

COUNTY OF MONTGOMERY, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

**FINANCIAL AND MANAGEMENT SERVICES
DEPARTMENT**

COUNTY OF MONTGOMERY, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

	Page
Letter of Transmittal	i
Certificate of Achievement for Excellence in Financial Reporting	ix
Directory of Principal Officials	x
Organizational Chart.....	xi

FINANCIAL SECTION

Independent Auditor's Report	1
Management's Discussion and Analysis.....	3

Basic Financial Statements

Government-Wide Financial Statements

Exhibit 1	Statement of Net Position.....	5
Exhibit 2	Statement of Activities	6

Fund Financial Statements

Exhibit 3	Balance Sheet – Governmental Funds	7
Exhibit 4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	9
Exhibit 5	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (Cash Basis) – General Fund	11

Notes to Financial Statements.....	12
------------------------------------	----

Required Supplementary Information

Exhibit 6	Schedule of Changes in Net Pension Liability and Related Ratios - Primary Government.....	68
Exhibit 7	Schedule of Changes in Net Pension Liability and Related Ratios Schools – Nonprofessional Employees	69
Exhibit 8	Schedule of Pension Contributions	70
Exhibit 9	Schedule of Employer's Share of Net Pension – VRS Teacher Retirement Plan	71
Exhibit 10	Schedule of Pension Contributions – VRS Teacher Retirement Plan	72

Notes to Required Supplementary Information	73
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FINANCIAL SECTION (Continued)

Other Supplementary Information

Discretely Presented Component Unit – Public Service Authority	
Exhibit A-1	Statement of Net Position 76
Exhibit A-2	Statement of Revenues, Expenses, and Changes in Fund Net Position 77
Exhibit A-3	Statement of Cash Flows 78
Discretely Presented Component Unit – School Board	
Exhibit A-4	Balance Sheet 80
Exhibit A-5	Statement of Revenues, Expenditures, and Changes in Fund Balances 81
Exhibit A-6	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cash Basis 82
Supporting Schedule	
Schedule 1	Schedule of Expenditures of Federal Awards 84

STATISTICAL SECTION

Table 1	Net Position by Component 87
Table 2	Change in Net Position by Component 88
Table 3	Fund Balances – Governmental Funds 89
Table 4	Changes in Fund Balances – Governmental Funds 90
Table 5	Assessed Value and Actual Value of Taxable Property 91
Table 6	Property Tax Rates 92
Table 7	Principal Property Tax Payers 93
Table 8	Property Tax Levies and Collections 94
Table 9	Ratios of Outstanding Debt by Type 95
Table 10	Pledged Revenue Coverage 96
Table 11	Demographic Statistics 97
Table 12	Principal Employers 98
Table 13	Full-Time Equivalent County Government Employees by Function/Program 99
Table 14	Operating Indicators by Function/Program 100
Table 15	Capital Asset and Infrastructure Statistics by Function/Program 101

COMPLIANCE SECTION

Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> 103	
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance 105	
Summary of Compliance Matters 107	
Schedule of Findings and Questioned Costs 108	
Summary Schedule of Prior Audit Findings 110	

INTRODUCTORY SECTION



DEPARTMENT OF FINANCIAL & MANAGEMENT SERVICES
MONTGOMERY COUNTY
ANGELA M. HILL, CPA, DIRECTOR

755 ROANOKE STREET, SUITE 2C, CHRISTIANSBURG, VIRGINIA 24073-3179

December 9, 2016

To the Honorable Chair, Members of the Board of Supervisors and the Citizens of Montgomery County:

We are pleased to present to you the Comprehensive Annual Financial Report (CAFR) of the County of Montgomery for the fiscal year ended June 30, 2016, as required by state law. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Brown, Edwards & Company L.L.P., and that firm's unmodified opinion is included in the Financial Section of this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

THE REPORTING ENTITY

The financial reporting entity (the government) includes all funds of the primary government (i.e., Montgomery County as legally defined), as well as all of its component units. Component units are legally separate entities for which the primary government is financially accountable.

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Montgomery County has no blended component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Montgomery County Public Service Authority, which provides water and waste water services, the Montgomery County School Board, which provides education, and the Montgomery County Economic Development Authority, which encourages and provides financing for economic development, are reported as discretely presented component units.

Other services provided by the County include law enforcement; fire and rescue services; solid waste collection services; human services programs; libraries; community and economic development programs; recreational activities; and planning and zoning functions. In addition, certain other services are provided through cooperation with neighboring localities such as social services, solid waste disposal, emergency communications and tourism. These areas of joint cooperation have not met the established criteria for inclusion in the reporting entity and therefore are included in footnote disclosures only.

ORGANIZATION OF GOVERNMENT

The County of Montgomery was established in 1776, and is located in southwestern Virginia approximately 30 miles southwest of the City of Roanoke, along the Interstate 81 corridor. The County encompasses approximately 393 square miles, and has a population of approximately 98,000 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth-largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2010 Census indicates Montgomery County's population increased by 12.9% over the prior decade.

Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he or she serves. Board members are elected to four year staggered terms. Each year, the Board elects one of its members to serve as Chair. The Board is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the government's County Administrator and County Attorney. The County Administrator is responsible for carrying out the policies and ordinances of the Board, for overseeing the day-to-day operations of the government, and for appointing the heads of the County departments. The County also has five elected constitutional officers. The Commissioner of Revenue, Commonwealth's Attorney, Treasurer and Sheriff are each elected by County citizens for four year terms. The Clerk of Circuit Court serves an eight year term.

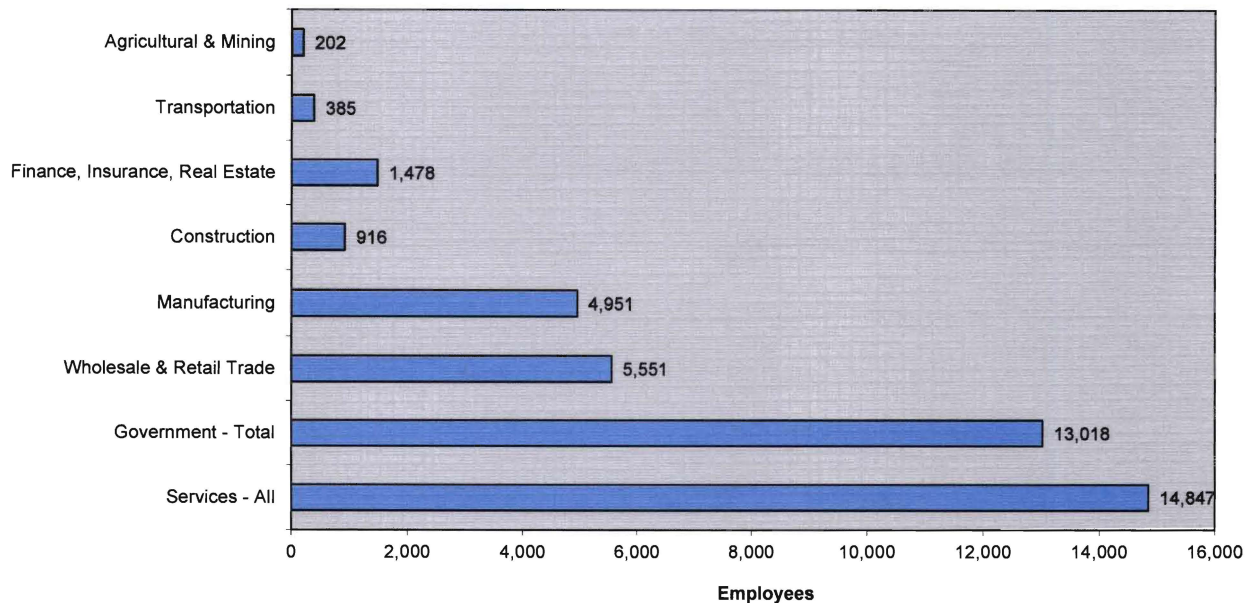
LOCAL ECONOMIC CONDITION AND OUTLOOK

Montgomery County is geographically situated in the New River Valley, which also includes the Counties of Floyd, Giles, and Pulaski and the City of Radford. All of these localities are within reasonable commuting time and distance from Montgomery County and represent the minimum area from which Montgomery County businesses draw their labor.

Montgomery County's labor market remains consistent with the state as a whole. The average unemployment rate in Montgomery County between July 2015 and June 2016 was 3.98%, which remains historically below average in the New River Valley. The percentage ranged from a low of 3.1% in April 2016 to a high of 4.7% in July 2015. The unemployment rate for the County over the past 10 years (2006-2015) averaged 5.17%, reaching a high of 7.1% in 2010 and a low of 3.1% in 2006. The pool of available labor has also remained stable for the past decade in Montgomery County, which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities on average was higher than the statewide average of 4.4% for calendar year 2015, with Montgomery and Floyd Counties reporting the lowest rates of 4.3% and 4% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 5.23% unemployment during the same period. Employment within Montgomery County represented 54.7% of the total civilian labor force in the New River Valley.

As in prior years, the service industry remained the largest employment sector within the County. The following illustration presents the proportion of individuals in each of the major industry sectors based on annual averages for calendar year 2015:

Montgomery County Employment By Employment Sector



Averages of Calendar Year 2015

Source: Virginia Employment Commission, E-202 Annual Average Employment

Slight increases in employment were broad based, covering several economic sectors. The total increase in the number of jobs was 765 across all sectors, resulting in an increase of 1.89% from the previous year. Only two areas experienced declines – wholesale and retail trade was down 1.44% and construction was down 17.33%.

The service and manufacturing sectors provide a significant number of jobs in Montgomery County. Two hospitals, Carillion New River Valley Medical Center and LewisGale Hospital at Montgomery, collectively employ over 1,600 employees. LewisGale Hospital has announced an \$8 million upgrade to its existing facilities. The County's largest industrial employer, BAE Systems, Inc., employs approximately 1,000 workers through contracts with the federal government to manufacture defense products. Other large companies in the County include DISH Network Corporation (direct broadcast satellite television products and services), Federal-Mogul Corporation (automotive bearings), MOOG Components Group (aerospace, transportation, military, and communications components), Rowe Furniture (residential furniture), Wolverine Advanced Materials (automotive gaskets), Backcountry.com (outdoor product distribution) and Rackspace Hosting (software).

The Virginia Tech Corporate Research Center (VTCRC), developed by the Virginia Tech Foundation, is a business/research park that is the catalyst for Montgomery County's high-tech industry cluster. The park currently has 33 buildings, entailing more than 1.2 million square feet of office and lab space, and is home to over 180 high-tech companies and research facilities which collectively employ more than 2,900 workers. In September 2009, the VTCRC was named the "2010 Outstanding Science/Research Park" – globally – by the Association of University Research Parks. The majority of the tenants located in the VTCRC are research and development-oriented companies operating in the information technology, biotechnology, and advanced materials industries.

Montgomery County's second largest industry sector, government, provides 31.5 percent of the County's jobs and helps to stabilize the local economy during times of recession. This percentage reflects the large

number of state workers employed by Virginia Tech, one of the Commonwealth's largest public universities and the largest employer in the County with approximately 12,000 employees. Another 1,400 individuals are employed through the Montgomery County Public School System, making education the largest employment sector in the County.

Several new commercial developments opened in fiscal year 2016. In downtown Blacksburg, the former National Bank building - a \$4 million, 10,000 square foot mixed-use development that includes office space, retail space and luxury condominiums is under development. Opening in August 2016, the Retreat is a \$45.6 million, 830-bedroom student housing development near Virginia Tech.

Since January 2014, companies in Montgomery County announced \$32 million in new capital investment (industrial/commercial, non-retail) and the addition of 370 related jobs as shown in the chart below.

Business Announcements, Montgomery County, Virginia:

Company Name	Business Description	New Jobs	Investment (millions)
TORC Robotics LLC	Autonomous vehicles and robotics	8	\$2.7
Polymer Solutions Incorporated	Laboratory, chemical analysis, physical testing, research and development and litigation services	5	\$2.9
Luna Innovations	Research & Development for Biomedical	0	\$1.7
InMotion US	Electric Motors	24	\$5.0
Wolverine	Gaskets	93	\$10.0
Hubbell Lighting	LED Lighting Products	100	\$6.1
Corning	Manufacturers Catalytic Convertors for cars and heavy trucks	0	\$0.80
Polymer Solutions Incorporated	Laboratory and testing services for plastics and rubber manufacturers	19	\$0.65
Inorganic Ventures	Medical device manufacturing	0	\$0.10
VPT, Inc.	Manufacturer of power components for use in avionics, military, and space.	16	\$1.00
Ozmo App	Consulting to tech companies and their consumers solve any device issues quickly and effectively.	55	\$0.56
Java Productions	Custom solutions for technology and business problems	20	\$0.10
ProChem Inc.	Industrial water and wastewater treatment.	30	\$0.40

Wolverine and Hubbell Lighting, included in the preceding chart, are existing industries. These two manufacturing companies are in the process of major manufacturing line expansions. The County's Technology Manufacturing Building is now fully leased. Luna Innovations, an existing industry, expanded

to occupy 42,000 square feet and InMotion USA, a new Montgomery County industry, is leasing 60,000 square feet. The Economic Development Authority of Montgomery County completed a 20,000 square foot facility for TORC Robotics, who has occupied the building since March 2015. Polymer Solutions opened their new 20,000 square foot headquarters and testing laboratory in Falling Branch Corporate Park in February 2015. In 2016, VPT, Ozmo, Java Productions, and ProChem, announced industry expansions to increase capacity at their current locations.

The Board of Supervisors, Economic Development staff, the Economic Development Authority, the Economic Development Commission (EDC), and the Montgomery/Blacksburg/Christiansburg Development Corporation continue to work to support business, create jobs, and improve the County's standard of living through diversifying the economy, expanding existing business, and attracting new economic activity.

MAJOR INITIATIVES

Recent initiatives of the Board of Supervisors promote Montgomery County's economic progress, improve the community's quality of life, and poise the County to respond to future development needs. New jobs, expanded employment within industry and service sectors, and a comparatively low unemployment rate all suggest a trend of stable, manageable growth.

For the Year

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for 2016 include:

The 2016-2020 Capital Improvement Program

The Capital Improvement Program (CIP) for 2016 through 2020 serves as a planning tool for the efficient and effective distribution of public improvements throughout the County and the school system. The five-year Capital Improvement Program totals \$31.3 million and is comprised of County Capital Improvements of \$14.6 million and School Capital Improvements of \$16.7 million.

Montgomery County maintains its strong commitment to providing funds for education and public safety. In August 2008, the County issued \$77 million in new debt (\$70.9 million for new projects and \$6.1 million for a debt service reserve) for several County and school capital projects. The projects included two new elementary schools, a new courthouse, and renovations to convert the old courthouse to a public safety building. In November 2009, the County issued \$7.3 million in Qualified School Construction Bonds (QSCB) to provide funding for a portion of the cost of the new Eastern Montgomery Elementary School. In July 2010, the County issued an additional \$13.5 million in QSCB, which was allocated primarily to the Price's Fork Elementary School (\$7.5 million) and to School Energy Performance Projects (\$6 million). QSCB funding is interest free and supplemented the County's 2008 bond issue to complete the two elementary schools and the two new high schools discussed below.

In response to a crisis resulting from a roof collapse at Blacksburg High School, the Board of Supervisors committed to an aggressive school construction plan in November 2010. In November 2011, the Board of Supervisors issued an additional \$86 million through the Virginia Public School Authority for the replacement of Auburn High School, Blacksburg High School, and the renovation of the former Auburn High School for use as Auburn Middle School. Additional funding for these projects included insurance proceeds from the old Blacksburg High School gymnasium roof collapse, surplus bond funds from the Price's Fork and Eastern Montgomery Elementary projects, and \$15 million in interest-free QSCB issued in December 2011. The total cost of all three school projects was approximately \$124.5 million. The two

high schools opened in September 2013. The renovations for Auburn Middle School, which were completed in December 2014, began after Auburn High School relocated to its new facility.

In fiscal year 2009, the Board of Supervisors earmarked one cent of the real estate tax rate to provide the Fire and Rescue Commission with an ongoing source of funding to purchase fire and rescue capital equipment. For fiscal years 2010 and 2011, this amount was decreased to one half of one cent of the real estate tax rate due to economic conditions. Since FY 2012, this amount has remained at one cent. Each year the Fire and Rescue Commission, comprised of representatives from each fire and rescue agency, the Board of Supervisors and County staff, decides how to effectively distribute this funding based on existing and future capital needs of the County's fire and rescue agencies.

Capital Projects Completed During the Year

Renovations to the former Courthouse facility began in the spring of 2013 to convert the facility to a public safety building. This new building replaced the existing Sheriff's office and also houses the New River Valley Emergency Communications Regional Authority, which consolidated four Public Safety Answering Points ("PSAPs") into one central operation. The Authority became operational July 1, 2016. The building project began in the spring of 2013 and was completed in the fall of 2015.

Public safety remains a priority with \$1.4 million in fire and rescue equipment purchases in fiscal year 2016 based on recommendations of the Fire and Rescue Commission. Equipment purchases included two tanker trucks (one each for Blacksburg and Riner Fire Departments), an emergency response vehicle for Long Shop McCoy Rescue and a multi-use pick-up truck for Riner Rescue.

For the Future

As the Board of Supervisors and County staff plan for the future, several new initiatives are underway.

- The County has set aside cash-to-capital monies to begin funding future new school capital construction. These funds are held in the school capital fund to ensure they will be available for this purpose. In fiscal year 2014, \$3 million was transferred from the County General Fund and the County began annually earmarking two cents of the real estate tax rate for this purpose. Through fiscal year 2016, funds set aside from the tax rate had accumulated to \$5 million. For FY 17, two cents of the real estate tax rate is \$1,496,000, bringing the total funding available to \$9.5 million.
- For FY 17 only, the County set aside an additional one-half cent of the tax rate for fire and rescue equipment bringing the total for this year to \$1,122,000.
- Construction is underway for a new Animal Care and Adoption Center, and the Board of Supervisors has appropriated \$4.3 million toward the land and construction of the facility. The funding for this project came from interest earned on bond proceeds and cash-to-capital monies set aside by the Board. The new center is expected to open in late FY 2017.

Department Focus – Commissioner of the Revenue

On January 1, 2016, the County began the process of prorating personal property values for motor vehicles. In general terms, the tax assessment of vehicles that are moved into or out of the County and purchased or sold after January 1 are prorated based on the number of months the vehicle resides in the County or is owned by the taxpayer. Under the former method of assessment, motor vehicle property assessments were based on the value of vehicles owned on January 1 of each year. The value of vehicles owned on that date was reported on the September 1 personal property book. Any changes after the previous January 1 date did not become effective for taxing purposes until the following year. Under this method of taxation, there

could have been up to a 23 month lapse in time between when a vehicle transaction occurred and when taxes were due on the vehicle. By prorating motor vehicle values, changes that occur after the January 1 date become effective in the current tax year and appear on the September 1 book. Changes that occur after this time will be billed or abated for the remainder of the year.

Proration is based on two essential elements:

1. The property's value
2. The number of months in a calendar year such property is located in Montgomery County or one of Montgomery's incorporated towns

By changing to this new method, a taxpayer is provided the most equitable method of personal property assessment. The taxpayer pays for what they own only when they own it. This change also provides positive outcomes for the County by ensuring the vehicle records are up to date and revenue is received in a timely manner. An additional \$1 million in motor vehicle tax revenue growth is expected for FY 17.

ACCOUNTING SYSTEM AND BUDGETARY CONTROLS

Although the County budgets and manages its financial affairs using the cash basis of accounting, generally accepted accounting principles require localities to use the accrual or modified accrual basis of accounting to prepare financial statements. The modified accrual basis of accounting recognizes revenues when measurable and available and recognizes expenditures when the services or goods are received and the liabilities incurred. The accruals recorded on the financial statements for the fiscal year ended June 30, 2016, reflect cash that will not be received or disbursed until fiscal year 2017.

County management is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the County are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe the County's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

Budgetary control is established at the department level within an individual fund. The budget is implemented through appropriations that are made by the Board of Supervisors on an annual basis with supplemental appropriations made as required. These appropriations may be greater or less than contemplated in the budget.

The government also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. All amounts lapse at year-end. Material encumbrances outstanding at year-end are reported as either a commitment or assignment of fund balance since they do not constitute expenditures or liabilities. Funding for these encumbrances generally is re-appropriated in the subsequent year.

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Uniform Guidance. Generally accepted auditing standards and the standards set forth in the Government Accountability Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's report on the

basic financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the Compliance Section.

AWARDS OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Montgomery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2015. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards and satisfy both generally accepted accounting principles and applicable legal requirements.


A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last twenty-nine consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA for consideration again this year.

ACKNOWLEDGMENTS

The County has established and continues to maintain a strong and stable financial position through progressive management of financial operations and through sound accounting and financial reporting practices. Appreciation is expressed to the members of the Montgomery County Board of Supervisors and to each of the Constitutional Officers for their interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

The preparation of the comprehensive annual financial report was made possible by the dedicated service of the entire staff of the Department of Financial and Management Services, and other departmental personnel. We would also like to express our appreciation to the County's independent auditing firm, Brown, Edwards & Company, L.L.P. for their cooperation and assistance in these efforts.

Respectfully submitted,



F. Craig Meadows
County Administrator



Angela M. Hill
Director of Financial and Management
Services



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**Montgomery County
Virginia**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

A handwritten signature in black ink, reading "Jeffrey R. Egan". The signature is written in a cursive, flowing style.

Executive Director/CEO

BOARD OF SUPERVISORS

Christopher A. Tuck, Chair

Gary D. Creed, Vice Chair

Mary W. Biggs
April N. DeMotts
M. Todd King

Annette S. Perkins
Darrell O. Sheppard

COUNTY ADMINISTRATION

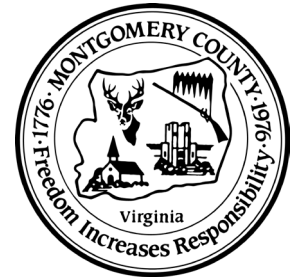
Paula K. Alston	Director of Montgomery Regional Library
Mark L. Mear	Superintendent of Schools
Douglas E. Burton	Director of Engineering and Regulatory Compliance
Mary B. Critzer	Director of Human Services
A. Michelle Dickerson	Virginia Cooperative Extension Unit Coordinator
L. Carol Edmonds	Deputy County Administrator
Robert C. Fronk	Director of Public Service Authority
Emily J. Gibson	Director of Planning
Brian T. Hamilton	Director of Economic Development
Mitchell B. Haugh	Director of Parks and Recreation
Angela M. Hill	Director of Financial and Management Services
Larry W. Lindsey	Director of Social Services
Philip L. Martin	Director of Information Technology
Clay M. McCoy	Director of Human Resources
Martin M. McMahon	County Attorney
F. Craig Meadows	County Administrator
Stephen N. Phillips	Director of General Services
Ruth L. Richey	Director of Public Information
K. Neal Turner	Emergency Services Coordinator
E. Randal Wertz	General Registrar

CONSTITUTIONAL OFFICERS

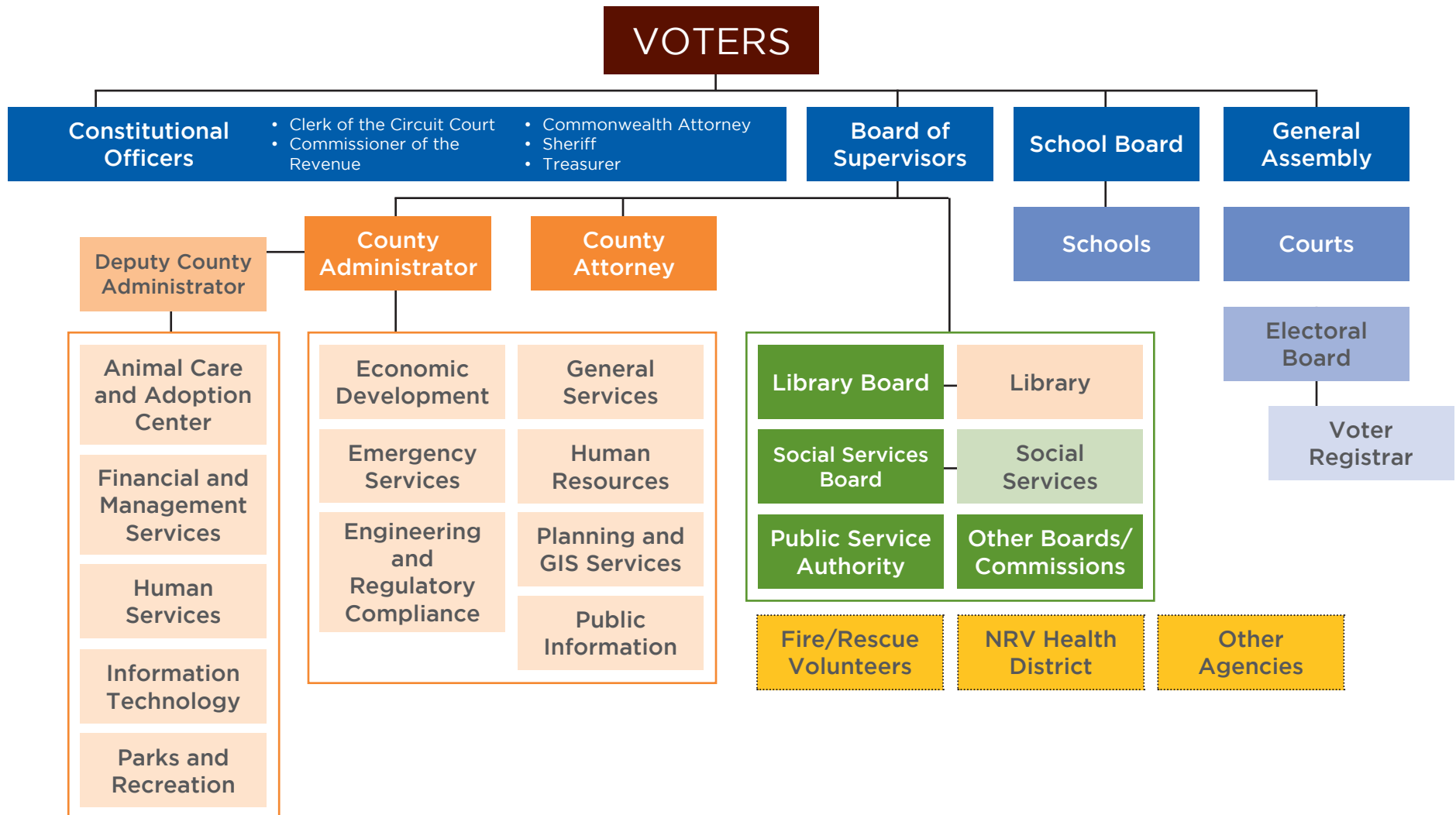
Mary K. Pettitt	Commonwealth Attorney
Helen P. Royal	Commissioner of the Revenue
W. Richard Shelton	Treasurer
Charles H. Partin	Sheriff
Erica W. Williams	Clerk of the Circuit Court

Montgomery County, Virginia

Organization Chart



- Elected
- Appointed
- Hired
- County department
- County provides funding



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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), 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.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The introductory section, fund financial statements of the Public Service Authority and the School Board, and statistical section 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* (Uniform Guidance), and is also not a required part of the basic financial statements.

The fund financial statements of the Public Service Authority and the School Board 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 fund financial statements of the School Board 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 and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 9, 2016, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the County's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 9, 2016

Management's Discussion and Analysis

The following discussion and analysis of the County of Montgomery's financial performance provides an overview of the County's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the transmittal letter at the front of this report and with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2016

- Total net position for governmental activities was \$131 million at June 30, 2016. This figure is based on assets and deferred outflows of almost \$374 million and liabilities and deferred inflows of approximately \$243 million.
- Total general fund revenues fell short of the final estimated amount by approximately \$1.2 million.

Grant funding does not follow the fiscal year, therefore funds appropriated during the year are often received the following year. As a result, intergovernmental revenues fell short of estimates by approximately \$2.5 million. This was partially offset by property tax revenue exceeding the estimate by \$0.9 million due to receiving more prepaid taxes than anticipated and higher than estimated construction growth. Also offsetting was an increase in recordation taxes (\$0.4 million) and taxes on deeds (\$0.1 million) each resulting from a higher than projected increase in housing sales.

Actual expenditures were approximately \$13.9 million less than the final expenditure appropriation. As always, the County received and included in the final approved budget various grant awards during the year; however, not all were expended before year end. Orders had been placed, but goods not received at year end of just over \$864,000 for the County and \$1.4 million for the Schools

General government administration expenditures totaled \$1.2 million less than appropriated. Of this amount, Information Technology spent just over \$500,000 less than appropriated, resulting primarily from the timing of projects underway in the department. Contingency funds of almost \$300,000 were budgeted and not spent. An accounting change resulted in the insurance category ending the year with \$150,000 more than budgeted. This lower than expected balance was offset by corresponding lower than anticipated revenue, resulting no net effect on ending fund balance. The remaining difference results from small amounts of vacancy savings and conservative fiscal management across all areas.

Public safety expenditures were \$2.2 million less than budgeted. Public safety grants were \$650,000 less than budgeted as the grants cycles did not follow the fiscal year. The sheriff's office also manages several grants, asset forfeiture funds and other programs which do not follow the County's fiscal year. This resulted in timing differences totaling over \$100,000. Similarly, fire and rescue departments had approximately \$150,000 in year end funding that was allocated for projects that were not yet completed. The County's payments to the Western Virginia Regional Jail were almost \$400,000 less than planned as the County's inmate population at the jail was less than expected.

Public works expenditures were \$745,000 less than budgeted due to lower than expected tipping fees for solid waste disposal, less maintenance, and lower cost of managing storm water than anticipated. Maintenance items fluctuate from year to year and the storm water project, which is in its beginning stages, will continue to grow. Higher costs will be incurred in future years as the program is fully implemented.

Health and welfare expenditures ended with a budgetary balance of \$1.2 million. Expenditures associated with the Child Services Act vary based on cases referred to the program by judges and the schools. The current year budget exceeded expenditures in this program by \$690,000. Welfare expenditures were also lower than budgeted by \$237,000. These expenditures did not result in true savings for the County as a large portion of them were backed by state revenues rather than locally generated revenues. The state revenues were not collected since they were not needed to offset the expenditures.

Parks, recreation, and culture along with community development began grant and other special projects during the year that weren't completed. This resulted in variances of \$546,000 and \$3.1 million, respectively. The community development projects are road projects that will be funded by the Virginia Department of Transportation and developers rather than the County.

Finally, the Montgomery County School Board (the Schools) spent approximately \$3.5 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower. The schools had placed orders for goods that were not received by year end of approximately \$1.4 million.

- Net position of the Public Service Authority at June 30, 2016 remained steady from the previous year at approximately \$13.0 million.
- The County issued \$32,835,000 in 2016 refunding bonds at an interest rate of 4% to 5% to refund the Series 2008 Lease Revenue Bonds, which had an average interest rate of 4.93%. The refunding reduced the County's total debt service payments over the next thirteen years by \$12,368,177. Repayment of bonded debt totaled \$41,195,000.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$21.1 million, or 12% of fiscal year 2016 general and school operating fund revenues less the general fund transfer to the school operating fund. The Board of Supervisors has adopted a policy to keep maintain this percentage at a minimum of 12%.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

This discussion and analysis is intended to serve as an introduction to the County of Montgomery's basic financial statements which comprise three sections: 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

These 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, deferred outflow of resources, liabilities, and deferred inflows of resources, with the difference between the four 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. Increases in net position may indicate an improved financial position; however, even decreases in net position may reflect a changing manner in which the County used previously accumulated funds.

The *statement of activities* presents how the government's net position changed during the 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 this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements include the County (known as the *primary government*) as well as funds of the Montgomery County Public Service Authority, the Montgomery County School Board and the Montgomery County Economic Development Authority. The functions of the County, including general government; judicial administration; public safety; health and welfare; parks and recreation; public works and community development are principally supported by taxes and intergovernmental revenues (*governmental activities*). Financial information for the *component units* are reported separately from the financial information presented for the primary government.

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, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All funds of the County can be divided into two categories: governmental funds and proprietary funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluation of the County's near-term financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

Fund balances are the differences between assets and liabilities in governmental funds.

- Nonspendable fund balance includes amounts that are not in spendable form, or amounts that are required to be maintained intact.
- Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external providers, such as grantors or bondholders, as well as amounts that are restricted through enabling legislation.
- Committed fund balance includes amounts that can be used only for the specific purposes that are determined by a formal action of the government's highest level of decision making authority.
- Assigned fund balance applies to amounts that are intended for specific purposes as expressed by the governing body or authorized official and applies to remaining resources in any governmental funds other than the general fund.
- Unassigned fund balance includes all amounts not contained in other classifications for the general fund, and deficit fund balances in any other governmental funds.

As of the end of the current fiscal year, the County's total governmental funds reported an ending fund balance of \$62.9 million, a decrease of \$2.2 million in comparison with the prior year. The decrease was primarily a result of spending bond proceeds received in prior years for capital projects in the current year. Ending fund balance was comprised of: \$6.4 million, nonspendable; \$7.8 million, restricted; \$16.9 million, committed; \$10.7 million, assigned; and \$21.1 million, unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.9% of total general fund expenditures, while total fund balance represents 38.3% of that same amount.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the County's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The County adopts an annual budget. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Proprietary funds present functions that are intended to account for the revenues and expenses of providing those services to citizens and businesses, where the intent is that the costs are financed through user charges. The Montgomery County Public Service Authority's water and wastewater funds are proprietary funds.

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

The following table reflects the condensed Statement of Net Position in millions:

	Governmental Activities		Component Units	
	2016	2015	2016	2015
Current and other assets	\$77.4	\$80.2	\$21.6	\$23.8
Capital assets	289.9	294.8	37.6	37.1
Total assets	<u>\$367.3</u>	<u>\$375.0</u>	<u>\$59.2</u>	<u>\$60.9</u>
Deferred outflows of resources	<u>\$6.5</u>	<u>\$4.0</u>	<u>\$7.8</u>	<u>\$8.6</u>
Long-term liabilities	\$208.3	\$230.2	\$113.2	\$110.7
Other liabilities	15.6	16.2	17.1	15.5
Total liabilities	<u>\$223.9</u>	<u>\$246.4</u>	<u>\$130.3</u>	<u>\$126.2</u>
Deferred inflows of resources	<u>\$18.7</u>	<u>\$15.4</u>	<u>\$6.2</u>	<u>\$12.6</u>
Net position:				
Net investment in				
capital assets	\$106.8	\$99.2	\$20.3	\$19.2
Restricted	3.3	9.0	-	3.7
Unrestricted	21.1	9.0	(89.8)	(92.2)
Total net position	<u>\$131.2</u>	<u>\$117.2</u>	<u>\$ (69.5)</u>	<u>(\$69.3)</u>

Governmental Activities

Total net position shown above for governmental activities is \$131.2 million or \$14 million more than in 2015. The County used proceeds from bonds issued in previous years to complete construction of the Public Safety building and begin construction on the Animal Care and Adoption Center. This resulted in an increase in capital assets before depreciation and a decrease in current and other assets, as cash from the bond issuance was used. Capital assets decreased by \$4.9 million resulting from \$4.9 million in capital additions, offset by a \$9.9 million in current year depreciation. The \$4.9 million of additions consisted of the following (in millions):

Public Safety additions	1.5
Public Safety Building	0.7
Animal Care and Adoption Center	1.7
Other county additions	0.6
Other school additions	0.4
Total	\$ 4.9

Component Units

Beginning in fiscal year 2016, the Public Service Authority is reported as a discretely presented component unit instead of a blended component unit. Amounts have been restated in this analysis for comparative purposes. Total net position shown above for component units is \$(69.5) for 2016, relatively unchanged from \$(69.3) in 2015. This consists of a net position for the Public Service Authority of \$13.0 million, a deficit in net position of \$80.3 million for the School Board, and deficit net position of \$2.2 million for the Economic Development Authority.

Summary of Activities:

The following chart shows the revenues and expenses of the governmental activities in millions:

	Governmental Activities		Component Units	
	2016	2015	2016	2015
Revenues				
Program revenues:				
Charges for services	\$ 3.8	\$ 3.3	\$ 8.1	\$ 7.5
Operating grants and contributions	13.3	13.2	58.9	57.2
Capital grants and contributions	-	-	0.1	0.4
General revenues:				
Property taxes	83.5	80.6	-	-
Other taxes	12.6	12.1	-	-
Payments from Montgomery County	-	-	44.1	43.3
Grants and contributions not restricted to specific purposes	5.3	5.3	-	-
Contributions from other governments	-	-	-	-
Other	0.6	0.4	0.2	0.2
Total revenues	119.1	114.9	111.4	108.6
Expenses				
General government	6.6	7.3	-	-
Judicial administration	3.1	3.0	-	-
Public safety	16.5	16.1	-	-
Public works	6.6	6.2	-	-
Health and welfare	7.5	7.3	-	-
Education	50.3	47.9	102.0	102.4
Parks, recreation and cultural	2.9	3.0	-	-
Community development	2.1	2.0	5.4	1.4
Water	-	-	2.2	2.2
Waste water	-	-	2.0	1.8
Interest on long-term debt	9.5	10.2	-	-
Total expenses	105.1	103.0	111.6	107.8
Change in net position	14.0	11.9	(0.2)	0.8
Net position-beginning, restated**	117.2	105.3	(69.3)	(70.1)
Net position-ending	\$ 131.2	\$ 117.2	\$ (69.5)	\$ (69.3)

**Beginning net position for 2015 was restated for the effects of GASB68 implementation.

Revenues

For the fiscal year ended June 30, 2016, revenues from governmental activities totaled \$119.1 million, an increase of \$4.2 million. While the real estate tax rate remained level at \$0.89, unpredicted tax growth of \$0.5 million, additional tax on deeds and recordation tax of \$0.5 million above the projected amount and prepaid property taxes of \$500,000 were received in 2016. Sales and use taxes increased \$0.4 million. Health and welfare received a donation of almost \$900,000 in the current year as well. The remainder of the increase is from grants received in the current year that were not received in the prior year.

Component unit revenues total \$111.4 million, including a \$44.1 million transfer from the general fund to the schools. GASB 34 requires that school debt service be included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled \$18.4 million, which brings the total provided for school purposes to \$62.5 million.

Expenses

Expenses for governmental activities totaled \$105.1 million in 2016, an increase of \$2.1 million from 2015. The County budgeted transfer increased \$3.1 million for the schools over 2015; however under the full accrual basis of accounting, school expenses increased \$0.3 million.

Expenses for component unit – Public Service Authority increased \$0.1 million from the prior year.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$43.8 million to the operation of the schools. Depreciation expense related to the schools totaled \$6.4 million.

Total expenses for education were \$50.3 million. This amount represented about 48% of governmental activity expenses. When interest for school related projects is included, the County contributed \$58.2 million, or 55%. On the cash basis of accounting, total school expenses, including expenses funded through the state and federal government and debt service for school related projects, were equal to 71.4% of the general fund expenses (excluding payments to the schools), plus school operating fund expenses for 2016.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2016, the governmental funds reflect a combined fund balance of \$62.9 million, a decrease of \$2.2 million from June 30, 2015. This consisted of \$42.9 million in the general fund and \$20 million in the county capital improvements fund. The general fund balance increased \$4 million in fiscal year 2016. The school operating fund spent \$4.7 million less than permitted by the revised budget, which resulted in a correspondingly lower than budgeted transfer to the schools from the general fund. The balance was transferred to the schools after year end for one-time uses. The county capital projects fund balance decreased \$6.2 million as a result of using proceeds from bonds issued in previous years for projects in the current year and use of debt service reserve funds toward the bond refunding previously discussed.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2016 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 94.5	\$ 94.5	\$ 95.9
Intergovernmental	18.0	21.0	18.5
Other	2.9	5.0	4.9
Total	115.4	120.5	119.3
Expenditures and transfers	115.8	129.1	115.2
Change in fund balance	\$ (0.4)	\$ (8.6)	\$ 4.1

The most significant increases in comparing original budget to final budget revenue amounts were in intergovernmental and other revenue. Several significant grants along with several special projects began and were and budgeted during the fiscal year to account for the \$3 million and \$2.1 million respective increases in these categories. Budgetary adjustments were made in the other revenue category to account for unpredictable, miscellaneous amounts such as recovered costs, which were received during the year, but not included in the original budget.

The increase in the final budget for expenditures over the original budget resulted primarily from the Board of Supervisors approving encumbrances of approximately \$0.9 million for the general fund and \$1.4 million for the School Board. Also approved were carryovers from the 2015 budget of \$730,000 for the general fund, and \$2.1 million for the schools. General fund grants and other earmarked funds totaling \$2.6 million were appropriated during 2016. Funds were approved from the Technology Reserve (\$400,000) for specific projects. Additional one time funding was approved for schools totaling just over \$300,000 to fund technology and transportation needs. Funds were also approved for special road improvements (\$2.1 million), refurbishment of the County pool (\$250,000) and the purchase of land for a new Fire Station and Recreational facilities in Riner (\$425,000). Funds generated from the sale of surplus property was appropriate for future school capital projects (\$0.7 million). The County continued to provide employees to the New River Valley Emergency Communications Regional Authority until the Authority became operational on July 1, 2016. Funds (\$500,000) were appropriated to cover the personnel costs associated with these employees. The Authority repaid the funds to the County. The appropriation of grants various smaller one-time expenditures throughout the year account for the remaining difference.

Actual tax revenue exceeded the budgeted by \$1.4 million. The real estate tax rate remained level at \$0.89 per \$100 of assessed value. Prepaid property taxes collected were \$500,000 higher than budgeted, contributing to the variance. Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Actual expenditures and transfers were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was \$4.7 million less than the budgeted amount. This is due in part to the schools receiving more state and federal revenue than budgeted, which resulted in a lower than budgeted amount needed from the County. The schools had over \$1.4 million in outstanding purchase orders at June 30. The balance of the transfer to the schools and the funds associated with 2016 outstanding purchase orders for the schools were approved by the Board of Supervisors and transferred to the schools in fiscal year 2017.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the County had invested \$289.9 million, net of accumulated depreciation, in a variety of capital assets including buildings, park facilities, and sheriff and fire protection.

The following table displays the County and Component Units capital assets in millions of dollars:

	Governmental Activities		Component Units	
	2016	2015	2016	2015
Non-depreciable assets				
Land	\$ 14.2	\$ 14.2	\$ 0.7	\$ 0.7
Intangible asset	-	-	0.9	0.9
Construction in progress	2.4	12.0	0.5	-
Depreciable capital assets				
Infrastructure	-	-	32.4	32.3
Buildings and improvements	312.9	300.8	47.9	47.3
Machinery and equipment	24.4	22.7	18.3	17.0
Accumulated depreciation	(64.0)	(54.9)	(63.1)	(61.1)
Total	\$ 289.9	\$ 294.8	\$ 37.6	\$ 37.1

The table below shows the change in capital assets in millions of dollars:

	Balance June 30, 2015	Net Additions/ (Deletions)	Balance June 30, 2016
Non-depreciable assets			
Land	\$ 14.9	\$ -	\$ 14.9
Intangible assets	0.9	-	0.9
Construction in progress	12.0	(9.1)	2.9
Depreciable capital assets			
Infrastructure	32.3	0.1	32.4
Buildings and improvements	348.1	12.7	360.8
Machinery and equipment	39.7	3.0	42.7
Accumulated depreciation	(116.0)	(11.1)	(127.1)
Total	\$ 331.9	\$ (4.4)	\$ 327.5

Governmental Activities

In 2016, construction began on the Animal Care and Adoption Center (\$1.7 million). The Public Safety Building, with a total cost of \$12 million, was completed and transferred from construction in progress to buildings and improvements.

Additional information about the County's capital assets, including the component unit Public Service Authority and school board can be found in Note 8 of this report.

Long Term Debt

The following table displays the Governmental and Component Unit outstanding debt at June 30, 2016, in millions of dollars:

	Governmental Activities		Component Units	
	2016	2015	2016	2015
General obligation bonds	\$ 114.3	\$ 119.5	\$ -	\$ -
Lease revenue bonds	17.3	63.3	-	-
Literary loans	1.5	1.8	-	-
Refunding bonds	56.4	27.8	-	-
Revenue bonds	-	-	5.4	5.7
Total	\$ 189.5	\$ 212.4	\$ 5.4	\$ 5.7

Other obligations include accrued compensated absences, other post-employment benefits, and accrued landfill closure and post-closure costs. More detailed information about the County's long-term debt can be found in Note 9 of this report. Debt for school assets is included with Governmental Activities under GASB 34, as schools in Virginia are not able to issue debt.

The Montgomery County Board of Supervisors adopted the following debt policy on September 28, 2015:

1. The County will confine long-term borrowing to capital improvements or projects that cannot be financed from current revenues except where approved justification is provided.
2. When the County finances capital improvements or other projects by issuing bonds or entering into capital leases, it will repay the debt within a period not to exceed the expected useful life of the project.

3. Net debt as a percentage of estimated market value of taxable property should strive to be below 3% but should not exceed 4%.
4. The ratio of debt service expenditures as a percent of governmental fund expenditures (General fund plus School Operating fund expenditures less the General Fund transfer to the School Operating Fund) should strive to be below 10% but not exceed 12%.
5. The County will review the ten year tax supported debt and lease payout ratio annually, and intends to maintain the ratio at 60% over a five year period, with the ratio being no less than 55% in any one year during the period.
6. The County recognizes the importance of underlying and overlapping debt in analyzing financial condition. The County will regularly analyze total indebtedness including underlying and overlapping debt.
7. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds.
8. The County will retire tax anticipation debt, if any, annually and will retire bond anticipation debt within six months after completion of the project.
9. On all general fund supported, debt-financed projects, the County will attempt to make a down payment of at least 5% of total project costs in the aggregate from current resources. The long term goal is to annually designate a portion of General fund cash for one time capital projects.

As of June 30, 2016, the County was in compliance with all debt policies.

ECONOMIC FACTORS

As of October 2016, the County's and state's average unemployment rate were both 4.2 percent, a slight increase from the previous year's rates of 3.9 and 4.1 percent, respectively.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning this report or requests for additional financial information should be directed to the Director of Financial and Management Services, 755 Roanoke Street, Christiansburg, Virginia 24073.

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BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION

June 30, 2016

	Primary Government	Component Units		
	Governmental Activities	Public Service Authority	School Board	Economic Development Authority
Assets				
Cash and cash equivalents (Note 4)	\$ 58,067,992	\$ 2,149,446	\$ 3,659,064	\$ 74,560
Receivables, net (Note 5)	3,337,317	619,848	-	14,670
Due from primary government	-	14,082	7,916,405	54,117
Due from other governmental units (Note 6)	2,815,081	9,231	2,857,004	-
Prepays	177,048	-	620,058	-
Inventories	-	7,205	152,849	2,922,002
Advances to component unit (Note 15)	5,626,109	-	-	-
Restricted assets:				
Cash and cash equivalents (Note 4)	465,393	69,280	-	-
Investments (Note 4)	6,390,843	-	-	-
Notes receivable (Note 15)	516,627	-	-	-
Lease incentives	-	-	-	478,234
Capital assets: (Note 8)				
Non-depreciable	16,589,027	1,217,389	896,180	-
Depreciable, net	273,283,465	16,922,263	6,203,742	12,382,576
Total assets	367,268,902	21,008,744	22,305,302	15,926,159
Deferred Outflows of Resources				
Deferred charge on refunding	4,377,074	-	-	-
Pension contributions subsequent to the measurement date (Note 11)	2,170,821	107,060	7,148,218	-
Changes in proportion - teacher cost sharing pool (Note 11)	-	-	577,000	-
Total deferred outflows of resources	6,547,895	107,060	7,725,218	-
Liabilities				
Accounts payable and accrued expenses	2,323,160	227,393	1,990,511	153,159
Accrued payroll and related liabilities	946,555	44,659	8,886,403	-
Accrued interest payable	3,282,109	5,563	-	-
Amounts held for others	465,393	-	-	-
Advances from primary government (Note 15)	-	5,379	-	5,626,109
Due to other governmental units (Notes 6)	567,886	-	-	-
Due to component units	7,984,604	-	-	-
Unearned revenue	-	-	70,785	-
Customer deposits	-	69,280	-	10,000
Long-term liabilities:				
Net pension liability (Note 11)	13,012,641	641,757	82,491,636	-
Due within one year (Note 9)	17,147,523	413,874	2,685,940	485,436
Due in more than one year (Note 9)	178,178,992	6,592,784	8,034,113	11,910,286
Total liabilities	223,908,863	8,000,689	104,159,388	18,184,990
Deferred Inflows of Resources				
Deferred premiums on refunding	16,278,599	-	-	-
Property taxes (Note 5)	460,183	-	-	-
Net difference between projected and actual investment earnings on pension plan investments (Note 11)	1,650,384	81,394	5,290,341	-
Net difference between expected and actual experience (Note 11)	278,399	13,730	871,613	-
Total deferred inflows of resources	18,667,565	95,124	6,161,954	-
Net Position				
Net investments in capital assets	106,790,331	12,713,080	7,099,922	503,481
Restricted:				
Debt service	3,370,622	-	-	-
Unrestricted	21,079,416	306,911	(87,390,744)	(2,762,312)
Total net position	\$ 131,240,369	\$ 13,019,991	\$ (80,290,822)	\$ (2,258,831)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government	Component Units		
					Governmental Activities	Public Service Authority	School Board	Economic Development Authority
Primary Government:								
Governmental activities:								
General government administration	\$ 6,628,073	\$ 295,577	\$ 427,978	\$ -	\$ (5,904,518)			
Judicial administration	3,085,442	438,552	1,242,716	-	(1,404,174)			
Public safety	16,501,276	831,545	4,462,210	-	(11,207,521)			
Public works	6,588,634	534,602	31,610	-	(6,022,422)			
Health and welfare	7,450,377	1,068,841	5,506,866	-	(874,670)			
Education	50,296,987	-	1,255,821	-	(49,041,166)			
Parks, recreational, and cultural	2,923,681	449,391	262,856	-	(2,211,434)			
Community development	2,147,334	206,130	101,581	-	(1,839,623)			
Interest on long-term debt	9,487,012	-	-	-	(9,487,012)			
Total governmental activities	105,108,816	3,824,638	13,291,638	-	(87,992,540)			
Component Units:								
Public Service Authority	\$ 4,202,331	\$ 3,691,867	\$ -	\$ 133,750		(376,714)	-	-
School Board	101,981,233	3,194,411	58,903,294	-		-	(39,883,528)	-
Economic Development Authority	5,408,762	1,203,617	-	-		-	-	(4,205,145)
Total component units	\$ 111,592,326	\$ 8,089,895	\$ 58,903,294	\$ 133,750	-	(376,714)	(39,883,528)	(4,205,145)
General Revenues:								
General property taxes (Note 5)					83,468,082	-	-	-
Sales and use tax					8,904,969	-	-	-
Utility tax					1,790,892	-	-	-
Motor vehicle license tax					697,320	-	-	-
Other local taxes					1,224,890	-	-	-
Intergovernmental revenue, unrestricted					5,266,575	-	-	-
Investment earnings, unrestricted					631,355	11,269	3,756	89,798
Investment earnings, restricted for capital projects					3,774	-	-	-
Payments from Montgomery County					-	-	43,802,532	296,259
Other contributions					-	-	-	52,840
Total general revenues					101,987,857	11,269	43,806,288	438,897
Change in net position					13,995,317	(365,445)	3,922,760	(3,766,248)
Net position – beginning					117,245,052	13,385,436	(84,213,582)	1,507,417
Net position – ending					\$ 131,240,369	\$ 13,019,991	\$ (80,290,822)	\$ (2,258,831)

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

	General	County Capital Improvements	Total Governmental Funds
Assets			
Cash and cash equivalents	\$ 43,586,335	\$ 14,481,657	\$ 58,067,992
Receivables, net	3,337,317	-	3,337,317
Due from other governmental units	2,815,081	-	2,815,081
Advances to component unit	5,626,109	-	5,626,109
Restricted assets:			
Cash and cash equivalents	465,393	-	465,393
Investments	-	6,390,843	6,390,843
Notes receivable	516,627	-	516,627
Total assets	\$ 56,346,862	\$ 20,872,500	\$ 77,219,362
Liabilities			
Accounts payable and accrued liabilities	\$ 1,394,458	\$ 928,702	\$ 2,323,160
Accrued payroll and related liabilities	946,555	-	946,555
Due to other governmental units	567,886	-	567,886
Due to component unit	7,984,604	-	7,984,604
Amounts held for others	465,393	-	465,393
Total liabilities	11,358,896	928,702	12,287,598
Deferred Inflows of Resources			
Unavailable/unearned property taxes	2,047,453	-	2,047,453
Fund Balances			
Nonspendable	6,392,736	-	6,392,736
Restricted	1,405,595	6,390,843	7,796,438
Committed	2,997,137	13,552,955	16,550,092
Assigned	10,686,220	-	10,686,220
Unassigned	21,458,825	-	21,458,825
Total fund balances	42,940,513	19,943,798	62,884,311
Total liabilities, deferred inflows of resources, and fund balances	\$ 56,346,862	\$ 20,872,500	\$ 77,219,362

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2016

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

Ending fund balance – governmental funds	\$ 62,884,311
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.	289,872,492
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.	177,048
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	1,587,270
Deferred discounts, premiums, and refunding costs are not financial resources and, therefore, are not reported in the funds.	(11,901,525)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources for 2016 employer contributions	2,170,821
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments	(1,650,384)
Deferred inflows of resources for the net difference between expected and actual experience	(278,399)
Net pension liability	(13,012,641)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds	<u>(198,608,624)</u>
Net position of governmental activities	<u><u>\$ 131,240,369</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2016

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	\$ 83,787,209	\$ -	\$ 83,787,209
Other local taxes	12,618,071	-	12,618,071
Permits, privilege fees, and regulatory licenses	608,481	-	608,481
Fines and forfeitures	59,412	-	59,412
Revenue from use of money and property	638,320	3,773	642,093
Charges for services	533,870	-	533,870
Recovered costs	2,617,109	5,766	2,622,875
Intergovernmental	18,558,211	-	18,558,211
Total revenues	119,420,683	9,539	119,430,222
EXPENDITURES			
Current operating			
General government administration	7,258,386	-	7,258,386
Judicial administration	3,173,484	-	3,173,484
Public safety	16,261,029	-	16,261,029
Public works	4,528,292	-	4,528,292
Health and welfare	7,627,835	-	7,627,835
Education	43,841,697	-	43,841,697
Parks, recreation, and cultural	2,989,271	-	2,989,271
Community development	2,131,661	-	2,131,661
Debt service			
Principal retirement	14,561,166	-	14,561,166
Interest and fiscal charges	9,561,171	379,054	9,940,225
Capital projects	-	4,159,785	4,159,785
Total expenditures	111,933,992	4,538,839	116,472,831
Excess (deficiency) of revenues over expenditures	7,486,691	(4,529,300)	2,957,391
OTHER FINANCING SOURCES (USES)			
Issuance of refunding bonds	-	32,835,000	32,835,000
Premium on issuance of refunding bonds	-	6,459,242	6,459,242
Transfer to escrow agent	-	(44,452,342)	(44,452,342)
Transfers in	222,516	3,716,044	3,938,560
Transfers out	(3,716,044)	(222,516)	(3,938,560)
Total other financing sources (uses)	(3,493,528)	(1,664,572)	(5,158,100)
Net changes in fund balances	3,993,163	(6,193,872)	(2,200,709)
FUND BALANCES AT JULY 1	38,947,350	26,137,670	65,085,020
FUND BALANCES AT JUNE 30	\$ 42,940,513	\$ 19,943,798	\$ 62,884,311

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities:

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

Net change in fund balances - total governmental funds		\$ (2,200,709)
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 \$9,882,162 exceeded capital outlays \$4,889,704 in the current period.		(4,992,458)
In the statement of activities, only the <i>gain or loss</i> on the sale of capital assets is reported, whereas in the governmental funds, the entire proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balances by the <i>net book value</i> of the property sold.		(6,965)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(319,124)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.		
Employer pension contributions		2,170,821
Pension expense		(1,135,895)
The issuance of long-term debt 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 assets.		
Issuance of refunding bonds	(32,835,000)	
Payments to escrow agents	44,452,342	
Principal repayments		
General obligation bonds	5,161,626	
Lease revenue bonds	4,836,777	
Literary fund loans	250,000	
Refunding bonds	4,312,763	
		26,178,508
Governmental funds report the effect of bond premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. Interest is recognized as an expenditure in the governmental funds when it is due. In statement of activities, interest is recognized as it accrues, regardless of when it is due. The net effect of those differences are as follows:		
Bond premiums and discounts	(5,892,464)	
Interest expense	453,213	
		(5,439,251)
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.		(259,610)
Change in net position of governmental activities		<u><u>\$ 13,995,317</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL (CASH BASIS)

GENERAL FUND

For the Year Ended June 30, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
General property taxes	\$ 82,389,797	\$ 82,392,657	\$ 83,340,174	\$ 947,517
Other local taxes	12,122,480	12,122,480	12,565,227	442,747
Permits, privilege fees, and regulatory licenses	693,884	693,884	710,816	16,932
Fines and forfeitures	130,000	130,000	58,986	(71,014)
Revenue from use of money and property	674,621	830,780	793,320	(37,460)
Charges for services	492,610	585,529	550,622	(34,907)
Recovered costs	668,450	2,608,280	2,617,531	9,251
Intergovernmental	18,012,991	20,960,051	18,441,666	(2,518,385)
Total revenues	115,184,833	120,323,661	119,078,342	(1,245,319)
EXPENDITURES				
Current operating				
General government administration	8,143,624	8,688,293	7,459,249	1,229,044
Judicial administration	3,312,313	3,498,768	3,170,446	328,322
Public safety	15,877,666	18,408,389	16,239,446	2,168,943
Public works	4,871,980	5,248,751	4,503,943	744,808
Health and welfare	8,432,505	8,785,099	7,558,445	1,226,654
Education	44,250,998	48,203,048	43,478,060	4,724,988
Parks, recreation, and cultural	3,027,570	3,554,420	3,008,436	545,984
Community development	1,750,819	5,060,898	1,958,273	3,102,625
Debt service				
Principal retirement	14,366,403	14,366,403	14,561,166	(194,763)
Interest and fiscal charges	9,554,635	9,554,635	9,561,171	(6,536)
Total expenditures	113,588,513	125,368,704	111,498,635	13,870,069
Excess (deficiency) of revenues over expenditures	1,596,320	(5,045,043)	7,579,707	12,624,750
OTHER FINANCING SOURCES (USES)				
Transfers in	221,920	221,920	222,516	596
Transfers out	(2,225,000)	(3,716,044)	(3,716,044)	-
Total other financing sources (uses)	(2,003,080)	(3,494,124)	(3,493,528)	596
Net change in fund balance	\$ (406,760)	\$ (8,539,167)	\$ 4,086,179	\$ 12,625,346

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies

The financial statements of the County of Montgomery, Virginia (the “County”), have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Significant accounting policies of the County are described below.

A. Reporting Entity

Primary Government. The County is a political subdivision of the Commonwealth of Virginia governed by a seven-member elected Board of Supervisors (the “Board”). The accompanying financial statements for the primary government and its component units are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units, as prescribed by the GASB.

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

Montgomery County School Board

The Montgomery County School Board (the “School Board”) is responsible for elementary and secondary education within the County’s jurisdiction. The School Board is comprised of seven members popularly elected to a four-year term. The School Board is fiscally dependent upon the County because the County Board approves the School Board budget, levies the necessary taxes to finance operations, and approves the borrowing of money and issuance of debt. The School Board does not issue separate financial statements; as such, they have been included in these statements.

Montgomery County Public Service Authority

The Public Service Authority (the “Authority”) provides water and wastewater services for County businesses and residents. The County Board of Supervisors has historically appointed themselves as the Authority’s Board of Directors. The Authority does not provide financial benefit to or impose a financial burden on the County. Complete financial statements may be obtained by writing the Montgomery County Public Service Authority, 755 Roanoke Street, Christiansburg, Virginia 24073.

Montgomery County Economic Development Authority

The Montgomery County Economic Development Authority (the “EDA”) was created to encourage and provide financing for economic development in the County. The EDA is governed by seven directors appointed by the County Board of Supervisors and the County is financially accountable for the EDA. It is authorized to acquire, own, lease, and dispose of properties to the extent that such activities foster and stimulate industrial development. Complete financial statements may be obtained by writing the Montgomery County Economic Development Authority, 755 Roanoke Street, Christiansburg, Virginia 24073.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

The following entities are excluded from the accompanying financial statements:

Jointly Governed Organizations:

New River Valley Community Services

The County and the Counties of Floyd, Giles, Pulaski, and the City of Radford participate in supporting New River Valley Community Services ("NRVCS"). The governing body of this organization is appointed by the respective governing bodies of the participating jurisdictions. For the current year, the County contributed \$204,365 to NRVCS.

Virginia Tech Montgomery Executive Airport Authority

The Virginia Tech Montgomery Executive Airport Authority (the "Airport Authority") was created by concurrent resolutions of the governing bodies of the County, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Airport Authority is governed by a five member board whereby the governing body of each member jurisdiction appoints one board member, and all jurisdictions jointly appoint a fifth member. The Airport Authority utilizes revenues generated by the airport and contributions by the members to fund all airport activities and has no bonded indebtedness. For the current year, the County paid \$50,000 toward operations of the Airport Authority.

Montgomery Regional Solid Waste Authority

The County is a member of the Montgomery Regional Solid Waste Authority (the "Waste Authority"), which was created by a joint resolution by the County, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Waste Authority is governed by a five member board whereby the governing body of each member jurisdiction appoints one board member and all jurisdictions jointly appoint a fifth member. The Waste Authority, which began operation in August 1995, serves as a solid waste transfer station and recycling facility. Each jurisdiction provides collection of solid waste and recyclables from within its jurisdiction and delivers the collected materials to the Waste Authority. All Waste Authority operations are financed by tipping fees and the individual jurisdictions are not liable for the debt of the Waste Authority. The Waste Authority has negotiated with New River Resource Authority for shared use of a landfill with an anticipated operating life of 50 years. For the current year, the County paid \$722,974 in tipping fees to the Waste Authority.

New River Valley Metropolitan Planning Organization

The County is a member of the New River Valley Metropolitan Planning Organization ("MPO"). In 2003, the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization was created as a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. In 2012, the MPO was expanded to also include the City of Radford and a portion of Pulaski County. The Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization was renamed and provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community's vision. The County has three members within this organization, two of which are voting members. For the current year, the County paid \$19,000 toward operations of the MPO.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Western Virginia Regional Jail Authority

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body, and the chief administrative officer. The member jurisdictions are responsible for a portion of the debt service and per diem cost based on prisoner days used. For the current year, the County paid \$3,506,665 to the WVRJA.

New River Valley Emergency Communications Regional Authority

The County is a member of the New River Valley Emergency Communications Regional Authority (the "Communications Authority"). The Communications Authority is a regional partnership, serving the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Communications Authority began providing 911 dispatch and emergency communication services to the community and agencies in these localities on July 1, 2016. The County has one member on the Board of this organization. For the current year, the County paid \$420,002 toward the operations of the Communications Authority.

Montgomery Tourism Development Council

The County, along with the Towns of Blacksburg and Christiansburg, is a member of the Montgomery Tourism Development Council (the "Council"). The Council was formed to stimulate economic opportunity and enhance quality of life by celebrating and sharing the region's culture, heritage, and natural beauty through authentic visitor experiences. The operating board consists of the County Administrator and Town Managers. For the current year, the County paid \$15,387 toward the operations of the Council.

NRV Regional Water Authority

The NRV Regional Water Authority (NRVRWA) operates and maintains a water supply system for the Town of Christiansburg, Town of Blacksburg, Virginia Tech, and Montgomery County. Each governing body appoints one member to the five person Board of Directors, and one at large member. Initially, until the term of one of the current at large members expires, the board will be comprised of six members. The board will then be reduced to five and the one at large member will be appointed by the members of the authority. All indebtedness of the NRVRWA is payable solely from the revenues of the water system. Although the Montgomery County Public Service Authority is one of NRVRWA's customers, neither the County nor the PSA have an obligation for any of its indebtedness. During fiscal year 2016, the PSA paid \$503,356 to NRVRWA. This consists of an annual payment of \$47,522, which is the \$1,278,478 membership fee being spread over 20 years (see Note 18). The balance of \$455,834 was for water purchases.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements

Government-wide financial statements consist of a statement of net position and a statement of activities that report information on all activities of the primary government. The effect of inter-fund activity has been removed from these statements. *Governmental activities* solely comprise the primary government and are supported by taxes and intergovernmental revenues. Likewise, the *primary* government is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

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

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

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

Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available. Accordingly, real and personal property taxes are recorded as deferred revenue and receivables when billed, net of allowances of uncollectible amounts. Real and personal property taxes recorded at June 30, and received within the first 60 days after year end are included in tax revenues, with the related amount reduced from deferred revenues. Sales and utility taxes, which are collected by the state or utility companies and subsequently remitted to the County, are recognized as revenues and amounts receivable when the underlying exchange transaction occurs, which is generally one or two months preceding receipt by the County. Licenses, permits, fines, and rents are recorded as revenues when received. Grant revenues are considered receivable when legal and contractual requirements have been met and available if collected within one year for the County, or 60 days of year-end for the School Board. Revenues from general-purpose grants are recognized in the period in which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this rule include: (1) accumulated unpaid leave and other employee amounts which are recorded as compensated absences and other postemployment benefits, which are recognized when paid, and (2) principal and interest payments on general long-term debt, both of which are recognized when due.

The County reports the following major governmental funds:

General Fund – This is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds.

County Capital Fund – This fund accounts for the financial resources to be used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds.

The effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include charges to customers or applicants for goods, services, or privileges provided, operating grants and contributions, and capital grants and contributions. General revenues include all taxes, grants, and contributions not restricted to specific programs, and other revenues not meeting the definition of program revenues.

Operating revenues and expenses in the proprietary funds result from providing goods and services in connection with their principal ongoing operations. The principal operating revenues of the Public Service Authority’s (PSA) proprietary funds are charges for services. The PSA also recognizes as operating revenue the portion of connection (tap) fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, contractual services, and depreciation on capital assets. All revenues and expense not meeting this definition are reported as non-operating.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Equity

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value.

Receivables

Receivables are shown net of an allowance for uncollectible amounts calculated by management using historical collection data, specific account analysis, and management’s judgment.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Equity (Continued)

Inventories

Inventories generally are recorded at cost using the first-in/first-out (FIFO) method except for commodities received from the Federal Government, which are valued at market. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Inventories of the EDA include land and buildings. The cost of land (including acquisition costs) is allocated to subdivided areas for the purpose of accumulating costs to match with sales revenues. Improvement, carrying, and amenity costs are allocated based on acreage. Inventory is valued at the lower of cost or market.

Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized cost of the assets. No interest was capitalized in 2016.

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

Buildings and improvements	40 years
Machinery and equipment	4 – 30 years
Water and wastewater systems	30 – 40 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has three items that qualify for reporting in this category. The first item, deferred charge on refunding, is reported in the government-wide statement of net position and results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The second item that qualifies for reporting in this category consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year. The third item, changes in proportion, results from participation in Virginia Retirement Systems teacher cost sharing pool, where changes in proportion and differences between employer contributions and the proportionate share of employer contributions are reported as a deferred outflow.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Equity (Continued)

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position and balance sheet report a separate section for deferred inflows of resources. This separate financial statement element 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 five types of deferred inflows. One item occurs only under a modified accrual basis of accounting. The item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes and other receivables not collected within 60 days of year-end and property taxes collected in advance of their due date. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item relates to unearned property taxes received in advance of the year in which they are intended to fund operations. This item is a deferred inflow in both the governmental fund balance sheet and the entity wide statement of net position. The third item is the premium on issuance of refunding of bonds reported in the government-wide statement of net position. The premiums result when bonds are issued at an interest rate that is higher than their stated interest rate. Premiums on refunding result from the difference in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the life of the debt, or the shorter of the life of the refunded or refunding debt. The fourth is the net difference between projected and actual earnings on pension plan investments. The fifth is the net difference between estimated and actual experience for economic or demographic factors in the total pension liability measurement. The fourth and fifth differences will be recognized in pension expense over a closed five year period.

Compensated Absences

County, PSA, and School Board employees are granted a specified amount of leave with pay each year. Amounts recorded reflect unused leave payable upon termination including applicable employer related taxes, in accordance with respective policies. The cost of accumulated leave pay is accounted for as a liability in the government-wide financial statements and proprietary fund type statements. A liability is reported in the governmental funds only when the amounts become due and payable.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Equity (Continued)

Long-term Liabilities

Long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized as discussed in the Deferred Outflows/Inflows of Resources section of this note.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period but do not recognize long-term liabilities. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Repayments and issuance costs are reported as debt service expenditures.

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 Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision'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.

Estimates

Management uses estimates and assumptions in preparing its financial statements. Actual results could differ.

Net Position/Fund Balances

Net position in the government-wide and proprietary fund financial statements is classified as net investment in capital assets, restricted, and unrestricted. Net position is reported as restricted when there are limitations imposed on its use through enabling legislation or through external restrictions imposed by creditors, grantors, contributors, or laws or regulations.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Equity (Continued)

Net Position/Fund Balances (Continued)

In the fund financial statements, fund balance is divided into five classifications based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans or advances.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the County Board of Supervisors. To be reported as committed, amounts cannot be used for any other purposes unless the Board of Supervisors takes action to remove or change the constraint.
- **Assigned** – Amounts the County intends to use for a specified purpose; intent can be expressed by the governing body or by the County Administrator who has been designated this authority.
- **Unassigned** – Amounts that are available for any purpose; positive amounts are reported only in the general fund.

The Board of Supervisors establishes fund balance commitments by passage of resolutions. Assigned fund balance is established by the Board of Supervisors through passage of resolutions appropriating funds for specific purposes, as deemed appropriate by the County Administrator, including but not limited to the purchase of capital assets, construction, or debt service.

Restricted Amounts

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position or Fund Equity (Continued)

Minimum Fund Balance Policy

General Fund unassigned fund balance at the close of each fiscal year should be at least 12% of the General Fund plus School Operating Fund revenues, excluding the General Fund transfer to the School Operating Fund. Should the County find it necessary to access these funds in an emergency situation the Unassigned Fund Balance would be allowed to fall below the target described above. Any appropriation which causes Unassigned Fund Balance to drop below 12% will occur only after the County Administrator presents to the Board of Supervisors a plan and timeline for replenishing the balance to a minimum of 12%.

Other governmental funds of the County do not have specified fund balance targets. Recommended levels of committed and/or assigned fund balance will be determined on a case by case basis, based on the needs of each fund and as recommended by officials and approved by the Board of Supervisors.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Significant encumbrances as of June 30, 2016 total \$863,996 in the general fund.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

- Prior to March 30, the County Administrator submits to the Board a proposed operating and capital budget for the County and School Board for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the related financing.
- Public hearings are conducted to obtain citizen comments.
- Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- The Appropriations Resolution places legal restrictions on expenditures at the organizational level. Each organization represents a major County function, such as County Administration, Financial and Management Services, Information Management Services, etc. Only the Board can revise the appropriation for each fund and function. The County Administrator may amend the budget within organizations. Approval by the Board of Supervisors is required for the School Board to transfer budgeted amounts within its major categories, which include administration, instruction, attendance, health, etc.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2. Stewardship, Compliance, and Accountability (Continued)

Budgetary Information (Continued)

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

- Formal budgetary integration is employed as a management control device for the General and Capital Fund. Program and project budgets are utilized for the Capital Fund where funds remaining at the end of the year are reappropriated until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- The Board approved additional General Fund appropriations of \$13,271,235 during the current year primarily for transfers for public safety, education, special community development projects, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

Below is a reconciliation of the change in fund balances on the budgetary basis to the GAAP basis:

	<u>Primary Government General Fund</u>	<u>Component Unit – School Board Operating</u>	<u>Cafeteria</u>
Net change in fund balance (budgetary basis)	\$ 4,086,179	\$ 687,377	\$ (486,373)
Adjustments:			
Tax and other accruals and due from other entities/funds, net of Deferred/unearned revenue:			
June 30, 2016	10,247,681	10,773,409	(70,785)
June 30, 2015	(9,855,055)	(10,099,798)	93,416
Inventory:			
June 30, 2016	-	-	152,848
June 30, 2015	-	-	(148,216)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2016	(10,893,503)	(10,773,409)	(196,105)
June 30, 2015	<u>10,407,861</u>	<u>10,099,798</u>	<u>216,909</u>
Net change in fund balance (GAAP basis)	<u>\$ 3,993,163</u>	<u>\$ 687,377</u>	<u>\$ (438,306)</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 3. Significant Transactions of the County Component Unit – School Board

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

1. The School Board can neither levy taxes nor incur debt under Virginia law. Therefore, the County issues debt “on behalf” of the School Board. The debt and the proceeds are recorded in the County’s governmental activities. The proceeds received are then provided to the School Board for capital expenditures. Any unspent money is reported as deposits and investments in the County’s governmental activities.
2. Local governments in Virginia have a “tenancy in common” with the School Board whenever the locality incurs a financial obligation for school property which is payable over more than one year. In order to match the capital assets with the related debt, the legislation permits the primary government to report the portion of the school property related to the financial obligation. When the debt related to a particular capital asset is completely retired, the related capital asset, net of accumulated depreciation, is removed from the primary government’s financial statements and reported in the School Board’s financial statements. The School Board retains authority and responsibility over the operation and control of this property.
3. If all economic resources associated with school activities were reported with the School Board, its total expenditures would be as follows:

Expenditures of School Board – Component Unit (Exhibit A-5)	\$ 105,740,414
Principal and other debt service expenditures included in primary Government (Exhibit 4)	18,371,551
Total expenditures for school activities	<u>\$ 124,111,965</u>

Note 4. Deposits and Investments

Deposits

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

Investments

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Deposits and Investments (Continued)

Investments (Continued)

The County has invested bond proceeds subject to rebate of arbitrage earnings in SNAP. SNAP is an open-end management investment company registered with the SEC designed to assist local governments in complying with the arbitrage rebate requirements of the Tax Reform Act of 1986. This program provides comprehensive investment management, accounting and arbitrage rebate calculation services for proceeds of general obligation, and revenue tax-exempt financing of Virginia counties, cities, and towns.

As of June 30, the County had the following deposits and investments:

	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 58,533,385	NA	90%
Money market accounts	6,390,843	AAAm	10%
Total	<u>\$ 64,924,228</u>		<u>100%</u>
Component Units			
PSA			
Demand deposits	<u>\$ 2,218,726</u>	NA	<u>100%</u>
School Board			
Demand deposits	<u>\$ 3,659,064</u>	NA	<u>100%</u>

Deposits and investments are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit – PSA</u>	<u>Component Unit – School Board</u>
Deposits and investments			
Cash and cash equivalents	\$ 58,067,992	\$ 2,149,446	\$ 3,659,064
Investments, restricted	6,390,843	-	-
Cash and cash equivalents, restricted	465,393	69,280	-
	<u>\$ 64,924,228</u>	<u>\$ 2,218,726</u>	<u>\$ 3,659,064</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 4. Deposits and Investments (Continued)

Credit Risk

The County has adopted a formal investment policy whereby the Treasurer invests its funds in accordance with Virginia law. State statute requires that obligations of the Commonwealth of Virginia and its political subdivisions have a debt rating of at least AA by Standard and Poor's (S&P) or equivalent by Moody's Investors Service (Moody's). Repurchase agreements are collateralized by Treasury or Agency obligations of which the market value is at least 102% of the purchase price of the agreement. Commercial paper must be issued by an entity incorporated in the U.S. and rated at least A-1 by S&P and P-1 by Moody's. Corporate notes and bonds have a rating of at least AA by S&P and Aa by Moody's. Money market mutual funds must trade on a constant net asset value and invest solely in securities otherwise eligible for investment under these guidelines.

Concentration of Credit Risk

Although the intent of the County is to diversify its investment portfolio to avoid incurring unreasonable risks regarding (i) security type, (ii) individual financial institution or issuing entity, and (iii) maturity, the County places no limit on the amount it may invest in any one issuer.

Interest Rate Risk

During the year, the County invested only in SNAP, which have a dollar weighted average portfolio maturity of 90 days and money market funds which are readily available.

Custodial Credit Risk

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the "counterparty" to the investment transaction. As of June 30, all of the County's investments are held in a bank's trust department in the County's name by the County's designated custodian. The County invested in SNAP during the year, but did not hold any SNAP investments at year end.

Restricted Amounts

Restricted cash and cash equivalents and restricted investments consist primarily of unused bond proceeds, balances required to be maintained as conditions of certain bond instruments, and amounts held for others. Unused bond proceeds will be used to fund construction commitments described in Note 8.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 5. Receivables

Receivables are as follows:

		Component Unit	
		Public Service Authority	
	General	Water	Wastewater
Taxes	\$ 4,329,296	\$ -	\$ -
Accounts	250,000	376,074	310,774
Gross receivables	4,579,296	376,074	310,774
Allowance for uncollectibles	(1,241,979)	(37,000)	(30,000)
Net receivables	<u>\$ 3,337,317</u>	<u>\$ 339,074</u>	<u>\$ 280,774</u>

Taxes receivable represents the current and past four years of uncollected tax levies for personal property taxes and the current and past nineteen years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is approximately 29% of the total taxes receivable and is based on historical collection rates.

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

Unavailable	\$ 1,587,270
Unearned	460,183
Total	<u>\$ 2,047,453</u>

Property Taxes

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

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30 includes amounts not yet received from the January 1 levy (due June 5), less an allowance for uncollectible amounts. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are included in the taxes receivable balance. The real estate tax rate for calendar year 2016 is \$0.89 per \$100 of assessed value.

Personal property tax assessments on tangible business property and all motor vehicles is \$2.55 per \$100 assessed value. Personal property taxes for the calendar year are due on December 5. Personal property taxes do not create a lien on property.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

	General Fund
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	187,886
	<u>\$ 567,886</u>

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board	Component Unit – Public Service Authority
<u>Commonwealth of Virginia:</u>			
Local sales tax	\$ 1,492,041	\$ -	\$ -
State sales tax	-	1,977,427	-
Categorical aid – shared expenses	484,493	-	-
Categorical aid – schools	-	267,673	-
Non-categorical aid	153,584	-	-
Excess clerk fees	11,572	-	-
Virginia public assistance funds	154,887	-	-
Comprehensive services act	254,230	-	-
Other	-	-	9,231
<u>Federal Government:</u>			
Virginia public assistance funds	264,274	-	-
Categorical aid – school grants	-	611,904	-
	<u>\$ 2,815,081</u>	<u>\$ 2,857,004</u>	<u>\$ 9,231</u>

Note 7. Interfund Balances and Transfers

Transfer In	Transfer Out	Amount
County Capital	General	\$ 3,716,044
General	County Capital	\$ 222,516

Transfers to the County Capital fund from the General fund were to support capital projects. Transfers to the General fund from the County Capital fund were to provide funding for debt service.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8. Capital Assets

Capital asset activity for the year was as follows:

Primary Government

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not depreciated:				
Land	\$ 14,237,586	\$ -	\$ -	\$ 14,237,586
Construction in progress	11,987,677	2,338,242	(11,974,478)	2,351,441
Total capital assets, not depreciated	26,225,263	2,338,242	(11,974,478)	16,589,027
Capital assets, depreciated:				
Buildings and improvements	300,814,400	12,084,459	-	312,898,859
Machinery and equipment	22,750,569	2,441,481	(783,113)	24,408,937
Total capital assets, depreciated	323,564,969	14,525,940	(783,113)	337,307,796
Less accumulated depreciation:				
Buildings and improvements	40,384,911	8,391,895	(776,148)	48,000,658
Machinery and equipment	14,533,406	1,490,267	-	16,023,673
Total accumulated depreciation	54,918,317	9,882,162	(776,148)	64,024,331
Total capital assets, depreciated, net	268,646,652	4,643,778	(6,965)	273,283,465
Capital assets, net	<u>\$294,871,915</u>	<u>\$ 6,982,020</u>	<u>\$ (11,981,443)</u>	<u>\$289,872,492</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 221,074
Judicial administration	7,725
Public safety	1,009,971
Public works	2,165,906
Health and welfare	31,111
Education	6,375,506
Parks, recreation, and cultural	56,795
Community development	14,074
	<u>\$ 9,882,162</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8. Capital Assets (Continued)

Primary Government (Continued)

The County's construction commitments as of June 30 were as follows:

Project	Spent to Date	Remaining Balance
Public Safety Building	\$ 8,432,017	\$ 256,955
Animal Care and Adoption Center	\$ 1,302,235	\$ 2,392,343

Component Unit – Public Service Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land, improvements, and rights	\$ 340,389	\$ -	\$ -	\$ 340,389
Intangible asset (Note 18)	877,000	-	-	877,000
Total capital assets, not depreciated	1,217,389	-	-	1,217,389
Capital assets, depreciated:				
Wastewater systems	17,082,461	48,250	-	17,130,711
Water systems	15,228,925	85,500	-	15,314,425
Buildings and improvements	290,114	-	-	290,114
Machinery and equipment	1,338,210	140,342	(39,209)	1,439,343
Total capital assets, depreciated	33,939,710	274,092	(39,209)	34,174,593
Less accumulated depreciation:				
Wastewater systems	9,148,291	432,271	-	9,580,562
Water systems	6,449,590	379,844	-	6,829,434
Buildings and improvements	103,616	13,419	-	117,035
Machinery and equipment	692,481	72,027	(39,209)	725,299
Less accumulated depreciation	16,393,978	897,561	(39,209)	17,252,330
Total capital assets, depreciated, net	17,545,732	(623,469)	-	16,922,263
Capital assets, net	<u>\$ 18,763,121</u>	<u>\$ (623,469)</u>	<u>\$ -</u>	<u>\$ 18,139,652</u>

Depreciation expense was charged to functions as follows:

Water	\$ 425,362
Wastewater	472,199
	<u>\$ 897,561</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 8. Capital Assets (Continued)

Component Unit – School Board

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	\$ 386,257	\$ -	\$ -	\$ 386,257
Construction in progress	-	509,923	-	509,923
Total capital assets, not depreciated	<u>386,257</u>	<u>509,923</u>	<u>-</u>	<u>896,180</u>
Capital assets, depreciated:				
Buildings and improvements	31,525,160	482,205	-	32,007,365
Machinery and equipment	<u>15,477,919</u>	<u>1,694,523</u>	<u>416,711</u>	<u>16,755,731</u>
Total capital assets, depreciated	<u>47,003,079</u>	<u>2,176,728</u>	<u>416,711</u>	<u>48,763,096</u>
Less accumulated depreciation:				
Buildings and improvements	31,446,634	90,532	-	31,537,166
Machinery and equipment	<u>10,386,344</u>	<u>1,052,555</u>	<u>416,711</u>	<u>11,022,188</u>
Total accumulated depreciation	<u>41,832,978</u>	<u>1,143,087</u>	<u>416,711</u>	<u>42,559,354</u>
Total capital assets, depreciated, net	<u>5,170,101</u>	<u>1,033,641</u>	<u>-</u>	<u>6,203,742</u>
Capital assets, net	<u><u>\$ 5,556,358</u></u>	<u><u>\$ 1,543,564</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 7,099,922</u></u>

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

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 9. Long-Term Liabilities

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

Primary Government

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Governmental Activities:					
General obligation bonds	\$ 119,476,791	\$ -	\$ 5,161,626	\$ 114,315,165	\$ 5,363,813
Lease revenue bonds	63,322,594	-	46,031,777	17,290,817	4,882,889
Literary fund loans	1,750,000	-	250,000	1,500,000	250,000
Refunding bonds	27,844,785	32,835,000	4,312,763	56,367,022	4,435,022
Landfill post-closure (Note 10)	1,044,753	-	469	1,044,284	99,842
OPEB (Note 12)	1,666,544	174,688	54,800	1,786,432	-
Compensated absences	2,900,975	2,237,777	2,115,957	3,022,795	2,115,957
Governmental activities long-term liabilities	<u>\$ 218,006,442</u>	<u>\$ 35,247,465</u>	<u>\$ 57,927,392</u>	<u>\$ 195,326,515</u>	<u>\$ 17,147,523</u>

**Component Unit –
Public Service Authority**

Revenue bonds	\$ 5,692,803	\$ -	\$ 266,231	\$ 5,426,572	\$ 272,828
Membership fee payable (Note 18)	1,256,525	-	22,392	1,234,133	22,840
OPEB (Note 12)	160,287	16,801	-	177,088	-
Compensated absences	170,351	117,760	119,246	168,865	118,206

Component Unit –
Public Service Authority
long-term liabilities

	<u>\$ 7,279,966</u>	<u>\$ 134,561</u>	<u>\$ 407,869</u>	<u>\$ 7,006,658</u>	<u>\$ 413,874</u>
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Component Unit – School Board

OPEB (Note 12)	\$ 6,979,681	\$ 630,801	\$ 687,800	\$ 6,922,682	\$ -
Compensated absences	3,696,263	2,787,048	2,685,940	3,797,371	2,685,940
Component unit – school board long-term liabilities	<u>\$ 10,675,944</u>	<u>\$ 3,417,849</u>	<u>\$ 3,373,740</u>	<u>\$ 10,720,053</u>	<u>\$ 2,685,940</u>

All Governmental Activities long-term liability requirements are paid by the General Fund.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 9. Long-Term Liabilities (Continued)

Annual debt service requirements to maturity are as follows:

Year Ended June 30	Governmental Activities							
	General Obligation Bonds		Lease Revenue Bonds		Refunding Bonds		Other Long-Term Debt	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 5,363,813	\$ 5,575,370	\$ 4,882,889	\$ 734,958	\$ 4,435,022	\$ 2,259,626	\$ 250,000	\$ 45,000
2018	5,496,936	5,428,828	4,930,952	537,098	4,346,000	2,138,130	250,000	37,500
2019	5,753,156	5,273,090	1,236,043	299,757	7,596,000	2,014,816	250,000	30,000
2020	7,157,376	5,100,365	1,288,249	247,550	6,997,000	1,728,135	250,000	22,500
2021	7,014,800	4,853,441	1,342,661	193,139	7,063,000	1,467,703	250,000	15,000
2022-2026	45,518,790	19,787,915	3,610,023	229,470	17,415,000	4,207,500	250,000	7,500
2027-2031	33,620,294	8,866,697	-	-	8,515,000	705,500	-	-
2032-2036	4,390,000	219,500	-	-	-	-	-	-
	<u>\$ 114,315,165</u>	<u>\$ 55,105,206</u>	<u>\$ 17,290,817</u>	<u>\$ 2,241,972</u>	<u>\$ 56,367,022</u>	<u>\$ 14,521,410</u>	<u>\$ 1,500,000</u>	<u>\$ 157,500</u>

Year Ended June 30	Component Unit – Public Service Authority			
	Revenue Bonds		Membership Fee Payable	
	Principal	Interest	Principal	Interest
2017	\$ 272,828	\$ 129,901	\$ 22,840	\$ 24,683
2018	279,588	123,141	23,297	24,226
2019	286,515	116,214	23,762	23,760
2020	293,614	109,115	24,238	23,285
2021	300,889	101,840	24,723	22,800
2022 – 2026	1,620,036	393,608	131,230	106,382
2027 – 2031	1,805,288	183,158	144,889	92,723
2032 – 2036	567,814	11,077	159,969	77,643
2037 – 2041	-	-	176,619	60,994
2042 – 2046	-	-	195,001	42,611
2047 – 2051	-	-	215,297	22,315
2052 – 2056	-	-	92,268	2,777
	<u>\$ 5,426,572</u>	<u>\$ 1,168,054</u>	<u>\$ 1,234,133</u>	<u>\$ 524,199</u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 9. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Public Service Authority
<u>General Obligation Bonds:</u>						
School Construction Bonds	4.6 - 5.8%	05/02/96	2017	\$ 3,870,000	\$ 195,000	\$ -
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	489,297	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	795,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	4,302,634	-
Qualified School Construction Bonds	-	11/13/09	2027	8,249,998	5,338,234	-
Qualified School Construction Bonds	-	07/08/11	2027	13,370,000	9,955,000	-
Qualified School Construction Bonds	-	12/15/11	2031	15,000,000	13,600,000	-
Virginia Public School Authority Bonds	4.0 - 5.0	12/06/11	2032	86,115,000	79,640,000	-
					<u>\$ 114,315,165</u>	<u>\$ -</u>
<u>Revenue Bonds:</u>						
Lease Revenue Bond	4.2%	01/14/04	2024	\$ 5,000,000	\$ 2,452,466	\$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	2,452,466	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	4,895,885	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	7,490,000	-
Water and Sewer Refunding Bond	2.45	03/28/13	2032	6,275,000	-	5,426,572
					<u>\$ 17,290,817</u>	<u>\$ 5,426,572</u>
<u>Refunding Bonds:</u>						
Refunding Bond	6.8%	07/01/98	2017	\$ 2,330,468	\$ 208,022	\$ -
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	5,780,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	7,825,000	-
Refunding Bond	1.6	02/26/15	2021	11,572,000	9,719,000	-
Refunding Bond	4.7	02/03/16	2029	32,835,000	32,835,000	-
					<u>\$ 56,367,022</u>	<u>\$ -</u>
<u>Other Long-Term Debt:</u>						
State Literary Fund Loan	3.0%	01/20/01	2021	\$ 5,000,000	\$ 1,500,000	\$ -

Current year refunding

On February 3, 2016, the County issued \$32,835,000 in 2016 refunding bonds. Proceeds of the bonds, with an average interest rate of 4.729%, were used to advance refund the Series 2008 lease revenue bonds maturing February 1, 2019 through February 1, 2029 with an average interest rate of 4.93%. The net proceeds of \$39,294,242 (including an issuance premium of \$6,459,242 and net of \$379,054 in issuance costs) and an additional \$5,538,341 in County funds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust to provide for all future debt services on the refunded portion of the Series 2008 bonds. As a result, that portion of the 2008 series bonds is considered defeased, and the County has removed the liability from its accounts. The outstanding principal of the defeased bonds was \$41,195,000.

The County completed the refunding to reduce its total debt service payments over the next 13 years by \$12,368,177 and to obtain economic gain (difference between the present values of the old and new debt service payments) of \$10,782,629. The economic gain, net of the \$5,538,341 provided by the County, is \$5,249,615.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Landfill Post-Closure Care

The County maintains the Thompson and Mid County Landfills, which were closed in 1993 and 1997, respectively. State and federal laws and regulations required the County to perform certain maintenance and monitoring functions at the site for ten years after closure. Certain contaminants and a high concentration of gas were detected at the landfills in prior years; therefore, the Department of Environmental Quality required an additional ten-year monitoring period. During 2013, the monitoring period was extended for another ten years. The \$1,044,284 reported post-closure care liability represents what it would cost to perform all post-closure care in 2016. Actual costs may change due to inflation, deflation, changes in technology, or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

Note 11. Defined Benefit Pension Plans

Primary Government – County

Plan Description

All full-time, salaried permanent employees of the County, (the “Political Subdivision”) are automatically covered by VRS Retirement Plan upon employment. This plan 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. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan is as follows:

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.

- **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. The Hybrid Retirement Plan’s effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% 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.
- **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.
- **Vesting** – Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit** – The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation** – A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – 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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age** – Age 65 or age 60 for hazardous duty employees.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Earliest Unreduced Retirement Eligibility** – Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **Earliest Reduced Retirement Eligibility** – Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
- **Disability Coverage** for members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

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.

- **Hybrid Opt-In Election** – Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions** – Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service** – Same as Plan 1.
- **Vesting** – Same as Plan 1.

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Calculating the Benefit** – See definition under Plan 1.
- **Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier** – Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age** – Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility** – Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility** – Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.

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. 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. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Non-Eligible Members** – Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees and 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.
- **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.
- **Creditable Service** –
 - **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service and is generally subject to the same terms as in Plans 1 and 2.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting** –
 - **Defined Benefit Component:** 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.
 - **Defined Contributions Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Calculating the Benefit –**
 - **Defined Benefit Component:** See definition under Plan 1.
 - **Defined Contribution Component:** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
 - **Defined Benefit Component:** Same as Plan 2, however, not applicable for hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
 - **Defined Benefit Component:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
- **Earliest Reduced Retirement Eligibility –**
 - **Defined Benefit Component:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
 - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
 - **Defined Benefit Component:** Same as Plan 2.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Disability Coverage** – Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>256</u>
Inactive members:	
Vested inactive members	76
Non-vested inactive members	72
Inactive members active elsewhere in VRS	<u>185</u>
Total inactive members	333
Active members	<u>372</u>
Total covered employees	<u><u>961</u></u>

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 5.00% 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.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Contributions (Continued)

The political subdivision's contractually required contribution rate for the year ended June 30, 2016 was 13.11% 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 political subdivision were \$2,170,821 and \$2,204,416 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions

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

Inflation	2.50%
General Employees - Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees - Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

Mortality rates: General employees - 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Actuarial Assumptions (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:

General Employees - Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

Public Safety Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; adjustment to rates of service retirement for females (Non 10 Largest); decrease in rates of male disability (Largest 10, only); decrease in male and female rates of disability (Non 10 Largest) increase in rates of withdrawal, and reduce rates of salary increase by 0.25% per year.

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:

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Long-Term Expected Rate of Return (Continued)

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

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 Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 73,357,266	\$ 61,208,057	\$ 12,149,209
Changes for the year:			
Service cost	2,006,997	-	2,006,997
Interest	5,128,696	-	5,128,696
Differences between expected and actual experience	(396,946)	-	(396,946)
Contributions – employer	-	2,144,093	(2,144,093)
Contributions – employee	-	895,724	(895,724)
Net investment income	-	2,875,274	(2,875,274)
Benefit payments, including refunds of employee contributions	(3,284,476)	(3,284,476)	-
Administrative expenses	-	(38,984)	38,984
Other changes	-	(792)	792
Net changes	3,454,271	2,590,839	863,432
Balances at June 30, 2015	\$ 76,811,537	\$ 63,798,896	\$ 13,012,641

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

The following presents the net pension liability of the political subdivision using the discount rate of 7.00%, as well as what the political subdivision's 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	\$ 23,447,627	\$ 13,012,641	\$ 4,388,169

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Primary Government – County (Continued)

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$1,118,894. At June 30, 2016, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 278,399
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,650,384
Employer contributions subsequent to the measurement date	<u>2,170,821</u>	<u>-</u>
Total	<u><u>\$ 2,170,821</u></u>	<u><u>\$ 1,928,783</u></u>

The \$2,170,821 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2017	\$ (758,475)
2018	(758,475)
2019	(704,126)
2020	292,293
Thereafter	-

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority

Plan Description

All full-time, salaried permanent employees of the Montgomery County Public Service Authority, (the “Component Unit”) are automatically covered by VRS Retirement Plan upon employment. This plan 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.

Plan participants are covered under three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. The plan provisions and features of the plans, as well as all actuarial assumptions, are substantially the recap as those described for the County.

Contributions

The component unit’s contractually required contribution rate for the year ended June 30, 2016 was 13.11% 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 were \$107,060 and \$106,505 for the years ended June 30, 2016 and June 30, 2015, respectively.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 3,722,975	\$ 3,106,194	\$ 616,781
Changes for the year:			
Service cost	58,495	-	58,495
Interest	149,478	-	149,478
Differences between expected and actual experience	(11,569)	-	(11,569)
Contributions – employer	-	62,491	(62,491)
Contributions – employee	-	26,106	(26,106)
Net investment income	-	83,801	(83,801)
Benefit payments, including refunds of employee contributions	(95,028)	(95,028)	-
Administrative expenses	-	(1,136)	1,136
Other changes	-	166	(166)
Net changes	101,376	76,400	24,976
Balances at June 30, 2015	\$ 3,824,351	\$ 3,182,594	\$ 641,757

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

The following presents the net pension liability of the component unit using the discount rate of 7.00%, as well as what the component unit's 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Component Unit's net pension liability	\$ 1,156,389	\$ 641,757	\$ 216,416

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$55,182. At June 30, 2016, the component unit 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	\$ -	\$ 13,730
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	81,394
Employer contributions subsequent to the measurement date	<u>107,060</u>	<u>-</u>
Total	<u>\$ 107,060</u>	<u>\$ 95,124</u>

The \$107,060 reported as deferred outflows of resources related to pensions resulting from the Component Unit's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>
2017	\$ (37,407)
2018	(37,407)
2019	(34,726)
2020	14,416
Thereafter	-

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

School Nonprofessionals

Plan Description

All full-time, salaried permanent non-professional employees (non-teachers) of the Montgomery County Public Schools, (the “School division”) are automatically covered by VRS Retirement Plan upon employment. This plan 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. Plan participants are covered under three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. The plan provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described for the County.

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>146</u>
Inactive members:	
Vested inactive members	17
Non-vested inactive members	74
Inactive members active elsewhere in VRS	<u>40</u>
Total inactive members	131
Active members	<u>173</u>
Total covered employees	<u><u>450</u></u>

Contributions

The school division’s contractually required contribution rate for the year ended June 30, 2016 was 8.70% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

Contributions to the pension plan from the school division were \$501,494 and \$451,982 for the years ended June 30, 2016 and June 30, 2015, respectively.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

School Nonprofessionals (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2014	\$ 22,250,087	\$ 18,664,856	\$ 3,585,231
Changes for the year:			
Service cost	552,067	-	552,067
Interest	1,510,044	-	1,510,044
Differences between expected and actual experience	297,904	-	297,904
Contributions – employer	-	477,385	(477,385)
Contributions – employee	-	326,053	(326,053)
Net investment income	-	840,218	(840,218)
Benefit payments, including refunds of employee contributions	(1,356,068)	(1,356,068)	-
Administrative expenses	-	(11,870)	11,870
Other changes	-	(176)	176
Net changes	1,003,947	275,542	728,405
Balances at June 30, 2015	\$ 23,254,034	\$ 18,940,398	\$ 4,313,636

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

The following presents the net pension liability of the school division using the discount rate of 7.00%, as well as what 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's net pension liability	\$ 7,316,494	\$ 4,313,636	\$ 1,812,367

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

School Nonprofessionals (Continued)

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

For the year ended June 30, 2016, the school division recognized pension expense of \$356,294. At June 30, 2016, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 205,387	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	503,341
Employer contributions subsequent to the measurement date	<u>501,494</u>	<u>-</u>
Total	<u><u>\$ 706,881</u></u>	<u><u>\$ 503,341</u></u>

The \$501,494 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
<u>2017</u>	<u>\$ (105,034)</u>
2018	(105,034)
2019	(177,196)
2020	89,310
Thereafter	-

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Teacher Cost Sharing Plan

General Information about the Teacher Cost Sharing Plan

Plan Description

All full-time, salaried permanent (professional) employees of Virginia school divisions, including Montgomery County Public Schools, (the "School Division"), are automatically covered by the VRS Teacher Retirement Plan upon employment. This plan is a multiple employer cost-sharing plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia.

Prior to the adoption of GASB Statement No. 68 in fiscal year 2015, Virginia local school divisions were required to disclose information about their contributions to the teacher cost-sharing plan, but not report a proportionate share of the plan's net pension liability. Upon adoption of the new pension standards in 2015, the School Division now reports its proportionate share of the plan's net pension liability as well as certain other deferred inflows and/or outflows as disclosed below.

Plan participants are covered under three different benefit structures – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described for the County.

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 provided to school divisions 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 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that 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 amount of this transfer for the School Division, included in operating grants and contributions in the Statement of Activities, was \$1,198,000. The actuarial rate for the Teacher Retirement Plan was 18.20%, however, it was reduced to 17.64% as a result of the transfer.

The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee 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 division were \$6,646,724 and \$6,452,705 for the years ended June 30, 2016 and June 30, 2015, respectively.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2016, the school division reported a liability of \$78,178,000 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 0.62113% as compared to .62710% at June 30, 2014.

For the year ended June 30, 2016, the school division recognized pension expense of \$5,916,000. 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	\$ -	\$ 1,077,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	4,787,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,254,000	677,000
Employer contributions subsequent to the measurement date	<u>6,646,724</u>	<u>-</u>
Total	<u><u>\$ 7,900,724</u></u>	<u><u>\$ 6,541,000</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Defined Benefit Pension Plan (Continued)

Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

The \$6,646,724 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2017	\$ (1,929,000)
2018	(1,929,000)
2019	(1,929,000)
2020	686,000
2021	(186,000)
Thereafter	-

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 of the school division 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:

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	<u>\$ 114,405,000</u>	<u>\$ 78,178,000</u>	<u>\$ 48,354,000</u>

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 MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 12. Other Postemployment Benefits

The County and School Board provide postemployment medical and dental benefits to its retirees and their eligible dependents who elect to stay in the plans. At retirement, retirees may stay in one of three health plans with an additional choice of staying in one of two dental plans and can continue coverage under all the benefits until age 65 or becoming eligible for Medicare, whichever comes first, under a single-employer plan. The retiree pays the premium for these benefits. The County or the School Board may change, add, or delete benefits (including contributions required of retired employees) as deemed appropriate.

Plan Description and Benefits Provided

Participants are eligible for the plan at age 50 if they have completed ten years of service, or at age 55 if they have completed five years of service. Retiring employees must have been permanent active employees and have coverage in effect when they retire.

Membership

At July 1, 2015, the number of County participants was 374, consisting of 365 active and 9 inactive. The number of School participants was 1,125, consisting of 1,049 active and 76 inactive participants.

Funding Policy

The County and School Board currently fund postemployment health care benefits on a pay-as-you-go basis. Neither the County nor the School Board intend to establish a trust to pre-fund this liability.

Annual Other Postemployment Benefit Cost and Net OPEB Obligation

The components of the County's annual OPEB cost (expense) for the fiscal year ended June 30, 2016 of \$174,688 are described below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$54,800 for retirees, resulted in a net OPEB obligation of \$1,786,432 for the year ended June 30, 2016.

	Governmental Activities
Annual required contribution	\$ 177,982
Interest on net OPEB obligation	58,329
Adjustment to annual required contribution	(61,623)
Annual OPEB cost	174,688
Less contributions made	(54,800)
Increase in net OPEB obligation	119,888
Net OPEB obligation – beginning of year	1,666,544
Net OPEB obligation – end of year	<u><u>\$ 1,786,432</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 12. Other Postemployment Benefits (Continued)

Annual Other Postemployment Benefit Cost and Net OPEB Obligation (Continued)

The components of the PSA's annual OPEB cost (expense) for the fiscal year ended June 30, 2016 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$0 for retirees, resulted in a net OPEB obligation of \$177,088 for the current year.

Annual required contribution	\$ 17,118
Interest on net OPEB obligation	5,610
Adjustment to annual required contribution	<u>(5,927)</u>
Annual OPEB cost	16,801
Less contributions made	<u>-</u>
Increase in net OPEB obligation	16,801
Net OPEB obligation-beginning of year	<u>160,287</u>
Net OPEB obligation-end of year	<u><u>\$ 177,088</u></u>

The components of the School's annual OPEB cost (expense) for the fiscal year ended June 30, 2016 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$687,800 for retirees, resulted in a net OPEB obligation of \$6,922,682 for the current year.

Annual required contribution	\$ 644,600
Interest on net OPEB obligation	244,289
Adjustment to annual required contribution	<u>(258,088)</u>
Annual OPEB cost	630,801
Less contributions made	<u>(687,800)</u>
Increase in net OPEB obligation	(56,999)
Net OPEB obligation-beginning of year	<u>6,979,681</u>
Net OPEB obligation-end of year	<u><u>\$ 6,922,682</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 12. Other Postemployment Benefits (Continued)

Annual Other Postemployment Benefit Cost and Net OPEB Obligation (Continued)

The County's and School's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for last three years are as follows.

Fiscal Year Ended		Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
County:					
June 30, 2016	\$	174,688	31.37%	\$	1,786,432
June 30, 2015		191,693	44.50		1,666,544
June 30, 2014		183,884	37.80		1,560,151
PSA:					
June 30, 2016	\$	16,801	0.00%	\$	177,287
June 30, 2015		17,538	0.00		160,286
June 30, 2014		16,109	0.00		142,749
School Board:					
June 30, 2016	\$	630,801	109.04%	\$	6,922,682
June 30, 2015		751,992	60.24		6,979,681
June 30, 2014		725,488	58.48		6,680,689

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 12. Other Postemployment Benefits (Continued)

Funded Status and Funding Progress (Continued)

Required Supplementary Information Schedule of Funding Progress – Other Postemployment Benefits						
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
County and PSA:						
July 1, 2015	\$ -	\$ 1,979,000	\$ 1,979,000	0%	\$ 17,097,500	11.57%
July 1, 2013	-	1,827,400	1,827,400	0	16,305,000	11.21
July 1, 2011	-	4,106,276	4,106,276	0	16,246,735	25.27
School Board:						
July 1, 2015	\$ -	\$ 7,344,300	\$ 7,344,300	0%	\$ 47,691,900	15.40%
July 1, 2013	-	7,291,300	7,291,300	0	48,868,300	14.92
July 1, 2011	-	14,645,338	14,645,338	0	46,019,363	31.82

Actuarial Methods and Assumptions

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

In the July 1, 2015 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 3.5% discount rate and an initial annual healthcare cost trend of 5.1% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.4%. The unfunded accrued liability is being amortized over 30 years using an open amortization period.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 13. Risk Management

General Liability Insurance

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

Health Insurance

The County and School Board have a professionally administered self-insurance program that provides health coverage for employees on a cost-reimbursement basis. Retired employees and dependents of employees of the County and School Board are also covered by the program, provided they pay the entire premium. Under the program, the County and School Board are obligated for claims payments. A stop loss insurance contract executed with Blue Cross and Blue Shield covers claims in excess of \$200,000 per covered individual. During the current fiscal year, total claims expense of \$2,760,775 and \$11,570,078 for the County and School Board, respectively, which did not exceed the stop loss provisions, was incurred. This represents claims processed and an estimate, based on plan experience prior and subsequent to year end, for claims incurred but not reported (IBNR) as of June 30. The estimated liability, including reported and IBNR claims, was \$363,272 and \$2,273,049 for the County and School Board, respectively, at year end. This liability is included in accounts payable and accrued expenses. Changes in the reported liability are as follows:

County

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2016	\$ 543,796	\$ 2,760,775	\$ 2,941,299	\$ 363,272
June 30, 2015	263,464	3,452,212	3,171,880	543,796
June 30, 2014	-	2,229,218	1,965,754	263,464

School Board

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2016	\$ 969,000	\$ 11,570,078	\$10,266,029	\$ 2,273,049
June 30, 2015	-	7,147,188	6,178,188	969,000

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 14. Commitments and Contingencies

Litigation

Various claims are pending against the County. In the opinion of management, after consulting with legal counsel, the potential loss on all claims will not materially affect the County's financial position.

Special Purpose Grants

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

Incentives

The County is liable for up to \$500,000 for return of certain Governor's Opportunity Funds made available as an incentive to a local business that entered bankruptcy before meeting the requirements of the incentive. Management estimates the liability will not exceed \$380,000, and has recorded a liability in that amount.

The EDA enters into performance agreement incentives with various companies. At year end, incentives not yet earned by recipient companies were \$2,243,633.

Note 15. Transactions with Component Units

Economic Development Authority

Advances to Component Unit:

Non-interest bearing advances to the EDA for the purchase of capital items are to be repaid from the sales of land and other revenues of the EDA. There is no deed of trust held by the County for the properties. Therefore, there is opportunity for these properties to be encumbered with additional financing upon approval of the County on a project-by-project basis.

Advances consist of the following:

Construction of the Falling Branch Corporate Park	\$ 3,525,943
Improvements to the Elliston Lafayette Industrial Park	1,093
Repayment of debt	<u>2,099,073</u>
	<u><u>\$ 5,626,109</u></u>

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 15. Transactions with Component Units (Continued)

Note receivable from Component Unit:

On June 17, 1997, the EDA signed an interest-free promissory note with the County in the amount of \$1,274,620. The EDA agreed to remit to the County all funds received pursuant to property sales or payments received on property leases from the Falling Branch Industrial Park, less reasonable costs in repayment of the note upon demand by the County. The balance due at June 30 was \$516,627.

Other:

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

Note 16. Net Position/Fund Balance

Deficit Unrestricted Net Position:

At June 30, the Component Unit – Economic Development Authority and School Board had deficits in unrestricted net position of \$2,762,312 and \$87,390,744, respectively. The School Board deficit results primarily from the net pension liability. These deficits are anticipated to be recovered through future revenues, as well as possible transfers and contributions from the General Fund.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 16. Net Position/Fund Balance (Continued)

Fund Balance:

Fund balance is classified as nonspendable, restricted, committed, assigned, and/or unassigned based primarily on the extent to which the County is bound to observe constraints imposed upon the use of the resources in the governmental funds. The constraints placed on fund balance for the governmental funds are presented below:

	General Fund	Capital Fund
Fund Balances:		
Nonspendable:		
Long-term advances and notes receivable	\$ 6,392,736	\$ -
Restricted:		
General government administration	-	10,649
Judicial administration	171,620	-
Public safety	362,557	3,009,572
Health and welfare	871,418	-
Debt service reserves	-	3,370,622
Committed:		
General government administration – future projects	150,944	2,947,979
Judicial administration	2,214	-
Public safety	23,072	-
Public works	144,041	49,044
Health and welfare	23,035	-
Education – future projects to be determined	2,133,141	10,465,022
Parks, recreation, and culture	123,449	72,235
Community development	397,241	18,675
Assigned:		
General government administration	2,649,845	-
Judicial administration	56,466	-
Public safety	4,257,661	-
Public works	189,560	-
Health and welfare	168,679	-
Education	2,735,423	-
Parks, recreation, and culture	226,876	-
Community development	401,710	-
Unassigned:	21,458,825	-
Total fund balance	<u>\$ 42,940,513</u>	<u>\$ 19,943,798</u>

Note 17. Concentrations

Two Public Service Authority customers provide approximately eight and nine percent, respectively, of the Authority's operating revenue.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 18. Service Contracts

The Public Service Authority maintains contracts for water purchase and sewer treatment services with the following organizations:

New River Valley Regional Water Authority
Blacksburg VPI Sanitation Authority
Pepper's Ferry Regional Wastewater Treatment Authority

During June 2013, Montgomery County joined the New River Valley Regional Water Authority (NRVRWA). While Montgomery County is the legal member of the NRVRWA, all costs associated with the membership will be paid with revenues of the Authority. The Authority must pay a \$1,300,000 membership fee over forty years (Note 9). As part of the water agreement, and in exchange for the rights to acquire water from the NRVRWA, the Authority transferred a section of pipe with an estimated value of \$877,000 to the Water Authority (Note 8). This exchange created an intangible asset of equal value with an indefinite useful life that will be evaluated annually for impairment. The transfer of the pipe occurred in 2014.

During 2014, in accordance with joining the NRVRWA, the Authority agreed to pay for a transitional meter setting with an estimated cost of \$120,000; however, this had not occurred at year end. The Authority will also be responsible for capital upgrades with an estimated cost of \$4,221,000 beginning as early as 2017 and spanning over the next twenty years.

Note 19. New Accounting Standards

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 19. New Accounting Standards (Continued)

GASB Statement No. 77, *Tax Abatement Disclosures*, requires governments to disclose information about the nature and magnitude of tax abatements granted to a specific taxpayer, typically for the purpose of economic development. This does not cover programs that reduce the tax liabilities of broad classes of taxpayers, such as senior citizens or veterans, and which are not the product of individual agreements with each taxpayer. The Statement does not consider issues related to recognition. This Statement will be effective for the year ending June 30, 2017.

GASB 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. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* 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. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* clarifies 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. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. This Statement will be effective for the year ending June 30, 2017.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 19. New Accounting Standards (Continued)

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses 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. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

Note 20. Subsequent Events

Economic Development Authority

On November 15, 2016, the Authority added a second amendment to the original lease with TORC Robotics, Inc. dated April 29, 2014. The Authority will invest up to \$200,000 to up-fit approximately 3,000 square feet of currently leased warehouse space to office space and will increase the monthly base rent from \$18,216 to \$24, 664. This also extends the lease term from 60 months to 84 months.

Public Service Authority

In August 2016, the Authority issued an official Notice to Proceed for the Walnut Creek Sanitary Sewer pump Station Replacement Project. The final completion date is tentatively February 11, 2017. The total bid is \$214,954.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 20. Subsequent Events (Continued)

County

In November, 2016, the County issued 15 year Virginia Public School Authority special obligation school refunding bonds totaling \$64,605,000. Principal is payable annually beginning February 1, 2017. Interest is payable semi-annually beginning February 1, 2017, and on each February 1 and August 1 thereafter until the final maturity date of February 1, 2032. Interest rates range from 2 percent to 5 percent. The proceeds were used to refund a portion of the 2011 Virginia Public School Authority bonds which were primarily used for construction of the new Blacksburg High School, new Auburn High School, and renovation of the Auburn Middle School.

In August, 2016, the County purchased approximately 45 acres of land in the Riner area of the County for a contract price of \$360,000. The land will be the site of a new Riner Fire Station and recreational area.

In October, 2016, the County sold approximately 14 acres of the former Blacksburg Middle School property located in downtown Blacksburg to a developer for \$1,750,000.

REQUIRED SUPPLEMENTARY INFORMATION

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS -
PRIMARY GOVERNMENT
June 30, 2016

	Plan Year	
	2016	2015
Total Pension Liability		
Service cost	\$ 2,065,492	\$ 1,987,518
Interest on total pension liability	5,278,174	5,014,694
Difference between expected and actual experience	(408,515)	-
Benefit payments, including refunds of employee contributions	(3,355,504)	(3,120,914)
Net change in total pension liability	3,579,647	3,881,298
Total pension liability - beginning	77,080,241	73,198,943
Total pension liability - ending	80,659,888	77,080,241
Plan Fiduciary Net Position		
Contributions - employer	2,206,584	1,777,329
Contributions - employee	921,830	894,800
Net investment income	2,959,075	8,832,131
Benefit payments, including refunds of employee contributions	(3,355,504)	(3,120,914)
Administrative expenses	(40,120)	(47,509)
Other	(626)	465
Net change in plan fiduciary net position	2,691,239	8,336,302
Plan fiduciary net position - beginning	64,314,251	55,977,949
Plan fiduciary net position - ending	67,005,490	64,314,251
Net pension liability - ending	\$ 13,654,398	\$ 12,765,990
Plan fiduciary net position as a percentage of total pension liability	83%	83%
Covered employee payroll	\$ 16,814,775	\$ 16,910,837
Net pension liability as a percentage of covered employee payroll	81%	75%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Public Service Authority is a cost sharing entity, therefore it is included in the primary government information above.

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHOOLS - NONPROFESSIONAL EMPLOYEES
June 30, 2016

	Plan Year	
	2016	2015
Total Pension Liability		
Service cost	\$ 552,067	\$ 525,743
Interest on total pension liability	1,510,044	1,455,818
Difference between expected and actual experience	297,904	-
Benefit payments, including refunds of employee contributions	(1,356,068)	(1,057,738)
Net change in total pension liability	1,003,947	923,823
Total pension liability - beginning	22,250,087	21,326,264
Total pension liability - ending	23,254,034	22,250,087
Plan Fiduciary Net Position		
Contributions - employer	477,385	469,880
Contributions - employee	326,053	268,846
Net investment income	840,218	2,572,433
Benefit payments, including refunds of employee contributions	(1,356,068)	(1,057,738)
Administrative expenses	(11,870)	(13,997)
Other	(176)	136
Net change in plan fiduciary net position	275,542	2,239,560
Plan fiduciary net position - beginning	18,664,856	16,425,296
Plan fiduciary net position - ending	18,940,398	18,664,856
Net pension liability - ending	\$ 4,313,636	\$ 3,585,231
Plan fiduciary net position as a percentage of total pension liability	81%	84%
Covered employee payroll	\$ 5,195,195	\$ 5,113,521
Net pension liability as a percentage of covered employee payroll	83%	70%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.

This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2016

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2016	\$ 2,277,881	\$ 2,277,881	\$ -	\$ 17,375,145	13.11%
2015	2,204,416	2,204,416	-	16,814,775	13.11%
Schools - Nonprofessional Employees					
2016	\$ 501,494	\$ 501,494	\$ -	\$ 5,764,299	8.70%
2015	451,982	451,982	-	5,195,195	8.70%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

The Public Service Authority is a cost sharing entity, therefore it is included in the primary gpverm,emt omfpr,atopm above.

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
 VRS TEACHER RETIREMENT PLAN
 June 30, 2016

Plan Year	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2015	0.6211%	\$ 78,178,000	\$ 44,501,414	175.68%	70.68%
2014	0.6271%	\$ 75,783,000	\$ 43,163,352	175.57%	70.88%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, data prior to 2015 is not available. Additional years will be included as they become available.

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
June 30, 2016

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2016	\$ 6,646,724	\$ 6,646,724	\$ -	\$ 45,839,476	14.50%
2015	6,452,705	6,452,705	-	44,501,414	14.50%

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, data prior to 2015 is not available. Additional years will be included as they become available.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2016

Note 1. Changes of Benefit Terms

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

Note 2. 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

Teacher cost-sharing pool

- 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

OTHER SUPPLEMENTARY INFORMATION

**DISCRETELY PRESENTED
COMPONENT UNIT – PUBLIC SERVICE AUTHORITY**

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY
June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 2,030,284	\$ 119,162	\$ 2,149,446
Accounts receivables, net	339,074	280,774	619,848
Due from Other Governmental Units	9,231	-	9,231
Due from County	7,179	6,903	14,082
Inventories	6,863	342	7,205
Total current assets	<u>2,392,631</u>	<u>407,181</u>	<u>2,799,812</u>
Noncurrent assets:			
Cash and cash equivalents, restricted	40,840	28,440	69,280
Capital assets:			
Non-depreciable	1,199,389	18,000	1,217,389
Depreciable, net	<u>9,064,045</u>	<u>7,858,218</u>	<u>16,922,263</u>
Total noncurrent assets	<u>10,304,274</u>	<u>7,904,658</u>	<u>18,208,932</u>
Total assets	<u>12,696,905</u>	<u>8,311,839</u>	<u>21,008,744</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	<u>56,947</u>	<u>50,113</u>	<u>107,060</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	148,247	79,146	227,393
Accrued payroll and related liabilities	24,826	19,833	44,659
Accrued interest payable	3,392	2,171	5,563
Due to County	5,379	-	5,379
Current portion of noncurrent liabilities	<u>241,280</u>	<u>149,754</u>	<u>391,034</u>
Total current liabilities	<u>423,124</u>	<u>250,904</u>	<u>674,028</u>
Noncurrent liabilities:			
Customer deposits	341,360	300,397	641,757
Net pension liability	40,840	28,440	69,280
Due in more than one year	<u>3,268,122</u>	<u>2,113,369</u>	<u>5,381,491</u>
Total noncurrent liabilities	<u>3,650,322</u>	<u>2,442,206</u>	<u>6,092,528</u>
Total liabilities	<u>4,073,446</u>	<u>2,693,110</u>	<u>6,766,556</u>
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual investment earnings on pension plan investments	43,295	38,099	81,394
Net difference between expected and actual experience on pension plan investments	<u>7,303</u>	<u>6,427</u>	<u>13,730</u>
	<u>50,598</u>	<u>44,526</u>	<u>95,124</u>
NET POSITION			
Net investments in capital assets	6,954,652	5,758,428	12,713,080
Unrestricted	<u>1,675,156</u>	<u>(134,112)</u>	<u>1,541,044</u>
Total net position	<u>\$ 8,629,808</u>	<u>\$ 5,624,316</u>	<u>14,254,124</u>
Reconciliation with business-type activities in the statement of net position (Exhibit 1)			
Long-term membership fee payable to other New River Valley Regional Water Authority legally due from the County but financed by enterprise fund revenues			<u>(1,234,133)</u>
Net position of business-type activities			<u>\$ 13,019,991</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY

For the Year Ended June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING REVENUES			
Charges for services	\$ 1,667,524	\$ 1,435,055	\$ 3,102,579
Penalties and reconnection charges	43,394	19,817	63,211
Fees	258,082	126,719	384,801
Miscellaneous	70,123	4,866	74,989
Total operating revenues	<u>2,039,123</u>	<u>1,586,457</u>	<u>3,625,580</u>
OPERATING EXPENSES			
Salaries and wages	467,414	408,048	875,462
Employee benefits	186,146	150,061	336,207
Utilities and telephone	34,162	83,368	117,530
Water and wastewater services	595,924	555,553	1,151,477
Operating supplies, fees, permits	31,473	51,308	82,781
Professional services	197,686	28,938	226,624
Repairs and maintenance	109,272	112,850	222,122
Insurance	21,063	16,562	37,625
Vehicle supplies and miscellaneous	29,506	16,111	45,617
Bad debts	7,000	5,000	12,000
Office supplies and miscellaneous	31,495	4,473	35,968
Membership fees	47,522	-	47,522
Depreciation	425,362	472,199	897,561
Total operating expenses	<u>2,184,025</u>	<u>1,904,471</u>	<u>4,088,496</u>
Operating loss	<u>(144,902)</u>	<u>(318,014)</u>	<u>(462,916)</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	11,269	-	11,269
Gain on sale of assets	8,742	-	8,742
Facility fees	35,795	21,750	57,545
Interest expense	(83,063)	(53,164)	(136,227)
Total nonoperating revenues	<u>(27,257)</u>	<u>(31,414)</u>	<u>(58,671)</u>
Income before contributions	<u>(172,159)</u>	<u>(349,428)</u>	<u>(521,587)</u>
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	<u>85,500</u>	<u>48,250</u>	<u>133,750</u>
Change in net position	<u>(86,659)</u>	<u>(301,178)</u>	<u>(387,837)</u>
Total net position – beginning, as restated	<u>8,716,468</u>	<u>5,925,493</u>	<u>14,641,961</u>
Total net position – ending	<u>\$ 8,629,809</u>	<u>\$ 5,624,315</u>	<u>\$ 14,254,124</u>
Reconciliation with business-type activities in the statement of activities:			
Change in net position			\$ (387,837)
Principal repayment of initial membership fee to other government legally due from County but ultimately financed by enterprise funds revenues.			<u>22,392</u>
Change in net position of business-type activities			<u>\$ (365,445)</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY
For the Year Ended June 30, 2016

	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
OPERATING ACTIVITIES			
Receipts from customers	\$ 2,025,354	\$ 1,552,200	\$ 3,577,554
Payments to suppliers	(1,003,512)	(863,950)	(1,867,462)
Payments to employees	(665,149)	(601,536)	(1,266,685)
Payments to County for financial services	(67,243)	-	(67,243)
Net cash provided by operating activities	<u>289,450</u>	<u>86,714</u>	<u>376,164</u>
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(40,996)	(99,346)	(140,342)
Facility fee payments from customers	35,795	21,750	57,545
Proceeds from the sale of capital assets	8,742	-	8,742
Principal payments on long-term debt	(162,331)	(103,900)	(266,231)
Interest payments on debt	(83,229)	(53,269)	(136,498)
Net cash used in capital and related financing activities	<u>(242,019)</u>	<u>(234,765)</u>	<u>(476,784)</u>
INVESTING ACTIVITIES			
Interest received	11,269	-	11,269
Net increase (decrease) in cash and cash equivalents	58,700	(148,051)	(89,351)
CASH AND CASH EQUIVALENTS			
Beginning at July 1	2,012,424	295,653	2,308,077
Ending at June 30	<u>\$ 2,071,124</u>	<u>\$ 147,602</u>	<u>\$ 2,218,726</u>
RECONCILIATION TO EXHIBIT 1			
Cash and cash equivalents	\$ 2,030,284	\$ 119,162	\$ 2,149,446
Cash and cash equivalents, restricted	40,840	28,440	69,280
	<u>\$ 2,071,124</u>	<u>\$ 147,602</u>	<u>\$ 2,218,726</u>
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	\$ (144,902)	\$ (318,014)	\$ (462,916)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	425,362	472,199	897,561
Pension expense net of employer contributions	(27,490)	(43,556)	(71,046)
(Increase) decrease in:			
Accounts receivable	227	(30,637)	(30,410)
Due from other governmental units	(9,231)	-	(9,231)
Due from County	1,154	376	1,530
Inventory	17,098	(190)	16,908
(Decrease) increase in:			
Accounts payable	9,518	5,027	14,545
Due to/from other funds	(422)	-	(422)
Accrued payroll and related liabilities	7,314	(8,085)	(771)
Other postemployment benefits	8,587	8,214	16,801
Customer deposits	2,235	1,380	3,615
Net cash provided by operating activities	<u>\$ 289,450</u>	<u>\$ 86,714</u>	<u>\$ 376,164</u>
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions from developers	<u>\$ 85,500</u>	<u>\$ 48,250</u>	<u>\$ 133,750</u>

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DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

Special Revenue Funds – Special revenue funds are used to account for specific revenues that are legally restricted to expenditures for particular purposes. The component unit – School Board has the following special revenue funds.

School Operating Fund – This fund accounts for the operations of the elementary, middle, and high schools.

School Cafeteria Fund – This fund accounts for the operations of the centralized cafeterias.

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2016

	School Operating	School Cafeteria	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,848,125	\$ 810,939	\$ 3,659,064
Due from primary government	7,916,405	-	7,916,405
Due from other governmental units	2,857,004	-	2,857,004
Inventories	-	152,849	152,849
Total assets	<u>\$ 13,621,534</u>	<u>\$ 963,788</u>	<u>\$ 14,585,322</u>
LIABILITIES			
Liabilities			
Accounts payable and accrued expenses	\$ 1,990,511	\$ -	\$ 1,990,511
Accrued payroll and related liabilities	8,690,298	196,105	8,886,403
Compensated absences	92,601	-	92,601
Unearned revenues	-	70,785	70,785
Total liabilities	<u>10,773,410</u>	<u>266,890</u>	<u>11,040,300</u>
FUND BALANCES			
Nonspendable	-	152,849	152,849
Committed	1,411,045	-	1,411,045
Assigned	-	544,049	544,049
Unassigned	1,437,079	-	1,437,079
Total fund balances	<u>2,848,124</u>	<u>696,898</u>	<u>3,545,022</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 13,621,534</u>	<u>\$ 963,788</u>	<u>\$ 14,585,322</u>
Adjustments for the Statement of Net Position (Exhibit 1)			
Total fund balances			\$ 3,545,022
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			7,099,922
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			620,058
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.			
Deferred outflows of resources for 2015 employer contributions			7,148,218
Deferred outflows of resources for changes in proportion - teacher cost sharing plan			577,000
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments			(5,290,341)
Deferred inflows of resources for the net difference between expected and actual experience			(871,613)
Net pension liability			(82,491,636)
Long-term liabilities, including compensated absences and other postemployment benefits, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			<u>(10,627,452)</u>
Net position of governmental activities			<u>\$ (80,290,822)</u>

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
For the Year Ended June 30, 2016

	School Operating	School Cafeteria	Total Governmental Funds
REVENUES			
Revenue from use of money and property	\$ 63,237	\$ 3,756	\$ 66,993
Charges for services	42,765	1,779,674	1,822,439
Recovered costs	1,002,885	-	1,002,885
Intergovernmental	101,199,646	1,897,522	103,097,168
Total revenues	<u>102,308,533</u>	<u>3,680,952</u>	<u>105,989,485</u>
EXPENDITURES			
Instruction	76,478,668	-	76,478,668
Administration, attendance, and health	4,119,643	-	4,119,643
Pupil transportation	5,084,912	-	5,084,912
Operations and maintenance	15,629,270	-	15,629,270
Non-instructional	308,663	-	308,663
School nutrition	-	4,119,258	4,119,258
Total expenditures	<u>101,621,156</u>	<u>4,119,258</u>	<u>105,740,414</u>
Deficiency of revenues over expenditures	<u>687,377</u>	<u>(438,306)</u>	<u>249,071</u>
Net change in fund balances	687,377	(438,306)	249,071
FUND BALANCE AT JULY 1	<u>2,160,747</u>	<u>1,135,204</u>	<u>3,295,951</u>
FUND BALANCE AT JUNE 30	<u><u>\$ 2,848,124</u></u>	<u><u>\$ 696,898</u></u>	<u><u>\$ 3,545,022</u></u>

Reconciliation to the Statement of Activities (Exhibit 2)

Net change in fund balances – total governmental funds \$ 249,071

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. That is the amount by which capital outlay (\$2,686,651) exceeded depreciation (\$1,143,087). 1,543,564

Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.

Employer pension contributions 7,148,218
Pension expense (4,821,867)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This amount represents the net change in these revenues. (85,491)

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. (110,735)

Change in net position of governmental activities \$ 3,922,760

COUNTY OF MONTGOMERY, VIRGINIA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – CASH BASIS
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
For the Year Ended June 30, 2016**

	School Operating				School Cafeteria			
	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 use of money and property	\$ 50,000	\$ 50,000	\$ 63,237	\$ 13,237	\$ -	\$ -	\$ 3,756	\$ 3,756
Charges for services	17,000	17,000	42,765	25,765	2,608,863	2,608,863	1,757,042	(851,821)
Recovered costs	844,553	910,623	1,002,885	92,262	-	-	-	-
Intergovernmental	99,594,202	103,281,592	100,440,543	(2,841,049)	1,678,004	1,678,004	1,897,522	219,518
Total revenues	100,505,755	104,259,215	101,549,430	(2,709,785)	4,286,867	4,286,867	3,658,320	(628,547)
EXPENDITURES								
Instruction	77,117,819	78,095,214	76,347,165	1,748,049	-	-	-	-
Administration, attendance, and health	4,039,620	4,166,267	4,094,277	71,990	-	-	-	-
Pupil transportation	5,059,590	5,485,951	5,060,165	425,786	-	-	-	-
Operations and maintenance	13,977,949	16,201,006	15,051,783	1,149,223	-	-	-	-
Non-instructional	310,777	310,777	308,663	2,114	-	-	-	-
School nutrition	-	-	-	-	4,286,867	4,286,867	4,144,693	142,174
Total expenditures	100,505,755	104,259,215	100,862,053	3,397,162	4,286,867	4,286,867	4,144,693	142,174
Excess of revenues over expenditures	\$ -	\$ -	\$ 687,377	\$ 687,377	\$ -	\$ -	\$ (486,373)	\$ (486,373)

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SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

SCHEDULE 1

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Payments to Subrecipients</u>	<u>Federal Expenditures</u>	<u>Department Totals</u>
<u>Department of Agriculture:</u>				
<u>Pass-through Payments:</u>				
<u>Department of Social Services:</u>				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	\$ -	\$ 550,499	
<u>Department of Agriculture and Consumer Services</u>				
Child Nutrition Cluster - National School Lunch Program	10.555	-	280,805	
<u>Department of Education:</u>				
Child Nutrition Cluster - School Breakfast Program	10.553	-	447,620	
Child Nutrition Cluster - National School Lunch Program	10.555	-	1,396,550	
Schools and Roads - Grants to States	10.665	-	25,567	
Total Department of Agriculture				<u>2,701,041</u>
<u>Department Of Homeland Security:</u>				
<u>Pass-through Payments:</u>				
<u>Department of Emergency Management:</u>				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	105,347	
Total Department of Homeland Security				<u>105,347</u>
<u>Department Of Justice:</u>				
<u>Pass-through Payments:</u>				
<u>Bureau of Justice Assistance:</u>				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	1,791	
<u>Department of Criminal Justice Services:</u>				
Crime Victim Assistance	16.575	-	120,623	
Total Department of Justice				<u>122,414</u>
<u>Department of Transportation:</u>				
<u>Pass-through Payments:</u>				
Safe Routes to Schools	20.205	-	112,257	
<u>Virginia Department of Transportation:</u>				
Highway Planning and Construction	20.205	3,968	3,968	
<u>Department of Motor Vehicles:</u>				
State and Community Highway Safety	20.600	-	31,866	
Total Department of Transportation				<u>148,091</u>
<u>Department of Education:</u>				
<u>Pass-through Payments:</u>				
<u>Department of Education:</u>				
Title I: State Agency Program for Neglected and Delinquent Children	84.013	-	26,742	
Career and Technical Education - Basic Grants to States	84.048	-	108,163	
Advanced Placement Program	84.330	-	2,173	
English Language Acquisition Grants	84.365	-	71,329	
Improving Teacher Quality State Grants	84.367	-	370,425	
Title I, Part A Cluster				
Title I: Grants to Local Educational Agencies	84.010	-	1,849,163	
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	-	2,048,338	
Special Education - Preschool Grants	84.173	-	47,762	
Total Department of Education				<u>4,524,095</u>
(Continued)				

SCHEDULE 1

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Payments to Subrecipients</u>	<u>Federal Expenditures</u>	<u>Department Totals</u>
<u>Department of Housing and Community Development</u>				
<u>Direct Payments:</u>				
Community Development Block Grants	14.218	\$ -	\$ 30,000	
Total Department of Housing and Community Development				<u>30,000</u>
<u>Department of Health and Human Services:</u>				
<u>Direct Payments:</u>				
Medical Assistance Program	93.778	-	281,573	
<u>Pass-through Payments:</u>				
<u>Department of Aging:</u>				
Support Services - Title III, Part B- Grants for Supportive Services Senior Centers	93.044	-	52,685	
<u>Department of Education:</u>				
Substance Abuse and Mental Health Services- Projects of Regional and National Significance	93.243	-	214,411	
<u>Department of Social Services:</u>				
Promoting Safe and Stable Families	93.556	-	22,017	
Temporary Assistance to Needy Families	93.558	-	501,158	
Refugee and Entrant Assistance	93.566	-	1,009	
Low-Income Home Energy Assistance	93.568	-	57,693	
Chafee Education and Training Vouchers Program	93.599	-	248	
Child Welfare Services - State Grants	93.645	-	2,925	
Foster Care - Title IV-E	93.658	-	315,000	
Adoption Assistance	93.659	-	417,708	
Social Service Block Grant	93.667	-	377,416	
Chafee Foster Care Independence Program	93.674	-	5,144	
Children's Health Insurance Program	93.767	-	21,462	
Medical Assistance Program	93.778	-	676,867	
<u>CCDF Cluster</u>				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	-	81,490	
Total Department of Health and Human Services				<u>3,028,806</u>
Total Expenditures of Federal Awards				<u>\$ 10,659,794</u>

Note 1. Basis of Accounting
This schedule was prepared on the budgetary (cash) basis.

Note 2. Nonmonetary Assistance
Nonmonetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities or food stamps disbursed. At June 30, 2016, the School Board had food commodities totaling \$78,505 in inventory.

Note 3: Subgrantee
The federal expenditures for the Highway Planning and Construction program include a grant to the Town of Christiansburg, Virginia, totaling \$3,968.

Note 4: De Minimis Indirect Cost Rate
The entity did not elect to use the 10% de minimis indirect cost rate.

STATISTICAL SECTION

This part of the County of Montgomery's Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the County's overall financial health.

<u>Contents</u>	<u>Table</u>
Financial Trends These tables contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.	1-4
Revenue Capacity These tables contain information to help the reader assess the factors affecting the County's ability to generate its property and sales taxes.	5-8
Debt Capacity These tables present information to help the reader assess the affordability of the County's current levels of outstanding debt and the County's ability to issue additional debt in the future.	9-10
Demographic and Economic Information These tables offer demographic and economic indicators to help the reader understand the environment within which the County's financial activities take place and to help make comparisons over time and with other governments.	11-13
Operating Information These schedules contain information about the County's operations and resources to help the reader understand how the County's financial information relates to the services it provides and the activities it performs.	14-15

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The County implemented GASB Statement 34 in 2003; schedules presenting government-wide information include information beginning in that year.

TABLE 1

County of Montgomery, Virginia
Net Position by Component
Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Governmental activities										
Net investments in capital assets	\$ 106,790,331	\$ 99,224,847	\$ 94,390,089	\$ 83,053,651	\$ 71,071,547	\$ 55,233,037	\$ 47,134,545	\$ 36,330,270	\$ 28,639,210	\$ 22,500,252
Restricted	3,370,622	9,057,768	9,207,023	9,741,835	9,734,620	11,146,947	11,146,947	11,262,042	5,112,996	4,969,141
Unrestricted	21,079,416	8,962,437	16,446,049	19,018,360	19,612,113	24,369,885	22,316,253	25,596,419	31,173,341	28,620,972
Total governmental activities net position	<u>\$ 131,240,369</u>	<u>\$ 117,245,052</u>	<u>\$ 120,043,161</u>	<u>\$ 111,813,846</u>	<u>\$ 100,418,280</u>	<u>\$ 90,749,869</u>	<u>\$ 80,597,745</u>	<u>\$ 73,188,731</u>	<u>\$ 64,925,547</u>	<u>\$ 56,090,365</u>

TABLE 2

County of Montgomery, Virginia
Change in Net Position by Component
Last Ten Fiscal Years
 (accrual basis of accounting)

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Expenses										
Governmental activities										
General government	\$ 6,628,073	\$ 7,355,412	\$ 7,803,244	\$ 6,839,318	\$ 6,825,896	\$ 7,725,594	\$ 9,074,011	\$ 7,381,364	\$ 7,066,410	\$ 6,557,984
Judicial administration	3,085,442	2,972,436	3,271,384	3,243,491	2,207,787	2,784,098	3,077,193	2,658,492	2,438,896	2,249,997
Public safety	16,501,276	16,075,298	15,847,489	14,993,461	15,097,206	13,329,812	13,830,467	11,957,163	11,202,874	9,626,003
Public works	6,588,634	6,183,132	5,334,776	5,514,675	4,674,525	5,114,845	5,349,346	5,153,812	4,567,363	4,526,234
Parks, recreation, and cultural	2,923,681	3,004,779	3,319,267	2,899,220	2,940,666	2,872,328	2,881,815	3,022,711	2,779,839	2,838,989
Health and welfare	7,450,377	7,260,389	7,256,247	7,590,977	8,991,736	9,590,573	9,956,048	10,490,545	9,808,845	9,068,033
Community development	2,147,334	2,029,561	1,634,581	1,431,050	1,796,052	1,670,510	1,734,477	1,264,454	1,259,379	1,483,596
Education	50,296,987	47,892,943	46,084,985	43,474,161	40,874,425	41,033,802	34,797,557	38,634,043	35,899,972	30,503,869
Interest on long-term debt	9,487,012	10,224,163	10,747,055	10,947,731	9,450,462	7,303,475	7,501,270	7,389,389	4,696,145	4,960,510
Total governmental activities	<u>\$ 105,108,816</u>	<u>\$ 102,998,113</u>	<u>\$ 101,299,028</u>	<u>\$ 96,934,084</u>	<u>\$ 92,858,755</u>	<u>\$ 91,425,037</u>	<u>\$ 88,202,184</u>	<u>\$ 87,951,973</u>	<u>\$ 79,719,723</u>	<u>\$ 71,815,215</u>
Program Revenues										
Governmental activities										
Charges for services										
Public Safety	\$ 831,545	\$ 554,537	\$ 821,283	\$ 954,882	\$ 805,119	\$ 723,997	\$ 827,458	\$ 917,866	\$ 978,375	\$ 616,714
Public Works	534,602	365,211	128,492	157,054	172,662	305,159	296,302	123,341	105,007	125,741
Other Activities	2,458,491	2,346,584	1,653,852	1,726,342	1,882,013	1,875,981	1,899,073	1,565,954	1,757,781	1,306,659
Operating grants and contributions	13,291,638	13,163,435	13,207,893	12,155,610	13,159,616	13,263,890	15,556,440	15,084,570	15,402,999	14,486,609
Capital grants and contributions	-	-	-	-	-	-	-	-	-	24,121
Total governmental activities program revenues	<u>\$ 17,116,276</u>	<u>\$ 16,429,767</u>	<u>\$ 15,811,520</u>	<u>\$ 14,993,888</u>	<u>\$ 16,019,410</u>	<u>\$ 16,169,027</u>	<u>\$ 18,579,273</u>	<u>\$ 17,691,731</u>	<u>\$ 18,244,162</u>	<u>\$ 16,559,844</u>
Net (expense) revenue										
Governmental activities	<u>\$ (87,992,540)</u>	<u>\$ (86,568,346)</u>	<u>\$ (85,487,508)</u>	<u>\$ (81,940,196)</u>	<u>\$ (76,839,345)</u>	<u>\$ (75,256,010)</u>	<u>\$ (69,622,911)</u>	<u>\$ (70,260,242)</u>	<u>\$ (61,475,561)</u>	<u>\$ (55,255,371)</u>
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes	\$ 83,468,082	\$ 80,635,361	\$ 78,850,329	\$ 75,751,806	\$ 69,685,628	\$ 63,793,078	\$ 60,083,722	\$ 59,872,099	\$ 54,666,779	\$ 48,402,715
Sales taxes	8,904,969	8,579,451	7,965,976	7,982,843	7,742,363	7,218,180	6,889,322	7,086,741	7,382,254	7,183,512
Other taxes	1,922,210	1,719,851	1,720,268	1,767,152	1,554,693	1,509,326	1,529,808	1,526,049	1,938,646	1,869,826
Utility taxes	1,790,892	1,824,174	1,825,809	1,847,570	1,807,321	1,877,600	1,856,684	1,877,884	1,786,988	1,685,416
Intergovernmental revenue not restricted	5,266,575	5,300,522	5,097,685	5,317,374	5,119,304	5,010,686	5,117,860	5,181,174	5,216,412	5,405,234
Investment earnings	635,129	408,393	630,330	669,017	598,447	749,264	1,554,529	2,733,779	2,047,264	2,974,039
Transfers	-	-	-	-	-	5,250,000	-	(114,000)	-	(93,413)
Total governmental activities	<u>\$ 101,987,857</u>	<u>\$ 98,467,752</u>	<u>\$ 96,090,397</u>	<u>\$ 93,335,762</u>	<u>\$ 86,507,756</u>	<u>\$ 85,408,134</u>	<u>\$ 77,031,925</u>	<u>\$ 78,163,726</u>	<u>\$ 73,038,343</u>	<u>\$ 67,427,329</u>
Changes in Net Position										
Governmental activities	<u>\$ 13,995,317</u>	<u>\$ 11,899,406</u>	<u>\$ 10,602,889</u>	<u>\$ 11,395,566</u>	<u>\$ 9,668,411</u>	<u>\$ 10,152,124</u>	<u>\$ 7,409,014</u>	<u>\$ 7,903,484</u>	<u>\$ 11,562,782</u>	<u>\$ 12,171,958</u>

TABLE 3

County of Montgomery, Virginia
Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

Pre-GASB 54 Implementation

	2010	2009	2008	2007
General Fund				
Reserved	\$ 8,653,644	\$ 8,002,362	\$ 7,486,334	\$ 7,931,552
Unreserved	26,258,463	24,304,985	25,040,302	21,298,326
Total general fund	<u>\$ 34,912,107</u>	<u>\$ 32,307,347</u>	<u>\$ 32,526,636</u>	<u>\$ 29,229,878</u>

All Other Governmental Funds

Reserved	\$ 30,943,646	\$ 16,964,867	\$ 4,191,510	\$ 1,435,016	
Unreserved, reported in:					
Special revenue funds	-	-	-	-	
Capital projects funds	44,433,277	77,979,506	19,820,195	26,313,865	
Debt service funds	-	-	-	-	
Total all other Governmental Funds	<u>\$ 75,376,923</u>	<u>\$ 94,944,373</u>	<u>\$ 24,011,705</u>	<u>\$ 27,748,881</u>	

Post-GASB 54 Implementation

	2016	2015	2014	2013	2012	2011
General Fund						
Nonspendable	\$ 6,392,736	\$ 6,392,736	\$ 6,142,736	\$ 6,142,736	\$ 6,142,736	\$ 6,390,102
Restricted	1,405,595	633,493	246,442	198,007	218,640	163,400
Committed	2,997,137	2,629,271	1,104,829	811,116	1,231,209	1,637,026
Assigned	10,686,220	8,006,468	6,658,479	4,983,773	2,623,848	2,153,987
Unassigned	21,458,825	21,285,382	22,579,254	31,558,055	29,937,993	23,049,803
Total general fund	<u>\$ 42,940,513</u>	<u>\$ 38,947,350</u>	<u>\$ 36,731,740</u>	<u>\$ 43,693,687</u>	<u>\$ 40,154,426</u>	<u>\$ 33,394,318</u>

All other Governmental Funds

Nonspendable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted	6,390,843	15,413,668	37,782,191	60,069,709	134,256,303	62,573,977
Committed	13,552,955	10,724,002	-	-	-	-
Assigned	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-
Total all other Governmental Funds	<u>\$ 19,943,798</u>	<u>\$ 26,137,670</u>	<u>\$ 37,782,191</u>	<u>\$ 60,069,709</u>	<u>\$ 134,256,303</u>	<u>\$ 62,573,977</u>

TABLE 4

County of Montgomery, Virginia
Changes in Fund Balances - Governmental Funds
Last Ten Fiscal Years
(modified accrual basis of accounting)

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Revenues										
Taxes	\$ 96,405,280	\$ 92,947,129	\$ 90,126,172	\$ 87,359,604	\$ 80,674,800	\$ 73,694,467	\$ 70,761,455	\$ 69,492,208	\$ 65,511,183	\$ 59,334,527
Permits, privilege fees, and licenses	608,481	803,833	736,908	784,979	772,968	666,849	768,341	678,798	729,667	527,087
Fines and forfeitures	59,412	122,265	129,993	134,154	130,919	116,968	109,471	86,587	95,562	120,036
Revenue from use of money and property	642,093	1,403,653	847,556	672,961	598,447	749,264	1,554,529	2,733,781	2,047,264	3,006,656
Charges for services	533,870	491,921	632,447	678,997	698,281	733,701	767,029	770,575	862,222	863,610
Other	2,622,875	1,236,464	1,104,276	1,255,148	1,293,861	1,393,796	1,377,993	1,642,545	2,205,909	1,638,273
Intergovernmental	18,558,211	18,463,956	18,305,578	17,472,984	18,278,921	18,274,576	20,674,300	19,694,399	19,567,213	18,816,073
Total revenues	119,430,222	115,469,221	111,882,930	108,358,827	102,448,197	95,629,621	96,013,118	95,098,893	91,019,020	84,306,262
Expenditures										
General government	7,258,386	8,143,965	8,360,028	6,646,567	6,696,527	7,659,535	7,699,271	7,252,162	7,015,626	6,191,149
Judicial administration	3,173,484	3,307,130	3,263,725	3,216,924	2,183,562	2,760,189	3,035,865	2,660,668	2,438,012	2,248,802
Public safety	16,261,029	15,518,087	15,791,071	14,235,137	14,258,983	12,729,447	13,445,144	11,813,809	10,535,822	9,584,764
Public works	4,528,292	4,364,754	4,097,717	3,699,143	3,718,932	4,286,792	3,961,336	4,142,728	3,701,378	3,807,202
Parks, recreation, and cultural	2,989,271	3,042,563	3,318,180	2,868,281	2,926,645	2,807,902	2,821,921	3,163,574	2,764,351	2,802,108
Health and welfare	7,627,835	7,456,915	7,224,463	7,597,546	8,921,480	9,609,463	9,938,623	10,459,213	9,792,247	9,063,818
Education	43,841,697	42,766,205	41,136,639	40,082,257	37,540,554	37,065,839	32,813,321	36,822,962	34,291,547	28,899,311
Community development	2,131,661	1,919,458	1,626,977	1,393,140	1,564,984	1,365,242	1,436,161	1,268,374	1,255,640	1,509,152
Capital projects	4,159,785	13,956,949	31,864,447	74,446,535	40,969,360	30,369,502	27,406,729	9,393,891	9,038,054	2,535,393
Debt service										
Principal	14,561,166	13,980,224	13,495,643	12,944,479	11,386,500	11,218,254	9,993,084	8,205,430	5,951,191	6,058,445
Interest and other costs	9,940,225	10,551,067	10,953,505	11,876,151	7,214,788	7,878,024	7,902,498	6,864,369	4,675,570	4,935,156
Total expenditures	116,472,831	125,007,317	141,132,395	179,006,160	137,382,315	127,750,189	120,453,953	102,047,180	91,459,438	77,635,300
Excess of revenues over (under) expenditures	2,957,391	(9,538,096)	(29,249,465)	(70,647,333)	(34,934,118)	(32,120,568)	(24,440,835)	(6,948,287)	(440,418)	6,670,962
Other Financing Sources (Uses)										
Proceeds from borrowing	32,835,000	11,572,000	-	-	101,115,000	26,075,000	21,598,145	77,000,000	-	-
Bond premium	6,459,242	-	-	-	12,261,552	181,804	-	775,666	-	-
Premium on called bonds	-	-	-	-	-	(1,026,966)	-	-	-	-
Payments to bond escrow agents	(44,452,342)	(11,462,815)	-	-	-	(12,680,005)	(14,120,000)	-	-	-
Contributions from component unit	-	-	-	-	-	5,250,000	-	-	-	-
Transfers in	3,938,560	3,579,323	9,677,754	1,877,120	2,812,359	5,091,622	4,109,521	5,522,084	4,460,375	3,390,967
Transfers out	(3,938,560)	(3,579,323)	(9,677,754)	(1,877,120)	(2,812,359)	(5,091,622)	(4,109,521)	(5,636,084)	(4,460,375)	(3,484,380)
Total other financing sources (uses)	(5,158,100)	109,185	-	-	113,376,552	17,799,833	7,478,145	77,661,666	-	(93,413)
Net change in fund balances	\$ (2,200,709)	\$ (9,428,911)	\$ (29,249,465)	\$ (70,647,333)	\$ 78,442,434	\$ (14,320,735)	\$ (16,962,690)	\$ 70,713,379	\$ (440,418)	\$ 6,577,549
Debt service as a percentage of noncapital expenditures	21.82%	22.09%	22.38%	23.80%	19.11%	19.47%	19.02%	16.44%	12.95%	14.64%

TABLE 5

County of Montgomery, Virginia
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year	Real Estate	Personal Property and Mobile Homes	Machinery and Tools	Merchant's Capital	Public Service	Total Assessed Value	Total Direct Tax Rate *
2016	\$ 7,677,904,800	\$ 664,821,240	\$ 129,605,659	\$ 41,233,623	\$ 251,993,438	\$ 8,765,558,760	\$ 8.31
2015	\$ 7,541,394,700	\$ 664,804,040	\$ 129,605,659	\$ 41,233,623	\$ 273,923,820	\$ 8,650,961,842	\$ 8.31
2014	\$ 7,297,499,100	\$ 648,612,838	\$ 128,710,287	\$ 40,709,267	\$ 252,755,710	\$ 8,368,287,202	\$ 8.31
2013	\$ 7,236,381,500	\$ 615,927,418	\$ 122,801,871	\$ 36,729,664	\$ 217,589,620	\$ 8,229,430,073	\$ 8.31
2012	\$ 7,187,287,200	\$ 597,697,604	\$ 121,643,809	\$ 31,231,378	\$ 229,863,391	\$ 8,167,723,382	\$ 8.19
2011	\$ 7,159,568,600	\$ 564,429,352	\$ 113,349,970	\$ 30,263,200	\$ 207,151,562	\$ 8,074,762,684	\$ 8.07
2010	\$ 6,932,701,500	\$ 555,498,413	\$ 114,428,458	\$ 29,055,945	\$ 196,055,790	\$ 7,827,740,106	\$ 8.06
2009	\$ 6,835,051,400	\$ 502,394,734	\$ 115,931,340	\$ 33,633,822	\$ 193,786,466	\$ 7,680,797,762	\$ 8.03
2008	\$ 6,669,686,500	\$ 529,368,631	\$ 118,621,114	\$ 32,342,481	\$ 181,116,686	\$ 7,531,135,412	\$ 8.03
2007	\$ 6,493,543,300	\$ 495,833,387	\$ 124,587,600	\$ 31,606,662	\$ 181,050,272	\$ 7,326,621,221	\$ 7.95

Notes: Property is assessed at full market value. Properties are reassessed once every four years.

* Per \$100 of assessed value.

TABLE 6

COUNTY OF MONTGOMERY, VIRGINIA
Property Tax Rates
Last Ten Calendar Years

Calendar Year	County of Montgomery Real Estate	Town of Christiansburg Real Estate	Town of Blacksburg Real Estate	Total Rate for Christiansburg Residents	Total Rate for Blacksburg Residents
2016	0.8900	0.1600	0.2500	1.0500	1.1400
2015	0.8900	0.1600	0.2500	1.0500	1.1400
2014	0.8900	0.1300	0.2200	1.0200	1.1100
2013	0.8900	0.1300	0.2200	1.0200	1.1100
2012	0.8700	0.1126	0.2200	0.9826	1.0900
2011	0.7500	0.1126	0.2200	0.8626	0.9700
2010	0.7400	0.1126	0.2200	0.8526	0.9600
2009	0.7100	0.1126	0.2200	0.8226	0.9300
2008	0.7100	0.1126	0.2200	0.8226	0.9300
2007	0.6300	0.1126	0.2200	0.7426	0.8500

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Merchants Capital	Total Direct Rate
2016	0.89	2.55	1.82	3.05	8.31
2015	0.89	2.55	1.82	3.05	8.31
2014	0.89	2.55	1.82	3.05	8.31
2013	0.89	2.55	1.82	3.05	8.31
2012	0.87	2.45	1.82	3.05	8.19
2011	0.75	2.45	1.82	3.05	8.07
2010	0.74	2.45	1.82	3.05	8.06
2009	0.71	2.45	1.82	3.05	8.03
2008	0.71	2.45	1.82	3.05	8.03
2007	0.63	2.45	1.82	3.05	7.95

Rate are per \$100 of assessed value.

TABLE 7

**County of Montgomery, Virginia
Principal Property Tax Payers
Current Year and Nine Years Ago**

Taxpayer	Fiscal Year 2016			Fiscal Year 2007		
	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Jeannie Stosser	\$ 156,930,600	1	1.91%	84,765,300	1	0.86%
Foxridge	125,872,600	2	1.53%	61,604,900	2	0.91%
Appalachian Power	107,343,800	3	1.30%	50,955,461	4	0.00%
Roger Woody	77,314,200	4	0.94%	50,504,700	-	0.00%
MCS Virginia Tech LLC	76,000,000	5	0.92%	-	6	0.35%
Shelor Properties	69,857,700	6	0.85%	43,603,500	7	0.56%
PR Financing (NRV Mall)	58,400,000	7	0.71%	-	-	0.00%
Maple Ridge	48,308,900	8	0.59%	29,607,400	8	0.53%
Norfolk and Western	47,781,800	9	0.58%	21,990,598	9	0.00%
Village at Bburg LLC	47,000,000	10	0.57%	29,811,000	-	0.00%
Verizon	28,147,400	-	0.34%	38,592,444	3	0.00%
Christiansburg Marketplace	12,667,200	-	0.15%	19,465,200	5	0.68%
Crown American Financing	-	-	0.00%	44,394,900	10	0.30%
	<u>\$ 855,624,200</u>		<u>10.40%</u>	<u>\$ 475,295,403</u>		<u>4.19%</u>

Source: Assessor's Office

TABLE 8

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy *
2016	\$ 86,189,045	\$ 84,989,258	98.61%	\$ -	\$ 84,989,258	98.61%
2015	84,688,412	82,375,988	97.27%	1,428,764	83,804,752	98.96%
2014	82,261,271	80,650,339	98.04%	1,713,422	82,363,761	100.12%
2013	79,883,115	78,623,115	98.42%	1,995,546	80,618,661	100.92%
2012	73,613,538	72,812,497	98.91%	1,703,019	74,515,516	101.23%
2011	70,260,817	66,804,327	95.08%	1,698,841	68,503,168	97.50%
2010	67,027,509	63,697,514	95.03%	1,059,623	64,757,137	96.61%
2009	65,440,819	62,288,701	95.18%	1,327,642	63,616,343	97.21%
2008	63,108,366	58,295,872	92.37%	2,755,551	61,051,423	96.74%
2007	56,102,315	52,198,510	93.04%	1,049,486	53,247,996	94.91%

Note:

* For years over 100% more collected than levied due to subsequent adjustments to the tax owed.

TABLE 9

County of Montgomery, Virginia
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Fiscal Year	General Bonded Debt				Other Governmental Activities Debt		
	General Obligation Bonds	Total General Bonded Debt	Percentage of Actual Value of Taxable Property	Per Capita	Lease Revenue Bonds	Literary Fund Loans	Refunding Bonds
2016	\$ 114,315,165	\$ 114,315,165	1.30%	\$ 1,170.63	\$ 17,290,817	\$ 1,500,000	\$ 56,367,022
2015	119,476,791	119,476,791	1.38%	1,226.60	63,322,594	1,750,000	27,844,785
2014	124,192,120	124,192,120	1.48%	1,290.88	68,115,127	2,000,000	31,915,147
2013	138,871,145	138,871,145	1.69%	1,452.23	72,865,208	2,250,000	36,020,898
2012	143,366,076	143,366,076	1.76%	1,509.18	77,574,559	2,500,000	40,010,777
2011	35,242,208	35,242,208	0.44%	373.36	82,244,830	2,750,000	43,925,477
2010	22,894,924	22,894,924	0.29%	250.51	102,077,604	3,004,140	32,780,645
2009	16,440,972	16,440,972	0.21%	181.63	122,659,398	3,258,140	20,711,889
2008	18,247,238	18,247,238	0.24%	205.41	51,296,675	3,512,140	21,219,776
2007	20,055,209	20,055,209	0.27%	226.73	54,675,833	3,766,140	21,729,839

Fiscal Year	Total Primary Government	Percentage of Personal Income	Per Capita
2016	\$ 189,473,004	5.22%	\$ 1,940
2015	212,394,170	6.01%	2,181
2014	226,222,394	7.77%	2,351
2013	250,007,251	9.18%	2,614
2012	263,451,412	9.96%	2,773
2011	164,162,515	6.57%	1,739
2010	160,757,313	6.51%	1,759
2009	163,070,399	7.56%	1,802
2008	94,275,829	4.44%	1,061
2007	100,227,021	5.11%	1,133

Notes: Details regarding the County's outstanding debt can be found in the Notes to Financial Statements.

TABLE 10

**County of Montgomery, Virginia
Pledged Revenue Coverage
Last Ten Fiscal Years**

Fiscal Year	Gross Revenue		Less: Operating Expenses		Net Available Revenue	Debt Service		Coverage
						Principal	Interest	
2016	\$	3,836,886	\$	4,224,723	(387,837)	\$ 266,231	\$ 136,497	(0.96)
2015		3,997,594		4,069,130	(71,536)	259,795	142,935	(0.18)
2014		3,527,623		4,042,123	(514,500)	253,513	149,215	(1.28)
2013		4,792,122		3,936,446	855,676	344,383	221,253	1.51
2012		4,074,962		3,828,255	246,707	215,442	252,764	0.53
2011		3,857,490		2,685,634	1,171,856	204,973	258,159	2.53
2010		3,402,690		2,895,875	506,815	194,334	264,346	1.10
2009		3,387,714		2,985,765	401,949	154,003	277,225	0.93
2008		3,090,332		2,610,357	479,975	155,567	273,069	1.12
2007		2,941,527		2,612,350	329,177	129,223	285,304	0.79

Beginning in fiscal year 2016, the Montgomery County Public Service Authority was disclosed as a discretely presented component unit instead of a blended component unit.

Notes: Details regarding the County's outstanding debt can be found in the Notes to Financial Statements.

TABLE 11

**County of Montgomery, Virginia
Demographic Statistics
Last Ten Fiscal Years**

Fiscal Year Ended	Population	Total Personal Income	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2016	97,653	\$ 3,626,967,000	\$ 37,141	9,488	4.30%
2015	97,405	3,534,206,000	36,284	9,427	5.50%
2014	96,207	2,909,743,645	30,245	9,484	5.50%
2013	95,626	2,723,370,463	28,479	9,474	6.50%
2012	94,996	2,645,068,624	27,844	9,406	6.40%
2011	94,392	2,499,233,000	26,477	9,345	7.40%
2010	91,394	2,470,786,962	27,034	9,494	7.00%
2009	90,517	2,157,925,280	23,840	9,518	5.83%
2008	88,834	2,122,928,000	23,898	9,562	3.60%
2007	88,454	2,090,787,198	23,637	9,506	2.80%

Note: Population, school enrollment, and unemployment figures are based on fiscal years ending June 30. Per Capita Income is as of December 31.

Source: Population, personal income, and unemployment - Economic Development Department
Public school enrollment - School Board Administration

TABLE 12

**County of Montgomery, Virginia
Principal Employers
Current Year and Nine Years Ago**

Employer	Fiscal Year 2016		Fiscal Year 2007	
	Number of Employees	Rank	Number of Employees	Rank
Virginia Polytechnic Institute and State University	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	3
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	2
Carilion New River Valley Medical Center	500 to 999	4	500 to 999	7
Moog Inc	500 to 999	5	500 to 999	6
Dish Network	500 to 999	6	-	
BAE Systems	500 to 999	7	-	
HCA Virginia Health System	500 to 999	8	-	
New River Valley Community Services	500 to 999	9	-	
Federal Mogul Corp	500 to 999	10	-	
Alliant TechSystems	-	-	1,000 to 4,999	4
Echostar	-	-	500 to 999	5
Rowe Furniture Manufacturing	-	-	500 to 999	8
Columbia Montgomery Regional Hospital	-	-	500 to 999	9
Hubble Lighting, Inc.	-	-	1 to 499	10

TABLE 13

County of Montgomery, Virginia
Full-Time Equivalent County Government Employees by Function/Program
Last Ten Fiscal Years

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General government										
County Administration	13.50	13.50	14.50	13.50	13.50	13.50	13.50	13.50	13.50	14.00
Information management services	9.50	9.50	9.50	9.50	9.50	8.50	9.50	10.50	8.50	8.50
Finance	9.50	9.50	9.50	7.50	8.50	8.50	8.50	8.50	8.50	8.50
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Commissioner of Revenue	13.00	13.00	13.00	13.00	14.00	14.00	19.00	19.00	19.00	18.00
Treasurer	12.00	12.00	12.00	12.00	12.00	12.00	17.00	17.00	17.00	17.00
Other	7.50	7.50	7.50	7.00	6.50	6.50	7.50	7.50	7.50	7.00
Public Safety										
Sheriff	130.50	130.50	130.50	130.50	130.50	121.50	124.50	135.50	129.00	126.00
Animal control	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.20
Inspections	5.00	5.00	4.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00
Judicial	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	22.00	18.00
Refuse collection	14.60	14.60	16.40	17.00	19.40	22.40	23.00	23.00	24.20	24.20
Other public works										
Engineering	1.00	1.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Building and grounds	7.00	7.00	7.00	6.00	6.00	8.00	9.00	9.00	9.00	9.00
Housekeeping	10.00	10.00	10.00	10.00	9.00	8.00	9.00	9.00	9.00	9.00
Other	5.00	5.00	5.00	6.00	3.00	3.00	3.00	4.00	4.00	4.00
Parks, recreation, and cultural	9.00	8.00	8.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Library	19.75	20.00	20.00	20.50	20.50	20.50	23.88	23.88	24.38	24.13
Water/Sewer	18.00	19.00	17.00	19.00	19.00	18.00	18.00	19.00	19.00	19.00
Health and welfare	67.50	67.50	67.50	68.50	68.50	69.50	70.50	74.50	72.00	72.00
Community development	9.00	9.00	9.00	9.00	10.00	10.00	11.00	11.00	11.00	11.00
Total	390.60	390.85	391.65	391.25	393.15	387.15	410.13	427.88	417.58	409.53

Source: County Approved Budget

TABLE 14

**County of Montgomery, Virginia
Operating Indicators by Function/Program
Last Ten Fiscal Years**

Function/Program	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
General Government										
Fleet vehicles	247	245	277	251	238	239	233	220	217	224
Judicial Administration										
Sheriff										
Inmates Housed	31,113	32,823	32,819	45,505	42,511	41,691	40,716	68,835	77,416	63,619
Inmate Transports	2,833	3,258	4,075	4,017	3,318	3,317	2,857	3,160	3,064	3,511
Courts Worked	818	818	894	939	927	934	983	983	1,012	912
Public safety										
Sheriff										
Physical arrests	1,055	934	1,253	1,460	1,608	1,995	2,141	1,868	3,739	3,767
Traffic violations	3,643	4,475	1,899	2,083	2,435	2,335	2,774	2,763	3,451	4,268
Public works										
Refuse collection										
Refuse collected (pounds per day)	63,298	60,902	62,559	71,359	71,334	74,351	71,212	69,484	76,671	77,089
Recyclables collected (pounds per day)	6,032	5,846	5,804	6,825	6,861	5,892	4,838	5,252	5,791	6,231
Parks, recreation, and cultural										
Parks and recreation										
Total programs	283	279	276	237	244	241	263	247	235	199
Total registrants	3,883	3,259	2,908	3,137	2,991	2,875	3,104	3,125	3,375	3,328
Library										
Volumes in collection	237,603	236,904	237,054	251,261	248,649	244,999	242,243	243,427	227,327	226,093
Total volumes borrowed	675,317	709,250	721,682	745,114	768,931	785,879	871,296	892,655	783,708	781,608
Water										
Number of customer accounts	2,732	2,725	2,720	2,699	2,640	2,616	2,640	2,642	2,615	2,554
Miles of distribution lines	93	93	93	93	93	92	92	92	92	88
Average daily consumption	711,988	733,741	712,801	693,833	697,490	758,384	739,956	829,736	840,183	802,445
Sewer										
Number of customer accounts	1,512	1,503	1,482	1,475	1,408	1,388	1,372	1,356	1,337	1,247
Waste/Water treated (million gallons per year)	181	188	208	172	167	175	222	191	165	196
Average daily consumption	495,975	517,820	570,632	470,306	458,671	479,328	486,030	522,650	505,610	536,191

Source: County departments

TABLE 15

**County of Montgomery, Virginia
Capital Asset and Infrastructure Statistics by Function/Program
Last Ten Fiscal Years**

<u>Function/Program</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Public safety										
Law enforcement vehicles	97	99	93	96	93	96	92	94	82	83
Fire and Rescue stations	10	10	10	10	10	10	10	10	10	8
Parks, recreation, and cultural										
Parks/athletic fields	8	8	8	8	8	8	8	7	5	2
Water and sewage										
Water mains (miles)	93	93	93	93	93	92	92	92	92	88
Sanitary sewers (miles)	64	63	63	63	63	62	62	62	62	60

Source: County departments

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COMPLIANCE SECTION

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

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

We have audited, 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* and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), 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 and have issued our report thereon dated December 9, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control. Accordingly, we do not express an opinion on the effectiveness of the County'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 combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. **We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2007-001, that we consider to be a material weakness.**

Compliance and Other Matters

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

County of Montgomery's Responses to Findings

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 9, 2016

**INDEPENDENT AUDITOR'S 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 Montgomery, Virginia

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 9, 2016

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS

June 30, 2016

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the County's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Budget and Appropriation Laws

Cash and Investment Laws

Conflicts of Interest Act

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

Inmate Canteen Funds

Comprehensive Services Act

Sheriff Internal Controls

State Agency Requirements

Education

Social Services

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

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

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One material weakness** relating to the audit of the financial statements was reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of major federal award programs were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings related to major programs**.
7. The programs tested as major are:

<u>Name of Program:</u>	<u>CFDA #</u>
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Temporary Assistance to Needy Families	93.558
Social Service Block Grant	93.667
Medical Assistance Program	93.778
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561
Title I Grants to Local Educational Agencies	84.010

8. The **threshold for** distinguishing Type A and B programs was **\$750,000**.
9. The County was **not** determined to be a **low-risk auditee**.

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2007-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

Management concurs. The County and School Board have taken all steps deemed practical and cost beneficial to minimize conflicting duties.

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

None noted.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

None noted.

COUNTY OF MONTGOMERY, VIRGINIA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
June 30, 2016

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2015-001: Auditor Adjustment – New Transactions – School Board (Material Weakness)

Condition:

The School Board failed to record the liability for incurred but not reported health insurance claims payable. This was a new transaction in 2015 and was overlooked during the year-end financial reporting process.

Recommendation:

We recommend the School Board monitor all activities, particularly those with no current cash inflow or outflow involved, for financial reporting implications.

Current Status:

We did not detect a similar finding in the current year.

2015-002: Design of Internal Controls – Social Services (Material Weakness)

Condition:

A fundamental concept of internal controls is the assignment of responsibility for approval to appropriate individuals. Approval of transactions should be performed by an individual with sufficient standing in the organization to challenge questionable transactions. In most cases, this should not be assigned to a subordinate of the initiator of the transaction. During the current year, a fraud was detected in Social Services in which inappropriate disbursements were approved by a subordinate. These errors, while not material individually or in the aggregate, could involve local, state, or federal funding.

Recommendation:

All internal control responsibilities should be assigned to the appropriate individuals to ensure all transactions are critically evaluated for appropriateness in relation to the operations of the organization.

Current Status:

We did not detect a similar finding in the current year.