

COUNTY OF RUSSELL, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

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

TABLE OF CONTENTS

INTRODUCTORY SECTION

List of Elected and Appointed Officials		<u>Page</u> 1
---	--	------------------

FINANCIAL SECTION

Independent Auditors' Report		2-4
------------------------------------	--	-----

	<u>Exhibit</u>	<u>Page</u>
Basic Financial Statements:		
Government-wide Financial Statements:		
Statement of Net Position	1	5-6
Statement of Activities	2	7
Fund Financial Statements:		
Balance Sheet - Governmental Funds	3	8
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	4	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	5	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	6	11
Statement of Net Position - Proprietary Funds	7	12
Statement of Revenues, Expenses, and Changes in Net Position - Proprietary Funds	8	13
Statement of Cash Flows - Proprietary Funds	9	14
Statement of Fiduciary Net Position - Fiduciary Funds	10	15
Notes to the Financial Statements		16-75

Required Supplementary Information:

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual		
General Fund	11	76
Special Revenue Fund - Coal Road Fund	12	77
Special Revenue Fund - Workforce Investment Board Fund.....	13	78
Schedule of OPEB Funding Progress	14	79
Schedule of Employer's Proportionate Share of Net Pension Liability.....	15	80
Schedule of Components of and Changes in Net Pension Liability and Related Ratios - Component Unit School Board (nonprofessional)	16	81
Schedule of Employer Contributions	17	82
Notes to Required Supplementary Information.....	18	83

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

TABLE OF CONTENTS (CONTINUED)

FINANCIAL SECTION (CONTINUED)

	<u>Exhibit</u>	<u>Page</u>
Other Supplementary Information:		
Combined Statement of Changes in Assets and Liabilities - Agency Funds	19	84
Discretely Presented Component Unit - School Board:		
Balance Sheet	20	85
Statement of Revenues, Expenditures, and Changes in Fund Balances -- Governmental Funds	21	86
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual	22	87
	<u>Schedule</u>	<u>Page</u>
Supporting Schedules:		
Schedule of Revenues - Budget and Actual - Governmental Funds	1	88-92
Schedule of Expenditures - Budget and Actual - Governmental Funds	2	93-95
Other Statistical Information:		
	<u>Table</u>	<u>Page</u>
Government-wide Information:		
Government-Wide Expenses by Function	1	96
Government-Wide Revenues	2	97
Fund Information:		
General Governmental Expenditures by Function	3	98
General Governmental Revenues by Source	4	99
Property Tax Levies and Collections	5	100
Assessed Value of Taxable Property	6	101
Property Tax Rates	7	102
Ratio of Net General Bonded Debt to Assessed Value and Net Bonded Debt Per Capita	8	103
Ratio of Annual Debt Service Expenditures for General Bonded Debt to Total General Governmental Expenditures.....	9	104

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

TABLE OF CONTENTS (CONTINUED)

COMPLIANCE SECTION

	<u>Page</u>
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 <i>Government Auditing Standards</i>	105-106
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by Uniform Guidance	107-108
Schedule of Expenditures of Federal Awards	109-110
Schedule of Findings and Questioned Costs	111-113

INTRODUCTORY SECTION

COUNTY OF RUSSELL, VIRGINIA

BOARD OF SUPERVISORS

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

COUNTY SCHOOL BOARD

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

SOCIAL SERVICES BOARD

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

OTHER OFFICIALS

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

FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Russell, Virginia, as of and for the year ended June 30, 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 did not audit the financial statements of Russell County Public Service Authority. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Russell County Public Service Authority, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units

The financial statements referred to above do not include the financial data of the County's legally separate Component unit - The Industrial Development Authority of Russell County, Virginia (IDA), which accounting principles generally accepted in the United States of America require to be reported with the financial data of the primary government. As a result, the primary government financial statements do not purport to, and do not, present fairly the financial position of the reporting entity of the County of Russell, Virginia as of June 30, 2016, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the "Basis for Qualified Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate discretely presented component units of the County of Russell, Virginia, as of June 30, 2016, and the changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the County of Russell, 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 20 to the financial statements, in 2016, the County adopted new accounting guidance, GASB Statement No. 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding on pages 76-78 and 79-83 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Required Supplementary Information (continued)

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

Other Information

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

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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The other 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 15, 2017, on our consideration of the County of Russell, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County of Russell, Virginia's internal control over financial reporting and compliance.

Robinson, Turner, Co. Associates

Blacksburg, Virginia
February 15, 2017

Basic Financial Statements

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,333,268	\$ -	\$ 6,333,268
Receivables (net of allowance for uncollectibles):			
Taxes receivable	8,147,744	-	8,147,744
Accounts receivable	576,142	7,391	583,533
Grants receivable	-	-	-
Due from component unit	2,301,066	-	2,301,066
Due from other governmental units	2,594,586	-	2,594,586
Inventories	-	-	-
Prepaid items	-	-	-
Restricted assets:			
Cash and cash equivalents	45,033	49,575	94,608
Noncurrent assets:			
Capital assets (net of accumulated depreciation):			
Land	568,695	-	568,695
Land rights	-	-	-
Land improvements	-	-	-
Buildings and improvements	13,290,217	-	13,290,217
Machinery and equipment	1,382,311	-	1,382,311
Utility plant in service	-	2,861,558	2,861,558
Construction in progress	-	-	-
Accumulated Depreciation	-	-	-
Total assets	<u>\$ 35,239,062</u>	<u>\$ 2,918,524</u>	<u>\$ 38,157,586</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 800,654	\$ 7,030	\$ 807,684
Differences between expected and actual experience	-	-	-
Total deferred outflows of resources	<u>\$ 800,654</u>	<u>\$ 7,030</u>	<u>\$ 807,684</u>
LIABILITIES			
Accounts payable	\$ 1,608,985	\$ 24,270	\$ 1,633,255
Accrued liabilities	1,805	-	1,805
Customer deposits	-	-	-
Accrued interest payable	153,570	1,592	155,162
Line of credit	-	-	-
Due to primary government	-	-	-
Long-term liabilities:			
Due within one year	1,859,760	22,814	1,882,574
Due in more than one year	17,545,790	669,521	18,215,311
Total liabilities	<u>\$ 21,169,910</u>	<u>\$ 718,197</u>	<u>\$ 21,888,107</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ 5,236,491	\$ -	\$ 5,236,491
Differences between expected and actual experience	225,390	1,590	226,980
Items related to measurement of net pension liability	635,816	4,486	640,302
Total deferred inflows of resources	<u>\$ 6,097,697</u>	<u>\$ 6,076</u>	<u>\$ 6,103,773</u>
NET POSITION			
Net investment in capital assets	\$ 7,245,255	\$ 2,211,049	\$ 9,456,304
Restricted:			
Coal Road	115,224	-	115,224
Construction	-	-	-
Debt service and bond covenants	-	49,575	49,575
Other	-	-	-
Unrestricted (deficit)	1,411,630	(59,343)	1,352,287
Total net position	<u>\$ 8,772,109</u>	<u>\$ 2,201,281</u>	<u>\$ 10,973,390</u>

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

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

	Component Units		
	School Board	Russell County Public Service Authority	Castlewood Water and Sewage Authority
ASSETS			
Cash and cash equivalents	\$ 1,739,428	\$ 100,253	\$ 195,118
Receivables (net of allowance for uncollectibles):			
Taxes receivable	-	-	-
Accounts receivable	14,612	304,610	171,338
Grants receivable	-	17,768	251,800
Due from component unit	-	-	-
Due from other governmental units	1,476,236	-	16,928
Inventories	-	31,675	-
Prepaid items	373,568	-	-
Restricted assets:			
Cash and cash equivalents	-	168,893	120,398
Noncurrent assets:			
Capital assets (net of accumulated depreciation):			
Land	5,636,345	106,332	130,080
Land rights	-	-	13,004
Land improvements	-	-	-
Buildings and improvements	9,941,263	107,097	253,485
Machinery and equipment	2,096,958	-	106,083
Utility plant in service	-	22,723,820	11,946,931
Construction in progress	17,071	547,776	701,922
Accumulated Depreciation	-	(6,452,353)	-
Total assets	<u>\$ 21,295,481</u>	<u>\$ 17,655,871</u>	<u>\$ 13,907,087</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 2,968,507	\$ 26,200	\$ 32,902
Differences between expected and actual experience	14,330	70,234	-
Total deferred outflows of resources	<u>\$ 2,982,837</u>	<u>\$ 96,434</u>	<u>\$ 32,902</u>
LIABILITIES			
Accounts payable	\$ 126,885	\$ 210,763	\$ 423,957
Accrued liabilities	928,567	56,769	6,022
Customer deposits	-	10,420	71,749
Accrued interest payable	-	11,732	7,641
Line of credit	-	-	232,656
Due to primary government	2,101,066	-	-
Long-term liabilities:			
Due within one year	537,806	179,007	221,023
Due in more than one year	36,140,063	6,370,453	5,647,556
Total liabilities	<u>\$ 39,834,387</u>	<u>\$ 6,839,144</u>	<u>\$ 6,610,604</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred revenue - property taxes	\$ -	\$ -	\$ -
Items related to measurement of net pension liability	3,415,155	6,908	14,766
Differences between expected and actual experience	-	-	-
Total deferred inflows of resources	<u>\$ 3,415,155</u>	<u>\$ 6,908</u>	<u>\$ 14,766</u>
NET POSITION			
Net investment in capital assets	\$ 17,691,637	\$ 10,503,827	\$ 6,991,662
Restricted:			
Coal Road	-	-	-
Construction	-	1,059	-
Debt service and bond covenants	-	97,975	120,398
Other	-	69,859	-
Unrestricted (deficit)	(36,662,861)	233,533	202,559
Total net position	<u>\$ (18,971,224)</u>	<u>\$ 10,906,253</u>	<u>\$ 7,314,619</u>

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position					
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	School Board	Component Units	
					Governmental Activities	Business-type Activities			Russell County Public Service Authority	Castlewood Water and Sewerage Authority
PRIMARY GOVERNMENT:										
Governmental activities:										
General government administration	\$ 2,099,001	\$ -	\$ 336,465	\$ -	\$ (1,762,536)	\$ -	\$ (1,762,536)			
Judicial administration	2,080,921	60,133	704,510	-	(1,316,278)	-	(1,316,278)			
Public safety	5,999,917	97,621	1,801,305	61,200	(4,039,791)	-	(4,039,791)			
Public works	3,547,942	143,454	14,264	-	(3,390,224)	-	(3,390,224)			
Health and welfare	8,926,570	-	7,667,428	-	(1,259,142)	-	(1,259,142)			
Education	7,744,464	-	-	-	(7,744,464)	-	(7,744,464)			
Parks, recreation, and cultural	481,145	6,821	93,017	-	(381,307)	-	(381,307)			
Community development	1,025,246	31,219	-	-	(994,027)	-	(994,027)			
Interest on long-term debt	342,729	-	-	-	(342,729)	-	(342,729)			
Total governmental activities	\$ 32,247,935	\$ 339,248	\$ 10,616,989	\$ 61,200	\$ (21,230,498)	\$ -	\$ (21,230,498)			
Business-type activities:										
Service Authority	\$ 441,642	\$ 91,341	\$ -	\$ -	\$ -	\$ (350,301)	\$ (350,301)			
Total primary government	\$ 32,689,577	\$ 430,589	\$ 10,616,989	\$ 61,200	\$ (21,230,498)	\$ (350,301)	\$ (21,580,799)			
COMPONENT UNITS:										
School Board	\$ 39,060,350	\$ 381,790	\$ 32,247,645	\$ -			\$ (6,430,915)	\$ -	\$ -	\$ -
Russell County Public Service Authority	1,987,080	1,345,414	-	585,032			-	(56,634)	-	-
Castlewood Water and Sewer Authority	1,493,173	1,329,627	-	399,145			-	-	-	235,599
Total component units	\$ 42,540,603	\$ 3,056,831	\$ 32,247,645	\$ 984,177			\$ (6,430,915)	\$ (56,634)	\$ -	\$ 235,599
General revenues:										
General property taxes					\$ 15,198,122	\$ -	\$ 15,198,122	\$ -	\$ -	\$ -
Other local taxes:										
Local sales and use taxes					2,013,659	-	2,013,659	-	-	-
Coal road and severance taxes					514,382	-	514,382	-	-	-
Consumers' utility taxes					527,491	-	527,491	-	-	-
Motor vehicle licenses					518,092	-	518,092	-	-	-
Other local taxes					208,301	-	208,301	-	-	-
Unrestricted revenues from use of money and property					223,008	-	223,008	8,030	1,008	-
Miscellaneous					180,343	-	180,343	246,281	132,777	-
Payments from the County of Russell, Virginia					-	-	-	6,871,177	283,936	-
Grants and contributions not restricted to specific programs					2,501,627	-	2,501,627	-	-	-
Transfers					(248,016)	248,016	-	-	-	-
Total general revenues and transfers					\$ 21,637,009	\$ 248,016	\$ 21,885,025	\$ 7,125,488	\$ 417,721	\$ -
Change in net position					\$ 406,511	\$ (102,285)	\$ 304,226	\$ 694,573	\$ 361,087	\$ 235,599
Net position - beginning, as restated					8,365,598	2,303,566	10,669,164	(19,665,797)	10,545,166	7,079,020
Net position - ending					\$ 8,772,109	\$ 2,201,281	\$ 10,973,390	\$ (18,971,224)	\$ 10,906,253	\$ 7,314,619

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

County of Russell, Virginia
Balance Sheet
Governmental Funds
June 30, 2016

	<u>General</u>	<u>Coal Road</u>	<u>Workforce Investment Board</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 3,328,865	\$ -	\$ -	\$ 3,328,865
Receivables (net of allowance for uncollectibles):				
Taxes receivable	8,147,744	-	-	8,147,744
Accounts receivable	92,390	11,425	-	103,815
Due from other funds	111,220	65,105	-	176,325
Due from component unit	2,301,066	-	-	2,301,066
Due from other governmental units	2,316,572	-	278,014	2,594,586
Restricted assets:				
Cash and cash equivalents	-	45,033	-	45,033
Total assets	<u>\$ 16,297,857</u>	<u>\$ 121,563</u>	<u>\$ 278,014</u>	<u>\$ 16,697,434</u>
LIABILITIES				
Accounts payable	\$ 730,426	\$ 6,339	\$ 188,900	\$ 925,665
Reconciled overdraft	-	-	24,230	24,230
Accrued liabilities	1,805	-	-	1,805
Due to other funds	65,105	-	111,220	176,325
Total liabilities	<u>\$ 797,336</u>	<u>\$ 6,339</u>	<u>\$ 324,350</u>	<u>\$ 1,128,025</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	\$ 8,023,191	\$ -	\$ -	\$ 8,023,191
FUND BALANCES				
Restricted:				
Coal Road	\$ -	\$ 115,224	\$ -	\$ 115,224
Committed:				
Unassigned:	7,477,330	-	(46,336)	7,430,994
Total fund balances	<u>\$ 7,477,330</u>	<u>\$ 115,224</u>	<u>\$ (46,336)</u>	<u>\$ 7,546,218</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 16,297,857</u>	<u>\$ 121,563</u>	<u>\$ 278,014</u>	<u>\$ 16,697,434</u>

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

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

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

Total fund balances per Exhibit 3 - Balance Sheet - Governmental Funds \$ 7,546,218

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land	\$	568,695	
Buildings and improvements		13,290,217	
Machinery and equipment		1,382,311	15,241,223

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

Unavailable revenue - property taxes	\$	2,786,700	
Items related to measurement of net pension liability		(861,206)	1,925,494

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.

800,654

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

2,817,640

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

Bonds and literary loans	\$	(12,097,866)	
Capital leases		(113,469)	
Unamortized premium		(216,099)	
Accrued interest payable		(153,570)	
Landfill accrued closure and postclosure liability		(278,220)	
Net OPEB obligation		(146,725)	
Compensated absences		(624,908)	
Net pension liability		(5,928,263)	(19,559,120)

Net position of governmental activities

\$ 8,772,109

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

County of Russell, Virginia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2016

	General	Coal Road	Workforce Investment Board	Total
REVENUES				
General property taxes	\$ 15,071,101	\$ -	\$ -	\$ 15,071,101
Other local taxes	3,524,734	257,191	-	3,781,925
Permits, privilege fees, and regulatory licenses	30,258	-	-	30,258
Fines and forfeitures	14,136	-	-	14,136
Revenue from the use of money and property	214,695	1,047	-	215,742
Charges for services	294,854	-	-	294,854
Miscellaneous	180,343	-	-	180,343
Recovered costs	1,076,504	-	6,101	1,082,605
Intergovernmental:				
Commonwealth	8,447,216	-	-	8,447,216
Federal	2,629,600	-	2,103,000	4,732,600
Total revenues	<u>\$ 31,483,441</u>	<u>\$ 258,238</u>	<u>\$ 2,109,101</u>	<u>\$ 33,850,780</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,787,592	\$ -	\$ -	\$ 1,787,592
Judicial administration	2,193,822	-	-	2,193,822
Public safety	6,914,427	-	-	6,914,427
Public works	2,899,065	630,555	-	3,529,620
Health and welfare	7,071,353	-	2,137,788	9,209,141
Education	6,729,363	-	-	6,729,363
Parks, recreation, and cultural	468,670	-	-	468,670
Community development	1,048,554	-	-	1,048,554
Nondepartmental	515,527	-	-	515,527
Debt service:				
Principal retirement	1,369,256	-	-	1,369,256
Interest and other fiscal charges	378,465	-	-	378,465
Total expenditures	<u>\$ 31,376,094</u>	<u>\$ 630,555</u>	<u>\$ 2,137,788</u>	<u>\$ 34,144,437</u>
Excess (deficiency) of revenues over (under) expenditures	\$ 107,347	\$ (372,317)	\$ (28,687)	\$ (293,657)
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ (248,016)	\$ -	\$ -	\$ (248,016)
Total other financing sources (uses)	<u>\$ (248,016)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (248,016)</u>
Net change in fund balances	\$ (140,669)	\$ (372,317)	\$ (28,687)	\$ (541,673)
Fund balances - beginning	7,617,999	487,541	(17,649)	8,087,891
Fund balances - ending	<u>\$ 7,477,330</u>	<u>\$ 115,224</u>	<u>\$ (46,336)</u>	<u>\$ 7,546,218</u>

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

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

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

Net change in fund balances - total governmental funds \$ (541,673)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Capital outlay	\$	431,728	
Reversion of assets back to the School Board (net)		(238,977)	
Removal of capital asset (net)		(9,121)	
Depreciation expense		<u>(930,037)</u>	(746,407)

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

Property taxes	\$	127,021	
Change in deferred inflows of resources related to the measurement of the net pension liability		<u>591,857</u>	718,878

The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when obligations is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

Issuance of long-term obligations:			
Landfill closure and postclosure liability	\$	(2,482)	
Principal Payments:			
Bonds, literary loans, and notes		1,257,881	
Capital leases		<u>111,375</u>	1,366,774

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.

(Increase) decrease in compensated absences	\$	(25,318)	
(Increase) decrease in accrued interest payable		18,932	
(Increase) decrease in net OPEB obligation		(35,264)	
Amortization of bond premiums		16,804	
(Increase) decrease in net pension liability		(185,938)	
Change in deferred outflows of resources related to pension payments subsequent to the measurement date		<u>9,599</u>	(201,185)

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.

(189,876)

Change in net position of governmental activities

\$ 406,511

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

County of Russell, Virginia
Statement of Net Position
Proprietary Funds
June 30, 2016

	Enterprise Fund Dante Fund	Internal Service Fund Self Health Insurance
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ 3,028,633
Interest receivable	48	1,266
Accounts receivable, net of allowance for uncollectibles	7,343	471,061
Total current assets	<u>\$ 7,391</u>	<u>\$ 3,500,960</u>
Noncurrent assets:		
Restricted assets:		
Cash and cash equivalents (in custody of others)	\$ 49,575	\$ -
Capital assets:		
Utility plant in service	\$ 5,240,699	\$ -
Less accumulated depreciation	(2,379,141)	-
Total capital assets	<u>\$ 2,861,558</u>	<u>\$ -</u>
Total noncurrent assets	<u>\$ 2,911,133</u>	<u>\$ -</u>
Total assets	<u>\$ 2,918,524</u>	<u>\$ 3,500,960</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to measurement date	\$ 7,030	\$ -
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 24,270	\$ 683,320
Accrued interest payable	1,592	-
Revenue bonds - current portion	22,814	-
Total current liabilities	<u>\$ 48,676</u>	<u>\$ 683,320</u>
Noncurrent liabilities:		
Revenue bonds - net of current portion	\$ 627,695	\$ -
Net Pension Liability	41,826	-
Total noncurrent liabilities	<u>\$ 669,521</u>	<u>\$ -</u>
Total liabilities	<u>\$ 718,197</u>	<u>\$ 683,320</u>
DEFERRED INFLOWS OF RESOURCES		
Differences between expected and actual experience	\$ 1,590	\$ -
Items related to measurement of net pension liability	4,486	-
Total deferred inflows of resources	<u>\$ 6,076</u>	<u>\$ -</u>
NET POSITION		
Net investment in capital assets	\$ 2,211,049	\$ -
Restricted for debt service and bond covenants	49,575	-
Unrestricted	(59,343)	2,817,640
Total net position	<u>\$ 2,201,281</u>	<u>\$ 2,817,640</u>

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

County of Russell, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Fund	Internal Service Fund
	Dante Fund	Self Health Insurance
OPERATING REVENUES		
Charges for services:		
Sewer revenues	\$ 91,341	\$ -
Insurance premiums	-	5,763,984
Total operating revenues	<u>\$ 91,341</u>	<u>\$ 5,763,984</u>
OPERATING EXPENSES		
Salaries and benefits	\$ 137,170	\$ -
Professional services	8,260	-
Utilities	6,242	-
Materials and supplies	40,899	-
Office expenses	40,602	-
Repairs and maintenance	21,340	-
Insurance claims and expenses	-	5,961,126
Depreciation	131,018	-
Total operating expenses	<u>\$ 385,531</u>	<u>\$ 5,961,126</u>
Operating income (loss)	<u>\$ (294,190)</u>	<u>\$ (197,142)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment income	\$ -	\$ 7,266
Contribution to Castlewood PSA	(26,491)	-
Interest expense	(29,620)	-
Total nonoperating revenues (expenses)	<u>\$ (56,111)</u>	<u>\$ 7,266</u>
Income before transfers	<u>\$ (350,301)</u>	<u>\$ (189,876)</u>
Transfers in	\$ 248,016	\$ -
Change in net position	<u>\$ (102,285)</u>	<u>\$ (189,876)</u>
Total net position - beginning	2,303,566	3,007,516
Total net position - ending	<u>\$ 2,201,281</u>	<u>\$ 2,817,640</u>

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

County of Russell, Virginia
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2016

	Enterprise Fund	Internal Service Fund
	Dante Fund	Self Health Insurance
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 91,532	\$ -
Receipts for insurance premiums	-	5,753,941
Payments to suppliers	(120,126)	-
Payments to employees	(141,483)	-
Payments for premiums	-	(6,166,056)
Net cash provided by (used for) operating activities	<u>\$ (170,077)</u>	<u>\$ (412,115)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	<u>\$ 248,016</u>	<u>\$ -</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on bonds	\$ (21,892)	\$ -
Contribution to Castlewood PSA	(26,491)	-
Interest payments	(29,556)	-
Net cash provided by (used for) capital and related financing activities	<u>\$ (77,939)</u>	<u>\$ -</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest income	\$ -	\$ 7,260
Net increase (decrease) in cash and cash equivalents	\$ -	\$ (404,855)
Cash and cash equivalents - beginning	49,575	3,433,488
Cash and cash equivalents - ending	<u>\$ 49,575</u>	<u>\$ 3,028,633</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	<u>\$ (294,190)</u>	<u>\$ (197,142)</u>
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	\$ 131,018	\$ -
(Increase) decrease in accounts receivable	191	(10,043)
(Increase) decrease in Pension contributions subsequent to measurement date	(1,449)	-
Increase (decrease) in accounts payable	(2,783)	(204,930)
Increase (decrease) in items related to measurement of net pension liability	(4,176)	-
Increase (decrease) net pension liability	1,312	-
Total adjustments	<u>\$ 124,113</u>	<u>\$ (214,973)</u>
Net cash provided by (used for) operating activities	<u>\$ (170,077)</u>	<u>\$ (412,115)</u>

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

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

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ 60,248
Total assets	<u>\$ 60,248</u>
LIABILITIES	
Amounts held for Social Services clients	\$ 67,837
Amounts held for VASAP	(7,589)
Total liabilities	<u>\$ 60,248</u>

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

COUNTY OF RUSSELL, VIRGINIA

NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1-Summary of Significant Accounting Policies:

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

A. Financial Reporting Entity

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

Blended component units - None

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

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

The Industrial Development Authority of Russell County, Virginia (IDA) encourages and provides financing for industrial development in Russell County. The financial statements of the IDA have been included because the County appoints the governing body and has made moral obligation resolutions to finance deficits of any kind or nature that may occur each year subject to annual appropriation. Complete financial statements of the IDA can be obtained in writing at 137 Highland Drive, Lebanon, VA 24266. As of the release date of this report, the IDA's report was not available.

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

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

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

A. Financial Reporting Entity (Continued)

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

Jointly Governed Organizations - The County, in conjunction with other local jurisdictions, participates in supporting the Southwest Virginia Regional Jail and the Cumberland Mountain Community Services Board. The governing bodies of these organizations are appointed by the respective governing bodies of the participating jurisdictions. During the year, the County contributed \$2,964,953 to the Regional Jail and \$39,996 to the Community Services Board. The County does not have any ongoing financial responsibility for these Organizations.

B. Government-wide and Fund Financial Statements

Government-wide financial statements - The reporting model includes financial statements prepared using full accrual accounting for all of the government's activities. This approach includes not just current assets and liabilities but also capital assets and long-term liabilities (such as buildings and general obligation debt).

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

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

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

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

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

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

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

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

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

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

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

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Accordingly, real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for un-collectible amounts. Property taxes not collected within 60 days after year-end are reflected as unavailable revenues.

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

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

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

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

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for and reports all financial resources of the general government, except those required to be accounted for in other funds. The General Fund includes the activities of the Social Services, E-911, Dog Tag, Damage Stamp, Revenue Anticipation Note, Law Library, and Knox Creek Funds. The aforementioned Funds have been merged with the General Fund for financial reporting purposes.

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

The government reports the following major proprietary funds:

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

Additionally, the government reports the following fund types:

Internal Service Funds account for the financing of goods and services provided to other departments or agencies of the government, or to other governments, on a cost reimbursement basis. The Internal Service Fund consists of the Self Health Insurance Fund.

Fiduciary funds (Trust and Agency Funds) account for assets held by the government in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. Agency funds include the Special Welfare Fund and VASAP Fund. The Special Welfare Fund includes activity of the Title XX and the SSI Fund, which have all been merged for financial reporting purposes.

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

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

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

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

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the County's Internal Service Funds are charges to departments for health insurance. Operating expenses for Internal Service Funds include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

1. Cash and Cash Equivalents

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

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").

2. Investments

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

3. Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e. the current portion of interfund loans). All other outstanding balances between funds are reported as "advances to/from other funds" (i.e. the noncurrent portion of interfund loans).

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

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

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

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

4. Property Taxes

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

5. Allowance for Uncollectible Accounts

The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$1,058,736 at June 30, 2016 and is comprised solely of property taxes.

6. Use of Estimates

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

7. Capital Assets

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

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

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

Property, plant, equipment, and infrastructure of the primary government, as well as the Component Unit - School Board, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Structures, lines, and accessories	20-40
Machinery and equipment	4-30

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

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

8. Prepaid Items

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

9. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenditure/expense) until then. The County 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 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 items, reference the pension note.

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

The remainder of this page left blank intentionally.

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

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

10. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Governmental Accounting Standards No. 16, Accounting for Compensated Absences, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The County accrues salary-related payments associated with the payment of compensated absences. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements.

11. Pensions

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

12. 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, 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.

13. Fund Equity

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

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaid expenditures) or are required to be maintained intact (corpus of a permanent fund);

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

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

13. Fund Equity (Continued)

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

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

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

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

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

14. Net Position

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

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

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

15. Net Position Flow Assumption

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

Note 2-Stewardship, Compliance, and Accountability:

A. Budgetary Information

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

1. Prior to March 30, the County Administrator submits to the Board of Supervisors a proposed operating and capital budget for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the means of financing them. All Funds of the County have legally adopted budgets with the exception of the Industrial Development Authority Fund and Agency Funds.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the function level. Only the Board of Supervisors can revise the appropriation for each department or category. The County Administrator is authorized to transfer budgeted amounts within general government departments; however, the School Board is authorized to transfer budgeted amounts within the school system's categories.
5. Formal budgetary integration is employed as a management control device during the year for the General Fund, and the Special Revenue Funds. The School Fund is integrated only at the level of legal adoption.
6. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse on June 30, for all County units.
8. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to commit that portion of the applicable appropriations, is not part of the County's accounting system.

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

B. Excess of expenditures over appropriations

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

C. Deficit fund equity

At June 30, 2016, the Workforce Investment Board Fund and VASAP Fund had deficit fund equity.

Note 3-Deposits and Investments:

Deposits:

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

Investments:

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP). At June 30, 2016, the County had no investments.

The remainder of this page left blank intentionally.

Note 4-Due from Other Governmental Units:

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

	<u>Primary Government</u>	<u>Component Unit School Board</u>
<u>Local Government:</u>		
Southwest Virginia Regional Jail	\$ 702,537	\$ -
<u>Commonwealth of Virginia:</u>		
Local sales tax	310,222	-
State sales tax	-	726,590
Non-categorical aid	296,179	-
Categorical aid-shared expenses	208,388	-
Categorical aid-Virginia Public Assistance funds	175,765	-
Categorical aid-other	55,884	-
Categorical aid-Comprehensive Services Act funds	308,193	-
<u>Federal Government:</u>		
Categorical aid-Virginia Public Assistance funds	194,057	-
Categorical aid-Workforce Investment funds	278,014	-
Categorical aid-Other	65,347	-
School federal programs	-	749,646
	<hr/>	<hr/>
Total Amount Due from Other Governmental Units	\$ <u>2,594,586</u>	\$ <u>1,476,236</u>

The remainder of this page left blank intentionally.

Note 5-Interfund/Component-Unit Obligations:

<u>Fund</u>	<u>Due to Primary Government/ Component Unit</u>	<u>Due from Primary Government/ Component Unit</u>
Primary Government:		
General Fund	\$ <u> -</u>	\$ <u> 2,301,066</u>
Component Unit:		
School Board	\$ 2,101,066	\$ -
IDA	<u> 200,000</u>	<u> -</u>
Total	<u>\$ 2,301,066</u>	<u>\$ 2,301,066</u>

Interfund transfers and remaining balances 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	\$ -	\$ 248,016
Dante Fund	248,016	-
Total	<u>\$ 248,016</u>	<u>\$ 248,016</u>
Primary Government:	<u>Due From</u>	<u>Due To</u>
General Fund	\$ 111,220	\$ 65,105
Coal Road Fund	65,105	-
Workforce Investment Board Fund	-	111,220
Total	<u>\$ 176,325</u>	<u>\$ 176,325</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.

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 6-Long-Term Obligations:

Primary Government - Governmental Activities Indebtedness

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

	Balance June 30, 2015	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2016
General obligation bonds	\$ 7,514,955	\$ -	\$ (644,976)	\$ 6,869,979
Literary loans	1,436,654	-	(375,977)	1,060,677
Revenue bonds	4,404,138	-	(236,928)	4,167,210
Deferred Amounts:				
Bond premiums	232,903	-	(16,804)	216,099
Capital leases	224,844	-	(111,375)	113,469
Landfill closure/ postclosure liability	275,738	2,482	-	278,220
Net OPEB obligation	111,461	37,164	(1,900)	146,725
Compensated absences	599,590	475,011	(449,693)	624,908
Net pension liability	5,742,325	2,649,950	(2,464,012)	5,928,263
Total	\$ 20,542,608	\$ 3,164,607	\$ (4,301,665)	\$ 19,405,550

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

Year Ending June 30,	General Obligation Bonds		Literary Loans		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 647,901	\$ 308,788	\$ 375,977	\$ 23,167	\$ 236,928	\$ -
2018	670,770	277,286	282,792	14,205	236,928	-
2019	678,680	245,292	229,246	8,038	236,928	-
2020	702,345	212,615	102,646	3,453	236,928	-
2021	696,035	180,411	45,016	1,400	236,928	-
2022-2026	2,311,790	519,960	25,000	750	1,167,419	-
2027-2031	1,162,458	115,772	-	-	1,098,522	-
2032-2036	-	-	-	-	674,590	-
2037	-	-	-	-	42,039	-
Totals	\$ 6,869,979	\$ 1,860,124	\$ 1,060,677	\$ 51,013	\$ 4,167,210	\$ -

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 6-Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness (Continued)

Details of long-term indebtedness:

	Interest Rates	Date Issued	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<u>General Obligation Bonds:</u>							
General obligation bond	5.10%-6.10%	1997	2016	\$5,000 a+	\$ 140,000	\$ 10,000	\$ 5,000
General obligation bond	4.10%-5.23%	1999	2019	\$25,000 a+	510,000	100,000	25,000
General obligation bond	4.98%-5.10%	2000	2021	\$94,999-115,952 a+	1,802,210	546,750	103,076
General obligation bond	2.35%-5.10%	2002	2023	\$213,799-272,702 a+	4,382,954	1,761,034	231,221
General obligation bond	4.60%-5.10%	2006	2027	\$147,228-197,458 a+	3,205,190	1,942,195	158,604
General obligation bond	4.60%-5.10%	2009	2030	\$55,000-110,000 a+	1,485,000	1,175,000	60,000
General obligation bond	3.05%-5.05%	2010	2031	\$55,000-120,000 a+	1,620,000	1,335,000	65,000
Total General Obligation Bonds						\$ 6,869,979	\$ 647,901
<u>Revenue Bonds:</u>							
Revenue bond	0.00%	11/28/2001	2033	\$15,595 sa	\$ 935,690	\$ 499,035	\$ 31,190
Revenue bond	0.00%	11/28/2001	2033	\$27,708 sa	1,678,400	914,364	55,416
Revenue bond	0.00%	11/28/2001	2025	\$8,612 sa	344,477	155,015	17,224
Revenue bond	0.00%	11/1/2002	2033	\$13,707 sa	822,366	452,301	27,412
Revenue bond	0.00%	3/10/2005	2036	\$9,276 sa	556,538	361,750	18,551
Revenue bond	0.00%	10/14/2005	2036	\$1,524 sa	91,439	60,959	3,048
Revenue bond	0.00%	10/14/2005	2037	\$31,779 sa	1,906,717	1,302,923	63,557
Revenue bond	0.00%	4/28/2006	2037	\$6,925 sa	415,513	283,933	13,851
Revenue bond	0.00%	3/30/2007	2037	\$3,340 sa	197,179	136,930	6,679
Total Revenue Bonds						\$ 4,167,210	\$ 236,928
Plus:							
Unamortized Premium						\$ 216,099	\$ 16,804
Total General Obligation and Revenue Bonds						\$ 11,253,288	\$ 901,633

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 6-Long-Term Obligations: (Continued)

Primary Government - Governmental Activities Indebtedness (Continued)

Details of long-term indebtedness: (Continued)

	Interest Rates	Date Issued	Final Maturity Date	Installment Amounts	Amount of Original Issue	Balance Governmental Activities	Amount Due Within One Year
<u>Literary loans:</u>							
Literary loan	3.00%	7/15/1986	2017	\$30,222 a+	\$ 960,000	\$ 30,222	\$ 30,222
Literary loan	3.00%	7/15/1986	2017	\$62,693 a+	2,000,000	62,963	62,963
Literary loan	3.00%	2/1/1988	2018	\$18,522 a+	530,999	37,044	18,522
Literary loan	3.00%	2/1/1988	2018	\$12,581 a+	358,151	25,162	12,581
Literary loan	3.00%	2/1/1988	2018	\$3,005 a+	84,805	6,010	3,005
Literary loan	3.00%	2/1/1988	2018	\$9,995 a+	281,079	19,990	9,995
Literary loan	3.00%	2/1/1988	2018	\$6,989 a+	196,873	13,978	6,989
Literary loan	2.00%	1/1/2000	2020	\$57,757 a+	1,155,140	231,028	57,757
Literary loan	2.00%	3/15/1999	2019	\$55,700 a+	1,114,086	167,186	55,700
Literary loan	2.00%	3/15/1999	2019	\$8,200 a+	161,449	22,049	8,200
Literary loan	2.00%	6/15/1999	2019	\$21,134 a+	422,680	63,402	21,134
Literary loan	2.00%	6/15/1999	2019	\$44,020 a+	880,411	132,071	44,020
Literary loan	2.00%	11/15/2000	2021	\$24,689 a+	493,789	123,454	24,689
Literary loan	3.00%	12/15/2000	2021	\$7,700 a+	154,118	38,618	7,700
Literary loan	2.00%	7/1/2003	2023	\$12,500 a+	250,000	87,500	12,500
Total Literary Loans						\$ 1,060,677	\$ 375,977
<u>Other Obligations:</u>							
Capital Leases (Note 7)						\$ 113,469	\$ 113,469
Landfill Closure and Postclosure Liability						278,220	-
Net OPEB Obligation						146,725	-
Compensated Absences						624,908	468,681
Net Pension Liability						5,928,263	-
Total Other Obligations						\$ 7,091,585	\$ 582,150
Total Long-term Obligations						\$ 19,405,550	\$ 1,859,760

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 6-Long-Term Obligations: (Continued)

Primary Government - Business-type Activities Indebtedness:

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

	Balance June 30, 2015	Issuances	Retirements	Balance June 30, 2016
Revenue bonds	\$ 672,401	\$ -	\$ (21,892)	\$ 650,509
Net pension liability	40,514	18,696	(17,384)	41,826
Total	\$ 712,915	\$ 18,696	\$ (39,276)	\$ 692,335

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

Year Ending June 30,	Revenue Bonds	
	Principal	Interest
2017	\$ 22,814	\$ 28,633
2018	23,776	27,671
2019	23,845	26,665
2020	23,960	25,612
2021	25,060	24,512
2022-2026	143,665	104,195
2027-2031	179,840	68,020
2032-2036	207,549	22,833
Totals	\$ 650,509	\$ 328,141

Details of long-term indebtedness:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Balance Business-Type Activities	Amount Due Within One Year
<u>Revenue Bonds:</u>						
Revenue bond	0.00%	3/24/1999	2019	\$ 37,500	\$ 4,687	\$ 1,875
Revenue bond	4.50%	4/10/1996	2036	900,000	645,822	20,939
Total Revenue Bonds					\$ 650,509	\$ 22,814
<u>Other Obligations:</u>						
Net pension liability					\$ 41,826	\$ -
Total Long-term Obligations					\$ 692,335	\$ 22,814

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 6-Long-Term Obligations: (Continued)

Component Unit - School Board Indebtedness

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

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Net OPEB obligation	\$ 966,949	\$ 935,368	\$ (728,600)	\$ 1,173,717
Early retirement incentive	19,500	-	(11,500)	8,000
Compensated absences	787,935	509,424	(590,951)	706,408
Net pension liability	33,283,625	8,622,781	(7,116,662)	34,789,744
Total	\$ 35,058,009	\$ 10,067,573	\$ (8,447,713)	\$ 36,677,869

Details of long-term indebtedness:

<u>Other Obligations:</u>	Total Amount	Amount Due Within One Year
Early retirement incentive	\$ 8,000	\$ 8,000
Net OPEB Obligation	1,173,717	-
Compensated Absences	706,408	529,806
Net pension liability	34,789,744	-
Total Other Obligations	\$ 36,677,869	\$ 537,806

The remainder of this page left blank intentionally.

Note 7-Capital Leases:

Primary Government

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

The capital assets acquired through capital leases are as follows:

	<u>Buses</u>
Machinery and equipment	\$ 434,164
Less: Accumulated depreciation	<u>(119,395)</u>
Net capital asset	<u>\$ 314,769</u>

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

<u>Year Ending June 30,</u>	<u>Capital Leases</u>
2017	\$ 115,602
Less, amount representing interest	<u>(2,133)</u>
Present Value of Lease Agreement	<u>\$ 113,469</u>

The remainder of this page left blank intentionally.

Note 8-Pension Plan:

Plan Description

All full-time, salaried permanent employees of the County and (nonprofessional) employees of the public school divisions are automatically covered by the VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities whose financial information is not included in the primary government report, participate in the VRS plan through County of Russell, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan.

All full-time, salaried permanent (professional) employees of public school divisions are automatically covered by the VRS Teacher Retirement Plan upon employment. This is a cost-sharing multiple employer plan administered by the Virginia Retirement System (the system).

Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees - Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a 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>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) 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. 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>Hybrid Opt-In Election (Cont.) 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>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>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>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>Retirement Contributions 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>Retirement Contributions 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>Retirement Contributions A member’s retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee’s creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>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><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</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>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>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><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Note 8-Pension Plan: (Continued)

Plan Description (Continued)

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

Contributions

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

The County's contractually required contribution rate for the year ended June 30, 2016 was 14.84% 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 \$807,684 and \$794,360 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

At June 30, 2016, the County reported a liability of \$5,970,089 for its proportionate share of the net pension liability. The County's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was 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. In order to allocate the net pension liability to all employers included in the plan, the County is required to determine its proportionate share of the net pension liability. Credible compensation as of June 30, 2015 and 2014 was used as a basis for allocation to determine the County's proportionate share of the net pension liability. At June 30, 2015 and 2014, the County's proportion was 99.1179%.

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in Russell County's Retirement Plan and the Russell County Public Schools Retirement Plan was based on an actuarial valuation as of June 30, 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

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

Note 8-Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post-Disablement:

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

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

Largest 10 - 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 Russell 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 8-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 8-Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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%.

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Russell County Retirement Plan, Russell County School Board Retirement Plan, and the VRS Teacher Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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.

Sensitivity of the County’s Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
County's proportionate share of the County Retirement Plan Net Pension Liability	\$ 9,860,249	\$ 5,970,089	\$ 2,739,619

The remainder of this page is left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 8-Pension Plan: (Continued)

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

For the year ended June 30, 2016, the County recognized pension expense of \$385,576. At June 30, 2016, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Primary Government</u>	
	<u>Deferred</u>	<u>Deferred</u>
	<u>Outflows of</u>	<u>Inflows of</u>
	<u>Resources</u>	<u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 226,980
Net difference between projected and actual earnings on pension plan investments	-	640,302
Employer contributions subsequent to the measurement date	<u>807,684</u>	<u>-</u>
Total	<u>\$ 807,684</u>	<u>\$ 867,282</u>

\$807,684 reported as deferred outflows of resources related to pensions resulting from the County's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Primary Government</u>
2017	\$ (352,860)
2018	(352,860)
2019	(274,557)
2020	112,995
Thereafter	-

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Component Unit School Board (nonprofessional)

Plan Description

Additional information related to the plan description, plan contribution requirements, actuarial assumptions, long-term expected rate of return, and discount rate is included in the first section of this note.

Employees Covered by Benefit Terms

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

	<u>Component Unit School Board Nonprofessional</u>
Inactive members or their beneficiaries currently receiving benefits	138
Inactive members:	
Vested inactive members	5
Non-vested inactive members	15
Inactive members active elsewhere in VRS	<u>10</u>
Total inactive members	30
Active members	<u>124</u>
Total covered employees	<u><u>292</u></u>

Contributions

The Component Unit School Board’s contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 17.55% 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 Component Unit School Board’s nonprofessional employees were \$464,892 and \$425,544 for the years ended June 30, 2016 and June 30, 2015, respectively.

Note 8-Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

Net Pension Liability

The Component Unit School Board’s (nonprofessional) net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was 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.

Changes in Net Pension Liability

	Component Unit-School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 16,781,228	\$ 11,726,603	\$ 5,054,625
Changes for the year:			
Service cost	\$ 261,697	\$ -	\$ 261,697
Interest	1,132,997	-	1,132,997
Differences between expected and actual experience	20,402	-	20,402
Contributions - employer	-	425,544	(425,544)
Contributions - employee	-	120,010	(120,010)
Net investment income	-	515,108	(515,108)
Benefit payments, including refunds of employee contributions	(1,191,112)	(1,191,112)	-
Administrative expenses	-	(7,577)	7,577
Other changes	-	(108)	108
Net changes	<u>\$ 223,984</u>	<u>\$ (138,135)</u>	<u>\$ 362,119</u>
Balances at June 30, 2015	<u>\$ 17,005,212</u>	<u>\$ 11,588,468</u>	<u>\$ 5,416,744</u>

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

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

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Component Unit School Board (nonprofessional) Net Pension Liability (Asset)	7,259,583	5,416,744	3,855,893

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

For the year ended June 30, 2016, the Component Unit School Board (nonprofessional) recognized pension expense of \$366,199. At June 30, 2016, the Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 14,330	\$ -
Net difference between projected and actual earnings on pension plan investments	-	316,155
Employer contributions subsequent to the measurement date	464,892	-
Total	\$ <u>479,222</u>	\$ <u>316,155</u>

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Component Unit School Board (nonprofessional) (Continued)

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

\$464,892 reported as deferred outflows of resources related to pensions resulting from the Component Unit School Board’s (nonprofessional) contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	<u>Component Unit School Board (nonprofessional)</u>
2017	\$ (118,172)
2018	(118,172)
2019	(122,059)
2020	56,578
Thereafter	-

Component Unit School Board (professional)

Plan Description

Additional information related to the plan description, plan contribution requirements, long-term expected rate of return, and discount rate is included in the first section of this note.

Contributions

Each School Division’s contractually required contribution rate for the year ended June 30, 2015 was 14.06% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013 adjusted for the transfer in June 2015 of \$192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$2,503,615 and \$2,509,000 for the years ended June 30, 2016 and June 30, 2015, respectively.

Note 8-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

At June 30, 2016, the school division reported a liability of \$29,373,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2015 and the total pension liability used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date. The school division's proportion of the Net Pension Liability was based on the school division's actuarially determined employer contributions to the pension plan for the year ended June 30, 2015 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2015, the school division's proportion was 0.23337% as compared to 0.23360% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$1,893,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 404,000
Net difference between projected and actual earnings on pension plan investments	-	1,799,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	896,000
Employer contributions subsequent to the measurement date	<u>2,503,615</u>	<u>-</u>
Total	<u>\$ 2,503,615</u>	<u>\$ 3,099,000</u>

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

\$2,503,615 reported as deferred outflows of resources related to pensions resulting from the school division’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>		
2017	\$	(1,055,000)
2018		(1,055,000)
2019		(1,055,000)
2020		110,000
Thereafter		(44,000)

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.

The remainder of this page is left blank intentionally.

Note 8-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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	42,984,000	29,373,000	18,168,000

Note 8-Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan’s Fiduciary Net Position is available in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 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 9-Capital Assets:

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

Primary Government:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 568,695	\$ -	\$ -	\$ 568,695
Capital assets, being depreciated:				
Buildings and improvements	\$ 24,881,115	\$ 15,980	\$ -	\$ 24,897,095
Machinery and equipment	4,277,702	415,748	(573,178)	4,120,272
Total capital assets being depreciated	<u>\$ 29,158,817</u>	<u>\$ 431,728</u>	<u>\$ (573,178)</u>	<u>\$ 29,017,367</u>
Accumulated depreciation:				
Buildings and improvements	\$ (11,007,381)	\$ (599,497)	\$ -	\$ (11,606,878)
Machinery and equipment	(2,732,501)	(330,540)	325,080	(2,737,961)
Total accumulated depreciation	<u>\$ (13,739,882)</u>	<u>\$ (930,037)</u>	<u>\$ 325,080</u>	<u>\$ (14,344,839)</u>
Total capital assets being depreciated, net	<u>\$ 15,418,935</u>	<u>\$ (498,309)</u>	<u>\$ (248,098)</u>	<u>\$ 14,672,528</u>
Governmental activities capital assets, net	<u>\$ 15,987,630</u>	<u>\$ (498,309)</u>	<u>\$ (248,098)</u>	<u>\$ 15,241,223</u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 9-Capital Assets: (Continued)

Primary Government: (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type Activities				
Capital assets, being depreciated:				
Utility plant	\$ 5,240,699	\$ -	\$ -	\$ 5,240,699
Accumulated depreciation:				
Utility plant	\$ (2,248,123)	\$ (131,018)	\$ -	\$ (2,379,141)
Total capital assets being depreciated, net	\$ 2,992,576	\$ (131,018)	\$ -	\$ 2,861,558
Business-type activities capital assets, net	\$ 2,992,576	\$ (131,018)	\$ -	\$ 2,861,558

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

Governmental activities:		
General government administration	\$	16,113
Judicial administration		965
Public safety		179,989
Public works		64,840
Health and welfare		24,667
Education		608,553
Parks, recreation, and cultural		32,648
Community development		<u>2,262</u>
Total depreciation expense-governmental activities	\$	<u>930,037</u>
Business-type activities:		
Sewer Authority	\$	<u>131,018</u>

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 9-Capital Assets: (Continued)

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

Discretely Presented Component Unit - School Board:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 5,636,345	\$ -	\$ -	\$ 5,636,345
Construction in progress	-	17,071	-	17,071
Total capital assets not being depreciated	<u>\$ 5,636,345</u>	<u>\$ 17,071</u>	<u>\$ -</u>	<u>\$ 5,653,416</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 24,471,954	\$ 23,900	\$ -	\$ 24,495,854
Machinery and equipment	6,652,545	1,148,609	(337,761)	7,463,393
Total capital assets being depreciated	<u>\$ 31,124,499</u>	<u>\$ 1,172,509</u>	<u>\$ (337,761)</u>	<u>\$ 31,959,247</u>
Accumulated depreciation:				
Buildings and improvements	\$ (13,888,679)	\$ (665,912)	\$ -	\$ (14,554,591)
Machinery and equipment	(5,019,548)	(684,648)	337,761	(5,366,435)
Total accumulated depreciation	<u>\$ (18,908,227)</u>	<u>\$ (1,350,560)</u>	<u>\$ 337,761</u>	<u>\$ (19,921,026)</u>
Total capital assets being depreciated, net	<u>\$ 12,216,272</u>	<u>\$ (178,051)</u>	<u>\$ -</u>	<u>\$ 12,038,221</u>
Governmental activities capital assets, net	<u>\$ 17,852,617</u>	<u>\$ (160,980)</u>	<u>\$ -</u>	<u>\$ 17,691,637</u>

Note 10-Risk Management:

The County and its Component Unit - School Board are exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County and the related Component Unit - School Board participate with other localities in a public entity risk pool for their coverage of general liability, property, crime and auto insurance with the Virginia Association of Counties Risk Pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The County and the School Board pay the Risk Pool contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion to which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The County and its Component Unit - School Board continue to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The remainder of this page left blank intentionally.

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 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.

Note 12-Surety Bonds:

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

Note 13-Landfill Closure and Postclosure Care Cost:

State and federal laws and regulations require the County to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. \$278,220 is the total estimated closure and postclosure care liability at June 30, 2016. This represents the cumulative amount based on the use of 100% of the estimated capacity of the landfill and is based on what it would cost to perform all remaining closure and postclosure in 2016. Actual costs for closure and postclosure monitoring may change due to inflation, deflation, changes in technology or changes in regulations. The County uses the Commonwealth of Virginia’s financial assurance mechanism to meet the Department of Environmental Quality’s assurance requirements for landfill closure and postclosure costs.

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

The remainder of this page left blank intentionally.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 JUNE 30, 2016

Note 14-Deferred/Unavailable Revenue:

Deferred revenue/unavailable revenue represent amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Under the modified accrual basis of accounting, such amounts are measurable, but not available. Under the accrual basis, assessments for future periods are deferred.

	<u>Government-wide</u> <u>Statements</u>	<u>Balance Sheet</u>
	Governmental Activities	Governmental Funds
2nd half taxes due December 2016	\$ 5,017,870	\$ 5,017,870
Delinquent taxes due prior to June 30, 2016	-	2,694,841
Prepaid taxes	193,949	193,949
Prorated tax	24,672	24,672
Special assessment	-	91,859
Total deferred/unavailable revenue for governmental funds	<u>\$ 5,236,491</u>	<u>\$ 8,023,191</u>

Note 15-Self Health Insurance:

The County of Russell, Virginia established a limited risk management program for health insurance. Premiums are paid into the health plan fund from the County and School Board and are available to pay claims, and administrative costs of the program. During the fiscal year 2016, a total of \$5,961,126 was paid in benefits and administrative costs. The risk assumed by the County and School Board is based on the number of participants in the program. The risk varies by the number of participants and their specific plan type. As of June 30, 2016, the County and School Board were exposed to risk which represents the difference between the claims to date and the ceiling liability as calculated based on enrollment levels and health plan coverage. Additional costs in excess of the ceiling liability are covered as part of the contract with the County. Incurred but not reported claims of \$683,320 have been accrued as a liability based primarily on actual cost incurred prior to June 30 but paid after year-end. Interfund premiums are based primarily upon the insured funds' claims experience and are reported as quasi-external interfund transactions. Changes in the claims liability during fiscal year 2016 were as follows:

<u>Fiscal Year</u>	<u>Balance at</u> <u>Beginning of</u> <u>Fiscal Year</u>	<u>Current Year</u> <u>Claims and</u> <u>Changes in</u> <u>Estimates</u>	<u>Claim</u> <u>Payments</u>	<u>Balance at</u> <u>End of</u> <u>Fiscal Year</u>
2015-16	\$ <u>888,250</u>	\$ <u>5,756,196</u>	\$ <u>(5,961,126)</u>	\$ <u>683,320</u>

The remainder of this page left blank intentionally.

Note 16-Other Postemployment Benefits-Health Insurance:

A. Plan Description

The County of Russell and Russell County’s Component Unit - School Board administer a single-employer healthcare plan (“the Plan”). The Plan provides for participation by eligible retirees and their dependents in the health insurance programs available to County and School Board employees. The Plan will provide retiring employees the option to continue health insurance offered by the County and School Board. Any County or School Board eligible retiree may receive this benefit until he/she has reached sixty five years of age.

To be eligible for this benefit a retiree must meet the following criteria: attained age 50 and 15 years of service and not eligible for Medicare and the last 10 years must be with the County or School Board prior to retirement. The benefits, employee contributions and the employer contributions are governed by the Board of Supervisors and the School Board and can be amended through the Board of Supervisors and the School Board action respectively. The Plan does not issue a publicly available financial report.

B. Funding Policy

The County and School Board currently pay for the post-retirement health care benefits on a pay-as-you-go basis. The County and School Board currently have 138 and 523 employees that are eligible, respectively, for the program. In addition, 100 percent of premiums are the responsibility of the retiree.

Health benefits include Medical and Vision coverage for retirees and eligible spouses/dependents. Retirees are eligible to choose one of the following medical options through the County and School Board. The rates are as follows:

County:

	Medical & Rx			
	Retiree	Retiree & Spouse	Retiree & Child	Retiree & Family
PPO	\$ 421	\$ 1,103	\$ 1,030	\$ 1,180
Medicare	135	270	N/A	N/A

Schools Board:

	Medical & Rx			
	Retiree	Retiree & Spouse	Retiree & Child	Retiree & Family
PPO	\$ 505	\$ 1,324	\$ 1,236	\$ 1,416
Medicare	135	135	N/A	N/A

The remainder of this page left blank intentionally.

Note 16-Other Postemployment Benefits-Health Insurance: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

The County’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the County’s annual OPEB cost for the fiscal year 2016, the amount actually contributed to the plan, and changes in the County’s net OPEB obligation during fiscal year 2016.

Annual required contribution	\$ 39,300
Interest on net OPEB obligation	3,901
Adjustment to annual required contribution	(6,037)
Annual OPEB cost (expense)	<u>\$ 37,164</u>
Contributions made	(1,900)
Increase (decrease) in net OPEB obligation	<u>\$ 35,264</u>
Net OPEB obligation - beginning of year	111,461
Net OPEB obligation - end of year	<u>\$ 146,725</u>

The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2014 \$	37,852	7.13%	76,673
6/30/2015	39,988	13.00%	111,461
6/30/2016	37,164	5.11%	146,725

The remainder of this page is left blank intentionally.

Note 16-Other Postemployment Benefits-Health Insurance: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation (Continued)

The School Board’s annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the School Board’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the School Board’s net OPEB obligation:

Annual required contribution	\$	953,900
Interest on net OPEB obligation		33,843
Adjustment to annual required contribution		(52,375)
Annual OPEB cost (expense)	\$	<u>935,368</u>
Contributions made		<u>(728,600)</u>
Increase (decrease) in net OPEB obligation	\$	206,768
Net OPEB obligation - beginning of year		<u>966,949</u>
Net OPEB obligation - end of year	\$	<u>1,173,717</u>

The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years were as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 910,457	69.34%	\$ 706,693
6/30/2015	920,856	71.74%	966,949
6/30/2016	935,368	77.89%	1,173,717

D. Funded Status and Funding Progress

The funded status of the Plan for the County as of July 1, 2015, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	304,800
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability (UAAL)	\$	304,800
Funded ratio (actuarial value of plan assets / AAL)		0.00%
Covered payroll (active plan members)	\$	5,435,900
UAAL as a percentage of covered payroll		5.61%

Note 16-Other Postemployment Benefits-Health Insurance: (Continued)

D. Funded Status and Funding Progress (Continued)

The funded status of the Plan for the School Board as of July 1, 2014, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	9,357,000
Actuarial value of plan assets	\$	-
Unfunded actuarial accrued liability (UAAL)	\$	9,357,000
Funded ratio (actuarial value of plan assets / AAL)		0.00%
Covered payroll (active plan members)	\$	18,961,700
UAAL as a percentage of covered payroll		49.35%

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

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information, as it becomes available, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

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

Primary Government

As of July 1, 2015, the most recent actuarial valuation date, the projected unit of credit actuarial cost method was used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility the actuarial assumptions included: investment rate of return at 3.50 percent and a health care trend rate of 7.40 percent graded to 4.10 percent over 60 years. The UAAL is being amortized as a level percentage over the remaining amortization period, which at July 1, 2015 was 20 years.

Note 16-Other Postemployment Benefits-Health Insurance: (Continued)

E. Actuarial Methods and Assumptions (Continued)

Discretely Presented Component Unit - School Board:

As of July 1, 2014, the most recent actuarial valuation date, the projected unit of credit actuarial cost method was used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility the actuarial assumptions included: investment rate of return at 3.50 percent and a health care trend rate of 5.60 percent graded to 4.50 percent over 80 years. The UAAL is being amortized as a level percentage over the remaining amortization period, which at July 1, 2014 was 20 years.

Note 17-Other Postemployment Benefits-VRS Health Insurance Credit:

A. Plan Description

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 8.

B. Funding Policy

Primary Government:

As a participating local political subdivision, the County is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The County's contribution rate for the fiscal year ended 2016 was 0.07% of annual covered payroll.

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

As a participating local political subdivision, the Covington School Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The School Board's contribution rate for the fiscal year ended 2016 was 0.95% of annual covered payroll.

Note 17-Other Postemployment Benefits-VRS Health Insurance Credit: (Continued)

C. Annual OPEB Cost and Net OPEB Obligation

Primary Government:

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

For 2016, the County’s contribution of \$3,571 was equal to the ARC and OPEB cost. The County’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are shown below:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Primary Government:				
County	6/30/2014	\$ 778	100.00%	\$ -
	6/30/2015	3,321	100.00%	-
	6/30/2016	3,571	100.00%	-

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

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

For 2016, the School Board’s contribution of \$25,165 was equal to the ARC and OPEB cost. The School Board’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are shown below:

	Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
Discretely Presented Component Unit				
School Board	6/30/2014	\$ 13,320	100.00%	\$ -
	6/30/2015	23,128	100.00%	-
	6/30/2016	25,165	100.00%	-

Note 17-Other Postemployment Benefits-VRS Health Insurance Credit: (Continued)

D. Funded Status and Funding Progress

Primary Government:

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

Actuarial accrued liability (AAL)	\$	106,243
Actuarial value of plan assets	\$	83,531
Unfunded actuarial accrued liability (UAAL)	\$	22,712
Funded ratio (actuarial value of plan assets/AAL)		78.62%
Covered payroll (active plan members)	\$	1,227,848
UAAL as a percentage of covered payroll		1.85%

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

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

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

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

Actuarial accrued liability (AAL)	\$	389,279
Actuarial value of plan assets	\$	(24,715)
Unfunded actuarial accrued liability (UAAL)	\$	413,994
Funded ratio (actuarial value of plan assets/AAL)		-6.35%
Covered payroll (active plan members)	\$	2,437,539
UAAL as a percentage of covered payroll		16.98%

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

Note 17-Other Postemployment Benefits-VRS Health Insurance Credit: (Continued)

D. Funded Status and Funding Progress (Continued)

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

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

E. Actuarial Methods and Assumptions

Primary Government:

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payrolls on an open basis. The remaining open amortization period at June 30, 2015 was 19-28 years.

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

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.00% investment rate of return, compounded annually, including an inflation component of 2.50%, and a payroll growth rate of 3.00%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2015 was 19-28 years.

F. Professional Employees - Discretely Presented Component Unit School Board

Plan Description

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

Note 17-Other Postemployment Benefits-VRS Health Insurance Credit: (Continued)

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

Funding Policy

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.

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The School Board's contribution to VRS was \$189,895, \$184,055, and \$189,624 for the fiscal years ended 2016, 2015, and 2014, respectively. The School Board's contributions represented 1.06%, 1.06%, and 1.11%, of covered payroll for the fiscal years ended 2016, 2015, and 2014, respectively.

Note 18-Moral Obligation:

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

Note 19-Operating Lease:

The County has signed a lease agreement with The Industrial Development Authority of Russell County to pay rent equivalent to the required debt service as it relates to the Russell County Government Center. To date, the County of Russell, Virginia has provided funds sufficient to cover such debt service. As of June 30, 2016, the outstanding balance of the loan was \$4,144,400. Future required rent payments are as follows:

Year Ending June 30,	Operating Lease	
	Principal	Interest
2017	\$ 372,100	\$ 92,744
2018	381,000	83,925
2019	390,000	74,898
2020	399,100	65,825
2021	408,700	56,199
2022-2026	2,193,500	131,111
Totals	<u>\$ 4,144,400</u>	<u>\$ 504,702</u>

Note 20-Adoption of Accounting Principle:

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

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

Note 21-Upcoming Pronouncements:

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

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

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

The remainder of this page is left blank intentionally.

Note 21-Upcoming Pronouncements: (Continued)

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

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 22-Litigation:

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

Required Supplementary Information

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

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget - Positive <u>(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
General property taxes	\$ 15,538,862	\$ 15,538,862	\$ 15,071,101	\$ (467,761)
Other local taxes	4,343,000	4,302,368	3,524,734	(777,634)
Permits, privilege fees, and regulatory licenses	48,600	48,600	30,258	(18,342)
Fines and forfeitures	27,000	27,000	14,136	(12,864)
Revenue from the use of money and property	340,000	340,000	214,695	(125,305)
Charges for services	293,300	293,300	294,854	1,554
Miscellaneous	216,600	216,600	180,343	(36,257)
Recovered costs	398,500	398,500	1,076,504	678,004
Intergovernmental:				
Commonwealth	8,185,064	8,185,064	8,447,216	262,152
Federal	2,536,612	2,536,612	2,629,600	92,988
Total revenues	<u>\$ 31,927,538</u>	<u>\$ 31,886,906</u>	<u>\$ 31,483,441</u>	<u>\$ (403,465)</u>
EXPENDITURES				
Current:				
General government administration	\$ 1,743,819	\$ 1,762,019	\$ 1,787,592	\$ (25,573)
Judicial administration	2,034,692	2,182,469	2,193,822	(11,353)
Public safety	6,649,932	6,847,419	6,914,427	(67,008)
Public works	3,378,559	3,027,227	2,899,065	128,162
Health and welfare	6,700,566	6,802,206	7,071,353	(269,147)
Education	7,528,431	7,536,431	6,729,363	807,068
Parks, recreation, and cultural	471,275	476,375	468,670	7,705
Community development	991,683	957,583	1,048,554	(90,971)
Nondepartmental	481,098	929,375	515,527	413,848
Debt service:				
Principal retirement	1,369,256	1,369,256	1,369,256	-
Interest and other fiscal charges	378,227	378,227	378,465	(238)
Total expenditures	<u>\$ 31,727,538</u>	<u>\$ 32,268,587</u>	<u>\$ 31,376,094</u>	<u>\$ 892,493</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 200,000</u>	<u>\$ (381,681)</u>	<u>\$ 107,347</u>	<u>\$ 489,028</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ (200,000)	\$ (245,900)	\$ (248,016)	\$ (2,116)
Total other financing sources (uses)	<u>\$ (200,000)</u>	<u>\$ (245,900)</u>	<u>\$ (248,016)</u>	<u>\$ (2,116)</u>
Net change in fund balances	\$ -	\$ (627,581)	\$ (140,669)	\$ 486,912
Fund balances - beginning	-	627,581	7,617,999	6,990,418
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,477,330</u>	<u>\$ 7,477,330</u>

County of Russell, Virginia
 Special Revenue Fund - Coal Road Fund
 Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
 For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Other local taxes	\$ 900,000	\$ 900,000	\$ 257,191	\$ (642,809)
Revenue from the use of money and property	-	-	1,047	1,047
Total revenues	\$ 900,000	\$ 900,000	\$ 258,238	\$ (641,762)
EXPENDITURES				
Current:				
Public works	\$ 900,000	\$ 900,000	\$ 630,555	\$ 269,445
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ (372,317)	\$ (372,317)
Net change in fund balances	\$ -	\$ -	\$ (372,317)	\$ (372,317)
Fund balances - beginning	-	-	487,541	487,541
Fund balances - ending	\$ -	\$ -	\$ 115,224	\$ 115,224

County of Russell, Virginia
Special Revenue Fund - Workforce Investment Board Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2016

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Recovered costs	\$ -	\$ -	\$ 6,101	\$ 6,101
Intergovernmental:				
Federal	2,746,846	2,746,846	2,103,000	(643,846)
Total revenues	<u>\$ 2,746,846</u>	<u>\$ 2,746,846</u>	<u>\$ 2,109,101</u>	<u>\$ (637,745)</u>
EXPENDITURES				
Current:				
Health and welfare	\$ 2,746,846	\$ 2,746,846	\$ 2,137,788	\$ 609,058
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (28,687)</u>	<u>\$ (28,687)</u>
Net change in fund balances	\$ -	\$ -	\$ (28,687)	\$ (28,687)
Fund balances - beginning	-	-	(17,649)	(17,649)
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (46,336)</u>	<u>\$ (46,336)</u>

County of Russell, Virginia
Schedule of OPEB Funding Progress
For the Year Ended June 30, 2016

Primary Government

County Other Postemployment Benefits-Health Insurance:

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
July 1, 2015	\$ -	\$ 304,800	\$ 304,800	0.00%	\$ 5,435,900	5.61%
July 1, 2012	-	198,600	198,600	0.00%	5,576,300	3.56%
July 1, 2010	-	464,748	464,748	0.00%	5,581,443	8.33%

County Other Postemployment Benefits-VRS Health Insurance Credit:

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2015	\$ 83,531	\$ 106,243	\$ 22,712	78.62%	\$ 1,227,848	1.85%
June 30, 2014	84,614	123,274	38,660	68.64%	1,182,479	3.27%
June 30, 2013	81,083	118,770	37,687	68.27%	1,110,563	3.39%

Discretely Presented Component Unit:

School Board Other Postemployment Benefits-Health Insurance:

Actuarial Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
July 1, 2014	\$ -	\$ 9,357,000	\$ 9,357,000	0.00%	\$ 18,961,700	49.35%
July 1, 2012	-	8,991,400	8,991,400	0.00%	21,181,100	42.45%
July 1, 2010	-	3,030,967	3,030,967	0.00%	20,559,274	14.74%

School Board Other Postemployment Benefits-VRS Health Insurance Credit:

Actuarial Valuation as of (*) (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio (2)/(3) (5)	Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2015	\$ (24,715)	\$ 389,279	\$ 413,994	-6.35%	\$ 2,437,539	16.98%
June 30, 2014	(15,285)	382,648	397,933	-3.99%	2,639,711	15.07%
June 30, 2013	379	376,778	376,399	0.10%	2,666,329	14.12%

(*) - June 30, 2012 was the initial valuation as the School Board recently joined this plan.

County of Russell, Virginia
 Schedule of Employer's Proportionate Share of the Net Pension Liability
 June 30, 2016

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	Covered Payroll (4)	Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)
Primary Government - County Retirement Plan					
2015	99.1179%	\$ 5,970,089	\$ 5,368,165	111.21%	80.39%
2014	99.1179%	5,782,839	5,440,419	106.29%	80.53%
Component Unit School Board (professional)					
2015	0.23337%	\$ 29,373,000	\$ 17,363,701	169.16%	70.68%
2014	0.23360%	28,229,000	17,083,236	165.24%	70.88%

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

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

	2015	2014
Total pension liability		
Service cost	\$ 261,697	\$ 263,958
Interest	1,132,997	1,116,022
Changes of benefit terms	-	-
Differences between expected and actual experience	20,402	-
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(1,191,112)	(1,083,833)
Net change in total pension liability	\$ 223,984	\$ 296,147
Total pension liability - beginning	16,781,228	16,485,081
Total pension liability - ending (a)	\$ 17,005,212	\$ 16,781,228
Plan fiduciary net position		
Contributions - employer	\$ 425,544	\$ 423,435
Contributions - employee	120,010	130,388
Net investment income	515,108	1,629,758
Benefit payments, including refunds of employee contributions	(1,191,112)	(1,083,833)
Administrative expense	(7,577)	(9,166)
Other	(108)	86
Net change in plan fiduciary net position	\$ (138,135)	\$ 1,090,668
Plan fiduciary net position - beginning	11,726,603	10,635,935
Plan fiduciary net position - ending (b)	\$ 11,588,468	\$ 11,726,603
School Division's net pension liability - ending (a) - (b)	\$ 5,416,744	\$ 5,054,625
Plan fiduciary net position as a percentage of the total pension liability	68.15%	69.88%
Covered payroll	\$ 2,434,577	\$ 2,612,301
School Division's net pension liability as a percentage of covered payroll	222.49%	193.49%

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

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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
Primary Government					
2016	\$ 807,684	\$ 807,684	\$ -	\$ 5,467,426	14.77%
2015	794,360	794,360	-	5,368,165	14.80%
Component Unit School Board (nonprofessional)					
2016	\$ 464,892	\$ 464,892	\$ -	\$ 2,648,956	17.55%
2015	425,544	425,544	-	2,434,577	17.48%
2014	424,238	424,238	-	2,612,301	16.24%
2013	434,345	434,345	-	2,674,538	16.24%
2012	386,243	386,243	-	2,745,156	14.07%
2011	384,524	384,524	-	2,732,933	14.07%
2010	412,281	412,281	-	2,823,842	14.60%
2009	422,641	422,641	-	2,894,798	14.60%
2008	416,704	416,704	-	2,624,078	15.88%
2007	398,543	398,543	-	2,509,714	15.88%
Component Unit School Board (professional)					
2016	\$ 2,503,615	\$ 2,503,615	\$ -	\$ 17,914,579	13.98%
2015	2,509,000	2,509,000	-	17,363,701	14.45%
2014	1,991,484	1,991,484	-	17,083,236	11.66%
2013	2,037,610	2,037,610	-	17,475,216	11.66%
2012	1,164,108	1,164,108	-	18,390,325	6.33%
2011	700,575	700,575	-	17,826,341	3.93%
2010	1,685,523	1,685,523	-	19,131,926	8.81%
2009	1,766,705	1,766,705	-	20,053,407	8.81%
2008	1,853,860	1,853,860	-	17,998,643	10.30%

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

Schedule is intended to show information for 10 years. The 10th year of data was unavailable for the Component Unit School Board's professional schedule. Also, prior to 2015, VASAP's information was consolidated in the County's totals and presented in the County report. Therefore, sufficient information to allocate the prior year balances is not available. Additional years will be included as they become available.

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

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

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

FIDUCIARY FUNDS

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

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

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>
Assets				
Current Assets				
Cash and cash equivalents				
Special Welfare Fund	\$ 57,383	\$ 102,897	\$ (92,443)	\$ 67,837
VASAP Fund	1,049	212,265	(220,903)	(7,589)
Total Assets	<u>\$ 58,432</u>	<u>\$ 315,162</u>	<u>\$ (313,346)</u>	<u>\$ 60,248</u>
Liabilities				
Amounts held for social services clients	\$ 57,383	\$ 102,897	\$ (92,443)	\$ 67,837
Amounts held for VASAP	1,049	212,265	(220,903)	(7,589)
Total Liabilities	<u>\$ 58,432</u>	<u>\$ 315,162</u>	<u>\$ (313,346)</u>	<u>\$ 60,248</u>

DISCRETELY PRESENTED COMPONENT UNIT - SCHOOL BOARD

MAJOR GOVERNMENTAL FUNDS

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

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

		<u>School Operating Fund</u>
ASSETS		
Cash and cash equivalents	\$	1,739,428
Receivables (net of allowance for uncollectibles):		
Accounts receivable		14,612
Due from other governmental units		1,476,236
Prepaid items		373,568
Total assets		<u>3,603,844</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable		126,885
Salaries payable		928,567
Due to primary government		2,101,066
Total liabilities		<u>3,156,518</u>
Fund balances:		
Nonspendable:		
Prepaid items	\$	373,568
Committed:		
Textbook purchases		345,940
Regional Adult Education		287,676
Unassigned:		
Total fund balances	\$	<u>447,326</u>
Total liabilities and fund balances	\$	<u>3,603,844</u>
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Total fund balances per above	\$	447,326
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Construction in progress	17,071	
Land	5,636,345	
Buildings and improvements	9,941,263	
Machinery and equipment	<u>2,096,958</u>	17,691,637
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		
Items related to measurement of net pension liability		(3,415,155)
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.		
		2,968,507
Long-term liabilities, including early retirement incentives, are not due and payable in the current period and, therefore, are not reported in the funds.		
Compensated absences	(706,408)	
Early retirement incentive	(8,000)	
Net OPEB obligation	(1,173,717)	
Net pension liability	<u>(34,789,744)</u>	
Deferred outflows related to measurement of net pension liability	14,330	(36,663,539)
Net position of governmental activities		<u>\$ (18,971,224)</u>

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

	<u>School Operating Fund</u>
REVENUES	
Revenue from the use of money and property	\$ 8,030
Charges for services	381,790
Miscellaneous	246,281
Recovered costs	524,716
Intergovernmental:	
Local government	6,632,200
Commonwealth	27,002,101
Federal	4,795,544
Total revenues	<u>\$ 39,590,662</u>
EXPENDITURES	
Current:	
Education	<u>\$ 39,776,952</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (186,290)</u>
Net change in fund balances	\$ (186,290)
Fund balances - beginning	633,616
Fund balances - ending	<u><u>\$ 447,326</u></u>
Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:	
Net change in fund balances - total governmental funds - per above	\$ (186,290)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
Capital outlays	677,486
Reversion of assets back to the School Board (net)	238,977
Depreciation expense	<u>(1,077,443)</u>
	(160,980)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred inflows of resources related to the measurement of the net pension liability	2,615,134
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore are not reported as expenditures in governmental funds.	
(Increase) decrease in compensated absences	81,527
(Increase) decrease in early retirement incentive	11,500
(Increase) decrease in net OPEB obligation	(206,768)
(Increase) decrease in net pension liability	(1,506,119)
Change in deferred outflows of resources related to pension payments subsequent to the measurement date	32,239
Change in deferred outflows of resources related to difference between expected and actual experience	<u>14,330</u>
	(1,573,291)
Change in net position of governmental activities	<u><u>\$ 694,573</u></u>

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

	School Operating Fund			Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
REVENUES				
Revenue from the use of money and property	\$ 1,500	\$ 1,500	\$ 8,030	\$ 6,530
Charges for services	559,554	559,554	381,790	(177,764)
Miscellaneous	165,000	165,000	246,281	81,281
Recovered costs	571,914	571,914	524,716	(47,198)
Intergovernmental:				
Local government	7,439,178	7,439,178	6,632,200	(806,978)
Commonwealth	27,157,733	27,157,733	27,002,101	(155,632)
Federal	5,270,117	5,270,117	4,795,544	(474,573)
Total revenues	<u>\$ 41,164,996</u>	<u>\$ 41,164,996</u>	<u>\$ 39,590,662</u>	<u>\$ (1,574,334)</u>
EXPENDITURES				
Current:				
Education	<u>\$ 41,164,996</u>	<u>\$ 41,164,996</u>	<u>\$ 39,776,952</u>	<u>\$ 1,388,044</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (186,290)</u>	<u>\$ (186,290)</u>
Net change in fund balances	\$ -	\$ -	\$ (186,290)	\$ (186,290)
Fund balances - beginning	-	-	633,616	633,616
Fund balances - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 447,326</u>	<u>\$ 447,326</u>

Supporting Schedules

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

Schedule 1
Page 1 of 5

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund:				
Revenue from local sources:				
General property taxes:				
Real Property Tax	\$ 8,000,000	\$ 8,000,000	\$ 7,844,288	\$ (155,712)
Real and Personal PSC Tax	1,650,000	1,650,000	1,535,390	(114,610)
Personal Property Tax	2,990,000	2,990,000	3,525,961	535,961
Mobile Home Tax	114,000	114,000	119,251	5,251
Machinery and Tools Tax	1,250,000	1,250,000	631,063	(618,937)
Merchants Capital	36,000	36,000	35,299	(701)
Mineral Tax	1,050,000	1,050,000	928,889	(121,111)
Penalties	145,000	145,000	134,850	(10,150)
Interest	303,862	303,862	316,110	12,248
Total general property taxes	<u>\$ 15,538,862</u>	<u>\$ 15,538,862</u>	<u>\$ 15,071,101</u>	<u>\$ (467,761)</u>
Other local taxes:				
Local Sales and Use Tax	\$ 1,873,100	\$ 1,832,468	\$ 2,013,659	\$ 181,191
Consumers' Utility Tax	550,000	550,000	527,491	(22,509)
Consumption Taxes	85,000	85,000	73,656	(11,344)
Coal Severance Tax	800,000	800,000	257,191	(542,809)
Bank Stock Tax	10,900	10,900	23,936	13,036
Grantee tax	94,000	94,000	89,785	(4,215)
Motor Vehicle Licenses	900,000	900,000	518,092	(381,908)
Taxes on Recordation and Wills	30,000	30,000	20,924	(9,076)
Total other local taxes	<u>\$ 4,343,000</u>	<u>\$ 4,302,368</u>	<u>\$ 3,524,734</u>	<u>\$ (777,634)</u>
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 2,300	\$ 2,300	\$ 2,113	\$ (187)
Building permits	45,000	45,000	24,393	(20,607)
Other permits and other licenses	1,300	1,300	3,752	2,452
Total permits, privilege fees, and regulatory licenses	<u>\$ 48,600</u>	<u>\$ 48,600</u>	<u>\$ 30,258</u>	<u>\$ (18,342)</u>
Fines and forfeitures:				
Court fines and forfeitures	\$ 27,000	\$ 27,000	\$ 14,136	\$ (12,864)
Revenue from use of money and property:				
Revenue from use of money	\$ 25,000	\$ 25,000	\$ 37,782	\$ 12,782
Revenue from use of property	315,000	315,000	176,913	(138,087)
Total revenue from use of money and property	<u>\$ 340,000</u>	<u>\$ 340,000</u>	<u>\$ 214,695</u>	<u>\$ (125,305)</u>
Charges for services:				
Charges for sanitation and waste removal	\$ 185,000	\$ 185,000	\$ 135,073	\$ (49,927)
Charges for courthouse security	51,000	51,000	48,557	(2,443)
Charges for cannery operations	30,000	30,000	27,467	(2,533)
Charges for commonwealth attorney	5,600	5,600	56,488	50,888
Charges for courthouse maintenance	10,000	10,000	8,381	(1,619)
Charges for jail and inmate fees	4,000	4,000	5,030	1,030
Charges for district court	-	-	2,784	2,784
Charges for library	2,200	2,200	6,821	4,621
Other charges for services	5,500	5,500	4,253	(1,247)
Total charges for services	<u>\$ 293,300</u>	<u>\$ 293,300</u>	<u>\$ 294,854</u>	<u>\$ 1,554</u>
Miscellaneous:				
Other miscellaneous revenue	\$ 206,600	\$ 206,600	\$ 144,031	\$ (62,569)
Sale of property/surplus	10,000	10,000	-	(10,000)
Valley Heights revenue	-	-	36,312	36,312
Total miscellaneous	<u>\$ 216,600</u>	<u>\$ 216,600</u>	<u>\$ 180,343</u>	<u>\$ (36,257)</u>

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

Schedule 1
 Page 2 of 5

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Revenue from local sources: (Continued)				
Recovered costs:				
Social services	\$ 246,000	\$ 246,000	\$ 97,866	\$ (148,134)
Health department	50,000	50,000	40,500	(9,500)
School resource officer	48,000	48,000	60,949	12,949
Insurance recoveries	-	-	34,308	34,308
Regional jail	-	-	702,537	702,537
Industrial development	20,000	20,000	11,858	(8,142)
Other Recovered Costs	34,500	34,500	128,486	93,986
Total recovered costs	<u>\$ 398,500</u>	<u>\$ 398,500</u>	<u>\$ 1,076,504</u>	<u>\$ 678,004</u>
Total revenue from local sources	<u>\$ 21,205,862</u>	<u>\$ 21,165,230</u>	<u>\$ 20,406,625</u>	<u>\$ (758,605)</u>
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Motor vehicles carriers' tax	\$ 157,000	\$ 157,000	\$ 135,095	\$ (21,905)
Mobile home titling tax	60,000	60,000	68,137	8,137
Motor vehicle rental tax	10,500	10,500	1,119	(9,381)
Communications tax	900,000	900,000	833,095	(66,905)
State recordation tax	25,000	25,000	27,178	2,178
Personal property tax relief act funds	1,437,003	1,437,003	1,437,003	-
Total noncategorical aid	<u>\$ 2,589,503</u>	<u>\$ 2,589,503</u>	<u>\$ 2,501,627</u>	<u>\$ (87,876)</u>
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 349,000	\$ 349,000	\$ 408,008	\$ 59,008
Sheriff	1,376,000	1,376,000	1,397,127	21,127
Commissioner of revenue	179,650	179,650	167,322	(12,328)
Treasurer	111,000	111,000	110,112	(888)
Medical examiner	400	400	-	(400)
Registrar/electoral board	43,000	43,000	40,996	(2,004)
Clerk of the Circuit Court	265,300	265,300	289,008	23,708
Total Shared Expenses	<u>\$ 2,324,350</u>	<u>\$ 2,324,350</u>	<u>\$ 2,412,573</u>	<u>\$ 88,223</u>
Other categorical aid:				
Victim witness grant	\$ 35,000	\$ 35,000	\$ 7,494	\$ (27,506)
E911 Grant	-	-	29,344	29,344
GIS	-	-	3,500	3,500
E911 state funds	45,000	45,000	43,617	(1,383)
Law enforcement grants	-	-	11,431	11,431
Asset forfeiture funds	-	-	51,642	51,642
EMS grants	-	-	29,984	29,984
Fire Program Funds	71,000	71,000	75,201	4,201
Library grants	98,000	98,000	93,017	(4,983)
Litter control grants	30,000	30,000	14,264	(15,736)
Public assistance	1,903,480	1,903,480	1,936,914	33,434
Comprehensive services act	1,088,731	1,088,731	1,083,766	(4,965)
School resource officer grants	-	-	109,565	109,565
Election administration services	-	-	11,035	11,035
Electoral board	-	-	3,500	3,500
Health department	-	-	28,742	28,742
Total other categorical aid	<u>\$ 3,271,211</u>	<u>\$ 3,271,211</u>	<u>\$ 3,533,016</u>	<u>\$ 261,805</u>
Total categorical aid	<u>\$ 5,595,561</u>	<u>\$ 5,595,561</u>	<u>\$ 5,945,589</u>	<u>\$ 350,028</u>
Total revenue from the Commonwealth	<u>\$ 8,185,064</u>	<u>\$ 8,185,064</u>	<u>\$ 8,447,216</u>	<u>\$ 262,152</u>

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

Schedule 1
 Page 3 of 5

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Intergovernmental: (continued)				
Revenue from the federal government:				
Categorical aid:				
Emergency management grants	\$ 114,000	\$ 114,000	\$ 79,151	\$ (34,849)
Violence against women	-	-	22,810	22,810
DMV ground transportation safety grant	-	-	12,633	12,633
Public assistance	2,422,612	2,422,612	2,515,006	92,394
Total categorical aid	<u>\$ 2,536,612</u>	<u>\$ 2,536,612</u>	<u>\$ 2,629,600</u>	<u>\$ 92,988</u>
Total revenue from the federal government	<u>\$ 2,536,612</u>	<u>\$ 2,536,612</u>	<u>\$ 2,629,600</u>	<u>\$ 92,988</u>
Total General Fund	<u><u>\$ 31,927,538</u></u>	<u><u>\$ 31,886,906</u></u>	<u><u>\$ 31,483,441</u></u>	<u><u>\$ (403,465)</u></u>
Special Revenue Funds:				
Coal Road Fund:				
Revenue from local sources:				
Other local taxes:				
Coal road taxes	\$ 900,000	\$ 900,000	\$ 257,191	\$ (642,809)
Revenue from use of money and property:				
Revenue from the use of money	\$ -	\$ -	\$ 1,047	\$ 1,047
Total revenue from local sources	<u>\$ 900,000</u>	<u>\$ 900,000</u>	<u>\$ 258,238</u>	<u>\$ (641,762)</u>
Total Coal Road Fund	<u><u>\$ 900,000</u></u>	<u><u>\$ 900,000</u></u>	<u><u>\$ 258,238</u></u>	<u><u>\$ (641,762)</u></u>
Workforce Investment Board Fund:				
Revenue from local sources:				
Recovered costs:				
Other recovered costs	\$ -	\$ -	\$ 6,101	\$ 6,101
Total recovered costs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,101</u>	<u>\$ 6,101</u>
Intergovernmental:				
Revenue from the federal government:				
Categorical aid:				
Workforce Investment	\$ 2,746,846	\$ 2,746,846	\$ 2,103,000	\$ (643,846)
Total revenue from the federal government	<u>\$ 2,746,846</u>	<u>\$ 2,746,846</u>	<u>\$ 2,103,000</u>	<u>\$ (643,846)</u>
Total Workforce Investment Board Fund	<u><u>\$ 2,746,846</u></u>	<u><u>\$ 2,746,846</u></u>	<u><u>\$ 2,109,101</u></u>	<u><u>\$ (637,745)</u></u>
Total Primary Government	<u><u>\$ 35,574,384</u></u>	<u><u>\$ 35,533,752</u></u>	<u><u>\$ 33,850,780</u></u>	<u><u>\$ (1,682,972)</u></u>
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of property	\$ 1,500	\$ 1,500	\$ 8,030	\$ 6,530
Total revenue from use of money and property	<u>\$ 1,500</u>	<u>\$ 1,500</u>	<u>\$ 8,030</u>	<u>\$ 6,530</u>
Charges for services:				
Cafeteria sales	\$ 400,000	\$ 400,000	\$ 318,177	\$ (81,823)
Tuition payments	5,000	5,000	-	(5,000)
Drivers Ed fees	14,000	14,000	14,700	700
Other charges for services	-	-	75	75
Regional Adult Education	138,554	138,554	48,364	(90,190)
GED Testing fees	2,000	2,000	474	(1,526)
Total charges for services	<u>\$ 559,554</u>	<u>\$ 559,554</u>	<u>\$ 381,790</u>	<u>\$ (177,764)</u>

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

Schedule 1
 Page 4 of 5

<u>Fund, Major and Minor Revenue Source</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Miscellaneous:				
Other miscellaneous	\$ 165,000	\$ 165,000	\$ 246,281	\$ 81,281
Recovered costs:				
Insurance recoveries	\$ -	\$ -	\$ 13,325	\$ 13,325
Extra duties revenue	23,000	23,000	31,700	8,700
Dual Enrollment	300,000	300,000	359,661	59,661
Sale of Equipment and Supplies	10,000	10,000	6,654	(3,346)
Reimburse Health Services	187,414	187,414	84,922	(102,492)
Other recovered costs	51,500	51,500	28,454	(23,046)
Total recovered costs	<u>\$ 571,914</u>	<u>\$ 571,914</u>	<u>\$ 524,716</u>	<u>\$ (47,198)</u>
Total revenue from local sources	<u>\$ 1,297,968</u>	<u>\$ 1,297,968</u>	<u>\$ 1,160,817</u>	<u>\$ (137,151)</u>
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Russell, Virginia	\$ 7,439,178	\$ 7,439,178	\$ 6,632,200	\$ (806,978)
Total revenues from local governments	<u>\$ 7,439,178</u>	<u>\$ 7,439,178</u>	<u>\$ 6,632,200</u>	<u>\$ (806,978)</u>
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 4,105,826	\$ 4,105,826	\$ 4,116,907	\$ 11,081
Basic Aid	13,226,782	13,226,782	13,075,105	(151,677)
Remedial summer education	87,828	87,828	144,808	56,980
Gifted and talented	137,345	137,345	135,965	(1,380)
Remedial education	526,002	526,002	520,717	(5,285)
Special education	2,016,340	2,016,340	1,996,084	(20,256)
Textbook payment	281,177	281,177	278,352	(2,825)
Career and Technical Education	89,373	89,373	35,573	(53,800)
Alternative education	844,492	844,492	844,492	-
Algebra readiness	65,883	65,883	70,887	5,004
Mentor teacher program	1,581	1,581	4,202	2,621
Social security fringe benefits	856,214	856,214	847,612	(8,602)
Group life	52,600	52,600	52,072	(528)
Retirement fringe benefits	1,694,895	1,694,895	1,677,867	(17,028)
Supplemental support	233,723	233,723	231,419	(2,304)
Early reading intervention	88,151	88,151	88,151	-
Adult Education	31,563	31,563	31,563	-
Homebound education	26,650	26,650	25,614	(1,036)
Vocation education	365,132	365,132	415,642	50,510
At risk payments	580,694	580,694	574,894	(5,800)
Primary class size	639,738	639,738	631,003	(8,735)
Technology	466,800	466,800	411,770	(55,030)
Jobs for Virginia Graduates	25,000	25,000	25,000	-
Industry Certification Costs	3,344	3,344	4,629	1,285
At risk four-year olds	495,924	495,924	495,924	-
School Food	31,437	31,437	25,166	(6,271)
English as a second language	3,265	3,265	7,725	4,460
Project graduation	-	-	15,751	15,751
GED prep programs	15,717	15,717	78,096	62,379
Tobacco Commission	56,550	56,550	24,550	(32,000)
Adult literacy	99,595	99,595	99,595	-
Special education-foster care	-	-	9,338	9,338
Other state funds	775	775	1,073	298
Total categorical aid	<u>\$ 27,157,733</u>	<u>\$ 27,157,733</u>	<u>\$ 27,002,101</u>	<u>\$ (155,632)</u>
Total revenue from the Commonwealth	<u>\$ 27,157,733</u>	<u>\$ 27,157,733</u>	<u>\$ 27,002,101</u>	<u>\$ (155,632)</u>

County of Russell, Virginia
 Schedule of Revenues - Budget and Actual
 Governmental Funds
 For the 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>
Discretely Presented Component Unit - School Board: (Continued)				
School Operating Fund: (Continued)				
Intergovernmental: (Continued)				
Revenue from the federal government:				
Categorical aid:				
Basic Adult Education	\$ 325,848	\$ 325,848	\$ 243,994	\$ (81,854)
Title I	1,041,043	1,041,043	987,175	(53,868)
Special Education	1,178,218	1,178,218	1,064,936	(113,282)
Title VI-B, preschool	34,335	34,335	-	(34,335)
Vocational education	76,191	76,191	60,115	(16,076)
School Food Program	1,195,000	1,195,000	1,294,255	99,255
Improving teacher quality	275,276	275,276	203,278	(71,998)
21st century grant	902,678	902,678	791,911	(110,767)
Rural and low income schools	85,378	85,378	149,880	64,502
Other federal funds	156,150	156,150	-	(156,150)
Total categorical aid	<u>\$ 5,270,117</u>	<u>\$ 5,270,117</u>	<u>\$ 4,795,544</u>	<u>\$ (474,573)</u>
Total revenue from the federal government	<u>\$ 5,270,117</u>	<u>\$ 5,270,117</u>	<u>\$ 4,795,544</u>	<u>\$ (474,573)</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 41,164,996</u>	<u>\$ 41,164,996</u>	<u>\$ 39,590,662</u>	<u>\$ (1,574,334)</u>

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

Schedule 2
 Page 1 of 3

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund:				
General government administration:				
Legislative:				
Board of supervisors	\$ 195,652	\$ 209,152	\$ 208,876	\$ 276
General and financial administration:				
County administrator	\$ 330,436	\$ 301,536	\$ 304,239	\$ (2,703)
Independent auditor	65,000	67,500	71,270	(3,770)
Commissioner of the revenue	303,958	307,758	309,585	(1,827)
Real estate assessor	141,507	135,607	139,023	(3,416)
Treasurer	392,488	415,588	434,405	(18,817)
Data processing	-	4,800	4,735	65
Procurement	123,831	129,131	130,540	(1,409)
Total general and financial administration	<u>\$ 1,357,220</u>	<u>\$ 1,361,920</u>	<u>\$ 1,393,797</u>	<u>\$ (31,877)</u>
Board of elections:				
Electoral Board	\$ 77,383	\$ 78,583	\$ 75,547	\$ 3,036
General Registrar	113,564	112,364	109,372	2,992
Total board of elections	<u>\$ 190,947</u>	<u>\$ 190,947</u>	<u>\$ 184,919</u>	<u>\$ 6,028</u>
Total general government administration	<u>\$ 1,743,819</u>	<u>\$ 1,762,019</u>	<u>\$ 1,787,592</u>	<u>\$ (25,573)</u>
Judicial administration:				
Courts:				
Circuit Court	\$ 123,580	\$ 128,980	\$ 131,442	\$ (2,462)
General District Court	9,800	11,700	11,654	46
Special Magistrates	9,400	9,800	9,739	61
Clerk's Office	406,311	392,111	406,032	(13,921)
Sheriff Courts	922,670	929,570	939,635	(10,065)
Victim and Witness Assistance	34,703	60,080	39,905	20,175
Law Library	-	-	728	(728)
Total courts	<u>\$ 1,506,464</u>	<u>\$ 1,532,241</u>	<u>\$ 1,539,135</u>	<u>\$ (6,894)</u>
Commonwealth's attorney:				
Commonwealth's Attorney	\$ 528,228	\$ 650,228	\$ 654,687	\$ (4,459)
Total judicial administration	<u>\$ 2,034,692</u>	<u>\$ 2,182,469</u>	<u>\$ 2,193,822</u>	<u>\$ (11,353)</u>
Public safety:				
Law enforcement and traffic control:				
Sheriff	\$ 1,928,474	\$ 2,153,165	\$ 2,192,255	\$ (39,090)
Dare program	3,000	3,300	3,216	84
Total law enforcement and traffic control	<u>\$ 1,931,474</u>	<u>\$ 2,156,465</u>	<u>\$ 2,195,471</u>	<u>\$ (39,006)</u>
Fire and rescue services:				
Volunteer Fire Departments	\$ 274,200	\$ 209,200	\$ 285,832	\$ (76,632)
Ambulance Rescue Squad	186,875	156,875	156,870	5
Total fire and rescue services	<u>\$ 461,075</u>	<u>\$ 366,075</u>	<u>\$ 442,702</u>	<u>\$ (76,627)</u>
Correction and detention:				
Operation of Jail	\$ 2,964,954	\$ 2,964,954	\$ 2,964,953	\$ 1
Probation Office	300,949	307,949	307,919	30
Total correction and detention	<u>\$ 3,265,903</u>	<u>\$ 3,272,903</u>	<u>\$ 3,272,872</u>	<u>\$ 31</u>
Inspections:				
Building inspector	\$ 105,299	\$ 107,999	\$ 108,842	\$ (843)
Other protection:				
Forestry Service	\$ 11,804	\$ 4	\$ -	\$ 4
Enhanced 911	574,250	583,950	614,941	(30,991)
Medical Examiner	-	500	460	40

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

Schedule 2
 Page 2 of 3

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Public safety: (Continued)				
Other protection: (Continued)				
Emergency Services	\$ 113,325	\$ 186,675	\$ 131,519	\$ 55,156
Animal Control	186,802	172,848	147,620	25,228
Total other protection	<u>\$ 886,181</u>	<u>\$ 943,977</u>	<u>\$ 894,540</u>	<u>\$ 49,437</u>
Total public safety	<u>\$ 6,649,932</u>	<u>\$ 6,847,419</u>	<u>\$ 6,914,427</u>	<u>\$ (67,008)</u>
Public works:				
Sanitation and waste removal:				
Landfill	\$ 2,121,970	\$ 1,932,670	\$ 1,864,802	\$ 67,868
Refuse collection	254,113	92,081	25,956	66,125
Litter Coordinator	-	-	72,248	(72,248)
Total sanitation and waste removal	<u>\$ 2,376,083</u>	<u>\$ 2,024,751</u>	<u>\$ 1,963,006</u>	<u>\$ 61,745</u>
Maintenance of general buildings and grounds:				
General properties	\$ 1,002,476	\$ 1,002,476	\$ 936,059	\$ 66,417
Total public works	<u>\$ 3,378,559</u>	<u>\$ 3,027,227</u>	<u>\$ 2,899,065</u>	<u>\$ 128,162</u>
Health and welfare:				
Health:				
Health Department	\$ 340,000	\$ 340,000	\$ 340,000	\$ -
Mental health and mental retardation:				
Cumberland Mountain Community Services Board	\$ 42,000	\$ 42,000	\$ 39,996	\$ 2,004
Welfare:				
Social services	\$ 4,851,092	\$ 4,851,092	\$ 4,877,552	\$ (26,460)
Comprehensive Services Act	1,382,449	1,481,789	1,726,637	(244,848)
Appalachian Agency for Senior Citizens	85,025	87,325	87,168	157
Total welfare	<u>\$ 6,318,566</u>	<u>\$ 6,420,206</u>	<u>\$ 6,691,357</u>	<u>\$ (271,151)</u>
Total health and welfare	<u>\$ 6,700,566</u>	<u>\$ 6,802,206</u>	<u>\$ 7,071,353</u>	<u>\$ (269,147)</u>
Education:				
Contributions to County School Board	\$ 7,439,178	\$ 7,439,178	\$ 6,632,200	\$ 806,978
SVCC Contribution	89,253	97,253	97,163	90
Total education	<u>\$ 7,528,431</u>	<u>\$ 7,536,431</u>	<u>\$ 6,729,363</u>	<u>\$ 807,068</u>
Parks, recreation, and cultural:				
Parks and recreation:				
Recreation Park	\$ 157,966	\$ 159,266	\$ 142,816	\$ 16,450
TV Translator	-	-	990	(990)
Total parks and recreation	<u>\$ 157,966</u>	<u>\$ 159,266</u>	<u>\$ 143,806</u>	<u>\$ 15,460</u>
Library:				
Public Library	\$ 313,309	\$ 317,109	\$ 324,864	\$ (7,755)
Total parks, recreation, and cultural	<u>\$ 471,275</u>	<u>\$ 476,375</u>	<u>\$ 468,670</u>	<u>\$ 7,705</u>
Community development:				
Planning and community development:				
Planning Commission	\$ 18,250	\$ 14,450	\$ 12,550	\$ 1,900
Community Development	22,250	13,950	12,500	1,450
Industrial Development	504,930	504,930	545,123	(40,193)
PSA Contributions	264,519	261,169	281,516	(20,347)
Cumberland Plateau	30,000	33,800	33,750	50
Highway Safety Commission	2,000	2,650	2,650	-
Canneries	30,000	30,000	58,322	(28,322)
Tourism	6,000	6,000	686	5,314
Total planning and community development	<u>\$ 877,949</u>	<u>\$ 866,949</u>	<u>\$ 947,097</u>	<u>\$ (80,148)</u>

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

Schedule 2
 Page 3 of 3

<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
General Fund: (Continued)				
Environmental management:				
Soil and Water Conservation	\$ 35,236	\$ 35,236	\$ 33,236	\$ 2,000
Cooperative extension program:				
VPI Extension	\$ 78,498	\$ 55,398	\$ 68,221	\$ (12,823)
Total community development	\$ 991,683	\$ 957,583	\$ 1,048,554	\$ (90,971)
Nondepartmental:				
Nondepartmental	\$ 481,098	\$ 929,375	\$ 515,527	\$ 413,848
Debt service:				
Principal payments	\$ 1,369,256	\$ 1,369,256	\$ 1,369,256	\$ -
Interest Expense	378,227	378,227	378,465	(238)
Total debt service	\$ 1,747,483	\$ 1,747,483	\$ 1,747,721	\$ (238)
Total General Fund	\$ 31,727,538	\$ 32,268,587	\$ 31,376,094	\$ 892,493
Special Revenue Funds:				
Coal Road Fund:				
Public Works:				
Maintenance of highways, streets, bridges and sidewalks:				
Maintenance of highways, streets, bridges and sidewalks	\$ 750,000	\$ 750,000	\$ 500,000	\$ 250,000
Virginia coalfield	150,000	150,000	130,555	19,445
Total Public Works	\$ 900,000	\$ 900,000	\$ 630,555	\$ 269,445
Total Coal Road Fund	\$ 900,000	\$ 900,000	\$ 630,555	\$ 269,445
Workforce Investment Board Fund:				
Health and Welfare:				
Welfare:				
Workforce Investment	\$ 2,746,846	\$ 2,746,846	\$ 2,137,788	\$ 609,058
Total Primary Government	\$ 35,374,384	\$ 35,915,433	\$ 34,144,437	\$ 1,770,996
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Administration of schools:				
Administration and health services	\$ 1,811,395	\$ 1,811,395	\$ 1,760,298	\$ 51,097
Instruction costs:				
Instructional costs	\$ 29,225,186	\$ 29,225,186	\$ 28,313,520	\$ 911,666
Technology	806,620	806,620	847,027	(40,407)
Total instruction costs	\$ 30,031,806	\$ 30,031,806	\$ 29,160,547	\$ 871,259
Operating costs:				
Pupil transportation	\$ 2,980,867	\$ 2,980,867	\$ 2,791,446	\$ 189,421
Operation and maintenance of school plant	4,515,280	4,515,280	4,305,938	209,342
Food service and non-instructional	1,825,648	1,825,648	1,758,723	66,925
Total operating costs	\$ 9,321,795	\$ 9,321,795	\$ 8,856,107	\$ 465,688
Total education	\$ 41,164,996	\$ 41,164,996	\$ 39,776,952	\$ 1,388,044
Total School Operating Fund	\$ 41,164,996	\$ 41,164,996	\$ 39,776,952	\$ 1,388,044
Total Discretely Presented Component Unit - School Board	\$ 41,164,996	\$ 41,164,996	\$ 39,776,952	\$ 1,388,044

Other Statistical Section

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare (2)	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Service Authority	Total
2015-16	\$ 2,099,001	\$ 2,080,921	\$ 5,999,917	\$ 3,547,942	\$ 8,926,570	\$ 7,744,464	\$ 481,145	\$ 1,025,246	\$ 342,729	\$ 441,642	\$ 32,689,577
2014-15	1,772,163	1,945,227	6,352,397	3,725,640	8,115,359	7,596,324	514,678	1,023,371	385,445	430,426	31,861,030
2013-14	1,702,984	2,039,186	6,005,354	4,381,728	7,169,883	8,943,324	546,171	1,687,428	457,095	403,848	33,337,001
2012-13	1,269,473	2,097,469	5,908,601	4,592,807	8,285,584	7,484,972	529,959	2,173,719	498,401	441,349	33,282,334
2011-12	2,267,145	2,119,900	5,296,188	6,060,973	8,397,896	4,589,631	539,126	3,493,655	522,300	410,664	33,697,478
2010-11	1,691,031	2,112,758	5,091,612	4,003,987	8,592,042	5,681,243	563,123	3,191,256	756,064	423,945	32,107,061
2009-10	1,828,631	2,219,866	4,234,145	5,549,934	6,070,091	5,897,486	560,735	1,491,257	728,202	434,552	29,014,899
2008-09	1,706,342	2,243,005	4,013,947	6,055,397	5,982,456	5,471,573	541,087	4,826,721	758,753	407,145	32,006,426
2007-08	1,411,595	2,070,008	4,025,383	5,386,506	5,395,294	4,508,131	433,946	5,549,375	827,965	388,949	29,997,152
2006-07	1,465,480	1,710,751	3,667,580	2,867,007	4,880,408	3,884,301	477,515	3,246,100	852,493	422,425	23,474,060

(2) 2010-2011 is the first year the Workforce Investment Board is included.

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

Fiscal Year	PROGRAM REVENUES				GENERAL REVENUES						Total
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		General Property Taxes	Other Local Taxes (2)	Unrestricted Investment Earnings	Miscellaneous	Grants and Contributions Not Restricted to Specific Programs (2)		
2015-16	\$ 430,589	\$ 10,616,989	\$ 61,200	\$	\$ 15,198,122	\$ 3,781,925	\$ 223,008	\$ 180,343	\$ 2,501,627	\$ 32,993,803	
2014-15	468,117	9,648,228	-	-	15,762,013	4,635,427	257,108	226,621	2,553,497	33,551,011	
2013-14	445,727	8,991,231	320,311	-	15,749,617	4,873,857	359,952	86,115	2,562,116	33,388,926	
2012-13	398,711	9,822,073	-	-	14,686,993	5,079,612	45,865	60,479	2,580,839	32,674,572	
2011-12	488,408	9,677,480	761,738	-	13,142,777	6,881,302	77,226	138,135	2,445,435	33,612,501	
2010-11	337,064	10,635,876	-	-	13,683,476	6,340,919	89,819	177,669	2,638,202	33,903,025	
2009-10	393,362	7,473,127	-	-	13,004,381	6,123,807	106,848	173,322	2,465,451	29,740,298	
2008-09	481,092	7,376,521	-	-	12,889,357	7,779,265	153,807	346,880	1,771,674	30,798,596	
2007-08	505,428	7,780,609	-	-	12,279,583	7,976,046	529,827	55,649	1,711,485	30,838,627	
2006-07	527,092	8,235,960	802,191	-	13,239,976	5,467,574	808,979	252,756	1,881,802	31,216,330	

(2) 2009-10 is the first year State Communications tax is classified as grants and contributions not restricted to specific programs.

County of Russell, Virginia
 General Governmental Expenditures by Function (1)
 Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare (3)	Education (2)	Parks, Recreation, and Cultural	Community Development (4)	Non-departmental	Debt Service	Total
2015-16	\$ 1,787,592	\$ 2,193,822	\$ 6,914,427	\$ 3,529,620	\$ 9,209,141	\$ 39,874,115	\$ 468,670	\$ 1,048,554	\$ 515,527	\$ 1,747,721	\$ 67,289,189
2014-15	1,717,342	2,011,601	6,839,477	3,962,315	8,354,018	39,320,723	480,741	1,046,895	112,482	1,946,577	65,792,171
2013-14	1,651,589	2,039,720	5,955,754	4,500,894	7,412,261	38,945,001	507,694	1,701,241	112,027	1,810,023	64,636,204
2012-13	1,797,929	2,096,382	5,742,101	4,744,331	8,334,736	40,161,416	488,706	2,283,910	423,737	2,869,820	68,943,068
2011-12	2,060,380	2,114,097	5,509,998	6,515,152	8,518,725	40,540,127	484,891	2,442,356	305,904	2,526,021	71,017,651
2010-11	1,712,850	2,106,641	5,226,797	4,102,279	8,662,052	40,273,694	556,723	2,311,048	103,820	2,537,376	67,593,280
2009-10	1,837,926	2,213,724	4,100,376	5,491,432	6,906,934	41,066,362	497,417	1,557,445	9,095	2,504,631	66,185,342
2008-09	1,702,193	2,236,691	4,383,789	6,093,232	6,672,387	42,452,183	547,104	3,925,736	56,093	2,547,424	70,616,832
2007-08	1,745,817	2,070,455	4,057,495	5,083,514	5,398,035	39,724,130	433,946	5,549,375	45,503	2,669,081	66,777,351
2006-07	1,547,966	1,805,418	3,863,960	3,205,718	5,126,034	41,346,518	493,366	5,699,361	-	2,429,487	65,517,828

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

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

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

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

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

Fiscal Year	General Property Taxes	Other Local Taxes (3)	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2), (3)	Total
2015-16	\$ 15,071,101	\$ 3,781,925	\$ 30,258	\$ 14,136	\$ 223,772	\$ 676,644	\$ 426,624	\$ 1,607,321	\$ 44,977,461	\$ 66,809,242
2014-15	15,746,635	4,635,427	40,342	2,334	251,962	776,757	472,339	1,338,279	44,426,079	67,690,154
2013-14	16,011,500	4,873,857	40,292	31,151	352,852	803,470	307,398	1,121,491	41,977,914	65,519,925
2012-13	14,696,587	5,079,612	34,152	14,955	39,878	951,229	352,993	1,588,307	44,418,919	67,176,632
2011-12	12,813,407	6,881,302	28,272	24,567	65,238	1,162,800	394,657	1,139,070	46,119,628	68,628,941
2010-11	13,548,896	6,340,919	22,834	1,206	73,514	1,101,993	416,883	898,399	47,717,709	70,122,353
2009-10	12,841,457	6,123,807	45,877	1,049	74,279	998,548	293,467	1,732,861	43,856,378	65,967,723
2008-09	12,540,392	7,779,265	39,662	1,168	117,983	1,148,414	643,861	1,884,165	45,438,632	69,593,542
2007-08	11,826,325	7,976,046	44,933	321	501,144	1,023,848	510,972	796,913	43,519,497	66,199,999
2006-07	11,566,874	6,869,060	144,452	7,547	794,365	1,122,223	289,980	276,806	48,149,588	69,220,895

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

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

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

Table 5

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

Fiscal Year	Total Tax Levy (1)	Current Tax Collections (1)	Percent of Levy Collected	Delinquent Tax Collections (1)	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Outstanding Delinquent Taxes (1)	Percent of Delinquent Taxes to Tax Levy
2015-16	\$ 17,361,249	\$ 14,744,908	84.93%	\$ 1,312,236	\$ 16,057,144	92.49%	\$ 4,096,565	23.60%
2014-15	17,704,326	15,716,165	88.77%	994,555	16,710,720	94.39%	3,823,404	21.60%
2013-14	17,616,878	16,022,072	90.95%	895,532	16,917,604	96.03%	3,914,585	22.22%
2012-13	16,328,495	14,812,738	90.72%	953,671	15,766,409	96.56%	4,786,523	29.31%
2011-12	14,681,089	13,185,991	89.82%	723,190	13,909,181	94.74%	4,693,121	31.97%
2010-11	14,682,949	13,329,182	90.78%	1,330,697	14,659,879	99.84%	3,847,456	26.20%
2009-10	14,169,807	13,038,906	92.02%	886,480	13,925,386	98.28%	3,624,318	25.58%
2008-09	14,091,178	13,212,582	93.76%	496,787	13,709,369	97.29%	3,506,132	24.88%
2007-08	13,784,900	12,618,969	91.54%	411,887	13,030,856	94.53%	3,234,367	23.46%
2006-07	12,104,262	8,435,607	69.69%	863,735	9,299,342	76.83%	1,628,182	13.45%

(1) Exclusive of penalties and interest.

Table 6

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

Fiscal Year	Real Estate (1)	Personal Property	Machinery and Tools	Merchant's Capital	Mobile Homes	Public Service (2)	Total
2015-16	\$ 1,435,763,539	\$ 298,654,470	\$ 58,791,092	\$ 5,876,008	\$ 21,377,908	\$ 243,897,231	\$ 2,064,360,248
2014-15	1,426,948,990	300,976,802	71,451,300	6,084,205	21,500,580	240,244,298	2,067,206,175
2013-14	1,420,301,334	297,609,286	92,212,643	6,061,014	21,820,581	315,700,293	2,153,705,151
2012-13	1,323,141,655	292,809,049	86,317,454	5,631,601	23,486,868	230,027,520	1,961,414,147
2011-12	1,214,673,535	251,383,699	60,747,073	5,340,902	23,401,571	269,503,982	1,825,050,762
2010-11	1,197,720,260	235,114,151	82,948,411	5,136,529	23,320,148	326,871,285	1,871,110,784
2009-10	1,181,352,276	224,871,200	96,552,183	5,402,115	22,864,821	253,750,196	1,784,792,791
2008-09	1,153,488,246	239,254,757	93,960,621	5,501,882	23,139,220	234,196,018	1,749,540,744
2007-08	1,130,643,127	243,837,948	107,205,468	5,742,600	23,608,064	231,981,492	1,743,018,699
2006-07	931,095,586	152,418,744	99,124,678	4,954,226	23,802,666	199,922,460	1,411,318,360

(1) Real estate is assessed at 100% of fair market value.

(2) Assessed values are established by the State Corporation Commission-includes all property types.

Table 7

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

Fiscal Year	Real Estate (2)	Personal Property	Machinery & Tools	Merchant's Capital	Mobile Homes
2015-16	\$ 0.63	\$ 1.65	\$ 1.65	\$ 0.65	\$ 0.63
2014-15	0.63	1.65	1.65	0.65	0.63
2013-14	0.56/0.63	1.65	2.00	0.65	0.56
2012-13	0.70/0.56	1.65	1.65	0.65	0.70
2011-12	0.61/0.70	1.65	1.65	0.65	0.61
2010-11	0.61	1.65	1.65	0.65	0.61
2009-10	0.61	1.65	1.65	0.65	0.61
2008-09	0.61	1.65	1.65	0.65	0.61
2007-08	0.56/0.61	1.65	1.65	0.65	0.56
2006-07	0.65/0.56	1.65	1.65	NA	0.64

(1) Per \$100 of assessed value.

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

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

Fiscal Year	Population (1)	Assessed Value (in thousands) (2)	Gross Bonded Debt (3)	Net Bonded Debt	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2015-16	28,897	\$ 2,064,360	\$ 7,930,656	\$ 7,930,656	0.38%	\$ 274
2014-15	28,897	2,067,206	8,951,609	8,951,609	0.43%	310
2013-14	28,897	2,153,705	9,955,282	9,955,282	0.46%	345
2012-13	28,897	1,961,414	10,865,788	10,865,788	0.55%	376
2011-12	28,897	1,825,051	12,666,629	12,666,629	0.69%	438
2010-11	28,897	1,871,111	14,066,729	14,066,729	0.75%	487
2009-10	28,790	1,784,793	15,315,245	15,315,245	0.86%	532
2008-09	28,790	1,749,541	14,878,819	14,878,819	0.85%	517
2007-08	28,790	1,743,019	14,584,265	14,584,265	0.84%	507
2006-07	28,790	1,411,318	14,836,861	14,836,861	1.05%	515

(1) Bureau of the Census.

(2) Real property assessed at 100% of the fair market value.

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, and literary fund loans.

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

Table 9

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

Fiscal Year	Total Debt Service	Total General Governmental Expenditures	Ratio of Debt Service to General Governmental Expenditures
2015-16	\$ 1,747,721	\$ 67,289,189	2.60%
2014-15	1,946,577	65,792,171	2.96%
2013-14	1,810,023	64,636,204	2.80%
2012-13	2,869,820	68,943,068	4.16%
2011-12	2,526,021	71,017,651	3.56%
2010-11	2,537,376	67,593,280	3.75%
2009-10	2,504,631	66,185,342	3.78%
2008-09	2,547,424	70,616,832	3.61%
2007-08	2,669,081	66,777,351	4.00%
2006-07	2,429,487	65,517,828	3.71%

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

COMPLIANCE SECTION

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the County of Russell, Virginia as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the County of Russell, Virginia's basic financial statements and have issued our report thereon dated February 15, 2017, which was qualified due to the omission of The Industrial Development Authority of Russell County, Virginia's financial data. Our report includes a reference to other auditors who audited the financial statements of Russell County Public Service Authority, as described in our report on the County of Russell, Virginia's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the County of Russell, Virginia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items [2016-002].

County of Russell, Virginia's Response to Findings

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

Purpose of this Report

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

Robinson, Fauner, Co. Associates

Blacksburg, Virginia
February 15, 2017

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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, Faimer, Co. Associates

Blacksburg, Virginia
February 15, 2017

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

Federal Grantor/State Pass - Through Grantor/ Program Cluster or Title	Federal CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
Department of Health and Human Services:				
Pass Through Payments:				
Department of Social Services:				
Promoting Safe and Stable Families	93.556	0950114, 0950115	\$ 27,919	\$ -
Temporary Assistance for Needy Families	93.558	0400115, 0400116	354,247	-
Refugee and Entrant Assistance - State Administered Programs	93.566	0500115, 0500116	387	-
Low-income Home Energy Assistance	93.568	0600415, 0600416	39,075	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760115, 0760116	54,544	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900115, 0900116	1,588	-
Foster Care - Title IV-E	93.658	1100115, 1100116	455,239	-
Adoption Assistance	93.659	1120115, 1120116	453,786	-
Social Services Block Grant	93.667	1000115, 1000116	401,212	-
Chafee Foster Care Independence Program	93.674	9150115, 9150116	7,034	-
Children's Health Insurance Program	93.767	0540115, 0540116	12,811	-
Medical Assistance Program	93.778	1200115, 1200116	392,955	-
Total Department of Health and Human Services			<u>\$ 2,200,797</u>	<u>\$ -</u>
Department of Agriculture:				
Pass Through Payments:				
Child Nutrition Cluster:				
Department of Agriculture:				
Food Distribution-Schools (Note 3)	10.555	Not available	\$ 102,406	
Department of Education:				
National School Lunch Program	10.555	40623, 40254	943,210	\$ 1,045,616
School Breakfast Program	10.553	40591, 40253	248,639	\$ 1,294,255
Department of Social Services:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010115, 0010116 0040115, 0040116	314,209	-
Total Department of Agriculture			<u>\$ 1,608,464</u>	<u>\$ -</u>
Department of Justice:				
Pass Through Payments:				
Department of Criminal Justice Services:				
Violence Against Women Formula Grants	16.588	46500	\$ 22,810	-
Department of Transportation:				
Pass Through Payments:				
Department of Motor Vehicles:				
Alcohol Open Container Requirements	20.607	154AL-15-55273	\$ 12,633	-
Department of Education:				
Pass Through Payments:				
Department of Education:				
Adult Education - Basic Grants to States	84.002	42801	\$ 243,994	-
Title I: Grants to Local Educational Agencies	84.010	42901	987,175	-
Special Education - Grants to States	84.027	43071, 61134	979,585	-
Career and Technical Education: Basic Grants to States	84.048	61095	60,115	-
Twenty-First Century Community Learning Centers	84.287	60565, 61111	877,262	-
Rural Education	84.358	43481	149,880	-
Supporting Effective Instruction State Grant (formerly Improving Teacher Quality State Grants)	84.367	61480	203,278	-
Total Department of Education			<u>\$ 3,501,289</u>	<u>\$ -</u>
Department of Labor:				
Pass Through Payments:				
Virginia Community College System:				
Workforce Investment Act Cluster:				
WIA/WIOA Adult Program	17.258	LWA 1-14-02, 1-15-02	\$ 653,865	\$ 415,995
WIA/WIOA Youth Activities	17.259	LWA 1-14-02, 1-15-02	752,394	550,925
WIA/WIOA Dislocated Worker Formula Grants	17.278	LWA 1-14-02, 1-15-02	687,998	552,976
Workforce Investment Act Cluster Total			<u>\$ 2,094,257</u>	<u>\$ 1,519,896</u>
WIOA National Dislocated Worker Grants/WIA National Emergency Grants	17.277	Not available	8,743	-
Total Department of Labor			<u>\$ 2,103,000</u>	<u>\$ 1,519,896</u>
Department of Homeland Security:				
Pass Through Payments:				
Department of Emergency Management:				
Emergency Management Performance Grants	97.042	62744, 52703	\$ 17,951	-
Homeland Security Grant Program	97.067	Not available	61,200	-
Total Department of Homeland Security			<u>\$ 79,151</u>	<u>\$ -</u>
Total Expenditures of Federal Awards			<u>\$ 9,528,144</u>	<u>\$ 1,519,896</u>

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

Notes to Schedule of Expenditures of Federal Awards:

Note 1 -- Basis of Presentation

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

Note 2 -- Summary of Significant Accounting Policies

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

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

Note 3 -- Food Distribution

Nonmonetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed. At June 30, 2016, Russell County, Virginia had food commodities totaling \$0 in inventory.

Note 4 -- Relationship to the Financial Statements

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

Intergovernmental federal revenues per the basic financial statements:

Primary government:	
General Fund	\$ 2,629,600
Workforce Investment Board Fund	<u>2,103,000</u>
Total primary government:	<u>\$ 4,732,600</u>
Component Unit School Board:	
School Operating Fund	<u>\$ 4,795,544</u>
Total expenditures of federal awards per the basic financial statements	<u>\$ 9,528,144</u>

County of Russell, Virginia

Schedule of Findings and Questioned Costs
For The Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Modified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	Yes

Federal Awards

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

Identification of major programs:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
10.553/10.555	Child Nutrition Cluster
93.659	Adoption Assistance
17.258/17.259/17.278	Workforce Investment Act Cluster

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

County of Russell, Virginia

Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2016

Section II - Financial Statement Findings

2016-001

Criteria:	Per Statement on Auditing Standards 115 (SAS 115), identification of a material adjustment to the financial statements that was not detected by the entity's internal controls indicates that a material weakness exists.
Condition:	The financial statements, as presented for audit, did not contain all necessary adjustments to comply with generally accepted accounting principles (GAAP). As such, the auditor proposed adjustments that were material to the financial statements.
Cause of Condition:	The County does not have proper controls in place to detect and correct errors in closing their year end financial statements.
Effect of Condition:	There is more than a remote likelihood that a misstatement of the County's financial statements that is more than inconsequential will not be prevented or detected by the County's internal controls over financial reporting.
Recommendation:	The County should review the auditors' proposed audit adjustments for 2016 and develop a plan to ensure the trial balances and related schedules are accurately presented for audit.
Management's Response:	The County will review the auditors' proposed audit adjustments for 2016 and will develop a plan of action to ensure that all adjusting entries are made prior to final audit fieldwork next year.

2016-002

Criteria:	The <u>Code of Virginia</u> , (1950), as amended requires that an appropriation exists prior to the expenditure of funds.
Condition:	The Social Services Fund, CSA Fund, Cannery Fund, Litter Fund, and Law Library Fund overspent the budget.
Cause of Condition:	The County does not consistently monitor appropriations. The County Administrator or each department head should be in charge of monitoring spending versus appropriations.
Effect of Condition:	The County has not met the requirements of the <u>Code of Virginia</u> , (1950), as amended.
Recommendation:	The County should budget to include appropriations for all necessary expenditures.
Management's Response:	Management will post additional appropriations to the accounting system and pay closer attention to budgeted and actual expenditures.

County of Russell, Virginia

Schedule of Findings and Questioned Costs (Continued)
For The Year Ended June 30, 2016

Section III - Federal Award Findings and Questioned Costs

None

Section IV - Status of Prior Audit Findings and Questioned Costs

There were no Federal Fundings in the prior year.