COUNTY OF MONTGOMERY, VIRGINIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2017

FINANCIAL AND MANAGEMENT SERVICES DEPARTMENT

THIS PAGE INTENTIONALLY BLANK

COUNTY OF MONTGOMERY, VIRGINIA

TABLE OF CONTENTS

INTRODUCTORY SECTION

FINANCIAL SECTION

FINANCIAL SECTION
(Continued)

STATISTICAL SECTION

COMPLIANCE SECTION

INTRODUCTORY SECTION

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

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

November 27, 2017

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, 2017, 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 is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

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

THE REPORTING ENTITY

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

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Montgomery County has no blended component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Montgomery County Public Service Authority, which provides water and waste water services, the Montgomery County School Board, which provides education, and the Montgomery County Economic Development Authority, which encourages economic development through incentives such as financing, 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 mental health services, solid waste disposal, emergency communications, and tourism. These areas of joint cooperation do not meet the established criteria for inclusion in the reporting entity and therefore are included in footnote disclosures only.

WWW.MONTVA.COM • 540-382-6960 • FAX 540-382-5783

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 99,000 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.

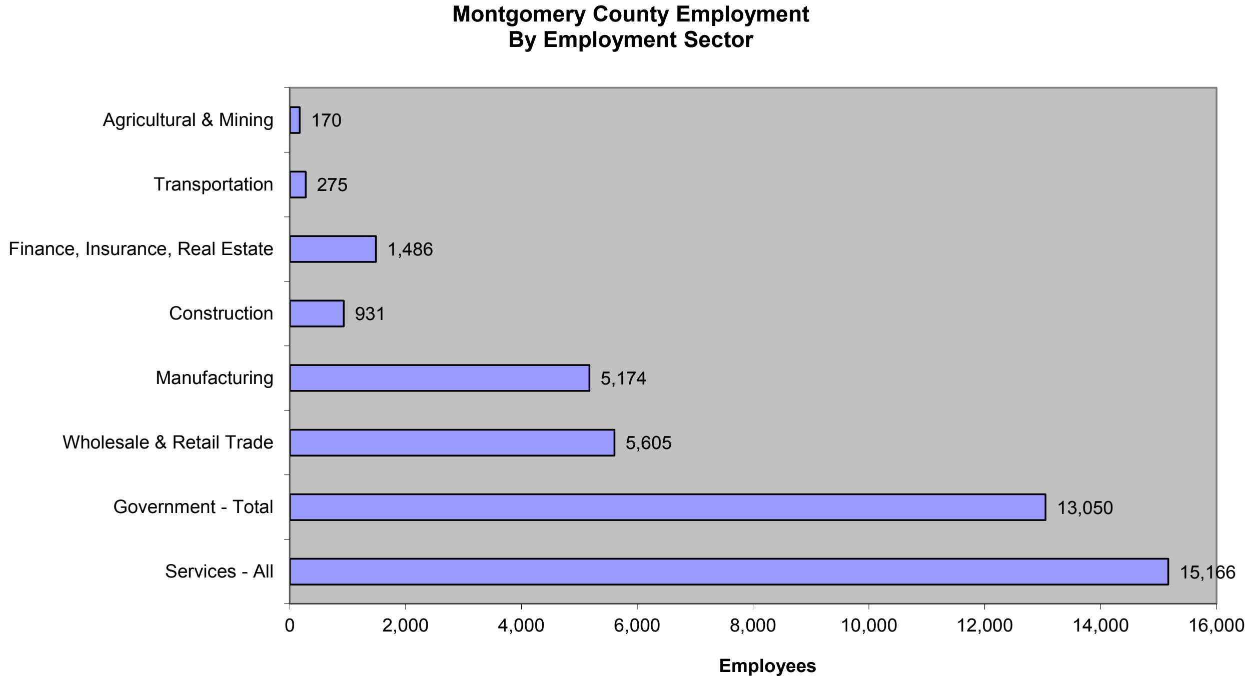
Montgomery County operates under the traditional County form of government. Policymaking and legislative authority are vested in the Board of Supervisors (Board), which consists of seven members elected from within their respective election districts. Each member must be a resident of the district he 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 2016 and June 2017 was 4.01%, which remains historically below the average in the New River Valley. The percentage ranged from a low of 3.4% in April 2017 to a high of 4.8% in August 2016. The unemployment rate for the County over the past 10 years (2007-2016) averaged 5.27%, reaching a high of 7.1% in 2010 and a low of 3.2% in 2007. The pool of available labor has also remained stable for the past decade in Montgomery County, which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities on average was higher than the statewide average of 4% for calendar year 2016, with Montgomery and Floyd Counties reporting the lowest rates of 4% for the year. The other localities of Giles, Pulaski, and the City of Radford averaged 5.5% unemployment during the same period. Employment within Montgomery County represented 54.8% 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 2016:



Averages of Calendar Year 2016

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 509 across all sectors, resulting in an increase of 1.23% from the previous year. Only two areas experienced declines – transportation was down 28.6% and agricultural and mining was down 15.8%.

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 1.2 million square feet of office and lab space, and is home to over 180 high-tech companies and research facilities which collectively employ more than 3,000 workers. In September 2009, the VTCRC was named the "2010 Outstanding Science/Research Park" – globally – by the Association of University Research Parks. The majority of the tenants located in the VTCRC are research and development-oriented companies operating in the information technology, biotechnology, and advanced materials industries.

Montgomery County's second largest industry sector, government, provides 31.2 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.

There were several new developments, both commercial and residential, underway in fiscal year 2017. In downtown Blacksburg, a local developer purchased 6.7 acres of property at the corner of Prices Fork Road and University City Boulevard to redevelop into 40,000 square feet of retail space and two six-story hotels. Development also began on the old Prices Fork Elementary School property. The former elementary school was sold to a developer to convert the building into 32-apartment senior housing, a community kitchen, and restaurant.

Since January 2014, companies in Montgomery County have announced over $41 million in new capital investment (industrial/commercial, non-retail) and the addition of 470 related jobs as shown in the chart below.

Business Announcements, Montgomery County, Virginia:

Company Name	Business Description	New Jobs	Investment (millions)
Aeroprobe	Producer of air data measurement tools	10	$0.30
Modea	Provider of web, application development, and marketing analytics solutions	55	$0.10
Spectrum Brands	Pet, home, and garden division of consumer products manufacturer	0	$7.28
Qualtrax, Inc.	Creator of compliance software	35	$2.00
TORC Robotics LLC	Autonomous vehicles and robotics	8	$2.70
Polymer Solutions Incorporated	Laboratory, chemical analysis, physical testing, research and development and litigation services	5	$2.90
Luna Innovations	Research & Development for Biomedical	0	$1.70
InMotion US	Electric Motors	24	$5.00
Wolverine	Gaskets	93	$10.00
Hubbell Lighting	LED Lighting Products	100	$6.10
Corning	Manufacturers Catalytic Convertors for cars and heavy trucks	0	$0.80
Polymer Solutions Incorporated	Laboratory and testing services for plastics and rubber manufacturers	19	$0.65
Inorganic Ventures	Medical device manufacturing	0	$0.10
VPT, Inc.	Manufacturer of power components for use in avionics, military, and space.	16	$1.00
Ozmo App	Consulting to tech companies and their consumers solve any device issues quickly and effectively.	55	$0.56
Java Productions	Custom solutions for technology and business problems	20	$0.10
ProChem Inc.	Industrial water and wastewater treatment.	30	$0.40

New expansions during 2017 included Aeroprobe Corporation, Modea, Spectrum Brands, and Qualtrax Inc., which are all existing industries in the County. Aerorpobe Corporation announced their plans to invest $300,000 to expand operations in Montgomery County, through the sale of solid-state additive manufacturing machines that will increase capabilities and create 10 new jobs. Spectrum Brands announced plans to invest over $7.28 million over the next couple of years in its Montgomery County operations to purchase equipment and upgrade its production processes. Modea and Qualtrax Inc. also announced expanded operations in 2017 including investments of $100,000 and $2 million, creating 55 and 35 new jobs, respectively.

The Board of Supervisors, Economic Development staff, the Economic Development Authority, the Economic Development Commission (EDC), and the Montgomery/Blacksburg/Christiansburg Development Corporation continue to support business, create jobs, and improve the County's standard of living by 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 2017 include:

The 2017-2021 Capital Improvement Program

The Capital Improvement Program (CIP) for 2017 through 2021 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 $61.8 million and is comprised of County Capital Improvements of $20.5 million and School Capital Improvements of $41.3 million.

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. From FY 2012 to FY 2016, this amount remained at one cent. In FY 2017, the County increased the amount to one and a half cents and this has continued for the FY 2018 budget. 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

In the spring of 2017, the County completed construction of a new Animal Care and Adoption Center. Prompted by a needs assessment, feasibility study, and building program by Shelter Planners of America completed in 2009, the foundation for the new 16,300-square-foot facility with 12,600 square feet enclosed and a 3,700 square foot covered space was set into motion. A groundbreaking ceremony was held in December 2015 and a grand opening ceremony was held on April 29, 2017. Interest earned on bond proceeds and cash-to-capital monies set aside by the Board provided the funds for this project. The total cost of the project was $4.7 million.

Public safety remains a priority with $400,000 in fire and rescue equipment purchases in fiscal year 2017 based on recommendations of the Fire and Rescue Commission. Equipment purchases included a new fire brush truck for the Christiansburg Fire Department and a new ambulance for the Shawsville Rescue Squad.

For the Future

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

- In September 2016, the County purchased 45.3 acres in Riner to build a new fire station and provide additional parks and recreation space at a cost of $360,000. The new fire station is estimated to cost $4.1 million.

- The County has set aside cash-to-capital monies for future new school capital construction. In FY 2014, the County appropriated $3 million and began earmarking 2 cents of the real estate tax rate on a yearly basis to add to the School Capital Fund. The County also sold surplus school properties and transferred the proceeds into the fund. The total accumulated monies since 2014 is $13.5 million. The majority of these funds have been allocated to project accounts as requested by the school board to cover various school capital projects:

    - Falling Branch Elementary School Project - $10.3 million
    - Christiansburg Elementary School Project - $0.5 million
    - Christiansburg High School Athletic facilities - $2.1 million

Department Focus – Stormwater Management Program

Montgomery County is required to have a Municipal Separate Storm Sewer System (MS4) permit for the urbanized areas of the County to prevent the discharge of pollutants such as pet waste, trash, engine oil, and fertilizers into waterways. Stormwater discharges from municipal separate storm sewer systems are regulated under the Virginia Stormwater Management Act, the Virginia Stormwater Management Program (VSMP) Permit regulations, and the Clean Water Act as point source discharges. The MS4 regulations were developed and implemented in two phases. Implementation of the first phase began in the early 1990s and required that operators of MS4s serving populations of greater than 100,000 people (per the 1990 census) apply for and obtain a permit to discharge stormwater from their outfalls. The second phase of MS4 regulations became effective March 23, 2003, and required operators of small MS4s in "urbanized areas" (as defined by the latest ten-year census) obtain a permit to discharge stormwater from their outfalls. Montgomery County became designated as a small MS4 on July 1, 2014.

Beginning July 1, 2016, the County entered the third reporting year as a Virginia Stormwater Management Program Authority (VSMP) and continued the development, implementation, and enforcement of a Municipal Separate Storm Sewer System (MS4) Program Plan to reduce the discharge of pollutants from the regulated urbanized areas of the county. The focus of the proposed MS4 program is to 1) protect water quality, 2) improve waters into which the regulated small MS4 discharges, and 3) meet the requirements of state and federal regulations. In addition to land development plan review, site inspections, and enforcement actions, participation and completion of the following activities were also part of fulfilling the County's MS4 permit obligations:

1. County staff partnered with neighboring localities to cohost a stormwater information booth at the NRV Homebuilders Association "home expo" from March 10-12, 2017.
2. County staff partnered with neighboring localities and the Virginia Department of Conservation and Recreation (DCR) to host a stormwater education day on April 12, 2017 reaching 240 Christiansburg middle school 6th graders, and
3. County staff completed the field reconnaissance and screening of 68 stormwater outfalls.

Although staffing levels have not historically met the manpower demands necessary to maintain the appropriate administration of the erosion and sediment control program and the stormwater program requirements, a consultant has been used to supplement work efforts in order to achieve compliance. For the fiscal year beginning July 1, 2017, the Board of Supervisors added a new position for the Environmental Services Department to meet these needs and more efficiently fulfill the various requirements of the programs.

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, 2017, reflect cash that will not be received or disbursed until fiscal year 2018.

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 Uniform Guidance for Single Audits. 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, 2016. 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 thirty 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, 2016

Executive Director/CEO

BOARD OF SUPERVISORS

Christopher A. Tuck, Chair
M. Todd King, Vice Chair

Mary W. Biggs	Annette S. Perkins
Gary D. Creed	Darrell O. Sheppard
April N. DeMotts	

COUNTY ADMINISTRATION

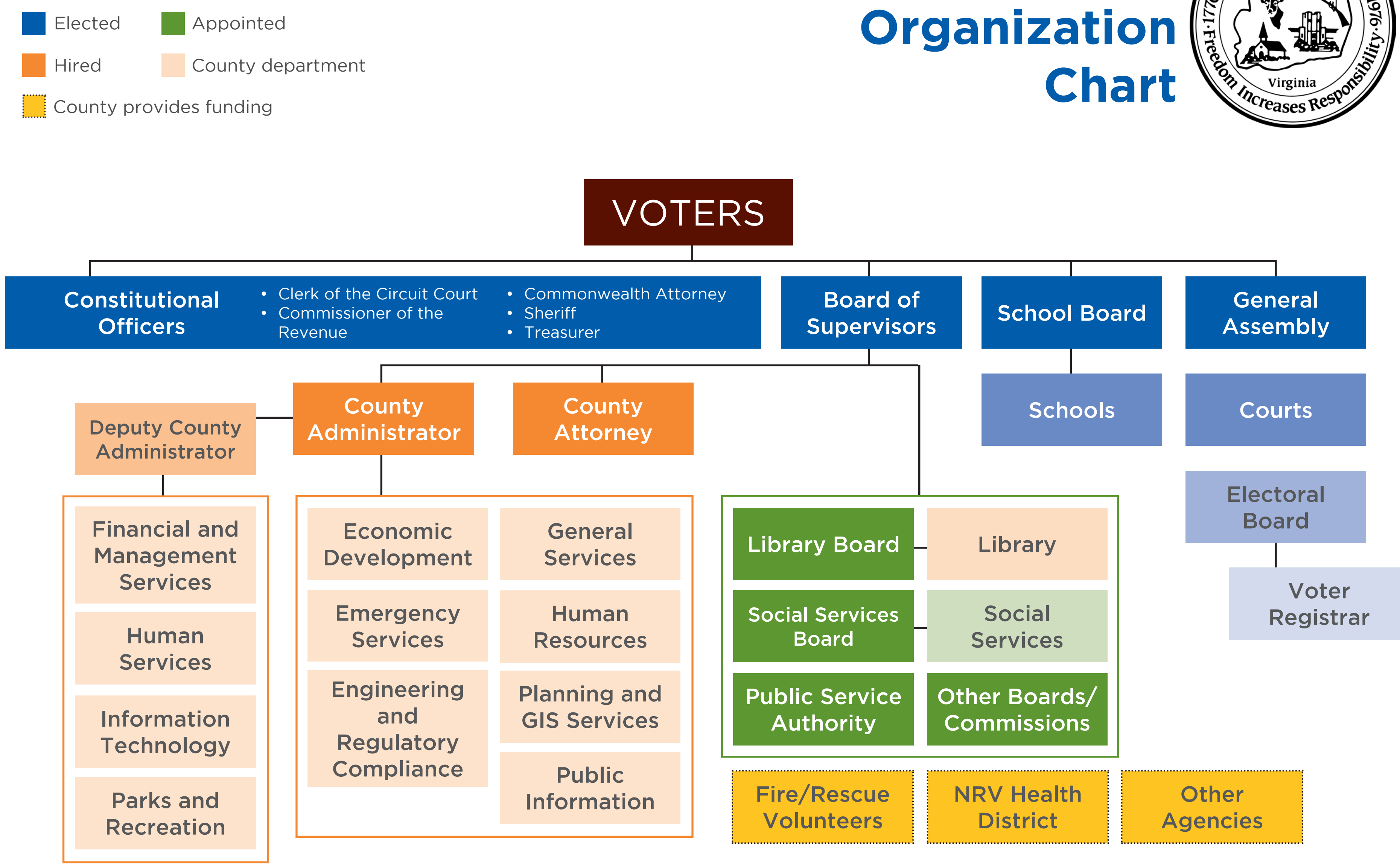
A. Michelle Dickerson	Virginia Cooperative Extension Unit Coordinator
L. Carol Edmonds	Deputy County Administrator
Robert C. Fronk	Director of Public Service Authority
Emily J. Gibson	Director of Planning
Brian T. Hamilton	Director of Economic Development
Jennifer T. Harris	Director of Public Information
Mitchell B. Haugh	Director of Parks and Recreation
Angela M. Hill	Director of Financial and Management Services
Larry W. Lindsey	Director of Social Services
Philip L. Martin	Director of Information Technology
Clay M. McCoy	Director of Human Resources
Martin M. McMahon	County Attorney
F. Craig Meadows	County Administrator
Mark L. Miear	Superintendent of Schools
Sarah A. Pahl	Interim Director of Montgomery Regional Library
K. Neal Turner	Emergency Services Coordinator
Connie M. Viar	General Registrar
Tonia D. Winn	Director of Human Services
Scott A. Woodrum	Director of Engineering and Regulatory Compliance

CONSTITUTIONAL OFFICERS

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

Montgomery County, Virginia

Organization Chart



FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), as of and for the year ended June 30, 2017, 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 aggregate discretely presented component units, and each major fund of the County, as of June 30, 2017, 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.

Your Success is Our Focus

319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

Other Matters

Required Supplementary Information

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

Other Information

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

The fund financial statements of the Public Service Authority and the School Board and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the fund financial statements of the Public Service Authority and 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 27, 2017, 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 27, 2017

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, 2017. Please read it in conjunction with the transmittal letter at the front of this report and with the County's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FISCAL YEAR 2017

- Total net position for governmental activities was $146 million at June 30, 2017. This figure is based on assets and deferred outflows of $377 million and liabilities and deferred inflows of $231 million.

- Total general fund revenues fell short of the final estimated amount by approximately $1.2 million.

  Grant funding does not follow the fiscal year, therefore funds appropriated during the year are often received the following year. As a result, intergovernmental revenues fell short of estimates by approximately $2.6 million. This was partially offset by property tax revenue exceeding the estimate by $1.2 million. The County received more personal property taxes than anticipated ($0.3 million in motor vehicles and nearly $0.5 million in merchants' capital, and machinery and tools). Additionally, delinquent tax collections were $0.3 million higher than anticipated.

  Actual expenditures were approximately $14.6 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 $1.6 million for the County and $1.5 million for the Schools.

  General government administration expenditures totaled almost $2.2 million less than appropriated. Funds were appropriated and encumbered for the reassessment contract which comprised approximately $650,000 of this amount. General and Special Contingencies each had remaining balances of approximately $300,000, for a total of over $600,000. Of this, $200,000 was for Government Center upgrades that were planned for fiscal year 2017 but actually began in fiscal year 2018. The use of General Contingencies varies from year to year based on the amount of funding needed for unanticipated costs. The County's financial policies require one percent of the County's general fund be set aside for contingencies each year. Of the $462,000 designated in fiscal year 2017, a balance of $300,000 remained at year end. The Human Resources Department had remaining funds of approximately $150,000 due to turnover and vacancy savings and unspent funds that have been set aside for a career development program that the County plans to implement during fiscal year 2018. The remaining difference results from small amounts of vacancy savings and conservative fiscal management across all areas.

  Public safety expenditures were $2.8 million less than budgeted. Public safety grants and related restricted funds were $850,000 less than budgeted as the grants cycles did not follow the fiscal year. Similarly, fire and rescue departments had approximately $250,000 in year-end funding that was allocated for projects that were not yet completed. The County's payments to the Western Virginia Regional Jail were more than $750,000 less than planned as the County's inmate population at the jail was less than expected. The County's contribution to the New River Detention Home was over $100,000 less than anticipated; however, these funds will be used in future years to provide the County's share of capital improvements at the facility. Other savings came from turnover and vacancy personnel savings combined with lower than budgeted health insurance expense.

  Public works expenditures were $941,000 less than budgeted due to personnel vacancy savings, lower than expected tipping fees for solid waste disposal and less maintenance costs than anticipated. Maintenance items fluctuate from year to year, and some projects were deferred until fiscal year 2018 due to staffing constraints.

Health and welfare expenditures ended with a budgetary balance of $1.4 million. Expenditures associated with the Children's 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 $830,000. Welfare expenditures were also lower than budgeted by $440,000. These expenditures did not result in true savings for the County as a large portion of them were backed by state revenues rather than locally generated revenues. The state revenues were not collected since they were not needed to offset the expenditures.

Parks, recreation, and culture along with community development began grant and other special projects during the year that were not completed. This resulted in variances of $399,000 and $2.8 million, respectively. The community development projects are road projects that will be funded by the Virginia Department of Transportation and developers rather than the County. Parks, recreation, and culture also recognized vacancy and health insurance savings.

Finally, the Montgomery County School Board (the Schools) spent approximately $3.7 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower. The schools had placed orders for goods that were not received by year end of approximately $1.4 million.

- Net position of the Public Service Authority at June 30, 2017 was down approximately $449,000 from the previous year. While the Authority's income was sufficient to cover out-of-pocket costs during the year, depreciation expense totaled almost $900,000, which was not fully funded with revenue collected.
- The County issued $64,605,000 in refunding bonds with a premium of $12,512,126 and an interest rate of 4% to 5%, to refund the Series 2011 Virginia Public Schools Authority Lease Revenue Bonds, which had an average interest rate of 5%. The refunding reduced the County's total debt service payments over the next fifteen years by $6,043,551. Repayment of bonded debt totaled $64,845,000.
- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately $21.5 million, or 12% of fiscal year 2017 general and school operating fund revenues less the general fund transfer to the school operating fund. The Board of Supervisors has adopted a policy to keep maintain this percentage at a minimum of 12%.

USING THE FINANCIAL SECTION OF THE ANNUAL REPORT

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

Government-wide Financial Statements

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

The *statement of net position* presents information on all of the County's assets, deferred outflow of resources, liabilities, and deferred inflows of resources, with the difference between the four reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. Increases in net position may indicate an improved financial position; however, even decreases in net position may reflect a changing manner in which the County used previously accumulated funds.

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

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

Fund Financial Statements

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

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

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

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

As of the end of the current fiscal year, the County's total governmental funds reported an ending fund balance of $67 million, an increase of $4.1 million in comparison with the prior year. The increase was due to higher than anticipated property tax revenue previously discussed ($1.2 million), combined with the sale of a portion of the former Blacksburg Middle School property ($1.5 million). The proceeds from the sale of property were used to repay the County for funds spent to demolish the building and then maintain the property until it was sold. The majority of these funds were spent in previous years. The balance of the proceeds were transferred to the Capital Improvements Fund and have been earmarked for future school projects. The County also received $450,000 from the sale of the TORC building, which will be used in fiscal year 2018 for future economic development projects. As explained earlier, the remaining increase was due to lower than anticipated spending. Ending fund balance was comprised of: $6.4 million, nonspendable; $4.8 million, restricted; $25.4 million, committed; $8.9 million, assigned; and $21.5 million, unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 18.7% of total general fund expenditures, while total fund balance represents 36.9% of that same amount.

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

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

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

FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Component Units	
	2017	**2016**	**2017**	**2016**
Current and other assets	$82.8	$77.4	$21.9	$21.6
Capital assets	283.5	289.9	35.1	37.6
Total assets	$366.3	$367.3	$57.0	$59.2
Deferred outflows of resources	$10.8	$6.5	$13.9	$7.8
Long-term liabilities	$213.8	$224.6	$120.4	$113.2
Other liabilities	15.6	15.6	17.3	17.1
Total liabilities	$229.4	$240.2	$137.7	$130.3
Deferred inflows of resources	$1.7	$2.4	$2.5	$6.2
Net position:				
Net investment in capital assets	$101.1	$106.8	$19.8	$20.3
Restricted	3.4	3.3	-	-
Unrestricted	41.5	21.1	(89.1)	(89.8)
Total net position	$146.0	$131.2	$ (69.3)	($69.5)

Governmental Activities

Total net position shown above for governmental activities is $146 million or $14.8 million more than in 2016. Total assets decreased $1.0 million, while long-term liabilities decreased $10.8 million primarily due to the debt refunding.

Component Units

Total net position shown above for component units is $(69.3 million) for 2017, relatively unchanged from $(69.5 million) in 2016. This consists of a net position for the Public Service Authority of $12.6 million, a deficit in net position of $79.4 million for the School Board, and deficit net position of $2.5 million for the Economic Development Authority.

Summary of Activities:

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

	Governmental Activities		Component Units	
	2017	2016	2017	2016
Revenues				
Program revenues:				
Charges for services	$ 3.0	$ 3.8	$ 8.2	$ 8.1
Operating grants and contributions	13.2	13.3	60.6	58.9
Capital grants and contributions	-	-	0.1	0.1
General revenues:				
Property taxes	86.6	83.5	-	-
Other taxes	12.7	12.6	-	-
Payments from Montgomery County	-	-	47.3	44.1
Grants and contributions not restricted to specific purposes	5.2	5.3	-	-
Contributions from other governments	-	-	-	-
Other	1.7	0.6	0.1	0.2
Total revenues	122.4	119.1	116.3	111.4
Expenses				
General government	6.7	6.6	-	-
Judicial administration	3.3	3.1	-	-
Public safety	15.6	16.5	-	-
Public works	7.0	6.6	-	-
Health and welfare	7.6	7.5	-	-
Education	53.8	50.3	110.0	102.0
Parks, recreation and cultural	3.2	2.9	-	-
Community development	2.2	2.1	1.9	5.4
Water	-	-	2.2	2.2
Waste water	-	-	2.0	2.0
Interest on long-term debt	8.2	9.5	-	-
Total expenses	107.6	105.1	116.1	111.6
Change in net position	14.8	14.0	0.2	(0.2)
Net position-beginning	131.2	117.2	(69.5)	(69.3)
Net position-ending	$ 146.0	$ 131.2	$ (69.3)	$ (69.5)

Revenues

For the fiscal year ended June 30, 2017, revenues from governmental activities totaled $122.4 million, an increase of $3.3 million. While the real estate tax rate remained level at $0.89, the County began pro-rating personal property taxes on motor vehicles which increased revenue $1.3 million. Growth in real estate ($1.1 million) and personal property tax ($0.7 million) revenue provided the remaining increase of $1.8 million. Charges for services decreased $0.8 million as Social Services received a one-time donation in the prior year, while a $0.8 million gain on the sale of real estate resulted in the majority of the increase in other revenues.

Component unit revenues total $116.3 million, including a $47.3 million transfer from the general fund to the schools. GASB 34 requires that school debt service be included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled $18.0 million, which brings the total provided for school purposes to $65.3 million.

Expenses

Expenses for governmental activities totaled $107.6 million in 2017, an increase of $2.5 million from 2016. Education expenses under the full accrual basis of accounting increased $3.5 million. Public safety decreased almost $1 million primarily as the result of two factors. In fiscal year 2017 the New River Valley Emergency Communications Regional Authority became operational and staff that had previously been County employees and were contracted to the Authority, transferred to Authority. This decreased County expense by $0.5 million. Because the Authority was reimbursing the County for this expense in prior years, the change resulted in no net effect. The County's share of the Western Virginia Regional Jail also decreased by approximately $0.3 million. The County's original approved budget included an increased transfer to the schools of $1.3 million over 2016; however the County provided additional funds of just under $5 million during the year. School expenses increased $8 million on a full accrual basis. This includes adjustments for pension expenses.

Expenses for component unit – Public Service Authority expenses remained the same from the prior year at $4.2 million.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed $47 million to the operation of the schools. Depreciation expense related to the schools totaled $6.5 million.

Total expenses for education were $53.8 million. This amount represented about 50% of governmental activity expenses. When interest for school related projects is included, the County contributed $60.1 million, or 56%. 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 72.8% of the general fund expenses (excluding payments to the schools), plus school operating fund expenses for 2017.

FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2017, the governmental funds reflect a combined fund balance of $67.0 million, a increase of $4.1 million from June 30, 2016. This consisted of $42.5 million in the general fund and $24.5 million in the county capital improvements fund. The general fund balance decreased $400,000 in fiscal year 2017. The school operating fund spent $3.6 million less than permitted by the revised budget, which resulted in a correspondingly lower than budgeted transfer to the schools from the general fund. The balance was transferred to the schools after year end for one-time uses. The county capital projects fund balance increased $4.6 million as a result of transfers from the general fund that were not used at year end. A portion of the funds that were transferred and not yet used were for the Riner Fire Department and for future school projects.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2017 in millions:

	Original Final		
	Original Budget	Amended Budget	Actual
Revenues			
Taxes	$ 97.7	$ 97.7	$ 99.0
Intergovernmental	18.0	21.2	18.7
Other	2.4	5.2	5.2
Total	118.1	124.1	122.9
Expenditures and transfers	118.5	137.1	122.6
Change in fund balance	$ (0.4)	$ (13.0)	$ 0.4

Increases in intergovernmental and other revenue categories made up the changes from the original to the final budget. Several significant grants, the sale of real estate and the commencement of several special projects were budgeted during the fiscal year to account for the $2.9 million and $2.8 million respective increases in these categories. Less significant 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 of $18.7 resulted primarily from:

- Encumbrances of $1.2 million and $2.1 million for the County and Schools, respectively;
- Carryovers from the fiscal year 2016 budget of $746,000 for the general fund, and $2 million for the schools;
- Funding for the new Riner Fire Station of $3.7 million;
- Funding for special road projects that will pass-through the County $3.3 million;
- Funding from the sale of the old Blacksburg Middle School that will be used future capital projects ($1.5 million)
- Funding for County capital projects including jail improvements ($400,000), cyber-security ($280,000)
- Funding for one-time needs for schools ($750,000);
- Funding for the County reassessment costs ($650,000);
- Funding for road maintenance projects to match state funds ($300,000);
- Funding to replace HVAC unit controllers ($212,000);
- Grants and various other 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. Prepaid property taxes collected were $730,000 higher than budgeted, contributing to the variance. Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Actual expenditures and transfers were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was $3 million less than the budgeted amount. This is due in part to the schools receiving more state and federal revenue than budgeted, which resulted in a lower than budgeted amount needed from the County. The schools had $1.5 million in outstanding purchase orders at June 30. The balance of the transfer to the schools and the funds associated with 2017 outstanding purchase orders for the schools were approved by the Board of Supervisors and transferred to the schools in fiscal year 2018.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2017, the County had invested $283.5 million, net of accumulated depreciation, in a variety of capital assets including buildings, park facilities, and sheriff and fire protection.

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

	Governmental Activities		Component Units	
	2017	**2016**	**2017**	**2016**
Non-depreciable assets				
Land	$ 14.7	$ 14.2	$ 0.7	$ 0.7
Intangbile asset	-	-	0.9	0.9
Construction in progress	-	2.4	0.9	0.5
Depreciable capital assets				
Infrastructure	-	-	32.5	32.4
Buildings and improvements	317.8	312.9	45.8	47.9
Machinery and equipment	23.8	24.4	19.3	18.3
Accumulated depreciation	(72.8)	(64.0)	(65.0)	(63.1)
Total	**$ 283.5**	**$ 289.9**	**$ 35.1**	**$ 37.6**

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

	Balance June 30, 2016	Net Additions/ (Deletions)	Balance June 30, 2017
Non-depreciable assets			
Land	$ 14.9	$ 0.50	$ 15.4
Intangible assets	0.9	-	0.9
Construction in progress	2.9	(2.0)	0.9
Depreciable capital assets			
Infrastructure	32.4	0.1	32.5
Buildings and improvements	360.8	2.8	363.6
Machinery and equipment	42.7	0.4	43.1
Accumulated depreciation	(127.1)	(10.7)	(137.8)
Total	**$ 327.5**	**$ (8.9)**	**$ 318.6**

<u>Governmental Activities</u>

In 2017, construction on the Animal Care and Adoption Center, with a total cost of $4.6 million, was completed and transferred from construction in progress to buildings and improvements.

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

Long Term Debt

The following table displays the Governmental and Component Unit outstanding debt at June 30, 2017, in millions of dollars:

	Governmental Activities		Component Units	
	2017	2016	2017	2016
General obligation bonds	$ 44.1	$ 114.3	$ -	$ -
Lease revenue bonds	12.4	17.3	-	-
Literary loans	1.3	1.5	-	-
Refunding bonds	115.8	56.4	-	-
Revenue bonds	-	-	5.2	5.4
Total	$ 173.6	$ 189.5	$ 5.2	$ 5.4

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, 2017, the County was in compliance with all debt policies.

ECONOMIC FACTORS

As of October 2017, the County's and state's average unemployment rate were both 4.2 percent, a decrease from the previous year's rates of 4.3 percent.

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.

THIS PAGE INTENTIONALLY BLANK

BASIC FINANCIAL STATEMENTS

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION
June 30, 2017

	Primary Government	Component Units		
	Governmental Activities	Public Service Authority	School Board	Economic Development Authority
Assets				
Cash and cash equivalents (Note 4)	$ 65,589,343	$ 2,159,306	$ 3,884,891	$ 114,861
Receivables, net (Note 5)	4,294,187	595,680	-	15,044
Due from primary government	-	14,090	8,032,363	165,496
Due from other governmental units (Note 6)	2,669,026	-	2,858,870	-
Prepaids	177,561	-	651,634	3,704
Inventories	-	31,287	139,928	2,824,534
Advances to component units (Note 15)	5,636,881	-	-	-
Restricted assets:				
Cash and cash equivalents (Note 4)	432,384	70,310	-	-
Investments (Note 4)	3,422,137	-	-	-
Notes receivable (Note 15)	516,627	-	-	-
Lease incentives	-	-	-	399,901
Capital assets: (Note 8)				
Non-depreciable	14,705,091	1,217,389	1,235,421	-
Depreciable, net	268,815,523	16,271,470	7,093,906	9,266,308
Total assets	366,258,760	20,359,532	23,897,013	12,789,848
Deferred Outflows of Resources				
Deferred charge on refunding	7,211,326	-	-	-
Pension contributions subsequent to the measurement date (Note 11)	1,910,812	97,398	7,873,806	-
Net difference between projected and actual investment earnings on pension plan investments (Note 11)	1,665,002	84,869	5,454,534	-
Changes in proportion - teacher cost sharing pool (Note 11)	-	-	338,000	-
Total deferred outflows of resources	10,787,140	182,267	13,666,340	-
Liabilities				
Accounts payable and accrued expenses	2,370,674	231,812	1,977,273	286,310
Accrued payroll and related liabilities	935,927	44,321	9,034,556	-
Accrued interest payable	2,827,638	5,428	-	-
Amounts held for others	432,384	-	-	-
Advances from primary government (Note 15)	-	10,772	-	5,626,109
Due to other governmental units (Note 6)	683,150	-	-	-
Due to component units	8,211,949	-	-	-
Unearned revenue	-	-	77,249	-
Customer deposits	-	70,310	-	10,000
Long-term liabilities:				
Net pension liability (Note 11)	15,034,183	766,325	92,790,507	-
Due within one year (Note 9)	17,125,191	432,256	2,653,955	365,658
Due in more than one year (Note 9)	181,746,056	6,361,407	7,957,010	9,038,304
Total liabilities	229,367,152	7,922,631	114,490,550	15,326,381
Deferred Inflows of Resources				
Property taxes (Note 5)	726,896	-	-	-
Net difference between expected and actual experience (Note 11)	943,226	48,078	2,412,924	-
Total deferred inflows of resources	1,670,122	48,078	2,412,924	-
Net Position				
Net investments in capital assets	101,103,840	12,280,115	7,099,922	378,973
Restricted:				
Debt service	3,422,137	-	-	-
Unrestricted	41,482,649	290,975	(86,440,043)	(2,915,506)
Total net position	$ 146,008,626	$ 12,571,090	$ (79,340,121)	$ (2,536,533)

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

EXHIBIT 2

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government	Component Units		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Public Service Authority**	**School Board**	**Economic Development Authority**
Primary Government:								
Governmental activities:								
General government administration	$ 6,710,269	$ 764,785	$ 438,458	$ -	$ (5,507,026)			
Judicial administration	3,284,719	441,957	1,488,072	-	(1,354,690)			
Public safety	15,607,399	675,191	4,496,429	-	(10,435,779)			
Public works	7,043,062	346,642	30,451	-	(6,665,969)			
Health and welfare	7,601,479	233,438	5,069,050	-	(2,298,991)			
Education	53,783,649	-	1,254,473	-	(52,529,176)			
Parks, recreational, and cultural	3,161,901	460,442	402,727	-	(2,298,732)			
Community development	2,257,677	89,390	44,085	-	(2,124,202)			
Interest on long-term debt	8,170,978	-	-	-	(8,170,978)			
Total governmental activities	$ 107,621,133	$ 3,011,845	$ 13,223,745	$ -	(91,385,543)			
Component Units:								
Public Service Authority	$ 4,202,445	$ 3,682,472	$ -	$ 60,311		$ (459,662)	$ -	$ -
School Board	109,933,873	3,264,202	60,648,928	-		-	(46,020,743)	-
Economic Development Authority	1,906,392	1,264,493	-	-		-	-	(641,899)
Total component units	$ 116,042,710	$ 8,211,167	$ 60,648,928	$ 60,311		(459,662)	(46,020,743)	(641,899)
General Revenues:								
General property taxes (Note 5)					86,548,199	-	-	-
Sales and use tax					9,101,542	-	-	-
Utility tax					1,765,984	-	-	-
Motor vehicle license tax					755,323	-	-	-
Other local taxes					1,087,029	-	-	-
Intergovernmental revenue, unrestricted					5,236,670	-	-	-
Investment earnings, unrestricted					1,423,432	10,761	3,046	342
Investment earnings, restricted for capital projects					235,621	-	-	-
Payments from Montgomery County					-	-	46,968,398	363,855
Total general revenues					106,153,800	10,761	46,971,444	364,197
Change in net position					14,768,257	(448,901)	950,701	(277,702)
Net position – beginning					131,240,369	13,019,991	(80,290,822)	(2,258,831)
Net position – ending					$ 146,008,626	$ 12,571,090	$ (79,340,121)	$ (2,536,533)

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

	General	County Capital Improvements	Total Governmental Funds
Assets			
Cash and cash equivalents	$ 43,943,868	$ 21,645,475	$ 65,589,343
Receivables, net	4,294,187	-	4,294,187
Due from other governmental units	2,669,026	-	2,669,026
Advances to component unit	5,636,881	-	5,636,881
Restricted assets:			
Cash and cash equivalents	432,384	-	432,384
Investments	-	3,422,137	3,422,137
Notes receivable	516,627	-	516,627
Total assets	$ 57,492,973	$ 25,067,612	$ 82,560,585
Liabilities			
Accounts payable and accrued liabilities	$ 1,814,486	$ 556,188	$ 2,370,674
Accrued payroll and related liabilities	935,927	-	935,927
Due to other governmental units	683,150	-	683,150
Due to component unit	8,211,949	-	8,211,949
Amounts held for others	432,384	-	432,384
Total liabilities	12,077,896	556,188	12,634,084
Deferred Inflows of Resources			
Unavailable/unearned property taxes	2,882,147	-	2,882,147
Fund Balances			
Nonspendable	6,392,736	-	6,392,736
Restricted	1,440,932	3,422,137	4,863,069
Committed	4,295,900	21,089,287	25,385,187
Assigned	8,883,210	-	8,883,210
Unassigned	21,520,152	-	21,520,152
Total fund balances	42,532,930	24,511,424	67,044,354
Total liabilities, deferred inflows of resources, and fund balances	$ 57,492,973	$ 25,067,612	$ 82,560,585

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2017

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

Ending fund balance – governmental funds	$	67,044,354
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.		283,520,614
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.		177,561
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		2,155,251
Deferred premiums and charges on refunding are not financial resources and, therefore, are not reported in the funds.		7,211,326
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.		
Deferred outflows of resources for 2017 employer contributions		1,910,812
Deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments		1,665,002
Deferred inflows of resources for the net difference between expected and actual experience		(943,226)
Net pension liability		(15,034,183)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds		(201,698,885)
Net position of governmental activities	$	146,008,626

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

	General	County Capital Improvements	Total Governmental Funds
REVENUES			
General property taxes	$ 86,069,266	$ -	$ 86,069,266
Other local taxes	12,620,830	-	12,620,830
Permits, privilege fees, and regulatory licenses	579,676	-	579,676
Fines and forfeitures	31,116	-	31,116
Revenue from use of money and property	2,552,110	59,283	2,611,393
Charges for services	797,051	-	797,051
Recovered costs	1,599,290	4,712	1,604,002
Intergovernmental	18,460,415	-	18,460,415
Total revenues	122,709,754	63,995	122,773,749
EXPENDITURES			
Current operating			
General government administration	7,577,451	-	7,577,451
Judicial administration	3,308,287	-	3,308,287
Public safety	15,251,116	-	15,251,116
Public works	4,799,802	-	4,799,802
Health and welfare	7,677,724	-	7,677,724
Education	46,859,043	-	46,859,043
Parks, recreation, and cultural	3,197,230	-	3,197,230
Community development	2,248,407	-	2,248,407
Debt service			
Principal retirement	15,656,725	-	15,656,725
Interest and fiscal charges	8,625,448	-	8,625,448
Capital projects	-	4,387,690	4,387,690
Total expenditures	115,201,233	4,387,690	119,588,923
Excess (deficiency) of revenues over expenditures	7,508,521	(4,323,695)	3,184,826
OTHER FINANCING SOURCES (USES)			
Issuance of refunding bonds	64,605,000	-	64,605,000
Premium on issuance of refunding bonds	12,512,126	-	12,512,126
Transfer to escrow agent	(76,141,909)	-	(76,141,909)
Transfers in	2,975	8,894,296	8,897,271
Transfers out	(8,894,296)	(2,975)	(8,897,271)
Total other financing sources (uses)	(7,916,104)	8,891,321	975,217
Net changes in fund balances	(407,583)	4,567,626	4,160,043
FUND BALANCES AT JULY 1	42,940,513	19,943,798	62,884,311
FUND BALANCES AT JUNE 30	$ 42,532,930	$ 24,511,424	$ 67,044,354

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

EXHIBIT 4
(Continued)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2017

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

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

Net change in fund balances - total governmental funds		$ 4,160,043
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation $9,938,140 exceeded capital outlays $4,538,602 in the current period.		(5,399,538)
In the statement of activities, only the *gain or loss* 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 *net book value* of the property sold.		(952,340)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		567,981
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		1,910,812
Pension expense		(1,541,804)
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	(64,605,000)	
Payments to escrow agents	76,141,909	
Principal repayments		
General obligation bonds	5,363,813	
Lease revenue bonds	4,882,889	
Literary fund loans	250,000	
Refunding bonds	5,160,022	
		27,193,633
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	(11,658,015)	
Interest expense	454,471	
		(11,203,544)
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.		33,014
Change in net position of governmental activities		$ 14,768,257

EXHIBIT 5

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, 2017

	Budgeted Amounts			Variance with Final Budget Positive
	Original	Final	Actual	(Negative)
REVENUES				
General property taxes	$ 85,181,316	$ 85,187,895	$ 86,365,841	$ 1,177,946
Other local taxes	12,529,899	12,529,899	12,669,547	139,648
Permits, privilege fees, and regulatory licenses	664,874	662,274	581,109	(81,165)
Fines and forfeitures	55,000	55,000	29,473	(25,527)
Revenue from use of money and property	509,799	2,009,199	2,302,110	292,911
Charges for services	464,503	503,180	740,669	237,489
Recovered costs	712,850	1,952,543	1,590,327	(362,216)
Intergovernmental	18,430,731	21,264,758	18,655,418	(2,609,340)
Total revenues	118,548,972	124,164,748	122,934,494	(1,230,254)
EXPENDITURES				
Current operating				
General government administration	8,758,340	9,623,323	7,432,234	2,191,089
Judicial administration	3,259,937	3,614,930	3,323,261	291,669
Public safety	16,099,282	17,968,487	15,138,083	2,830,404
Public works	5,221,705	5,717,301	4,775,806	941,495
Health and welfare	8,358,659	8,946,298	7,547,575	1,398,723
Education	45,562,136	50,440,700	46,743,085	3,697,615
Parks, recreation, and cultural	3,087,048	3,598,976	3,199,589	399,387
Community development	1,789,352	5,019,511	2,219,052	2,800,459
Debt service				
Principal retirement	14,723,702	14,723,702	15,656,725	(933,023)
Interest and fiscal charges	8,635,811	8,635,811	7,652,363	983,448
Total expenditures	115,495,972	128,289,039	113,687,773	14,601,266
Excess (deficiency) of revenues over expenditures	3,053,000	(4,124,291)	9,246,721	13,371,012
OTHER FINANCING SOURCES (USES)				
Issuance of refunding bonds	-	-	64,605,000	64,605,000
Premium on issuance of refunding bonds	-	-	12,512,126	12,512,126
Transfer to escrow agent	-	-	(77,114,993)	(77,114,993)
Transfers in	-	-	2,975	2,975
Transfers out	(3,053,000)	(8,894,296)	(8,894,296)	-
Total other financing sources (uses)	(3,053,000)	(8,894,296)	(8,889,188)	5,108
Net change in fund balance	$ -	$ (13,018,587)	$ 357,533	$ 13,376,120

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

Note 1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

Montgomery County School Board

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

Montgomery County Public Service Authority

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

Montgomery County Economic Development Authority

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

(Continued)

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 $156,310 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 $718,790 in tipping fees to the Waste Authority.

New River Valley Metropolitan Planning Organization

The County is a member of the New River Valley Metropolitan Planning Organization ("MPO"). In 2003, the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization was created as a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. In 2012, the MPO was expanded to also include the City of Radford and a portion of Pulaski County. The Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization was renamed and provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community's vision. The County has three members within this organization, two of which are voting members. For the current year, the County paid $19,200 toward operations of the MPO.

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Jointly Governed Organizations: (Continued)

Western Virginia Regional Jail Authority

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body, and the chief administrative officer. The member jurisdictions are responsible for a portion of the debt service and per diem cost based on prisoner days used. For the current year, the County paid $3,526,851 to the WVRJA.

New River Valley Emergency Communications Regional Authority

The County is a member of the New River Valley Emergency Communications Regional Authority (the "Communications Authority"). The Communications Authority is a regional partnership, serving the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Communications Authority began providing 911 dispatch and emergency communication services to the community and agencies in these localities on July 1, 2016. The Board consist of 5 members, one from each member and all members jointly appoint a fifth member. For the current year, the County paid $779,100 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 $12,559 toward the operations of the Council.

NRV Regional Water Authority

The NRV Regional Water Authority (NRVRWA) operates and maintains a water supply system for the Town of Christiansburg, Town of Blacksburg, Virginia Tech, and Montgomery County. Each governing body appoints one member to the five person Board of Directors, and one at large member. Initially, until the term of one of the current at large members expires, the board will be comprised of six members. The board will then be reduced to five and the one at large member will be appointed by the members of the authority. All indebtedness of the NRVRWA is payable solely from the revenues of the water system. Although the Montgomery County Public Service Authority is one of NRVRWA's customers, neither the County nor the PSA have an obligation for any of its indebtedness. During fiscal year 2016, the PSA paid $516,398 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 $468,876 was for water purchases.

Note 1. Summary of Significant Accounting Policies (Continued)

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

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

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

The County reports the following major governmental funds:

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

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

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

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

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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Inventories (Continued)

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 2017.

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The County has four 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 is the net difference between projected and actual earnings on pension plan investments. The fourth 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.

Note 1. Summary of Significant Accounting Policies (Continued)

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

Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the statement of financial position and balance sheet report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has three 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 is the net difference between estimated and actual experience for economic or demographic factors in the total pension liability measurement. The third difference will be recognized in pension expense over a closed five year period.

Compensated Absences

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

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 over the life of the bonds using the straight-line method.

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

Pensions

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

Estimates

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

Net Position/Fund Balances

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

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

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

Net Position/Fund Balances (Continued)

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

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

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

Restricted Amounts

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

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, 2017 total $1,603,880 in the general fund.

Note 2. Stewardship, Compliance, and Accountability

Budgetary Information

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

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

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

Budgetary Information (Continued)

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

- Formal budgetary integration is employed as a management control device for the General and Capital Fund. Program and project budgets are utilized for the Capital Fund where funds remaining at the end of the year are reappropriated until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- The Board approved additional General Fund appropriations of $18,634,363 during the current year primarily for public safety, education, special community development projects, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

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

	Primary Government	Component Unit – School Board	
	General Fund	Operating	Cafeteria
Net change in fund balance (budgetary basis)	$ 357,533	$ 482,146	$ (256,320)
Adjustments:			
Tax and other accruals and due from other entities/funds, net of deferred/unearned revenue:			
June 30, 2017	10,234,574	10,891,233	(77,249)
June 30, 2016	(10,247,681)	(10,773,409)	70,785
Inventory:			
June 30, 2017	-	-	139,928
June 30, 2016	-	-	(152,848)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2017	(11,645,512)	(10,891,233)	(253,814)
June 30, 2016	10,893,503	10,773,409	196,105
Net change in fund balance (GAAP basis)	$ (407,583)	$ 482,146	$ (333,413)

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

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

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

Expenditures of School Board – Component Unit (Exhibit A-5)	$ 110,584,883
Principal and other debt service expenditures included in primary Government (Exhibit 4)	18,034,751
Total expenditures for school activities	$ 128,619,634

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).

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:

	Fair Value	Standard and Poor's Credit Rating	Percentage of Portfolio
Primary Government			
Demand deposits	$ 66,021,727	NA	95%
Money market accounts	3,422,137	AAAm	5%
Total	$ 69,443,864		100%
Component Units			
PSA			
Demand deposits	$ 2,229,616	NA	100%
School Board			
Demand deposits	$ 3,884,891	NA	100%

Deposits and investments are reflected in the statements as follows:

	Primary Government	Component Unit – PSA	Component Unit – School Board
Deposits and investments			
Cash and cash equivalents	$ 65,589,343	$ 2,159,306	$ 3,884,891
Investments, restricted	3,422,137	-	-
Cash and cash equivalents, restricted	432,384	70,310	-
	$ 69,443,864	$ 2,229,616	$ 3,884,891

Note 4. Deposits and Investments (Continued)

Credit Risk

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

Concentration of Credit Risk

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

Interest Rate Risk

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

Custodial Credit Risk

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

Restricted Amounts

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

(Continued)

Note 5. Receivables

Receivables are as follows:

	General	Component Unit Public Service Authority Water	Component Unit Public Service Authority Wastewater
Taxes	$ 5,181,319	$ -	$ -
Accounts	500,000	389,378	286,802
Gross receivables	5,681,319	389,378	286,802
Allowance for uncollectibles	(1,387,132)	(45,500)	(35,000)
Net receivables	$ 4,294,187	$ 343,878	$ 251,802

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 27% of the total taxes receivable and is based on historical collection rates.

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

Unavailable	$ 2,155,251
Unearned	726,896
Total	$ 2,882,147

Property Taxes

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

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30 includes amounts not yet received from the January 1 levy (due June 5), less an allowance for uncollectible amounts. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are included in the taxes receivable balance. The real estate tax rate for calendar year 2017 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.

(Continued)

Note 6. Due to/from Other Governmental Units

Due to other governmental units consists of the following:

	General Fund
Commonwealth of Virginia:	
Governor's Opportunity Fund	$ 380,000
Department of Social Services	177,040
Delinquent fees collected by the Commonwealth's Attorney	126,110
	$ 683,150

Due from other governmental units consists of the following:

	General Fund	Component Unit – School Board
Commonwealth of Virginia:		
Local sales tax	$ 1,455,644	$ -
State sales tax	-	2,070,561
Categorical aid – shared expenses	502,505	-
Categorical aid – schools	-	186,049
Non-categorical aid	152,892	-
Excess clerk fees	6,178	-
Virginia public assistance funds	144,691	-
Comprehensive services act	159,672	-
Federal Government:		
Virginia public assistance funds	247,444	-
Categorical aid – school grants	-	602,260
	$ 2,669,026	$ 2,858,870

Note 7. Interfund Balances and Transfers

Transfer In	Transfer Out	Amount
County Capital	General	$ 8,894,296
General	County Capital	$ 2,975

Transfers to the County Capital fund from the General fund were to support capital projects. Transfers to the General fund from the County Capital fund were to be used for information technology operations.

Note 8. Capital Assets

Capital asset activity for the year was as follows:

Primary Government

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 14,237,586	$ 441,978	$ -	$ 14,679,564
Construction in progress	2,351,441	2,328,367	(4,654,281)	25,527
Total capital assets, not depreciated	16,589,027	2,770,345	(4,654,281)	14,705,091
Capital assets, depreciated:				
Buildings and improvements	312,898,859	4,881,967	-	317,780,826
Machinery and equipment	24,408,937	1,493,906	(2,116,579)	23,786,264
Total capital assets, depreciated	337,307,796	6,375,873	(2,116,579)	341,567,090
Less accumulated depreciation:				
Buildings and improvements	48,000,658	8,502,841	-	56,503,499
Machinery and equipment	16,023,673	1,435,299	(1,210,904)	16,248,068
Total accumulated depreciation	64,024,331	9,938,140	(1,210,904)	72,751,567
Total capital assets, depreciated, net	273,283,465	(3,562,267)	(905,675)	268,815,523
Capital assets, net	$289,872,492	$ (791,922)	$ (5,559,956)	$283,520,614

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	$ 192,905
Judicial administration	7,819
Public safety	962,822
Public works	2,276,420
Health and welfare	39,569
Education	6,375,507
Parks, recreation, and cultural	65,727
Community development	17,371
	$ 9,938,140

Note 8. Capital Assets (Continued)

Primary Government (Continued)

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

Project	Spent to Date	Remaining Balance
Animal Care and Adoption Center	$ 3,506,999	$ 198,950

Component Unit – Public Service Authority

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land, improvements, and rights	$ 340,389	$ -	$ -	$ 340,389
Intangible asset (Note 18)	877,000	-	-	877,000
Total capital assets, not depreciated	1,217,389	-	-	1,217,389
Capital assets, depreciated:				
Wastewater systems	17,130,711	283,928	(150,000)	17,264,639
Water systems	15,314,425	-	(98,203)	15,216,222
Buildings and improvements	290,114	-	-	290,114
Machinery and equipment	1,439,343	56,740	-	1,496,083
Total capital assets, depreciated	34,174,593	340,668	(248,203)	34,267,058
Less accumulated depreciation:				
Wastewater systems	9,580,562	412,287	(36,875)	9,955,974
Water systems	6,829,434	379,844	(98,203)	7,111,075
Buildings and improvements	117,035	13,419	-	130,454
Machinery and equipment	725,299	72,786	-	798,085
Less accumulated depreciation	17,252,330	878,336	(135,078)	17,995,588
Total capital assets, depreciated, net	16,922,263	(537,668)	(113,125)	16,271,470
Capital assets, net	$ 18,139,652	$ (537,668)	$ (113,125)	$ 17,488,859

Depreciation expense was charged to functions as follows:

Water	$ 427,683
Wastewater	450,653
	$ 878,336

Note 8. Capital Assets (Continued)

Component Unit – School Board

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not depreciated:				
Land	$ 386,257	$ -	$ 26,950	$ 359,307
Construction in progress	509,923	876,114	509,923	876,114
Total capital assets, not depreciated	896,180	876,114	536,873	1,235,421
Capital assets, depreciated:				
Buildings and improvements	32,007,365	774,246	-	32,781,611
Machinery and equipment	16,755,731	1,380,204	420,722	17,715,213
Total capital assets, depreciated	48,763,096	2,154,450	420,722	50,496,824
Less accumulated depreciation:				
Buildings and improvements	31,537,166	152,812	-	31,689,978
Machinery and equipment	11,022,188	1,111,474	420,722	11,712,940
Total accumulated depreciation	42,559,354	1,264,286	420,722	43,402,918
Total capital assets, depreciated, net	6,203,742	890,164	-	7,093,906
Capital assets, net	$ 7,099,922	$ 1,766,278	$ 536,873	$ 8,329,327

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

Note 9. Long-Term Liabilities

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

Primary Government

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Governmental Activities:					
General obligation bonds	$ 114,315,165	$ -	$ 70,208,813	$ 44,106,352	$ 5,496,936
Lease revenue bonds	17,290,817	-	4,882,889	12,407,928	4,930,952
Literary fund loans	1,500,000	-	250,000	1,250,000	250,000
Refunding bonds	56,367,022	64,605,000	5,160,022	115,812,000	4,346,000
Issuance premiums	16,278,599	12,512,126	9,316,768	19,473,957	-
Landfill post-closure (Note 10)	1,044,284	13,575	-	1,057,859	101,140
OPEB (Note 12)	1,786,432	182,343	63,000	1,905,775	-
Compensated absences	3,022,795	1,834,744	2,000,163	2,857,376	2,000,163
Governmental activities long-term liabilities	$ 211,605,114	$ 79,147,788	$ 91,881,655	$ 198,871,247	$ 17,125,191
Component Unit – Public Service Authority					
Revenue bonds	$ 5,426,572	$ -	$ 272,828	$ 5,153,744	$ 279,588
Note Payable	-	55,000	-	55,000	4,446
Membership fee payable (Note 18)	1,234,133	-	22,840	1,211,293	23,297
OPEB (Note 12)	177,088	18,074	-	195,162	-
Compensated absences	168,865	127,805	118,206	178,464	124,925
Component Unit – Public Service Authority long-term liabilities	$ 7,006,658	$ 200,879	$ 413,874	$ 6,793,663	$ 432,256
Component Unit – School Board					
OPEB (Note 12)	$ 6,922,682	$ 641,413	$ 687,400	$ 6,876,695	$ -
Compensated absences	3,797,371	2,590,854	2,653,955	3,734,270	2,653,955
Component unit – school board long-term liabilities	$ 10,720,053	$ 3,232,267	$ 3,341,355	$ 10,610,965	$ 2,653,955

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

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
2018	$ 5,496,936	$ 2,186,578	$ 4,930,952	$ 537,098	$ 4,346,000	$ 4,996,180	$ 250,000	$ 37,500
2019	5,753,156	2,030,840	1,236,043	299,757	7,596,000	4,872,866	250,000	30,000
2020	7,157,376	1,858,115	1,288,249	247,550	6,997,000	4,586,185	250,000	22,500
2021	7,014,800	1,611,191	1,342,661	193,139	7,063,000	4,325,753	250,000	15,000
2022	4,232,614	1,366,377	1,399,370	136,428	10,260,000	4,063,675	250,000	7,500
2023-2027	11,276,470	6,737,235	2,210,653	93,042	46,990,000	12,871,625	-	-
2028-2032	3,175,000	2,231,250	-	-	32,560,000	3,225,000	-	-
	$ 44,106,352	$ 18,021,586	$ 12,407,928	$ 1,507,014	$115,812,000	$ 38,941,284	$ 1,250,000	$ 112,500

Year Ended June 30	Component Unit – Public Service Authority					
	Revenue Bonds		Note Payable		Membership Fee Payable	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	$ 279,588	$ 123,141	$ 4,446	$ 2,410	$ 23,297	$ 24,226
2019	286,515	116,214	4,652	2,204	23,762	23,760
2020	293,614	109,115	4,868	1,988	24,238	23,285
2021	300,889	101,840	5,094	1,762	24,723	22,800
2022	308,344	94,385	5,331	1,525	25,217	22,305
2023 – 2027	1,660,176	353,469	30,609	3,672	133,855	103,757
2028 – 2032	1,833,028	138,618	-	-	147,787	89,826
2033 – 2037	191,590	1,371	-	-	163,168	74,444
2038 – 2042	-	-	-	-	180,151	57,461
2043 – 2047	-	-	-	-	198,901	38,711
2048 – 2052	-	-	-	-	219,603	18,009
2053 – 2057	-	-	-	-	46,591	932
	$ 5,153,744	$ 1,038,153	$ 55,000	$ 13,561	$ 1,211,293	$ 499,516

Note 9. Long-Term Liabilities (Continued)

Details of long-term indebtedness are as follows:

	Interest Rates	Date Issued	Final Maturity Date	Amount of Original Issue	Governmental Activities	Public Service Authority
General Obligation Bonds:						
School Construction Bonds	4.4 - 5.4	11/20/97	2018	$ 4,211,116	$ 247,290	$ -
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	530,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	3,616,122	-
Qualified School Construction Bonds	-	11/13/09	2027	8,249,998	4,852,940	-
Qualified School Construction Bonds	-	07/08/11	2027	13,370,000	9,050,000	-
Qualified School Construction Bonds	-	12/15/11	2031	15,000,000	12,600,000	-
Virginia Public School Authority Bonds	4.0 – 5.0	12/06/11	2032	86,115,000	13,210,000	-
					$ 44,106,352	$ -
Revenue Bonds:						
Lease Revenue Bond	4.2	01/14/04	2024	$ 5,000,000	$ 2,167,923	$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	2,167,923	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	4,327,082	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	3,745,000	-
Water and Sewer Refunding Bond	2.45	03/28/13	2032	6,275,000	-	5,153,744
					$ 12,407,928	$ 5,153,744
Refunding Bonds:						
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	$ 4,475,000	$ -
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	6,785,000	-
Refunding Bond	1.6	02/26/15	2021	11,572,000	7,837,000	-
Refunding Bond	4.7	02/03/16	2029	32,835,000	32,835,000	-
Refunding Bond	4.3	11/10/16	2032	64,605,000	63,880,000	-
					115,812,000	
Plus bond premium					19,473,957	-
					$ 135,285,957	$ -
Other Long-Term Debt:						
State Literary Fund Loan	3.0%	01/20/01	2021	$ 5,000,000	$ 1,250,000	$ -

Current year refunding

On November 10, 2016, the County issued $64,605,000 in 2016 refunding bonds. Proceeds of the bonds, with an average interest rate of 4.328%, were used to refund the Series 2011 lease revenue bonds maturing June 30, 2022 through June 30, 2032 with an average interest rate of 5.00%. The net proceeds of $76,141,909 (including an issuance premium of $12,512,126 and net of $975,217 in issuance costs) were used to purchase U.S. government securities, which refunded a portion of the Series 2011 bonds. As a result, that portion of the 2011 series bonds is considered defeased, and the County has removed the liability from its accounts. The outstanding principal of the defeased bonds was $64,845,000.

The County completed the refunding to reduce its total debt service payments over the next 15 years by $6,043,551 and to obtain economic gain (difference between the present values of the old and new debt service payments) of $5,302,690.

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 $1,057,859 reported post-closure care liability represents what it would cost to perform all post-closure care in 2017. Actual costs may change due to inflation, deflation, changes in technology, or changes in regulations. The County intends to fund these costs from general revenues. The County uses the financial test method of demonstrating assurance for post-closure care cost.

Note 11. Defined Benefit Pension Plans

Primary Government – County

Plan Description

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

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

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **Hybrid Opt-In Election –** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

Note 11. Defined Benefit Pension Plan (Continued)

<u>Plan Description</u> (Continued)

<u>Plan 1 (Continued)</u>

- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **Creditable Service –** Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
- **Vesting –** Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.
- **Calculating the Benefit –** The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.
- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age –** Age 65 or age 60 for hazardous duty employees.
- **Earliest Unreduced Retirement Eligibility –** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service for hazardous duty employees.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Earliest Reduced Retirement Eligibility –** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Age 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
  - **Eligibility** – 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. 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.
  - **Exceptions to COLA Effective Dates** – The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:
    - The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
    - The member retires on disability.
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
    - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **Hybrid Opt-In Election –** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.
- **Creditable Service –** Same as Plan 1.
- **Vesting –** Same as Plan 1.
- **Calculating the Benefit –** See definition under Plan 1.
- **Average Final Compensation –** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **Service Retirement Multiplier –** Same as Plan 1 for service earned, purchased, or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age –** Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility –** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
  - **Eligibility** – Same as Plan 1.
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service –** Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. The defined benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

- **Eligible Members –** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees; members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
- **Non-Eligible Members –** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
- **Retirement Contributions –** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
- **Creditable Service –**
  - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn credible 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 credible 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.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Creditable Service – (Continued)**
  - **Defined Contributions Component –** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
- **Vesting –**
  - **Defined Benefit Component –** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
  - **Defined Contributions Component –** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
- **Calculating the Benefit –**
  - **Defined Benefit Component –** See definition under Plan 1.
  - **Defined Contribution Component –** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
- **Average Final Compensation –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Normal Retirement Age –**
  - **Defined Benefit Component –** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component –** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement**
  - **Defined Benefit Component –** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.

- **Disability Coverage –** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.

Note 11. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Purchase of Prior Service –**
  - **Defined Benefit Component** – Same as Plan 1, with the following exceptions:
    - Hybrid Retirement Plan members are ineligible for ported service.
    - The cost for purchasing refunded service is the higher or 4% of creditable compensation or average final compensation.
    - Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.
  - **Defined Contribution Component** – Not Applicable.

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	267
Inactive members:	
Vested inactive members	76
Non-vested inactive members	57
Inactive members active elsewhere in VRS	188
Total inactive members	321
Active members	366
Total covered employees	954

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.

Note 11. Defined Benefit Pension Plan (Continued)

Contributions (Continued)

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 11.47% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $1,910,812 and $2,170,821 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

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

*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 rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Note 11. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

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

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

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

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

Note 11. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

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

Note 11. Defined Benefit Pension Plan (Continued)

Discount Rate

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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	$ 76,811,537	$ 63,798,896	$ 13,012,641
Changes for the year:			
Service cost	1,920,500	-	1,920,500
Interest	5,208,242	-	5,208,242
Differences between expected and actual experience	(1,080,508)	-	(1,080,508)
Contributions – employer	-	2,131,115	(2,131,115)
Contributions – employee	-	824,501	(824,501)
Net investment income	-	1,110,595	(1,110,595)
Benefit payments, including refunds of employee contributions	(3,149,246)	(3,149,246)	-
Administrative expenses	-	(39,050)	39,050
Other changes	-	(469)	469
Net changes	2,898,988	877,446	2,021,542
Balances at June 30, 2016	$ 79,710,525	$ 64,676,342	$ 15,034,183

Note 11. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability	$ 25,657,505	$ 15,034,183	$ 6,237,120

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of $1,547,267. At June 30, 2017, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 943,226
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	1,665,002	-
Employer contributions subsequent to the measurement date	1,910,812	-
Total	$ 3,575,814	$ 943,226

Note 11. Defined Benefit Pension Plan (Continued)

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

The $1,910,812 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	$ (406,169)
2019	(351,905)
2020	813,288
2021	666,562
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority

Plan Description

All full-time, salaried permanent employees of the Montgomery County Public Service Authority, (the "Component Unit") are automatically covered by VRS Retirement Plan upon employment. This plan is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia.

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

Contributions

The component unit's contractually required contribution rate for the year ended June 30, 2017 was 11.47% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the component unit were $97,398 and $107,060 for the years ended June 30, 2017 and June 30, 2016, respectively.

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	$ 3,824,351	$ 3,182,594	$ 641,757
Changes for the year:			
Service cost	118,342	-	118,342
Interest	320,935	-	320,935
Differences between expected and actual experience	(66,582)	-	(66,582)
Contributions – employer	-	131,321	(131,321)
Contributions – employee	-	50,806	(50,806)
Net investment income	-	68,435	(68,435)
Benefit payments, including refunds of employee contributions	(194,058)	(194,058)	-
Administrative expenses	-	(2,406)	2,406
Other changes	-	(29)	29
Net changes	178,637	54,069	124,568
Balances at June 30, 2016	$ 4,002,988	$ 3,236,663	$ 766,325

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Component Unit's net pension liability	$ 1,307,819	$ 766,325	$ 317,920

Note 11. Defined Benefit Pension Plan (Continued)

Component Unit – Public Service Authority (Continued)

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

For the year ended June 30, 2017, the political subdivision recognized pension expense of $78,865. At June 30, 2017, the component unit reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 48,078
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	84,869	-
Employer contributions subsequent to the measurement date	97,398	-
Total	$ 182,267	$ 48,078

The $97,398 reported as deferred outflows of resources related to pensions resulting from the Component Unit's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	$ (20,704)
2019	(17,938)
2020	41,456
2021	33,977
Thereafter	-

Note 11. Defined Benefit Pension Plan (Continued)

School Nonprofessionals

Plan Description

All full-time, salaried permanent non-professional employees (non-teachers) of the Montgomery County Public Schools, (the "School division") are automatically covered by VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service. The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and Hybrid. The plan provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described for the County.

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	156
Inactive members:	
Vested inactive members	16
Non-vested inactive members	58
Inactive members active elsewhere in VRS	42
Total inactive members	116
Active members	174
Total covered employees	446

Contributions

The school division's contractually required contribution rate for the year ended June 30, 2017 was 10.46% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

Contributions to the pension plan from the school division were $610,621 and $501,494 for the years ended June 30, 2017 and June 30, 2016, respectively.

Note 11. Defined Benefit Pension Plan – School Nonprofessionals (Continued)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at June 30, 2015	$ 23,254,034	$ 18,940,398	$ 4,313,636
Changes for the year:			
Service cost	559,551	-	559,551
Interest	1,587,055	-	1,587,055
Differences between expected and actual experience	419,588	-	419,588
Contributions – employer	-	496,152	(496,152)
Contributions – employee	-	284,097	(284,097)
Net investment income	-	324,084	(324,084)
Benefit payments, including refunds of employee contributions	(1,163,631)	(1,163,631)	-
Administrative expenses	-	(11,872)	11,872
Other changes	-	(138)	138
Net changes	1,402,563	(71,308)	1,473,871
Balances at June 30, 2016	$ 24,656,597	$ 18,869,090	$ 5,787,507

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's net pension liability	$ 8,899,349	$ 5,787,507	$ 3,193,358

Note 11. Defined Benefit Pension Plan – School Nonprofessionals (Continued)

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

For the year ended June 30, 2017, the school division recognized pension expense of $781,459. At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 406,076	$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	484,534	-
Employer contributions subsequent to the measurement date	610,621	-
Total	$ 1,501,231	$ -

The $610,621 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	$ 218,929
2019	146,767
2020	327,333
2021	197,581
2022	-
Thereafter	-

Note 11. Defined Benefit Pension Plan – School Nonprofessionals (Continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plans is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Teacher Cost Sharing Plan

General Information about the Teacher Cost Sharing Plan

Plan Description

All full-time, salaried permanent (professional) employees of Virginia public school divisions, including Montgomery County Public Schools, (the "School Division"), 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 employers 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 funded service.

The System administers three different benefit structures for covered employees in the VRS Teacher Retirement Plan – Plan 1, Plan 2, and Hybrid. The provisions and features of the plans, as well as all actuarial assumptions, are substantially the same as those described for the County.

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to school divisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% member contribution. In addition, for existing employees, employers were required to begin requiring that the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. Each school division's contractually required contribution rate for the year ended June 30, 2017 was 14.66% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015 and reflects the transfer in June 2015 of $192,884,000 as an accelerated payback of the deferred contribution in the 2010-12 biennium. The actuarial rate for the Teacher Retirement Plan was 16.32%. 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 89.84% of the actuarial rate for the year ended June 30, 2017. Contributions to the pension plan from the school division were $7,263,185 and $6,646,724 for the years ended June 30, 2017 and June 30, 2016, respectively.

Note 11. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

At June 30, 2017, the school division reported a liability of $87,003,000 for its proportionate share of the Net Pension Liability. The Net Pension Liability was measured as of June 30, 2016 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, 2016 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2016, the school division's proportion was 0.62082% as compared to 0.62113% at June 30, 2015.

For the year ended June 30, 2017, the school division recognized pension expense of $7,644,000. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2017, the school division reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 2,819,000
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	4,970,000	-
Changes in proportion and differences between Employer contributions and proportionate share of contributions	338,000	-
Employer contributions subsequent to the measurement date	7,263,185	-
Total	$ 12,571,185	$ 2,819,000

Note 11. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

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

The $7,263,185 reported as deferred outflows of resources related to pensions resulting from the school division's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2018	$ (419,000)
2019	(419,000)
2020	2,195,000
2021	1,323,000
2022	(191,000)
Thereafter	-

Net Pension Liability

The net pension liability (NPL) is calculated separately for each system and represents that particular system's total pension liability determined in accordance with GASB Statement No. 67, less that system's fiduciary net position. As of June 30, 2016, NPL amounts for the VRS Teacher Employee Retirement Plan is as follows (amounts expressed in thousands):

	Teacher Employee Retirement Plan
Total Pension Liability	$ 44,182,326
Plan Fiduciary Net Position	30,168,211
Employers' Net Pension Liability (Asset)	$ 14,014,115
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	68.28%

Note 11. Defined Benefit Pension Plan – Teacher Cost Sharing Plan (Continued)

General Information about the Teacher Cost Sharing Plan (Continued)

Net Pension Liability (Continued)

The total pension liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net pension liability is disclosed in accordance with the requirements of GASB Statement No. 67 in the System's notes to the financial statements and required supplementary information.

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
School division's proportionate share of the VRS Teacher Employee Retirement plan net pension liability	$ 124,023,000	$ 87,003,000	$ 56,507,000

Pension Plan Fiduciary Net Position

Detailed information about the VRS Teacher Retirement Plan's Fiduciary Net Position is available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

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.

Note 12. Other Postemployment Benefits (Continued)

Plan Description and Benefits Provided

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

Membership

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

Funding Policy

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

Annual Other Postemployment Benefit Cost and Net OPEB Obligation

The components of the County's annual OPEB cost (expense) for the fiscal year ended June 30, 2017 of $182,343 are described below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $63,000 for retirees, resulted in a net OPEB obligation of $1,905,775 for the year ended June 30, 2017.

	Governmental Activities
Annual required contribution	$ 185,875
Interest on net OPEB obligation	62,525
Adjustment to annual required contribution	(66,057)
Annual OPEB cost	182,343
Less contributions made	(63,000)
Increase in net OPEB obligation	119,343
Net OPEB obligation – beginning of year	1,786,432
Net OPEB obligation – end of year	$ 1,905,775

Note 12. Other Postemployment Benefits (Continued)

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

The components of the PSA's annual OPEB cost (expense) for the fiscal year ended June 30, 2017 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $0 for retirees, resulted in a net OPEB obligation of $195,162 for the current year.

Annual required contribution	$ 18,425
Interest on net OPEB obligation	6,197
Adjustment to annual required contribution	(6,548)
Annual OPEB cost	18,074
Less contributions made	-
Increase in net OPEB obligation	18,074
Net OPEB obligation-beginning of year	177,088
Net OPEB obligation-end of year	$ 195,162

The components of the School's annual OPEB cost (expense) for the fiscal year ended June 30, 2017 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled $687,400 for retirees, resulted in a net OPEB obligation of $6,876,695 for the current year.

Annual required contribution	$ 655,100
Interest on net OPEB obligation	242,294
Adjustment to annual required contribution	(255,981)
Annual OPEB cost	641,413
Less contributions made	(687,400)
Decrease in net OPEB obligation	(45,987)
Net OPEB obligation-beginning of year	6,922,682
Net OPEB obligation-end of year	$ 6,876,695

Note 12. Other Postemployment Benefits (Continued)

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

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
County:			
June 30, 2017	$ 182,343	34.55%	$ 1,905,775
June 30, 2016	174,688	31.37	1,786,432
June 30, 2015	191,693	44.50	1,666,544
PSA:			
June 30, 2017	$ 18,074	0.00%	$ 195,162
June 30, 2016	16,801	0.00	177,287
June 30, 2015	17,538	0.00	160,286
School Board:			
June 30, 2017	$ 641,413	107.17%	$ 6,876,695
June 30, 2016	630,801	109.04	6,922,682
June 30, 2015	751,992	60.24	6,979,681

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.

Note 12. Other Postemployment Benefits (Continued)

Funded Status and Funding Progress (Continued)

Required Supplementary Information
Schedule of Funding Progress – Other Postemployment Benefits

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

Actuarial Methods and Assumptions

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

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

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 $3,293,875 and $10,150,587 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 $414,445 and $1,150,000 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

Year Ended	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance
June 30, 2017	$ 363,272	$ 3,293,875	$ 3,242,702	$ 414,445
June 30, 2016	543,796	2,760,775	2,941,299	363,272
June 30, 2015	263,464	3,452,212	3,171,880	543,796

School Board

Year Ended	Beginning Balance	Claims and Changes in Estimates	Claim Payments	Ending Balance
June 30, 2017	$ 2,273,049	$ 10,150,587	$11,273,636	$ 1,150,000
June 30, 2016	969,000	11,570,078	10,266,029	2,273,049
June 30, 2015	-	7,147,188	6,178,188	969,000

Note 14. Commitments and Contingencies

Litigation

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

Special Purpose Grants

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

Incentives

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

The EDA enters into performance agreement incentives with various companies. At year end, incentives not yet earned by recipient companies were $2,144,536.

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	2,099,073
	$ 5,626,109

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 $2,915,506 and $86,440,043, 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.

Note 16. Net Position/Fund Balance (Continued)

Fund Balance:

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

	General Fund	Capital Fund
Fund Balances:		
Nonspendable:		
Long-term advances and notes receivable	$ 6,392,736	$ -
Restricted:		
Judicial administration	125,369	-
Public safety	333,908	-
Health and welfare	913,147	-
Parks, recreation, and culture	68,508	-
Debt service reserves	-	3,422,136
Committed:		
General government administration – future projects	4,295,900	3,488,433
Public safety	-	663,151
Public works	-	4,344,000
Education – future projects to be determined	-	12,284,176
Parks, recreation, and culture	-	309,528
Assigned:		
General government administration	1,151,498	-
Judicial administration	51,696	-
Public safety	349,652	-
Public works	261,517	-
Health and welfare	137,074	-
Education	3,588,638	-
Parks, recreation, and culture	249,137	-
Community development	3,093,998	-
Unassigned:	21,520,152	-
Total fund balance	$ 42,532,930	$ 24,511,424

Note 17. Concentrations

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

Note 18. Service Contracts

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

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

During June 2013, Montgomery County joined the New River Valley Regional Water Authority (NRVRWA). While Montgomery County is the legal member of the NRVRWA, all costs associated with the membership are 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 is evaluated annually for impairment. The transfer of the pipe occurred in 2014.

During 2014, in accordance with joining the Water Authority, the Authority agreed to pay for a transitional meter setting with an estimated cost of $120,000; however, this had not occurred at year end. The Authority will also be responsible for capital upgrades with an estimated cost of $4,221,000. In June 2017, the board approved an agreement for design of the capital upgrades and design work will begin in fiscal year 2018.

Note 19. New Accounting Standards

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

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 replaces the requirements of Statements No. 45 and No. 57 and establishes new accounting requirements for OPEB plans. This Statement will be effective for the year ending June 30, 2018.

Note 19. New Accounting Standards (Continued)

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

GASB Statement No. 82, ***Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*** addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding the presentation of payroll related measures in required supplementary information, the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 83, ***Certain Asset Retirement Obligations*** establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for Asset Retirement Obligations (AROs). This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO. This Statement will be effective for the year ending June 30, 2019.

GASB Statement No. 84, ***Fiduciary Activities*** establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement will be effective for the year ending June 30, 2020.

Note 19. New Accounting Standards (Continued)

GASB Statement No. 85, *Omnibus 2017* addresses practice issues that have been identified during implementation and application of certain GASB Statements, including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation.
- Reporting amounts previously reported as goodwill and "negative" goodwill.
- Classifying real estate held by insurance entities.
- Measuring certain money market investments and participating interest earning investment contracts at amortized cost.
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus.
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB.
- Classifying employer-paid member contributions for OPEB.
- Simplifying certain aspects of the alternative measurement method for OPEB.
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 86, *Certain Debt Extinguishment Issues,* improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 87, *Leases* establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement will be effective for the year ending June 30, 2021.

Note 20. Subsequent Events

Economic Development Authority

On September 26, 2017, the Authority approved a performance agreement with a current tenant providing an Economic Development Grant up to $100,000 over a five-year period.

On November 21, 2017, the Authority purchased 132.98 acres of land for $2,500,000 with funds provided by the County. The land adjoins and will expand the Falling Branch Industrial Park.

County

On October 18, 2017, the County sold approximately 3 acres of land in Blacksburg for $100,000.

On November 22, 2017, the County sold the former Blacksburg High School property for $3,000,000. $1,000,000 was received at closing, and $1 million will be received on April 24, 2019 and April 24, 2020.

REQUIRED SUPPLEMENTARY INFORMATION

EXHIBIT 6

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS - PRIMARY GOVERNMENT
June 30, 2017

	Plan Year		
	2016	**2015**	**2014**
Total Pension Liability			
Service cost	$ 2,038,842	$ 2,065,492	$ 1,987,518
Interest on total pension liability	5,529,177	5,278,174	5,014,694
Difference between expected and actual experience	(1,147,090)	(408,515)	-
Benefit payments, including refunds of employee contributions	(3,343,304)	(3,355,504)	(3,120,914)
Net change in total pension liability	3,077,625	3,579,647	3,881,298
Total pension liability - beginning	80,659,888	77,080,241	73,198,943
Total pension liability - ending	83,737,513	80,659,888	77,080,241
Plan Fiduciary Net Position			
Contributions - employer	2,262,436	2,206,584	1,777,329
Contributions - employee	875,307	921,830	894,800
Net investment income	1,179,030	2,959,075	8,832,131
Benefit payments, including refunds of employee contributions	(3,343,304)	(3,355,504)	(3,120,914)
Administrative expenses	(41,456)	(40,120)	(47,509)
Other	(498)	(626)	465
Net change in plan fiduciary net position	931,515	2,691,239	8,336,302
Plan fiduciary net position - beginning	67,005,490	64,314,251	55,977,949
Plan fiduciary net position - ending	67,937,005	67,005,490	64,314,251
Net pension liability - ending	$ 15,800,508	$ 13,654,398	$ 12,765,990
Plan fiduciary net position as a percentage of total pension liability	81%	83%	83%
Covered employee payroll	$ 17,375,145	$ 16,814,775	$ 16,910,837
Net pension liability as a percentage of covered employee payroll	91%	81%	75%

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

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

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

EXHIBIT 7

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
SCHOOLS - NONPROFESSIONAL EMPLOYEES
June 30, 2017

	Plan Year		
	2016	**2015**	**2014**
Total Pension Liability			
Service cost	$ 559,551	$ 552,067	$ 525,743
Interest on total pension liability	1,587,055	1,510,044	1,455,818
Difference between expected and actual experience	419,588	297,904	-
Benefit payments, including refunds of employee contributions	(1,163,631)	(1,356,068)	(1,057,738)
Net change in total pension liability	1,402,563	1,003,947	923,823
Total pension liability - beginning	23,254,034	22,250,087	21,326,264
Total pension liability - ending	24,656,597	23,254,034	22,250,087
Plan Fiduciary Net Position			
Contributions - employer	496,152	477,385	469,880
Contributions - employee	284,097	326,053	268,846
Net investment income	324,084	840,218	2,572,433
Benefit payments, including refunds of employee contributions	(1,163,631)	(1,356,068)	(1,057,738)
Administrative expenses	(11,872)	(11,870)	(13,997)
Other	(138)	(176)	136
Net change in plan fiduciary net position	(71,308)	275,542	2,239,560
Plan fiduciary net position - beginning	18,940,398	18,664,856	16,425,296
Plan fiduciary net position - ending	18,869,090	18,940,398	18,664,856
Net pension liability - ending	$ 5,787,507	$ 4,313,636	$ 3,585,231
Plan fiduciary net position as a percentage of total pension liability	77%	81%	84%
Covered employee payroll	$ 5,764,299	$ 5,195,195	$ 5,113,521
Net pension liability as a percentage of covered employee payroll	100%	83%	70%

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

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

EXHIBIT 8

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2017

Entity Fiscal Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
Primary Government					
2017	$ 2,008,210	$ 2,008,210	$ -	$ 17,508,356	11.47%
2016	2,277,881	2,277,881	-	17,375,145	13.11%
2015	2,204,416	2,204,416	-	16,814,775	13.11%
Schools - Nonprofessional Employees					
2017	$ 610,621	$ 610,621	$ -	$ 5,837,677	10.46%
2016	501,494	501,494	-	5,764,299	8.70%
2015	451,982	451,982	-	5,195,195	8.70%

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

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

The Notes to Required Supplementary Information are an integral part of this statement.

EXHIBIT 9

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
VRS TEACHER RETIREMENT PLAN
June 30, 2017

Plan Year	Employer's Proportion of the Net Pension Liability	Employer's Proportionate Share of the Net Pension Liability	Employer's Covered Employee Payroll	Employer's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Employee Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2016	0.6208 %	$ 87,003,000	$ 45,839,476	189.80 %	68.28 %
2015	0.6211	78,178,000	44,501,414	175.68	70.68
2014	0.6271	75,783,000	43,163,352	175.57	70.88

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

EXHIBIT 10

COUNTY OF MONTGOMERY, VIRGINIA

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
VRS TEACHER RETIREMENT PLAN
June 30, 2017

Fiscal Year	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
2017	$ 7,263,185	$ 7,263,185	$ -	$ 49,544,236	14.66 %
2016	6,646,724	6,646,724	-	45,839,476	14.50
2015	6,452,705	6,452,705	-	44,501,414	14.50

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

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2017

Note 1. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Note 2. Changes of Assumptions

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

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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

THIS PAGE INTENTIONALLY BLANK

OTHER SUPPLEMENTARY INFORMATION

THIS PAGE INTENTIONALLY BLANK

DISCRETELY PRESENTED
COMPONENT UNIT – PUBLIC SERVICE AUTHORITY

EXHIBIT A-1

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY
June 30, 2017

	Water	Wastewater	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 2,159,306	$ -	$ 2,159,306
Accounts receivables, net	343,878	251,802	595,680
Due from Wastewater Fund	1,961	-	1,961
Due from County	6,391	7,699	14,090
Inventories	31,158	129	31,287
Total current assets	2,542,694	259,630	2,802,324
Noncurrent assets:			
Cash and cash equivalents, restricted	40,980	29,330	70,310
Capital assets:			
Non-depreciable	1,199,389	18,000	1,217,389
Depreciable, net	8,686,401	7,585,069	16,271,470
Total noncurrent assets	9,926,770	7,632,399	17,559,169
Total assets	12,469,464	7,892,029	20,361,493
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions subsequent to measurement date	51,410	45,988	97,398
Net difference between projected and actual investment earnings on pension plan investments	44,797	40,072	84,869
Total deferred outflows	96,207	86,060	182,267
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	140,912	90,900	231,812
Accrued payroll and related liabilities	22,601	21,720	44,321
Accrued interest payable	3,375	2,053	5,428
Due to Water Fund	-	1,961	1,961
Due to County	10,772	-	10,772
Current portion of noncurrent liabilities	250,501	158,458	408,959
Total current liabilities	428,161	275,092	703,253
Noncurrent liabilities:			
Customer deposits	40,980	29,330	70,310
Net pension liability	404,493	361,832	766,325
Due in more than one year	3,156,857	2,016,554	5,173,411
Total noncurrent liabilities	3,602,330	2,407,716	6,010,046
Total liabilities	4,030,491	2,682,808	6,713,299
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual investment earnings on pension plan investments	25,377	22,701	48,078
NET POSITION			
Net investments in capital assets	6,688,362	5,591,753	12,280,115
Unrestricted	1,821,441	(319,173)	1,502,268
Total net position	$ 8,509,803	$ 5,272,580	13,782,383
Reconciliation with business-type activites in the statement of net position (Exhibit 1)			
Long-term membership fee payable to other New River Valley Regional Water Authority legally due from the County but financed by enterprise fund revenues			(1,211,293)
Net position of business-type activites			$ 12,571,090

EXHIBIT A-2

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
DISCRETELY PRESENTED COMPONENT UNIT – PUBLICE SERVICE AUTHORITY
For the Year Ended June 30, 2017

	Water	Wastewater	Total
OPERATING REVENUES			
Charges for services	$ 1,659,610	$ 1,340,805	$ 3,000,415
Penalties and reconnection charges	44,952	21,186	66,138
Fees	273,217	131,023	404,240
Miscellaneous	23,866	6,813	30,679
Total operating revenues	2,001,645	1,499,827	3,501,472
OPERATING EXPENSES			
Salaries and wages	483,367	434,504	917,871
Employee benefits	202,165	202,532	404,697
Utilities and telephone	33,910	76,278	110,188
Water and wastewater services	598,696	468,320	1,067,016
Operating supplies, fees, permits	37,479	35,366	72,845
Professional services	154,925	25,715	180,640
Repairs and maintenance	56,535	115,874	172,409
Insurance	20,548	18,105	38,653
Vehicle supplies and miscellaneous	30,520	17,342	47,862
Bad debts	8,500	5,000	13,500
Office supplies and miscellaneous	33,873	7,226	41,099
Membership fees	47,523	-	47,523
Depreciation	427,683	450,653	878,336
Total operating expenses	2,135,724	1,856,915	3,992,639
Operating loss	(134,079)	(357,088)	(491,167)
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	10,761	-	10,761
Facility fees	77,500	103,500	181,000
Gain/(loss) on sale of assets	5,000	(107,880)	(102,880)
Interest expense	(79,188)	(50,578)	(129,766)
Total nonoperating revenues	14,073	(54,958)	(40,885)
Income before contributions	(120,006)	(412,046)	(532,052)
CAPITAL CONTRIBUTIONS FROM DEVELOPERS	-	60,311	60,311
Change in net position	(120,006)	(351,735)	(471,741)
Total net position – beginning, as restated	8,629,809	5,624,315	14,254,124
Total net position – ending	$ 8,509,803	$ 5,272,580	$ 13,782,383

Reconciliation with business-type activities in the statement of activities:	
Change in net position	$ (471,741)
Principal repayment of initial membership fee to other government legally due from County but ultimately financed by enterprise funds revenues.	22,840
Change in net position of business-type activities	$ (448,901)

COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS
DISCRETELY PRESENTED COMPONENT UNIT – PUBLIC SERVICE AUTHORITY
For the Year Ended June 30, 2017

	Water	Wastewater	Total
OPERATING ACTIVITIES			
Receipts from customers	$ 1,997,712	$ 1,524,689	$ 3,522,401
Payments to suppliers	(979,384)	(751,094)	(1,730,478)
Payments to employees	(679,795)	(613,123)	(1,292,918)
Payments to County for financial services	(62,035)	-	(62,035)
Net cash provided by operating activities	276,498	160,472	436,970
CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(50,038)	(230,319)	(280,357)
Facility fee payments from customers	77,500	103,500	181,000
Proceeds from the issuance of long term debt	55,000	-	55,000
Proceeds from the sale of capital assets	5,000	5,245	10,245
Principal payments on long-term debt	(166,354)	(106,474)	(272,828)
Interest payments on debt	(79,205)	(50,696)	(129,901)
Net cash used in capital and related financing activities	(158,097)	(278,744)	(436,841)
INVESTING ACTIVITIES			
Interest received	10,761	-	10,761
Net increase (decrease) in cash and cash equivalents	129,162	(118,272)	10,890
CASH AND CASH EQUIVALENTS			
Beginning at July 1	2,071,124	147,602	2,218,726
Ending at June 30	$ 2,200,286	$ 29,330	$ 2,229,616
RECONCILIATION TO EXHIBIT 1			
Cash and cash equivalents	$ 2,159,306	$ -	$ 2,159,306
Cash and cash equivalents, restricted	40,980	29,330	70,310
	$ 2,200,286	$ 29,330	$ 2,229,616
Reconciliation of operating loss to net cash provided by operating activities:			
Operating loss	$ (134,079)	$ (357,088)	$ (491,167)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	427,683	450,653	878,336
Pension expense net of employer contributions	(1,348)	3,663	2,315
(Increase) decrease in:			
Accounts receivable	(4,804)	28,972	24,168
Due from wastewater fund	(1,961)	-	(1,961)
Due from other governmental units	9,231	-	9,231
Due from County	788	(796)	(8)
Inventory	(24,295)	213	(24,082)
(Decrease) increase in:			
Accounts payable	(7,335)	11,754	4,419
Due to water fund	-	1,961	1,961
Due to County	5,393	-	5,393
Accrued payroll and related liabilities	(1,292)	10,553	9,261
Other postemployment benefits	8,377	9,697	18,074
Customer deposits	140	890	1,030
Net cash provided by operating activities	$ 276,498	$ 160,472	$ 436,970
NON-CASH CAPITAL AND RELATED FINANCING ACTIVITIES			
Contributions from developers	$ -	$ 60,311	$ 60,311

DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD

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

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

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

COUNTY OF MONTGOMERY, VIRGINIA

BALANCE SHEET
DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD
June 30, 2017

	School Operating	School Cafeteria	Total Governmental Funds
ASSETS			
Cash and cash equivalents	$ 3,330,271	$ 554,620	$ 3,884,891
Due from primary government	8,032,363	-	8,032,363
Due from other governmental units	2,858,869	-	2,858,869
Inventories	-	139,928	139,928
Total assets	$ 14,221,503	$ 694,548	$ 14,916,051
LIABILITIES			
Liabilities			
Accounts payable and accrued expenses	$ 1,973,088	$ 4,184	$ 1,977,272
Accrued payroll and related liabilities	8,784,926	249,630	9,034,556
Compensated absences	133,219	-	133,219
Unearned revenues	-	77,249	77,249
Total liablities	10,891,233	331,063	11,222,296
FUND BALANCES			
Nonspendable	-	139,928	139,928
Committed	1,395,769	-	1,395,769
Assigned	-	223,557	223,557
Unassigned	1,934,501	-	1,934,501
Total fund balances	3,330,270	363,485	3,693,755
Total liabilities, deferred inflows of resources, and fund balances	$ 14,221,503	$ 694,548	$ 14,916,051

Adjustments for the Statement of Net Position (Exhibit 1)

Total fund balances	$ 3,693,755
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.	8,329,327
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for govenmental activities.	651,634
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the funds.	
Deferred outflows of resources for 2017 employer contributions	7,873,806
Deferred outflows of resources for the net difference between projected and actual investment earnings on pension plan investments	5,454,534
Deferred outflows of resources for changes in proportion - teacher cost sharing plan	338,000
Deferred inflows of resources for the net difference between expected and actual experience	(2,412,924)
Net pension liability	(92,790,507)
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.	(10,477,746)
Net position of governmental activities	$ (79,340,121)

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, 2017

	School Operating	School Cafeteria	Total Governmental Funds
REVENUES			
Revenue from use of money and property	$ 69,550	$ 3,046	$ 72,596
Charges for services	17,369	1,843,847	1,861,216
Recovered costs	1,076,461	-	1,076,461
Intergovernmental	105,638,508	2,084,835	107,723,343
Total revenues	106,801,888	3,931,728	110,733,616
EXPENDITURES			
Instruction	80,725,289	-	80,725,289
Administration, attendance, and health	4,254,277	-	4,254,277
Pupil transportation	5,064,393	-	5,064,393
Operations and maintenance	15,934,414	-	15,934,414
Non-instructional	341,369	-	341,369
School nutrition	-	4,265,141	4,265,141
Total expenditures	106,319,742	4,265,141	110,584,883
Deficiency of revenues over expenditures	482,146	(333,413)	148,733
Net change in fund balances	482,146	(333,413)	148,733
FUND BALANCE AT JULY 1	2,848,124	696,898	3,545,022
FUND BALANCE AT JUNE 30	$ 3,330,270	$ 363,485	$ 3,693,755

Reconciliation to the Statement of Activities (Exhibit 2)

Net change in fund balances – total governmental funds	$ 148,733
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which capital outlay ($2,493,691) exceeded depreciation ($1,264,286).	1,229,405
Governmental funds report pension contributions as expenditures. However, in the statement of activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Employer pension contributions	7,873,806
Pension expense	(8,482,525)
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.	
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.	181,282
Change in net position of governmental activities	$ 950,701

EXHIBIT A-6

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, 2017

	School Operating				School Cafeteria			
	Budgeted Amounts			Variance with Final Budget Positive (Negative)	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual		Original	Final	Actual	
REVENUES								
Revenue from use of money and property	$ 55,000	$ 55,000	$ 69,550	$ 14,550	$ -	$ -	$ 3,046	$ 3,046
Charges for services	10,000	10,000	17,369	7,369	2,730,574	2,730,574	1,850,311	(880,263)
Recovered costs	721,268	1,095,624	1,076,461	(19,163)	-	-	-	-
Intergovernmental	103,749,537	108,730,375	105,520,683	(3,209,692)	2,298,698	2,298,698	2,084,835	(213,863)
Total revenues	104,535,805	109,890,999	106,684,063	(3,206,936)	5,029,272	5,029,272	3,938,192	(1,091,080)
EXPENDITURES								
Instruction	80,148,199	82,209,202	80,234,869	1,974,333	-	-	-	-
Administration, attendance, and health	4,239,253	4,248,877	4,210,257	38,620	-	-	-	-
Pupil transportation	5,172,040	5,644,677	5,084,274	560,403	-	-	-	-
Operations and maintenance	14,665,447	17,417,377	16,331,148	1,086,229	-	-	-	-
Non-instructional	310,866	370,866	341,369	29,497	-	-	-	-
School nutrition	-	-	-	-	5,029,272	5,027,272	4,194,512	832,760
Total expenditures	104,535,805	109,890,999	106,201,917	3,689,082	5,029,272	5,027,272	4,194,512	832,760
Excess of revenues over expenditures	$ -	$ -	$ 482,146	$ 482,146	$ -	$ 2,000	$ (256,320)	$ (258,320)

SUPPORTING SCHEDULE

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title	Federal CFDA Number	Pass-through Payments to Subrecipients	Federal Expenditures	Department Totals
Department of Agriculture:				
Pass-through Payments:				
Department of Social Services:				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	$ -	$ 570,620	
Department of Agriculture and Consumer Services:				
Child Nutrition Cluster - National School Lunch Program	10.555	-	267,144	
Department of Education:				
Child Nutrition Cluster - School Breakfast Program	10.553	-	527,285	
Child Nutrition Cluster - National School Lunch Program	10.555	-	1,499,962	
Schools and Roads - Grants to States	10.665	-	2,773	
Total Department of Agriculture				2,867,784
Department Of Homeland Security:				
Pass-through Payments:				
Department of Emergency Management:				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	-	25,641	
FY 2016 State Homeland Security Program (SHSP)	97.067	-	8,353	
Total Department of Homeland Security				33,994
Department Of Justice:				
Pass-through Payments:				
Bureau of Justice Assistance:				
Edward Byrne Memorial Justice Assistance Grant Program	16.738	-	1,804	
Department of Criminal Justice Services:				
Crime Victim Assistance	16.575	-	149,070	
Total Department of Justice				150,874
Department of Transportation:				
Pass-through Payments:				
Safe Routes to Schools	20.205	-	57,916	
Virginia Department of Transportation:				
Highway Planning and Construction	20.205	127,330	127,330	
Department of Motor Vehicles:				
State and Community Highway Safety	20.600	-	31,608	
Total Department of Transportation				216,854
Department of Education:				
Pass-through Payments:				
Department of Education:				
Title I: State Agency Program for Neglected and Delinquent Children	84.013	-	1,592	
Career and Technical Education - Basic Grants to States	84.048	-	234,073	
Advanced Placement Program	84.330	-	1,923	
English Language Acquisition Grants	84.365	-	11,769	
Improving Teacher Quality State Grants	84.367	-	336,176	
Title I, Part A Cluster				
Title I: Grants to Local Educational Agencies	84.010	-	1,900,939	
Special Education Cluster (IDEA)				
Special Education - Grants to States	84.027	-	2,361,123	
Special Education - Preschool Grants	84.173	-	60,517	
Total Department of Education				4,908,112

(Continued)

COUNTY OF MONTGOMERY, VIRGINIA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2017

Federal Grantor/Pass-through Grantor (Commonwealth of Virginia)/Program Title	Federal CFDA Number	Pass-through Payments to Subrecipients	Federal Expenditures	Department Totals
Department of Health and Human Services:				
Direct Payments:				
Medical Assistance Program	93.778	-	579,903	
Pass-through Payments:				
Department of Aging:				
Support Services - Title III, Part B - Grants for Supportive Services Senior Centers	93.044	-	49,393	
Department of Education:				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	-	127,208	
Department of Social Services:				
Promoting Safe and Stable Families	93.556	-	20,148	
Temporary Assistance to Needy Families	93.558	-	477,665	
Refugee and Entrant Assistance	93.566	-	2,245	
Low-Income Home Energy Assistance	93.568	-	58,029	
Chafee Education and Training Vouchers Program	93.599	-	5,473	
Child Welfare Services - State Grants	93.645	-	766	
Foster Care - Title IV-E	93.658	-	303,158	
Adoption Assistance	93.659	-	481,918	
Social Service Block Grant	93.667	-	346,637	
Chafee Foster Care Independence Program	93.674	-	3,124	
Children's Health Insurance Program	93.767	-	22,255	
Medical Assistance Program	93.778	-	719,822	
CCDF Cluster				
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	-	88,234	
Total Department of Health and Human Services				3,285,978
Total Expenditures of Federal Awards				$ 11,463,596

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, 2017, the School Board had food commodities totaling $267,144 in inventory.

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

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

THIS PAGE INTENTIONALLY BLANK

STATISTICAL SECTION

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

<u>**Contents**</u> <u>**Table**</u>

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 2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Governmental activities										
Net investments in capital assets	$ 101,103,840	$ 106,790,331	$ 99,224,847	$ 94,390,089	$ 83,053,651	$ 71,071,547	$ 55,233,037	$ 47,134,545	$ 36,330,270	$ 28,639,210
Restricted	3,422,137	3,370,622	9,057,768	9,207,023	9,741,835	9,734,620	11,146,947	11,146,947	11,262,042	5,112,996
Unrestricted	41,482,649	21,079,416	8,962,437	16,446,049	19,018,360	19,612,113	24,369,885	22,316,253	25,596,419	31,173,341
Total governmental activities net position	$ 146,008,626	$ 131,240,369	$ 117,245,052	$ 120,043,161	$ 111,813,846	$ 100,418,280	$ 90,749,869	$ 80,597,745	$ 73,188,731	$ 64,925,547

TABLE 2

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

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Expenses										
Governmental activities										
General government	$ 6,710,269	$ 6,628,073	$ 7,355,412	$ 7,803,244	$ 6,839,318	$ 6,825,896	$ 7,725,594	$ 9,074,011	$ 7,381,364	$ 7,066,410
Judicial administration	3,284,719	3,085,442	2,972,436	3,271,384	3,243,491	2,207,787	2,784,098	3,077,193	2,658,492	2,438,896
Public safety	15,607,399	16,501,276	16,075,298	15,847,489	14,993,461	15,097,206	13,329,812	13,830,467	11,957,163	11,202,874
Public works	7,043,062	6,588,634	6,183,132	5,334,776	5,514,675	4,674,525	5,114,845	5,349,346	5,153,812	4,567,363
Parks, recreation, and cultural	3,161,901	2,923,681	3,004,779	3,319,267	2,899,220	2,940,666	2,872,328	2,881,815	3,022,711	2,779,839
Health and welfare	7,601,479	7,450,377	7,260,389	7,256,247	7,590,977	8,991,736	9,590,573	9,956,048	10,490,545	9,808,845
Community development	2,257,677	2,147,334	2,029,561	1,634,581	1,431,050	1,796,052	1,670,510	1,734,477	1,264,454	1,259,379
Education	53,783,649	50,296,987	47,892,943	46,084,985	43,474,161	40,874,425	41,033,802	34,797,557	38,634,043	35,899,972
Interest on long-term debt	8,170,978	9,487,012	10,224,163	10,747,055	10,947,731	9,450,462	7,303,475	7,501,270	7,389,389	4,696,145
Total governmental activities	$ 107,621,133	$ 105,108,816	$ 102,998,113	$ 101,299,028	$ 96,934,084	$ 92,858,755	$ 91,425,037	$ 88,202,184	$ 87,951,973	$ 79,719,723
Program Revenues										
Governmental activities										
Charges for services										
Public Safety	$ 675,191	$ 831,545	$ 554,537	$ 821,283	$ 954,882	$ 805,119	$ 723,997	$ 827,458	$ 917,866	$ 978,375
Public Works	346,642	534,602	365,211	128,492	157,054	172,662	305,159	296,302	123,341	105,007
Other Activities	1,990,012	2,458,491	2,346,584	1,653,852	1,726,342	1,882,013	1,875,981	1,899,073	1,565,954	1,757,781
Operating grants and contributions	13,223,745	13,291,638	13,163,435	13,207,893	12,155,610	13,159,616	13,263,890	15,556,440	15,084,570	15,402,999
Total governmental activities program revenues	$ 16,235,590	$ 17,116,276	$ 16,429,767	$ 15,811,520	$ 14,993,888	$ 16,019,410	$ 16,169,027	$ 18,579,273	$ 17,691,731	$ 18,244,162
Net (expense) revenue										
Governmental activities	$ (91,385,543)	$ (87,992,540)	$ (86,568,346)	$ (85,487,508)	$(81,940,196)	$(76,839,345)	$ (75,256,010)	$ (69,622,911)	$ (70,260,242)	$ (61,475,561)
General Revenues and Other Changes in Net Position										
Governmental activities										
Taxes										
Property taxes	$ 86,548,199	$ 83,468,082	$ 80,635,361	$ 78,850,329	$ 75,751,806	$ 69,685,628	$ 63,793,078	$ 60,083,722	$ 59,872,099	$ 54,666,779
Sales taxes	9,101,542	8,904,969	8,579,451	7,965,976	7,982,843	7,742,363	7,218,180	6,889,322	7,086,741	7,382,254
Other taxes	1,842,352	1,922,210	1,719,851	1,720,268	1,767,152	1,554,693	1,509,326	1,529,808	1,526,049	1,938,646
Utility taxes	1,765,984	1,790,892	1,824,174	1,825,809	1,847,570	1,807,321	1,877,600	1,856,684	1,877,884	1,786,988
Intergovernmental revenue not restricted	5,236,670	5,266,575	5,300,522	5,097,685	5,317,374	5,119,304	5,010,686	5,117,860	5,181,174	5,216,412
Investment earnings	1,659,053	635,129	408,393	630,330	669,017	598,447	749,264	1,554,529	2,733,779	2,047,264
Transfers	-	-	-	-	-	-	5,250,000	-	(114,000)	-
Total governmental activities	$ 106,153,800	$ 101,987,857	$ 98,467,752	$ 96,090,397	$ 93,335,762	$ 86,507,756	$ 85,408,134	$ 77,031,925	$ 78,163,726	$ 73,038,343
Changes in Net Position										
Governmental activities	$ 14,768,257	$ 13,995,317	$ 11,899,406	$ 10,602,889	$ 11,395,566	$ 9,668,411	$ 10,152,124	$ 7,409,014	$ 7,903,484	$ 11,562,782

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

Pre-GASB 54 Implementation

	2010	2009	2008
General Fund			
Reserved	$ 8,653,644	$ 8,002,362	$ 7,486,334
Unreserved	26,258,463	24,304,985	25,040,302
Total general fund	$ 34,912,107	$ 32,307,347	$ 32,526,636
All Other Governmental Funds			
Reserved	$ 30,943,646	$ 16,964,867	$ 4,191,510
Unreserved, reported in:			
Special revenue funds	-	-	-
Capital projects funds	44,433,277	77,979,506	19,820,195
Debt service funds	-	-	-
Total all other Governmental Funds	$ 75,376,923	$ 94,944,373	$ 24,011,705

Post-GASB 54 Implementation

	2017	2016	2015	2014	2013	2012	2011
General Fund							
Nonspendable	$ 6,392,736	$ 6,392,736	$ 6,392,736	$ 6,142,736	$ 6,142,736	$ 6,142,736	$ 6,390,102
Restricted	1,440,932	1,405,595	633,493	246,442	198,007	218,640	163,400
Committed	4,295,900	2,997,137	2,629,271	1,104,829	811,116	1,231,209	1,637,026
Assigned	8,883,210	10,686,220	8,006,468	6,658,479	4,983,773	2,623,848	2,153,987
Unassigned	21,520,152	21,458,825	21,285,382	22,579,254	31,558,055	29,937,993	23,049,803
Total general fund	$ 42,532,930	$ 42,940,513	$ 38,947,350	$ 36,731,740	$ 43,693,687	$ 40,154,426	$ 33,394,318
All other Governmental Funds							
Nonspendable	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Restricted	3,422,137	6,390,843	15,413,668	37,782,191	60,069,709	134,256,303	62,573,977
Committed	21,089,287	13,552,955	10,724,002	-	-	-	-
Assigned	-	-	-	-	-	-	-
Unassigned	-	-	-	-	-	-	-
Total all other Governmental Funds	$ 24,511,424	$ 19,943,798	$ 26,137,670	$ 37,782,191	$ 60,069,709	$134,256,303	$ 62,573,977

TABLE 4

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

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Revenues										
Taxes	$ 98,690,096	$ 96,405,280	$ 92,947,129	$ 90,126,172	$ 87,359,604	$ 80,674,800	$ 73,694,467	$ 70,761,455	$ 69,492,208	$ 65,511,183
Permits, privilege fees, and licenses	579,676	608,481	803,833	736,908	784,979	772,968	666,849	768,341	678,798	729,667
Fines and forfeitures	31,116	59,412	122,265	129,993	134,154	130,919	116,968	109,471	86,587	95,562
Revenue from use of money and property	2,611,393	642,093	1,403,653	847,556	672,961	598,447	749,264	1,554,529	2,733,781	2,047,264
Charges for services	797,051	533,870	491,921	632,447	678,997	698,281	733,701	767,029	770,575	862,222
Other	1,604,002	2,622,875	1,236,464	1,104,276	1,255,148	1,293,861	1,393,796	1,377,993	1,642,545	2,205,909
Intergovernmental	18,460,415	18,558,211	18,463,956	18,305,578	17,472,984	18,278,921	18,274,576	20,674,300	19,694,399	19,567,213
Total revenues	122,773,749	119,430,222	115,469,221	111,882,930	108,358,827	102,448,197	95,629,621	96,013,118	95,098,893	91,019,020
Expenditures										
General government	7,577,451	7,258,386	8,143,965	8,360,028	6,646,567	6,696,527	7,659,535	7,699,271	7,252,162	7,015,626
Judicial administration	3,308,287	3,173,484	3,307,130	3,263,725	3,216,924	2,183,562	2,760,189	3,035,865	2,660,668	2,438,012
Public safety	15,251,116	16,261,029	15,518,087	15,791,071	14,235,137	14,258,983	12,729,447	13,445,144	11,813,809	10,535,822
Public works	4,799,802	4,528,292	4,364,754	4,097,717	3,699,143	3,718,932	4,286,792	3,961,336	4,142,728	3,701,378
Parks, recreation, and cultural	3,197,230	2,989,271	3,042,563	3,318,180	2,868,281	2,926,645	2,807,902	2,821,921	3,163,574	2,764,351
Health and welfare	7,677,724	7,627,835	7,456,915	7,224,463	7,597,546	8,921,480	9,609,463	9,938,623	10,459,213	9,792,247
Education	46,859,043	43,841,697	42,766,205	41,136,639	40,082,257	37,540,554	37,065,839	32,813,321	36,822,962	34,291,547
Community development	2,248,407	2,131,661	1,919,458	1,626,977	1,393,140	1,564,984	1,365,242	1,436,161	1,268,374	1,255,640
Capital projects	4,387,690	4,159,785	13,956,949	31,864,447	74,446,535	40,969,360	30,369,502	27,406,729	9,393,891	9,038,054
Debt service										
Principal	15,656,725	14,561,166	13,980,224	13,495,643	12,944,479	11,386,500	11,218,254	9,993,084	8,205,430	5,951,191
Interest and other costs	8,625,448	9,940,225	10,551,067	10,953,505	11,876,151	7,214,788	7,878,024	7,902,498	6,864,369	4,675,570
Total expenditures	119,588,923	116,472,831	125,007,317	141,132,395	179,006,160	137,382,315	127,750,189	120,453,953	102,047,180	91,459,438
Excess of revenues over (under) expenditures	3,184,826	2,957,391	(9,538,096)	(29,249,465)	(70,647,333)	(34,934,118)	(32,120,568)	(24,440,835)	(6,948,287)	(440,418)
Other Financing Sources (Uses)										
Proceeds from borrowing	64,605,000	32,835,000	11,572,000	-	-	101,115,000	26,075,000	21,598,145	77,000,000	-
Bond premium	12,512,126	6,459,242	-	-	-	12,261,552	181,804	-	775,666	-
Premium on called bonds	-	-	-	-	-	-	(1,026,966)	-	-	-
Payments to bond escrow agents	(76,141,909)	(44,452,342)	(11,462,815)	-	-	-	(12,680,005)	(14,120,000)	-	-
Contributions from component unit	-	-	-	-	-	-	5,250,000	-	-	-
Transfers in	8,897,271	3,938,560	3,579,323	9,677,754	1,877,120	2,812,359	5,091,622	4,109,521	5,522,084	4,460,375
Transfers out	(8,897,271)	(3,938,560)	(3,579,323)	(9,677,754)	(1,877,120)	(2,812,359)	(5,091,622)	(4,109,521)	(5,636,084)	(4,460,375)
Total other financing sources (uses)	975,217	(5,158,100)	109,185	-	-	113,376,552	17,799,833	7,478,145	77,661,666	-
Net change in fund balances	$ 4,160,043	$ (2,200,709)	$ (9,428,911)	$(29,249,465)	$(70,647,333)	$ 78,442,434	$(14,320,735)	$(16,962,690)	$ 70,713,379	$ (440,418)
Debt service as a percentage of noncapital expenditures	21.08%	21.82%	22.09%	22.38%	23.80%	19.11%	19.47%	19.02%	16.44%	12.95%

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 *
2017	$7,802,249,900	$737,004,452	$151,956,796	$ 42,866,162	$248,496,706	$ 8,982,574,016	$ 8.31
2016	$7,677,904,800	$664,821,240	$129,605,659	$ 41,233,623	$251,993,438	$ 8,765,558,760	$ 8.31
2015	$7,541,394,700	$664,804,040	$129,605,659	$ 41,233,623	$273,923,820	$ 8,650,961,842	$ 8.31
2014	$7,297,499,100	$648,612,838	$128,710,287	$ 40,709,267	$252,755,710	$ 8,368,287,202	$ 8.31
2013	$7,236,381,500	$615,927,418	$122,801,871	$ 36,729,664	$217,589,620	$ 8,229,430,073	$ 8.31
2012	$7,187,287,200	$597,697,604	$121,643,809	$ 31,231,378	$229,863,391	$ 8,167,723,382	$ 8.19
2011	$7,159,568,600	$564,429,352	$113,349,970	$ 30,263,200	$207,151,562	$ 8,074,762,684	$ 8.07
2010	$6,932,701,500	$555,498,413	$114,428,458	$ 29,055,945	$196,055,790	$ 7,827,740,106	$ 8.06
2009	$6,835,051,400	$502,394,734	$115,931,340	$ 33,633,822	$193,786,466	$ 7,680,797,762	$ 8.03
2008	$6,669,686,500	$529,368,631	$118,621,114	$ 32,342,481	$181,116,686	$ 7,531,135,412	$ 8.03

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
2017	0.8900	0.1600	0.2500	1.0500	1.1400
2016	0.8900	0.1600	0.2500	1.0500	1.1400
2015	0.8900	0.1600	0.2500	1.0500	1.1400
2014	0.8900	0.1300	0.2200	1.0200	1.1100
2013	0.8900	0.1300	0.2200	1.0200	1.1100
2012	0.8700	0.1126	0.2200	0.9826	1.0900
2011	0.7500	0.1126	0.2200	0.8626	0.9700
2010	0.7400	0.1126	0.2200	0.8526	0.9600
2009	0.7100	0.1126	0.2200	0.8226	0.9300
2008	0.7100	0.1126	0.2200	0.8226	0.9300

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Merchants Capital	Total Direct Rate
2017	0.89	2.55	1.82	3.05	8.31
2016	0.89	2.55	1.82	3.05	8.31
2015	0.89	2.55	1.82	3.05	8.31
2014	0.89	2.55	1.82	3.05	8.31
2013	0.89	2.55	1.82	3.05	8.31
2012	0.87	2.45	1.82	3.05	8.19
2011	0.75	2.45	1.82	3.05	8.07
2010	0.74	2.45	1.82	3.05	8.06
2009	0.71	2.45	1.82	3.05	8.03
2008	0.71	2.45	1.82	3.05	8.03

Rate are per $100 of assessed value.

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

	Fiscal Year 2017			Fiscal Year 2008		
Taxpayer	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	$ 157,345,000	1	1.91%	70,013,900	1	0.86%
Foxridge	124,609,300	2	1.51%	68,719,900	2	0.91%
Appalachian Power	117,053,200	3	1.42%	34,618,459	7	0.00%
Roger Woody	76,432,500	4	0.93%	58,724,400	4	0.56%
MCS Virginia Tech LLC	76,000,000	5	0.92%	-	-	0.00%
Shelor Properties	65,016,300	6	0.79%	48,969,600	5	0.35%
Retreat at Blacksburg LLC	50,000,000	7	0.61%	-	-	0.00%
NRV Mall Associates	47,400,000	8	0.58%	-	-	0.00%
Village at Bburg LLC	47,000,000	9	0.57%	-	-	0.00%
Maple Ridge	46,884,300	10	0.57%	26,472,400	9	0.53%
Norfolk and Western	46,513,200	-	0.57%	35,301,568	6	0.00%
Verizon	24,361,600	-	0.30%	29,265,126	8	0.30%
Highlands at Huckelberry Ridge	21,500,000	-	0.26%	-	-	0.68%
Christiansburg Marketplace	12,667,200	-	0.15%	19,465,200	10	0.68%
PR Financing	-	-	0.00%	68,334,800	3	0.68%
	$ 912,782,600		11.09%	$ 459,885,353		5.55%

Source: Assessor's Office

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 *
2017	$ 89,666,096	$ 87,107,903	97.15%	$ -	$ 87,107,903	97.15%
2016	86,189,045	84,989,258	98.61%	1,634,017	86,623,275	100.50%
2015	84,688,412	82,375,988	97.27%	1,777,973	84,153,961	99.37%
2014	82,261,271	80,650,339	98.04%	1,813,454	82,463,793	100.25%
2013	79,883,115	78,623,115	98.42%	2,037,853	80,660,968	100.97%
2012	73,613,538	72,812,497	98.91%	1,716,550	74,529,047	101.24%
2011	70,260,817	66,804,327	95.08%	1,704,970	68,509,297	97.51%
2010	67,027,509	63,697,514	95.03%	1,063,243	64,760,757	96.62%
2009	65,440,819	62,288,701	95.18%	1,330,841	63,619,542	97.22%
2008	63,108,366	58,295,872	92.37%	2,757,121	61,052,993	96.74%

Note:

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

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

	General Bonded Debt				Other Governmental Activities Debt		
Fiscal Year	General Obligation Bonds	Total General Bonded Debt	Percentage of Actual Value of Taxable Property	Per Capita	Lease Revenue Bonds	Literary Fund Loans	Refunding Bonds
2017	$ 44,106,352	$ 44,106,352	0.49%	$ 447.32	$ 12,407,928	$ 1,250,000	$ 115,812,000
2016	114,315,165	114,315,165	1.30%	1,170.63	17,290,817	1,500,000	56,367,022
2015	119,476,791	119,476,791	1.38%	1,226.60	63,322,594	1,750,000	27,844,785
2014	124,192,120	124,192,120	1.48%	1,290.88	68,115,127	2,000,000	31,915,147
2013	138,871,145	138,871,145	1.69%	1,452.23	72,865,208	2,250,000	36,020,898
2012	143,366,076	143,366,076	1.76%	1,509.18	77,574,559	2,500,000	40,010,777
2011	35,242,208	35,242,208	0.44%	373.36	82,244,830	2,750,000	43,925,477
2010	22,894,924	22,894,924	0.29%	250.51	102,077,604	3,004,140	32,780,645
2009	16,440,972	16,440,972	0.21%	181.63	122,659,398	3,258,140	20,711,889
2008	18,247,238	18,247,238	0.24%	205.41	51,296,675	3,512,140	21,219,776

Fiscal Year	Total Primary Government	Percentage of Personal Income	Per Capita
2017	$ 173,576,280	5.22%	$ 1,940
2016	189,473,004	5.22%	1,940
2015	212,394,170	6.01%	2,181
2014	226,222,394	7.77%	2,351
2013	250,007,251	9.18%	2,614
2012	263,451,412	9.96%	2,773
2011	164,162,515	6.57%	1,739
2010	160,757,313	6.51%	1,759
2009	163,070,399	7.56%	1,802
2008	94,275,829	4.44%	1,061

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

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

Fiscal Year	Gross Revenue	Less: Operating Expenses	Net Available Revenue	Debt Service Principal	Debt Service Interest	Coverage
2017	$ 3,753,544	$ 3,066,780	686,764	$ 272,828	$ 129,901	1.71
2016	3,836,886	3,143,413	693,473	266,231	136,497	1.72
2015	3,997,594	3,033,109	964,485	259,795	142,935	2.39
2014	3,527,623	3,008,595	519,028	253,513	149,215	1.29
2013	4,792,122	2,845,324	1,946,798	344,383	221,253	3.44
2012	4,074,962	2,705,003	1,369,959	215,442	252,764	2.93
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

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

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

County of Montgomery, Virginia
Demographic Statistics
Last Ten Fiscal Years

Fiscal Year Ended	Population	Total Personal Income	Per Capita Personal Income	Public School Enrollment	Unemployment Rate
2017	98,602	$ 3,795,651,000	$ 38,495	9,487	4.20%
2016	97,653	3,626,967,000	37,141	9,488	4.30%
2015	97,405	3,534,206,000	36,284	9,427	5.50%
2014	96,207	2,909,743,645	30,245	9,484	5.50%
2013	95,626	2,723,370,463	28,479	9,474	6.50%
2012	94,996	2,645,068,624	27,844	9,406	6.40%
2011	94,392	2,499,233,000	26,477	9,345	7.40%
2010	91,394	2,470,786,962	27,034	9,494	7.00%
2009	90,517	2,157,925,280	23,840	9,518	5.83%
2008	88,834	2,122,928,000	23,898	9,562	3.60%

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

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

Employer	Fiscal Year 2017 Number of Employees	Fiscal Year 2017 Rank	Fiscal Year 2008 Number of Employees	Fiscal Year 2008 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	500 to 999	5
BAE Systems	500 to 999	7	-	
LewisGale Hospital Montgomery	500 to 999	8	500 to 999	9
New River Valley Community Services	500 to 999	9	-	
Federal Mogul Corp	500 to 999	10	-	
Alliant TechSystems	-	-	1,000 to 4,999	4
Rowe Furniture Manufacturing	500 to 999	-	500 to 999	8
Hubble Lighting, Inc.	1 to 499	-	1 to 499	10

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

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General government										
County Administration	13.50	13.50	13.50	14.50	13.50	13.50	13.50	13.50	13.50	13.50
Information management services	9.50	9.50	9.50	9.50	9.50	9.50	8.50	9.50	10.50	8.50
Finance	9.50	9.50	9.50	9.50	7.50	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	14.00	13.00	13.00	13.00	13.00	14.00	14.00	19.00	19.00	19.00
Treasurer	12.00	12.00	12.00	12.00	12.00	12.00	12.00	17.00	17.00	17.00
Other	7.50	7.50	7.50	7.50	7.00	6.50	6.50	7.50	7.50	7.50
Public Safety										
Sheriff	124.50	130.50	130.50	130.50	130.50	130.50	121.50	124.50	135.50	129.00
Animal control	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.25	4.00	4.00
Inspections	5.00	5.00	5.00	4.00	4.00	5.00	5.00	5.00	5.00	5.00
Judicial	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	23.00	22.00
Refuse collection	14.00	14.60	14.60	16.40	17.00	19.40	22.40	23.00	23.00	24.20
Other public works										
Engineering	1.00	1.00	1.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Building and grounds	7.00	7.00	7.00	7.00	6.00	6.00	8.00	9.00	9.00	9.00
Housekeeping	11.00	10.00	10.00	10.00	10.00	9.00	8.00	9.00	9.00	9.00
Other	6.00	5.00	5.00	5.00	6.00	3.00	3.00	3.00	4.00	4.00
Parks, recreation, and cultural	9.00	9.00	8.00	8.00	7.00	7.00	7.00	7.00	7.00	7.00
Library	19.00	19.75	20.00	20.00	20.50	20.50	20.50	23.88	23.88	24.38
Water/Sewer	18.00	18.00	19.00	17.00	19.00	19.00	18.00	18.00	19.00	19.00
Health and welfare	67.50	67.50	67.50	67.50	68.50	68.50	69.50	70.50	74.50	72.00
Community development	9.00	9.00	9.00	9.00	9.00	10.00	10.00	11.00	11.00	11.00
Total	386.25	390.60	390.85	391.65	391.25	393.15	387.15	410.13	427.88	417.58

Source: County Approved Budget

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

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
General Government										
Fleet vehicles	245	247	245	277	251	238	239	233	220	217
Judicial Administration										
Sheriff										
Inmates Housed	31,808	31,113	32,823	32,819	45,505	42,511	41,691	40,716	68,835	77,416
Inmate Transports	2,814	2,833	3,258	4,075	4,017	3,318	3,317	2,857	3,160	3,064
Courts Worked	871	818	818	894	939	927	934	983	983	1,012
Public safety										
Sheriff										
Physical arrests	1,157	1,055	934	1,253	1,460	1,608	1,995	2,141	1,868	3,739
Traffic violations	1,041	3,643	4,475	1,899	2,083	2,435	2,335	2,774	2,763	3,451
Public works										
Refuse collection										
Refuse collected (pounds per day)	64,968	63,298	60,902	62,559	71,359	71,334	74,351	71,212	69,484	76,671
Recyclables collected (pounds per day)	5,916	6,032	5,846	5,804	6,825	6,861	5,892	4,838	5,252	5,791
Parks, recreation, and cultural										
Parks and recreation										
Total programs	251	283	279	276	237	244	241	263	247	235
Total registrants	4,169	3,883	3,259	2,908	3,137	2,991	2,875	3,104	3,125	3,375
Library										
Volumes in collection	237,227	237,603	236,904	237,054	251,261	248,649	244,999	242,243	243,427	227,327
Total volumes borrowed	666,681	675,317	709,250	721,682	745,114	768,931	785,879	871,296	892,655	783,708
Water										
Number of customer accounts	2,732	2,732	2,725	2,720	2,699	2,640	2,616	2,640	2,642	2,615
Miles of distribution lines	93	93	93	93	93	93	92	92	92	92
Average daily consumption	691,141	711,988	733,741	712,801	693,833	697,490	758,384	739,956	829,736	840,183
Sewer										
Number of customer accounts	1,525	1,512	1,503	1,482	1,475	1,408	1,388	1,372	1,356	1,337
Waste/Water treated (million gallons per year)	215	181	188	208	172	167	175	222	191	165
Average daily consumption	588,384	495,975	517,820	570,632	470,306	458,671	479,328	486,030	522,650	505,610

Source: County departments

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

Function/Program	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Public safety										
Law enforcement vehicles	97	97	99	93	96	93	96	92	94	82
Fire and Rescue stations	10	10	10	10	10	10	10	10	10	10
Parks, recreation, and cultural										
Parks/athletic fields	10	8	8	8	8	8	8	8	7	5
Water and sewage										
Water mains (miles)	93	93	93	93	93	93	92	92	92	92
Sanitary sewers (miles)	64	64	63	63	63	63	62	62	62	62

Source: County departments

COMPLIANCE SECTION

BROWNEDWARDS
certified public accountants

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 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, 2017, 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 27, 2017.

Internal Control over Financial Reporting

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

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

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

Your Success is Our Focus

319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

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 Response to Finding

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

Purpose of This Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 27, 2017

BROWN EDWARDS
certified public accountants

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

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

Report on Compliance for Each Major Federal Program

We have audited the County of Montgomery, Virginia's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2017. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Your Success is Our Focus
319 McClanahan Street, S.W. • Roanoke, Virginia 24014-7705 • 540-345-0936 • Fax: 540-342-6181 • www.BEcpas.com

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, 2017.

Report on Internal Control Over Compliance

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

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

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

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
November 27, 2017

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY OF COMPLIANCE MATTERS
June 30, 2017

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.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

A. SUMMARY OF AUDITOR'S RESULTS

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

Name of Program:	**CFDA #**
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
Special Education Cluster:	
Special Education – Grants to States	84.027
Special Education – Preschool Grants	84.173

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2017

B. FINDINGS – FINANCIAL STATEMENT AUDIT

2007-001: Segregation of Duties (Material Weakness)

Condition:

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

Recommendation:

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

Management's Response:

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

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

None noted.

D. FINDINGS – COMMONWEALTH OF VIRGINIA

None noted.

COUNTY OF MONTGOMERY, VIRGINIA

SUMMARY SCHEDULE OF PRIOR AUDIT FINDING
June 30, 2017

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2007-001: Segregation of Duties (Material Weakness)

Condition:

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

Current Status:

Condition still present.