

# **COUNTY OF MONTGOMERY, VIRGINIA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2015**

**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
Exhibit 6	Statement of Net Position – Proprietary Funds .....	12
Exhibit 7	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds .....	13
Exhibit 8	Statement of Cash Flows – Proprietary Funds .....	14

Notes to Financial Statements.....	15
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#### Required Supplementary Information

Exhibit 9	Schedule of Changes in Net Pension Liability and Related Ratios .....	77
Exhibit 10	Schedule of Pension Contributions .....	78
Exhibit 11	Schedule of Proportionate Share of Net Pension – VRS Teacher Retirement Plan .....	79
Exhibit 12	Schedule of Pension Contributions – VRS Teacher Retirement Plan .....	80
Notes to Required Supplementary Information .....		81

## FINANCIAL SECTION (Continued)

### Other Supplementary Information

Discretely Presented Component Unit – School Board		
Exhibit A-1	Balance Sheet .....	84
Exhibit A-2	Statement of Revenues, Expenditures, and Changes in Fund Balances.....	85
Exhibit A-3	Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Cash Basis .....	86

### Supporting Schedule

Schedule 1	Schedule of Expenditures of Federal Awards.....	88
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## STATISTICAL SECTION

Table 1	Net Position by Component .....	91
Table 2	Change in Net Position by Component.....	92
Table 3	Fund Balances – Governmental Funds .....	93
Table 4	Changes in Fund Balances – Governmental Funds .....	94
Table 5	Assessed Value and Actual Value of Taxable Property .....	95
Table 6	Property Tax Rates .....	96
Table 7	Principal Property Tax Payers.....	97
Table 8	Property Tax Levies and Collections .....	98
Table 9	Ratios of Outstanding Debt by Type.....	99
Table 10	Pledged Revenue Coverage.....	100
Table 11	Demographic Statistics.....	101
Table 12	Principal Employers .....	102
Table 13	Full-Time Equivalent County Government Employees by Function/Program .....	103
Table 14	Operating Indicators by Function/Program .....	104
Table 15	Capital Asset and Infrastructure Statistics by Function/Program .....	105

## 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> .....		107
Independent Auditor’s Report on Compliance for Each Major Program and on Internal Control over Compliance Required by <i>OMB Circular A-133</i> .....		109
Summary of Compliance Matters .....		111
Schedule of Findings and Questioned Costs.....		112

## INTRODUCTORY SECTION

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# MONTGOMERY COUNTY

F. CRAIG MEADOWS, COUNTY ADMINISTRATOR  
OFFICE OF COUNTY ADMINISTRATION  
MONTGOMERY COUNTY • VIRGINIA



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November 30, 2015

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, 2015, 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. Accordingly, the Montgomery County Public Service Authority, which provides water and waste water services, is reported as an enterprise fund of the primary government. 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 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 97,000 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**

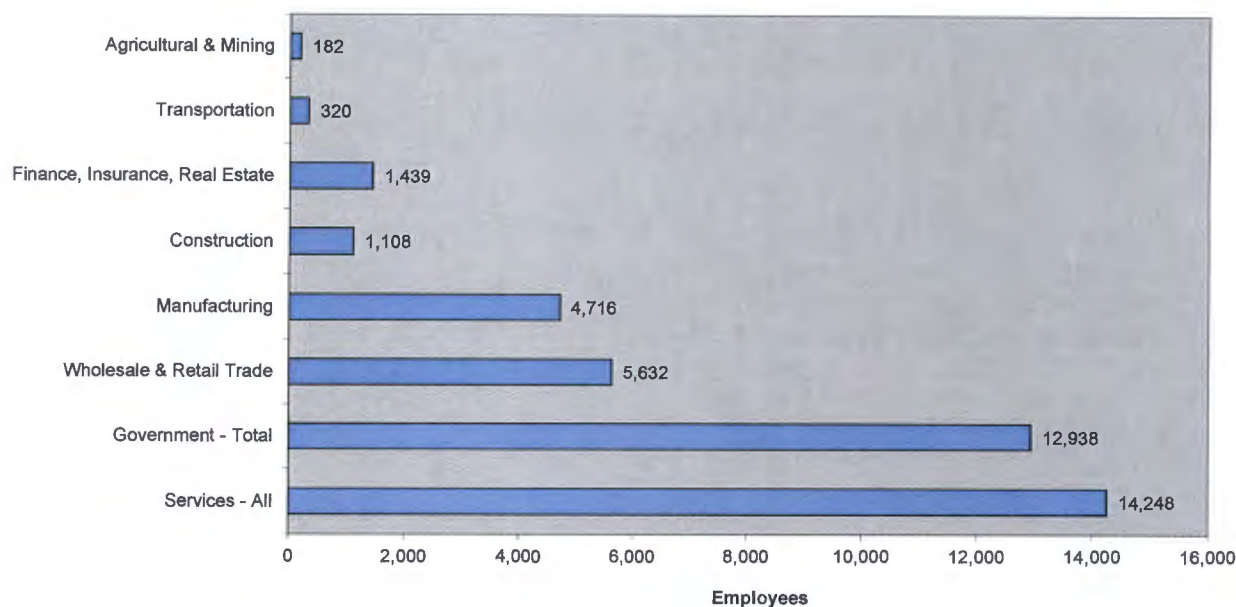
Montgomery County is geographically situated in the New River Valley, which also includes the Counties of Floyd, Giles, and Pulaski and the City of Radford. All of these localities are within reasonable commuting time and distance from Montgomery County and represent the minimum area from which Montgomery 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 2014 and June 2015 was 4.8%, which remains historically below average in the New River Valley. The percentage ranged from a low of 4.1% in April 2015 to a high of 5.9% in July 2014. The unemployment rate for the County over the past 10 years (2005-2014) averaged 5.1%, 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 was higher than the statewide average of 5.2% for calendar year 2014, with Montgomery and Floyd Counties reporting the lowest rates of 5% and 4.6% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 6.2% unemployment during the same period. Employment within Montgomery County represented 54.5% 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 2014:



### Montgomery County Employment By Employment Sector



Averages of Calendar Year 2014

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 233 across all sectors, resulting in an increase of less than 1% from the previous year. Only two areas experienced declines – manufacturing was down just over 2% and construction was down just over 4%.

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. 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 one million square feet of office and lab space, and is home to over 160 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 32 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 2015. Florida-based Frank Theaters opened a 60,000 square foot CineBowl and Grille at First & Main Shopping Center. The \$8 million project includes an IMAX theater with 12 screens, a bowling alley, and a bar and restaurant. In downtown Blacksburg, The Brownstone – a \$12 million, 100,000 square foot mixed-use development that includes office space, retail space and luxury condominiums opened. In May 2015, developers completed The Edge, a \$45 million, 911-bedroom student housing development near Virginia Tech.

Since January 2014, companies in Montgomery County announced \$28.4 million in new capital investment (industrial/commercial, non-retail) and the addition of 230 related jobs as shown in the chart below.

#### **Business Announcements, Montgomery County, Virginia:**

<b>Company Name</b>	<b>Business Description</b>	<b>New Jobs</b>	<b>Investment (millions)</b>
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

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.

The 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 2015 include:

### **The 2015-2019 Capital Improvement Program**

The Capital Improvement Program (CIP) for 2015 through 2019 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 \$43.2 million and is comprised County Capital Improvements of \$17.2 million and School Capital Improvements of \$26 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 an additional \$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.

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 is estimated at \$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**

Upon completion of new Auburn High School, the former Auburn High building was renovated to serve as the Auburn Middle School, which had become inadequate. This 125,618 square foot facility included capacity for 480 students and added 94,792 square feet over the existing building. The newly renovated Auburn Middle School was completed in December 2014 and students began occupying the facility in January 2015.

Public safety remains a priority with \$1.1 million in fire and rescue equipment purchases in fiscal year 2015 based on recommendations of the Fire and Rescue Commission. Equipment that was purchased included two fire trucks (one each for Christiansburg and Long Shop McCoy Fire Departments), an emergency response vehicle for Ellison Fire Department, and a multi-use pick-up truck for Riner Fire Department.

### **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 2015, funds set aside from the tax rate had accumulated to \$3.5 million. For FY 16, two cents of the real estate tax rate is \$1,460,000, bringing the total funding available to \$7.96 million.
- Renovations to the former Courthouse facility began in the spring of 2013 to convert the facility to a public safety building. This will replace the Sheriff's office and house the New River Valley Emergency Communications Regional Authority, which will consolidate four Public Safety Answering Points ("PSAPs") into one central operation. The project began in the spring of 2013 and was completed in the fall of 2015.
- A new Animal Care and Adoption Center is planned for the future and the Board of Supervisors has appropriated \$4.3 million toward the anticipated 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 of Supervisors.

### **Department Focus – Business Audit Function**

The County formed a business audit function which began operating within the County's Finance Department in 2015. The function works with the Commissioner of the Revenue's office to ensure that the businesses operating in the County are accurately assessed for taxation. Currently, the County's auditor is reviewing and auditing Montgomery County business taxpayers to verify compliance with the Commonwealth of Virginia and Montgomery County tax laws, including Business Tangible Personal Property, Machinery and Tools and Merchants' Capital taxes.

The primary goals of the function are to:

- Assist taxpayers in understanding reporting requirements,
- Verify that the information reported by taxpayers is complete and accurate, and
- Create equity by assuring that every business is assessed for the appropriate tax amount.

This new function uses various data analysis techniques to review and compare reported business information with data from other sources to ensure businesses operating within the County are identified. Some of the strategies used to date include comparing the County's records of registered entities with:

- Records of registered entities with the State Corporation Commission
- BPOL (Business, Professional and Occupational License) reports from the Towns of Blacksburg and Christiansburg, and
- Other third party sources.

Businesses may be selected for an audit based on quantitative factors, or may be selected at random for an audit and/or review. An audit may be as simple as responding to a letter or may require telephone calls to the taxpayer, requests for additional information from the taxpayer, or an on-site visit to the taxpayer's place of business.

During an audit, the business may be required to provide specific information or records for the County's review including documentation of accounting records and journals, depreciation schedules, purchase documentation, tax returns, and/or other documents. The primary purpose of the audit is to ensure the business is accurately reporting its personal property, including declaring all assets with proper acquisition dates and costs, and removing any retired assets so that businesses' taxes are assessed correctly.

## **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, 2015, reflect cash that will not be received or disbursed until fiscal year 2016.

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 OMB Circular A-133. 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, 2014. 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.

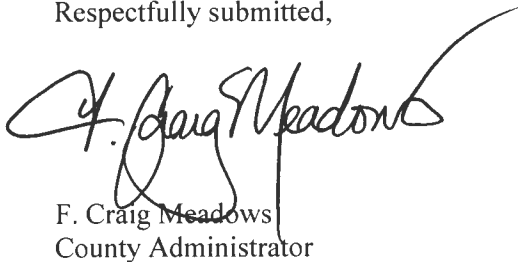
A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last twenty-eight consecutive years. We believe our current report continues to conform to the Certificate of Achievement Program's requirements, and we are submitting 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, 2014**

Executive Director/CEO



## **BOARD OF SUPERVISORS**

William (Bill) H. Brown, Chair

Mary W. Biggs, Vice Chair

Gary D. Creed  
M. Todd King  
Matthew R. Gabriele

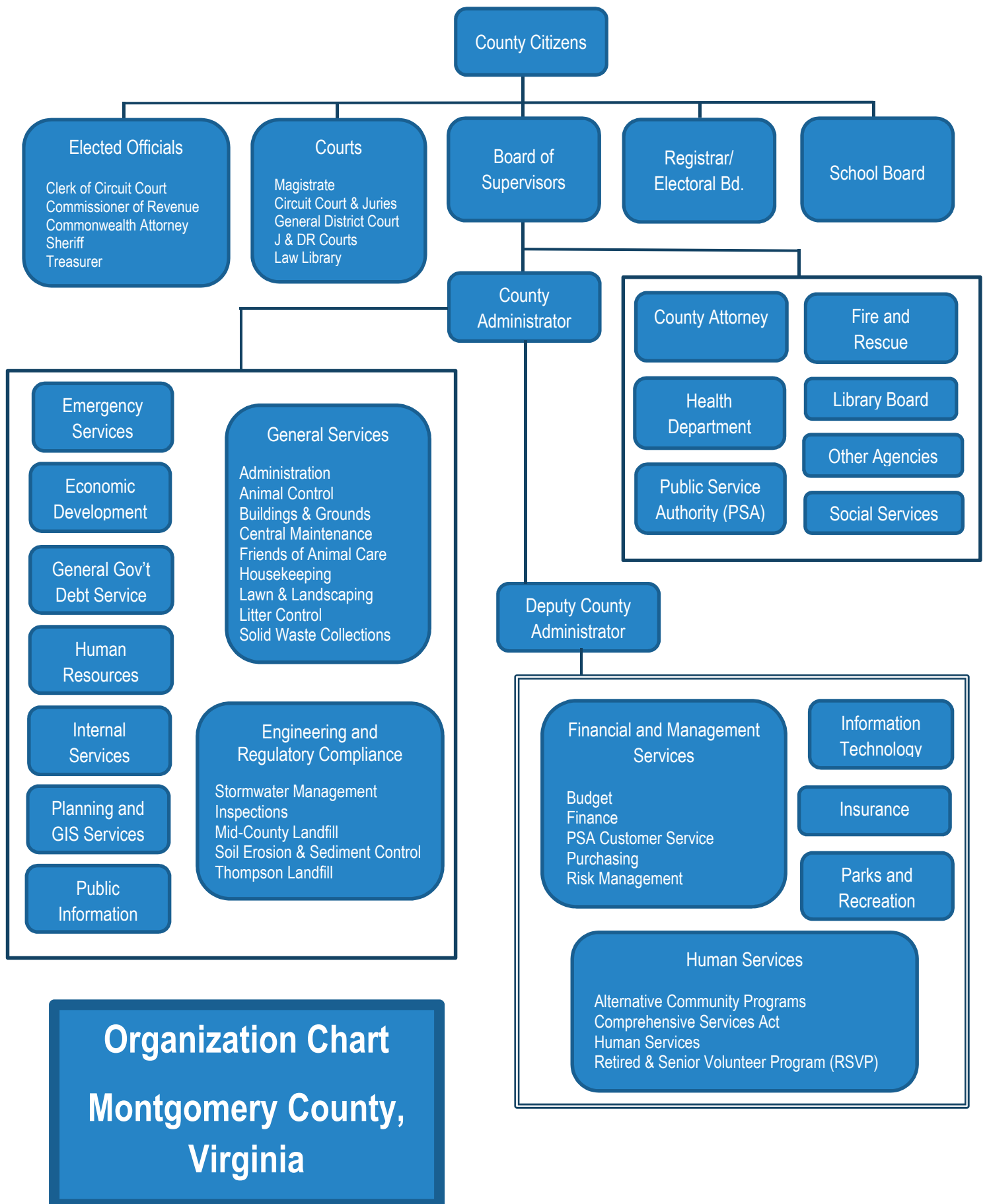
Annette S. Perkins  
Christopher A. Tuck

## **COUNTY ADMINISTRATION**

Paula K. Alston	Director of Montgomery Regional Library
Brenda B. Blackburn	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
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
Vacant	Director of Human Resources

## **CONSTITUTIONAL OFFICERS**

Mary K. Pettitt	Commonwealth Attorney
Helen P. Royal	Commissioner of the Revenue
W. Richard Shelton	Treasurer
J. T. Whitt	Sheriff
Erica W. Williams	Clerk of the Circuit Court



## FINANCIAL SECTION

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## 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 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, 2015, 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, 2015, 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.**

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

As described in Note 19 to the financial statements, the County adopted new accounting guidance, *GASB Statement No. 68, Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The fund financial statements of 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 November 30, 2015, 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  
November 30, 2015

## 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, 2015. 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.

In 2015, the County adopted *GASB Statement No. 68, Accounting and Financial Reporting for Pensions*. The overall effect of this new standard is to reflect the County's long-term Virginia Retirement System (VRS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the County was current with its required VRS contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the County record a net pension liability directly on the statement of net position. Beginning net position has been restated as discussed in footnote 19, and this has had a significant impact on the County's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

### FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2015

- Total net position for governmental activities was \$117 million at June 30, 2015. This figure is based on assets and deferred outflows totaling \$379 million and liabilities and deferred inflows of approximately \$262 million.
- Total general fund revenues fell short of the final estimated amount by approximately \$0.3 million.

Grant funding does not follow the fiscal year, therefore funds appropriated during the year are often received the following year. Therefore, intergovernmental revenues fell short of estimates by approximately \$2 million. This was offset by property tax revenue exceeding the estimate by \$1.5 million resulting from maintaining the real estate tax rate combined with retaining 1% of the allowable value from the reassessment. Also, the County received almost \$500,000 in prepaid property taxes before June 30.

Actual expenditures were approximately \$10.7 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 under \$1 million.

General government administration expenditures totaled \$1.1 million less than appropriated. Of this amount, Information Technology spent almost \$600,000 less than appropriated, resulting primarily from the timing of projects underway in the department, combined with vacancy savings. Contingency funds of \$250,000 were budgeted and not spent. The remaining difference results from small amounts of vacancy savings and conservative fiscal management across all areas.

Public safety expenditures were \$2.1 million less than budgeted. Public safety grants were \$600,000 less than budgeted as the grants cycles did not follow the fiscal year. The sheriff's office spent \$500,000. Funding was provided of the sheriff's office to purchase body cameras during the year, however, the cameras were not received before year end. The sheriff's office also manages several grants and asset forfeiture funds. The funding for these programs do not follow the County's fiscal year. The County's payments to the Western Virginia Regional Jail were \$600,000 less than planned as the County's inmate population at the jail was less than anticipated based on the previous year.



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 \$700,000.

Parks, recreation, and culture along with community development began grant projects during the year that weren't completed. This resulted in variances of \$200,000 and \$500,000, respectively.

Finally, the Montgomery County School Board (the Schools) spent approximately \$1.4 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 \$1.3 million.

- The business-type activities net position at June 30, 2015 was approximately \$13.4 million.
- The County issued \$11,572,000 in 2015 refunding bonds at an interest rate of 1.6% to current refund the Series 2005A and 2005B lease revenue bonds, which had an average interest rate of 3.23%. The refunding reduced the County's total debt service payments over the next six years by \$1,175,106. Repayment of bonded debt totaled \$14 million.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$22.4 million, or 13% of fiscal year 2015 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).

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the County include general government, judicial administration, public safety, health and welfare, parks and recreation, public works and community development. The County's business-type activities include water and wastewater service for citizens in the unincorporated portion of the County.

The government-wide financial statements include the County (known as the *primary government*) as well as funds of the Montgomery County School Board and the Montgomery County Economic Development Authority. Financial information for these *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 \$65.9 million, a decrease of \$18.6 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. Of that amount, \$6.1 million was nonspendable, \$16 million was restricted, \$13.4 million was committed, \$8 million was assigned, and \$22.4 million was 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 20.3% of total general fund expenditures, while total fund balance represents 36.1% 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** provide the same type of information as the *business-type activities* in the government-wide financial statements, only in more detail. The Montgomery County Public Service Authority's water and wastewater funds are used 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.

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2015	2014	2015	2014	2015	2014	2015	2014
Current and other assets	\$80.2	\$90.9	\$2.9	\$3.1	\$83.1	\$94.0	\$20.9	\$20.0
Capital assets	294.8	289.0	18.8	19.0	313.6	308.0	18.3	14.5
Total assets	\$375.0	\$379.9	\$21.7	\$22.1	\$396.7	\$402.0	\$39.2	\$34.5
Deferred outflows of resources	\$4.0	\$2.2	\$0.1	\$0.0	\$4.1	\$2.2	\$8.5	\$0.0
Long-term liabilities	\$230.2	\$231.9	\$7.9	\$7.5	\$238.1	\$239.4	\$102.8	\$14.7
Other liabilities	16.4	17.8	0.3	0.4	16.7	18.2	15.2	19.8
Total liabilities	\$246.6	\$249.7	\$8.2	\$7.9	\$254.8	\$257.6	\$118.0	\$34.5
Deferred inflows of resources	\$15.4	\$12.4	\$0.2	\$0.0	\$15.6	\$12.4	\$12.4	\$0.0
Net position:								
Net investment in capital assets	\$99.5	\$94.4	\$13.1	\$13.0	\$112.6	\$107.4	\$6.1	\$5.9
Restricted	9.0	9.2	0.0	0.0	9.0	9.2	3.7	3.6
Unrestricted	8.5	16.4	0.3	1.2	8.8	17.6	(92.5)	(9.5)
Total net position	\$117.0	\$120.0	\$13.4	\$14.2	\$130.4	\$134.2	\$ (82.7)	\$0.0

### Governmental Activities

Total net position shown above for governmental activities is \$117 million or \$3 million less than in 2014. The County used proceeds from bonds issued in previous years to continue construction of schools and a Public Safety building. This resulted in an increase in capital assets and a decrease in current and other assets, as cash from the bond issuance was used. Capital assets increased by \$5.8 million resulting from \$15.6 million in capital additions, offset by a decrease in assets with a book value of \$0.5 and \$9.3 million in current year depreciation. The \$15.6 million of additions consisted of the following (in millions):

Auburn High School	\$ 1.3
Auburn Middle School	7.0
Other school projects	1.1
Public Safety Building	3.3
Public Safety Equipment	1.5
Information Technology Equipment	.2
Animal Care and Adoption Center	0.6
Other county additions	0.6
Total	\$15.6

### Business-Type Activities

Total net position shown above for business-type activities is \$13.4 million, relatively unchanged from the previous year balance of \$14.2 million.

### Component Units

Total net position shown above for component units is \$(82.7) for 2015, which is a significant change from \$0.0 in 2014. This consists of a deficit in net position of \$84.2 million for the School Board and net position of \$1.5 million for the Economic Development Authority. The component units unrestricted net position has been affected by the requirement to report net pension liability starting in 2015.

### **Summary of Activities:**

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

	<b>Activities</b>		<b>Activities</b>		<b>Government</b>		<b>Units</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
<b>Revenues</b>								
<b>Program revenues:</b>								
Charges for services	\$ 3.3	\$ 2.6	\$ 3.6	\$ 3.5	\$ 6.9	\$ 6.1	\$ 3.9	\$ 6.2
Operating grants and contributions	13.2	13.2	-	-	13.2	13.2	57.2	53.9
Capital grants and contributions	-	-	0.4	-	0.4	-	-	-
<b>General revenues:</b>								
Property taxes	80.6	78.9	-	-	80.6	78.9	-	-
Other taxes	12.1	11.5	-	-	12.1	11.5	-	-
Payments from Montgomery County	-	-	-	-	-	-	43.3	41.2
Grants and contributions not restricted to specific purposes	5.3	5.1	-	-	5.3	5.1	-	-
Contributions from other governments	-	-	-	-	-	-	-	-
Other	0.4	0.6	-	-	0.4	0.6	0.2	0.2
<b>Total revenues</b>	<b>114.9</b>	<b>111.9</b>	<b>4.0</b>	<b>3.5</b>	<b>118.9</b>	<b>115.4</b>	<b>104.6</b>	<b>101.5</b>
<b>Expenses</b>								
General government	7.3	7.8	-	-	7.3	7.8	-	-
Judicial administration	3.0	3.3	-	-	3.0	3.3	-	-
Public safety	16.1	15.8	-	-	16.1	15.8	-	-
Public works	6.2	5.3	-	-	6.2	5.3	-	-
Health and welfare	7.3	7.3	-	-	7.3	7.3	-	-
Education	48.1	46.1	-	-	48.1	46.1	102.4	100.1
Parks, recreation and cultural	3.0	3.3	-	-	3.0	3.3	-	-
Community development	2.0	1.6	-	-	2.0	1.6	1.4	1.7
Water	-	-	2.2	2.2	2.2	2.2	-	-
Waste water	-	-	1.8	1.8	1.8	1.8	-	-
Interest on long-term debt	10.2	10.8	-	-	10.2	10.8	-	-
<b>Total expenses</b>	<b>103.2</b>	<b>101.3</b>	<b>4.0</b>	<b>4.0</b>	<b>107.2</b>	<b>105.3</b>	<b>103.8</b>	<b>101.8</b>
<b>Change in net position</b>	<b>11.7</b>	<b>10.6</b>	<b>-</b>	<b>(0.5)</b>	<b>11.7</b>	<b>10.1</b>	<b>0.8</b>	<b>(0.3)</b>
Net position-beginning, restated**	105.3	109.4	13.4	14.7	118.7	124.1	(83.5)	0.3
Net position-ending	<u>\$ 117.0</u>	<u>\$ 120.0</u>	<u>\$ 13.4</u>	<u>\$ 14.2</u>	<u>\$ 130.4</u>	<u>\$ 134.2</u>	<u>\$ (82.7)</u>	<u>\$ 0.0</u>

\*\*Beginning net position for 2015 has been restated for the effects of GASB68 implementation, however comparative information has not.

## Revenues

For the fiscal year ended June 30, 2015, revenues from governmental activities totaled \$114.9 million, an increase of \$3 million. The real estate tax rate was held steady at \$0.89 after the reassessment, which is effectively a one cent increase. That combined with the one percent of the reassessment value the County was able to retain resulted in an increase in tax revenue of \$700,000. Prepaid property taxes of \$500,000 were also received in 2015. Charges for services from business-type activities totaled \$3.6 million, an increase of \$0.1 million from the previous year.

Component unit revenues total \$104.4 million, including a \$43.3 million transfer from the general fund. 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 \$18.5 million, which would have brought the total transfer to \$60.8 million under the previous method of accounting.

## Expenses

Expenses for governmental activities totaled \$103.2 million in 2015, an increase of \$0.9 million from the previous year. Education expenses increased as the contribution from the County to the Schools increased \$1.0 million.

Expenses for business-type activities were unchanged from the prior year.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$41.9 million to the operation of the Schools. Depreciation expense related to the schools totaled \$6.1 million.

Total expenses for education were \$48.1 million. This amount represented about 46% of governmental activity expenses. When interest for school related projects is included, the County contributed \$55.1 million, or 53%. 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 70.4% of the general fund expenses (excluding payments to the Schools), plus school operating fund expenses for 2015.

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2015, the governmental funds reflect a combined fund balance of \$65.9 million, a decrease of \$8.6 million from June 30, 2014. This consisted of \$40 million in the general fund and \$26 million in the county capital improvements fund. The general fund balance increased \$3 million from fiscal year 2014. This is due in part to \$1.9 million in undesignated revenues being recognized in fiscal year 2015 that were not anticipated. The Board of Supervisors held the real estate tax rate at \$0.89 after the general reassessment. This was, in effect, a one cent tax rate increase. The County also retained the one percent growth from reassessment as allowed by the state. These two items generated almost \$700,000. Also before year end, the County also collected almost \$500,000 in real estate taxes that were due in December 2015. Almost \$600,000 was received from the sale of real estate during fiscal year 2015. The county capital projects fund balance decreased \$12 million as a result of using proceeds from bonds issued in previous years for projects in the current year.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2015 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 91.5	\$ 91.5	\$ 92.8
Intergovernmental	17.9	20.6	18.6
Other	2.4	3.0	3.5
Total	111.8	115.1	114.9
Expenditures and transfers	111.8	122.2	111.6
Change in fund balance	\$ -	\$ (7.1)	\$ 3.3

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants combined with special projects were received and budgeted during the fiscal year to account for the \$2.7 million increase in this category. 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 \$950,000 for the General fund and \$1.2 million for the School Board. Also approved were carryovers from the 2014 budget for the General fund of \$300,000, General fund grants of \$600,000 and the Schools of \$1.8 million. Funds were also approved for road improvements (\$0.5 million), a one-time pay supplement (\$0.3 million), body and in-car cameras for the sheriff's office (\$0.1 million), server upgrades (\$0.2 million) and initial funding for the Animal Care and Adoption Center (\$0.5 million). The appropriation of grants received and various smaller one-time expenditures throughout the year account for the remaining difference.

Actual tax revenue exceeded the budgeted by \$1.3 million. The real estate tax rate remained level at \$0.89 per \$100 of assessed value. After reassessment, this resulted in a one cent tax increase. Prepaid property taxes were higher than budgeted, contributing to the variance from the budgeted amount. 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. Expenditures and transfers actual balances 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 \$3.7 million lower 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 County transferred the balance of these funds to the Schools in fiscal year 2015. The schools had over \$1.2 million in outstanding purchase orders at June 30. The balance of the transfer to the schools from the general fund was approved by the Board of Supervisors and transferred in fiscal year 2015.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2015, the County had invested \$294.9 million, net of accumulated depreciation, in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

The following table displays the County, Schools (Component Unit), and Economic Development Authority (Component Unit) capital assets in millions of dollars:

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2015	2014	2015	2014	2015	2014	2015	2014
<b>Non-depreciable assets</b>								
Land	\$ 14.2	\$ 14.2	\$ 0.3	\$ 0.3	\$ 14.5	\$ 14.5	\$ 0.4	\$ 0.4
Intangible asset	-	-	0.9	0.9	0.9	0.9	-	-
Construction in progress	12.0	22.8	-	-	12.0	22.8	-	0.3
<b>Depreciable capital assets</b>								
Infrastructure	-	-	32.3	31.9	32.3	31.9	-	-
Buildings and improvements	300.8	276.7	0.3	0.1	301.1	276.8	31.5	42.6
Machinery and equipment	22.8	21.8	1.4	1.3	24.2	23.1	15.5	15.5
Accumulated depreciation	(54.9)	(46.6)	(16.4)	(15.5)	(71.3)	(62.1)	(41.8)	(44.3)
<b>Total</b>	<b>\$ 294.9</b>	<b>\$ 288.9</b>	<b>\$ 18.8</b>	<b>\$ 19.0</b>	<b>\$ 313.7</b>	<b>\$ 307.9</b>	<b>\$ 5.6</b>	<b>\$ 14.5</b>



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

	<b>Balance June 30, 2014</b>	<b>Net Additions/ (Deletions)</b>	<b>Balance June 30, 2015</b>
<b>Non-depreciable assets</b>			
Land	\$ 14.9	\$ -	\$ 14.9
Intangible assets	0.9	-	0.9
Construction in progress	23.1	(11.1)	12.0
<b>Depreciable capital assets</b>			
Infrastructure	31.9	0.4	32.3
Buildings and improvements	319.4	13.2	332.6
Machinery and equipment	38.6	1.1	39.7
Accumulated depreciation	(106.4)	(6.7)	(113.1)
<b>Total</b>	<b>\$ 322.4</b>	<b>\$ (3.1)</b>	<b>\$ 319.3</b>

### Governmental Activities

In 2015, construction continued on the new Public Safety Building (\$3.3 million). Auburn Middle School with a total cost of \$21.8 million was completed and transferred from construction in progress to buildings and improvements. Current year costs on the projects totaled \$7 million.

Additional information about the County's capital assets, including business-type activities and the component unit school board can be found in Note 8 of this report.

### **Long Term Debt**

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2015, in millions of dollars:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
General obligation bonds	\$ 119.5	\$ 124.2	\$ -	\$ -	\$ 119.5	\$ 124.2
Lease revenue bonds	63.3	68.1	-	-	63.3	68.1
Literary loans	1.8	2.0	-	-	1.8	2.0
Refunding bonds	27.8	31.9	-	-	27.8	31.9
Revenue bonds	-	-	5.7	6.0	5.7	6.0
<b>Total</b>	<b>\$ 212.4</b>	<b>\$ 226.2</b>	<b>\$ 5.7</b>	<b>\$ 6.0</b>	<b>\$ 218.1</b>	<b>\$ 232.2</b>

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, 2015, the County was in compliance with all debt policies.

### **ECONOMIC FACTORS**

As of September 2015, the County's and state's average unemployment rate was 3.9 and 4.1 percent, respectively. This is a decrease from the County's and state's average rate a year ago both of which were 5.2 percent.

The Board of Supervisors held the tax rate steady at \$0.89 per \$100 of assessed value for calendar year 2014.

### **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.

## **BASIC FINANCIAL STATEMENTS**

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## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION  
June 30, 2015

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
<b>Assets</b>					
Cash and cash equivalents (Note 4)	\$ 50,224,156	\$ 2,242,412	\$ 52,466,568	\$ 3,458,059	\$ 35,638
Receivables, net (Note 5)	3,304,450	589,438	3,893,888	-	-
Due from primary government	-	-	-	7,552,768	29,937
Due from other governmental units (Note 6)	2,793,873	-	2,793,873	2,547,030	-
Internal balances (Note 7)	(9,811)	9,811	-	-	-
Prepays	195,419	-	195,419	686,621	-
Inventories	-	24,113	24,113	148,216	2,922,002
Advances to component unit (Note 15)	5,626,109	-	5,626,109	-	-
Restricted assets:					
Cash and cash equivalents (Note 4)	773,938	65,665	839,603	20,608	-
Investments (Note 4)	16,747,102	-	16,747,102	-	-
Notes receivable and accrued interest receivable	-	-	-	-	3,719,183
Notes receivable (Note 15)	516,627	-	516,627	-	-
Lease incentives	-	-	-	-	556,568
Capital assets: (Note 8)					
Non-depreciable	26,225,263	1,217,389	27,442,652	386,257	-
Depreciable, net	268,646,652	17,545,732	286,192,384	5,170,101	12,787,759
<b>Total assets</b>	<b>375,043,778</b>	<b>21,694,560</b>	<b>396,738,338</b>	<b>19,969,660</b>	<b>20,051,087</b>
<b>Deferred Outflows of Resources</b>					
Deferred charge on refunding	1,859,356	-	1,859,356	-	-
Pension contributions subsequent to the measurement date (Note 11)	2,097,911	106,505	2,204,416	6,904,687	-
Changes in proportion - teacher cost sharing pool (Note 11)	-	-	-	1,603,271	-
<b>Total deferred outflows of resources</b>	<b>3,957,267</b>	<b>106,505</b>	<b>4,063,772</b>	<b>8,507,958</b>	<b>-</b>
<b>Liabilities</b>					
Accounts payable and accrued expenses	2,801,988	212,848	3,014,836	1,882,077	118,770
Accrued payroll and related liabilities	917,696	43,944	961,640	8,256,474	-
Accrued interest payable	3,735,322	5,834	3,741,156	-	-
Amounts held for others	773,938	-	773,938	20,608	-
Advances from primary government (Note 15)	-	-	-	-	5,626,109
Due to other governmental units (Notes 6)	459,030	-	459,030	-	-
Due to component unit	7,552,768	-	7,552,768	-	-
Unearned revenue	-	-	-	93,416	12,209
Customer deposits	-	65,665	65,665	-	10,000
Long-term liabilities:					
Net pension liability (Note 11)	12,149,209	616,781	12,765,990	79,368,231	-
Due within one year (Note 9)	16,691,690	407,870	17,099,560	2,615,664	422,232
Due in more than one year (Note 9)	201,314,752	6,872,096	208,186,848	8,060,280	12,354,350
<b>Total liabilities</b>	<b>246,396,393</b>	<b>8,225,038</b>	<b>254,621,431</b>	<b>100,296,750</b>	<b>18,543,670</b>
<b>Deferred Inflows of Resources</b>					
Deferred premiums on refunding	11,125,759	-	11,125,759	-	-
Property taxes (Note 5)	479,610	-	479,610	-	-
Net difference between projected and actual investment earnings on pension plan investments (Note 11)	3,754,231	190,591	3,944,822	12,394,450	-
<b>Total deferred outflows of resources</b>	<b>15,359,600</b>	<b>190,591</b>	<b>15,550,191</b>	<b>12,394,450</b>	<b>-</b>
<b>Net Position</b>					
Net investments in capital assets	99,224,847	13,070,318	112,295,165	5,556,358	527,804
Restricted:					
Debt service	9,057,768	-	9,057,768	-	-
Note receivable	-	-	-	-	3,719,183
Unrestricted	8,962,437	315,118	9,277,555	(89,769,940)	(2,739,570)
<b>Total net position</b>	<b>\$ 117,245,052</b>	<b>\$ 13,385,436</b>	<b>\$ 130,630,488</b>	<b>\$ (84,213,582)</b>	<b>\$ 1,507,417</b>

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

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2015

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	Business-type Activities	Total	School Board	Economic Development Authority
Primary Government:									
Governmental activities:									
General government administration	\$ 7,355,412	\$ 1,069,924	\$ 418,862	\$ -	\$ (5,866,626)		\$ (5,866,626)		
Judicial administration	2,972,436	611,370	1,276,774	-	(1,084,292)		(1,084,292)		
Public safety	16,075,298	554,537	4,493,617	-	(11,027,144)		(11,027,144)		
Public works	6,183,132	365,211	26,294	-	(5,791,627)		(5,791,627)		
Health and welfare	7,260,389	187,173	4,991,759	-	(2,081,457)		(2,081,457)		
Education	47,892,943	-	1,249,083	-	(46,643,860)		(46,643,860)		
Parks, recreational, and cultural	3,004,779	427,345	259,249	-	(2,318,185)		(2,318,185)		
Community development	2,029,561	50,772	447,797	-	(1,530,992)		(1,530,992)		
Interest on long-term debt	10,224,163	-	-	-	(10,224,163)		(10,224,163)		
Total governmental activities	102,998,113	3,266,332	13,163,435	-	(86,568,346)		(86,568,346)		
Business-type activities:									
Water	2,219,992	2,076,931	-	400,461		257,400	257,400		
Wastewater	1,847,150	1,506,128	-	-		(341,022)	(341,022)		
Total business-type activities	4,067,142	3,583,059	-	400,461		(83,622)	(83,622)		
Total primary government	\$ 107,065,255	\$ 6,849,391	\$ 13,163,435	\$ 400,461	(86,568,346)	(83,622)	(86,651,968)		
Component Units:									
School Board	\$ 102,291,368	\$ 3,069,878	\$ 57,233,740	\$ -				(41,987,750)	-
Economic Development Authority	1,370,379	817,694	-	-				-	(552,685)
Total component units	\$ 103,661,747	\$ 3,887,572	\$ 57,233,740	\$ -	-	-	-	(41,987,750)	(552,685)
General Revenues:									
General property taxes (Note 5)					80,635,361	-	80,635,361	-	-
Sales and use tax					8,579,451	-	8,579,451	-	-
Utility tax					1,824,174	-	1,824,174	-	-
Motor vehicle license tax					678,246	-	678,246	-	-
Other local taxes					1,041,605	-	1,041,605	-	-
Intergovernmental revenue, unrestricted					5,300,522	-	5,300,522	-	-
Investment earnings, unrestricted					344,459	12,086	356,545	6,217	199,485
Investment earnings, restricted for capital projects					63,934	-	63,934	-	-
Payments from Montgomery County					-	-	-	42,727,954	400,687
Total general revenues					98,467,752	12,086	98,479,838	42,734,171	600,172
Change in net position					11,899,406	(71,536)	11,827,870	746,421	47,487
Net position – beginning, restated (Note 19)					105,345,646	13,456,972	118,802,618	(84,960,003)	1,459,930
Net position – ending					\$ 117,245,052	\$ 13,385,436	\$ 130,630,488	\$ (84,213,582)	\$ 1,507,417

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

## COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2015**

	General	County Capital Improvements	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 39,500,155	\$ 10,724,001	\$ 50,224,156
Receivables, net	3,304,450	-	3,304,450
Due from other governmental units	2,793,873	-	2,793,873
Advances to component unit	5,626,109	-	5,626,109
Restricted assets:			
Cash and cash equivalents	773,938	-	773,938
Investments	-	16,747,102	16,747,102
Notes receivable	516,627	-	516,627
<b>Total assets</b>	<b>\$ 52,515,152</b>	<b>\$ 27,471,103</b>	<b>\$ 79,986,255</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,468,555	\$ 1,333,433	\$ 2,801,988
Accrued payroll and related liabilities	917,696	-	917,696
Due to other governmental units	459,030	-	459,030
Due to other funds	9,811	-	9,811
Due to component unit	7,552,768	-	7,552,768
Amounts held for others	773,938	-	773,938
<b>Total liabilities</b>	<b>11,181,798</b>	<b>1,333,433</b>	<b>12,515,231</b>
<b>Deferred Inflows of Resources</b>			
Unavailable/unearned property taxes	2,386,004	-	2,386,004
<b>Fund Balances:</b>			
Nonspendable	6,392,736	-	6,392,736
Restricted	633,493	15,413,668	16,047,161
Committed	2,629,271	10,724,002	13,353,273
Assigned	8,006,468	-	8,006,468
Unassigned	21,285,382	-	21,285,382
<b>Total fund balances</b>	<b>38,947,350</b>	<b>26,137,670</b>	<b>65,085,020</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 52,515,152</b>	<b>\$ 27,471,103</b>	<b>\$ 79,986,255</b>



**COUNTY OF MONTGOMERY, VIRGINIA**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2015**

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

<b>Ending fund balance – governmental funds</b>	<b>\$</b>	<b>65,085,020</b>
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		294,871,915
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		195,419
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,906,394
Deferred discounts, premiums, and refunding costs are not financial resources and, therefore, are not reported in the funds.		(9,266,403)
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		2,097,911
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments		(3,754,231)
Net pension liability		(12,149,209)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		(221,741,764)
Net position of governmental activities	<b>\$</b>	<b>117,245,052</b>

## COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2015

	General	County Capital Improvements	Total Governmental Funds
<b>REVENUES</b>			
General property taxes	\$ 80,823,652	\$ -	\$ 80,823,652
Other local taxes	12,123,477	-	12,123,477
Permits, privilege fees, and regulatory licenses	803,833	-	803,833
Fines and forfeitures	122,265	-	122,265
Revenue from use of money and property	1,339,719	63,934	1,403,653
Charges for services	491,921	-	491,921
Recovered costs	1,235,343	1,121	1,236,464
Intergovernmental	18,463,956	-	18,463,956
Total revenues	115,404,166	65,055	115,469,221
<b>EXPENDITURES</b>			
Current operating:			
General government administration	8,143,965	-	8,143,965
Judicial administration	3,307,130	-	3,307,130
Public safety	15,518,087	-	15,518,087
Public works	4,364,754	-	4,364,754
Health and welfare	7,456,915	-	7,456,915
Education	42,766,205	-	42,766,205
Parks, recreation, and cultural	3,042,563	-	3,042,563
Community development	1,919,458	-	1,919,458
Debt service:			
Principal retirement	13,980,224	-	13,980,224
Interest and fiscal charges	10,441,882	109,185	10,551,067
Capital projects	-	13,956,949	13,956,949
Total expenditures	110,941,183	14,066,134	125,007,317
Excess (deficiency) of revenues over expenditures	4,462,983	(14,001,079)	(9,538,096)
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of refunding bonds	-	11,572,000	11,572,000
Transfer to escrow agent	-	(11,462,815)	(11,462,815)
Transfers in	665,975	2,913,348	3,579,323
Transfers out	(2,913,348)	(665,975)	(3,579,323)
Total other financing sources (uses)	(2,247,373)	2,356,558	109,185
Net changes in fund balances	2,215,610	(11,644,521)	(9,428,911)
<b>FUND BALANCES AT JULY 1</b>	36,731,740	37,782,191	74,513,931
<b>FUND BALANCES AT JUNE 30</b>	\$ 38,947,350	\$ 26,137,670	\$ 65,085,020

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
For the Year Ended June 30, 2015

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:

<b>Net change in fund balances - total governmental funds</b>		\$ (9,428,911)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays \$15,614,973 exceeded depreciation \$9,254,981 in the current period.		6,359,992
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>cost</i> of the property sold.		(428,191)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(188,289)
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		2,097,911
Pension expense		(1,205,925)
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	(11,572,000)	
Principal repayments:		
General obligation bonds	4,715,329	
Lease revenue bonds	4,792,533	
Literary fund loans	250,000	
Refunding bonds	15,642,362	
		13,828,224
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	523,091	
Interest expense	326,904	
		849,995
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.		14,600
<b>Change in net position of governmental activities</b>		<u><u>\$ 11,899,406</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, 2015

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
General property taxes	\$ 79,244,364	\$ 79,257,535	\$ 80,778,331	\$ 1,520,796
Other local taxes	12,232,542	12,232,542	11,964,335	(268,207)
Permits, privilege fees, and regulatory licenses	671,999	671,999	777,714	105,715
Fines and forfeitures	120,000	120,000	129,313	9,313
Revenue from use of money and property	575,160	575,704	934,719	359,015
Charges for services	487,961	535,309	467,389	(67,920)
Recovered costs	613,603	1,110,816	1,190,984	80,168
Intergovernmental	17,887,175	20,607,393	18,608,421	(1,998,972)
Total revenues	111,832,804	115,111,298	114,851,206	(260,092)
<b>EXPENDITURES</b>				
Current operating:				
General government administration	7,879,517	9,373,659	8,254,598	1,119,061
Judicial administration	3,229,380	3,492,488	3,278,622	213,866
Public safety	15,425,485	17,663,033	15,527,364	2,135,669
Public works	4,690,142	4,968,157	4,368,980	599,177
Health and welfare	8,293,507	8,602,611	7,446,143	1,156,468
Education	42,118,631	45,132,324	40,863,571	4,268,753
Parks, recreation, and cultural	2,864,808	3,849,348	3,269,152	580,196
Community development	1,743,202	2,683,433	1,888,342	795,091
Debt service:				
Principal retirement	13,797,862	13,797,862	13,980,224	(182,362)
Interest and fiscal charges	10,425,997	10,425,997	10,441,882	(15,885)
Total expenditures	110,468,531	119,988,912	109,318,878	10,670,034
Excess (deficiency) of revenues over expenditures	1,364,273	(4,877,614)	5,532,328	10,409,942
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	735,727	745,385	665,975	(79,410)
Transfers out	(2,100,000)	(2,923,006)	(2,913,348)	9,658
Total other financing sources (uses)	(1,364,273)	(2,177,621)	(2,247,373)	(69,752)
Net change in fund balance	\$ -	\$ (7,055,235)	\$ 3,284,955	\$ 10,340,190

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

June 30, 2015

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,973,819	\$ 268,593	\$ 2,242,412
Accounts receivables, net	339,301	250,137	589,438
Due from other funds	2,532	7,279	9,811
Inventories	23,961	152	24,113
Total current assets	2,339,613	526,161	2,865,774
Noncurrent assets:			
Cash and cash equivalents, restricted	38,605	27,060	65,665
Capital assets:			
Non-depreciable	1,199,389	18,000	1,217,389
Depreciable, net	9,362,912	8,182,820	17,545,732
Total noncurrent assets	10,600,906	8,227,880	18,828,786
Total assets	12,940,519	8,754,041	21,694,560
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension contributions subsequent to measurement date	55,086	51,419	106,505
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	138,729	74,119	212,848
Accrued payroll and related liabilities	22,471	21,473	43,944
Accrued interest payable	3,557	2,277	5,834
Current portion of noncurrent liabilities	233,787	151,691	385,478
Total current liabilities	398,544	249,560	648,104
Noncurrent liabilities:			
Customer deposits	38,605	27,060	65,665
Net pension liability	319,010	297,771	616,781
Due in more than one year	3,424,401	2,213,562	5,637,963
Total noncurrent liabilities	3,782,016	2,538,393	6,320,409
Total liabilities	4,180,560	2,787,953	6,968,513
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Net difference between projected and actual investment earnings on pension plan investments	98,577	92,014	190,591
<b>NET POSITION</b>			
Net investments in capital assets	7,091,187	5,979,130	13,070,317
Unrestricted	1,625,281	(53,637)	1,571,644
Total net position	\$ 8,716,468	\$ 5,925,493	14,641,961
<b>Reconciliation with business-type activities in the statement of net position (Exhibit 1)</b>			
Long-term membership fee payable to other New River Valley Regional Water Authority legally due from the County but financed by enterprise fund revenues			(1,256,525)
Net position of business-type activities			\$ 13,385,436

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,675,362	\$ 1,334,459	\$ 3,009,821
Penalties and reconnection charges	42,064	17,660	59,724
Fees	255,195	126,454	381,649
Miscellaneous	64,573	6,293	70,866
Total operating revenues	2,037,194	1,484,866	3,522,060
<b>OPERATING EXPENSES</b>			
Salaries and wages	441,759	406,805	848,564
Employee benefits	190,778	169,894	360,672
Utilities and telephone	38,838	81,529	120,367
Water and wastewater services	583,845	434,079	1,017,924
Operating supplies, fees, permits	39,269	61,978	101,247
Professional services	230,984	54,233	285,217
Repairs and maintenance	88,320	85,546	173,866
Insurance	18,374	15,446	33,820
Vehicle supplies and miscellaneous	34,474	15,620	50,094
Bad debts	2,929	1,988	4,917
Office supplies and miscellaneous	30,724	5,697	36,421
Membership fees	47,522	-	47,522
Depreciation	407,283	460,737	868,020
Total operating expenses	2,155,099	1,793,552	3,948,651
Operating loss	(117,905)	(308,686)	(426,591)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	12,086	-	12,086
Facility fees	39,737	23,250	62,987
Interest expense	(86,846)	(55,586)	(142,432)
Total nonoperating revenues	(35,023)	(32,336)	(67,359)
Income before contributions	(152,928)	(341,022)	(493,950)
<b>CAPITAL CONTRIBUTIONS FROM DEVELOPERS</b>	400,461	-	400,461
Change in net position	247,533	(341,022)	(93,489)
<b>Total net position – beginning, as restated</b>	8,468,935	6,266,515	14,735,450
<b>Total net position – ending</b>	\$ 8,716,468	\$ 5,925,493	\$ 14,641,961
<b>Reconciliation with business-type activities in the statement of activities:</b>			
Change in net position			\$ (93,489)
Principal repayment of initial membership fee to other government legally due from County but ultimately financed by enterprise funds revenues.			21,953
Change in net position of business-type activities			\$ (71,536)

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

For the Year Ended June 30, 2015

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 2,034,073	\$ 1,497,130	\$ 3,531,203
Payments to suppliers	(1,077,053)	(746,860)	(1,823,913)
Payments to employees	(615,804)	(578,194)	(1,193,998)
Payments to County for financial services	(110,867)	-	(110,867)
Net cash provided by operating activities	230,349	172,076	402,425
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(53,310)	(171,608)	(224,918)
Facility fee payments from customers	39,737	23,250	62,987
Principal payments on long-term debt	(158,408)	(101,387)	(259,795)
Interest payments on debt	(87,153)	(55,782)	(142,935)
Net cash used in capital and related financing activities	(259,134)	(305,527)	(564,661)
<b>INVESTING ACTIVITIES</b>			
Interest received	12,086	-	12,086
Net decrease in cash and cash equivalents	(16,699)	(133,451)	(150,150)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	2,029,123	429,104	2,458,227
Ending at June 30	\$ 2,012,424	\$ 295,653	\$ 2,308,077
<b>RECONCILIATION TO EXHIBIT 6</b>			
Cash and cash equivalents	\$ 1,973,819	\$ 268,593	\$ 2,242,412
Cash and cash equivalents, restricted	38,605	27,060	65,665
	\$ 2,012,424	\$ 295,653	\$ 2,308,077
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (117,905)	\$ (308,686)	\$ (426,591)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	407,283	460,737	868,020
Pension expense net of employer contributions	(23,421)	(21,862)	(45,283)
(Increase) decrease in:			
Accounts receivable	(5,811)	9,374	3,563
Prepays	(8,333)	7,444	(889)
Inventory	6,147	326	6,473
(Decrease) increase in:			
Accounts payable	(53,351)	(1,504)	(54,855)
Due to/from other funds	(1,384)	-	(1,384)
Accrued payroll and related liabilities	15,561	14,692	30,253
Other postemployment benefits	8,873	8,665	17,538
Customer deposits	2,690	2,890	5,580
Net cash provided by operating activities	\$ 230,349	\$ 172,076	\$ 402,425

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

#### 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.

**Blended Component Units.** The Public Service Authority (the "Authority") provides water and wastewater services for County businesses and residents and is treated as a blended component unit. The County's Board serves as the Authority's Board of Directors. The County is a member of the New River Valley Regional Water Authority (NRVRWA). As a result of the County's membership, the Authority is able to purchase water at lower rates than non-members. The Authority is also responsible for all costs associated with the County's membership in the NRVRWA. The Authority benefits the County financially by providing water and sewer services to County citizens, County schools, and unincorporated areas of the County. The financial statements of the Authority are presented in their entirety in this Comprehensive Annual Financial Report ("CAFR").

**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 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 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, 2015

#### 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 \$212,370 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 \$668,125 in tipping fees to the Waste Authority.

##### **Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization**

The County is a member of the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization (the "MPO"). The MPO is a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. The MPO 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 \$18,900 toward operations of the MPO.

## **COUNTY OF MONTGOMERY, VIRGINIA**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

#### **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 \$2,374,511 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 will provide 911 dispatch and emergency communication services to the community and agencies in these localities. The County has one member on the Board of this organization. For the current year, the County paid \$401,112 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 \$14,776 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, one from each member 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 2015, the County paid \$468,988 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 \$421,466 was for water purchases.

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

#### 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. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. 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*.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

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

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

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, 2015**

**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 vacation leave, sick 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 Improvements 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.

Proprietary funds are used to account for the County’s ongoing activities similar to those often found in the private sector. The County reports the following major proprietary funds:

**Water Fund** – This fund accounts for the activities of the water department operations.

**Wastewater Fund** – This fund accounts for the activities of the wastewater department.

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

Amounts reported as program revenues include 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 County’s proprietary funds are charges for services. The Public Service Authority 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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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.

**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 2015.

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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**

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.

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 four 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 results 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. This difference will be recognized in pension expense over a closed five year period.

**Compensated Absences**

County and School Board employees are granted a specified amount of leave with pay each year. Amounts recorded reflect unused vacation and compensatory leave, and the amount of sick leave payable upon termination including applicable employer related taxes, in accordance with respective policies. The cost of accumulated vacation and sick 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, 2015**

**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 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, 2015**

**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. The Board of Supervisors adopts the amount to be included as revenue stabilization when the budget is approved. The Board must adopt a separate resolution appropriating these funds prior to their expenditure.
- **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, 2015**

**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, 2015 total \$998,696 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 and the School Board is authorized to transfer budgeted amounts within its major categories, which include administration, instruction, attendance, health, etc. School system revisions between these major categories requires approval by the Board of Supervisors.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 Improvements Fund. Program and project budgets are utilized for the Capital Improvements 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 \$10,343,387 during the current year primarily for transfers for public safety, health and welfare, education, 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:

	<b>Primary Government</b>	<b>Component Unit – School Board</b>	
	<b>General Fund</b>	<b>Operating</b>	<b>Cafeteria</b>
Net change in fund balance (budgetary basis)	\$ 3,284,955	\$ 1,034,625	\$ (24,508)
Adjustments:			
Tax and other accruals and due from other entities/funds, net of deferred revenue:			
June 30, 2015	9,855,055	10,099,798	(93,416)
June 30, 2014	(9,374,181)	(7,623,005)	(404,830)
Inventory:			
June 30, 2015	-	-	148,216
June 30, 2014	-	-	(101,333)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2015	(10,407,860)	(10,099,798)	(216,908)
June 30, 2014	8,857,641	8,749,127	251,485
Net change in fund balance (GAAP basis)	<u>\$ 2,215,610</u>	<u>\$ 2,160,747</u>	<u>\$ (441,294)</u>

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2015

#### 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-2)	\$ 101,349,372
Principal and other debt service expenditures included in primary Government (Exhibit 4)	18,542,784
Total expenditures for school activities	<u>\$ 119,892,156</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, 2015**

**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	\$ 53,306,172	NA	41%
SNAP	1,397,013	AAA	37%
Money market accounts	15,350,088	AAAm	22%
Total	<u>\$ 70,053,273</u>		<u>100%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 3,478,667</u>	NA	<u>100%</u>

Deposits and investments are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
Deposits and investments		
Cash and cash equivalents	\$ 52,466,568	\$ 3,458,059
Investments, restricted	16,747,102	-
Cash and cash equivalents, restricted	839,603	20,608
	<u>\$ 70,053,273</u>	<u>\$ 3,478,667</u>

**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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 4. Deposits and Investments (Continued)**

**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**

At year end, the County is only invested in SNAP, which has 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. All investment activity during the year was in securities of the type held 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.

**Note 5. Receivables**

Receivables are as follows:

	<b>General</b>	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>
Taxes	\$ 3,874,450	\$ -	\$ -	\$ 3,874,450
Accounts	405,000	369,301	275,137	1,049,438
Gross receivables	4,279,450	369,301	275,137	4,923,888
Allowance for uncollectibles	(975,000)	(30,000)	(25,000)	(1,030,000)
Net receivables	<u>\$ 3,304,450</u>	<u>\$ 339,301</u>	<u>\$ 250,137</u>	<u>\$ 3,893,888</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 25% of the total taxes receivable and is based on historical collection rates.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 5. Receivables (Continued)**

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	\$ 1,906,394
Unearned	<u>479,610</u>
Total	<u><u>\$ 2,386,004</u></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 uncollectibles. 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 2015 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.

**Restricted Note Receivable – EDA**

During 2008, the EDA entered into agreements with the Town of Blacksburg (the "Town") and Blacksburg Motor Partners, LP (the "LP") to facilitate the rehabilitation of the Blacksburg Motor Company building for future use by the Town. As part of this agreement, the Town contributed \$3,325,000 to the EDA that was then loaned to the LP. This loan accrues interest at 6% monthly and is presented as restricted in the statement of net position as any receipts collected on this note are due upon demand to the Town.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 6. Due to/from Other Governmental Units**

Due to other governmental units consists of the following:

	<b>General Fund</b>
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Delinquent fees collected by the Commonwealth's Attorney	79,030
	<u>\$ 459,030</u>

Due from other governmental units consists of the following:

	<b>General Fund</b>	<b>Component Unit – School Board</b>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,444,587	\$ -
State sales tax	-	1,880,731
Categorical aid – shared expenses	481,753	-
Categorical aid – schools	-	78,600
Non-categorical aid	167,582	-
Excess clerk fees	28,279	-
Virginia public assistance funds	140,735	-
Comprehensive services act	229,300	-
Metropolitan Planning Organization	55,198	-
Transportation enhancement funds	3,968	-
<u>Federal Government:</u>		
Virginia public assistance funds	242,471	-
Categorical aid – school grants	-	587,699
	<u>\$ 2,793,873</u>	<u>\$ 2,547,030</u>

**Note 7. Interfund Balances and Transfers**

Interfund balances consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	General	\$ 2,532
Wastewater	General	\$ 7,279

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 7. Interfund Balances and Transfers (Continued)**

The Water and Wastewater funds provided cash designated internally for health insurance claims to the General fund at year end, resulting in receivables from the General fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 2,913,348
General	County Capital Improvements	\$ 665,975

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

**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	\$ 14,247,364	\$ -	\$ 9,778	\$ 14,237,586
Construction in progress	22,827,544	3,928,037	14,767,904	11,987,677
Total capital assets, not depreciated	37,074,908	3,928,037	14,777,682	26,225,263
Capital assets, depreciated:				
Buildings and improvements	276,668,029	24,659,429	513,058	300,814,400
Machinery and equipment	21,820,995	1,837,912	908,338	22,750,569
Total capital assets, depreciated	298,489,024	26,497,341	1,421,396	323,564,969
Less accumulated depreciation:				
Buildings and improvements	33,002,508	7,879,205	496,802	40,384,911
Machinery and equipment	13,621,310	1,375,776	463,680	14,533,406
Total accumulated depreciation	46,623,818	9,254,981	960,482	54,918,317
Total capital assets, depreciated, net	251,865,206	17,242,360	460,914	268,646,652
Capital assets, net	<u>\$288,940,114</u>	<u>\$ 21,170,397</u>	<u>\$ 15,238,596</u>	<u>\$294,871,915</u>

(Continued)



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 8. Capital Assets (Continued)**

**Primary Government (Continued)**

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land, improvements, and rights	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in progress	9,841	6,600	16,441	-
Intangible asset (Note 18)	877,000	-	-	877,000
Total capital assets, not depreciated	1,227,230	6,600	16,441	1,217,389
Capital assets, depreciated:				
Wastewater systems	17,082,461	-	-	17,082,461
Water systems	14,800,978	427,947	-	15,228,925
Buildings and improvements	134,614	155,500	-	290,114
Machinery and equipment	1,286,437	51,773	-	1,338,210
Total capital assets, depreciated	33,304,490	635,220	-	33,939,710
Less accumulated depreciation:				
Wastewater systems	8,717,226	431,065	-	9,148,291
Water systems	6,080,003	369,587	-	6,449,590
Buildings and improvements	93,652	9,964	-	103,616
Machinery and equipment	635,077	57,404	-	692,481
Less accumulated depreciation	15,525,958	868,020	-	16,393,978
Total capital assets, depreciated, net	17,778,532	(232,800)	-	17,545,732
Capital assets, net	<u>\$ 19,005,762</u>	<u>\$ (226,200)</u>	<u>\$ 16,441</u>	<u>\$ 18,763,121</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 191,592
Judicial administration	6,953
Public safety	937,230
Public works	1,899,668
Health and welfare	26,491
Education	6,131,157
Parks, recreation, and cultural	50,128
Community development	11,762
	<u>\$ 9,254,981</u>
Business-type activities:	
Water	\$ 407,283
Wastewater	460,737
	<u>\$ 868,020</u>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**Note 8. Capital Assets (Continued)**

**Primary Government (Continued)**

The County's construction commitment as of June 30 is as follows:

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Balance</b>
Public Safety Building	\$ 8,301,859	\$ 107,810

**Component Unit – School Board**

Capital asset activity for the year was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 386,257	\$ -	\$ -	\$ 386,257
Total capital assets, not depreciated	386,257	-	-	386,257
Capital assets, depreciated:				
Buildings and improvements	31,525,160	-	-	31,525,160
Machinery and equipment	15,378,881	1,033,220	934,182	15,477,919
Total capital assets, depreciated	46,904,041	1,033,220	934,182	47,003,079
Less accumulated depreciation:				
Buildings and improvements	31,364,371	82,263	-	31,446,634
Machinery and equipment	10,339,644	980,882	934,182	10,386,344
Total accumulated depreciation	41,704,015	1,063,145	934,182	41,832,978
Total capital assets, depreciated, net	5,200,026	(29,925)	-	5,170,101
Capital assets, net	\$ 5,586,283	\$ (29,925)	\$ -	\$ 5,556,358

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 124,192,120	\$ -	\$ 4,715,329	\$ 119,476,791	\$ 5,161,626
Lease revenue bonds	68,115,127	-	4,792,533	63,322,594	4,836,777
Literary fund loans	2,000,000	-	250,000	1,750,000	250,000
Refunding bonds	31,915,147	11,572,000	15,642,362	27,844,785	4,312,763
Landfill post-closure (Note 10)	1,062,644	-	17,891	1,044,753	99,841
OPEB (Note 12)	1,560,151	191,693	85,300	1,666,544	-
Compensated absences	2,992,558	1,939,100	2,030,683	2,900,975	2,030,683
Governmental activities long-term liabilities	<u>\$ 231,837,747</u>	<u>\$ 13,702,793</u>	<u>\$ 27,534,098</u>	<u>\$ 218,006,442</u>	<u>\$ 16,691,690</u>
<b>Business – Type Activities:</b>					
Revenue bonds	\$ 5,952,598	\$ -	\$ 259,795	\$ 5,692,803	\$ 266,232
Membership fee payable (Note 18)	1,278,478	-	21,953	1,256,525	22,392
OPEB (Note 12)	142,749	17,538	-	160,287	-
Compensated absences	147,199	126,192	103,040	170,351	119,246
Business-type activities long-term liabilities	<u>\$ 7,521,024</u>	<u>\$ 143,730</u>	<u>\$ 384,788</u>	<u>\$ 7,279,966</u>	<u>\$ 407,870</u>
<b>Component Unit – School Board</b>					
OPEB (Note 12)	\$ 6,680,689	\$ 751,992	\$ 453,000	\$ 6,979,681	\$ -
Compensated absences	3,845,187	2,466,740	2,615,664	3,696,263	2,615,664
Component unit – school board long-term liabilities	<u>\$ 10,525,876</u>	<u>\$ 3,218,732</u>	<u>\$ 3,068,664</u>	<u>\$ 10,675,944</u>	<u>\$ 2,615,664</u>

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**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
2016	\$ 5,161,626	\$ 5,697,383	\$ 4,836,777	\$ 2,985,941	\$ 4,312,763	\$ 811,199	\$ 250,000	\$ 52,500
2017	5,363,813	5,575,370	4,882,889	2,752,577	4,435,022	682,935	250,000	45,000
2018	5,496,936	5,428,828	4,930,952	2,554,717	4,346,000	552,630	250,000	37,500
2019	5,753,156	5,273,090	4,981,043	2,317,376	4,466,000	429,316	250,000	30,000
2020	7,157,376	5,100,365	5,033,249	2,077,919	3,897,000	299,135	250,000	22,500
2021-2025	44,338,296	21,362,659	23,677,684	6,915,503	6,388,000	316,953	500,000	22,500
2026-2030	36,355,588	11,379,144	14,980,000	1,872,500	-	-	-	-
2031-2035	9,850,000	985,750	-	-	-	-	-	-
	<u>\$ 119,476,791</u>	<u>\$ 60,802,589</u>	<u>\$ 63,322,594</u>	<u>\$ 21,476,533</u>	<u>\$ 27,844,785</u>	<u>\$ 3,092,168</u>	<u>\$ 1,750,000</u>	<u>\$ 210,000</u>

Year Ended June 30	Business-Type Activities			
	Revenue Bonds		Membership Fee Payable	
	Principal	Interest	Principal	Interest
2016	\$ 266,232	\$ 136,497	\$ 22,392	\$ 25,131
2017	272,828	129,901	22,840	24,683
2018	279,588	123,141	23,297	24,226
2019	286,515	116,214	23,763	23,760
2020	293,614	109,115	24,238	23,285
2021 – 2025	1,580,867	432,778	128,657	108,955
2026 – 2030	1,778,218	227,027	142,048	95,564
2031 – 2035	934,941	29,878	156,832	80,780
2036 – 2040	-	-	173,156	64,457
2041 – 2045	-	-	191,178	46,435
2046 – 2050	-	-	211,075	26,537
2051 – 2055	-	-	137,049	5,518
	<u>\$ 5,692,803</u>	<u>\$ 1,304,551</u>	<u>\$ 1,256,525</u>	<u>\$ 549,331</u>

# COUNTY OF MONTGOMERY, VIRGINIA

## NOTES TO FINANCIAL STATEMENTS

June 30, 2015

### 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	Business-type Activities
<b>General Obligation Bonds:</b>						
School Construction Bonds	4.6 - 5.8%	05/02/96	2017	\$ 3,870,000	\$ 390,000	\$ -
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	726,319	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	1,060,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	4,976,944	-
Qualified School Construction Bonds	-	11/13/09	2027	8,249,998	5,823,528	-
Qualified School Construction Bonds	-	07/08/11	2027	13,370,000	10,860,000	-
Qualified School Construction Bonds	-	12/15/11	2031	15,000,000	15,000,000	-
Virginia Public School Authority Bonds	4.0 - 5.0	12/06/11	2032	86,115,000	80,640,000	-
					<u>\$ 119,476,791</u>	<u>\$ -</u>
<b>Revenue Bonds:</b>						
Lease Revenue Bond	4.2%	01/14/04	2024	\$ 5,000,000	\$ 2,725,425	\$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	2,725,425	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	5,441,744	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	52,430,000	-
Water and Sewer Refunding Bond	2.45	03/28/13	2032	6,275,000	-	5,692,803
					<u>\$ 63,322,594</u>	<u>\$ 5,692,803</u>
<b>Refunding Bonds:</b>						
Refunding Bond	6.8%	07/01/98	2017	\$ 2,330,468	\$ 402,785	\$ -
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	7,030,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	8,840,000	-
Refunding Bond	1.6	02/26/15	2021	11,572,000	11,572,000	-
					<u>\$ 27,844,785</u>	<u>\$ -</u>
<b>Other Long-Term Debt:</b>						
State Literary Fund Loan	3.0%	01/20/01	2021	\$ 5,000,000	\$ 1,750,000	\$ -

### Current year refunding

On February 26, 2015, the County issued \$11,572,000 in 2015 refunding bonds. Proceeds of the bonds, with an average interest rate of 1.6%, were used to current refund the Series 2005A and 2005B lease revenue bonds maturing March 1, 2015 through March 1, 2021 with an average interest rate of 3.23%. The net proceeds of approximately \$11,462,816 (after payment of \$109,185 in issuance costs) and additional \$1,933,449 in County funds were used to current refund the 2005A and 2005B bonds.

The County competed the refunding to reduce its total debt service payments over the next six years by \$1,175,106 and to obtain economic gain (difference between the present values of the old and new debt service payments) of \$1,116,141.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 \$1,044,753 reported post-closure care liability represents what it would cost to perform all post-closure care in 2015. 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**

**County and School Non-professional Employees**

**Plan Description**

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

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

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

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<p><b>Eligible Members</b></p> <p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b></p> <p>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p><b>Eligible Members</b></p> <p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b></p> <p>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p><b>Eligible Members</b></p> <p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• 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.</li> </ul> <p><b>*Non-Eligible Members</b></p> <p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</li> </ul> <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
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**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<b>Retirement Contributions</b>	<b>Retirement Contributions</b>	<b>Retirement Contributions</b>
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.	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.	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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

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

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

		<p><b>Vesting (Continued)</b></p> <p><b><u>Defined Contributions Component: (Continued)</u></b></p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b></p> <p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b></p> <p>See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>See definition under Plan 1.</p> <p><b><u>Defined Contribution Component:</u></b></p> <p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<p><b>Average Final Compensation</b></p> <p>A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b></p> <p>A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b></p> <p>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b></p> <p><b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b></p> <p><b>VRS:</b> Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p><b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b></p> <p>Not applicable.</p>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

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

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<p><b>Earliest Reduced Retirement Eligibility</b></p> <p><b>VRS:</b> Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> 50 with at least five years of creditable service.</p>	<p><b>Earliest Reduced Retirement Eligibility</b></p> <p><b>VRS:</b> Age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Earliest Unreduced Retirement Eligibility</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p><b>VRS:</b> Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b><u>Defined Contribution Component:</u></b></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><b><u>Eligibility:</u></b></p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><b><u>Eligibility:</u></b></p> <p>Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p><b><u>Defined Benefit Component:</u></b></p> <p>Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b></p> <p>Not applicable.</p> <p><b><u>Eligibility:</u></b></p> <p>Same as Plan 1 and Plan 2.</p>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b>	<b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b>	<b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b>
<p><b><u>Eligibility:</u></b> (Continued)</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		
<p><b><u>Exceptions to COLA Effective Dates:</u></b></p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> </ul>	<p><b><u>Exceptions to COLA Effective Dates:</u></b></p> <p>Same as Plan 1.</p>	<p><b><u>Exceptions to COLA Effective Dates:</u></b></p> <p>Same as Plan 1 and Plan 2.</p>

(Continued)



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</b></p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> (Continued)</p> <ul style="list-style-type: none"> <li>• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.</li> </ul>		
<p><b>Disability Coverage</b></p> <p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage</b></p> <p>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.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Plan Description (Continued)**

<b>Purchase of Prior Service</b>	<b>Purchase of Prior Service</b>	<b>Purchase of Prior Service</b>
<p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Same as Plan 1.</p>	<p><b><u>Defined Benefit Component:</u></b></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation.</li> <li>• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.</li> </ul> <p><b><u>Defined Contribution Component:</u></b></p> <p>Not applicable.</p>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Employees Covered by Benefit Terms**

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<b>Number</b>	
	<b>County</b>	<b>School Non- professional</b>
Inactive members or their beneficiaries currently receiving benefits	251	143
Inactive members:		
Vested inactive members	73	13
Non-vested inactive members	82	70
Inactive members active elsewhere in VRS	185	41
Total inactive members	340	124
Active members	364	173
Total covered employees	955	440

**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.

The contractually required contribution rates for the year ended June 30, 2015 as a percentage of covered employee compensation were as follows. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

<b>County</b>	<b>School Non-professional</b>
13.11%	8.70%

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Contributions (Continued)**

These rates, when combined with employee contributions, were expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan were as follows for the years ended June 30, 2015 and June 30, 2014, respectively.

	<u>County</u>	<u>School Non-professional</u>
2015	\$ 2,204,416	\$ 451,982
2014	\$ 1,772,872	\$ 469,880

**Net Pension Liability**

The political subdivision's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

**Actuarial Assumptions – General Employees**

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 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:

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

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

Largest 10 – Non-LEOS:

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

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

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

**Actuarial Assumptions – Public Safety Employees**

The total pension liability for Public Safety employees in the Political Subdivision Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

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

Largest 10 – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Long-Term Expected Rate of Return**

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

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

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



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Discount Rate**

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the 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.

**Changes in Net Pension Liability - County**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
Balances at June 30, 2013	\$ 73,198,943	\$ 55,977,949	\$ 17,220,994
Changes for the year:			
Service cost	1,987,518	-	1,987,518
Interest	5,014,694	-	5,014,694
Differences between expected and actual experience	-	-	-
Contributions – employer	-	1,777,329	(1,777,329)
Contributions – employee	-	894,800	(894,800)
Net investment income	-	8,832,131	(8,832,131)
Benefit payments, including refunds of employee contributions	(3,120,914)	(3,120,914)	-
Administrative expenses	-	(47,509)	47,509
Other changes	-	465	(465)
Net changes	3,881,298	8,336,302	(4,455,004)
Balances at June 30, 2014	\$ 77,080,241	\$ 64,314,251	\$ 12,765,990

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

**Changes in Net Pension Liability – School Non-professional**

	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) – (b)</b>
Balances at June 30, 2013	\$ 21,326,264	\$ 16,425,296	\$ 4,900,968
Changes for the year:			
Service cost	525,743	-	525,743
Interest	1,455,818	-	1,455,818
Differences between expected and actual experience	-	-	-
Contributions – employer	-	-	-
Contributions – employee	-	469,880	(469,880)
Net investment income	-	268,846	(268,846)
Benefit payments, including refunds of employee contributions	-	2,572,433	(2,572,433)
Administrative expenses	(1,057,738)	(1,057,738)	-
Other changes	-	(13,997)	13,997
	<u>-</u>	<u>136</u>	<u>(136)</u>
Net changes	<u>923,823</u>	<u>2,239,560</u>	<u>(1,315,737)</u>
Balances at June 30, 2014	<u>\$ 22,250,087</u>	<u>\$ 18,664,856</u>	<u>\$ 3,585,231</u>

**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:

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
<u>Net Pension Liability</u>			
County	<u>\$ 23,284,290</u>	<u>\$ 12,765,990</u>	<u>\$ 4,082,375</u>
School Non-professional	<u>\$ 6,414,586</u>	<u>\$ 3,585,231</u>	<u>\$ 1,229,169</u>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

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

For the year ended June 30, 2015, the County and School Non-professional Employees recognized pension expense of \$1,267,147 and \$301,593, respectively. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<b><u>County</u></b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	3,944,822
Employer contributions subsequent to the measurement date	<u>2,204,416</u>	<u>-</u>
Total	<u>\$ 2,204,416</u>	<u>\$ 3,944,822</u>
<b><u>School Non-professional Employees</u></b>	<b><u>Deferred Outflows of Resources</u></b>	<b><u>Deferred Inflows of Resources</u></b>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	1,147,450
Employer contributions subsequent to the measurement date	<u>451,982</u>	<u>-</u>
Total	<u>\$ 451,982</u>	<u>\$ 1,147,450</u>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**County and School Non-professional Employees (Continued)**

The deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	<u>Reduction to Pension Expense</u>	
	<u>County</u>	<u>School Non-professional</u>
2016	\$ (986,206)	\$ (286,863)
2017	\$ (986,206)	\$ (286,863)
2018	\$ (986,206)	\$ (286,863)
2019	\$ (986,204)	\$ (286,861)
Thereafter	\$ -	\$ -

**Teacher Cost Sharing Pool**

**General Information about the Teacher Cost Sharing Pool**

**Plan Description**

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Teacher Cost Sharing Pool (Continued)**

**General Information about the Teacher Cost Sharing Pool (Continued)**

**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, 2015 was 14.50% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013. The actuarial rate for the Teacher Retirement Plan was 18.20%. 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, 2015. Contributions to the pension plan from the school division were \$6,452,705 and \$8,701,729 for the years ended June 30, 2015 and June 30, 2014, respectively.

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

At June 30, 2015, the school division reported a liability of \$75,783,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2014 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, 2014 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2014, the school division's proportion was 0.6271% as compared to 0.61283% at June 30, 2013.

For the year ended June 30, 2015, the school division recognized pension expense of \$6,351,000. Since there was a change in proportionate share between June 30, 2013 and June 30, 2014, 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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Teacher Cost Sharing Pool (Continued)**

**General Information about the Teacher Cost Sharing Pool (Continued)**

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

At June 30, 2015, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	11,247,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	1,603,271	-
Employer contributions subsequent to the measurement date	<u>6,452,705</u>	<u>-</u>
Total	<u>\$ 8,055,976</u>	<u>\$ 11,247,000</u>

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, 2016. 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 Ended June 30,**

2016	\$ (2,456,000)
2017	(2,456,000)
2018	(2,456,000)
2019	(2,456,000)
2020	180,271

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Teacher Cost Sharing Pool (Continued)**

**General Information about the Teacher Cost Sharing Pool (Continued)**

**Actuarial Assumptions**

The total pension liability for the VRS Teacher Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.95%
Investment rate of return	7.00%, net of pension plan investment expense, including inflation*

\* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.00%. However, since the difference was minimal, and a more conservative 7.00% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.00% to simplify preparation of pension liabilities.

**Mortality rates:**

**Pre-Retirement:**

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

**Post-Retirement:**

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

**Post-Disablement:**

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Teacher Cost Sharing Pool (Continued)**

**General Information about the Teacher Cost Sharing Pool (Continued)**

**Actuarial Assumptions (Continued)**

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the four-year period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Teacher Cost Sharing Pool (Continued)**

**General Information about the Teacher Cost Sharing Pool (Continued)**

**Long-Term Expected Rate of Return**

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

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

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

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 11. Defined Benefit Pension Plans (Continued)**

**Teacher Cost Sharing Pool (Continued)**

**General Information about the Teacher Cost Sharing Pool (Continued)**

**Discount Rate**

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

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

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

	<b>1.00% Decrease (6.00%)</b>	<b>Current Discount Rate (7.00%)</b>	<b>1.00% Increase (8.00%)</b>
School division's proportionate share of the VRS teacher employee retirement plan net pension liability	<u>\$ 111,280,000</u>	<u>\$ 75,783,000</u>	<u>\$ 46,558,000</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 2014 Comprehensive Annual Financial Report (CAFR). A copy of the 2014 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-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, 2015**

**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, 2013, the number of County participants was 378, consisting of 364 active and 14 inactive. The number of School participants was 1,146, consisting of 1,088 active and 58 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, 2015 of \$209,231 are described below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$85,300 for retirees, resulted in a net OPEB obligation of \$1,826,831 for the year ended June 30, 2015.

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Annual required contribution	\$ 194,779	\$ 17,821	\$ 212,600
Interest on net OPEB obligation	54,604	4,996	59,600
Adjustment to annual required contribution	<u>(57,690)</u>	<u>(5,279)</u>	<u>(62,969)</u>
Annual OPEB cost	191,693	17,538	209,231
Less contributions made	<u>(85,300)</u>	<u>-</u>	<u>(85,300)</u>
Increase in net OPEB obligation	106,393	17,538	123,931
Net OPEB obligation – beginning of year	<u>1,560,151</u>	<u>142,749</u>	<u>1,702,900</u>
Net OPEB obligation – end of year	<u><u>\$ 1,666,544</u></u>	<u><u>\$ 160,287</u></u>	<u><u>\$ 1,826,831</u></u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 12. Other Postemployment Benefits (Continued)**

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

The components of the School's annual OPEB cost (expense) for the fiscal year ended June 30, 2015 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$453,000 for retirees, resulted in a net OPEB obligation of \$6,979,679 for the current year.

Annual required contribution	\$ 765,200
Interest on net OPEB obligation	233,825
Adjustment to annual required contribution	<u>(247,033)</u>
Annual OPEB cost	751,992
Less contributions made	<u>(453,000)</u>
Increase in net OPEB obligation	298,992
Net OPEB obligation-beginning of year	<u>6,680,689</u>
Net OPEB obligation-end of year	<u><u>\$ 6,979,681</u></u>

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.

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>County:</b>			
June 30, 2015	\$ 209,231	40.77%	\$ 1,826,831
June 30, 2014	199,991	34.75	1,702,900
June 30, 2013	414,505	16.04	1,572,407
<b>School Board:</b>			
June 30, 2015	\$ 751,992	60.24%	\$ 6,979,681
June 30, 2014	725,488	58.48	6,680,689
June 30, 2013	1,541,988	19.91	6,379,501

**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, 2015**

**Note 12. Other Postemployment Benefits (Continued)**

**Funded Status and Funding Progress (Continued)**

<b>Required Supplementary Information</b> <b>Schedule of Funding Progress – Other Postemployment Benefits</b>						
<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>County:</b>						
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
July 1, 2009	-	3,309,453	3,309,453	0	15,634,455	21.17
<b>School Board:</b>						
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
July 1, 2009	-	14,324,780	14,324,780	0	46,462,305	30.83

**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, 2013 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 7% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.8%. 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, 2015**

**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 \$3,452,212 and \$7,147,188 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 \$543,796 and \$969,000 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, 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, 2015	\$ -	\$ 7,147,188	\$ 6,178,188	\$ 969,000

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 \$1,904,199.

**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>\$ 5,626,109</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**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 \$2,739,570 and \$89,769,940, 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, 2015**

**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:

	<b>General Fund</b>	<b>Capital Improvements Fund</b>
Fund Balances:		
Nonspendable:		
Long-term advances and notes receivable	\$ 6,392,736	\$ -
Restricted:		
General government administration	-	1,321,010
Judicial administration	52,836	-
Public safety	163,463	712,936
Public works	50,000	4,228,659
Health and welfare	367,194	-
Education	-	-
Parks, recreation, and culture	-	62,394
Community development	-	30,901
Debt service reserves	-	9,057,768
Committed:		
General government administration	368,547	1,694,379
Judicial administration	112,719	-
Public safety	299,072	710,218
Public works	182,195	-
Health and welfare	8,500	-
Education	1,517,666	8,319,405
Parks, recreation, and culture	103,990	-
Community development	36,582	-
Assigned:		
General government administration	3,780,256	-
Judicial administration	78,082	-
Public safety	208,420	-
Public works	162,576	-
Health and welfare	139,422	-
Education	2,989,898	-
Parks, recreation, and culture	565,763	-
Community development	82,051	-
Unassigned:	21,285,382	-
Total fund balance	<u>\$ 38,947,350</u>	<u>\$ 26,137,670</u>

## **COUNTY OF MONTGOMERY, VIRGINIA**

### **NOTES TO FINANCIAL STATEMENTS**

**June 30, 2015**

**Note 17. Concentrations**

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

**Note 18. Service Contracts**

The 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 \$2,866,000 beginning as early as 2016 and spanning over the next twenty years.

**Note 19. Adoption of New Standard and Prior Period Restatement**

In the current year the County and Schools adopted GASB Statement No. 68, Accounting and Financial Reporting for Pensions—an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71. This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2015**

**Note 19. Adoption of New Standard and Prior Period Restatement (Continued)**

The following is a summary of the restatements to fund balance and net position, as applicable, resulting from the adoption of GASB Statement No. 68:

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Water Fund</b></u>	<u><b>Wastewater Fund</b></u>	<u><b>School Board</b></u>
Fund balance/net position, July 1, 2014, as previously reported	\$ 120,043,161	\$ 14,203,122	\$ 8,854,857	\$ 6,626,743	\$ (1,453,186)
Recognition of pension related liabilities and deferred outflows in accordance with GASB No. 68	<u>(14,697,515)</u>	<u>(746,150)</u>	<u>(385,922)</u>	<u>(360,228)</u>	<u>(83,506,817)</u>
Fund balance/net position, July 1, 2014, as restated	<u><u>\$ 105,345,646</u></u>	<u><u>\$ 13,456,972</u></u>	<u><u>\$ 8,468,935</u></u>	<u><u>\$ 6,266,515</u></u>	<u><u>\$ (84,960,003)</u></u>

**Note 20. New Accounting Standards**

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

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

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, 2015**

**Note 20. New Accounting Standards (Continued)**

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

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.

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

**Note 21. Subsequent Events**

**Economic Development Authority**

**Financing:**

On July 2, 2015, the Authority signed a note payable to the Virginia Small Business Financing Authority for \$1,000,000 at an interest rate of 2.44%. The proceeds of the note, which matures on July 2, 2025, were used to pay down \$1,000,000 of the First Bank and Trust note payable.

On October 14, 2015, the Authority amended the revenue bonds. The amended bonds increased the face amount by \$1,153,035 and was used to redeem the Bank of Floyd note payable. The interest rate for the amended bonds is fixed at 2.57% until the bonds mature on October 1, 2020. The bonds are amortized over 20 years and have a balloon payment when they mature.

## **REQUIRED SUPPLEMENTARY INFORMATION**

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## EXHIBIT 9

## COUNTY OF MONTGOMERY, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**For the Year Ended June 30, 2015**

	<b>Primary Government</b>	<b>Schools – Nonprofessional Employees</b>
<b>Total Pension Liability</b>		
Service cost	\$ 1,987,518	\$ 525,743
Interest on total pension liability	5,014,694	1,455,818
Benefit payments, including refunds of employee contributions	(3,120,914)	(1,057,738)
Net change in total pension liability	3,881,298	923,823
<b>Total pension liability - beginning</b>	73,198,943	21,326,264
<b>Total pension liability - ending</b>	77,080,241	22,250,087
<b>Plan Fiduciary Net Position</b>		
Contributions - employer	1,777,329	469,880
Contributions - employee	894,800	268,846
Net investment income	8,832,131	2,572,433
Benefit payments, including refunds of employee contributions	#####	#####
Administrative expenses	(47,509)	(13,997)
Other	465	136
Net change in plan fiduciary net position	8,336,302	2,239,560
<b>Plan fiduciary net position - beginning</b>	55,977,949	16,425,296
<b>Plan fiduciary net position - ending</b>	64,314,251	18,664,856
<b>Net pension liability - ending</b>	<u><u>\$ 12,765,990</u></u>	<u><u>\$ 3,585,231</u></u>
Plan fiduciary net position as a percentage of total pension liability	<u><u>83%</u></u>	<u><u>84%</u></u>
Covered employee payroll	<u><u>\$ 16,814,775</u></u>	<u><u>\$ 5,195,195</u></u>
Net pension liability as a percentage of covered employee payroll	<u><u>76%</u></u>	<u><u>69%</u></u>

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

## COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF PENSION CONTRIBUTIONS

June 30, 2015

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
<b>Primary Government</b>					
2015	\$ 2,204,416	\$ 2,204,416	\$ -	\$ 16,814,775	13.11%
<b>Schools - Nonprofessional Employees</b>					
2015	\$ 451,982	\$ 451,982	\$ -	\$ 5,195,195	8.70%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

## COUNTY OF MONTGOMERY, VIRGINIA

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY**  
**VRS TEACHER RETIREMENT PLAN**  
**June 30, 2015**

<b>Year Ended June 30</b>	<b>Employee's Proportion of the Net Pension Liability (Asset)</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset)</b>	<b>Employer's Covered Employee Payroll</b>	<b>Employer's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Employee Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>
2015	0.6271%	\$ 75,783,000	\$ 44,501,414	170.29%	70.88%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, 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, 2015**

<b>Year Ended June 30</b>	<b>Contractually Required Contribution</b>	<b>Contributions in Relation to Contractually Required Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Employee Payroll</b>	<b>Contributions as a Percentage of Covered Employee Payroll</b>
2015	\$ 6,452,705	\$ 6,452,705	\$ -	\$ 44,501,414	14.50%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2015**

**Note 1. Changes of Benefit Terms**

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

**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**

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

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**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, 2015**

	<b>School Operating</b>	<b>School Cafeteria</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,160,747	\$ 1,297,312	\$ 3,458,059
Due from primary government	7,552,768	-	7,552,768
Due from other governmental units	2,547,030	-	2,547,030
Inventories	-	148,216	148,216
Cash and cash equivalents, restricted	20,608	-	20,608
Total assets	<u>\$ 12,281,153</u>	<u>\$ 1,445,528</u>	<u>\$ 13,726,681</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 1,879,660	\$ 2,417	\$ 1,882,077
Accrued payroll and related liabilities	8,041,983	214,491	8,256,474
Compensated absences	92,664	-	92,664
Amounts held for others	20,608	-	20,608
Unearned revenues	-	93,416	93,416
Total liabilities	<u>10,034,915</u>	<u>310,324</u>	<u>10,345,239</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues	<u>85,491</u>	<u>-</u>	<u>85,491</u>
<b>FUND BALANCES</b>			
Nonspendable	-	148,216	148,216
Committed	1,260,553	-	1,260,553
Assigned	-	986,988	986,988
Unassigned	<u>900,194</u>	<u>-</u>	<u>900,194</u>
Total fund balances	<u>2,160,747</u>	<u>1,135,204</u>	<u>3,295,951</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 12,281,153</u>	<u>\$ 1,445,528</u>	<u>\$ 13,726,681</u>
<b>Adjustments for the Statement of Net Position (Exhibit 1)</b>			
<b>Total fund balances</b>			\$ 3,295,951
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			5,556,358
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			686,621
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			6,904,687
Deferred outflows of resources for changes in proportion - teacher cost sharing plan			1,603,271
Deferred inflows of resources for the net difference between projected and actual investment earnings on pension plan investments			(12,394,450)
Net pension liability			(79,368,231)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			85,491
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.			(10,583,280)
<b>Net position of governmental activities</b>			<u>\$ (84,213,582)</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, 2015**

	<b>School Operating</b>	<b>School Cafeteria</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Revenue from use of money and property	\$ 88,888	\$ 6,218	\$ 95,106
Charges for services	83,374	1,694,883	1,778,257
Recovered costs	977,064	-	977,064
Intergovernmental	98,325,266	1,893,132	100,218,398
Total revenues	<u>99,474,592</u>	<u>3,594,233</u>	<u>103,068,825</u>
<b>EXPENDITURES</b>			
Instruction	73,577,768	-	73,577,768
Administration, attendance, and health	3,886,937	-	3,886,937
Pupil transportation	4,635,960	-	4,635,960
Operations and maintenance	15,017,570	-	15,017,570
Non-instructional	195,610	-	195,610
School nutrition	-	4,035,527	4,035,527
Total expenditures	<u>97,313,845</u>	<u>4,035,527</u>	<u>101,349,372</u>
Deficiency of revenues over expenditures	<u>2,160,747</u>	<u>(441,294)</u>	<u>1,719,453</u>
Net change in fund balances	2,160,747	(441,294)	1,719,453
<b>FUND BALANCE AT JULY 1</b>	<u>-</u>	<u>1,576,498</u>	<u>1,576,498</u>
<b>FUND BALANCE AT JUNE 30</b>	<u><u>\$ 2,160,747</u></u>	<u><u>\$ 1,135,204</u></u>	<u><u>\$ 3,295,951</u></u>

**Reconciliation to the Statement of Activities (Exhibit 2)**

**Net change in fund balances – total governmental funds** \$ 1,719,453

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 depreciation (\$1,063,145) exceeded capital outlay (\$1,033,220). (29,925)

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 6,904,687  
Pension expense (6,652,593)

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. (31,036)

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. (1,164,165)

**Change in net position of governmental activities** \$ 746,421

## 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, 2015**

	School Operating				School Cafeteria			
	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final			Original	Final		
<b>REVENUES</b>								
Revenue from use of money and property	\$ 50,000	\$ 50,000	\$ 88,888	\$ 38,888	\$ -	\$ -	\$ 6,218	\$ 6,218
Charges for services	17,000	17,000	83,374	66,374	2,608,863	2,608,863	1,721,963	(886,900)
Recovered costs	401,500	797,348	977,064	179,716	-	-	-	-
Intergovernmental	94,219,686	96,328,927	95,933,965	(394,962)	1,678,004	1,678,004	2,297,962	619,958
Total revenues	94,688,186	97,193,275	97,083,291	(109,984)	4,286,867	4,286,867	4,026,143	(260,724)
<b>EXPENDITURES</b>								
Instruction	73,087,631	73,908,380	72,779,444	1,128,936	-	-	-	-
Administration, attendance, and health	3,889,659	3,901,711	3,847,709	54,002	-	-	-	-
Pupil transportation	4,409,517	4,461,566	4,609,490	(147,924)	-	-	-	-
Operations and maintenance	13,290,567	14,683,328	14,616,412	66,916	-	-	-	-
Non-instructional	10,812	238,290	195,611	42,679	-	-	-	-
School nutrition	-	-	-	-	4,286,867	4,286,867	4,050,651	236,216
Total expenditures	94,688,186	97,193,275	96,048,666	1,144,609	4,286,867	4,286,867	4,050,651	236,216
Excess of revenues over expenditures	\$ -	\$ -	\$ 1,034,625	\$ 1,034,625	\$ -	\$ -	\$ (24,508)	\$ (24,508)



## **SUPPORTING SCHEDULE**

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SCHEDULE 1

COUNTY OF MONTGOMERY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2015

<u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u>	<u>Federal CFDA Number</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	\$ 279,058	
<u>Department of Agriculture and Consumer Services</u>			
Child Nutrition Cluster - National School Lunch Program	10.555	255,593	
<u>Department of Education:</u>			
Child Nutrition Cluster - School Breakfast Program	10.553	488,088	
Child Nutrition Cluster - National School Lunch Program	10.555	1,754,610	
Schools and Roads - Grants to States	10.665	26,744	
Total Department of Agriculture			<u>2,804,093</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	168,116	
Total Department of Homeland Security			<u>168,116</u>
<u>Department Of Justice:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Criminal Justice Services:</u>			
Crime Victim Assistance	16.575	105,740	
Total Department of Justice			<u>105,740</u>
<u>Department of Transportation:</u>			
<u>Pass-through Payments:</u>			
Safe Routes to Schools	20.205	10,389	
<u>Virginia Department of Transportation:</u>			
Highway Planning and Construction	20.205	369,997	
<u>Department of Motor Vehicles:</u>			
State and Community Highway Safety	20.600	24,117	
State and Community Highway Safety	20.607	14,620	
Total Department of Transportation			<u>419,123</u>

**SCHEDULE 1**

**COUNTY OF MONTGOMERY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2015**

<b><u>Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title</u></b>	<b><u>Federal CFDA Number</u></b>	<b><u>Federal Expenditures</u></b>	<b><u>Department Totals</u></b>
<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	\$ 36,777	
Career and Technical Education - Basic Grants to States	84.048	95,139	
Advanced Placement Program	84.330	3,182	
English Language Acquisition Grants	84.365	10,083	
Improving Teacher Quality State Grants	84.367	346,020	
Title I, Part A Cluster			
Title I: Grants to Local Educational Agencies	84.010	1,765,563	
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	1,648,751	
Special Education - Preschool Grants	84.173	32,011	
Total Department of Education			<u>3,937,526</u>
<u>Department of Health and Human Services:</u>			
<u>Direct Payments:</u>			
Medical Assistance Program	93.778	397,751	
<u>Pass-through Payments:</u>			
<u>Department of Aging:</u>			
Support Services - Title III, Part B-			
Grants for Supportive Services Senior Centers	93.044	51,452	
<u>Montgomery County Health Department</u>			
Center for Disease Control and Prevention			
Public Health Emergency Preparedness	93.069	25,000	
<u>Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	2,019	
Temporary Assistance to Needy Families	93.558	39,088	
Chafee Education and Training Vouchers Program	93.599	341	
Child Welfare Services - State Grants	93.645	446	
Foster Care - Title IV-E	93.658	155,918	
Adoption Assistance	93.659	398,663	
Social Service Block Grant	93.667	260,749	
Chafee Foster Care Independence Program	93.674	1,143	
Children's Health Insurance Program	93.767	4,394	
Medical Assistance Program	93.778	82,329	
CCDF Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	56,396	
Total Department of Health and Human Services			<u>1,475,689</u>
Total Expenditures of Federal Awards			<u>\$ 8,910,287</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, 2015, 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 \$369,997.

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# STATISTICAL SECTION

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*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.*

<b><u>Contents</u></b>	<b><u>Table</u></b>
<b>Financial Trends</b> These tables contain trend information to help the reader understand how the County's financial performance and well-being have changed over time.	<b>1-4</b>
<b>Revenue Capacity</b> These tables contain information to help the reader assess the factors affecting the County's ability to generate its property and sales taxes.	<b>5-8</b>
<b>Debt Capacity</b> 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.	<b>9-10</b>
<b>Demographic and Economic Information</b> 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.	<b>11-13</b>
<b>Operating Information</b> 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.	<b>14-15</b>

**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									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Governmental activities</b>										
Net investments in capital assets	\$ 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	\$ 13,946,058
Restricted	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	4,775,145
Unrestricted	9,962,437	16,446,049	19,018,360	19,612,113	24,369,885	22,316,253	25,596,419	31,173,341	28,620,972	25,197,204
Total governmental activities net position	<u>\$ 118,245,052</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>	<u>\$ 43,918,407</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 13,070,318	\$ 13,053,164	\$ 13,246,729	\$ 14,241,772	\$ 14,203,773	\$ 14,245,583	\$ 14,575,475	\$ 15,138,853	\$ 14,983,849	\$ 15,153,224
Restricted	-	-	-	-	-	-	-	43,160	1,076,240	1,066,910
Unrestricted	315,118	1,149,958	1,569,751	1,019,032	810,324	698,850	954,433	917,729	(429,075)	(553,681)
Total business-type activities net position	<u>\$ 13,385,436</u>	<u>\$ 14,203,122</u>	<u>\$ 14,816,480</u>	<u>\$ 15,260,804</u>	<u>\$ 15,014,097</u>	<u>\$ 14,944,433</u>	<u>\$ 15,529,908</u>	<u>\$ 16,099,742</u>	<u>\$ 15,631,014</u>	<u>\$ 15,666,453</u>
<b>Primary government</b>										
Net investment in capital assets	\$ 112,295,165	\$ 107,443,253	\$ 96,300,380	\$ 85,313,319	\$ 69,436,810	\$ 61,380,128	\$ 50,905,745	\$ 43,778,063	\$ 37,484,101	\$ 29,099,282
Restricted	9,057,768	9,207,023	9,741,835	9,734,620	11,146,947	11,146,947	11,262,042	5,156,156	6,045,381	5,842,055
Unrestricted	9,277,555	17,596,007	20,588,111	20,631,145	25,180,209	23,015,103	26,550,852	32,091,070	28,191,897	24,643,523
Total primary government net position	<u>\$ 130,630,488</u>	<u>\$ 134,246,283</u>	<u>\$ 126,630,326</u>	<u>\$ 115,679,084</u>	<u>\$ 105,763,966</u>	<u>\$ 95,542,178</u>	<u>\$ 88,718,639</u>	<u>\$ 81,025,289</u>	<u>\$ 71,721,379</u>	<u>\$ 59,584,860</u>

TABLE 2

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

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Expenses</b>										
<b>Governmental activities</b>										
General government	\$ 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	\$ 6,593,077
Judicial administration	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	1,825,387
Public safety	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	9,066,413
Public works	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	4,184,143
Parks, recreation, and cultural	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	3,063,924
Health and welfare	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	8,262,381
Community development	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	1,344,053
Education	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	31,682,477
Interest on long-term debt	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	5,133,426
Total governmental activities	102,998,113	101,299,028	96,934,084	92,858,755	91,425,037	88,202,184	87,951,973	79,719,723	71,815,215	71,155,281
<b>Business-type activities</b>										
Water and Sewage	4,067,142	4,032,329	5,226,761	3,828,255	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338
Total business-type activities expense	4,067,142	4,032,329	5,226,761	3,828,255	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338
Total primary government expenses	\$ 107,065,255	\$ 105,331,357	\$ 102,160,845	\$ 96,687,010	\$ 95,204,034	\$ 92,176,703	\$ 92,022,235	\$ 83,450,301	\$ 75,471,408	\$ 74,481,619
<b>Program Revenues</b>										
<b>Governmental activities</b>										
Charges for services										
Public Safety	\$ 554,537	\$ 821,283	\$ 954,882	\$ 805,119	\$ 723,997	\$ 827,458	\$ 917,866	\$ 978,375	\$ 616,714	\$ 518,177
Public Works	365,211	128,492	157,054	172,662	305,159	296,302	123,341	105,007	125,741	127,070
Other Activities	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	1,430,050
Operating grants and contributions	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	13,466,588
Capital grants and contributions	-	-	-	-	-	-	-	-	24,121	81,630
Total governmental activities program revenues	16,429,767	15,811,520	14,993,888	16,019,410	16,169,027	18,579,273	17,691,731	18,244,162	16,559,844	15,623,515
<b>Business-type activities</b>										
Charges for services										
Water and Sewage	3,583,059	3,509,593	4,714,490	3,521,454	3,276,933	3,160,277	3,364,484	3,200,340	3,124,628	3,088,605
Capital grants and contributions	400,461	-	64,116	551,216	569,631	226,414	16,714	691,214	383,166	46,677
Total business-type activities program revenues	3,983,520	3,509,593	4,778,606	4,072,670	3,846,564	3,386,691	3,381,198	3,891,554	3,507,794	3,135,282
Total primary government program revenues	\$ 20,413,287	\$ 19,321,113	\$ 19,772,494	\$ 20,092,080	\$ 20,015,591	\$ 21,965,964	\$ 21,072,929	\$ 22,135,716	\$ 20,067,638	\$ 18,758,797
<b>Net (expense) revenue</b>										
Governmental activities	\$ (86,568,346)	\$ (85,487,508)	\$ (81,940,196)	\$ (76,839,345)	\$ (75,256,010)	\$ (69,622,911)	\$ (70,260,242)	\$ (61,475,561)	\$ (55,255,371)	\$ (55,531,766)
Business-type activities	(83,622)	(522,736)	(448,155)	244,415	67,567	(587,828)	(689,064)	160,976	(148,399)	(191,056)
Total primary government net expense	\$ (86,651,968)	\$ (86,010,244)	\$ (82,388,351)	\$ (76,594,930)	\$ (75,188,443)	\$ (70,210,739)	\$ (70,949,306)	\$ (61,314,585)	\$ (55,403,770)	\$ (55,722,822)
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental activities:</b>										
Taxes										
Property taxes	\$ 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	\$ 44,577,976
Sales taxes	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	6,774,857
Other taxes	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	1,844,216
Utility taxes	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	1,874,743
Intergovernmental revenue not restricted	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	5,581,348
Investment earnings	408,393	630,330	669,017	598,447	749,264	1,554,529	2,733,779	2,047,264	2,974,039	1,932,190
Gain on sale of property	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	5,250,000	-	(114,000)	-	(93,413)	(109,381)
Total governmental activities	98,467,752	96,090,397	93,335,762	86,507,756	85,408,134	77,031,925	78,163,726	73,038,343	67,427,329	62,475,949
<b>Business-type activities:</b>										
Investment earnings	12,086	8,236	3,831	2,292	2,097	2,353	5,230	10,658	19,547	11,411
Gain on sale of property	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	114,000	-	93,413	109,381
Total business-type activities	12,086	8,236	3,831	2,292	2,097	2,353	119,230	10,658	112,960	120,792
Total primary government	\$ 98,479,838	\$ 96,098,633	\$ 93,339,593	\$ 86,510,048	\$ 85,410,231	\$ 77,034,278	\$ 78,282,956	\$ 73,049,001	\$ 67,540,289	\$ 62,596,741
<b>Changes in Net Position</b>										
Governmental activities	\$ 11,899,406	\$ 10,602,889	\$ 11,395,566	\$ 9,668,411	\$ 10,152,124	\$ 7,409,014	\$ 7,903,484	\$ 11,562,782	\$ 12,171,958	\$ 6,944,183
Business-type activities	(71,536)	(514,500)	(444,324)	246,707	69,664	(585,475)	(569,834)	171,634	(35,439)	(70,264)
Total primary government	\$ 11,827,870	\$ 10,088,389	\$ 10,951,242	\$ 9,915,118	\$ 10,221,788	\$ 6,823,539	\$ 7,333,650	\$ 11,734,416	\$ 12,136,519	\$ 6,873,919

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	2006
General Fund					
Reserved	\$ 8,653,644	\$ 8,002,362	\$ 7,486,334	\$ 7,931,552	\$ 8,425,959
Unreserved	26,258,463	24,304,985	25,040,302	21,298,326	16,864,467
Total general fund	<u>\$ 34,912,107</u>	<u>\$ 32,307,347</u>	<u>\$ 32,526,636</u>	<u>\$ 29,229,878</u>	<u>\$ 25,290,426</u>
All Other Governmental Funds					
Reserved	\$ 30,943,646	\$ 16,964,867	\$ 4,191,510	\$ 1,435,016	\$ 862,735
Unreserved, reported in:					
Special revenue funds	-	-	-	-	-
Capital projects funds	44,433,277	77,979,506	19,820,195	26,313,865	24,248,049
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>	<u>\$ 25,110,784</u>

## Post-GASB 54 Implementation

	2015	2014	2013	2012	2011
General Fund					
Nonspendable	\$ 6,142,736	\$ 6,142,736	\$ 6,142,736	\$ 6,142,736	\$ 6,390,102
Restricted	633,493	246,442	198,007	218,640	163,400
Committed	2,629,271	1,104,829	811,116	1,231,209	1,637,026
Assigned	8,006,468	6,658,479	4,983,773	2,623,848	2,153,987
Unassigned	22,359,382	22,579,254	31,558,055	29,937,993	23,049,803
Total general fund	<u>\$ 39,771,350</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	15,413,668	37,782,191	60,069,709	134,256,303	62,573,977
Committed	10,724,002	-	-	-	-
Assigned	-	-	-	-	-
Unassigned	-	-	-	-	-
Total all other Governmental Funds	<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)

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
<b>Revenues</b>										
Taxes	\$ 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	\$ 54,989,515
Permits, privilege fees, and licenses	803,833	736,908	784,979	772,968	666,849	768,341	678,798	729,667	527,087	451,339
Fines and forfeitures	122,265	129,993	134,154	130,919	116,968	109,471	86,587	95,562	120,036	191,713
Revenue from use of money and property	1,403,653	847,556	672,961	598,447	749,264	1,554,529	2,733,781	2,047,264	3,006,656	1,932,190
Charges for services	491,921	632,447	678,997	698,281	733,701	767,029	770,575	862,222	863,610	1,099,916
Other	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	1,443,439
Intergovernmental	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	18,018,456
Total revenues	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	78,126,568
<b>Expenditures</b>										
General government	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	6,294,484
Judicial administration	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	1,821,661
Public safety	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	8,864,490
Public works	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	3,326,950
Parks, recreation, and cultural	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	2,856,007
Health and welfare	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	8,241,369
Education	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	29,917,075
Community development	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	1,200,930
Capital projects	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	10,295,741
Debt service										
Principal	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	5,943,154
Interest and other costs	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	5,040,472
Total expenditures	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	83,802,333
Excess of revenues over (under) expenditures	(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	(5,675,765)
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	11,572,000	-	-	101,115,000	26,075,000	21,598,145	77,000,000	-	-	-
Bond premium	-	-	-	12,261,552	181,804	-	775,666	-	-	-
Premium on called bonds	-	-	-	-	(1,026,966)	-	-	-	-	-
Payments to bond escrow agents	(11,462,815)	-	-	-	(12,680,005)	(14,120,000)	-	-	-	-
Proceeds from sale of capital assets/real estate	-	-	-	-	-	-	-	-	-	-
Contributions from component unit	-	-	-	-	5,250,000	-	-	-	-	-
Transfers in	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	(3,579,323)	(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)	109,185	-	-	113,376,552	17,799,833	7,478,145	77,661,666	-	(93,413)	-
Net change in fund balances	\$ (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	\$ (5,675,765)
Debt service as a percentage of noncapital expenditures	22.09%	22.38%	23.80%	19.11%	19.47%	19.02%	16.44%	12.95%	14.64%	14.94%

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 *
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
2006	\$ 4,841,218,900	\$ 487,862,951	\$ 122,587,600	\$ 33,021,661	\$ 140,490,906	\$ 5,625,182,018	\$ 8.06

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

\* Per \$100 of assessed value.

**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
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
2006	0.7400	0.1126	0.2200	0.8526	0.9600

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Merchants Capital	Total Direct Rate
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
2006	0.74	2.45	1.82	3.05	8.06

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 2015			Fiscal Year 2006		
	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	\$ 124,077,300	1	1.51%	\$ 61,275,000	1	0.86%
Foxridge	104,500,000	2	1.27%	58,333,900	2	0.91%
Appalachian Power	94,563,353	3	1.15%	50,955,461	4	0.00%
MCS Virginia Tech LLC	76,000,000	4	0.92%	-	-	0.00%
Shelor Properties	68,453,600	5	0.83%	33,184,000	6	0.35%
Roger Woody	63,893,600	6	0.78%	30,844,600	7	0.56%
PR Financing (NRV Mall)	58,400,000	7	0.71%	-	-	0.00%
SHP-The Village at Bburg LLC	47,000,000	8	0.57%	27,682,700	8	0.53%
Norfolk and Western	45,377,163	9	0.55%	21,990,598	9	0.00%
Maple Ridge	34,085,700	10	0.41%	-	-	0.00%
Verizon	30,434,345	-	0.37%	55,113,926	3	0.00%
Crown American Financing	-	-	0.00%	34,952,800	5	0.68%
Christiansburg Marketplace	-	-	0.00%	15,771,100	10	0.30%
	<u>\$ 746,785,061</u>		<u>9.07%</u>	<u>\$ 390,104,085</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 *
2015	\$ 84,688,412	\$ 82,375,988	97.27%	\$ -	\$ 82,375,988	97.27%
2014	82,261,271	80,650,339	98.04%	1,465,473	82,115,812	99.82%
2013	79,883,115	78,623,115	98.42%	1,922,825	80,545,940	100.83%
2012	73,613,538	72,812,497	98.91%	1,677,402	74,489,899	101.19%
2011	70,260,817	66,804,327	95.08%	1,693,227	68,497,554	97.49%
2010	67,027,509	63,697,514	95.03%	1,059,153	64,756,667	96.61%
2009	65,440,819	62,288,701	95.18%	1,327,535	63,616,236	97.21%
2008	63,108,366	58,295,872	92.37%	2,755,394	61,051,266	96.74%
2007	56,102,315	52,198,510	93.04%	1,049,139	53,247,649	94.91%
2006	50,945,541	48,355,245	94.92%	1,086,031	49,441,276	97.05%

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
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
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576

Fiscal Year	Business-type Activities		Total Primary Government	Percentage of Personal Income	Per Capita
	Revenue Bonds	Notes Payable			
2015	\$ 5,692,803	\$ -	218,086,973	6.17%	\$ 2,239
2014	5,952,598	-	232,174,992	7.98%	2,413
2013	6,206,111	-	256,213,362	9.41%	2,679
2012	5,861,728	-	269,313,140	10.18%	2,835
2011	6,057,419	-	170,219,934	6.81%	1,803
2010	6,262,392	10,802	167,030,507	6.76%	1,828
2009	6,456,726	32,284	169,559,409	7.86%	1,873
2008	6,610,729	53,125	100,939,683	4.75%	1,136
2007	6,515,070	70,184	106,812,275	4.58%	1,208
2006	6,024,984	85,993	112,396,443	5.71%	1,279

**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	
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
2006		2,693,843		2,284,438	409,405		123,126	290,593	0.99

**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**

<b>Fiscal Year Ended</b>	<b>Population</b>	<b>Total Personal Income</b>	<b>Per Capita Personal Income</b>	<b>Public School Enrollment</b>	<b>Unemployment Rate</b>
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%
2006	87,900	1,968,520,500	22,395	9,407	3.10%

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 2015		Fiscal Year 2006	
	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**

<b>Function/Program</b>	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
General government										
County Administration	13.50	14.50	13.50	13.50	13.50	13.50	13.50	13.50	14.00	14.00
Information management services	10.50	9.50	9.50	9.50	8.50	9.50	10.50	8.50	8.50	8.50
Finance	9.50	9.50	7.50	8.50	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	14.00	14.00	19.00	19.00	19.00	18.00	18.00
Treasurer	12.00	12.00	12.00	12.00	12.00	17.00	17.00	17.00	17.00	17.00
Other	7.50	7.50	7.00	6.50	6.50	7.50	7.50	7.50	7.00	7.00
Public Safety										
Sheriff	130.50	130.50	130.50	130.50	121.50	124.50	135.50	129.00	126.00	122.00
Animal control	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.20	4.20
Inspections	5.00	4.00	4.00	5.00	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	22.00	18.00	18.50
Refuse collection	14.60	16.40	17.00	19.40	22.40	23.00	23.00	24.20	24.20	23.50
Other public works										
Engineering	1.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Building and grounds	7.00	7.00	6.00	6.00	8.00	9.00	9.00	9.00	9.00	8.00
Housekeeping	10.00	10.00	10.00	9.00	8.00	9.00	9.00	9.00	9.00	9.10
Other	5.00	5.00	6.00	3.00	3.00	3.00	4.00	4.00	4.00	4.00
Parks, recreation, and cultural	8.00	8.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Library	20.00	20.00	20.50	20.50	20.50	23.88	23.88	24.38	24.13	31.25
Water/Sewer	19.00	17.00	19.00	19.00	18.00	18.00	19.00	19.00	19.00	19.00
Health and welfare	67.50	67.50	68.50	68.50	69.50	70.50	74.50	72.00	72.00	67.50
Community development	9.00	9.00	9.00	10.00	10.00	11.00	11.00	11.00	11.00	11.00
<b>Total</b>	<b>391.85</b>	<b>391.65</b>	<b>391.25</b>	<b>393.15</b>	<b>387.15</b>	<b>410.13</b>	<b>427.88</b>	<b>417.58</b>	<b>409.53</b>	<b>407.05</b>

Source: County Approved Budget

TABLE 14

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

<b>Function/Program</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
General Government										
Fleet vehicles	245	277	251	238	239	233	220	217	224	218
Judicial Administration										
Sheriff										
Inmates Housed	32,823	32,819	45,505	42,511	41,691	40,716	68,835	77,416	63,619	77,948
Inmate Transports	3,258	4,075	4,017	3,318	3,317	2,857	3,160	3,064	3,511	3,319
Courts Worked	818	894	939	927	934	983	983	1,012	912	915
Public safety										
Sheriff										
Physical arrests	934	1,253	1,460	1,608	1,995	2,141	1,868	3,739	3,767	3,311
Traffic violations	4,475	1,899	2,083	2,435	2,335	2,774	2,763	3,451	4,268	5,029
Public works										
Refuse collection										
Refuse collected (pounds per day)	60,902	62,559	71,359	71,334	74,351	71,212	69,484	76,671	77,089	77,293
Recyclables collected (pounds per day)	5,846	5,804	6,825	6,861	5,892	4,838	5,252	5,791	6,231	6,402
Parks, recreation, and cultural										
Parks and recreation										
Total programs	279	276	237	244	241	263	247	235	199	154
Total registrants	3,259	2,908	3,137	2,991	2,875	3,104	3,125	3,375	3,328	2,909
Library										
Volumes in collection	236,904	237,054	251,261	248,649	244,999	242,243	243,427	227,327	226,093	212,004
Total volumes borrowed	709,250	721,682	745,114	768,931	785,879	871,296	892,655	783,708	781,608	717,708
Water										
Number of customer accounts	2,725	2,720	2,699	2,640	2,616	2,640	2,642	2,615	2,554	2,534
Miles of distribution lines	93	93	93	93	92	92	92	92	88	88
Average daily consumption	733,741	712,801	693,833	697,490	758,384	739,956	829,736	840,183	802,445	879,298
Sewer										
Number of customer accounts	1,503	1,482	1,475	1,408	1,388	1,372	1,356	1,337	1,247	1,225
Waste/Water treated (million gallons per year)	188	208	172	167	175	222	191	165	196	175
Average daily consumption	517,820	570,632	470,306	458,671	479,328	486,030	522,650	505,610	536,191	N/A

**Source: County departments**

N/A - Not available

TABLE 15

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

<b><u>Function/Program</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>
Public safety										
Law enforcement vehicles	99	93	96	93	96	92	94	82	83	83
Fire and Rescue stations	10	10	10	10	10	10	10	10	8	8
Parks, recreation, and cultural										
Parks/athletic fields	8	8	8	8	8	8	7	5	2	2
Water and sewage										
Water mains (miles)	93	93	93	93	92	92	92	92	88	66
Sanitary sewers (miles)	63	63	63	63	62	62	62	62	60	44

**Source: County departments**

## **COMPLIANCE SECTION**

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**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, 2015, and the related notes to the financial statements, which collectively comprise the County's basic financial statements and have issued our report thereon dated November 30, 2015.

**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.

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

*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. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Items 2007-001, 2015-001, and 2015-002 to be material weaknesses.**

## 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  
November 30, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR  
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY  
OMB CIRCULAR A-133**

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 Circular A-133 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, 2015. 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2015.



## 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 30, 2015

## COUNTY OF MONTGOMERY, VIRGINIA

### SUMMARY OF COMPLIANCE MATTERS

June 30, 2015

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, 2015**

**A. SUMMARY OF AUDITOR'S RESULTS**

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **Three material weaknesses** relating to the audit of the financial statements were 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 *OMB Circular A-133*.
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:

<b><u>Name of Program:</u></b>	<b><u>CFDA #</u></b>
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
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173
Highway Planning and Construction	20.205
Improving Teacher Quality State Grants	84.367

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

**COUNTY OF MONTGOMERY, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2015**

**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 to a heightened risk of misappropriation and, as noted this year, improper accounting for unusual or infrequent transactions.

*Recommendation:*

Steps should be taken to eliminate performance of conflicting duties, where possible, or to implement effective compensating controls. A key compensating control related to financial reporting would be the inclusion of additional reviews of accounting transactions and financial reports after they have been prepared by the Director of Finance. These reviews should be performed by an individual with knowledge of appropriate technical accounting requirements and the operations of the County.

*Management's Response:*

Management concurs. Current staffing levels are adequate to allow appropriate internal review of financial statements prepared by the Director of Finance and Finance Manager.

**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.

*Management's Response:*

Management concurs. School Board management will review all activities for financial reporting implications.

**COUNTY OF MONTGOMERY, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2015**

**B. FINDINGS – FINANCIAL STATEMENT AUDIT (Continued)**

**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.

*Management's Response:*

Management concurs. Social Services transactions are not reviewed by the County Finance Department. Approval functions have been reassigned to individuals within Social Services who have appropriate authority and knowledge of transactions. The Social Services Director now also reviews all invoices prior to payment.

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

None noted.

**D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA**

None noted.