114,108)
Other receipts (payments)	-	11,461	(27,723)	(16,262)
Net cash provided by (used for) operating activities	\$ 12,214	\$ 23,475	\$ 14,460	\$ 50,149
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers to other funds	\$ -	\$ (5,000)	\$ (10,000)	\$ (15,000)
Transfers from other funds	1,300	-	-	1,300
Intergovernmental revenues	-	7,498	-	7,498
Net cash provided by (used for) noncapital financing activities	\$ 1,300	\$ 2,498	\$ (10,000)	\$ (6,202)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Principal payments on bonds	\$ (5,051)	\$ -	\$ -	\$ (5,051)
Interest expense	(6,781)	-	-	(6,781)
Net cash provided by (used for) capital and related financing activities	\$ (11,832)	\$ -	\$ -	\$ (11,832)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest income	\$ 16	\$ -	\$ 351	\$ 367
Net cash provided by (used for) investing activities	\$ 16	\$ -	\$ 351	\$ 367
Net increase (decrease) in cash and cash equivalents	\$ 1,698	\$ 25,973	\$ 4,811	\$ 32,482
Cash and cash equivalents - beginning	84,014	577,414	147,583	809,011
Cash and cash equivalents - ending	\$ 85,712	\$ 603,387	\$ 152,394	\$ 841,493
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (17,606)	\$ 43,955	\$ 9,425	\$ 35,774
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	\$ 29,762	\$ -	\$ 2,300	\$ 32,062
(Increase) decrease in accounts receivable	6	3,091	-	3,097
(Increase) decrease in deferred outflow of resources	-	(136)	-	(136)
Increase (decrease) in net pension liability	-	(25,369)	-	(25,369)
Increase (decrease) in deferred inflows of resources	-	(5,406)	-	(5,406)
Increase (decrease) in accounts payable	63	7,160	70	7,293
Increase (decrease) in unearned revenue	-	-	2,665	2,665
Increase (decrease) in accrued interest payable	(11)	-	-	(11)
Increase (decrease) in compensated absences	-	180	-	180
Total adjustments	\$ 29,820	\$ (20,480)	\$ 5,035	\$ 14,375
Net cash provided by (used for) operating activities	\$ 12,214	\$ 23,475	\$ 14,460	\$ 50,149

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

Statement of Fiduciary Net Position  
Fiduciary Fund  
June 30, 2016

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**Agency  
Fund**

**ASSETS**

Cash and cash equivalents  
Total assets

\$ 440  
\$ 440

**LIABILITIES**

Amounts held for social service clients  
Total liabilities

\$ 440  
\$ 440

## County of Highland, Virginia

### Notes to Financial Statements June 30, 2016

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#### **Note 1—Summary of Significant Accounting Policies:**

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

#### **A. Financial Reporting Entity**

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

**Blended component units** - The McDowell Water System has been determined to be a component unit of Highland County in accordance with Governmental Accounting Standards Board Statement 39. The System is a legally separate organization whose Board members are appointed by the Highland County Board of Supervisors. During the year ended June 30, 2016 all members of the Board of Supervisors were also members of the three-member System Board. Since the Board of Supervisors is able to impose its will on the System, the System is a component unit of Highland County. The System does not issue separate financial statements.

The Highland County Recreation Commission is included as a component unit because the Commission's primary use of funds is to provide for recreation activities of the County, thereby benefiting the County even though it does not provide services directly to the County. The Recreation Commission does not issue separate financial statements.

**Discretely Presented Component Units** - The component unit columns in the financial statements include the financial data of the County's discretely presented component units. It is reported in separate columns to emphasize that these component units are legally separate from the County.

The Highland County School Board operates the elementary and secondary public schools in the County. School Board members are popularly elected. The School Board is fiscally dependent upon the County because the County approves all debt issuances of the School Board and provides significant funding to operate the public schools since the School Board does not have separate taxing powers. The School Board does not issue separate financial statements. The County Board of Supervisors appoints the governing body of the School Board.

The Economic Development Authority of Highland County, Virginia is included as a component unit because the Authority's primary use of funds is to provide for economic development of the County, thereby benefiting the County even though it does not provide services directly to the County. The Economic Development Authority of Highland County, Virginia does not issue separate financial statements. The Board of Supervisors appoints the board members of the Highland County Economic Development Authority.

**Related Organizations** - The County's officials are also responsible for appointing the members of the boards of other organizations, but the County's accountability for these organizations does not extend beyond making the appointment.



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

**B. Government-wide and fund financial statements**

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

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

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

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

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

**C. Measurement focus, basis of accounting, and financial statement presentation**

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

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

**C. Measurement focus, basis of accounting, and financial statement presentation (continued)**

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

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

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

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in another fund. The general fund includes the activities of the gypsy moth, damage stamp, various grants, county reserve, CATS, fire prevention, law library, courthouse maintenance, and recordation equipment funds.

The special revenue funds account for and report the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Special revenue funds consist of the Virginia Public Assistance and E-911 funds.

The *capital projects funds* account for and report financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds. Capital projects funds consist of the County Capital Improvements Fund and the School Capital Projects Fund.

The government reports the following nonmajor governmental funds:

The *special revenue fund* accounts for and reports the proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specified purposes. Nonmajor special revenue funds consist of the Sheriff's Grants Fund.

The government reports the following major proprietary funds:

The *McDowell Water System Fund* accounts for the activities of the McDowell Water System, a blended component unit of the government. The System operates the water distribution system for the village of McDowell.

The *Refuse Disposal Fund* accounts for the activities of the County's refuse transfer station.

The *Recreation Commission* is a blended component unit that accounts for the activities of the County's recreation activities.

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

**C. Measurement focus, basis of accounting, and financial statements presentation (continued)**

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

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

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water System and Refuse Disposal enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

**1. Cash and cash equivalents**

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

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

**2. Receivables and payables**

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

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

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

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

**3. Property Taxes**

Property is assessed at its value on January 1. Property taxes attach as an enforceable lien on property as of January 1. Real estate taxes are payable in two installments on June 5<sup>th</sup> and December 5<sup>th</sup>. Personal property taxes are due and collectible annually on December 5th. The County bills and collects its own property taxes.

**4. Allowance for Uncollectible Accounts**

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$11,978, at June 30, 2016 and is comprised solely of property taxes. This allowance represents 0.067% of the total levies for the previous six years.

**5. Use of Estimates**

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

**6. Capital Assets**

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

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the current or previous year.

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

<b><u>Assets</u></b>	<b><u>Years</u></b>
Buildings	50
Buildings improvements	15-50
Machinery and equipment	5-10
Vehicles	5-10
Utility plant	50

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

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

**7. *Compensated Absences***

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as expense in the Statement of Activities and long term liability in the Statement of Net Position. In accordance with the provisions of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that it is estimated will be taken as "terminal leave" prior to retirement. The County accrues salary-related payments associated with the payment of compensated absences.

**8. *Long-term obligations***

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

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

**9. *Fund equity***

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

- Nonspendable fund balance – amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint;

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

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

**9. Fund equity (continued)**

- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority;
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the County's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

The County establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by the Board of Supervisors 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).

In the general fund, the County strives to maintain an unassigned fund balance to be used for unanticipated emergencies of approximately 20% of the actual GAAP basis expenditures and other financing sources and uses.

**10. Net Position**

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

**11. Net Position Flow Assumption**

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



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

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

**12. Deferred Outflows/Inflows of Resources**

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

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

**E. Pensions**

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

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

**F. Adoption of Accounting Principles**

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

The County implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the County's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 4.

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

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

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**Note 2—Reconciliation of Government-Wide and Fund Financial Statements:****A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of Net Position**

The governmental fund balance sheet includes a reconciliation between *fund balance-total governmental funds* and *Net Position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. The details of these (\$1,151,047) and (\$3,236,913) differences for the primary government and discretely presented component unit, respectively, are as follows:

	<b>Primary Government</b>	<b>Component Unit School Board</b>
General obligation bonds	\$ (44,731)	\$ -
Capital leases	(100,535)	
Landfill accrued post-closure monitoring costs	(54,455)	-
Accrued interest payable	(1,071)	-
Compensated absences	(143,785)	(53,972)
Net pension liability	(806,470)	(3,335,941)
Deferred outflows related to measurement of net pension liability	-	153,000
Net adjustment to reduce <i>fund balance-total governmental funds</i> to arrive at <i>net position-governmental activities</i>	<u>\$ (1,151,047)</u>	<u>\$ (3,236,913)</u>

**B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances-total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of these \$70,445, and \$8,166, differences for the primary government and discretely presented component unit, respectively, are as follows:

	<b>Primary Government</b>	<b>Component Unit School Board</b>
Capital outlay	\$ 307,959	\$ 155,430
Depreciation expense	(186,165)	(198,613)
Allocation of debt financed school assets based on current year repayments	(51,349)	51,349
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ 70,445</u>	<u>\$ 8,166</u>

**Note 2—Reconciliation of Government-Wide and Fund Financial Statements: (continued)****B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (continued)**

Another element of that reconciliation states that the issuance of long-term obligations (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this (\$56,814) difference in the primary government are as follows:

	<b>Primary Government</b>
Increase in accrued landfill closure and post-closure monitoring costs	\$ (487)
Issuance of capital leases	(132,205)
Principal repayments:	
General obligation debt	44,208
Capital leases	31,670
Net adjustment to increase <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ (56,814)

Another element of that reconciliation states that 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. The details of this \$23,824 and (\$109,106) differences for the primary government and discretely presented component unit, respectively, are as follows:

	<b>Primary Government</b>	<b>Component Unit School Board</b>
Compensated absences	\$ (15,935)	\$ (7,172)
Accrued interest payable	1,059	-
Net pension liability	31,333	(246,384)
Deferred outflows related to pension payments subsequent to the measurement date	7,367	(8,550)
Deferred outflows related to measurement of net pension liability	-	153,000
Net adjustment to increase (decrease) <i>net changes in fund balances-total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ 23,824	\$ (109,106)

## County of Highland, Virginia

### Notes to Financial Statements June 30, 2016 (Continued)

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#### **Note 3—Stewardship, Compliance, and Accountability:**

##### **A. Budgetary Information**

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

1. Prior to March 30, the County Treasurer and County Administrator submit to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Board of Supervisors. The School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds (except the School Fund), and the County Capital Improvements Fund. The School Fund and School Capital Projects Fund are integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units. The County's practice is to appropriate Capital Projects by project. Several supplemental appropriations were necessary during this fiscal year.
8. All budgetary data presented in the accompanying financial statements is the revised budget as of June 30.

##### **B. Excess of expenditures over appropriations at June 30, 2016:**

Fund	Function	Excess of Expenditures over Appropriations
General	Judicial administration	\$ 10
General	Community development	147
Total General Fund		\$ 157
County capital improvements fund	Capital projects	\$ 22,437
School capital projects fund	Capital projects	64,979
E-911 fund	Administration	891
Total Primary Government		\$ 88,464
School Cafeteria Fund	Education	\$ 11,246
Total Component Unit - School Board		\$ 11,246
Total All Funds		\$ 99,710

## County of Highland, Virginia

### Notes to Financial Statements June 30, 2016 (Continued)

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#### **Note 4—Deposits and Investments:**

##### Deposits

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

##### Investments

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

##### Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The County's investing activities are managed under the custody of the Treasurer. The County has not adopted a policy regarding credit risk of debt securities.

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

<b>County's Rated Debt Investments' Values</b>	
<b><u>Rated Debt Investments</u></b>	<b><u>Fair Quality Rating</u></b>
	<b><u>AAAm</u></b>
Local Government Investment Pool	\$ <u>41</u>
Total	\$ <u>41</u>

##### Interest Rate Risk

The County invests funds in low risk investments back by U.S. government agencies.

	<u>Fair Value</u>	<u>Less than 1 yr</u>	<u>1-5 years</u>	<u>6-10 years</u>	<u>10+ years</u>
LGIP	\$ <u>41</u>	\$ <u>41</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>

##### External Investment Pool

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

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

**Note 5—Due from Other Governmental Units:**

	Primary Government	Component Unit
Commonwealth of Virginia:		
State sales taxes	\$ -	\$ 42,519
Local sales taxes	19,228	-
Communication taxes	11,928	-
DMV select	647	-
Mobile home titling tax	-	-
Recordation tax	1,365	-
Public assistance and welfare administration	8,474	-
Wireless	6,932	-
Commonwealth attorney	5,888	-
Clerk of Circuit Court	11,920	-
Treasurer	5,650	-
Registrar and Electoral Board	-	-
Commissioner of Revenue	5,318	-
Recreational access fund grant	199,074	-
Sheriff	38,396	-
School grants	-	108,150
Federal Government:		
School grants	-	32,022
ISTEA Grant	35,189	-
FEMA grants	-	-
Public assistance and welfare administration	15,988	-
Total	\$ <u>365,997</u>	\$ <u>182,691</u>

**Note 6—Interfund Obligations:**

Fund	Interfund Receivable	Interfund Payable	Due to Primary Government/ Component Unit	Due from Primary Government/ Component Unit
Primary Government:				
General Fund	\$ 21,543	\$ 9,034	\$ -	\$ 183,846
VPA Fund	9,034	21,543	-	-
Sub-total	\$ <u>30,577</u>	\$ <u>30,577</u>	\$ <u>-</u>	\$ <u>183,846</u>
Component Unit-School Board:				
School Operating Fund	\$ -	\$ -	\$ 183,846	\$ -
Total	\$ <u>30,577</u>	\$ <u>30,577</u>	\$ <u>183,846</u>	\$ <u>183,846</u>

The purpose of the interfund obligations is to report the balance of local appropriations unspent at year-end due back to the respective funds.

**County of Highland, Virginia**

**Notes to Financial Statements  
June 30, 2016 (Continued)**

**Note 7—Interfund Transfers:**

Interfund transfers for the year ended June 30, 2016 consisted of the following:

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ 71,913	\$ 389,426
Virginia Public Assistance Fund	106,409	32,298
Refuse Disposal Fund	-	5,000
McDowell Water System	1,300	-
Recreation Commission	-	10,000
County Capital Improvements Fund	136,000	-
School Capital Projects Fund	121,102	-
Total	<u>\$ 436,724</u>	<u>\$ 436,724</u>

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

**Note 8—Long-Term Obligations:**

**Primary Government-Governmental Activities Indebtedness:**

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

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General obligation bonds	\$ 88,939	\$ -	\$ 44,208	\$ 44,731
Capital leases	-	132,205	31,670	100,535
Landfill closure/post-closure costs	53,968	487	-	54,455
Compensated absences	127,850	15,935	-	143,785
Net pension liability	837,803	585,965	617,298	806,470
Total Long-Term Obligations	<u>\$ 1,108,560</u>	<u>\$ 734,592</u>	<u>\$ 693,176</u>	<u>\$ 1,149,976</u>

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

<u>Years Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Capital Leases</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 44,731	\$ 1,168	\$ 27,904	\$ 3,919
2018	-	-	29,036	2,787
2019	-	-	30,218	1,605
2020	-	-	13,377	372
Total	<u>\$ 44,731</u>	<u>\$ 1,168</u>	<u>\$ 100,535</u>	<u>\$ 8,683</u>

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

**Note 8—Long-Term Obligations: (continued)**

**Primary Government-Governmental Activities Obligations: (continued)**

Details of long-term obligations:

	Total Amount	Amount Due Within One Year
<b><u>Capital leases:</u></b>		
\$67,225 issued July 9, 2015, due in annual installments of \$18,073 beginning August 1, 2015 through August 1, 2020, for the purchase of an OCS Digital Optical Scanner Suite	\$ 49,152	\$ 15,581
\$64,980 issued February 1, 2016, due in annual installments of \$13,750 beginning April 5, 2016 through April 5, 2020, for the purchase of a school bus	51,383	12,323
Total capital leases	\$ 100,535	\$ 27,904
<b><u>General obligation bonds:</u></b>		
\$812,178 Virginia Public School Authority Bonds, issued 11/14/96, maturing annually with interest payable semiannually at rates varying from 5.1% to 6.1%	\$ 44,731	\$ 44,731
Total general obligations bonds	\$ 44,731	\$ 44,731
Landfill closure/post-closure costs	\$ 54,455	\$ -
Compensated absences (payable from the General Fund)	\$ 143,785	\$ -
Net pension liability	\$ 806,470	\$ -
Total long-term obligations	\$ 1,149,976	\$ 72,635

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

	Balance July 1, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
Revenue Bonds	\$ 152,491	\$ -	\$ 5,051	\$ 147,440
Compensated absences	9,136	180	-	9,316
Net pension liability	49,282	16,672	42,041	23,913
Total Long-Term Obligations	\$ 210,909	\$ 16,852	\$ 47,092	\$ 180,669

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

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**Note 8—Long-Term Obligations: (continued)**

**Primary Government-Business-type Activities Obligations:**

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

Years Ending June 30,	Revenue Bonds	
	Principal	Interest
2017	\$ 5,310	\$ 6,534
2018	5,565	6,279
2019	5,835	6,009
2020	6,117	5,727
2021	6,412	5,432
2022	6,721	5,122
2023	7,047	4,797
2024	7,388	4,456
2025	7,746	4,098
2026	8,120	3,724
2027	8,513	3,331
2028	8,925	2,919
2029	4,401	2,575
2030	3,693	2,415
2031	3,856	2,252
2032	4,025	2,084
2033	4,203	1,905
2034	4,387	1,721
2035	4,581	1,527
2036	3,534	1,338
2037	2,457	1,227
2038	2,560	1,124
2039	2,668	1,016
2040	2,780	905
2041	2,897	787
2042	3,018	666
2043	3,145	539
2044	3,278	406
2045	3,415	269
2046	3,559	125
2047	1,284	9
Total	\$ <u>147,440</u>	\$ <u>81,318</u>



County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

**Note 8—Long-Term Obligations: (continued)**

**Primary Government-Business-type Activities Obligations: (continued)**

Details of long-term obligations:

	Total Amount	Amount Due Within One Year
<b><u>McDowell Water System:</u></b>		
Revenue Bonds:		
\$58,000 loan from Farmers Home Administration, \$283 payable monthly at a rate of 5%	\$ 30,769	\$ 1,898
\$40,000 loan from Farmers Home Administration, \$192 payable monthly at a rate of 5%	21,333	1,301
\$44,300 loan from Rural Development, \$202 payable monthly at a rate of 4.5%	31,480	1,033
\$71,000 loan from Rural Development, \$307 payable monthly at a rate of 4.125%	<u>63,858</u>	<u>1,078</u>
Total revenue bonds	\$ <u>147,440</u>	\$ <u>5,310</u>
<b><u>Refuse Disposal Fund:</u></b>		
Compensated Absences	\$ 9,316	\$ -
Net Pension Liability	<u>23,913</u>	<u>-</u>
Total long-term obligations	<u>\$ 180,669</u>	<u>\$ 5,310</u>

**Component Unit-School Board Long-Term Obligations:**

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Compensated absences	\$ 46,800	\$ 7,172	\$ -	\$ 53,972
Net pension liability	<u>3,089,557</u>	<u>1,042,368</u>	<u>795,984</u>	<u>3,335,941</u>
Total Long-Term Obligations	<u>\$ 3,136,357</u>	<u>\$ 1,049,540</u>	<u>\$ 795,984</u>	<u>\$ 3,389,913</u>

**Note 9—Pension Plan:**

**Plan Description**

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b></p> <p>Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b></p> <p>Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b></p> <p>The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.</li> </ul>

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1 (Cont.)</b></p>	<p><b>About Plan 2 (Cont.)</b></p>	<p><b>About the Hybrid Retirement Plan (Cont.)</b></p> <ul style="list-style-type: none"> <li>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• School division employees</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Hybrid Opt-In Election (Cont.)</b> Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>*Non-Eligible Members (Cont.)</b> Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p><b>Retirement Contributions</b> Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions and school divisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p>	<p><b>Retirement Contributions</b> A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

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

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

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

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<b>Vesting (Cont.)</b>	<b>Vesting (Cont.)</b>	<b>Vesting (Cont.)</b> <u><b>Defined Contributions Component: (Cont.)</b></u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> Distribution is not required by law until age 70½.
<b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	<b>Calculating the Benefit</b> See definition under Plan 1.	<b>Calculating the Benefit</b> <u><b>Defined Benefit Component:</b></u> See definition under Plan 1

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

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



**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

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

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

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

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

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

**Note 9—Pension Plan: (Continued)**

**Plan Description (Continued)**

<b>RETIREMENT PLAN PROVISIONS (CONTINUED)</b>		
<b>PLAN 1</b>	<b>PLAN 2</b>	<b>HYBRID RETIREMENT PLAN</b>
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions and School divisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p>

## County of Highland, Virginia

### Notes to Financial Statements June 30, 2016 (Continued)

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#### **Note 9—Pension Plan: (Continued)**

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

#### **Employees Covered by Benefit Terms**

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b>Primary Government</b>	<b>Component Unit School Board Nonprofessional</b>
Inactive members or their beneficiaries currently receiving benefits	20	16
Inactive members:		
Vested inactive members	5	-
Non-vested inactive members	2	2
Inactive members active elsewhere in VRS	4	3
Total inactive members	11	5
Active members	34	11
Total covered employees	65	32

#### **Contributions**

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

The County's contractually required contribution rate for the year ended June 30, 2016 was 14.55% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the County were \$189,497 and \$178,879 for the years ended June 30, 2016 and June 30, 2015, respectively.

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 15.65% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

**Note 9—Pension Plan: (Continued)**

**Contributions (Continued)**

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Component Unit School Board's nonprofessional employees were \$35,591 and \$36,046 for the years ended June 30, 2016 and June 30, 2015, respectively.

**Net Pension Liability**

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

**Actuarial Assumptions – General Employees**

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

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

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

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

**Largest 10 – Non-LEOS:**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

**Note 9—Pension Plan: (Continued)**

**Actuarial Assumptions – General Employees (Continued)**

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

**Actuarial Assumptions – Public Safety Employees**

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

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

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



**Note 9—Pension Plan: (Continued)**

**Actuarial Assumptions – Public Safety Employees (Continued)**

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability



**Note 9—Pension Plan: (Continued)****Long-Term Expected Rate of Return**

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

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

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

**Note 9—Pension Plan: (Continued)****Discount Rate**

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

**Changes in Net Pension Liability**

	<b>Primary Government</b>		
	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Balances at June 30, 2014	\$ 6,214,128	\$ 5,327,043	\$ 887,085
Changes for the year:			
Service cost	\$ 153,716	\$ -	\$ 153,716
Interest	421,763	-	421,763
Differences between expected and actual experience	(138,534)	-	(138,534)
Contributions - employer	-	178,879	(178,879)
Contributions - employee	-	77,375	(77,375)
Net investment income	-	240,813	(240,813)
Benefit payments, including refunds of employee contributions	(377,894)	(377,894)	-
Administrative expenses	-	(3,366)	3,366
Other changes	-	(53)	53
Net changes	\$ 59,051	\$ 115,754	\$ (56,703)
Balances at June 30, 2015	\$ 6,273,179	\$ 5,442,797	\$ 830,382

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

**Note 9—Pension Plan: (Continued)**

**Changes in Net Pension Liability (Continued)**

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 1,126,232	\$ 778,675	\$ 347,557
Changes for the year:			
Service cost	\$ 18,181	\$ -	\$ 18,181
Interest	76,690	-	76,690
Differences between expected and actual experience	(49,056)	-	(49,056)
Contributions - employer	-	36,046	(36,046)
Contributions - employee	-	11,528	(11,528)
Net investment income	-	35,354	(35,354)
Benefit payments, including refunds of employee contributions	(61,327)	(61,327)	-
Administrative expenses	-	(489)	489
Other changes	-	(8)	8
Net changes	\$ (15,512)	\$ 21,104	\$ (36,616)
Balances at June 30, 2015	\$ 1,110,720	\$ 799,779	\$ 310,941

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
County			
Net Pension Liability	\$ 1,561,029	\$ 830,382	\$ 215,135
Component Unit School Board (nonprofessional)			
Net Pension Liability	\$ 432,232	\$ 310,941	\$ 207,947

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

**Note 9—Pension Plan: (Continued)**

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

For the year ended June 30, 2016, the County and Component Unit School Board (nonprofessional) recognized pension expense of \$37,126 and (\$1,850), respectively. At June 30, 2016, the County and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Primary Government</b>		<b>Component Unit School Board (nonprofessional)</b>	
	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 98,495	\$ -	\$ 25,584
Net difference between projected and actual earnings on pension plan investments	-	141,989	-	20,899
Employer contributions subsequent to the measurement date	189,497	-	35,591	-
Total	<u>\$ 189,497</u>	<u>\$ 240,484</u>	<u>\$ 35,591</u>	<u>\$ 46,483</u>

\$189,497 and \$35,591 reported as deferred outflows of resources related to pensions resulting from the County's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting years as follows:

<b>Year ended June 30,</b>	<b>Primary Government</b>	<b>Component Unit School Board (nonprofessional)</b>
2017	\$ (95,881)	\$ (31,682)
2018	(95,881)	(10,322)
2019	(74,261)	(8,209)
2020	25,539	3,730
2021	-	-
Thereafter	-	-

**Note 9—Pension Plan: (Continued)**

**Component Unit School Board (professional)**

**Plan Description**

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

**Contributions**

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

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarial rate for the Teacher Retirement Plan was 18.20%. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$249,226 and \$259,163 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of \$3,025,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was .02404% as compared to .02269% at June 30, 2014.

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

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**Note 9—Pension Plan: (Continued)**

**Component Unit School Board (professional) (Continued)**

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

For the year ended June 30, 2016, the school division recognized pension expense of \$217,000. Since there was a change in proportionate share between June 30, 2014 and June 30, 2015, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ 42,000
Net difference between projected and actual earnings on pension plan investments	-	185,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	153,000	132,000
Employer contributions subsequent to the measurement date	<u>249,226</u>	<u>-</u>
Total	\$ <u><u>402,226</u></u>	\$ <u><u>359,000</u></u>

\$249,226 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year ended June 30,</u></b>	
2017	\$ (87,000)
2018	(87,000)
2019	(87,000)
2020	41,000
Thereafter	14,000

**Note 9—Pension Plan: (Continued)**

**Component Unit School Board (professional) (Continued)**

**Actuarial Assumptions**

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

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

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

**Mortality rates:**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

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

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

**Note 9—Pension Plan: (Continued)****Component Unit School Board (professional) (Continued)****Long-Term Expected Rate of Return**

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

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

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



**Note 9—Pension Plan: (Continued)**

**Component Unit School Board (professional) (Continued)**

**Discount Rate**

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

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement Plan Net Pension Liability (Asset)	\$ 4,428,000	\$ 3,025,000	\$ 1,871,000

**Pension Plan Fiduciary Net Position**

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

**Note 10—VRS Health Insurance Credit – Other Postemployment Benefits:**

**A. Plan Description**

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 9.

**B. Funding Policy**

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.06% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2016, 2015 and 2014 were \$18,778, \$17,598, and \$18,416, respectively and equaled the required contributions for each year.

**Note 11—Contingent Liabilities:**

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

# County of Highland, Virginia

## Notes to Financial Statements June 30, 2016 (Continued)

### **Note 12—Unearned/Deferred/Unavailable Revenue:**

The following is a summary of unearned/deferred/unavailable revenue for the year ended June 30, 2016:

	Government- wide Statements	Fund Financial Statements
Primary Government:		
Deferred/Unavailable revenue:		
Unavailable revenue representing uncollected property tax billings for which asset recognition criteria has not been met. The uncollected tax billings are not available for the funding of current expenditures.	\$ -	\$ 118,815
Unavailable revenue representing uncollected property tax billings for the second half of calendar year 2016. The uncollected tax billings are not available for the funding of current expenditures.	1,428,993	1,428,993
Deferred prepaid property tax revenues representing collections received for property taxes that are applicable to the subsequent budget year	57,834	57,834
Total primary government deferred/unavailable revenue	1,486,827	1,605,642
Unearned revenue:		
Excess CSA funds received from the state which will be applied to future CSA reimbursement requests	8,991	8,991
Emergency services grants revenue and payment in lieu of taxes revenue representing monies received in fiscal years 2003, 2004, and 2006, but to be expended in subsequent years	25,512	25,512
Event registration fees collected in advance for events occurring in the subsequent year	5,911	5,911
Total primary government unearned revenue	\$ 40,414	\$ 40,414

### **Note 13—Surety Bonds:**

Fidelity and Deposit Company of Maryland - Surety:	
David W. Blanchard Supervisor	\$ 1,000
Harry Sponaugle Supervisor	1,000
Kevin Wagner Supervisor	1,000
Kevin Wagner McDowell Water System, Chairman	5,000
Roberta A. Lambert County Administrator	3,000
Karen DeVore Clerk of the School Board	10,000
Division of Risk Management:	
All County employees - blanket bond	250,000
Blanket Bond Premiums Paid by State Compensation Board:	
Judy Hupman Clerk of the Circuit Court	25,000
Lois E. White Treasurer	300,000
Darlene Crummett Commissioner of the Revenue	3,000
David A. Neil Sheriff	30,000
St. Paul Fire and Marine Insurance Company:	
Social Services - blanket bond	75,000

# County of Highland, Virginia

## Notes to Financial Statements June 30, 2016 (Continued)

### Note 14—Capital Assets:

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

#### Governmental Activities:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 197,365	\$ -	\$ -	\$ 197,365
Total capital assets not being depreciated	\$ 197,365	\$ -	\$ -	\$ 197,365
Capital assets being depreciated:				
Buildings and improvements	\$ 1,760,231	\$ 37,165	\$ (44,208)	\$ 1,753,188
Machinery and equipment	1,083,797	270,794	(13,597)	1,340,994
Total capital assets being depreciated	\$ 2,844,028	\$ 307,959	\$ (57,805)	\$ 3,094,182
Accumulated depreciation:				
Buildings and improvements	\$ (558,119)	\$ (65,370)	\$ 15,020	\$ (608,469)
Machinery and equipment	(770,128)	(120,795)	(8,564)	(899,487)
Total accumulated depreciation	\$ (1,328,247)	\$ (186,165)	\$ 6,456	\$ (1,507,956)
Total capital assets being depreciated, net	\$ 1,515,781	\$ 121,794	\$ (51,349)	\$ 1,586,226
Governmental activities capital assets, net	\$ 1,713,146	\$ 121,794	\$ (51,349)	\$ 1,783,591

#### Business-type Activities:

##### McDowell Water System Fund

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 3,816	\$ -	\$ -	\$ 3,816
Total capital assets not being depreciated	\$ 3,816	\$ -	\$ -	\$ 3,816
Capital assets being depreciated:				
Utility plant and equipment	\$ 1,222,853	\$ -	\$ -	\$ 1,222,853
Accumulated depreciation	(472,652)	(29,762)	-	(502,414)
Capital assets being depreciated, net	\$ 750,201	\$ (29,762)	\$ -	\$ 720,439
McDowell water system capital assets, net	\$ 754,017	\$ (29,762)	\$ -	\$ 724,255

##### Refuse Disposal Fund

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets being depreciated:				
Utility plant and equipment	\$ 174,055	\$ -	\$ -	\$ 174,055
Accumulated depreciation	(98,604)	-	-	(98,604)
Capital assets being depreciated, net	\$ 75,451	\$ -	\$ -	\$ 75,451
Refuse disposal fund capital assets, net	\$ 75,451	\$ -	\$ -	\$ 75,451

County of Highland, Virginia

Notes to Financial Statements  
June 30, 2016 (Continued)

**Note 14—Capital Assets: (Continued)**

**Business-type Activities: (Continued)**

*Recreation Commission Fund*

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets being depreciated:				
Furniture and equipment	\$ 20,801	\$ -	\$ -	\$ 20,801
Accumulated depreciation	(7,276)	(2,300)	-	(9,576)
Capital assets being depreciated, net	\$ 13,525	\$ (2,300)	\$ -	\$ 11,225
Recreation commission fund capital assets, net	\$ 13,525	\$ (2,300)	\$ -	\$ 11,225

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

Governmental Activities:	
General government administration	\$ 27,123
Judicial administration	1,675
Public safety	105,765
Public works	16,336
Parks and Recreation	35,266
Total depreciation expense - governmental activities	\$ 186,165
Business-type Activities:	
McDowell Water System	\$ 29,762
Refuse disposal	-
Recreation Commission	2,300
Total depreciation expense - business-type activities	\$ 32,062

**Component Unit: School Board**

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

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Capital assets not being depreciated:				
Land	\$ 13,035	\$ -	\$ -	\$ 13,035
Total capital assets not being depreciated	\$ 13,035	\$ -	\$ -	\$ 13,035
Capital assets being depreciated:				
Buildings and improvements	\$ 4,614,217	\$ 110,313	\$ -	\$ 4,724,530
Furniture, equipment and vehicles	857,237	96,466	-	953,703
Total capital assets being depreciated	\$ 5,471,454	\$ 206,779	\$ -	\$ 5,678,233
Accumulated depreciation:				
Buildings and improvements	\$ (1,710,682)	\$ (141,519)	\$ -	\$ (1,852,201)
Furniture, equipment and vehicles	(602,625)	(57,094)	-	(659,719)
Total accumulated depreciation	\$ (2,313,307)	\$ (198,613)	\$ -	\$ (2,511,920)
Total capital assets being depreciated, net	\$ 3,158,147	\$ 8,166	\$ -	\$ 3,166,313
School Board capital assets, net	\$ 3,171,182	\$ 8,166	\$ -	\$ 3,179,348

**Note 14—Capital Assets: (Continued)**

**Component Unit: School Board (Continued)**

Depreciation expense was charged to education in the amount of \$198,613.

Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the *Code of Virginia*, as amended, changed the reporting of local school capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments “on behalf” of school boards was reported in the school board’s discrete column along with the related capital assets. Under the new law, local governments have a “tenancy in common” with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one fiscal year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the County of Highland, Virginia for the year ended June 30, 2016, is that school financed assets in the amount of \$31,135 are reported in the Primary Government for financial reporting purposes.

**Note 15—Risk Management:**

The County is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association and the Virginia Association of Counties Group Self Insurance Risk Pool, public entity risk pools currently operating as a common risk management and insurance programs for participating local governments. The County pays an annual premium to VML for its general workers compensation insurance coverage and VACo for general liability coverage. In the event of a loss deficit and depletion of all available excess insurance, the Association 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 County continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**Note 16—Landfill Closure and Post-Closure Monitoring Costs:**

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure approval is received from the Department of Environmental Quality. The County closed its landfill in 1993. Reported landfill post-closure care liability is \$54,455 at June 30, 2016. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

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

In September 2016, management of the County received approval from the Commonwealth of Virginia Department of Environmental Quality for partial termination of post-closure care: groundwater monitoring and gas monitoring at its landfill facility. As of the date of this audit report, assessment of the facility necessary to estimate post-closure monitoring costs after partial termination has not been completed.

**County of Highland, Virginia**

**Notes to Financial Statements  
June 30, 2016 (Continued)**

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**Note 17—Notes Receivable:**

On June 13, 2011, the County loaned \$35,000 to the McDowell Volunteer Fire Department for the purpose of purchasing new fire trucks to better serve the Highland community. The balance for the McDowell Volunteer Fire Department loan at June 30, 2016 was \$10,000.

**Note 18—Restatement of Beginning Fund Balance and Net Position:**

The County restated beginning fund balance in the General Fund as follows:

	<b><u>General Fund</u></b>
Fund balance at July 1, 2015, as previously reported	\$ 3,948,545
Removal of TEA grant reimbursement receivable from FY2014 that the County will not receive	(86,962)
Removal of technology grant receivable from FY2013 that the schools will not receive	<u>(102,000)</u>
Fund balance at July 1, 2015, as restated	\$ <u><u>3,759,583</u></u>

The County restated beginning net position in the Governmental Activities as follows:

	<b><u>Governmental Activities</u></b>
Net position at July 1, 2015, as previously reported	\$ 5,301,165
Removal of TEA grant reimbursement receivable from FY2014 that the County will not receive	(86,962)
Removal of technology grant receivable from FY2013 that the schools will not receive	<u>(102,000)</u>
Net position at July 1, 2015, as restated	\$ <u><u>5,112,203</u></u>



**Note 19—Upcoming Pronouncements:**

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

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

Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, objective is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. No formal study or estimate of the impact of this standard has been performed.

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

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

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

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

**Note 20—Litigation:**

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



## **REQUIRED SUPPLEMENTARY INFORMATION**

(Note: Presented budgets were prepared in accordance with accounting principles generally accepted in the United States of America.)

## General Fund

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
REVENUES				
General property taxes	\$ 3,084,420	\$ 3,164,282	\$ 3,210,564	\$ 46,282
Other local taxes	372,074	362,074	373,686	11,612
Permits, privilege fees, and regulatory licenses	11,350	11,350	12,167	817
Fines and forfeitures	3,000	3,000	4,148	1,148
Revenue from the use of money and property	40,000	40,000	39,808	(192)
Charges for services	12,675	12,975	13,132	157
Miscellaneous	22,050	37,650	43,445	5,795
Intergovernmental:				
Commonwealth	1,040,633	1,052,819	1,077,887	25,068
Federal	55,275	102,657	625,171	522,514
Total revenues	<u>\$ 4,641,477</u>	<u>\$ 4,786,807</u>	<u>\$ 5,400,008</u>	<u>\$ 613,201</u>
EXPENDITURES				
Current:				
General government administration	\$ 931,012	\$ 974,476	\$ 961,166	\$ 13,310
Judicial administration	265,669	277,089	277,099	(10)
Public safety	900,958	887,521	878,209	9,312
Public works	39,504	39,504	39,370	134
Health and welfare	109,005	108,805	108,754	51
Education	2,246,605	2,246,605	1,891,452	355,153
Parks, recreation, and cultural	58,621	58,621	57,867	754
Community development	194,599	166,143	166,290	(147)
Nondepartmental	6,000	13,418	7,412	6,006
Capital projects	-	605,992	503,877	102,115
Total expenditures	<u>\$ 4,751,973</u>	<u>\$ 5,378,174</u>	<u>\$ 4,891,496</u>	<u>\$ 486,678</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (110,496)</u>	<u>\$ (591,367)</u>	<u>\$ 508,512</u>	<u>\$ 1,099,879</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 110,496	\$ 591,367	\$ 71,913	\$ (519,454)
Transfers out	-	-	(389,426)	(389,426)
Total other financing sources (uses)	<u>\$ 110,496</u>	<u>\$ 591,367</u>	<u>\$ (317,513)</u>	<u>\$ (908,880)</u>
Net change in fund balances	\$ -	\$ -	\$ 190,999	\$ 190,999
Fund balances - beginning, as restated	-	-	3,759,583	3,759,583
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,950,582</u>	<u>\$ 3,950,582</u>

Special Revenue Fund-Virginia Public Assistance Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Miscellaneous	\$ -	\$ -	\$ 1,649	\$ 1,649
Intergovernmental:				
Commonwealth	181,445	68,313	78,956	10,643
Federal	214,167	214,167	195,848	(18,319)
Total revenues	<u>\$ 395,612</u>	<u>\$ 282,480</u>	<u>\$ 276,453</u>	<u>\$ (6,027)</u>
<b>EXPENDITURES</b>				
Health and welfare	\$ 569,746	\$ 374,869	\$ 350,564	\$ 24,305
Total expenditures	<u>\$ 569,746</u>	<u>\$ 374,869</u>	<u>\$ 350,564</u>	<u>\$ 24,305</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (174,134)</u>	<u>\$ (92,389)</u>	<u>\$ (74,111)</u>	<u>\$ 18,278</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 174,134	\$ 96,527	\$ 106,409	\$ 9,882
Transfers out	-	-	(32,298)	(32,298)
Total other financing sources (uses)	<u>\$ 174,134</u>	<u>\$ 96,527</u>	<u>\$ 74,111</u>	<u>\$ (22,416)</u>
Net change in fund balances	\$ -	\$ 4,138	\$ -	\$ (4,138)
Fund balances - beginning	-	(4,138)	-	4,138
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

## Special Revenue Fund-E-911 Fund

## Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2016

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Other local taxes	\$ -	\$ -	\$ 27,344	\$ 27,344
Intergovernmental:				
Commonwealth	-	-	164,425	164,425
Total revenues	\$ -	\$ -	\$ 191,769	\$ 191,769
<b>EXPENDITURES</b>				
Public safety	\$ -	\$ 203,226	\$ 204,117	\$ (891)
Total expenditures	\$ -	\$ 203,226	\$ 204,117	\$ (891)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (203,226)	\$ (12,348)	\$ 190,878
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ -	\$ 203,226	\$ -	\$ (203,226)
Total other financing sources (uses)	\$ -	\$ 203,226	\$ -	\$ (203,226)
Net change in fund balances	\$ -	\$ -	\$ (12,348)	\$ (12,348)
Fund balances - beginning	-	-	209,003	209,003
Fund balances - ending	\$ -	\$ -	\$ 196,655	\$ 196,655

Schedule of Components of and Changes in Net Pension Liability and Related Ratios  
Primary Government  
Year Ended June 30, 2016

	<b>2015</b>	<b>2014</b>
<b>Total pension liability</b>		
Service cost	\$ 153,716	\$ 149,038
Interest	421,763	406,078
Differences between expected and actual experience	(138,534)	-
Benefit payments, including refunds of employee contributions	(377,894)	(284,210)
<b>Net change in total pension liability</b>	<b>\$ 59,051</b>	<b>\$ 270,906</b>
<b>Total pension liability - beginning</b>	<b>6,214,128</b>	<b>5,943,222</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 6,273,179</b>	<b>\$ 6,214,128</b>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 178,879	\$ 152,470
Contributions - employee	77,375	60,075
Net investment income	240,813	731,267
Benefit payments, including refunds of employee contributions	(377,894)	(284,210)
Administrative expense	(3,366)	(3,971)
Other	(53)	39
<b>Net change in plan fiduciary net position</b>	<b>\$ 115,754</b>	<b>\$ 655,670</b>
<b>Plan fiduciary net position - beginning</b>	<b>5,327,043</b>	<b>4,671,373</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 5,442,797</b>	<b>\$ 5,327,043</b>
<b>County's net pension liability - ending (a) - (b)</b>	<b>\$ 830,382</b>	<b>\$ 887,085</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	<b>86.76%</b>	<b>85.72%</b>
<b>Covered payroll</b>	<b>\$ 1,248,710</b>	<b>\$ 1,233,141</b>
<b>County's net pension liability as a percentage of covered payroll</b>	<b>66.50%</b>	<b>71.94%</b>

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

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

	2015	2014
<b>Total pension liability</b>		
Service cost	\$ 18,181	\$ 16,918
Interest	76,690	74,575
Differences between expected and actual experience	(49,056)	-
Benefit payments, including refunds of employee contributions	(61,327)	(61,249)
<b>Net change in total pension liability</b>	\$ (15,512)	\$ 30,244
<b>Total pension liability - beginning</b>	1,126,232	1,095,988
<b>Total pension liability - ending (a)</b>	<u>\$ 1,110,720</u>	<u>\$ 1,126,232</u>
<b>Plan fiduciary net position</b>		
Contributions - employer	\$ 36,046	\$ 30,951
Contributions - employee	11,528	10,276
Net investment income	35,354	107,414
Benefit payments, including refunds of employee contributions	(61,327)	(61,249)
Administrative expense	(489)	(590)
Other	(8)	6
<b>Net change in plan fiduciary net position</b>	\$ 21,104	\$ 86,808
<b>Plan fiduciary net position - beginning</b>	778,675	691,867
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 799,779</u>	<u>\$ 778,675</u>
<b>School Division's net pension liability - ending (a) - (b)</b>	\$ 310,941	\$ 347,557
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	72.01%	69.14%
<b>Covered payroll</b>	\$ 226,251	\$ 206,215
<b>School Division's net pension liability as a percentage of covered payroll</b>	137.43%	168.54%

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

Schedule of Employer's Share of Net Pension Liability VRS Teacher Retirement Plan  
 Year Ended June 30, 2016

	<u>2015</u>	<u>2014</u>
Employer's Proportion of the Net Pension Liability	0.02404%	0.02269%
Employer's Proportionate Share of the Net Pension Liability	\$ 3,025,000	2,742,000
Employer's Covered Payroll	\$ 1,787,331	2,085,969
Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	169%	131%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.68%	70.88%

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

Schedule of Employer Contributions  
Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
<b>Primary Government</b>					
2016	\$ 189,497	\$ 189,497	\$ -	\$ 1,302,387	14.55%
2015	178,879	178,879	-	1,248,710	14.33%
2014	152,469	152,469	-	1,233,141	12.36%
2013	145,674	145,674	-	1,147,947	12.69%
2012	135,000	135,000	-	1,063,830	12.69%
2011	134,478	134,478	-	1,059,716	12.69%
2010	95,007	95,007	-	1,042,886	9.11%
2009	92,931	92,931	-	1,020,100	9.11%
2008	64,748	64,748	-	1,005,403	6.44%
2007	62,386	62,386	-	968,720	6.44%
<b>Component Unit School Board (nonprofessional)</b>					
2016	\$ 35,591	\$ 35,591	\$ -	\$ 227,420	15.65%
2015	36,046	36,046	-	226,251	15.93%
2014	30,950	30,950	-	206,215	15.01%
2013	30,829	30,829	-	204,710	15.06%
2012	23,156	23,156	-	200,139	11.57%
2011	21,794	21,794	-	188,368	11.57%
2010	20,249	20,249	-	194,146	10.43%
2009	20,760	20,760	-	199,046	10.43%
2008	14,551	14,551	-	198,245	7.34%
2007	14,646	14,646	-	199,540	7.34%
<b>Component Unit School Board (professional)</b>					
2016	\$ 249,226	\$ 249,226	\$ -	\$ 1,772,589	14.06%
2015	259,163	259,163	-	1,787,331	14.50%
2014	243,224	243,224	-	2,085,969	11.66%
2013	272,000	272,000	-	2,332,762	11.66%
2012	114,033	114,033	-	1,801,469	6.33%
2011	71,313	71,313	-	1,814,580	3.93%
2010	114,382	114,382	-	1,298,320	8.81%
2009	167,802	167,802	-	1,904,677	8.81%
2008	214,683	214,683	-	2,084,301	10.30%
2007	203,552	203,552	-	1,970,494	10.33%

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



Notes to Required Supplementary Information  
Year Ended June 30, 2016

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

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

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

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

Component Unit School Board - Professional Employees

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

## **OTHER SUPPLEMENTARY INFORMATION**

Agency Fund  
Statement of Changes in Assets and Liabilities  
June 30, 2016

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	Balance Beginning of Year	Additions	Deletions	Balance End of Year
<b>SPECIAL WELFARE FUND:</b>				
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 4,578	\$ 4,138	\$ 440
<b>LIABILITIES</b>				
Amounts held for social service clients	\$ -	\$ 4,578	\$ 4,138	\$ 440

County Capital Improvements Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2016

	<b>Budgeted Amounts</b>		<b>Actual Amounts</b>	<b>Variance with Final Budget - Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>EXPENDITURES</b>				
Capital projects	\$ 136,000	\$ 190,000	\$ 194,364	\$ (4,364)
Debt service:				
Principal retirement	-	-	18,073	(18,073)
Total expenditures	\$ 136,000	\$ 190,000	\$ 212,437	\$ (22,437)
Excess (deficiency) of revenues over (under) expenditures	\$ (136,000)	\$ (190,000)	\$ (212,437)	\$ (22,437)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 136,000	\$ 190,000	\$ 136,000	\$ (54,000)
Issuance of capital leases	-	-	67,225	67,225
Total other financing sources (uses)	\$ 136,000	\$ 190,000	\$ 203,225	\$ 13,225
Net change in fund balances	\$ -	\$ -	\$ (9,212)	\$ (9,212)
Fund balances - beginning	-	-	421,777	421,777
Fund balances - ending	\$ -	\$ -	\$ 412,565	\$ 412,565

School Capital Projects Fund  
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Year Ended June 30, 2016

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget -</u>
				<u>Positive</u>
				<u>(Negative)</u>
<b>EXPENDITURES</b>				
Capital projects	\$ 645	\$ 66,293	\$ 117,523	\$ (51,230)
Debt service:				
Principal retirement	44,208	44,208	57,805	(13,597)
Interest and other fiscal charges	3,493	3,493	3,645	(152)
Total expenditures	<u>\$ 48,346</u>	<u>\$ 113,994</u>	<u>\$ 178,973</u>	<u>\$ (64,979)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (48,346)</u>	<u>\$ (113,994)</u>	<u>\$ (178,973)</u>	<u>\$ (64,979)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	\$ 48,346	\$ 113,994	\$ 121,102	\$ 7,108
Issuance of capital leases	-	-	64,980	64,980
Total other financing sources (uses)	<u>\$ 48,346</u>	<u>\$ 113,994</u>	<u>\$ 186,082</u>	<u>\$ 72,088</u>
Net change in fund balances	\$ -	\$ -	\$ 7,109	\$ 7,109
Fund balances - beginning	-	-	151,493	151,493
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 158,602</u>	<u>\$ 158,602</u>

## Nonmajor Special Revenue Funds

## Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Year Ended June 30, 2016

	Sheriff's Grants Fund			Variance with Final Budget Positive Negative
	Budgeted Amounts		Actual	(Negative)
	Original	Final		
REVENUES				
Miscellaneous	\$ -	\$ -	\$ 3,147	\$ 3,147
Intergovernmental:				
Commonwealth	-	-	6,585	6,585
Total revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,732</u>	<u>\$ 9,732</u>
EXPENDITURES				
Public safety	<u>\$ -</u>	<u>\$ 8,182</u>	<u>\$ 6,382</u>	<u>\$ 1,800</u>
Total expenditures	<u>\$ -</u>	<u>\$ 8,182</u>	<u>\$ 6,382</u>	<u>\$ 1,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ (8,182)</u>	<u>\$ 3,350</u>	<u>\$ 11,532</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	<u>\$ -</u>	<u>\$ 8,182</u>	<u>\$ -</u>	<u>\$ (8,182)</u>
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ 8,182</u>	<u>\$ -</u>	<u>\$ (8,182)</u>
Net change in fund balances	\$ -	\$ -	\$ 3,350	\$ 3,350
Fund balances - beginning	-	-	6,648	6,648
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,998</u>	<u>\$ 9,998</u>

## **DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**

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

School Cafeteria Fund – The Cafeteria Fund accounts for and reports the County's school lunch program. Financing is provided from school lunch sales and State and Federal reimbursements.

Combining Balance Sheet  
Discretely Presented Component Unit - School Board  
June 30, 2016

	<u>School Operating Fund</u>	<u>School Cafeteria Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 302,932	\$ 16,809	\$ 319,741
Due from other governmental units	178,151	4,540	182,691
Inventories	-	15,102	15,102
Prepaid items	18,857	-	18,857
Total assets	<u>\$ 499,940</u>	<u>\$ 36,451</u>	<u>\$ 536,391</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 13,162	\$ -	\$ 13,162
Accrued liabilities	302,932	16,810	319,742
Due to primary government	183,846	-	183,846
Total liabilities	<u>\$ 499,940</u>	<u>\$ 16,810</u>	<u>\$ 516,750</u>
Fund balances:			
Nonspendable:			
Inventories	\$ -	\$ 15,102	15,102
Prepaid items	18,857	-	18,857
Assigned:			
School cafeteria	-	4,539	4,539
Unassigned	<u>(18,857)</u>	<u>-</u>	<u>(18,857)</u>
Total fund balances	<u>\$ -</u>	<u>\$ 19,641</u>	<u>\$ 19,641</u>
Total liabilities and fund balances	<u>\$ 499,940</u>	<u>\$ 36,451</u>	<u>\$ 536,391</u>

Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:

Total fund balances per above	\$ 19,641
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,179,348
Other long-term assets are not available to pay for current period expenditures and, therefore, are unavailable revenue in the funds.	(405,483)
Pension contributions subsequent to the measurement date will be a reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds.	284,817
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(3,236,913)</u>
Net position of governmental activities	<u>\$ (158,590)</u>



Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Governmental Funds - Discretely Presented Component Unit - School Board  
 Year Ended June 30, 2016

	<b>School Operating Fund</b>	<b>School Cafeteria Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Charges for services	\$ -	\$ 55,916	\$ 55,916
Miscellaneous	53,863	-	53,863
Intergovernmental:			
Local government	1,831,687	59,765	1,891,452
Commonwealth	1,562,044	4,049	1,566,093
Federal	237,309	115,469	352,778
Total revenues	<u>\$ 3,684,903</u>	<u>\$ 235,199</u>	<u>\$ 3,920,102</u>
<b>EXPENDITURES</b>			
Education	<u>\$ 3,684,903</u>	<u>\$ 234,956</u>	<u>\$ 3,919,859</u>
Total expenditures	<u>\$ 3,684,903</u>	<u>\$ 234,956</u>	<u>\$ 3,919,859</u>
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ 243	\$ 243
Net change in fund balances	\$ -	\$ 243	\$ 243
Fund balances - beginning	-	19,398	19,398
Fund balances - ending	<u>-</u>	<u>19,641</u>	<u>19,641</u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:			
Net change in fund balances - total governmental funds - per above			\$ 243
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays exceeded depreciation in the current period.			8,166
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			219,280
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.			<u>(109,106)</u>
Change in net position of governmental activities			<u>\$ 118,583</u>

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County of Highland, Virginia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
Discretely Presented Component Unit - School Board  
Year Ended June 30, 2016

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Charges for services	\$ -	\$ -	\$ -	\$ -
Miscellaneous	-	-	53,863	53,863
Intergovernmental:				
Local government	2,156,285	2,127,015	1,831,687	(295,328)
Commonwealth	1,532,652	1,532,652	1,562,044	29,392
Federal	145,923	145,923	237,309	91,386
Total revenues	<u>\$ 3,834,860</u>	<u>\$ 3,805,590</u>	<u>\$ 3,684,903</u>	<u>\$ (120,687)</u>
EXPENDITURES				
Education	<u>\$ 3,834,860</u>	<u>\$ 3,805,590</u>	<u>\$ 3,684,903</u>	<u>\$ 120,687</u>
Total expenditures	<u>\$ 3,834,860</u>	<u>\$ 3,805,590</u>	<u>\$ 3,684,903</u>	<u>\$ 120,687</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ -	\$ -	\$ -
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Net change in fund balances	\$ -	\$ -	\$ -	\$ -
Fund balances - beginning	-	-	-	-
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Exhibit 25

School Cafeteria Fund			
Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
Original	Final		
\$ 41,000	\$ 41,000	\$ 55,916	\$ 14,916
-	-	-	-
90,320	119,590	59,765	(59,825)
4,120	4,120	4,049	(71)
59,000	59,000	115,469	56,469
<u>\$ 194,440</u>	<u>\$ 223,710</u>	<u>\$ 235,199</u>	<u>\$ 11,489</u>
<u>\$ 194,440</u>	<u>\$ 223,710</u>	<u>\$ 234,956</u>	<u>\$ (11,246)</u>
<u>\$ 194,440</u>	<u>\$ 223,710</u>	<u>\$ 234,956</u>	<u>\$ (11,246)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243</u>	<u>\$ 243</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243</u>	<u>\$ 243</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,398</u>	<u>\$ 19,398</u>
<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,641</u></u>	<u><u>\$ 19,641</u></u>

## **SUPPORTING SCHEDULES**

Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund:</b>				
Revenue from local sources:				
General property taxes:				
Real property taxes	\$ 2,690,350	\$ 2,755,350	\$ 2,793,036	\$ 37,686
Real and personal public service corporation taxes	64,000	77,362	84,959	7,597
Personal property taxes	301,000	302,500	305,999	3,499
Mobile home taxes	1,800	1,800	2,029	229
Machinery and tools taxes	1,031	1,031	980	(51)
Merchants Capital taxes	4,239	4,239	4,028	(211)
Penalties	13,000	13,000	12,176	(824)
Interest	9,000	9,000	7,357	(1,643)
Total general property taxes	\$ 3,084,420	\$ 3,164,282	\$ 3,210,564	\$ 46,282
Other local taxes:				
Local sales and use taxes	\$ 126,074	\$ 126,074	\$ 138,331	\$ 12,257
Consumers' utility taxes	144,000	138,000	135,842	(2,158)
Consumption taxes	6,500	6,500	6,444	(56)
Motor vehicle licenses	53,500	53,500	55,960	2,460
Bank stock taxes	14,000	14,000	15,100	1,100
Taxes on recordation and wills	20,000	20,000	18,425	(1,575)
Hotel and motel room taxes	8,000	4,000	3,584	(416)
Total other local taxes	\$ 372,074	\$ 362,074	\$ 373,686	\$ 11,612
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,500	\$ 2,500	\$ 1,721	\$ (779)
Transfer fees	150	150	138	(12)
Permits and other licenses	8,700	8,700	10,308	1,608
Total permits, privilege fees, and regulatory licenses	\$ 11,350	\$ 11,350	\$ 12,167	\$ 817
Fines and forfeitures:				
Court fines and forfeitures	\$ 3,000	\$ 3,000	\$ 4,148	\$ 1,148
Total fines and forfeitures	\$ 3,000	\$ 3,000	\$ 4,148	\$ 1,148
Revenue from use of money and property:				
Revenue from use of money	\$ 34,000	\$ 34,000	\$ 33,848	\$ (152)
Revenue from use of property	6,000	6,000	5,960	(40)
Total revenue from use of money and property	\$ 40,000	\$ 40,000	\$ 39,808	\$ (192)
Charges for services:				
Charges for law enforcement and traffic control	\$ 12,275	\$ 12,275	\$ 10,459	\$ (1,816)
Charges for courthouse maintenance	-	-	1,543	1,543
Charges for Commonwealth's Attorney	200	200	194	(6)
Charges for other services	200	500	720	220
Charges for law library	-	-	216	216
Total charges for services	\$ 12,675	\$ 12,975	\$ 13,132	\$ 157
Miscellaneous:				
Miscellaneous revenue	\$ 22,050	\$ 37,650	\$ 43,445	\$ 5,795
Total miscellaneous	\$ 22,050	\$ 37,650	\$ 43,445	\$ 5,795
Total revenue from local sources	\$ 3,545,569	\$ 3,631,331	\$ 3,696,950	\$ 65,619

Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016 (Continued)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>General Fund: (Continued)</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Mobile home titling tax	\$ 1,000	\$ 2,000	\$ 1,600	\$ (400)
Taxes on deeds	6,500	6,500	4,576	(1,924)
Motor vehicle carriers' tax	-	-	210	210
State recordation tax	7,167	7,167	6,488	(679)
Personal property tax relief funds	167,052	167,052	167,052	-
Total noncategorical aid	<u>\$ 181,719</u>	<u>\$ 182,719</u>	<u>\$ 179,926</u>	<u>\$ (2,793)</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 69,129	\$ 69,129	\$ 71,250	\$ 2,121
Sheriff	480,814	492,000	476,895	(15,105)
Commissioner of revenue	63,321	63,321	63,320	(1)
Treasurer	66,948	66,948	66,935	(13)
Registrar/electoral board	27,000	27,000	31,312	4,312
Clerk of the Circuit Court	142,302	142,302	152,592	10,290
Total shared expenses	<u>\$ 849,514</u>	<u>\$ 860,700</u>	<u>\$ 862,304</u>	<u>\$ 1,604</u>
Other categorical aid:				
Two-for-life grant	\$ 3,000	\$ 3,000	\$ 2,976	\$ (24)
Fire prevention program	-	-	20,000	20,000
Other state grants	6,400	6,400	12,681	6,281
Total other categorical aid	<u>\$ 9,400</u>	<u>\$ 9,400</u>	<u>\$ 35,657</u>	<u>\$ 26,257</u>
Total categorical aid	<u>\$ 858,914</u>	<u>\$ 870,100</u>	<u>\$ 897,961</u>	<u>\$ 27,861</u>
Total revenue from the Commonwealth	<u>\$ 1,040,633</u>	<u>\$ 1,052,819</u>	<u>\$ 1,077,887</u>	<u>\$ 25,068</u>
Revenue from the federal government:				
Noncategorical aid:				
Payments in lieu of taxes	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 103,612</u>	<u>\$ 48,612</u>
Categorical aid:				
ISTEA grant	\$ -	\$ -	\$ 503,604	503,604
DEQ royalty grants	275	275	261	(14)
Asset Forfeiture	-	-	194	194
Disaster relief public assistance grant	-	47,382	17,500	(29,882)
Total categorical aid	<u>\$ 275</u>	<u>\$ 47,657</u>	<u>\$ 521,559</u>	<u>\$ 473,902</u>
Total revenue from the federal government	<u>\$ 55,275</u>	<u>\$ 102,657</u>	<u>\$ 625,171</u>	<u>\$ 522,514</u>
Total General Fund	<u><u>\$ 4,641,477</u></u>	<u><u>\$ 4,786,807</u></u>	<u><u>\$ 5,400,008</u></u>	<u><u>\$ 613,201</u></u>
<b>Special Revenue Funds:</b>				
<b>Virginia Public Assistance Fund:</b>				
Revenue from local sources:				
Miscellaneous:				
Miscellaneous reimbursements and refunds	\$ -	\$ -	\$ 1,649	\$ 1,649
Total revenue from local sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,649</u>	<u>\$ 1,649</u>

Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016 (Continued)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Special Revenue Funds: (continued)</b>				
<b>Virginia Public Assistance Fund: (continued)</b>				
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
Public assistance and welfare administration	\$ 48,313	\$ 48,313	\$ 78,759	\$ 30,446
Comprehensive Services Act program	133,132	20,000	197	(19,803)
Total categorical aid	\$ 181,445	\$ 68,313	\$ 78,956	\$ 10,643
Total revenue from the Commonwealth	\$ 181,445	\$ 68,313	\$ 78,956	\$ 10,643
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ 214,167	\$ 214,167	\$ 195,848	\$ (18,319)
Total revenue from the federal government	\$ 214,167	\$ 214,167	\$ 195,848	\$ (18,319)
Total Virginia Public Assistance Fund	\$ 395,612	\$ 282,480	\$ 276,453	\$ (6,027)
<b>E-911 Fund:</b>				
Revenue from local sources:				
Other local taxes:				
E-911 tax	\$ -	\$ -	\$ 27,344	\$ 27,344
Total other local taxes	\$ -	\$ -	\$ 27,344	\$ 27,344
Total revenue from local sources	\$ -	\$ -	\$ 27,344	\$ 27,344
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
E-911 grant	\$ -	\$ -	\$ 164,425	\$ 164,425
Total categorical aid	\$ -	\$ -	\$ 164,425	\$ 164,425
Total revenue from the Commonwealth	\$ -	\$ -	\$ 164,425	\$ 164,425
Total E-911 fund	\$ -	\$ -	\$ 191,769	\$ 191,769
<b>Sheriff's Grants Fund:</b>				
Revenue from local sources:				
Miscellaneous:				
Miscellaneous revenue	\$ -	\$ -	\$ 3,147	\$ 3,147
Total revenue from local sources	\$ -	\$ -	\$ 3,147	\$ 3,147
Intergovernmental:				
Revenue from the Commonwealth:				
Categorical aid:				
VA Juvenile Community Crime Control Act grant	\$ -	\$ -	\$ 6,585	\$ 6,585
Total revenue from the Commonwealth	\$ -	\$ -	\$ 6,585	\$ 6,585
Total Sheriff's Grants fund	\$ -	\$ -	\$ 9,732	\$ 9,732
Total Primary Government	\$ 5,037,089	\$ 5,069,287	\$ 5,877,962	\$ 808,675



Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016 (Continued)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Revenue from local sources:				
Miscellaneous:				
Miscellaneous revenue	\$ -	\$ -	\$ 53,863	\$ 53,863
Total miscellaneous	\$ -	\$ -	\$ 53,863	\$ 53,863
Total revenue from local sources	\$ -	\$ -	\$ 53,863	\$ 53,863
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Highland, Virginia	\$ 2,156,285	\$ 2,127,015	\$ 1,831,687	\$ (295,328)
Total revenues from local governments	\$ 2,156,285	\$ 2,127,015	\$ 1,831,687	\$ (295,328)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 233,257	\$ 233,257	\$ 235,127	\$ 1,870
Basic school aid	967,029	967,029	1,048,203	81,174
Gifted and talented	1,720	1,720	1,816	96
Remedial education	7,686	7,686	9,662	1,976
Special education	2,677	2,677	-	(2,677)
Textbook payment	3,521	3,521	2,044	(1,477)
Vocational standards of quality payments	38,722	38,722	40,888	2,166
Social security fringe benefits	18,117	18,117	19,130	1,013
Retirement fringe benefits	35,831	35,831	37,834	2,003
Group life insurance instructional	1,135	1,135	1,198	63
State lottery payments	-	-	1,675	1,675
Early reading intervention	1,352	1,352	1,462	110
Salary supplement	5,107	5,107	5,393	286
ISAEP - GED prep program	7,859	7,859	7,859	-
Technology	111,200	111,200	114,300	3,100
Standards of Learning algebra readiness	1,300	1,300	1,300	-
At risk funding	15,000	15,000	15,807	807
Foster care	53,848	53,848	-	(53,848)
Other state funds	27,291	27,291	18,346	(8,945)
Total categorical aid	\$ 1,532,652	\$ 1,532,652	\$ 1,562,044	\$ 29,392
Total revenue from the Commonwealth	\$ 1,532,652	\$ 1,532,652	\$ 1,562,044	\$ 29,392

Schedule of Revenues - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016 (Continued)

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
<b>Discretely Presented Component Unit - School Board: (Continued)</b>				
<b>School Operating Fund: (Continued)</b>				
Intergovernmental: (continued)				
Revenue from the federal government:				
Categorical aid:				
Federal land use	\$ 10,599	\$ 10,599	\$ 39,658	\$ 29,059
Title I	55,937	55,937	31,163	(24,774)
Title VI-B, special education flow-through	55,937	55,937	112,864	56,927
Title VI-B, special education pre-school	9,000	9,000	1,867	(7,133)
Improving teacher quality	14,450	14,450	28,688	14,238
Advanced placement grant	-	-	410	410
Rural education achievement program	-	-	22,659	22,659
Total categorical aid	<u>\$ 145,923</u>	<u>\$ 145,923</u>	<u>\$ 237,309</u>	<u>\$ 91,386</u>
Total revenue from the federal government	<u>\$ 145,923</u>	<u>\$ 145,923</u>	<u>\$ 237,309</u>	<u>\$ 91,386</u>
Total School Operating Fund	<u>\$ 3,834,860</u>	<u>\$ 3,805,590</u>	<u>\$ 3,684,903</u>	<u>\$ (120,687)</u>
<b>School Cafeteria Fund:</b>				
Revenue from local sources:				
Charges for services:				
Cafeteria sales	\$ 41,000	\$ 41,000	\$ 55,916	\$ 14,916
Total revenue from local sources	<u>\$ 41,000</u>	<u>\$ 41,000</u>	<u>\$ 55,916</u>	<u>\$ 14,916</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Highland, Virginia	\$ 90,320	\$ 119,590	\$ 59,765	\$ (59,825)
Total revenues from local governments	<u>\$ 90,320</u>	<u>\$ 119,590</u>	<u>\$ 59,765</u>	<u>\$ (59,825)</u>
Revenue from the Commonwealth:				
Categorical aid:				
School food program grant	\$ 4,120	\$ 4,120	\$ 4,049	\$ (71)
Total revenue from the Commonwealth	<u>\$ 4,120</u>	<u>\$ 4,120</u>	<u>\$ 4,049</u>	<u>\$ (71)</u>
Revenue from the federal government:				
Categorical aid:				
School food program grant	\$ 59,000	\$ 59,000	\$ 103,880	\$ 44,880
USDA commodities received	-	-	11,589	11,589
Total categorical aid	<u>\$ 59,000</u>	<u>\$ 59,000</u>	<u>\$ 115,469</u>	<u>\$ 56,469</u>
Total revenue from the federal government	<u>\$ 59,000</u>	<u>\$ 59,000</u>	<u>\$ 115,469</u>	<u>\$ 56,469</u>
Total School Cafeteria Fund	<u>\$ 194,440</u>	<u>\$ 223,710</u>	<u>\$ 235,199</u>	<u>\$ 11,489</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 4,029,300</u>	<u>\$ 4,029,300</u>	<u>\$ 3,920,102</u>	<u>\$ (109,198)</u>

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016

<b>Fund, Function, Activity, and Elements</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>General Fund:</b>				
General government administration:				
Legislative:				
Board of supervisors	\$ 24,270	\$ 25,270	\$ 25,267	\$ 3
Total legislative	\$ 24,270	\$ 25,270	\$ 25,267	\$ 3
General and financial administration:				
County administrator	\$ 118,831	\$ 123,595	\$ 123,594	\$ 1
Legal services	35,000	47,100	47,091	9
Independent auditor	32,500	32,500	35,231	(2,731)
Commissioner of revenue	125,189	125,189	122,886	2,303
Assessor	28,500	28,500	3,885	24,615
Treasurer	134,579	132,579	132,329	250
Central Purchasing	367,350	391,925	403,066	(11,141)
Total general and financial administration	\$ 841,949	\$ 881,388	\$ 868,082	\$ 13,306
Board of elections:				
Electoral board and officials	\$ 10,726	\$ 12,587	\$ 12,587	\$ -
Registrar	54,067	55,231	55,230	1
Total board of elections	\$ 64,793	\$ 67,818	\$ 67,817	\$ 1
Total general government administration	\$ 931,012	\$ 974,476	\$ 961,166	\$ 13,310
Judicial administration:				
Courts:				
Circuit court	\$ 1,140	\$ 1,140	\$ 2,035	\$ (895)
Clerk of the circuit court	177,937	177,937	177,056	881
Total courts	\$ 179,077	\$ 179,077	\$ 179,091	\$ (14)
Commonwealth's attorney:				
Commonwealth's attorney	\$ 86,592	\$ 98,012	\$ 98,008	\$ 4
Total commonwealth's attorney	\$ 86,592	\$ 98,012	\$ 98,008	\$ 4
Total judicial administration	\$ 265,669	\$ 277,089	\$ 277,099	\$ (10)
Public safety:				
Law enforcement and traffic control:				
Sheriff	\$ 614,064	\$ 615,170	\$ 615,157	\$ 13
Total law enforcement and traffic control	\$ 614,064	\$ 615,170	\$ 615,157	\$ 13
Fire and rescue services:				
Volunteer emergency operations	\$ 84,585	\$ 106,506	\$ 106,505	\$ 1
Total fire and rescue services	\$ 84,585	\$ 106,506	\$ 106,505	\$ 1
Correction and detention:				
Sheriff	\$ 60,500	\$ 32,341	\$ 32,341	\$ -
Total correction and detention	\$ 60,500	\$ 32,341	\$ 32,341	\$ -
Inspections:				
Building	\$ 56,450	\$ 58,230	\$ 58,230	\$ -
Total inspections	\$ 56,450	\$ 58,230	\$ 58,230	\$ -

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016 (Continued)

<b>Fund, Function, Activity, and Elements</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>General Fund: (Continued)</b>				
Public safety: (Continued)				
Other protection:				
Animal control	\$ 33,169	\$ 33,169	\$ 33,091	\$ 78
Medical examiner	200	200	60	140
Emergency management grants	51,990	41,905	32,825	9,080
Total other protection	<u>\$ 85,359</u>	<u>\$ 75,274</u>	<u>\$ 65,976</u>	<u>\$ 9,298</u>
Total public safety	<u>\$ 900,958</u>	<u>\$ 887,521</u>	<u>\$ 878,209</u>	<u>\$ 9,312</u>
Public works:				
Maintenance of general buildings and grounds:				
General properties	\$ 39,504	\$ 39,504	\$ 39,370	\$ 134
Total maintenance of general buildings and grounds	<u>\$ 39,504</u>	<u>\$ 39,504</u>	<u>\$ 39,370</u>	<u>\$ 134</u>
Total public works	<u>\$ 39,504</u>	<u>\$ 39,504</u>	<u>\$ 39,370</u>	<u>\$ 134</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 65,810	\$ 65,810	\$ 65,809	\$ 1
Total health	<u>\$ 65,810</u>	<u>\$ 65,810</u>	<u>\$ 65,809</u>	<u>\$ 1</u>
Mental health and mental retardation:				
Community services board	\$ 7,245	\$ 7,245	\$ 7,245	\$ -
Total mental health and mental retardation	<u>\$ 7,245</u>	<u>\$ 7,245</u>	<u>\$ 7,245</u>	<u>\$ -</u>
Welfare:				
Valley Program for the Aging	\$ 35,000	\$ 35,700	\$ 35,700	\$ -
State and local hospitalization	950	50	-	50
Total welfare	<u>\$ 35,950</u>	<u>\$ 35,750</u>	<u>\$ 35,700</u>	<u>\$ 50</u>
Total health and welfare	<u>\$ 109,005</u>	<u>\$ 108,805</u>	<u>\$ 108,754</u>	<u>\$ 51</u>
Education:				
Other instructional costs:				
Contribution to County School Board	\$ 2,246,605	\$ 2,246,605	\$ 1,891,452	\$ 355,153
Total education	<u>\$ 2,246,605</u>	<u>\$ 2,246,605</u>	<u>\$ 1,891,452</u>	<u>\$ 355,153</u>
Parks, recreation, and cultural:				
Library:				
Library Administration	\$ 58,621	\$ 58,621	\$ 57,867	\$ 754
Total library	<u>\$ 58,621</u>	<u>\$ 58,621</u>	<u>\$ 57,867</u>	<u>\$ 754</u>
Total parks, recreation, and cultural	<u>\$ 58,621</u>	<u>\$ 58,621</u>	<u>\$ 57,867</u>	<u>\$ 754</u>
Community development:				
Planning and community development:				
Planning	\$ 16,121	\$ 16,121	\$ 13,271	\$ 2,850
Community development	35,251	42,586	42,188	398
Swimming pool	64,822	64,822	63,633	1,189
Industrial Development Authority	18,000	10,665	5,525	5,140
Total planning and community development	<u>\$ 134,194</u>	<u>\$ 134,194</u>	<u>\$ 124,617</u>	<u>\$ 9,577</u>

Schedule of Expenditures - Budget and Actual  
 Governmental Funds  
 Year Ended June 30, 2016 (Continued)

<b>Fund, Function, Activity, and Elements</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>General Fund: (Continued)</b>				
Community development: (continued)				
Cooperative extension program:				
Extension office	\$ 60,405	\$ 31,949	\$ 41,673	\$ (9,724)
Total cooperative extension program	\$ 60,405	\$ 31,949	\$ 41,673	\$ (9,724)
 Total community development	\$ 194,599	\$ 166,143	\$ 166,290	\$ (147)
 Nondepartmental:				
Miscellaneous	\$ 6,000	\$ 13,418	\$ 7,412	\$ 6,006
Total nondepartmental	\$ 6,000	\$ 13,418	\$ 7,412	\$ 6,006
 Capital projects:				
Capital outlay	\$ -	\$ 605,992	\$ 503,877	\$ 102,115
Total capital projects	\$ -	\$ 605,992	\$ 503,877	\$ 102,115
 Total General Fund	\$ 4,751,973	\$ 5,378,174	\$ 4,891,496	\$ 486,678
 <b>Special Revenue Funds:</b>				
<b>Virginia Public Assistance Fund:</b>				
Health and welfare:				
Welfare and social services:				
Welfare administration	\$ 354,869	\$ 354,869	\$ 336,790	\$ 18,079
Comprehensive services	214,877	20,000	13,774	6,226
Total welfare and social services	\$ 569,746	\$ 374,869	\$ 350,564	\$ 24,305
 Total health and welfare	\$ 569,746	\$ 374,869	\$ 350,564	\$ 24,305
 Total Virginia Public Assistance Fund	\$ 569,746	\$ 374,869	\$ 350,564	\$ 24,305
 <b>E-911 Fund:</b>				
Public safety:				
Other protection:				
E-911 Administration	\$ -	\$ 203,226	\$ 204,117	\$ (891)
 Total public safety	\$ -	\$ 203,226	\$ 204,117	\$ (891)
 Total E-911 Fund	\$ -	\$ 203,226	\$ 204,117	\$ (891)
 <b>Sheriff's Grants Fund:</b>				
Public safety:				
Other protection:				
Drug enforcement and crime control	\$ -	\$ 8,182	\$ 6,382	\$ 1,800
 Total Sheriff's Grants Fund	\$ -	\$ 8,182	\$ 6,382	\$ 1,800
 <b>Capital Projects Fund:</b>				
<b>County Capital Improvements Fund:</b>				
Capital projects expenditures:				
County courthouse and other capital outlay	\$ 136,000	\$ 180,000	\$ 194,364	\$ (14,364)
E-911 center and jail renovation	-	10,000	-	10,000
Total capital projects	\$ 136,000	\$ 190,000	\$ 194,364	\$ (4,364)
 Debt service:				
Principal retirement	-	-	18,073	(18,073)
Total debt service	-	-	18,073	(18,073)
 Total County Capital Improvements Fund	\$ 136,000	\$ 190,000	\$ 212,437	\$ (22,437)

Schedule of Expenditures - Budget and Actual  
Governmental Funds  
Year Ended June 30, 2016 (Continued)

<b>Fund, Function, Activity, and Elements</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>School Capital Projects Fund:</b>				
Capital projects expenditures:				
Building services	\$ 645	\$ 66,293	\$ 117,523	\$ (51,230)
Total capital projects	\$ 645	\$ 66,293	\$ 117,523	\$ (51,230)
Debt service:				
Principal retirement	\$ 44,208	\$ 44,208	\$ 57,805	\$ (13,597)
Interest and other fiscal charges	3,493	3,493	3,645	(152)
Total debt service	\$ 47,701	\$ 47,701	\$ 61,450	\$ (13,749)
Total School Capital Projects Fund	\$ 48,346	\$ 113,994	\$ 178,973	\$ (64,979)
Total Primary Government	\$ 5,506,065	\$ 6,268,445	\$ 5,843,969	\$ 424,476
<b>Discretely Presented Component Unit - School Board:</b>				
<b>School Operating Fund:</b>				
Education:				
Administration of schools:				
School board	\$ 7,964	\$ 7,964	\$ 8,674	\$ (710)
Executive administration services	226,952	233,720	220,737	12,983
Total administration of schools	\$ 234,916	\$ 241,684	\$ 229,411	\$ 12,273
Instruction costs:				
Elementary and secondary schools	\$ 2,341,874	\$ 2,312,604	\$ 2,359,954	\$ (47,350)
Guidance services	75,539	75,539	76,014	(475)
Media services	290,966	305,352	130,884	174,468
Office of the principal	288,702	288,702	262,050	26,652
Total instruction costs	\$ 2,997,081	\$ 2,982,197	\$ 2,828,902	\$ 153,295
Operating costs:				
Pupil transportation	\$ 263,366	\$ 282,682	\$ 244,653	\$ 38,029
Operation and maintenance of school plant	339,497	299,027	381,937	(82,910)
Total operating costs	\$ 602,863	\$ 581,709	\$ 626,590	\$ (44,881)
Total education	\$ 3,834,860	\$ 3,805,590	\$ 3,684,903	\$ 120,687
Total School Operating Fund	\$ 3,834,860	\$ 3,805,590	\$ 3,684,903	\$ 120,687
<b>School Cafeteria Fund:</b>				
Education:				
School food services:				
Administration of school food program	\$ 194,440	\$ 223,710	\$ 234,956	\$ (11,246)
Total school food services	\$ 194,440	\$ 223,710	\$ 234,956	\$ (11,246)
Total education	\$ 194,440	\$ 223,710	\$ 234,956	\$ (11,246)
Total School Cafeteria Fund	\$ 194,440	\$ 223,710	\$ 234,956	\$ (11,246)
Total Discretely Presented Component Unit - School Board	\$ 4,029,300	\$ 4,029,300	\$ 3,919,859	\$ 109,441

## **STATISTICAL INFORMATION**

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**County of Highland, Virginia**

Net Position by Component  
 Last Ten Fiscal Years  
*(accrual basis of accounting)*

	Fiscal Year			
	2007	2008	2009	2010
Governmental Activities				
Net investment in capital assets	\$ 707,028	\$ 673,965	\$ 1,079,506	\$ 1,039,441
Unrestricted	<u>3,913,617</u>	<u>4,279,522</u>	<u>4,595,275</u>	<u>5,130,351</u>
Total governmental activities net position	<u>\$ 4,620,645</u>	<u>\$ 4,953,487</u>	<u>\$ 5,674,781</u>	<u>\$ 6,169,792</u>
Business-type Activities				
Net investment in capital assets	\$ 607,726	\$ 520,366	\$ 504,096	\$ 541,856
Restricted	-	-	-	-
Unrestricted	<u>272,742</u>	<u>333,345</u>	<u>382,659</u>	<u>414,814</u>
Total business-type activities net position	<u>\$ 880,468</u>	<u>\$ 853,711</u>	<u>\$ 886,755</u>	<u>\$ 956,670</u>
Primary government				
Net investment in capital assets	\$ 1,314,754	\$ 1,194,331	\$ 1,583,602	\$ 1,581,297
Restricted	-	-	-	-
Unrestricted	<u>4,186,359</u>	<u>4,612,867</u>	<u>4,977,934</u>	<u>5,545,165</u>
Total primary government net position	<u>\$ 5,501,113</u>	<u>\$ 5,807,198</u>	<u>\$ 6,561,536</u>	<u>\$ 7,126,462</u>

Table 1

Fiscal Year						
2011	2012	2013	2014	2015	2016	
\$ 1,043,630	\$ 1,667,119	\$ 1,674,606	\$ 1,873,361	\$ 1,624,207	\$ 1,638,325	
5,235,055	5,134,132	4,930,651	4,768,406	3,487,996	3,800,788	
<u>\$ 6,278,685</u>	<u>\$ 6,801,251</u>	<u>\$ 6,605,257</u>	<u>\$ 6,641,767</u>	<u>\$ 5,112,203</u>	<u>\$ 5,439,113</u>	
\$ 620,438	\$ 624,487	\$ 744,401	\$ 731,731	\$ 690,502	\$ 663,491	
-	-	-	17,629	18,244	18,846	
658,121	705,106	740,052	757,689	729,148	778,715	
<u>\$ 1,278,559</u>	<u>\$ 1,329,593</u>	<u>\$ 1,484,453</u>	<u>\$ 1,507,049</u>	<u>\$ 1,437,894</u>	<u>\$ 1,461,052</u>	
\$ 1,664,068	\$ 2,291,606	\$ 2,419,007	\$ 2,605,092	\$ 2,314,709	\$ 2,301,816	
-	-	-	17,629	18,244	18,846	
5,893,176	5,839,238	5,670,703	5,526,095	4,217,144	4,579,503	
<u>\$ 7,557,244</u>	<u>\$ 8,130,844</u>	<u>\$ 8,089,710</u>	<u>\$ 8,148,816</u>	<u>\$ 6,550,097</u>	<u>\$ 6,900,165</u>	

**County of Highland, Virginia**

Changes in Net Position  
Last Ten Fiscal Years  
(accrual basis of accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
<b>Expenses</b>					
Governmental Activities:					
General government administration	\$ 776,408	\$ 757,883	\$ 791,245	\$ 719,027	\$ 965,091
Judicial administration	241,760	245,520	200,400	239,727	242,692
Public safety	1,198,081	910,751	992,983	861,875	765,268
Public works	87,089	93,749	92,289	93,272	53,114
Health and welfare	333,795	335,396	313,429	354,901	372,672
Education	1,431,224	1,652,975	1,502,149	1,659,005	1,845,772
Parks, recreation, and cultural	35,402	99,877	64,508	66,781	73,426
Community development	80,706	105,946	106,318	123,846	137,377
Interest on long-term debt	72,752	65,228	57,454	45,770	44,587
Total governmental activities expenses	\$ 4,257,217	\$ 4,267,325	\$ 4,120,775	\$ 4,164,204	\$ 4,499,999
Business-type Activities:					
Refuse Disposal	\$ 247,289	\$ 239,734	\$ 257,635	\$ 256,381	\$ 257,445
McDowell Water System	46,868	47,085	46,351	46,748	50,216
Recreation Commission	-	-	-	-	49,255
Total business-type activities expenses	\$ 294,157	\$ 286,819	\$ 303,986	\$ 303,129	\$ 356,916
Total primary government expenses	\$ 4,551,374	\$ 4,554,144	\$ 4,424,761	\$ 4,467,333	\$ 4,856,915
<b>Program Revenues</b>					
Governmental Activities:					
Charges for services:					
General government administration	\$ 375	\$ 238	\$ 226	\$ 110,401	\$ 260
Judicial administration	2,898	2,706	5,057	3,713	2,705
Public safety	16,411	23,996	25,895	31,959	25,758
Operating grants and contributions	1,089,220	1,117,621	1,067,711	1,101,652	1,108,132
Capital grants and contributions	-	71,817	-	1,000	-
Total governmental activities program revenues	\$ 1,108,904	\$ 1,216,378	\$ 1,098,889	\$ 1,248,725	\$ 1,136,855
Business-type Activities:					
Charges for services:					
Refuse disposal	\$ 257,618	\$ 320,011	\$ 315,278	\$ 318,311	\$ 324,182
McDowell Water System	27,241	37,834	34,992	34,771	35,833
Recreation commission	-	-	-	-	41,727
Operating grants and contributions	6,307	7,592	7,393	6,125	31,910
Capital grants and contributions	-	-	-	-	99,100
Total business-type activities program revenues	\$ 291,166	\$ 365,437	\$ 357,663	\$ 359,207	\$ 532,752
Total primary government program revenues	\$ 1,400,070	\$ 1,581,815	\$ 1,456,552	\$ 1,607,932	\$ 1,669,607
Net (expense) / revenue					
Governmental Activities	\$ (3,148,313)	\$ (3,050,947)	\$ (3,021,886)	\$ (2,915,479)	\$ (3,363,144)
Business-type Activities	(2,991)	78,618	53,677	56,078	175,836
Total primary government net expense	\$ (3,151,304)	\$ (2,972,329)	\$ (2,968,209)	\$ (2,859,401)	\$ (3,187,308)

Table 2  
Page 1 of 2

Fiscal Year				
2012	2013	2014	2015	2016
\$ 1,059,513	\$ 897,659	\$ 991,119	\$ 1,041,826	\$ 969,269
246,808	247,397	259,111	243,105	261,868
789,037	912,046	942,248	970,089	970,542
137,181	128,759	118,027	67,985	34,565
413,864	384,612	373,259	370,547	454,484
1,823,472	2,095,450	2,183,982	2,316,485	2,060,324
75,516	87,396	90,387	90,404	84,826
134,348	143,030	155,553	288,549	756,201
32,464	23,583	14,445	5,038	2,586
<u>\$ 4,712,203</u>	<u>\$ 4,919,932</u>	<u>\$ 5,128,131</u>	<u>\$ 5,394,028</u>	<u>\$ 5,594,665</u>
\$ 267,858	\$ 278,003	\$ 293,029	\$ 291,471	\$ 276,589
60,185	69,172	65,271	66,707	58,758
58,943	50,491	43,559	42,973	52,814
<u>\$ 386,986</u>	<u>\$ 397,666</u>	<u>\$ 401,859</u>	<u>\$ 401,151</u>	<u>\$ 388,161</u>
<u>\$ 5,099,189</u>	<u>\$ 5,317,598</u>	<u>\$ 5,529,990</u>	<u>\$ 5,795,179</u>	<u>\$ 5,982,826</u>
\$ 408	\$ 466	\$ 669	\$ 669	\$ 720
2,802	3,092	2,018	9,681	6,101
22,835	23,591	28,773	24,857	22,626
1,235,107	1,151,731	1,154,398	1,202,330	1,361,469
440,362	118,208	189,865	167,874	503,865
<u>\$ 1,701,514</u>	<u>\$ 1,297,088</u>	<u>\$ 1,375,723</u>	<u>\$ 1,405,429</u>	<u>\$ 1,894,781</u>
\$ 313,663	\$ 309,354	\$ 329,774	\$ 327,873	\$ 320,544
33,181	34,711	40,604	28,950	34,371
40,331	34,172	39,310	40,817	44,739
47,916	51,694	31,931	20,566	24,998
25,082	35,408	13,900	-	-
<u>\$ 460,173</u>	<u>\$ 465,339</u>	<u>\$ 455,519</u>	<u>\$ 424,206</u>	<u>\$ 424,652</u>
<u>\$ 2,161,687</u>	<u>\$ 1,762,427</u>	<u>\$ 1,831,242</u>	<u>\$ 1,829,635</u>	<u>\$ 2,319,433</u>
\$ (3,010,689)	\$ (3,622,844)	\$ (3,752,408)	\$ (3,988,599)	\$ (3,699,884)
73,187	67,673	53,660	23,055	36,491
<u>\$ (2,937,502)</u>	<u>\$ (3,555,171)</u>	<u>\$ (3,698,748)</u>	<u>\$ (3,965,544)</u>	<u>\$ (3,663,393)</u>

**County of Highland, Virginia**

Changes in Net Position  
Last Ten Fiscal Years  
(accrual basis of accounting)

	Fiscal Year				
	2007	2008	2009	2010	2011
<b>General Revenues and Other Changes in Net Position</b>					
Governmental Activities:					
Taxes					
Property taxes	\$ 2,654,559	\$ 2,696,267	\$ 2,823,719	\$ 2,694,439	\$ 2,777,551
Local sales and use taxes	99,550	97,120	93,017	95,657	97,125
Consumer utility taxes	124,755	149,008	141,631	141,131	140,241
Motor vehicle licenses	1,783	34,003	47,859	55,842	51,219
E-911 taxes	30,280	36,429	29,572	24,000	30,000
Bank stock taxes	13,162	4,484	12,487	12,481	12,656
Other local taxes	34,547	36,309	32,314	24,035	25,835
Unrestricted grants and contributions	275,707	249,566	100,362	73,747	217,784
Unrestricted revenues from use of money and property	146,115	135,833	116,701	89,922	58,543
Miscellaneous	108,487	221,956	324,768	213,004	83,641
Transfers	(8,054)	105,550	20,750	(13,768)	(71,075)
Total governmental activities	\$ 3,480,891	\$ 3,766,525	\$ 3,743,180	\$ 3,410,490	\$ 3,423,520
Business-type Activities:					
Unrestricted revenues from use of money and property	\$ 188	\$ 175	\$ 117	\$ 69	\$ 411
Miscellaneous	-	-	-	-	1,186
Transfers	8,054	(105,550)	(20,750)	13,768	71,075
Total business-type activities	\$ 8,242	\$ (105,375)	\$ (20,633)	\$ 13,837	\$ 72,672
Total primary government	\$ 3,489,133	\$ 3,661,150	\$ 3,722,547	\$ 3,424,327	\$ 3,496,192
<b>Change in Net Position</b>					
Governmental Activities	\$ 332,578	\$ 715,578	\$ 721,294	\$ 495,011	\$ 60,376
Business-type Activities	5,251	(26,757)	33,044	69,915	248,508
Total primary government	\$ 337,829	\$ 688,821	\$ 754,338	\$ 564,926	\$ 308,884

Table 2  
Page 2 of 2

Fiscal Year					
2012	2013	2014	2015	2016	
\$ 2,731,729	\$ 2,771,902	\$ 2,963,903	\$ 3,116,520	\$ 3,240,477	
107,600	111,989	113,641	119,295	138,331	
138,686	138,706	138,177	137,933	135,842	
53,724	53,113	54,283	54,461	55,960	
33,000	34,597	33,704	30,629	27,344	
13,806	14,371	19,231	23,141	18,425	
22,028	22,784	21,524	24,247	25,128	
234,776	246,160	269,364	260,911	283,538	
54,728	43,762	41,590	42,337	39,808	
118,328	74,892	100,203	31,459	48,241	
24,850	(85,426)	33,298	26,250	13,700	
\$ 3,533,255	\$ 3,426,850	\$ 3,788,918	\$ 3,867,183	\$ 4,026,794	
\$ 2,697	\$ 1,761	\$ 2,234	\$ 383	\$ 367	
(24,850)	85,426	(33,298)	(26,250)	(13,700)	
\$ (22,153)	\$ 87,187	\$ (31,064)	\$ (25,867)	\$ (13,333)	
\$ 3,511,102	\$ 3,514,037	\$ 3,757,854	\$ 3,841,316	\$ 4,013,461	
\$ 522,566	\$ (195,994)	\$ 36,510	\$ (121,416)	\$ 326,910	
51,034	154,860	22,596	(2,812)	23,158	
\$ 573,600	\$ (41,134)	\$ 59,106	\$ (124,228)	\$ 350,068	

Governmental Activities Tax Revenues by Source  
 Last Ten Fiscal Years  
*(accrual basis of accounting)*

Fiscal Year	Property Tax	Local sales and use Tax	Consumer Utility Tax	Motor Vehicle License	E-911 Tax	Taxes on Recordation and Wills	Other Local Tax	Total
2016	\$ 3,240,477	\$ 138,331	\$ 135,842	\$ 55,960	\$ 27,344	\$ 18,425	\$ 25,128	\$ 3,641,507
2015	3,116,520	119,295	137,933	54,461	30,629	23,141	24,247	3,506,226
2014	2,963,903	113,641	138,177	54,283	33,704	19,231	21,524	3,344,463
2013	2,771,902	111,989	138,706	53,113	34,597	16,330	20,825	3,147,462
2012	2,731,729	107,600	138,686	53,724	33,000	15,937	19,897	3,100,573
2011	2,777,551	97,125	140,241	51,219	30,000	19,356	19,135	3,134,627
2010	2,700,353	95,657	141,131	55,842	24,000	17,622	18,894	3,053,499
2009	2,812,841	93,017	141,631	47,859	29,572	25,772	19,029	3,169,721
2008	2,706,867	97,120	149,008	34,003	36,429	29,293	11,500	3,064,220
2007	2,654,559	99,550	124,755	1,783	30,280	28,401	19,308	2,958,636

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**County of Highland, Virginia**

Fund Balances of Governmental Funds  
 Last Ten Fiscal Years  
*(modified accrual basis of accounting)*

	Fiscal Year				
	2007	2008	2009	2010	2011
General fund					
Unreserved	\$ 3,220,466	\$ 3,868,862	\$ 4,166,881	\$ 4,273,643	\$ -
Nonspendable	-	-	-	-	50,785
Restricted	-	-	-	-	31,317
Committed	-	-	-	-	510,933
Assigned	-	-	-	-	3,762
Unassigned	-	-	-	-	3,951,635
Total general fund	<u>\$ 3,220,466</u>	<u>\$ 3,868,862</u>	<u>\$ 4,166,881</u>	<u>\$ 4,273,643</u>	<u>\$ 4,548,432</u>
All other governmental funds					
Unreserved, reported in:					
Special revenue funds	\$ 568,502	\$ 131,621	\$ 111,228	\$ 77,649	\$ -
Capital projects funds	248,895	410,182	422,554	889,686	-
Nonspendable, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Restricted, reported in:					
Special revenue funds	-	-	-	-	100,425
Assigned, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	-	-	-	-	-
Unassigned, reported in:					
Special revenue funds	-	-	-	-	1,235
Capital projects funds	-	-	-	-	651,351
Total all other governmental funds	<u>\$ 817,397</u>	<u>\$ 541,803</u>	<u>\$ 533,782</u>	<u>\$ 967,335</u>	<u>\$ 753,011</u>

Table 4

Fiscal Year				
2012	2013	2014	2015	2016
\$ -	\$ -	\$ -	\$ -	\$ -
50,950	31,830	20,875	25,966	20,188
33,518	35,854	53,279	35,367	37,127
557,696	582,456	522,010	629,306	572,077
4,162	5,762	2,291	4,291	4,291
3,757,856	3,548,282	3,611,770	3,064,653	3,316,899
\$ 4,404,182	\$ 4,204,184	\$ 4,210,225	\$ 3,759,583	\$ 3,950,582
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
2,000	-	-	2,000	-
8,186	8,641	9,073	-	2,000
165,791	198,245	198,993	212,760	200,558
717	4,928	386	891	6,095
624,854	581,807	456,997	573,270	569,167
-	-	-	-	-
-	-	-	-	-
\$ 801,548	\$ 793,621	\$ 665,449	\$ 788,921	\$ 777,820

# County of Highland, Virginia

Changes in Fund Balances of Governmental Funds  
Last Ten Fiscal Years  
(modified accrual basis of accounting)

	Fiscal Year			
	2007	2008	2009	2010
<b>Revenues</b>				
General property taxes	\$ 2,644,502	\$ 2,706,867	\$ 2,812,841	\$ 2,700,353
Other local taxes	304,077	357,353	356,880	353,146
Permits, privilege fees, and regulatory licenses	12,318	14,809	12,504	18,593
Fines and forfeitures	1,059	729	2,386	1,006
Revenue from use of money and property	146,115	135,833	100,362	73,747
Charges for services	6,307	11,402	16,288	126,474
Miscellaneous	108,487	221,956	116,701	89,922
Intergovernmental:				
Commonwealth	1,521,614	1,170,907	1,150,594	1,110,210
Federal	253,751	268,097	241,885	205,446
Total revenues	\$ 4,998,230	\$ 4,887,953	\$ 4,810,441	\$ 4,678,897
<b>Expenditures</b>				
General government administration	\$ 557,066	\$ 498,386	\$ 470,406	\$ 486,392
Judicial administration	240,034	242,188	263,146	237,262
Public safety	1,370,500	844,971	924,520	846,162
Public works	87,089	92,760	91,210	92,620
Health and welfare	331,330	337,223	313,429	354,901
Education	1,386,156	1,621,412	1,454,487	1,654,434
Parks, recreation, and cultural	35,402	37,318	39,220	38,305
Community development	80,706	105,946	106,318	123,846
Nondepartmental	27,523	52,818	37,874	37,379
Capital projects	301,444	208,093	648,833	66,863
Debt service:				
Principal	125,684	128,176	130,728	133,586
Interest and other fiscal charges	76,266	68,674	61,022	53,064
Total expenditures	\$ 4,619,200	\$ 4,237,965	\$ 4,541,193	\$ 4,124,814
Excess (deficiency) of revenues over (under) expenditures	\$ 379,030	\$ 649,988	\$ 269,248	\$ 554,083
Other financing sources (uses)				
Transfers in	\$ 1,104,890	\$ 715,354	\$ 636,234	\$ 879,660
Transfers out	(1,112,944)	(609,804)	(615,484)	(893,428)
Total other financing sources (uses)	\$ (8,054)	\$ 105,550	\$ 20,750	\$ (13,768)
Net change in fund balances	\$ 370,976	\$ 755,538	\$ 289,998	\$ 540,315
Debt service as a percentage of noncapital expenditures	4.677%	4.885%	4.926%	4.600%

Table 5

Fiscal Year					
2011	2012	2013	2014	2015	2016
\$ 2,720,255	\$ 2,726,798	\$ 2,792,621	\$ 3,000,868	\$ 3,105,774	\$ 3,210,564
357,076	368,844	375,560	380,560	389,706	401,030
13,069	11,660	9,444	18,572	12,971	12,167
148	271	461	200	7,402	4,148
58,543	54,728	43,762	41,590	42,337	39,808
15,506	14,114	17,244	12,688	14,852	13,132
83,641	118,328	74,892	100,203	31,459	48,241
1,104,672	1,235,521	1,150,212	1,333,525	1,192,723	1,327,853
221,244	674,724	365,887	280,102	438,392	821,019
\$ 4,574,154	\$ 5,204,988	\$ 4,830,083	\$ 5,168,308	\$ 5,235,616	\$ 5,877,962
\$ 734,770	\$ 885,180	\$ 876,547	\$ 907,832	\$ 908,466	\$ 961,166
240,966	241,077	243,248	248,313	255,204	277,099
744,614	825,203	820,142	847,010	928,580	1,088,708
52,035	564,859	113,702	62,766	53,477	39,370
372,672	400,767	433,413	366,276	373,225	459,318
1,845,195	1,806,451	1,976,386	1,877,290	2,148,131	1,891,452
39,621	39,236	50,882	52,178	54,998	57,867
137,377	134,348	143,030	155,553	166,046	166,290
40,442	41,052	47,220	91,862	46,994	7,412
53,372	193,907	76,662	548,408	303,803	815,764
136,715	140,061	143,690	147,611	151,796	75,878
44,835	36,389	27,660	18,638	9,354	3,645
\$ 4,442,614	\$ 5,308,530	\$ 4,952,582	\$ 5,323,737	\$ 5,400,074	\$ 5,843,969
\$ 131,540	\$ (103,542)	\$ (122,499)	\$ (155,429)	\$ (164,458)	\$ 33,993
\$ 603,532	\$ 958,542	\$ 488,913	\$ 463,843	\$ 490,251	\$ 435,424
(674,607)	(950,713)	(574,339)	(430,545)	(464,001)	(421,724)
\$ (71,075)	\$ 7,829	\$ (85,426)	\$ 33,298	\$ 26,250	\$ 13,700
\$ 60,465	\$ (95,713)	\$ (207,925)	\$ (122,131)	\$ (138,208)	\$ 47,693
4.136%	3.450%	3.514%	3.481%	3.162%	1.436%

General Governmental Tax Revenues by Source  
 Last Ten Fiscal Years  
*(modified accrual basis of accounting)*

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<b>Fiscal Year</b>	<b>Local sales and use Tax</b>	<b>Consumer Utility Tax</b>	<b>Motor Vehicle License</b>	<b>E-911 Tax</b>	<b>Taxes on Recordation and Wills</b>	<b>Other Local Tax</b>	<b>Total</b>
2016	\$ 138,331	\$ 135,842	\$ 55,960	\$ 27,344	\$ 18,425	\$ 25,128	\$ 401,030
2015	119,295	137,933	54,461	30,629	23,141	24,247	389,706
2014	113,641	138,177	54,283	33,704	19,231	21,524	380,560
2013	111,989	138,706	53,113	34,597	16,330	20,825	375,560
2012	107,600	138,686	53,724	33,000	15,937	19,897	368,844
2011	97,125	140,241	51,219	30,000	19,356	19,135	357,076
2010	95,657	141,131	55,842	24,000	17,622	18,894	353,146
2009	93,017	141,631	47,859	29,572	25,772	19,029	356,880
2008	97,120	149,008	34,003	36,429	29,293	11,500	357,353
2007	99,550	124,755	1,783	30,280	28,401	19,308	304,077

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## County of Highland, Virginia

Assessed Value and Estimated Actual Value of Taxable Property  
Last Ten Fiscal Years

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<b>Fiscal Year</b>		<b>Real Estate</b>		<b>Personal Property</b>		<b>Machinery and Tools</b>		<b>Minerals/ Mineral Lands</b>		<b>Merchants' Capital</b>
2016	\$	689,984,500	\$	21,165,297	\$	97,995	\$	96,200	\$	403,664
2015		685,407,700		20,629,094		103,157		96,200		423,955
2014		684,184,600		20,926,113		14,610		96,200		364,385
2013		680,516,700		22,737,551		15,202		96,200		280,847
2012		678,681,200		22,041,643		42,601		96,200		266,699
2011		625,543,500		22,152,201		39,388		96,200		281,830
2010		621,402,600		21,025,889		54,246		96,200		282,699
2009		618,813,500		30,335,430		128,810		96,200		261,513
2008		613,889,600		26,757,134		65,200		96,200		260,642
2007		609,965,800		28,362,526		43,141		96,200		267,887

(1) Estimated Actual Taxable Value includes information for Real Estate only.

Source: Commissioner of Revenue

Table 7

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	<b>Public Service</b>	<b>Total Taxable Assessed Value</b>	<b>Estimated Actual Taxable Value (1)</b>	<b>Assessed Value as a Percentage of Actual Value (1)</b>
\$	18,894,437	\$ 730,642,093	\$ 708,878,937	97.33%
	16,857,775	723,517,881	702,265,475	97.60%
	15,931,678	721,517,586	700,031,872	97.74%
	15,414,394	719,060,894	695,876,725	97.79%
	14,394,553	715,522,896	693,007,542	97.93%
	16,973,783	665,086,902	640,213,450	97.71%
	14,732,716	657,594,350	636,072,550	97.69%
	15,941,274	665,576,727	634,670,491	97.50%
	16,409,311	657,478,087	630,246,905	97.40%
	19,306,039	658,041,593	633,613,036	96.27%



Property Tax Rates (1)  
 Direct and Overlapping Governments  
 Last Ten Fiscal Years

Fiscal Years	Direct Rates				
	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Merchants' Capital
2016	\$ 0.42	\$ 2.25	\$ 0.40	\$ 1.00	\$ 1.00
2015	0.40	2.25	0.40	1.00	1.00
2014	0.40	2.25	0.37	1.00	1.00
2013	0.37	1.50	0.37	1.00	1.00
2012	0.37	1.50	0.40	1.00	1.00
2011	0.40	1.50	0.40	1.00	1.00
2010	0.40	1.50	0.40	1.00	1.00
2009	0.40	1.50	0.40	1.00	1.00
2008	0.40	1.50	0.40	1.00	1.00
2007	0.38	1.50	0.38	1.00	1.00

(1) Per \$100 of assessed value.

Principal Property Taxpayers  
Current Year and the Period Ten Years Prior

Taxpayer	Type Business	Fiscal Year 2016		Fiscal Year 2006	
		2016 Assessed Valuation	% of Total Assessed Valuation	2006 Assessed Valuation	% of Total Assessed Valuation
Karin Banks	Farm	\$ 7,752,000	1.120%	\$ 4,950,300	2.509%
Red Oak Ranch	Farm	2,509,700	0.364%	1,334,800	0.677%
Hayfields Ltd.	Farm	2,776,700	0.402%	894,400	0.453%
Dividing Waters Farm	Farm	2,188,300	0.317%	948,800	0.481%
Bull Pasture Mtn Ranch	Farm	2,028,600	0.294%	310,200	0.157%
		<u>\$ 17,255,300</u>	<u>2.497%</u>	<u>\$ 8,438,500</u>	<u>4.277%</u>

Source: Commissioner of Revenue

Property Tax Levies and Collections  
Last Ten Fiscal Years

Fiscal Year	(1) Total Tax Levy for Fiscal Year		Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
			Amount	Percentage of Levy		Amount	Percentage of Levy
2016	\$	3,431,640	\$ 3,293,710	95.98%	\$ -	\$ 3,293,710	95.98%
2015		3,326,987	3,200,663	96.20%	-	3,200,663	96.20%
2014		3,205,509	3,076,483	95.97%	86,582	3,163,065	98.68%
2013		2,962,159	2,856,212	96.42%	90,996	2,947,208	99.50%
2012		2,940,562	2,800,386	95.23%	135,114	2,935,500	99.83%
2011		2,949,448	2,815,516	95.46%	132,271	2,947,787	99.94%
2010		2,913,404	2,783,033	95.53%	128,551	2,911,584	99.94%
2009		3,033,067	2,884,198	95.09%	148,853	3,033,051	100.00%
2008		2,856,079	2,780,175	97.34%	75,889	2,856,064	100.00%
2007		2,805,927	2,721,421	96.99%	84,490	2,805,911	100.00%

Source: Commissioner of Revenue, County Treasurer's office

(1) Includes PPTRA reimbursement from Commonwealth of Virginia.

Ratios of Outstanding Debt by Type  
Last Ten Fiscal Years

Fiscal Years	Governmental Activities		Business-type Activities	Total Primary Government	Percentage of Personal Income (1)	Per Capita (1)
	General Obligation Bonds	Capital Leases	Revenue Bonds			
2016	\$ 44,731	\$ 100,535	\$ 147,440	\$ 292,706	0.30%	\$ 129
2015	88,939	-	152,491	241,430	0.26%	109
2014	240,735	-	157,321	398,056	0.46%	177
2013	388,346	-	161,923	550,269	0.80%	227
2012	532,036	-	166,314	698,350	1.02%	288
2011	672,096	-	170,496	842,592	1.14%	380
2010	808,810	-	174,498	983,308	1.32%	433
2009	942,396	-	178,310	1,120,706	1.70%	493
2008	1,073,124	-	181,906	1,255,030	1.73%	500
2007	1,201,300	-	113,682	1,314,982	1.81%	524

Note: Details regarding the County's outstanding debt can be found in the notes to the financial statements.

(1) See the Schedule of Demographic and Economic Statistics - Table 14.

Ratio of Net General Bonded Debt to  
Assessed Value and Net Bonded Debt Per Capita  
Last Ten Fiscal Years

<b>Fiscal Year</b>	<b>Gross Bonded Debt</b>	<b>Less: Amounts Reserved for Debt Service</b>	<b>Net Bonded Debt (3)</b>	<b>Ratio of Net General Obligation Debt to Assessed Value (2)</b>	<b>Net Bonded Debt per Capita (1)</b>
2016	\$ 44,731	\$ -	\$ 44,731	0.01%	\$ 20
2015	88,939	-	88,939	0.01%	40
2014	240,735	-	240,735	0.03%	107
2013	388,346	-	388,346	0.05%	170
2012	532,036	-	532,036	0.07%	219
2011	672,096	-	672,096	0.10%	303
2010	808,810	-	808,810	0.12%	356
2009	942,396	(46,372)	988,768	0.15%	435
2008	1,073,124	101,896	971,228	0.15%	387
2007	1,201,300	72,558	1,128,742	0.17%	450

(1) Population data can be found in the Schedule of Demographic and Economic Statistics - Table 14.

(2) See the Schedule of Assessed Value and Estimated Actual Value of Taxable Property - Table 7.

(3) Includes all long-term general obligation bonded debt and Literary Fund Loans, excludes revenue bonds, capital leases, and compensated absences.

Pledged-Revenue Coverage  
Last Ten Fiscal Years

Water Revenue Bonds						
Fiscal Year	Water Charges and Other	Less: Operating Expenses	Net Available Revenue	Debt Service		Coverage
				Principal	Interest	
2016	\$ 34,371	\$ 51,977	\$ (17,606)	\$ 5,051	\$ 6,781	-148.80%
2015	28,950	59,705	(30,755)	4,830	7,002	-259.93%
2014	40,604	58,039	(17,435)	4,602	7,242	-147.21%
2013	34,711	61,730	(27,019)	4,390	7,442	-228.36%
2012	33,181	52,233	(19,052)	4,182	7,662	-160.86%
2011	35,333	42,374	(7,041)	4,002	7,842	-59.45%
2010	34,771	38,716	(3,945)	3,813	8,032	-33.31%
2009	34,992	38,176	(3,184)	3,597	10,831	-22.07%
2008	37,834	39,045	(1,211)	2,776	5,384	-14.84%
2007	27,241	41,310	(14,069)	2,602	5,558	-172.41%

Demographic and Economic Statistics  
Last Ten Fiscal Years

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<b>Fiscal Year</b>	<b>Population</b>	<b>Personal Income</b>	<b>Per Capita Personal Income</b>	<b>Median Age (1)</b>	<b>School Enrollment</b>	<b>Unemploy- ment Rate</b>
2016	2,277 \$	99,006,237 \$	43,481	59	193	3.10%
2015	2,215	92,583,880	41,185	58	183	3.30%
2014	2,245	87,004,975	38,755	57	189	5.61%
2013	2,288	68,648,522	28,297	54	193	6.10%
2012	2,426	68,648,522	28,297	53	228	6.10%
2011	2,215	74,052,000	31,673	53	226	6.20%
2010	2,273	74,774,000	31,497	51	232	8.10%
2009	2,273	65,998,828	29,036	49	243	9.60%
2008	2,510	72,549,040	28,904	49	272	3.30%
2007	2,510	72,549,040	28,904	49	285	3.00%
2006	2,400	66,189,600	27,579	49	305	3.30%

Source: Weldon Cooper Center, Annual school report - prepared by the School Board, [www.fedstats.gov](http://www.fedstats.gov),  
Bureau of Labor Statistics

Full-time Equivalent County Government Employees by Function  
Last Five Fiscal Years

Function	Fiscal Year				
	2012	2013	2014	2015	2016
General government	16	16	16	16	16
Judicial administration	5	5	5	5	5
Public safety					
Sheriff's department	15	15	15	15	15
Fire and rescue				1	1
Building inspections	2	2	2	2	2
Animal control	1	1	1	1	1
Public works					
General maintenance	3	3	3	3	3
Landfill	7	7	7	7	6
Health and welfare					
Department of social services	4	4	4	4	5
Culture and recreation					
Library	2	2	2	2	2
Totals	55	55	55	56	56

Source: Individual County departments



Capital Asset Statistics by Function  
Last Five Fiscal Years

Function	Fiscal Year				
	2012	2013	2014	2015	2016
General government					
Administration buildings	4	4	4	4	4
Vehicles	2	2	2	2	2
Public safety					
Sheriffs department:					
Patrol units	9	9	9	9	10
Building inspections:					
Vehicles	1	1	1	1	1
Animal control:					
Vehicles	1	1	1	1	1
Public works					
General maintenance:					
Trucks/vehicles	1	1	1	1	1
Landfill:					
Vehicles	1	1	1	1	1
Equipment	2	2	2	2	2
Sites	1	1	1	1	1
Component Unit - School Board					
Education:					
Schools	2	2	2	2	2
School buses	10	9	9	8	7
School admin vehicles				7	7

Source: Individual County departments

## **COMPLIANCE**

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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### TO THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF HIGHLAND, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund and the aggregate remaining fund information of County of Highland, Virginia as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise County of Highland, Virginia's basic financial statements, and have issued our report thereon dated November 18, 2016.

#### Internal Control over Financial Reporting

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

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

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

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether County of Highland, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

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

*Robinson, Farmer, Cox Associates*

Staunton, Virginia  
November 18, 2016

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

### TO THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF HIGHLAND, VIRGINIA

#### Report on Compliance for Each Major Federal Program

We have audited County of Highland, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of County of Highland, Virginia's major federal programs for the year ended June 30, 2016. County of Highland, Virginia's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

#### *Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to its federal programs.

#### *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of County of Highland, Virginia's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about County of Highland, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

#### *Opinion on Each Major Federal Program*

In our opinion, County of Highland, Virginia complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

## Report on Internal Control over Compliance

Management of County of Highland, Virginia is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered County of Highland, Virginia's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of County of Highland, Virginia's internal control over compliance.

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

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

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

*Robinson, Farnum, Cox Associates*

Staunton, Virginia  
November 18, 2016

County of Highland, Virginia

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2016

Federal Grantor/State Pass - Through Grantor/Program Title or Cluster	Federal CFDA Number	Pass-through Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through Payments:			
Department of Social Services:			
Promoting Safe and Stable Families	93.556	Not Available	\$ 12,398
Temporary Assistance for Needy Families (TANF)	93.558	Not Available	30,460
Refugee and Entrant Assistance - State Administered Programs	93.566	Not Available	31
Low-Income Home Energy Assistance	93.568	Not Available	3,702
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	Not Available	4,609
Stephanie Tubbs Jones Child Welfare Services Program	93.645	Not Available	179
Foster Care - Title IV-E	93.658	Not Available	17,439
Adoption Assistance	93.659	Not Available	12,936
Social Services Block Grant	93.667	Not Available	25,774
Chafee Foster Care Independence Program	93.674	Not Available	164
Children's Health Insurance Program	93.767	Not Available	1,389
Medical Assistance Program	93.778	Not Available	46,749
Total Department of Health and Human Services			\$ 155,830
Department of Agriculture:			
Pass Through Payments:			
Child Nutrition Cluster:			
Department of Agriculture:			
Food Distribution - School Nutrition Program	10.555	Not Available	\$ 11,589
Department of Education:			
National School Lunch Program	10.555	Not Available	35,873
Subtotal	10.555		\$ 47,462
Department of Agriculture:			
School Breakfast Program	10.553	Not Available	68,007
Total Child Nutrition Cluster			\$ 115,469
Schools and Roads - Grants to States	10.665	Not Available	39,658
Department of Social Services:			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	Not Available	40,018
Total Department of Agriculture			\$ 195,145
Department of Transportation:			
Pass Through Payments:			
Department of Motor Vehicles:			
Highway Planning and Construction	20.205	Not Available	\$ 503,604
Total Department of Transportation			\$ 503,604
Department of Homeland Security			
Pass Through Payments:			
Department of Emergency Services:			
Pre-Disaster Mitigation	97.047	Not Available	\$ 17,500
Total Department of Homeland Security			\$ 17,500
Department of Justice			
Pass Through Payments:			
Department of Criminal Justice Services:			
Equitable Sharing Program	16.922	Not Available	\$ 194
Total Department of Justice			\$ 194
Environmental Protection Agency:			
Pass Through Payments:			
Department of Environmental Quality:			
DEQ Royalty Grants	66.000	Not Available	\$ 261
Total Environmental Protection Agency			\$ 261

County of Highland, Virginia

Schedule of Expenditures of Federal Awards (Continued)  
Year Ended June 30, 2016

<b>Federal Grantor/State Pass - Through Grantor/Program Title or Cluster</b>	<b>Federal CFDA Number</b>	<b>Pass-through Identifying Number</b>	<b>Federal Expenditures</b>
Department of Education:			
Pass Through Payments:			
Department of Education:			
Title I Grants to Local Educational Agencies	84.010	Not Available	\$ 31,163
Special Education Cluster:			
Special Education-Grants to States	84.027	Not Available	112,864
Special Education-Preschool Grants	84.173	Not Available	1,867
Advanced Placement Program	84.330	Not Available	410
Rural Education	84.358	Not Available	22,659
Supporting Effective Instruction State Grant	84.367	Not Available	28,688
Total Department of Education			\$ 197,651
Total Expenditures of Federal Awards			\$ 1,070,185

Notes to Schedule of Expenditures of Federal Awards:

NOTE A - BASIS OF PRESENTATION

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

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) County of Highland, Virginia has elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance

NOTE C - FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

NOTE D - RELATIONSHIP TO FINANCIAL STATEMENTS

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

Primary government:	
Governmental funds	\$ 821,019
School Board funds	352,778
Payments in lieu of tax received from the Department of the Interior not included on schedule	(103,612)
Total primary government	\$ 1,070,185



**COUNTY OF HIGHLAND, VIRGINIA**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2016**

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**Section I-Summary of Auditors' Results**

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Financial Statements

Type of auditors' report issued: unmodified

Internal control over financial reporting:

- Material weakness(es) identified?        yes   x   no  
- Significant deficiency(ies) identified?        yes   x   none reported

Non compliance material to financial statements noted?        yes   x   no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified?        yes   x   no  
- Significant deficiency(ies) identified?        yes   x   none reported

Type of auditors' report issued on compliance for major programs: unmodified

Any audit findings disclosed that are required to be reported  
in accordance with 2 CFR section 200.516(a)?        yes   x   no

Identification of major programs:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
20.205	..... Highway Planning and Construction

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

Auditee qualified as low-risk auditee?        yes   x   no

**Section II-Financial Statement Findings**

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There are no financial statement findings to report.

**Section III-Federal Award Findings and Questioned Costs**

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There are no federal award findings and questioned costs to report.

**Section IV-Prior Year Findings**

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There are no prior year findings.