

COUNTY OF MIDDLESEX, VIRGINIA



ANNUAL FINANCIAL REPORT FOR THE FISCAL YEAR ENDED JUNE 30, 2016

COUNTY OF MIDDLESEX, VIRGINIA

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2016

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COUNTY OF MIDDLESEX, VIRGINIA

BOARD OF SUPERVISORS

John D. Miller, Jr., Chairperson
Robert LeBoeuf, Vice Chairperson

Mark E. "Chip" Holt, III
Peter W. Mansfield

Wayne H. Jessie, Sr.

COUNTY SCHOOL BOARD

Garland M. Harrow, Chairperson

Claudia H. Soucek, Vice Chairperson
Dr. Richard J. Shores

Elliot W. Reed
James W. Goforth

COUNTY WELFARE BOARD

Ruby Easton, Chairperson

Dennis Mann
Robert Crump

Kathy Goyne
Ellen Carneal

OTHER OFFICIALS

Judge of the Circuit Court
Clerk of the Circuit Court
Judge of the General District Court
Judge of Juvenile & Domestic Relations District Court
Commonwealth's Attorney
Commissioner of the Revenue
Treasurer
Sheriff
Superintendent of Schools
Director of Department of Social Services
Clerk of the School Board
County Administrator

Jeffrey W. Shaw
Lynn L. Dunlevy
Stephanie E. Merritt
Cressondra B. Conyers
Michael T. Hurd
Priscilla J. Davenport
Betty S. Bray
David P. Bushey
Thomas W. Taylor, Ed. D.
Rebecca J. Morgan
Peggy W. Jordan
Matt Walker

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ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To The Honorable Members of the Board of Supervisors
County of Middlesex
Saluda, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

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

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the County adopted new accounting guidance, GASB Statement Nos. 72 *Fair Value Measurement and Application*, 79 *Certain External Investment Pools and Pool Participants*, 82 *Pension Issues* - and amendment of GASB Statements No. 67, No. 68, and No. 73, and 77 *Tax Abatement Disclosures*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedules related to pension and OPEB funding on pages 4-10, 75, and 76-81 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Information

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

Other Information (Continued)

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of County of Middlesex, Virginia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering County of Middlesex, Virginia's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a long horizontal line.

Richmond, Virginia
November 29, 2016

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MANAGEMENT'S DISCUSSION AND ANALYSIS

**To the Honorable Members of the Board of Supervisors
To the Citizens of Middlesex County
County of Middlesex, Virginia**

As management of the County of Middlesex, Virginia we offer readers of the County's financial statements this narrative overview and analysis of the financial activities of the County for the fiscal year ended June 30, 2016.

Financial Highlights

Government-wide Financial Statements

- < The assets and deferred outflows of resources of the County exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$14,926,775 (net position).

Fund Financial Statements

The Governmental Funds, on a current financial resource basis, reported revenues and other financing sources in excess of expenditures and other financing uses in the amount of \$5,058,842 (Exhibit 5) after making contributions totaling \$8,327,201 to the School Board.

- < As of the close of the current fiscal year; the County's funds reported ending fund balances of \$14,904,906, an increase of \$5,058,842 in comparison with the prior year
- < At the end of the current fiscal year, unassigned fund balance for the general fund was \$8,881,665, or 29% of total general fund expenditures and other financing uses.
- < The combined long-term obligations increased by \$3,821,879 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the County's basic financial statements. The County's basic financial statements comprise three components:

1. Government-wide financial statements,
2. Fund financial statements, and
3. Notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements - The Government-wide financial statements are designed to provide readers with a broad overview of the County's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the County's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating.

The statement of activities presents information showing how the County's net assets changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the County include general government, courts, police protection, sanitation, social services, education, cultural events, and recreation.

The Government-wide financial statements include not only the County of Middlesex, Virginia itself (known as the primary government), but also a legally separate school district for which the County of Middlesex, Virginia is financially accountable. Financial information for the component unit is reported separately from the financial information presented for the primary government itself.

Fund financial statements - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The County of Middlesex Virginia, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the County can be divided into two categories: governmental funds and fiduciary funds.

Overview of the Financial Statements (Continued)

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

Fiduciary funds - The County is the trustee, or fiduciary, for the County's agency funds. It is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the County's fiduciary activities are reported in a separate statement of fiduciary net position. The County excludes these activities from the County's government-wide financial statements because the County cannot use these assets to finance its operations. Agency funds are County custodial funds used to provide accountability of client monies for which the County is custodian.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information - In addition to the basic financial statement and accompanying notes, this report also presents certain required supplementary information for budgetary comparison schedules and presentation of combining financial statements for the discretely presented component unit - School Board. The School Board does not issue separate financial statements.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a County's financial position. In the case of the County, assets exceeded liabilities and deferred inflows of resources by \$14,926,775 at the close of the most recent fiscal year. The following table summarizes the County's Statement of Net Position:

County of Middlesex, Virginia's Net Position		
	Governmental Activities	
	2016	2015
Current and other assets	\$ 22,714,140	\$ 17,551,095
Capital assets	25,365,040	25,453,124
Total assets	\$ 48,079,180	\$ 43,004,219
Deferred outflows of resources	\$ 217,163	\$ 209,379
Current liabilities	\$ 447,747	\$ 554,472
Long-term liabilities outstanding	26,781,762	22,959,883
Total liabilities	\$ 27,229,509	\$ 23,514,355
Deferred inflows of resources	\$ 6,140,059	\$ 6,283,452
Net position:		
Net investment in capital assets	\$ 2,895,368	\$ 2,641,933
Unrestricted	12,031,407	10,773,858
Total net position	\$ 14,926,775	\$ 13,415,791

Government-wide Financial Analysis (Continued)

Governmental activities increased the County's net position by \$1,510,984 during the current fiscal year. The following table summarizes the County's Statement of Activities:

County of Middlesex, Virginia's Changes in Net Position		
	Governmental Activities	
	2016	2015
Charges for services	\$ 391,148	\$ 428,516
Operating grants and contributions	3,052,274	2,820,609
General property taxes	14,303,096	14,107,366
Other local taxes	2,382,127	2,343,504
Grants and other contributions not restricted	1,187,823	1,215,189
Other general revenues	212,582	307,538
Total revenues	\$ 21,529,050	\$ 21,222,722
General government administration	\$ 1,464,481	\$ 1,457,228
Judicial administration	860,162	831,479
Public safety	3,618,446	3,288,198
Public works	1,366,155	1,474,267
Health and welfare	1,857,896	1,973,669
Education	9,040,534	9,926,613
Parks, recreation, and cultural	243,763	257,713
Community development	528,592	344,347
Interest and other fiscal charges	1,038,037	987,607
Total expenses	\$ 20,018,066	\$ 20,541,121
Change in net position	\$ 1,510,984	\$ 681,601
Net position, beginning of year	13,415,791	12,734,190
Net position, end of year	\$ 14,926,775	\$ 13,415,791

Financial Analysis of the County's Funds

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

Governmental Funds - The focus of the County's governmental funds is to provide information on near-term inflows, outflows, and balances of available resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a County's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the County's governmental funds reported fund balances of \$14,904,906, an increase of \$5,058,842. Approximately 60% of the reported fund balance constitutes unassigned General Fund balance, which is available for spending at the County's discretion.

General Fund Budgetary Highlights

During the year, revenues and other financing sources exceeded General Fund budgetary estimates in the amount of \$475,616. Expenditures and other financing uses were less than budgetary estimates by \$796,046, resulting in a positive variance of \$1,271,662.

Capital Asset and Debt Administration

< Capital assets - The County's investment in capital assets for its governmental operations as of June 30, 2016 amounted to \$25,365,040 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment and infrastructure.

Additional information on the County's capital assets can be found in the notes of this report.

Long-term debt - At the end of the current fiscal year, the County had total debt outstanding of \$26,645,902. Of this amount, \$2,321,079 comprises debt backed by the full faith and credit of the County. The remainder of the County's debt represents bonds secured solely by specified revenue sources (i.e., lease/revenue bonds, leases and notes).

The County's debt increased by \$3,834,711 during the current fiscal year.

Additional information on the County of Middlesex, Virginia's long-term debt can be found in Note 7 of this report.

Economic Factors and Next Year's Budgets and Rates

< Inflationary trends in the region compare to national indices.

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

The fiscal year 2017 budget decreased by approximately 0.3 percent. The County's real estate rate and the personal property rate remained the same.

Requests for Information

This financial report is designed to provide a general overview of the County of Middlesex, Virginia's finances for all those with an interest in the County's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the County Administrator, 877 General Puller Highway, Post Office Box 428, Saluda, Virginia 23149.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Component Units	
		School Board	EDA
ASSETS			
Cash and cash equivalents	\$ 9,843,466	\$ 1,300,598	\$ 358,866
Receivables (net of allowance for uncollectibles):			
Taxes receivable	6,856,387	-	-
Accounts receivable	76,698	5,517	-
Note receivable	-	-	84,771
Due from other governmental units	968,958	382,417	-
Net pension asset	792,401	-	-
Restricted assets:			
Bond construction funds	4,176,230	-	-
Capital assets (net of accumulated depreciation):			
Land and land improvements	2,317,311	248,545	-
Buildings and improvements	21,835,460	4,286,814	-
Equipment	466,747	541,603	-
Construction in progress	745,522	-	-
Total assets	<u>\$ 48,079,180</u>	<u>\$ 6,765,494</u>	<u>\$ 443,637</u>
DEFERRED OUTFLOW OF RESOURCES			
Pension contributions subsequent to measurement date	\$ 217,163	\$ 1,192,243	\$ -
Items related to measurement of net pension liability	-	11,695	-
Total deferred outflow of resources	<u>\$ 217,163</u>	<u>\$ 1,203,938</u>	<u>\$ -</u>
LIABILITIES			
Accrued liabilities	\$ 25,932	\$ 1,226,757	\$ -
Accrued interest payable	393,390	-	-
Due to other governmental units	-	366,801	40,000
Unearned revenue	28,425	-	-
Long-term liabilities:			
Due within one year	1,873,898	5,671	-
Due in more than one year	24,907,864	12,613,788	-
Total liabilities	<u>\$ 27,229,509</u>	<u>\$ 14,213,017</u>	<u>\$ 40,000</u>
DEFERRED INFLOW OF RESOURCES			
Deferred revenue - property taxes	\$ 5,711,134	\$ -	\$ -
Items related to measurement of net pension liability	428,925	1,272,930	-
Total deferred inflow of resources	<u>\$ 6,140,059</u>	<u>\$ 1,272,930</u>	<u>\$ -</u>
NET POSITION			
Net investment in capital assets	\$ 2,895,368	\$ 5,076,962	\$ -
Unrestricted	12,031,407	(12,593,477)	403,637
Total net position	<u>\$ 14,926,775</u>	<u>\$ (7,516,515)</u>	<u>\$ 403,637</u>

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

County of Middlesex, 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		Primary Government	Component Units	
			Grants and Contributions	Capital Grants and Contributions		School Board	EDA
PRIMARY GOVERNMENT:							
Governmental activities:							
General government administration	\$ 1,464,481	\$ 3,700	\$ 231,531	\$ -	\$ (1,229,250)		
Judicial administration	860,162	41,641	371,800	-	(446,721)		
Public safety	3,618,446	132,334	1,082,673	-	(2,403,439)		
Public works	1,366,155	-	6,427	-	(1,359,728)		
Health and welfare	1,857,896	-	1,331,453	-	(526,443)		
Education	9,040,534	-	-	-	(9,040,534)		
Parks, recreation, and cultural	243,763	18,171	5,000	-	(220,592)		
Community development	528,592	195,302	23,390	-	(309,900)		
Interest on long-term debt	1,038,037	-	-	-	(1,038,037)		
Total governmental activities	\$ 20,018,066	\$ 391,148	\$ 3,052,274	\$ -	\$ (16,574,644)		
Total primary government	\$ 20,018,066	\$ 391,148	\$ 3,052,274	\$ -			
COMPONENT UNITS:							
School Board	\$ 13,099,468	\$ 193,206	\$ 4,871,889	\$ -	\$ (8,034,373)	\$ -	\$ -
Economic Development Authority	46,289	61,925	-	-	-	-	15,636
Total component unit	\$ 13,145,757	\$ 255,131	\$ 4,871,889	\$ -	\$ (8,034,373)	\$ -	\$ 15,636
General revenues:							
General property taxes					\$ 14,303,096	\$ -	\$ -
Other local taxes:							
Local sales and use taxes					1,038,226	-	-
Motor vehicle licenses					300,228	-	-
Meals tax					352,438	-	-
Other local taxes					691,235	-	-
Unrestricted revenues from use of money and property					105,421	26,020	7,592
Miscellaneous					107,161	82,829	-
Contributions from Middlesex County					-	8,373,968	-
Grants and contributions not restricted to specific programs					1,187,823	-	-
Total general revenues					\$ 18,085,628	\$ 8,482,817	\$ 7,592
Change in net position					\$ 1,510,984	\$ 448,444	\$ 23,228
Net position - beginning					13,415,791	(7,964,959)	380,409
Net position - ending					\$ 14,926,775	\$ (7,516,515)	\$ 403,637

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

FUND FINANCIAL STATEMENTS

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

	<u>General</u>	<u>County Capital Projects</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 8,050,711	\$ 1,792,755	\$ 9,843,466
Receivables (net of allowance for uncollectibles):			
Taxes receivable	6,856,387	-	6,856,387
Accounts receivable	76,698	-	76,698
Due from other governmental units	968,958	-	968,958
Restricted assets:			
Bond construction funds	-	4,176,230	4,176,230
Total assets	<u>\$ 15,952,754</u>	<u>\$ 5,968,985</u>	<u>\$ 21,921,739</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES			
Liabilities:			
Accrued liabilities	\$ 25,932	\$ -	\$ 25,932
Unearned revenue	28,425	-	28,425
Total liabilities	<u>\$ 54,357</u>	<u>\$ -</u>	<u>\$ 54,357</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue-property taxes	\$ 6,962,476	\$ -	\$ 6,962,476
Total deferred inflows of resources	<u>\$ 6,962,476</u>	<u>\$ -</u>	<u>\$ 6,962,476</u>
FUND BALANCES:			
Restricted	\$ -	\$ 4,176,230	\$ 4,176,230
Committed	54,256	1,792,755	1,847,011
Unassigned	8,881,665	-	8,881,665
Total fund balances	<u>\$ 8,935,921</u>	<u>\$ 5,968,985</u>	<u>\$ 14,904,906</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 15,952,754</u>	<u>\$ 5,968,985</u>	<u>\$ 21,921,739</u>

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

County of Middlesex, 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	\$ 14,904,906
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Capital assets, cost	\$ 39,704,042	
Accumulated depreciation	<u>(14,339,002)</u>	25,365,040

The net pension asset is not an available resource and, therefore, is not reported in the funds.	792,401
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.

Unavailable revenue - property taxes	\$ 1,251,342	
Items related to measurement of net pension asset	<u>(428,925)</u>	822,417

Pension contributions subsequent to the measurement date will be a reduction to/increase in the net pension liability/asset in the next fiscal year and, therefore, are not reported in the funds.	217,163
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds. The following is a summary of items supporting this adjustment:

Capital leases	\$ (21,652)	
General obligation bonds	(2,321,079)	
Lease revenue bonds	(24,218,400)	
Note payable	(84,771)	
Compensated absences	(135,860)	
Accrued interest payable	<u>(393,390)</u>	(27,175,152)

Net position of governmental activities	<u><u>\$ 14,926,775</u></u>
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The notes to the financial statements are an integral part of this statement.

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

	<u>General</u>	<u>County Capital Projects</u>	<u>Total</u>
REVENUES			
General property taxes	\$ 14,226,581	\$ -	\$ 14,226,581
Other local taxes	2,382,127	-	2,382,127
Permits, privilege fees, and regulatory licenses	131,186	-	131,186
Fines and forfeitures	13,042	-	13,042
Revenue from the use of money and property	104,937	484	105,421
Charges for services	246,920	-	246,920
Miscellaneous	107,161	-	107,161
Recovered costs	147,682	-	147,682
Intergovernmental:			
Commonwealth	3,330,214	-	3,330,214
Federal	909,883	-	909,883
Total revenues	\$ 21,599,733	\$ 484	\$ 21,600,217
EXPENDITURES			
Current:			
General government administration	\$ 1,704,376	\$ -	\$ 1,704,376
Judicial administration	696,202	-	696,202
Public safety	3,672,460	-	3,672,460
Public works	1,350,772	-	1,350,772
Health and welfare	1,922,103	-	1,922,103
Education	8,336,342	-	8,336,342
Parks, recreation, and cultural	239,761	-	239,761
Community development	570,747	-	570,747
Capital projects	-	837,373	837,373
Debt service:			
Principal retirement	9,945,289	-	9,945,289
Interest and other fiscal charges	897,703	-	897,703
Bond issuance costs	-	-	-
Total expenditures	\$ 29,335,755	\$ 837,373	\$ 30,173,128
Excess (deficiency) of revenues over (under) expenditures	\$ (7,736,022)	\$ (836,889)	\$ (8,572,911)
OTHER FINANCING SOURCES (USES)			
Transfers in	\$ -	\$ 125,000	\$ 125,000
Transfers out	(125,000)	-	(125,000)
Issuance of lease revenue bonds	8,780,000	5,000,000	13,780,000
Bond issuance costs	(148,247)	-	(148,247)
Total other financing sources (uses)	\$ 8,506,753	\$ 5,125,000	\$ 13,631,753
Net change in fund balances	\$ 770,731	\$ 4,288,111	\$ 5,058,842
Fund balances - beginning	8,165,190	1,680,874	9,846,064
Fund balances - ending	\$ 8,935,921	\$ 5,968,985	\$ 14,904,906

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

County of Middlesex, 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 \$ 5,058,842

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 expense exceeded the capital outlay in the current period. The following is a summary of items supporting this adjustment:

Capital asset additions	\$ 1,067,240	
Depreciation expense	(1,108,557)	
Activity related to joint tenancy assets of Component Unit and Primary Government	(46,767)	(88,084)

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

Increase(decrease) in unavailable property taxes	\$ 76,515	
Increase (decrease) in deferred inflows related to the measurement of the net pension asset	167,777	244,292

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. The following is a summary of items supporting this adjustment:

Principal retired on capital leases	\$ 63,682	
Principal retired on general obligation bonds	162,580	
Principal retired on lease revenue bonds	9,679,644	
Principal retired on note payable	39,383	
Issuance of lease revenue bonds	(13,780,000)	(3,834,711)

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

The following is a summary of items supporting this adjustment:

Decrease (increase) in compensated absences	\$ 12,832	
Increase (decrease) in net pension asset	115,055	
Decrease (increase) in deferred outflows related to pension payments subsequent to the measurement date	7,784	
Decrease (increase) in accrued interest payable	(5,026)	130,645

Change in net position of governmental activities	\$ 1,510,984
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The notes to the financial statements are an integral part of this statement.

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

	Agency Funds
ASSETS	
Cash and cash equivalents	\$ 116,437
	<u>116,437</u>
LIABILITIES	
Amounts held for others	\$ 114,030
Amounts held for social services clients	2,407
Total liabilities	<u>\$ 116,437</u>

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

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements As of June 30, 2016

Note 1—Summary of Significant Accounting Policies:

The County of Middlesex, Virginia (the "County") is governed by an elected five member Board of Supervisors. The County provides a full range of services for its citizens. These services include police and fire protection, sanitation services, recreational activities, cultural events, education, and social services.

The financial statements of the County of Middlesex, Virginia have been prepared in conformity with the accounting principles generally accepted in the United States as specified by the Governmental Accounting Standards Board and the specifications promulgated by the Auditor of Public Accounts (APA) of the Commonwealth of Virginia. The more significant of the government's accounting policies are described below.

Financial Statement Presentation

The County's financial report is prepared in accordance with GASB Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments.

Management's Discussion and Analysis - GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

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. Interfund services provided and used are not eliminated in the process of consolidation. 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 Statement of Net Position is designed to display financial position of the primary government (governmental activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

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

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; 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment and 3) capital grants and contributions. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

A. Financial Reporting Entity

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

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

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

B. Individual Component Unit Disclosures

Blended Component Unit. The County has no blended component units at June 30, 2016.

Discretely Presented Component Units. The School Board members are elected by the citizens of Middlesex County. The School Board is responsible for the operations of the County's School System within the County boundaries. The School Board is fiscally dependent on the County. The County has the ability to approve its budget and any amendments. The primary funding is from the General Fund of the County. The School Fund does not issue a separate financial report. The financial statements of the School Board are presented as a discrete presentation of the County financial statements for the fiscal year ended June 30, 2016.

The Middlesex County Economic Development Authority is responsible for industrial and commercial development in the County. The Authority consists of seven members appointed by the Board of Supervisors. The Authority is fiscally dependent on the County, as the County is involved in the day-to-day operations of the EDA, and therefore, it is included in the County's financial statements as a discrete presentation for the year ended June 30, 2016. The Authority does not issue a separate financial report.

C. Other Related Organizations Included in the County's Financial Report

None

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of 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.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. 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. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

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

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

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

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

1. Governmental Funds

Governmental Funds are those through which most governmental functions typically are financed. The County reports the General and County Capital Project Funds as major governmental funds.

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

Capital Projects Fund - The County Capital Projects Fund accounts for and reports financial resources that are restricted, committed or assigned to expenditure for capital outlays, except for those financed by proprietary funds or for assets held in trust for individuals, private organizations, or other governments.

- 2. Fiduciary Funds - (Trust and Agency Funds)** - Account for assets held by the County unit in a trustee capacity or as an agent or custodian for individuals, private organizations, other governmental units, or other funds. These funds include Agency Funds which consists of the Special Welfare Fund and Chesapeake Bay Governor's School Fund. These funds utilize the accrual basis of accounting described in the Governmental Fund Presentation, but have no measurement focus. Fiduciary funds are not included in the government-wide financial statements.

E. Cash and Cash Equivalents

Cash and cash equivalents include amounts in demand deposits as well as short-term investments with an original maturity date within three months of the date acquired by the government.

F. Investments

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

State statutes authorize the government to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds and repurchase agreements.

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

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

G. Receivables and Payables

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

All trade and property tax receivables are shown net of an allowance for uncollectibles. The County calculates its allowance for uncollectible accounts using historical collection data and, in certain cases, specific account analysis. The allowance amounted to approximately \$291,244 at June 30, 2016 and was comprised of property taxes.

Real and Personal Property Tax Data:

The tax calendars for real and personal property taxes are summarized below.

	<u>Real Property</u>	<u>Personal Property</u>
Levy	January 1	January 1
Due Date	June 5/December 5 (50% each date)	December 5
Lien Date	January 1	January 1

The County bills and collects its own property taxes.

H. Capital Assets

Capital assets, which include property, plant and equipment and infrastructure, are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the County as land, buildings, and equipment with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

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

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

H. Capital Assets (Continued)

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

Assets	Years
Buildings	20-40
Buildings and Improvements	10-40
Infrastructure	7
Furniture, Vehicles, Office and Computer Equipment	5-20
Buses	12

I. Compensated Absences

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported as an expense in the Statement of Activities and a long-term obligation in the Statement of Net Position. In accordance with the provisions of Governmental Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for nonvesting accumulating rights to received sick pay benefits. However, a liability is recognized for that portion of accumulating sick leave benefits that is estimated will be taken as “terminal leave” prior to retirement.

J. 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.

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

K. Fund Equity

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

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

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

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

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

K. Fund Equity (Continued)

Board of Supervisors establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by Board of Supervisors through adoption or amendment of the budget as intended for specific purpose (such as the purchase of capital assets, construction, debt service, or for other purposes).

The details of governmental fund balances, as presented in aggregate on Exhibit 3, are as follows:

	General Fund	County Capital Projects	Total
Fund Balances:			
Restricted:			
Bond construction funds	\$ -	\$ 4,176,230	\$ 4,176,230
Total Restricted Fund Balance	\$ -	\$ 4,176,230	\$ 4,176,230
Committed:			
Capital Projects	\$ -	\$ 1,792,755	\$ 1,792,755
Proffers	35,882	-	35,882
Forfeited Assets - Sheriff	2,940	-	2,940
Forfeited Assets - Commonwealth's Attorney	3,754	-	3,754
Airport	11,680	-	11,680
Total Committed Fund Balance	\$ 54,256	\$ 1,792,755	\$ 1,847,011
Unassigned	\$ 8,881,665	\$ -	\$ 8,881,665
Total Fund Balances	\$ 8,935,921	\$ 5,968,985	\$ 14,904,906

L. 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 represent 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)

M. 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 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.

N. 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.

O. Long-term Obligations

In the government-wide 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. 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 and premiums on issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

P. Deferred Outflows/Inflows of Resources

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

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

P. Deferred Outflows/Inflows of Resources (Continued)

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

Q. Adoption of Accounting Principles:

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

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

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

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

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

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

Q. Adoption of Accounting Principles: (Continued)

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

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

Note 2—Stewardship, Compliance, and Accounting:

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

1. On or before March 30th, 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.
2. Public hearings are conducted to obtain citizen comments.
3. Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
4. The Appropriations Resolution places legal restrictions on expenditures at the department or category level. The appropriation for each department or category can be revised only by the Board of Supervisors. The 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. All budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
6. Appropriations lapse on June 30, for all County units.

Expenditures and Appropriations

Expenditures exceeded appropriations in the County Capital Projects Fund for the fiscal year ended June 30, 2016.

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 3—Deposits and Investments:

Deposits

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

Investments

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

Credit Risk of Debt Securities

The County’s rated debt investments as of June 30, 2016 were rated by Standard & Poor’s and the ratings are presented below using the Standard & Poor’s rating scale. The County’s investment policy has an emphasis on safety and liquidity of investments. The County’s policy is to invest where funds are readily available with little risk of penalties for early withdrawal.

County's Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
Local Government Investment Pool	\$ 16,619
Total	\$ 16,619

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 3—Deposits and Investments: (Continued)

Interest Rate Risk

Investment Maturities (in years)		
<u>Investment Type</u>		
	<u>Fair Value</u>	<u>Less Than 1 Year</u>
Local Government Investment Pool	<u>\$ 16,619</u>	<u>\$ 16,619</u>
Total	<u><u>\$ 16,619</u></u>	<u><u>\$ 16,619</u></u>

External Investment Pools

The County invests in an externally managed investment pool, Local Government Investment Pool (LGIP), which is not SEC-registered. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and regulatory oversight of the pool rests with the Virginia State Treasury. The LGIP reports to the Treasury Board at their regularly scheduled meetings, and the fair value of the position in the LGIP is the same as the value of the pool shares. Investments authorized by the LGIP are the same as those authorized for local governments in Section 2.2-4500 et seq. of the *Code of Virginia*. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There is no withdrawal limitations or restrictions imposed on participants.

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 4—Due to/from Other Governments:

At June 30, 2016, the County has receivables due from other governments as follows:

	Primary Government	Component Unit School Board	Component Unit EDA
Other Local Governments:			
Middlesex County Public Schools	\$ 366,801	\$ -	\$ -
Economic Development Authority of Middlesex County, Virginia	40,000	-	-
Commonwealth of Virginia:			
Local sales tax	196,349	-	-
Rental tax	195	-	-
State Sales Tax	-	225,410	-
Victim/witness grant	8,189	-	-
Constitutional officer reimbursements	101,289	-	-
Recordation tax	10,197	-	-
Communications tax	69,390	-	-
Comprehensive services act	91,160	-	-
Wireless funds	7,265	-	-
Welfare	31,940	-	-
Federal Government:			
School fund grants	-	146,464	-
School food funds	-	10,543	-
Edward Byrne JAG grant	1,428	-	-
Welfare	44,755	-	-
Total due from other governments	<u>\$ 968,958</u>	<u>\$ 382,417</u>	<u>\$ -</u>

At June 30, 2016, amounts due to other governmental units are as follows:

Other Local Governments:			
Count of Middlesex, Virginia	<u>\$ -</u>	<u>\$ 366,801</u>	<u>\$ 40,000</u>

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 5—Capital Assets:

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<i>Primary Government:</i>				
<i>Governmental Activities:</i>				
Capital assets not subject to depreciation:				
Land and land improvements	\$ 2,275,311	\$ 42,000	\$ -	\$ 2,317,311
Construction in progress	-	745,522	-	745,522
Total capital assets not subject to depreciation	\$ 2,275,311	\$ 787,522	\$ -	\$ 3,062,833
Capital assets subject to depreciation:				
Buildings and improvements	\$ 12,773,907	\$ 106,000	\$ -	\$ 12,879,907
Equipment	1,546,151	173,718	40,900	1,678,969
Infrastructure	16,170	-	-	16,170
Jointly owned assets	22,139,298	-	73,135	22,066,163
Total capital assets subject to depreciation	\$ 36,475,526	\$ 279,718	\$ 114,035	\$ 36,641,209
Accumulated depreciation:				
Buildings and improvements	\$ 4,967,292	\$ 358,223	\$ -	\$ 5,325,515
Equipment	1,092,593	160,529	40,900	1,212,222
Infrastructure	16,170	-	-	16,170
Jointly owned assets	7,221,658	589,805	26,368	7,785,095
Total accumulated depreciation	\$ 13,297,713	\$ 1,108,557	\$ 67,268	\$ 14,339,002
Total capital assets subject to depreciation, net	\$ 23,177,813	\$ (828,839)	\$ 46,767	\$ 22,302,207
Governmental activities capital assets, net	\$ 25,453,124	\$ (41,317)	\$ 46,767	\$ 25,365,040

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 5—Capital Assets: (Continued)

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2016:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
<i>Component Unit-School Board:</i>				
Capital assets not subject to depreciation:				
Land and land improvements	\$ 248,545	\$ -	\$ -	\$ 248,545
Total capital assets not subject to depreciation	\$ 248,545	\$ -	\$ -	\$ 248,545
Capital assets subject to depreciation:				
Buildings and improvements	\$ 745,297	\$ 22,900	\$ -	\$ 768,197
Equipment	2,093,199	141,092	-	2,234,291
Jointly owned assets	6,347,101	-	(73,135)	6,420,236
Total capital assets subject to depreciation	\$ 9,185,597	\$ 163,992	\$ (73,135)	\$ 9,422,724
Accumulated depreciation:				
Building improvement	\$ 631,925	\$ 4,590	\$ -	\$ 636,515
Equipment	1,589,835	102,853	-	1,692,688
Jointly owned assets	2,070,373	168,363	(26,368)	2,265,104
Total accumulated depreciation	\$ 4,292,133	\$ 275,806	\$ (26,368)	\$ 4,594,307
Total capital assets subject to depreciation, net	\$ 4,893,464	\$ (111,814)	\$ (46,767)	\$ 4,828,417
Component unit school board capital assets, net	\$ 5,142,009	\$ (111,814)	\$ (46,767)	\$ 5,076,962
Governmental activities:				
General government administration			\$ 58,617	
Judicial administration			204,489	
Public safety			144,354	
Public works			33,309	
Health and welfare			3,728	
Education			657,425	
Parks, recreation and cultural			6,635	
Total Governmental activities			\$ 1,108,557	
Component Unit School Board			\$ 275,806	

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 5—Capital Assets: (Continued)

Legislation enacted during the year ended June 30, 2002, Section 15.2-1800.1 of the Code of Virginia, 1950, as amended, has changed the reporting of local school capital assets and related debt for financial statement purposes. Historically, debt incurred by local governments “on-behalf” of school boards was reported in the school board’s discrete column along with the related capital assets. Under the new law, local governments have a “tenancy in common” with the school board whenever the locality incurs any financial obligation for any school property which is payable over more than one fiscal year. For financial reporting purposes, the legislation permits the locality to report the portion of school property related to any outstanding financial obligation eliminating any potential deficit from capitalizing assets financed with debt. The effect on the County of Middlesex, Virginia for the year ended June 30, 2016, is that school financed assets in the amount of \$14,281,068 are reported in the Primary Government for financial reporting purposes.

Note 6—Interfund Transfers:

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

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Primary Government:		
General Fund	\$ -	\$ 125,000
County Capital Projects Fund	<u>125,000</u>	<u>-</u>
Total	<u>\$ 125,000</u>	<u>\$ 125,000</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 authorizations.

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 7—Long Term Obligations:

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

Primary Government:

	Balance at July 1, 2015	Issuances/ Increases	Retirements/ Decreases	Balance at June 30, 2016	Amounts Due Within One Year
Governmental Activities Obligations:					
Incurred by County:					
Compensated absences					
(payloadable by General Fund)	\$ 148,692	\$ 2,037	\$ 14,869	\$ 135,860	\$ 13,586
Capital leases	85,334	-	63,682	21,652	21,652
Note payable	124,154	-	39,383	84,771	41,352
Lease revenue bonds	7,595,405	5,638,000	1,036,072	12,197,333	838,193
Total incurred by County	<u>\$ 7,953,585</u>	<u>\$ 5,640,037</u>	<u>\$ 1,154,006</u>	<u>\$ 12,439,616</u>	<u>\$ 914,783</u>
Incurred by School Board:					
General obligation bonds	\$ 2,483,659	\$ -	\$ 162,580	\$ 2,321,079	\$ 169,508
Lease revenue bonds	12,522,639	8,142,000	8,643,572	12,021,067	789,607
Total incurred by School Board	<u>\$ 15,006,298</u>	<u>\$ 8,142,000</u>	<u>\$ 8,806,152</u>	<u>\$ 14,342,146</u>	<u>\$ 959,115</u>
Total Governmental Activities Obligations	<u><u>\$ 22,959,883</u></u>	<u><u>\$ 13,782,037</u></u>	<u><u>\$ 9,960,158</u></u>	<u><u>\$ 26,781,762</u></u>	<u><u>\$ 1,873,898</u></u>

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 7—Long Term Obligations: (Continued)

Primary Government: (Continued)

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

Year Ending June 30,	County Obligations			
	Lease Revenue Bonds		Note Payable	
	Principal	Interest	Principal	Interest
2017	\$ 838,193	\$ 351,225	\$ 41,352	\$ 4,239
2018	843,013	344,288	43,419	2,170
2019	869,323	321,891	-	-
2020	889,998	298,460	-	-
2021	917,312	274,389	-	-
2022	942,435	249,439	-	-
2023	962,230	225,160	-	-
2024	989,497	198,651	-	-
2025	927,588	172,281	-	-
2026	958,677	145,132	-	-
2027	440,761	117,672	-	-
2028	396,732	100,599	-	-
2029	405,082	84,276	-	-
2030	425,849	67,435	-	-
2031	442,490	49,025	-	-
2032	463,420	27,161	-	-
2033	484,733	10,179	-	-
Total	<u>\$ 12,197,333</u>	<u>\$ 3,037,263</u>	<u>\$ 84,771</u>	<u>\$ 6,409</u>

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 7—Long-Term Obligations: (Continued)

Primary Government: (Continued)

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

Year Ending June 30,	School Obligations			
	General Obligation Bonds		Lease Revenue Bonds	
	Principal	Interest	Principal	Interest
2017	\$ 169,508	\$ 107,864	\$ 789,607	\$ 337,182
2018	181,571	98,480	820,087	317,133
2019	155,000	88,571	838,377	299,556
2020	165,000	80,491	863,702	281,608
2021	175,000	71,906	886,888	260,254
2022	180,000	62,943	919,765	235,973
2023	190,000	53,600	941,370	209,547
2024	200,000	43,753	970,103	183,661
2025	210,000	33,400	1,009,512	156,699
2026	225,000	22,416	1,040,523	129,226
2027	230,000	13,228	1,079,239	99,822
2028	240,000	4,861	266,568	78,952
2029	-	-	280,218	67,207
2030	-	-	297,251	54,650
2031	-	-	319,110	41,835
2032	-	-	337,480	27,606
2033	-	-	361,267	12,693
Total	<u>\$ 2,321,079</u>	<u>\$ 681,513</u>	<u>\$ 12,021,067</u>	<u>\$ 2,793,604</u>

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 7—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Details of long-term indebtedness are as follows:

	<u>Total Amount</u>
<i><u>Incurred by County:</u></i>	
<u>Lease revenue bonds:</u>	
\$7,208,878 lease revenue bond issued April 13, 2007, due in varying annual installments through August, 2032, interest at rates varying from 4.00% to 4.25%, payable semi-annually	\$ 6,059,333
\$630,000 lease revenue bond issued April 30, 2012, payable in varying annual installments through October 1, 2026, interest at rates varying from 2.125% to 5.125%, payable semi-annually	500,000
\$638,000 refunding lease revenue bond issued July 8, 2015, payable in varying annual installments through August 1, 2023, interest at 2.35%, payable semi-annually	638,000
\$5,000,000 lease revenue bond issued March 29, 2016, payable in varying annual installments through February 1, 2026, interest at 1.74%, payable semi-annually	<u>5,000,000</u>
Total lease revenue bonds	<u>\$ 12,197,333</u>
<u>Note payable:</u>	
\$350,000 note issued November 2, 2007, payable in varying annual installments through January 15, 2018, interest at 5.00% payable semi-annually	<u>\$ 84,771</u>
<u>Capital leases:</u>	
\$40,621 capital lease issued January 15, 2015 for purchase of two automobiles payable in 3 combined principal and interest installments of \$24,716 through January, 2017, interest payable at 14.15%	<u>\$ 21,652</u>
Compensated absences (payable by General Fund)	<u>\$ 135,860</u>
Total incurred by County	<u>\$ 12,439,616</u>

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 7—Long-Term Obligations: (Continued)

Primary Government: (Continued)

Details of long-term indebtedness are as follows:

	<u>Total Amount</u>
<i><u>Incurred by School Board:</u></i>	
<u>General Obligation Bonds:</u>	
\$349,373 general obligation bond issued July 30, 1998 to refund retirement incentive obligation, payable in combined annual principal and interest installments of \$33,778 through July, 2017, interest at 6.99%	\$ 61,079
\$2,555,000 general obligation bond issued May 10, 2012 payable in various annual installments through July 15, 2027, interest payable semi-annually at rates varying from 2.55% to 5.05%	2,260,000
Total General Obligation Bonds	<u>\$ 2,321,079</u>
<u>Lease revenue bonds:</u>	
\$2,166,122 lease revenue bond issued April 13, 2007, payable in varying annual installments through August, 2032, interest at rates varying from 4.00% to 4.20%, payable semi-annually	\$ 1,870,667
\$2,092,700 lease revenue bond issued October 28, 2013, payable in varying annual installments through October 15, 2032, interest at 4.52% payable annually	2,008,400
\$1,515,000 refunding lease revenue bond issued July 8, 2015, payable in varying annual installments through August 1, 2019, interest at 1.52%, payable semi-annually	1,515,000
\$6,627,000 refunding lease revenue bond issued July 8, 2015, payable in varying annual installments through August 1, 2026, interest at 2.35%, payable semi-annually	<u>6,627,000</u>
Total lease revenue bonds	<u>\$ 12,021,067</u>
Total incurred by School Board	<u>\$ 14,342,146</u>
Total Long-Term Obligations, Primary Government	<u><u>\$ 26,781,762</u></u>

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 7—Long-Term Obligations: (Continued)

Primary Government: (Continued)

The County issued the series 2015 refunding lease revenue bonds in the amount of \$8,780,000 to refund the series 2000, 2004 and 2009 lease revenue bonds. The aggregate difference in the debt service between the refunded debt and the refunding debt was \$951,512 and the economic gain on the transaction was \$838,199.

Component Unit - School Board:

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

	Balance at July 1, 2015	Increases	Decreases	Balance at June 30, 2016	Amounts Due Within One Year
Component Unit-School Board:					
Compensated absences	\$ 69,799	\$ 6,980	\$ 20,070	\$ 56,709	\$ 5,671
Net pension liability	12,031,549	3,069,325	2,604,847	12,496,027	-
Net OPEB Obligation	50,022	44,101	27,400	66,723	-
Total Component Unit-School Board	<u>\$ 12,151,370</u>	<u>\$ 3,120,406</u>	<u>\$ 2,652,317</u>	<u>\$ 12,619,459</u>	<u>\$ 5,671</u>

Note 8—Capital Leases:

The County has entered into various lease agreements as lessee for financing the acquisition of vehicles. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

	Primary Government Incurred by County
Asset:	
Equipment	\$ 65,337
Less: accumulated depreciation	(13,011)
Total	<u>\$ 52,326</u>

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 8—Capital Leases: (Continued)

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

Year Ended June 30	Primary Government Incurred by County
2016	
Total minimum lease payments	\$ 24,716
Less: amount representing interest	(3,064)
Present value of minimum lease payments	<u>\$ 21,652</u>

Note 9—Unearned and Deferred/Unavailable Revenue:

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

Unavailable Property Tax Revenue - Property tax revenue representing uncollected tax billings not available for funding of current expenditures totaled \$6,721,637 (including 2nd half tax billings of \$5,470,295 not due until December 5) at June 30, 2016.

Prepaid Property Taxes - Property taxes due subsequent to June 30, 2016 but paid in advance by the taxpayers totaled \$240,839 at June 30, 2016.

Deferred Revenue - Deferred revenue representing prepaid taxes due subsequent to June 30, 2016 totaling \$240,839 and \$5,470,295 of 2nd half tax billing levied in current year but due in FY2017 totaled \$5,711,134.

Unearned Revenue - Other unearned revenue items totaled \$28,425 at June 30, 2016, which consisted of forfeited assets grant funds.

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 10—Commitments and Contingent Liabilities:

Federal programs in which the County and its discretely presented component unit participate were audited in accordance with the provisions of the Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 disallowance of current grant program expenditures, if any, would be immaterial.

Note 11—Litigation:

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

Note 12—Risk Management:

The County, the Component Unit School Board, and the Component Unit - EDA are exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters for which the government carries insurance.

The County and the School Board are members of the Virginia Association of Counties Risk Pool Group Self Insurance (VACORP) for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each Association member jointly and severally agrees to assume, pay and discharge any liability. The County and School Board pay VACORP contributions and assessments based upon classifications and rates into a designated cash reserve fund out of which expenses of VACORP and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, VACORP may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The County, School Board, and Economic Development Authority also participates with other localities in a public entity risk pool for their coverage of general liability auto insurance and public officials liability with VACORP. The County and School Board pay an annual premium to the pools for general insurance through member premiums. The County and 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.

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Note 13—Pension Plan:

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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. • 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.

Note 13—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"> • 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>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>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>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>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. <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.

Note 13—Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) 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.) 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 (Cont.) 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 13—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 13—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 13—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 13—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 13—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 13—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 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 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 <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 13—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 13—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>

County of Middlesex, Virginia

Notes to Financial Statements
As of June 30, 2016

Note 13—Pension Plan: (Continued)

Plan Description (Continued)

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

Employees Covered by Benefit Terms

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

	Primary Government	Component Unit School Board Nonprofessional
Inactive members or their beneficiaries currently receiving benefits	46	32
Inactive members:		
Vested inactive members	7	8
Non-vested inactive members	25	13
Inactive members active elsewhere in VRS	51	11
Total inactive members	83	32
Active members	61	24
Total covered employees	190	88

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 8.07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

County of Middlesex, Virginia

Notes to Financial Statements As of June 30, 2016

Note 13—Pension Plan: (Continued)

Contributions (Continued)

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the County were \$217,163 and \$207,393 for the years ended June 30, 2016 and June 30, 2015, respectively.

The Component Unit School Board's contractually required contribution rate for nonprofessional employees for the year ended June 30, 2016 was 14.64% 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 \$66,658 and \$63,953 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability/Asset

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

Actuarial Assumptions - General Employees

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

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

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

Note 13—Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Largest 10 - Non-LEOS:

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

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

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

Note 13—Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees

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

Inflation	2.5%
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.

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

Note 13—Pension Plan: (Continued)

Actuarial Assumptions - Public Safety Employees (Continued)

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

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Note 13—Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

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

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

Note 13—Pension Plan: (Continued)

Discount Rate

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

Changes in Net Pension Liability (Asset)

	Primary Government		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 9,086,983	\$ 9,764,329	\$ (677,346)
Changes for the year:			
Service cost	\$ 308,501	\$ -	\$ 308,501
Interest	622,514	-	622,514
Differences between expected and actual experience	(263,473)	-	(263,473)
Contributions - employer	-	207,393	(207,393)
Contributions - employee	-	133,042	(133,042)
Net investment income	-	448,360	(448,360)
Benefit payments, including refunds of employee contributions	(387,841)	(387,841)	-
Administrative expenses	-	(6,102)	6,102
Other changes	-	(96)	96
Net changes	\$ 279,701	\$ 394,756	\$ (115,055)
Balances at June 30, 2015	\$ 9,366,684	\$ 10,159,085	\$ (792,401)

County of Middlesex, Virginia

Notes to Financial Statements
As of June 30, 2016

Note 13—Pension Plan: (Continued)

Changes in Net Pension Liability

	Component School Board (nonprofessional)		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2014	\$ 2,786,566	\$ 2,343,017	\$ 443,549
Changes for the year:			
Service cost	\$ 49,097	\$ -	\$ 49,097
Interest	189,776	-	189,776
Differences between expected and actual experience	40,934	-	40,934
Contributions - employer	-	63,953	(63,953)
Contributions - employee	-	20,699	(20,699)
Net investment income	-	106,195	(106,195)
Benefit payments, including refunds of employee contributions	(150,966)	(150,966)	-
Administrative expenses	-	(1,498)	1,498
Other changes	-	(20)	20
Net changes	\$ 128,841	\$ 38,363	\$ 90,478
Balances at June 30, 2015	\$ 2,915,407	\$ 2,381,380	\$ 534,027

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

The following presents the net pension liability (asset) of the County and Component Unit School Board (nonprofessional) using the discount rate of 7.00%, as well as what the County's and Component Unit School Board's (nonprofessional) net pension liability (asset) 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		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
County			
Net Pension Liability (Asset)	\$ 382,655	\$ (792,401)	\$ (1,772,542)
Component Unit School Board (nonprofessional)			
Net Pension Liability (Asset)	\$ 844,081	\$ 534,027	\$ 271,339

County of Middlesex, Virginia

Notes to Financial Statements
As of June 30, 2016

Note 13—Pension Plan: (Continued)

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

For the year ended June 30, 2016, the County and Component Unit School Board (nonprofessional) recognized pension expense of (\$75,439) and \$62,288, respectively. At June 30, 2016, the County and Component Unit School Board (nonprofessional) reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Primary Government		Component Unit School Board (nonprofessional)	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 168,012	\$ 11,695	\$ -
Net difference between projected and actual earnings on pension plan investments	-	260,913	-	63,930
Employer contributions subsequent to the measurement date	217,163	-	66,658	-
Total	\$ 217,163	\$ 428,925	\$ 78,353	\$ 63,930

\$217,163 and \$66,658 reported as deferred outflows of resources related to pensions resulting from the County's and Component Unit School Board's (nonprofessional) contributions, respectively, subsequent to the measurement date will be recognized as a reduction of (increase to) the Net Pension Liability (Asset) in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	Primary Government	Component Unit School Board (nonprofessional)
2017	\$ (197,983)	\$ (13,311)
2018	(175,073)	(25,006)
2019	(102,524)	(25,008)
2020	46,655	11,090
Thereafter	-	-

Note 13—Pension Plan: (Continued)

Component Unit School Board (professional)

Plan Description

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

Contributions

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

Each School Division's contractually required contribution rate for the year ended June 30, 2016 was 14.06% 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. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Based on the provisions of §51.1-145 of the Code of Virginia, as amended the contributions were funded at 79.69% of the actuarial rate for the year ended June 30, 2016. Contributions to the pension plan from the School Board were \$1,125,585 and \$1,024,577 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the school division reported a liability of \$11,962,000 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 0.09504% as compared to 0.09589% at June 30, 2014.

Note 13—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

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

For the year ended June 30, 2016, the school division recognized pension expense of \$790,000. 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 \$	-	\$ 165,000
Net difference between projected and actual earnings on pension plan investments	-	732,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	312,000
Employer contributions subsequent to the measurement date	<u>1,125,585</u>	<u>-</u>
Total	<u>\$ 1,125,585</u>	<u>\$ 1,209,000</u>

\$1,125,585 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	\$ (411,000)
2018	(411,000)
2019	(411,000)
2020	48,000
2021	(24,000)

Note 13—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)

Actuarial Assumptions

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

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

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

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Note 13—Pension Plan: (Continued)

Component Unit School Board (professional) (Continued)*Long-Term Expected Rate of Return*

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

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

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

Note 13—Pension Plan: (Continued)

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

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

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

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)

School Board's proportionate
share of the VRS Teacher
Employee Retirement Plan

Net Pension Liability (Asset) \$	17,505,000	\$	11,962,000	\$	7,399,000
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Pension Plan Fiduciary Net Position

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

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 14 –Surety Bonds:

	<u>Amount</u>
Division of Risk Management Surety Bond:	
Commonwealth Funds	
Lynn L. Dunlevy, Clerk of the Circuit Court	\$ 103,000
Betty S. Bray, Treasurer	400,000
Priscilla J. Davenport, Commissioner of the Revenue	3,000
David P. Bushey, Sheriff	30,000
VACo Risk Management Programs:	
All County, School Board and EDA Employees-blanket bond	250,000
Western Surety Company-Surety:	
All Social Services Employees-blanket bond	100,000

Note 15 –Other Postemployment Benefits - Health Insurance:

A. Plan Description

The Middlesex County Public Schools allow retirees that retire with a combined age and years of service that total at least 85 to remain on the health insurance plan. Health benefits include medical, dental and vision. The retiree is responsible for 100% of the premium. Benefits are for the life of the retiree and spouse as long as its continuous coverage. The spouse can continue coverage after the death of the retiree.

B. Funding Policy

The School Board's retirees pay 100% of the premiums directly to Anthem BCBS. The Schools currently have no retirees on their plan.

C. Annual OPEB Cost and Net OPEB Obligation

The School Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*. The School Board have elected to calculate the ARC as the normal cost plus amortization of the unfunded portion of actuarial accrued liability in accordance with GASB 45 parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 15 –Other Postemployment Benefits - Health Insurance: (Continued)

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

The estimated contributions are based on projected medical premium payments and credit for the implicit rate subsidy made during the year for the retired employees by the School Board. 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 to the Retiree Health Plan:

		<u>School Board</u>
Annual required contribution	\$	44,200
Interest on net OPEB obligation		1,751
Adjustment to annual required contribution		(1,850)
Annual OPEB cost (expense)	\$	<u>44,101</u>
Contributions made		<u>(27,400)</u>
Increase in net OPEB obligation		16,701
Net OPEB obligation-beginning of year		50,022
Net OPEB obligation-end of year	\$	<u><u>66,723</u></u>

For 2016, the School Board's annual contribution of \$27,400 did not equal the annual OPEB cost of \$44,101. The School Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 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>
School Board:			
6/30/2016	\$ 44,101	62.13%	\$ 66,723
6/30/2015	42,534	60.66%	50,022
6/30/2014	29,731	95.19%	33,288

D. Funded Status and Funding Progress

As of January 1, 2015, the most recent actuarial valuation date, the School Board's actuarial accrued liability for benefits was \$334,600, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$6,661,800, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 5.02 percent.

Note 15 – Other Postemployment Benefits - Health Insurance: (Continued)

D. Funded Status and Funding Progress (Continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples included 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 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 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.

The following simplifying assumptions were made:

Retirement age for active employees-Retirement age was estimated based on tables used for the VRS pension valuation and assumed that participants begin to retire when they become eligible to receive healthcare benefits.

Mortality-Life expectancies were based on mortality tables from the RP-2000 Combined Healthy mortality tables for males and females projected to 2020 using Scale AA.

Coverage elections -The actuary assumed that 30% of eligible retirees will elect coverage and that 30% of retirees who elect coverage will cover a spouse.

Based on the historical and expected returns of the School Board's short-term investment portfolio, a discount of 3.5% was used. In addition, the projected unit credit actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at January 1, 2015 was thirty years.

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Note 16-Other Postemployment Benefits - VRS Health Insurance Credit:

A. Plan Description

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 13.

B. Funding Policy

The School Board is required to contribute, at an actuarially determined rate, the entire amount necessary to fund participation in the program. The current rate is 1.06% of annual covered payroll. The School Board's contributions to VRS for the years ended June 30, 2016, 2015 and 2014 were \$85,751, \$75,346 and \$77,810, respectively and equaled the required contributions for the year.

Note 17-Upcoming Pronouncements:

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

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 17-Upcoming Pronouncements: (Continued)

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

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

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

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.

COUNTY OF MIDDLESEX, VIRGINIA

Notes to Financial Statements (Continued)

As of June 30, 2016

Note 18: Note Receivable:

On October 1, 2007, the Middlesex County Industrial Development Authority loaned the County \$350,000 to finance hangars at Hummel Airport. The County will repay the IDA in various annual principal payments which start January 15, 2010 and continue until January 15, 2018. The County pays semi-annual interest payments at a rate of 5%.

The following is a repayment schedule for the note:

Year Ending June 30,	Principal	Interest
2017	\$ 41,352	\$ 4,239
2018	43,419	2,171
Total	<u>\$ 84,771</u>	<u>\$ 6,410</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
REVENUES				
General property taxes	\$ 14,201,000	\$ 14,201,000	\$ 14,226,581	\$ 25,581
Other local taxes	2,292,090	2,311,845	2,382,127	70,282
Permits, privilege fees, and regulatory licenses	109,500	109,500	131,186	21,686
Fines and forfeitures	37,000	37,000	13,042	(23,958)
Revenue from the use of money and property	121,000	121,000	104,937	(16,063)
Charges for services	212,800	239,033	246,920	7,887
Miscellaneous	96,750	121,962	107,161	(14,801)
Recovered costs	-	113,598	147,682	34,084
Intergovernmental:				
Commonwealth	3,212,998	3,374,260	3,330,214	(44,046)
Federal	643,875	694,919	909,883	214,964
Total revenues	\$ 20,927,013	\$ 21,324,117	\$ 21,599,733	\$ 275,616
EXPENDITURES				
Current:				
General government administration	\$ 1,919,976	\$ 1,916,173	\$ 1,704,376	\$ 211,797
Judicial administration	687,614	743,817	696,202	47,615
Public safety	3,418,757	3,779,235	3,672,460	106,775
Public works	1,478,593	1,517,177	1,350,772	166,405
Health and welfare	2,001,657	2,005,250	1,922,103	83,147
Education	8,569,807	8,569,807	8,336,342	233,465
Parks, recreation, and cultural	237,379	247,879	239,761	8,118
Community development	570,170	603,897	570,747	33,150
Debt service:				
Principal retirement	1,301,717	9,945,289	9,945,289	-
Interest and other fiscal charges	963,343	951,524	897,703	53,821
Total expenditures	\$ 21,149,013	\$ 30,280,048	\$ 29,335,755	\$ 944,293
Excess (deficiency) of revenues over (under) expenditures	\$ (222,000)	\$ (8,955,931)	\$ (7,736,022)	\$ 1,219,909
OTHER FINANCING SOURCES (USES)				
Transfers out	\$ (325,000)	\$ (325,000)	\$ (125,000)	\$ 200,000
Issuance of lease revenue bonds	-	8,780,000	8,780,000	-
Bond issuance costs	-	-	(148,247)	(148,247)
Total other financing sources (uses)	\$ (325,000)	\$ 8,455,000	\$ 8,506,753	\$ 51,753
Net change in fund balances	\$ (547,000)	\$ (500,931)	\$ 770,731	\$ 1,271,662
Fund balances - beginning	547,000	500,931	8,165,190	7,664,259
Fund balances - ending	\$ -	\$ -	\$ 8,935,921	\$ 8,935,921

County of Middlesex, Virginia
Schedule of OPEB Funding Progress - Retiree Healthcare Plan
For the Year Ended June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as % of Payroll
School Board:						
1/1/2009	\$ -	\$ 252,000	\$ 252,000	0.00%	\$ 5,351,000	4.71%
1/1/2012	-	302,500	302,500	0.00%	5,439,500	5.56%
1/1/2015	-	334,600	334,600	0.00%	6,661,800	5.02%

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

	2015	2014
Total pension liability		
Service cost	\$ 308,501	\$ 313,075
Interest	622,514	586,951
Differences between expected and actual experience	(263,473)	-
Benefit payments, including refunds of employee contributions	(387,841)	(396,113)
Net change in total pension liability	\$ 279,701	\$ 503,913
Total pension liability - beginning	9,086,983	8,583,070
Total pension liability - ending (a)	<u>\$ 9,366,684</u>	<u>\$ 9,086,983</u>
Plan fiduciary net position		
Contributions - employer	\$ 207,393	\$ 212,738
Contributions - employee	133,042	132,588
Net investment income	448,360	1,337,763
Benefit payments, including refunds of employee contributions	(387,841)	(396,113)
Administrative expense	(6,102)	(7,194)
Other	(96)	71
Net change in plan fiduciary net position	\$ 394,756	\$ 1,279,853
Plan fiduciary net position - beginning	9,764,329	8,484,476
Plan fiduciary net position - ending (b)	<u>\$ 10,159,085</u>	<u>\$ 9,764,329</u>
County's net pension liability (asset) - ending (a) - (b)	\$ (792,401)	\$ (677,346)
Plan fiduciary net position as a percentage of the total pension liability	108.46%	107.45%
Covered payroll	\$ 2,594,531	\$ 2,548,301
County's net pension liability (asset) as a percentage of covered payroll	-30.54%	-26.58%

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 Middlesex, 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	\$ 49,097	\$ 43,610
Interest	189,776	184,049
Differences between expected and actual experience	40,934	-
Benefit payments, including refunds of employee contributions	(150,966)	(140,720)
Net change in total pension liability	\$ 128,841	\$ 86,939
Total pension liability - beginning	2,786,566	2,699,627
Total pension liability - ending (a)	<u>\$ 2,915,407</u>	<u>\$ 2,786,566</u>
Plan fiduciary net position		
Contributions - employer	\$ 63,953	\$ 41,513
Contributions - employee	20,699	22,563
Net investment income	106,195	324,512
Benefit payments, including refunds of employee contributions	(150,966)	(140,720)
Administrative expense	(1,498)	(1,798)
Other	(20)	17
Net change in plan fiduciary net position	\$ 38,363	\$ 246,087
Plan fiduciary net position - beginning	2,343,017	2,096,930
Plan fiduciary net position - ending (b)	<u>\$ 2,381,380</u>	<u>\$ 2,343,017</u>
School Division's net pension liability - ending (a) - (b)	\$ 534,027	\$ 443,549
Plan fiduciary net position as a percentage of the total pension liability	81.68%	84.08%
Covered payroll	\$ 466,832	\$ 448,656
School Division's net pension liability as a percentage of covered payroll	114.39%	98.86%

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

	2015	2014
Employer's Proportion of the Net Pension Liability (Asset)	0.09504%	0.09589%
Employer's Proportionate Share of the Net Pension Liability (Asset)	\$ 11,962,000	\$ 11,588,000
Employer's Covered Payroll	7,009,926	7,009,923
Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	170.64%	165.31%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	70.68%	70.88%

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

* The amounts presented have a measurement date of the previous fiscal year end.

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	\$ 217,163	\$ 217,163	\$ -	\$ 2,690,989	8.07%
2015	207,393	207,393	-	2,594,531	7.99%
2014	213,548	213,548	-	2,548,301	8.38%
2013	202,566	202,566	-	2,417,259	8.38%
2012	138,873	138,873	-	2,239,888	6.20%
2011	145,014	145,014	-	2,338,941	6.20%
2010	116,703	116,703	-	2,431,312	4.80%
2009	117,462	117,462	-	2,447,125	4.80%
2008	91,932	91,932	-	2,275,554	4.04%
2007	88,925	88,925	-	2,201,118	4.04%
Component Unit School Board (nonprofessional)					
2016	\$ 66,658	\$ 66,658	\$ -	\$ 455,317	14.64%
2015	63,953	63,953	-	466,832	13.70%
2014	58,280	41,276	17,004	448,656	9.20%
2013	53,988	38,236	15,752	415,614	9.20%
2012	37,884	37,884	-	411,782	9.20%
2011	65,779	65,779	-	714,990	9.20%
2010	87,049	87,049	-	738,332	11.79%
2009	89,184	89,184	-	756,439	11.79%
2008	81,265	81,265	-	750,373	10.83%
2007	72,078	72,078	-	665,540	10.83%
Component Unit School Board (professional)					
2016	\$ 1,125,585	\$ 1,125,585	\$ -	\$ 7,186,194	15.66%
2015	1,024,577	1,024,577	-	7,009,926	14.62%
2014	817,357	817,357	-	7,009,923	11.66%
2013	811,103	811,103	-	6,956,286	11.66%
2012	Unavailable				
2011	Unavailable				
2010	388,031	388,031	-	4,404,438	8.81%
2009	563,503	563,503	-	6,396,175	8.81%
2008	646,123	646,123	-	6,273,039	10.30%
2007	553,734	553,734	-	6,018,848	9.20%

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

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

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

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

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

Component Unit School Board - Professional Employees

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

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OTHER SUPPLEMENTARY INFORMATION

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*COMBINING AND INDIVIDUAL FUND FINANCIAL
STATEMENTS AND SCHEDULES*

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

	Budgeted Amounts				Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>		<u>(Negative)</u>
REVENUES					
Revenue from the use of money and property	\$ -	\$ -	\$ 484	\$	484
Total revenues	\$ -	\$ -	\$ 484	\$	484
EXPENDITURES					
Capital projects	\$ -	\$ 828,852	\$ 837,373	\$	(8,521)
Total expenditures	\$ -	\$ 828,852	\$ 837,373	\$	(8,521)
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ (828,852)	\$ (836,889)	\$	(8,037)
OTHER FINANCING SOURCES (USES)					
Transfers in	\$ 325,000	\$ 325,000	\$ 125,000	\$	(200,000)
Issuance of lease revenue bonds	-	5,000,000	5,000,000		-
Total other financing sources (uses)	\$ 325,000	\$ 5,325,000	\$ 5,125,000	\$	(200,000)
Net change in fund balances	\$ 325,000	\$ 4,496,148	\$ 4,288,111	\$	(208,037)
Fund balance - beginning	(325,000)	(4,496,148)	1,680,874		6,177,022
Fund balance - ending	\$ -	\$ -	\$ 5,968,985	\$	5,968,985

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

	Agency Funds		
	Chesapeake		
	Bay		
	Special	Governor's	
	<u>Welfare</u>	<u>School</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 2,407	\$ 114,030	\$ 116,437
LIABILITIES			
Amounts held for others	\$ -	\$ 114,030	\$ 114,030
Amounts held for social services clients	2,407	-	2,407
Total liabilities	\$ 2,407	\$ 114,030	\$ 116,437

County of Middlesex, Virginia

Combining 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>
Special Welfare:				
Assets:				
Cash and cash equivalents	\$ <u>2,168</u>	\$ <u>7,407</u>	\$ <u>7,168</u>	\$ <u>2,407</u>
Liabilities:				
Amounts held for social services clients	\$ <u>2,168</u>	\$ <u>7,407</u>	\$ <u>7,168</u>	\$ <u>2,407</u>
Chesapeake Bay Governor's School:				
Assets:				
Cash and cash equivalents	\$ <u>110,508</u>	\$ <u>1,608,444</u>	\$ <u>1,604,922</u>	\$ <u>114,030</u>
Liabilities:				
Amounts held for others	\$ <u>110,508</u>	\$ <u>1,608,444</u>	\$ <u>1,604,922</u>	\$ <u>114,030</u>
Totals -- All Agency Funds				
Assets:				
Cash and cash equivalents	\$ <u>112,676</u>	\$ <u>1,615,851</u>	\$ <u>1,612,090</u>	\$ <u>116,437</u>
Liabilities:				
Amounts held for others	\$ 110,508	\$ 1,608,444	\$ 1,604,922	\$ 114,030
Amounts held for social services clients	2,168	7,407	7,168	2,407
Total liabilities	\$ <u>112,676</u>	\$ <u>1,615,851</u>	\$ <u>1,612,090</u>	\$ <u>116,437</u>

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*DISCRETELY PRESENTED COMPONENT UNIT
SCHOOL BOARD*

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

	School Operating Fund	School Special Revenue Fund	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,235,280	\$ 65,318	\$ 1,300,598
Receivables (net of allowance for uncollectibles):			
Accounts receivable	222	5,295	5,517
Due from other governmental units	371,874	10,543	382,417
Total assets	<u>\$ 1,607,376</u>	<u>\$ 81,156</u>	<u>\$ 1,688,532</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accrued liabilities	\$ 1,226,757	\$ -	\$ 1,226,757
Due to other governmental units	366,801	-	366,801
Total liabilities	<u>\$ 1,593,558</u>	<u>\$ -</u>	<u>\$ 1,593,558</u>
Fund balances:			
Committed:			
School Operating Fund	\$ 13,818	\$ -	\$ 13,818
School food	-	81,156	81,156
Total fund balances	<u>\$ 13,818</u>	<u>\$ 81,156</u>	<u>\$ 94,974</u>
Total liabilities and fund balances	<u>\$ 1,607,376</u>	<u>\$ 81,156</u>	<u>\$ 1,688,532</u>

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total fund balances per above	\$ 94,974
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Capital assets cost	\$ 9,671,269
Accumulated depreciation	<u>(4,594,307)</u>
	5,076,962
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	(1,272,930)
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.	1,192,243
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	
Compensated absences	\$ (56,709)
Net pension liability	(12,496,027)
Deferred outflows related to measurement of net pension liability	11,695
Net OPEB obligation	<u>(66,723)</u>
Net position of governmental activities	<u>\$ (7,516,515)</u>

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

	School Operating Fund	School Special Revenue Fund	Total Governmental Funds
REVENUES			
Revenue from the use of money and property	\$ 26,020	\$ -	\$ 26,020
Charges for services	30,350	162,856	193,206
Miscellaneous	82,829	-	82,829
Intergovernmental:			
Local government	8,285,869	41,332	8,327,201
Commonwealth	3,581,743	38,911	3,620,654
Federal	692,439	375,796	1,068,235
Total revenues	<u>\$ 12,699,250</u>	<u>\$ 618,895</u>	<u>\$ 13,318,145</u>
EXPENDITURES			
Current:			
Education	\$ 12,698,905	\$ 653,332	\$ 13,352,237
Total expenditures	<u>\$ 12,698,905</u>	<u>\$ 653,332</u>	<u>\$ 13,352,237</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ 345</u>	<u>\$ (34,437)</u>	<u>\$ (34,092)</u>
Net change in fund balances	\$ 345	\$ (34,437)	\$ (34,092)
Fund balances - beginning	13,473	115,593	129,066
Fund balances - ending	<u>\$ 13,818</u>	<u>\$ 81,156</u>	<u>\$ 94,974</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 \$ (34,092)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which the capital outlays and activity related to joint tenancy assets exceeded the depreciation in the current period. The following is a summary of items supporting this adjustment:

Capital outlay	\$ 163,992	
Depreciation expense	(275,806)	
Activity related to joint tenancy assets of Component Unit and Primary Government	<u>46,767</u>	(65,047)

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

(Increase) decrease in items related to measurement of net pension liability 869,448

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 Net OPEB obligation	\$ (16,701)	
(Increase) decrease in net pension liability	(464,478)	
Increase (decrease) in deferred outflows related to pension payments subsequent to the measurement date	134,529	
Increase (decrease) in deferred outflows related to measurement of net pension liability	11,695	
(Increase) decrease in compensated absences	<u>13,090</u>	(321,865)

Change in net position of governmental activities \$ 448,444

County of Middlesex, 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			School Special Revenue Fund		
	Budgeted Amounts		Variance with Final Budget Positive (Negative)	Budgeted Amounts		Variance with Final Budget Positive (Negative)
	Original	Final	Actual	Original	Final	Actual
REVENUES						
Revenue from the use of money and property	\$ -	\$ -	\$ 26,020	\$ -	\$ -	\$ -
Charges for services	20,000	20,000	30,350	204,225	204,225	162,856
Miscellaneous	79,300	211,753	82,829	-	-	-
Recovered costs	-	-	-	-	-	-
Intergovernmental:						
Local government	8,499,808	8,499,808	8,285,869	60,858	60,858	41,332
Commonwealth	3,561,932	3,564,863	3,581,743	39,198	39,198	38,911
Federal	674,429	754,630	692,439	320,000	353,443	375,796
Total revenues	\$ 12,835,469	\$ 13,051,054	\$ 12,699,250	\$ 624,281	\$ 657,724	\$ 618,895
						\$ (38,829)
EXPENDITURES						
Current:						
Education	\$ 12,835,469	\$ 13,051,054	\$ 12,698,905	\$ 624,281	\$ 792,136	\$ 653,332
Total expenditures	\$ 12,835,469	\$ 13,051,054	\$ 12,698,905	\$ 624,281	\$ 792,136	\$ 653,332
						\$ 138,804
Excess (deficiency) of revenues over (under) expenditures	\$ -	\$ -	\$ 345	\$ -	\$ (134,412)	\$ (34,437)
						\$ 99,975
Net change in fund balances	\$ -	\$ -	\$ 345	\$ -	\$ (134,412)	\$ (34,437)
Fund balances - beginning	-	-	13,473	-	134,412	115,593
Fund balances - ending	\$ -	\$ -	\$ 13,818	\$ -	\$ -	\$ 81,156
						\$ 81,156

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*DISCRETELY PRESENTED COMPONENT UNIT
ECONOMIC DEVELOPMENT AUTHORITY*

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County of Middlesex, Virginia
Statement of Net Position
Discretely Presented Component Unit - Economic Development Authority
June 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$	358,866
Note receivable		84,771
Total current assets	\$	<u>443,637</u>
Total assets	\$	<u>443,637</u>

LIABILITIES

Current liabilities:

Due to other governmental units	\$	40,000
Total liabilities	\$	<u>40,000</u>

NET POSITION

Unrestricted	\$	<u>403,637</u>
Total net position	\$	<u><u>403,637</u></u>

County of Middlesex, Virginia
Statement of Revenues, Expenses, and Changes in Net Position
Discretely Presented Component Unit - Economic Development Authority
For the Year Ended June 30, 2016

OPERATING REVENUES

Charges for services:

Bond fees	\$ 61,650
Miscellaneous	275
Total operating revenues	\$ <u>61,925</u>

OPERATING EXPENSES

Grants	\$ 5,000
Insurance claims and expenses	1,425
Other charges	36,925
Total operating expenses	\$ <u>43,350</u>

Operating income (loss)	\$ <u>18,575</u>
-------------------------	------------------

NONOPERATING REVENUES (EXPENSES)

Interest income	\$ 7,592
Interest expense	(2,939)
Total nonoperating revenues (expenses)	\$ <u>4,653</u>

Change in net position	\$ <u>23,228</u>
------------------------	------------------

Total net position - beginning	380,409
Total net position - ending	\$ <u><u>403,637</u></u>

County of Middlesex, Virginia
Statement of Cash Flows
Discretely Presented Component Unit - Economic Development Authority
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from customers and users	\$ 50,831
Payments for operating activities	(63,350)
Net cash provided by (used for) operating activities	<u>\$ (12,519)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Payments on notes receivable	\$ 39,383
Interest payments	(2,939)
Net cash provided by (used for) capital and related financing activities	<u>\$ 36,444</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest income	\$ 7,592
Net cash provided by (used for) investing activities	<u>\$ 7,592</u>

Net increase (decrease) in cash and cash equivalents \$ 31,517

Cash and cash equivalents - beginning 327,349

Cash and cash equivalents - ending \$ 358,866

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss) \$ 18,575

Adjustments to reconcile operating income (loss) to net cash

provided (used) by operating activities:

Increase (decrease) in unearned revenue \$ (11,094)

Increase (decrease) in due to other governmental units (20,000)

Total adjustments \$ (31,094)

Net cash provided (used) by operating activities \$ (12,519)

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SUPPORTING SCHEDULES

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County of Middlesex, 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 taxes	\$ 11,370,000	\$ 11,370,000	\$ 11,405,948	\$ 35,948
Real and personal public service corporation taxes	240,000	240,000	241,079	1,079
Personal property taxes	2,332,000	2,332,000	2,303,790	(28,210)
Mobile home taxes	49,000	49,000	50,223	1,223
Airplane taxes	11,000	11,000	8,528	(2,472)
Penalties	105,000	105,000	102,561	(2,439)
Interest	94,000	94,000	114,452	20,452
Total general property taxes	\$ 14,201,000	\$ 14,201,000	\$ 14,226,581	\$ 25,581
Other local taxes:				
Local sales and use taxes	\$ 1,306,830	\$ 1,324,320	\$ 1,038,226	\$ (286,094)
Consumers' utility taxes	231,000	231,000	231,007	7
Consumption taxes	45,000	45,000	42,892	(2,108)
Business license taxes	180,000	180,000	180,185	185
Motor vehicle licenses	294,260	296,525	300,228	3,703
Bank stock taxes	55,000	55,000	78,066	23,066
Taxes on recordation and wills	180,000	180,000	159,085	(20,915)
Meals tax	-	-	352,438	352,438
Total other local taxes	\$ 2,292,090	\$ 2,311,845	\$ 2,382,127	\$ 70,282
Permits, privilege fees, and regulatory licenses:				
Animal licenses	\$ 10,500	\$ 10,500	\$ 10,640	\$ 140
Building permits	75,000	75,000	92,517	17,517
Permits and other licenses	24,000	24,000	28,029	4,029
Total permits, privilege fees, and regulatory licenses	\$ 109,500	\$ 109,500	\$ 131,186	\$ 21,686
Fines and forfeitures:				
Court fines and forfeitures	\$ 37,000	\$ 37,000	\$ 13,042	\$ (23,958)
Revenue from use of money and property:				
Revenue from use of money	\$ 5,500	\$ 5,500	\$ 1,152	\$ (4,348)
Revenue from use of property	115,500	115,500	103,785	(11,715)
Total revenue from use of money and property	\$ 121,000	\$ 121,000	\$ 104,937	\$ (16,063)
Charges for services:				
Charges for court services	\$ 31,650	\$ 32,383	\$ 27,327	\$ (5,056)
Charges for Commonwealth's Attorney	1,000	1,000	1,272	272
Charges for Treasurer	2,000	2,000	3,700	1,700
Charges for other protection	1,600	1,600	1,148	(452)
Charges for planning and community development	14,550	14,550	14,633	83
Charges for parks and recreation	5,000	15,500	18,171	2,671
Charges for airport	157,000	172,000	180,669	8,669
Total charges for services	\$ 212,800	\$ 239,033	\$ 246,920	\$ 7,887

County of Middlesex, 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)				
Miscellaneous:				
Miscellaneous	\$ 96,750	\$ 121,962	\$ 107,161	\$ (14,801)
Recovered costs:				
Local health department	\$ -	\$ 26,000	\$ 26,000	\$ -
Sheriff	-	36,208	42,353	6,145
Debt service	-	-	12,939	12,939
VA Oyster country	-	12,020	12,020	-
PPEA funds	-	39,370	39,370	-
Economy and tourism	-	-	15,000	15,000
Total recovered costs	\$ -	\$ 113,598	\$ 147,682	\$ 34,084
Total revenue from local sources	\$ 17,070,140	\$ 17,254,938	\$ 17,359,636	\$ 104,698
Intergovernmental:				
Revenue from the Commonwealth:				
Noncategorical aid:				
Auto rental tax	\$ 1,000	\$ 1,000	\$ 1,006	6
Rolling stock tax	1,000	1,000	-	(1,000)
Mobile home titling tax	20,000	20,000	9,981	(10,019)
Communications tax	460,000	460,000	424,815	(35,185)
State recordation tax	-	-	42,385	42,385
Personal property tax relief funds	709,635	709,635	709,636	1
Total noncategorical aid	\$ 1,191,635	\$ 1,191,635	\$ 1,187,823	\$ (3,812)
Categorical aid:				
Shared expenses:				
Commonwealth's attorney	\$ 153,561	\$ 169,818	\$ 157,522	\$ (12,296)
Sheriff	693,898	752,223	699,252	(52,971)
Commissioner of revenue	87,600	95,484	94,923	(561)
Treasurer	84,550	87,725	87,009	(716)
Registrar/electoral board	35,592	35,592	46,099	10,507
Clerk of the circuit court	167,297	179,789	167,535	(12,254)
Total shared expenses	\$ 1,222,498	\$ 1,320,631	\$ 1,252,340	\$ (68,291)
Other categorical aid:				
Public assistance and welfare administration	\$ 408,045	\$ 409,440	\$ 424,184	\$ 14,744
Fire programs fund	-	33,224	33,924	700
Comprehensive services act	283,350	283,350	239,486	(43,864)
Wireless funds	40,000	40,000	43,775	3,775
Emergency medical services	-	13,489	13,489	-
Victim-witness grant	26,470	30,441	30,441	-
Clerk's records grant	-	-	16,302	16,302
Arts commission grant	5,000	5,000	5,000	-
Forfeitted assets	-	-	2,804	2,804
Airport grant	-	-	23,390	23,390

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

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<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 Commonwealth: (Continued)				
Categorical aid: (Continued)				
Other categorical aid: (Continued)				
Litter control	\$ 6,000	\$ 6,000	\$ 6,427	\$ 427
School resource officer	-	-	10,829	10,829
Other grants	30,000	41,050	40,000	(1,050)
Total other categorical aid	<u>\$ 798,865</u>	<u>\$ 861,994</u>	<u>\$ 890,051</u>	<u>\$ 28,057</u>
Total categorical aid	<u>\$ 2,021,363</u>	<u>\$ 2,182,625</u>	<u>\$ 2,142,391</u>	<u>\$ (40,234)</u>
Total revenue from the Commonwealth	<u>\$ 3,212,998</u>	<u>\$ 3,374,260</u>	<u>\$ 3,330,214</u>	<u>\$ (44,046)</u>
Revenue from the federal government:				
Categorical aid:				
Public assistance and welfare administration	\$ 642,375	\$ 644,573	\$ 667,783	\$ 23,210
Asset forfeiture	-	-	163,802	163,802
Edward Byrne JAG grant	1,500	1,500	1,428	(72)
Homeland security grant	-	-	3,000	3,000
SAFER grant	-	48,846	44,820	(4,026)
Electoral Board grant	-	-	3,500	3,500
Emergency services grants	-	-	25,550	25,550
Total categorical aid	<u>\$ 643,875</u>	<u>\$ 694,919</u>	<u>\$ 909,883</u>	<u>\$ 214,964</u>
Total revenue from the federal government	<u>\$ 643,875</u>	<u>\$ 694,919</u>	<u>\$ 909,883</u>	<u>\$ 214,964</u>
Total General Fund	<u>\$ 20,927,013</u>	<u>\$ 21,324,117</u>	<u>\$ 21,599,733</u>	<u>\$ 275,616</u>
County Capital Projects Fund:				
Revenue from local sources:				
Revenue from use of money and property:				
Revenue from the use of money	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 484</u>	<u>\$ 484</u>
Total County Capital Projects Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 484</u>	<u>\$ 484</u>
Total Primary Government	<u>\$ 20,927,013</u>	<u>\$ 21,324,117</u>	<u>\$ 21,600,217</u>	<u>\$ 276,100</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	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,020</u>	<u>\$ 26,020</u>

County of Middlesex, Virginia
Schedule of Revenues - Budget and Actual
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<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)				
Revenue from local sources: (Continued)				
Charges for services:				
Charges for education	\$ 20,000	\$ 20,000	\$ 30,350	\$ 10,350
Miscellaneous:				
Miscellaneous	\$ 79,300	\$ 211,753	\$ 82,829	\$ (128,924)
Total revenue from local sources	\$ 99,300	\$ 231,753	\$ 139,199	\$ (92,554)
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Middlesex	\$ 8,499,808	\$ 8,499,808	\$ 8,285,869	\$ (213,939)
Revenue from the Commonwealth:				
Categorical aid:				
Share of state sales tax	\$ 1,274,971	\$ 1,274,971	\$ 1,278,197	\$ 3,226
Basic school aid	1,402,362	1,402,362	1,415,587	13,225
Regular foster care	6,194	6,194	-	(6,194)
GED funding	7,859	10,790	10,790	-
English as a second language	2,376	2,376	1,900	(476)
Gifted and talented	14,208	14,208	14,306	98
Special education	222,779	222,779	218,381	(4,398)
Remedial education	45,042	45,042	45,352	310
Vocational education	49,384	49,384	53,548	4,164
Early reading intervention	10,515	10,515	9,706	(809)
School fringes	266,320	266,320	268,155	1,835
Compensation supplement	24,550	24,550	24,713	163
Technology	128,000	128,000	136,510	8,510
Mentor teacher program	1,807	1,807	1,471	(336)
At risk payments	48,937	48,937	49,337	400
Primary class size	47,811	47,811	46,157	(1,654)
SOL algebra readiness	6,633	6,633	6,633	-
Other state funds	2,184	2,184	1,000	(1,184)
Total categorical aid	\$ 3,561,932	\$ 3,564,863	\$ 3,581,743	\$ 16,880
Total revenue from the Commonwealth	\$ 3,561,932	\$ 3,564,863	\$ 3,581,743	\$ 16,880

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

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<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:				
Title I	\$ 299,346	\$ 351,152	\$ 323,958	\$ (27,194)
Title VI-B, special education flow-through	280,679	280,679	273,326	(7,353)
Vocational education	26,483	30,718	7,762	(22,956)
Title VI-B, special education pre-school	9,871	9,871	9,871	-
Title III - part A	-	1,588	1,302	(286)
Title VI-rural	-	22,572	16,725	(5,847)
Title II, Part A	58,050	58,050	59,495	1,445
Total categorical aid	\$ 674,429	\$ 754,630	\$ 692,439	\$ (62,191)
Total revenue from the federal government	\$ 674,429	\$ 754,630	\$ 692,439	\$ (62,191)
Total School Operating Fund	\$ 12,835,469	\$ 13,051,054	\$ 12,699,250	\$ (351,804)
School Special Revenue Fund:				
Revenue from local sources:				
Charges for services:				
Cafeteria sales	\$ 204,225	\$ 204,225	\$ 162,856	\$ (41,369)
Intergovernmental:				
Revenues from local governments:				
Contribution from County of Middlesex, Virginia	\$ 60,858	\$ 60,858	\$ 41,332	\$ (19,526)
Revenue from the Commonwealth:				
Categorical aid:				
School food program	\$ 10,112	\$ 10,112	\$ 9,624	\$ (488)
Textbook payments	29,086	29,086	29,287	201
Total categorical aid	\$ 39,198	\$ 39,198	\$ 38,911	\$ (287)
Total revenue from the Commonwealth	\$ 39,198	\$ 39,198	\$ 38,911	\$ (287)
Revenue from the federal government:				
Categorical aid:				
School food program	\$ 320,000	\$ 320,000	\$ 342,353	\$ 22,353
Commodities	-	33,443	33,443	-
Total categorical aid	\$ 320,000	\$ 353,443	\$ 375,796	\$ 22,353
Total revenue from the federal government	\$ 320,000	\$ 353,443	\$ 375,796	\$ 22,353
Total School Special Revenue Fund	\$ 624,281	\$ 657,724	\$ 618,895	\$ (38,829)
Total Discretely Presented Component Unit - School Board	\$ 13,459,750	\$ 13,708,778	\$ 13,318,145	\$ (390,633)

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

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<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	\$ 95,208	\$ 96,071	\$ 73,930	\$ 22,141
General and financial administration:				
County administrator	\$ 347,387	\$ 347,918	\$ 330,207	\$ 17,711
Legal services	62,000	62,000	56,590	5,410
Commissioner of revenue	226,429	248,673	229,780	18,893
Treasurer	226,806	232,246	233,479	(1,233)
Assessor	295,000	295,000	166,805	128,195
Data processing	198,054	198,054	188,095	9,959
Other general and financial administration	337,012	215,101	205,375	9,726
Total general and financial administration	\$ 1,692,688	\$ 1,598,992	\$ 1,410,331	\$ 188,661
Board of elections:				
Registrar, electoral board and officials	\$ 132,080	\$ 221,110	\$ 220,115	\$ 995
Total general government administration	\$ 1,919,976	\$ 1,916,173	\$ 1,704,376	\$ 211,797
Judicial administration:				
Courts:				
General district court	\$ 9,100	\$ 9,100	\$ 4,860	\$ 4,240
Juvenile court	4,950	4,950	2,622	2,328
Sheriff	168,396	189,396	179,951	9,445
Court services unit	48,300	48,300	46,060	2,240
Special Magistrates	500	500	-	500
Victim Witness	26,470	30,441	30,470	(29)
Clerk of the circuit court	215,046	227,538	217,373	10,165
Total courts	\$ 472,762	\$ 510,225	\$ 481,336	\$ 28,889
Commonwealth's attorney:				
Commonwealth's attorney	\$ 214,852	\$ 233,592	\$ 214,866	\$ 18,726
Total judicial administration	\$ 687,614	\$ 743,817	\$ 696,202	\$ 47,615
Public safety:				
Law enforcement and traffic control:				
Sheriff	\$ 1,395,066	\$ 1,506,199	\$ 1,360,363	\$ 145,836
Town deputy	81,224	81,224	82,978	(1,754)
School resource officers	139,393	139,393	124,532	14,861
Forfeited assets	-	-	166,559	(166,559)
Total law enforcement and traffic control	\$ 1,615,683	\$ 1,726,816	\$ 1,734,432	\$ (7,616)
Fire and rescue services:				
Volunteer fire departments	\$ 254,260	\$ 290,584	\$ 290,583	\$ 1
Volunteer rescue squads	167,774	195,161	195,160	1
Total fire and rescue services	\$ 422,034	\$ 485,745	\$ 485,743	\$ 2

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

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<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)				
Correction and detention:				
Regional jail	\$ 800,000	\$ 800,000	\$ 796,277	\$ 3,723
Juvenile probation and detention	55,000	153,353	138,538	14,815
Total correction and detention	<u>\$ 855,000</u>	<u>\$ 953,353</u>	<u>\$ 934,815</u>	<u>\$ 18,538</u>
Inspections:				
Building	\$ 129,263	\$ 129,263	\$ 112,942	\$ 16,321
Other protection:				
Animal control	\$ 101,617	\$ 114,617	\$ 102,772	\$ 11,845
Emergency services	174,202	248,483	203,693	44,790
Medical examiner	2,200	2,200	3,460	(1,260)
E-911 communications	118,758	118,758	94,603	24,155
Total other protection	<u>\$ 396,777</u>	<u>\$ 484,058</u>	<u>\$ 404,528</u>	<u>\$ 79,530</u>
Total public safety	<u>\$ 3,418,757</u>	<u>\$ 3,779,235</u>	<u>\$ 3,672,460</u>	<u>\$ 106,775</u>
Public works:				
Sanitation and waste removal:				
Convenience centers	\$ 100,472	\$ 100,472	\$ 91,141	\$ 9,331
Litter	13,500	13,500	3,785	9,715
Landfill maintenance	11,067	11,067	5,003	6,064
VPPSA	604,487	604,487	572,402	32,085
Total sanitation and waste removal	<u>\$ 729,526</u>	<u>\$ 729,526</u>	<u>\$ 672,331</u>	<u>\$ 57,195</u>
Maintenance of general buildings and grounds:				
General properties	\$ 580,153	\$ 641,485	\$ 598,392	\$ 43,093
Capital outlay reserve - general properties	168,914	146,166	80,049	66,117
Total maintenance of general buildings and grounds	<u>\$ 749,067</u>	<u>\$ 787,651</u>	<u>\$ 678,441</u>	<u>\$ 109,210</u>
Total public works	<u>\$ 1,478,593</u>	<u>\$ 1,517,177</u>	<u>\$ 1,350,772</u>	<u>\$ 166,405</u>
Health and welfare:				
Health:				
Supplement of local health department	\$ 168,313	\$ 168,313	\$ 166,813	\$ 1,500
Mental health:				
Community services board	\$ 32,866	\$ 32,866	\$ 32,911	\$ (45)
Welfare:				
Public assistance and welfare administration	\$ 1,233,953	\$ 1,237,546	\$ 1,222,304	\$ 15,242
Area agency on aging	43,085	43,085	43,085	-
Comprehensive services act	516,148	516,148	415,315	100,833
Housing office	2,292	2,292	2,292	-

County of Middlesex, Virginia
Schedule of Expenditures - Budget and Actual
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<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)				
Health and welfare: (Continued)				
Welfare: (Continued)				
Vocational rehab center	\$ 5,000	\$ 5,000	\$ 5,000	\$ -
Other welfare contributions	-	-	34,383	(34,383)
Total welfare	\$ 1,800,478	\$ 1,804,071	\$ 1,722,379	\$ 81,692
Total health and welfare	\$ 2,001,657	\$ 2,005,250	\$ 1,922,103	\$ 83,147
Education:				
Other instructional costs:				
Contributions to Community Colleges	\$ 6,291	\$ 6,291	\$ 6,291	\$ -
Contribution to Virginia School League	2,850	2,850	2,850	-
Contribution to County School Board	8,560,666	8,560,666	8,327,201	233,465
Total education	\$ 8,569,807	\$ 8,569,807	\$ 8,336,342	\$ 233,465
Parks, recreation, and cultural:				
Parks and recreation:				
Parks and recreation	\$ 53,179	\$ 63,679	\$ 56,120	\$ 7,559
Sports complex	21,000	21,000	20,441	559
YMCA	47,500	47,500	47,500	-
Total parks and recreation	\$ 121,679	\$ 132,179	\$ 124,061	\$ 8,118
Cultural enrichment:				
Museum	\$ 10,000	\$ 10,000	\$ 10,000	\$ -
Library:				
Contribution to library	\$ 105,700	\$ 105,700	\$ 105,700	\$ -
Total parks, recreation, and cultural	\$ 237,379	\$ 247,879	\$ 239,761	\$ 8,118
Community development:				
Planning and community development:				
Planning	\$ 121,504	\$ 121,504	\$ 110,785	\$ 10,719
Zoning administration	101,931	101,931	94,955	6,976
Board of zoning appeals	4,130	4,130	1,937	2,193
Economic development	82,336	101,063	92,589	8,474
Airport	199,884	214,884	200,902	13,982
Payment to Middlesex IDA	-	-	18,666	(18,666)
Total planning and community development	\$ 509,785	\$ 543,512	\$ 519,834	\$ 23,678
Environmental management:				
Contribution to soil and water conservation district	\$ 4,750	\$ 4,750	\$ 4,750	\$ -
Wetlands	14,548	14,548	10,857	3,691
Forestry	3,961	3,961	3,961	-
Total environmental management	\$ 23,259	\$ 23,259	\$ 19,568	\$ 3,691

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

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<u>Fund, Function, Activity and Element</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
General Fund: (Continued)				
Community development: (Continued)				
Cooperative extension program:				
Extension office	\$ 37,126	\$ 37,126	\$ 31,345	\$ 5,781
Total community development	\$ 570,170	\$ 603,897	\$ 570,747	\$ 33,150
Debt service:				
Principal retirement	\$ 1,301,717	\$ 9,945,289	\$ 9,945,289	\$ -
Interest and other fiscal charges	963,343	951,524	897,703	53,821
Total debt service	\$ 2,265,060	\$ 10,896,813	\$ 10,842,992	\$ 53,821
Total General Fund	\$ 21,149,013	\$ 30,280,048	\$ 29,335,755	\$ 944,293
County Capital Projects Fund:				
Public works:				
Capital projects:				
E911 radio system	\$ -	\$ -	\$ 13,521	\$ (13,521)
Dredging projects	-	5,000	-	5,000
Emergency telecommunications project	-	823,852	823,852	-
Total County Capital Projects Fund	\$ -	\$ 828,852	\$ 837,373	\$ (8,521)
Total Primary Government	\$ 21,149,013	\$ 31,108,900	\$ 30,173,128	\$ 935,772
Discretely Presented Component Unit - School Board:				
School Operating Fund:				
Education:				
Operating Costs:				
Administration, health, and attendance	\$ 896,520	\$ 908,520	\$ 894,999	\$ 13,521
Instruction costs	8,784,348	8,925,283	8,699,141	226,142
Districtwide technology	744,808	819,458	814,630	4,828
Pupil transportation	1,283,145	1,271,145	1,191,924	79,221
Operation and maintenance of school plant	1,126,648	1,126,648	1,098,211	28,437
Total operating costs	\$ 12,835,469	\$ 13,051,054	\$ 12,698,905	\$ 352,149
Total education	\$ 12,835,469	\$ 13,051,054	\$ 12,698,905	\$ 352,149
Total School Operating Fund	\$ 12,835,469	\$ 13,051,054	\$ 12,698,905	\$ 352,149

County of Middlesex, Virginia
Schedule of Expenditures - Budget and Actual
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<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>
Discretely Presented Component Unit - School Board: (Continued)				
School Special Revenue Fund:				
Education:				
Operating Costs:				
Instruction costs	\$ 89,944	\$ 92,759	\$ 70,619	\$ 22,140
School food services	534,337	665,934	549,270	116,664
Commodities	-	33,443	33,443	-
Total School Special Revenue Fund	<u>\$ 624,281</u>	<u>\$ 792,136</u>	<u>\$ 653,332</u>	<u>\$ 138,804</u>
Total Discretely Presented Component Unit - School Board	<u>\$ 13,459,750</u>	<u>\$ 13,843,190</u>	<u>\$ 13,352,237</u>	<u>\$ 490,953</u>

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OTHER STATISTICAL INFORMATION

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Table 1

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

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education	Parks, Recreation, and Cultural	Community Development	Interest on Long-Term Debt	Total
2007	\$ 1,403,919	907,113	\$ 2,498,709	\$ 1,738,886	\$ 1,385,778	\$ 6,545,863	\$ 162,173	\$ 340,485	\$ 1,264,784	\$ 16,247,710
2008	1,534,437	859,285	2,743,335	1,972,545	1,769,112	6,592,497	215,643	316,946	1,354,087	17,357,887
2009	1,333,731	903,325	3,302,858	2,067,376	2,159,380	7,607,213	251,557	471,996	1,328,472	19,425,908
2010	1,667,597	723,111	3,009,235	1,410,745	2,180,137	7,104,144	193,651	283,556	1,305,599	17,877,775
2011	1,522,660	836,428	3,106,856	1,553,944	2,020,487	7,988,806	232,105	235,397	1,267,491	18,764,174
2012	1,291,402	829,480	2,872,445	1,477,432	1,603,094	7,837,679	252,265	237,812	1,564,059	17,965,668
2013	1,306,637	908,487	3,208,066	1,248,114	1,558,165	7,991,805	247,781	683,739	1,184,264	18,337,058
2014	1,366,993	926,453	3,538,517	1,197,655	1,781,157	8,067,078	248,044	649,809	941,072	18,716,778
2015	1,457,228	831,479	3,288,198	1,474,267	1,973,669	9,926,613	257,713	344,347	987,607	20,541,121
2016	1,464,481	860,162	3,618,446	1,366,155	1,857,896	9,040,534	243,763	528,592	1,038,037	20,018,066

Table 2

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

Fiscal Year	PROGRAM REVENUES			GENERAL REVENUES						
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Property Taxes	Other Local Taxes	Unrestricted Investment Earnings		Miscellaneous	Grants and Contributions Not Restricted to Specific Programs	Total
2007	\$ 380,545	2,242,986	\$ -	\$ 9,370,023	\$ 2,426,960	\$ 354,712	\$ 229,009	\$ 815,447	\$ 16,510,917	
2008	531,653	2,615,005	-	10,528,167	2,378,949	219,960	99,377	810,056	17,183,167	
2009	350,139	2,703,065	-	10,963,199	2,240,138	111,028	113,186	778,513	17,259,268	
2010	360,648	2,735,584	-	12,026,611	1,674,067	95,638	216,040	1,324,139	18,432,727	
2011	320,826	2,544,210	-	12,984,605	1,794,343	55,765	-	1,111,883	18,811,632	
2012	214,077	3,154,006	-	12,825,584	2,023,959	393,052	126,033	1,165,550	19,902,261	
2013	505,433	2,415,946	-	13,677,537	1,859,906	99,176	183,079	1,205,922	19,946,999	
2014	515,975	2,567,072	-	13,732,367	1,890,242	99,787	407,643	1,230,853	20,443,939	
2015	428,516	2,820,609	-	14,107,366	2,343,504	103,938	203,600	1,215,189	21,222,722	
2016	391,148	3,052,274	-	14,303,096	2,382,127	105,421	107,161	1,187,823	21,529,050	

Table 3

County of Middlesex, Virginia
General Governmental Expenditures by Function (1, 3)
Last Ten Fiscal Years

Fiscal Year	General Government Administration	Judicial Administration	Public Safety	Public Works	Health and Welfare	Education (2)	Parks, Recreation, and Cultural	Community Development	Debt Service	Total
2007	\$ 1,404,146	\$ 468,181	\$ 2,603,193	\$ 1,518,447	\$ 1,400,720	\$ 12,140,409	\$ 202,327	\$ 340,485	\$ 2,814,122	\$ 22,892,030
2008	1,491,029	616,057	2,774,444	1,896,680	1,768,359	12,712,079	216,668	316,946	2,001,275	23,793,537
2009	1,310,144	667,627	3,220,782	1,691,089	2,176,012	12,744,401	232,918	373,876	2,161,807	24,818,417
2010	1,291,007	630,324	3,087,176	1,381,551	2,159,469	12,588,815	217,699	259,109	2,217,281	23,832,431
2011	1,315,923	626,717	2,908,158	1,524,750	1,978,625	12,600,085	209,375	227,835	2,411,498	23,802,966
2012	1,296,408	673,283	2,963,489	1,543,555	1,600,524	12,731,443	239,684	237,812	2,031,465	23,317,663
2013	1,260,285	698,583	3,198,712	1,218,921	1,557,764	12,878,820	234,652	683,403	2,159,196	23,890,336
2014	1,318,092	715,522	3,532,583	1,168,461	1,782,561	12,793,640	237,207	686,809	2,266,421	24,501,296
2015	1,351,926	644,723	3,498,446	1,452,943	2,005,405	13,308,328	257,691	607,904	2,252,437	25,379,803
2016	1,704,376	696,202	3,672,460	1,350,772	1,922,103	13,361,378	239,761	570,747	10,842,992	34,360,791

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

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

(3) Excludes Capital Projects funds.

Table 4

County of Middlesex, Virginia
General Governmental Revenues by Source (1,3)
Last Ten Fiscal Years

Fiscal Year	General Property Taxes	Other Local Taxes	Permits, Privilege Fees, Regulatory Licenses	Fines and Forfeitures	Revenue from the Use of Money and Property	Charges for Services	Miscellaneous	Recovered Costs	Inter-governmental (2)	Total
2007	\$ 9,343,112	\$ 2,426,960	\$ 183,879	\$ 34,854	\$ 364,450	\$ 404,089	\$ 320,731	\$ 58,340	\$ 9,382,629	\$ 22,519,044
2008	10,305,154	2,378,949	172,590	19,027	249,055	618,124	153,383	196,158	9,598,934	23,691,374
2009	10,935,020	2,240,138	113,813	45,827	140,626	484,057	170,397	170,221	8,859,153	23,159,252
2010	11,890,905	1,674,067	121,206	53,628	126,070	442,953	271,714	96,219	9,690,955	24,367,717
2011	12,902,699	1,780,100	99,613	44,837	131,821	282,980	198,821	119,976	8,344,413	23,905,260
2012	12,937,272	2,023,959	118,879	34,674	3,110,547	265,248	18,567	278,232	4,883,972	23,671,350
2013	12,686,449	1,859,906	112,107	23,582	119,051	571,153	180,316	83,673	8,583,695	24,219,932
2014	13,593,810	1,890,242	98,445	33,149	124,046	573,957	169,002	127,847	8,721,423	25,331,921
2015	14,062,184	2,343,504	120,618	29,228	130,841	465,909	252,232	102,112	8,747,929	26,254,557
2016	14,226,581	2,382,127	131,186	13,042	130,957	440,126	189,990	147,682	8,928,986	26,590,677

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

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

(3) Excludes Capital Projects funds.

Table 5

County of Middlesex, 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 (1,2,3)	Percent of Delinquent Taxes to Tax Levy
2007	\$ 9,963,181	\$ 9,629,946	96.66%	\$ 307,769	\$ 9,937,715	99.74%	\$ 422,555	4.24%
2008	11,001,273	10,412,579	94.65%	483,889	10,896,468	99.05%	661,817	6.02%
2009	11,658,122	10,985,625	94.23%	538,055	11,523,680	98.85%	559,733	4.80%
2010	12,553,471	12,124,238	96.58%	325,615	12,449,853	99.17%	470,157	3.75%
2011	13,477,221	12,813,099	95.07%	633,646	13,446,745	99.77%	337,788	2.51%
2012	13,639,196	12,440,376	91.21%	333,594	12,773,970	93.66%	754,416	5.53%
2013	13,191,416	12,276,557	93.06%	510,798	12,787,355	96.94%	975,833	7.40%
2014	14,276,904	13,137,860	92.02%	517,094	13,654,954	95.64%	885,410	6.20%
2015	14,628,063	13,646,589	93.29%	918,876	14,565,465	99.57%	1,023,362	7.00%
2016	14,684,785	13,771,342	93.78%	947,863	14,719,205	100.23%	1,279,733	8.71%

(1) Exclusive of penalties and interest.

(2) Includes three most current delinquent tax years.

(3) Includes Commonwealth's reimbursements for personal property taxes and balance outstanding.

Table 6

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

Fiscal Year	Real Estate (1)	Personal				Machinery and Tools	Merchants Capital	Airplane	Public Service (2)	Total
		Real Estate (1)	Property and Mobile Homes	Property and Mobile Homes	Merchants Capital					
2007	\$ 1,287,765,081	\$ 102,519,714	\$ 227,634	-	-	-	-	-	\$ 18,574,792	\$ 1,409,087,221
2008	1,815,934,227	108,559,269	313,111	-	-	-	-	-	16,566,244	1,941,372,851
2009	2,361,923,641	104,646,192	254,063	-	-	-	-	-	36,703,825	2,503,527,721
2010	2,383,366,546	101,564,084	240,158	-	-	-	-	-	33,301,317	2,518,472,105
2011	2,251,385,965	80,205,876	85,040	-	-	-	-	-	32,479,070	2,364,155,951
2012	2,122,059,100	102,463,279	267,677	-	-	-	-	-	43,195,070	2,267,985,126
2013	2,133,216,900	102,463,279	267,677	-	-	-	-	-	43,172,566	2,279,120,422
2014	2,139,783,400	100,037,169	119,065	-	-	-	-	324,365	42,272,477	2,282,536,476
2015	2,143,324,547	94,292,585	-	-	-	-	-	253,529	44,518,007	2,282,388,668
2016	2,149,138,406	96,238,818	-	-	-	-	-	242,229	45,486,553	2,291,106,006

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

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

Table 7

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

Fiscal Year	Real Estate	Personal Property	Mobile Homes	Machinery and Tools	Merchants Capital	Airplane	Public Utility	
							Real Estate	Personal Property
2007	\$ 0.52	\$ 3.50	\$ 0.52	\$ 1.75	\$ 1.25	\$ -	\$ 0.52	\$ 3.50
2008	0.52/0.35	3.50	0.52	1.75	-	-	0.52	3.50
2009	0.35	3.50	0.35	1.75	-	-	0.35	3.50
2010	0.35/0.43	3.50	0.35	1.75	-	-	0.35	3.50
2011	0.43	3.50	0.43	1.75	-	-	0.43	3.50
2012	0.46	3.50	0.46	1.75	-	-	0.46	3.50
2013	0.46/0.48	3.50	0.46	1.75	-	-	0.46	3.50
2014	0.48/0.53	3.50	0.48	1.75	-	3.50	0.48	3.50
2015	0.53	3.50	0.48	-	-	3.50	0.53	3.50
2016	0.53	3.50	0.53	-	-	3.50	0.53	3.50

(1) Per \$100 of assessed value.

Table 8

County of Middlesex, 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 (2)	Gross Bonded Debt (3)	Ratio of Net Bonded Debt to Assessed Value	Net Bonded Debt per Capita
2007	9,932	\$ 1,409,087,221	\$ 25,293,412	0.018	\$ 2,547
2008	9,932	1,941,372,851	24,662,348	0.013	2,483
2009	9,932	2,503,527,721	24,609,209	0.010	2,478
2010	10,959	2,518,472,105	23,439,136	0.009	2,139
2011	10,959	2,364,155,951	21,936,641	0.009	2,002
2012	10,959	2,267,985,126	24,227,984	0.011	2,211
2013	10,959	2,279,120,422	22,881,952	0.010	2,088
2014	10,959	2,282,536,476	23,795,965	0.010	2,171
2015	10,959	2,282,388,668	22,601,703	0.010	2,062
2016	10,959	2,291,106,006	26,539,479	0.012	2,422

(1) Bureau of Census

(2) From Table 6

(3) Includes all long-term general obligation bonded debt, bonded anticipation notes, literary fund loans and lease/revenue bonds. Excludes notes, capital leases and compensated absences.

COMPLIANCE

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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 Honorable Members of the Board of Supervisors
County of Middlesex
Middlesex, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Counties, Cities, and Towns*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of County of Middlesex 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 Middlesex, Virginia's basic financial statements, and have issued our report thereon dated November 29, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a long horizontal line.

Richmond, Virginia
November 29, 2016

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 Honorable Members of the Board of Supervisors
County of Middlesex
Middlesex, Virginia

Report on Compliance for Each Major Federal Program

We have audited County of Middlesex, Virginia's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of County of Middlesex, Virginia's major federal programs for the year ended June 30, 2016. County of Middlesex, 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 County of Middlesex, 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* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about County of Middlesex, Virginia's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

A handwritten signature in black ink, appearing to read "D. F. Cox", followed by a horizontal line.

Richmond, Virginia
November 29, 2016

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

Page 1 of 2

Federal Grantor/State Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Health and Human Services:			
Pass Through Payments:			
<i>Department of Social Services:</i>			
Promoting Safe and Stable Families	93.556	0950115/0950116	\$ 13,975
Temporary Assistance for Needy Families	93.558	0400115/0400116	122,760
Refugee and Entrant Assistance - State Administered Programs	93.566	0500115/0500116	108
Low-Income Home Energy Assistance	93.568	0600415/00600416	11,720
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	0760115/0760116	21,558
Stephanie Tubbs Jones Child Welfare Services Program	93.645	0900115/090116	515
Foster Care - Title IV-E	93.658	1100115/1100116	53,606
Adoption Assistance	93.659	1120115/1120116	114,367
Social Services Block Grant	93.667	1000115/1000116	99,567
Chafee Foster Care Independence Program	93.674	9150115/9150116	559
Children's Health Insurance Program	93.767	0540115/0540116	3,836
Medical Assistance Program	93.778	1200115/1200116	123,541
Total Department of Health and Human Services			<u>\$ 566,112</u>
Department of Homeland Security:			
Direct Payments:			
Staffing for Adequate Fire and Emergency Response	97.083	N/A	\$ 44,820
Pass Through Payments:			
<i>Department of Emergency Management:</i>			
Emergency Management Performance Grants	97.042	77501-52743	25,550
Homeland Security Grant Program	97.067	77501-52703	3,000
Total Department of Homeland Security			<u>\$ 73,370</u>
Department of Justice:			
Pass Through Payments:			
<i>Department of Criminal Justice Service:</i>			
Edward Byrne Memorial Justice Assistance Grant Program	16.738	Unknown	\$ 1,428
Department of Agriculture:			
Pass Through Payments:			
Child Nutrition Cluster:			
<i>Department of Agriculture:</i>			
Food Distribution (Child Nutrition Cluster)	10.555	Unknown	\$ 33,443
<i>Department of Education:</i>			
National School Lunch Program (Child Nutrition Cluster)	10.555	17901- 40623	245,979
			<u>\$ 279,422</u>
School Breakfast Program (Child Nutrition Cluster)	10.553	17901- 40591	96,374
			<u>\$ 375,796</u>
<i>Department of Social Services:</i>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	0010115/0010116	101,671
Total Department of Agriculture			<u>\$ 477,467</u>
Department of Treasury:			
Direct Payments:			
Sheriff Asset Forfeiture Funds	21.xxx	N/A	\$ 163,802

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

Page 2 of 2

Federal Grantor/State Pass - Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Election Assistance Commission:			
Pass-Through Payments:			
<i>State Board of Elections:</i>			
Help America Vote Act Requirements Payments	90.401	72302	\$ 3,500
Department of Education:			
Pass Through Payments:			
<i>Department of Education:</i>			
Title I Grants to Local Educational Agencies	84.010	17901- 42901	\$ 323,958
<i>Special Education Cluster:</i>			
Special Education - Grants to States	84.027	17901- 43071	\$ 273,326
Special Education - Preschool Grants	84.173	17901- 62521	9,871
			283,197
Career and Technical Education - Basic Grants to States	84.048	17901- 61095	7,762
Rural Education	84.358	17901- 43481	16,725
Supporting Effective Instruction State Grant	84.367	17901- 61480	59,495
Title III - Part A	84.xxx	Unknown	1,302
Total Department of Education			\$ 692,439
Total Expenditures of Federal Awards			\$ 1,978,118

See accompanying notes to schedule of expenditures of federal awards.

County of Middlesex, Virginia
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2016

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the County of Middlesex, 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 of Federal Awards (Uniform Guidance), Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the County of Middlesex, Virginia, it is not intended to be and does not present the financial position, changes in net position, or cash flows of the County of Middlesex, Virginia.

Note B - Summary of Significant Accounting Policies

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

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

Note C - Food Donation

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

Note D - Relationship to 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	\$ 909,883
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Component Unit School Board:

School Operating Fund	\$ 692,439
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School Special Revenue Fund	375,796
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Total component unit school board	<u>\$ 1,068,235</u>
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Total expenditures of federal awards per basic financial statements	<u>\$ 1,978,118</u>
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Total expenditures of federal awards per the Schedule of Expenditures of Federal Awards	<u><u>\$ 1,978,118</u></u>
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County of Middlesex, Virginia
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2016

Section I-Summary of Auditors' ResultsFinancial Statements

Type of auditors' report issued:

unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ yes ✓ no

Significant deficiency(ies) identified?

_____ yes ✓ none reported

Noncompliance material to financial statements noted?

_____ yes ✓ noFederal Awards

Internal control over major programs:

Material weakness(es) identified?

_____ yes ✓ no

Significant deficiency(ies) identified?

_____ yes ✓ none reportedType of auditors' report issued on compliance
for major programs:unmodifiedAny findings disclosed that are required to be
reported in accordance with 2 CFR section 200.516(a)?_____ yes ✓ no

Identification of major programs:

CFDA Number(s)

10.553/10.555

84.027/84.173

Name of Federal Program or Cluster

Child Nutrition Cluster

Special Education Cluster

Dollar threshold used to distinguish between type A
and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

✓ yes _____ noSection II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

None

County of Middlesex, Virginia
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2016

There were no prior year findings.

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