

# **COUNTY OF MONTGOMERY, VIRGINIA**

## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED  
JUNE 30, 2014**

**FINANCIAL AND MANAGEMENT SERVICES  
DEPARTMENT**

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# COUNTY OF MONTGOMERY, VIRGINIA

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## INTRODUCTORY SECTION

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# MONTGOMERY COUNTY

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



755 ROANOKE ST, SUITE 2E • CHRISTIANSBURG, VA 24073  
PHONE: 540.382.6954 • FAX: 540.382.6943  
WWW.MONTGOMERYCOUNTYVA.GOV

November 26, 2014

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, 2014, as required by state law. The financial statements and supplemental schedules contained herein have been audited by the independent certified public accounting firm of Brown, Edwards & Company L.L.P., and that firm's unmodified opinion is included in the Financial Section of this report. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, including all disclosures, rests with management. To the best of our knowledge and belief, the enclosed data are accurate in all material respects and are reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the County. All disclosures necessary to enable the reader to gain an understanding of the County's financial activities have been included.

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

## THE REPORTING ENTITY

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

Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. Accordingly, the Montgomery County Public Service Authority, which provides water and waste water services, is reported as an enterprise fund of the primary government. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations and cash flows from those of the primary government. The Montgomery County School Board, which provides education, and the Montgomery County Economic Development Authority, which encourages and provides financing for economic development, are reported as discretely presented component units.

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

## **ORGANIZATION OF GOVERNMENT**

The County of Montgomery was established in 1776, and is located in southwestern Virginia approximately 30 miles southwest of the City of Roanoke, along the Interstate 81 corridor. The County encompasses approximately 393 square miles, and has a population of almost 97,000 including that of two incorporated towns, Blacksburg and Christiansburg. Montgomery County is the eighth-largest county in Virginia in terms of land area, and supports a well-diversified economy. The 2010 Census indicates Montgomery County's population increased by 12.9% over the prior decade.

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

## **LOCAL ECONOMIC CONDITION AND OUTLOOK**

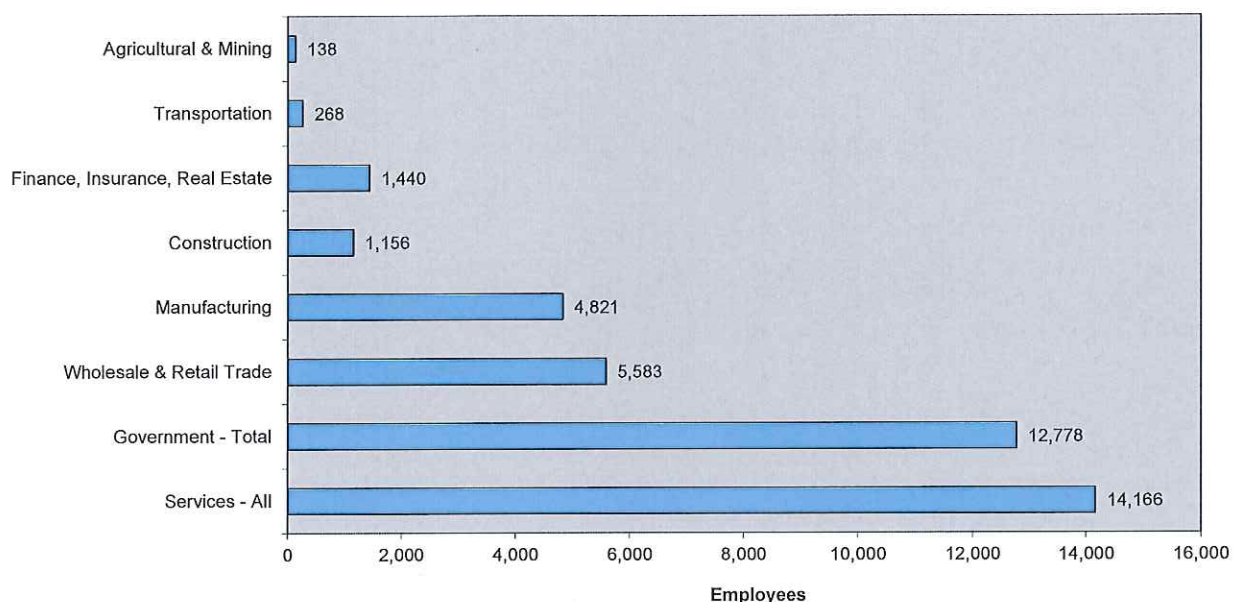
Montgomery County is geographically situated in the New River Valley, which also includes the Counties of Floyd, Giles, and Pulaski and the City of Radford. All of these localities are within reasonable commuting time and distance from Montgomery County and represent the minimum area from which Montgomery 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 2013 and June 2014 was 5.2%, which remains historically below average in the New River Valley. The percentage ranged from a low of 4.2% in April of 2014 to a high of 6.2% in July of 2013. The unemployment rate for the County over the past 10 years (2004-2013) averaged 5%, reaching a high of 7.5% in 2010 and a low of 3.1% in 2006. The pool of available labor has also remained stable for the past decade in Montgomery County – which has also been true in surrounding counties in the New River Valley. Unemployment among New River Valley localities was higher than the statewide average of 5.5% for calendar year 2013, with Montgomery and Floyd Counties reporting the lowest rates of 5.5% and 6.1% respectively. The other localities of Giles, Pulaski, and the City of Radford averaged 7% unemployment during the same period. Employment within Montgomery County represented 53.76% 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 2013:



### Montgomery County Employment By Employment Sector



Averages of Calendar Year 2013

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

Very slight increases in employment were broad based, covering several economic sectors. The total increase in the number of jobs was 718 across all sectors, resulting in a 1.81% increase from the number of jobs in the previous year. Only two areas experienced declines. These areas included finance, insurance, real estate and transportation, which were down 0.62% and 0.74% respectively.

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 1,300 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) 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 30 buildings, entailing more than one million square feet of office and lab space, and is home to over 160 high-tech companies and research facilities which collectively employ more than 2,700 workers. In September 2009, the VTCRC was named the "2010 Outstanding Science/Research Park" – globally – by the Association of University Research Parks. The majority of the tenants located in the VTCRC are research and development-oriented companies operating in the information technology, biotechnology, and advanced materials industries.

Montgomery County's second largest industry sector, government, provides 32 percent of the County's jobs and helps to stabilize the local economy during times of recession. This percentage reflects the large number of state workers employed by Virginia Polytechnic Institute & State University (Virginia Tech),



the Commonwealth's largest public university and the largest employer in the County with approximately 12,000 employees. Another 1,400 individuals are employed through the Montgomery County Public School System, making education the largest employment sector in the County.

Several new commercial developments began construction in fiscal year 2014. Florida-based Frank Theaters broke ground on a 60,000 square foot CineBowl and Grille at First & Main Shopping Center. The \$8 million project will include an IMAX theater with 12 screens, a bowling alley, and a bar and restaurant. In downtown Blacksburg, construction began on The Brownstone – a \$12 million, 100,000 square foot mixed-use development that includes office space, retail space and luxury condominiums. Developers also broke ground on a \$45 million, 911-bedroom student housing development near Virginia Tech. The Retreat will be constructed in two phases with an anticipated completion date of May 2015.

Since January 2013, companies in Montgomery County announced \$15 million in new capital investment (industrial/commercial, non-retail) and the addition of 168 related jobs as shown in the chart below.

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

<b>Company Name</b>	<b>Business Description</b>	<b>Month Announced</b>	<b>New Jobs</b>	<b>Investment (MM\$)</b>
TORC Robotics LLC	Teleoperated control and navigation solutions for unmanned vehicles and robotics	Apr-2014	8	2.5
Polymer Solutions Incorporated	Laboratory, chemical analysis, physical testing, research and development and litigation services	Dec-2013	5	2.9
Rackspace Hosting	Open cloud services; IT hosting operation	Jul-2013	110	9.5
1901 Group	Managed IT services provider	Jan-2013	45	0.125

Included in the preceding chart are existing industries such as Rackspace Hosting. The San Antonio-based cloud hosting giant announced it was expanding into a new 34,000 square foot office in the Virginia Tech Corporate Research Center. The expansion will allow Rackspace to grow its Blacksburg office to 200 software developers over the next three years. TORC Robotics announced a \$3 million expansion in the Blacksburg Industrial Park. The Economic Development Authority of Montgomery County is supporting the expansion by constructing a 20,000 square foot facility for TORC to lease. Polymer Solutions Incorporated also announced an expansion in Falling Branch Corporate Park in Christiansburg. The company will be investing \$2.9 million to construct a new 20,000 square foot headquarters and testing laboratory.

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

### **MAJOR INITIATIVES**

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

### *For the Year*

The County staff, following specific directives of the Board of Supervisors, has been involved in a variety of projects throughout the year. These projects reflect the government's commitment to ensuring that its citizens are able to live and work in an enviable environment. Major initiatives for 2014 include:

### *The 2014-2018 Capital Improvement Program*

The Capital Improvement Program (CIP) for 2014 through 2018 serves as a planning tool for the efficient and effective distribution of public improvements throughout the County and school system. The five-year Capital Improvement Program totals \$74.9 million and is comprised of County Capital Improvements of \$20.8 million and School Capital Improvements of \$54.1 million. County capital improvements include the renovation of the County's previous Courthouse to a public safety building and includes \$4.2 million for fire and rescue capital equipment.

Montgomery County maintains its strong commitment to providing funds for education and public safety. In August 2008, the County issued \$77 million in new debt (\$70.9 million for new projects and \$6.1 million for a debt service reserve) for several County and school capital projects. The projects included two new elementary schools, a new courthouse, and renovations to convert the old courthouse to a public safety building. In November 2009, the County issued an additional \$7.3 million in Qualified School Construction Bonds (QSCB) to provide funding for a portion of the cost of the new Eastern Montgomery Elementary School. In July 2010, the County issued an additional \$13.6 million in QSCB, which was allocated primarily to the Price's Fork Elementary School (\$7.5 million) and to School Energy Performance Projects (\$6 million). QSCB funding is interest free and supplemented the County's 2008 bond issue to complete the two elementary schools and the two new high schools.

In response to a crisis resulting from a roof collapse at Blacksburg High School, the Board of Supervisors committed to an aggressive school construction plan in November 2010. In November 2011, the Board of Supervisors issued an additional \$86 million through the Virginia Public School Authority for the replacement of Auburn High School, Blacksburg High School, and the renovation of the former Auburn High School for use as Auburn Middle School. Additional funding for these projects included insurance proceeds from the old Blacksburg High School gymnasium roof collapse, surplus bond funds from the Price's Fork and Eastern Montgomery Elementary projects, and \$15 million in interest-free QSCB issued in December 2011. The total cost of all three school projects is estimated at \$124.5 million. The two high schools opened in September 2013. The renovations for Auburn Middle School began after Auburn High School relocated to its new facility. The renovated Auburn Middle School is projected to be occupied in December 2014.

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

### *Capital Projects Completed During the Year*

The new Blacksburg High School and the new Auburn High School were completed and opened in September of 2013. Blacksburg High School is a 291,000 square foot facility with a core capacity of 1,600 students and includes baseball and softball fields, a track, multipurpose fields, six tennis courts, and a cross country course. Auburn High School is a 181,000 square foot facility with a core capacity of 800 students and includes a new softball field, 6 tennis courts, multi-purpose fields, and a renovated baseball field.

students and includes a new softball field, 6 tennis courts, multi-purpose fields, and a renovated baseball field.

Public safety remains a priority with \$0.4 million in fire and rescue equipment purchases in fiscal year 2014 based on recommendations of the Fire and Rescue Commission. Blacksburg and Riner Rescue Squads each used these funds to replace one ambulance.

### **For the Future**

As the Board of Supervisors and County staff plan for the future, several new initiatives in the areas of *public safety and education* are underway.

#### **Public Safety**

Renovations to the former Courthouse facility are underway to convert the building to a public safety building. This facility will replace the current Sheriff's office and house the New River Valley Emergency Communications Regional Authority, which will consolidate four Public Safety Answering Points ("PSAPs") into one central operation. The project began in the spring of 2013 and will be completed in fiscal year 2015.

A new Animal Shelter facility is planned for the future and the Board of Supervisors has appropriated \$1 million toward the anticipated cost of the project.

#### **Education**

Replacing the current inadequate middle school, the former Auburn High building is being renovated to serve as the Auburn Middle School. This 121,755 square foot facility will include capacity for 480 students and add 90,929 square feet over the existing building. Completion of this project is expected before the end of calendar year 2014.

### **Area of Focus – New River Valley Emergency Communications Regional Authority**

In 2010, the Virginia General Assembly enacted legislation to create the New River Valley Emergency Communications Regional Authority, which was the first 911 emergency communications authority established in the Commonwealth. The mission of the New River Valley Emergency Communications Regional Authority is to provide quality and reliable 911 dispatch and emergency communication services in the New River Valley.

In November of 2010 a memorandum of understanding was created by the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech which established the Authority and a Board of Directors to govern the affairs of the Authority. The Board consists of five members with one member appointed by each participating political subdivision and one jointly appointed member by unanimous approval of all participating political subdivisions. An Executive Director was hired in 2011 to oversee the administrative functions and develop a strategic plan for consolidating the four separate 911 dispatch operations.

The Authority will improve response times through effective call routing with reduced 911 transfers across jurisdictional boundaries, improve safety for emergency responders, increase situational awareness, and enhance communication interoperability among participating agencies for improved response capabilities and collaboration. Consolidated staff will be better prepared to implement national standards of care programs such as emergency medical dispatch (EMD) protocol when fully operational. Consolidated operations will foster uniformity within the region and eliminate disparate systems procured separately with multiple maintenance contracts.

The Authority will be located in the Montgomery County Public Safety Building, which is currently being renovated. Approximately 10,000 square feet of the building will house the 911 dispatch center, administrative offices, conference rooms, and a training room/emergency operations center (EOC). Communications personnel will be trained on regional operations and transitioned to the consolidated facility after building renovations are complete, public safety technology and equipment is installed and tested, and protocol fully established. The Authority plans to become fully operational July 1, 2016.

A Finance Committee with representation from each member was established in 2012 to provide input, recommendations for funding, and budget preparation to the Authority Board. The committee recommends allocation of costs through member contributions based on an approved funding formula. The member agencies have received numerous regional initiative grants to assist with the preparation and goals of consolidated services and operations. Since the inception of the working group that ultimately resulted in the formation of Authority, \$1.75M in grant funds have been received to assist with various projects such as the original feasibility study, additional radio communication planning and assessments, radio system infrastructure, and public safety technology and equipment.

The New River Emergency Communications Regional Authority continues to progress toward the goal of consolidating the four separate 911 operations into the regional facility. The consolidation of emergency communications is a fiscally responsible effort and will improve services and safety to our communities.

## **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, 2014, reflect cash that will not be received or disbursed until fiscal year 2015.

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

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

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

## INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. In addition to meeting the requirements set forth in state statutes, the audit also was designed to meet the requirements of the federal Single Audit Act Amendments of 1996 and related OMB Circular A-133. Generally accepted auditing standards and the standards set forth in the Government Accountability Office's Government Auditing Standards were used by the auditors in conducting the engagement. The auditor's report on the basic financial statements is included in the financial section of this report. The auditor's reports related specifically to the single audit are included in the Compliance Section.

## AWARDS OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the County of Montgomery for its comprehensive annual financial report (CAFR) for the fiscal year ended June 30, 2013. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government financial reports.

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

A Certificate of Achievement is valid for a period of one year only. Montgomery County has received a Certificate of Achievement for the last twenty-seven 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, the Treasurer's Office, 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, 2013**



Executive Director/CEO



## **BOARD OF SUPERVISORS**

James D. Politis, Chair  
William (Bill) H. Brown, Vice Chair

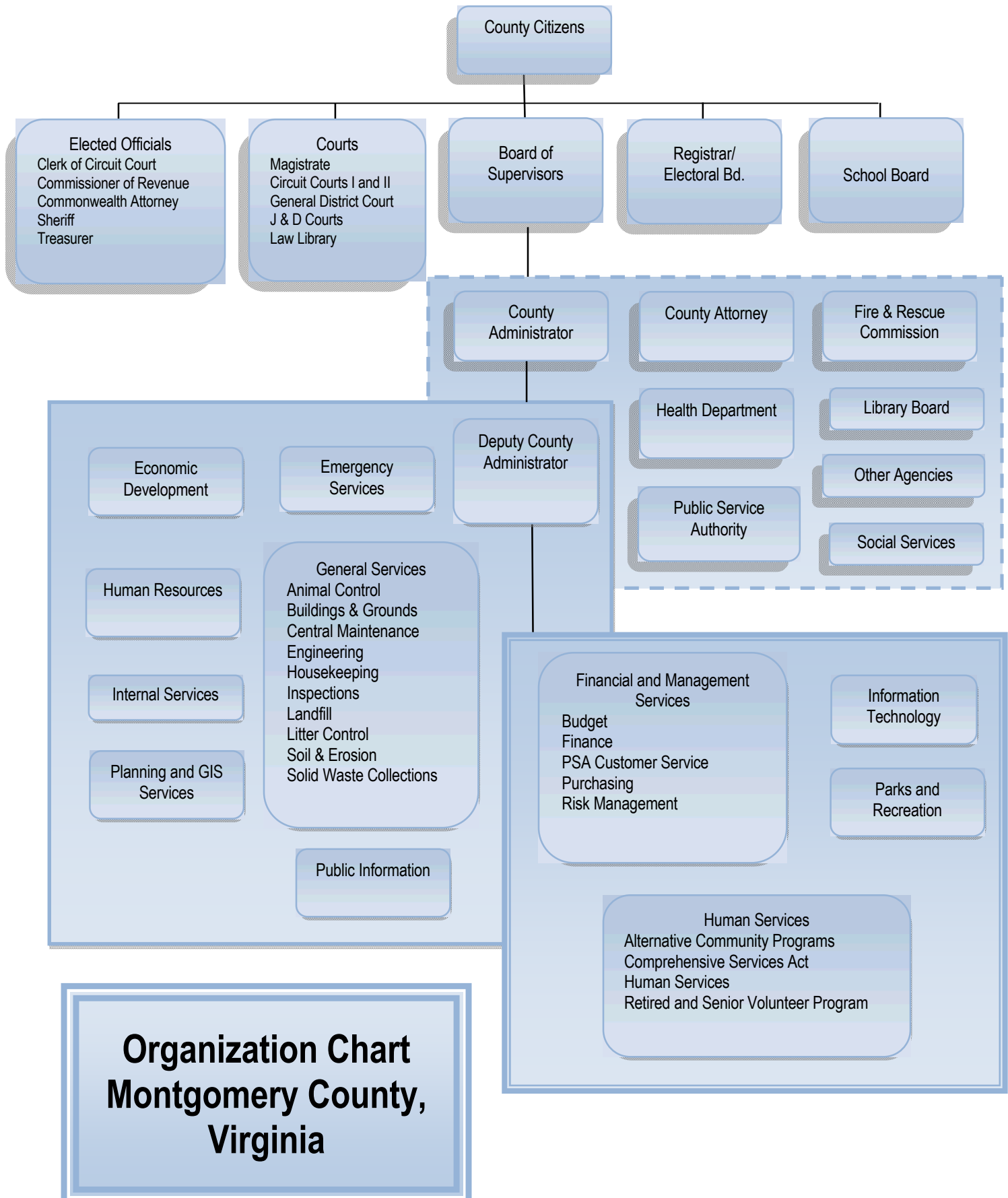
Mary W. Biggs	Matthew R. Gabriele
Gary D. Creed	Annette S. Perkins
Christopher A. Tuck	

## **COUNTY ADMINISTRATION**

Paula K. Alston	Director of Montgomery Regional Library
Vacant	Director of General Services/County Engineer
Mary B. Critzer	Director of Human Services
Karen A. Edmonds	Director of Human Resources
L. Carol Edmonds	Deputy County Administrator
Robert C. Fronk	Director of Public Service Authority
Brian T. Hamilton	Director of Economic Development
Michelle Dickerson	Virginia Cooperative Extension Agent
Mitchell B. Haugh	Director of Parks and Recreation
Angela M. Hill	Director of Financial and Management Services
Larry W. Lindsey	Director of Social Services
Martin M. McMahon	County Attorney
F. Craig Meadows	County Administrator
Philip L. Martin	Director of Information Technology
Ruth L. Richey	Director of Public Information
Steven M. Sandy	Director of Planning and Inspections
Brenda B. Blackburn	Superintendent of Schools
K. Neal Turner	Emergency Services Coordinator
E. Randal Wertz	Registrar

## **CONSTITUTIONAL OFFICERS**

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



## FINANCIAL SECTION

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), as of and for the year ended June 30, 2014, 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 *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County, as of June 30, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof, and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

As described in Note 19 to the financial statements, in 2014, the County adopted new accounting guidance, *GASB Statement No. 65, Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 discretely presented component unit, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The fund financial statements of the discretely presented component unit 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 discretely presented component unit 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 26, 2014, 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 26, 2014

## **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, 2014. 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 2014**

- Total net position for governmental activities was \$120 million at June 30, 2014. This figure is based on assets and deferred outflows totaling \$382 million and liabilities and deferred inflows of \$262 million.
- Total general fund revenues fell short of the final estimated amount by just under \$1 million.

The main reason for the shortfall was related to intergovernmental revenues. Grant funding does not follow the fiscal year, therefore funds appropriated during the year are often received the following year. Approximately \$900,000 of the shortfall was due to this timing difference. Actual collections for the Comprehensive Services Act were \$600,000 less than budgeted; expenditures were under budget as well.

Actual expenditures were \$10.6 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. Also, orders had been placed, but goods not received at year end of just under \$1 million.

A portion of the variance (\$.8 million) is attributable to the Comprehensive Services Act discussed above. The expenditure variance is greater than the revenue variance, as a portion of funding for this program is provided by County tax revenues.

General government administration expenditures totaled \$2.6 million less than appropriated. Of this amount, Information Technology spent \$600,000 less than appropriated, resulting primarily from the timing of projects underway in the department, combined with vacancy savings. The reassessment projected had been funded but not completed by year end resulting in unspent funds of \$250,000. Contingency funds of \$250,000 were budgeted and not spent. The County began a self-insurance program for health insurance effective July 1, 2013. As part of this program, \$540,000 was appropriated to establish a reserve for claims, which would provide funding to pay claims if premiums are not sufficient to fund the claims. The reserve was not spent in fiscal year 2014. The remaining difference results from small amounts of vacancy savings and conservative fiscal management across all areas.

Public works expenditures were \$0.8 million less than budgeted due to vacancy savings, lower tipping fee payments and lower landfill monitoring expenses. Finally, the Montgomery County School Board (the Schools) spent approximately \$3.5 million less than appropriated during the year. This resulted in corresponding lower general fund expenditures for education as the amount required to be provided by the County to the Schools was lower.

- The business-type activities net position at June 30, 2014 was approximately \$14.2 million.
- No governmental activity debt was issued or refunded during the year. Repayment of bonded debt totaled \$13.5 million.



- At the end of the current fiscal year, unassigned fund balance for the general fund was approximately \$22.6 million, or 13.6% of fiscal year 2014 general and school operating fund revenues. The Board of Supervisors has adopted a target to keep this percentage between 8 and 10 percent, however the rate was approximately 14% for several years prior to fiscal year 2012, 18.8% for fiscal year 2012, and 19.7% for fiscal year 2013. The Board appropriated \$3 million for future school capital projects and \$2 million for future County capital projects from fund balance in fiscal year 2014. This was done after analyzing the County's June 30, 2014, financial position, including this ratio. In the past few years, the ratio had grown to exceed the target as the result of an additional \$4.1 million received as following the January 1, 2013 tax increase combined with the Schools' remaining appropriation of \$1 million. For fiscal year 2013, the percentage remained at a higher level, due in part to additional property tax revenue of \$700,000 resulting from the January 1 tax increase and the Schools' remaining appropriation of \$1.7 million.

## **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 and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the County is improving or deteriorating. Increases in net position may indicate an improved financial position; however, even decreases in net position may reflect a changing manner in which the County used previously accumulated funds.

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

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

The government-wide financial statements include the County (known as the *primary government*) as well as funds of the Montgomery County School Board and the Montgomery County Economic Development Authority. Financial information for these *component units* are reported separately from the financial information presented for the primary government.

### **Fund Financial Statements**

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

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

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

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

As of the end of the current fiscal year, the County's total governmental funds reported an ending fund balance of \$75 million, a decrease of \$29 million in comparison with the prior year. The decrease was primarily a result of spending bond proceeds received in prior years for capital projects in the current year. New debt was not issued in fiscal year 2014. Of that amount, \$6 million was nonspendable, \$38 million was restricted, \$1.1 million was committed, \$6.7 million was assigned, and \$22.6 million was unassigned.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 20.7% of total general fund expenditures, while total fund balance represents 33.6% of that same amount.

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

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

**Proprietary funds** provide the same type of information as the *business-type activities* in the government-wide financial statements, only in more detail. The Montgomery County Public Service Authority's water and wastewater funds are used to account for the revenues and expenses of providing those services to citizens and businesses, where the intent is that the costs are financed through user charges.

## FINANCIAL ANALYSIS OF THE COUNTY AS A WHOLE

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2014	2013	2014	2013	2014	2013	2014	2013
Current and other assets	\$90.9	\$130.4	\$3.1	\$3.5	\$94.0	\$133.9	\$20.0	\$20.0
Capital assets	289.0	263.2	19.0	20.3	308.0	283.5	14.5	15.2
Total assets	\$379.9	\$393.6	\$22.1	\$23.8	\$402.0	\$417.4	\$34.5	\$35.2
Deferred outflows of resources	\$2.2	\$0.0	\$0.0	\$0.0	\$2.2	\$0.0	\$0.0	\$0.0
Long-term liabilities	\$231.9	\$255.3	\$7.5	\$7.8	\$239.4	\$263.1	\$14.7	\$19.9
Other liabilities	17.8	26.5	0.4	1.2	18.2	27.7	19.8	15.0
Total liabilities	\$249.7	\$281.8	\$7.9	\$9.0	\$257.6	\$290.8	\$34.5	\$34.9
Deferred inflows of resources	\$12.4	\$0.0	\$0.0	\$0.0	\$12.4	\$0.0	\$0.0	\$0.0
Net position:								
Net investment in capital assets	\$94.4	\$83.1	\$13.0	\$13.2	\$107.4	\$96.3	\$5.9	\$5.8
Restricted	9.2	9.7	0.0	0.0	9.2	9.7	3.6	3.6
Unrestricted	16.4	19.0	1.2	1.6	17.6	20.6	(9.5)	(9.1)
Total net position	\$120.0	\$111.8	\$14.2	\$14.8	\$134.2	\$126.6	\$0.0	\$0.3

### Governmental Activities

Total net position shown above for governmental activities is \$120.0 million or \$8.2 million more than in 2013. The County used proceeds from bonds issued in previous years to continue construction of schools and a Public Safety building. This resulted in an increase in capital assets and a decrease in current and other assets, as cash from the bond issuance was used. Capital assets increased by \$25.8 million resulting from \$33.8 million in capital additions, offset by \$8 million in current year depreciation. The \$33.8 million of additions consisted of the following (in millions):

Blacksburg High School	\$ 8.0
Auburn High School	3.5
Auburn Middle School	12.4
Other school projects	0.6
Public Safety Building	6.6
Public Safety Equipment	1.4
Information Technology Equipment	0.3
General Services Vehicles	0.3
Parks and Recreation Land	0.4
Other county additions	0.3
Total	\$33.8

### Business-Type Activities

Total net position shown above for business-type activities is \$14.2 million, relatively unchanged from the previous year balance of \$14.8 million.

### Component Units

Total net position shown above for component units is \$0 for 2014. This is a decrease of \$.3 million from 2013 and consists of a deficit in net position of \$1.5 million for the School Board and net position of \$1.5 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		Business-Type Activities		Total Primary Government		Component Units	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Revenues</b>								
<b>Program revenues:</b>								
Charges for services	\$ 2.6	\$ 2.8	\$ 3.5	\$ 4.7	\$ 6.1	\$ 7.5	\$ 6.2	\$ 4.6
Operating grants and contributions	13.2	12.2	-	-	13.2	12.2	53.9	53.8
Capital grants and contributions	-	-	-	0.1	-	0.1	-	-
<b>General revenues:</b>								
Property taxes	78.9	75.8	-	-	78.9	75.8	-	-
Other taxes	11.5	11.6	-	-	11.5	11.6	-	-
Payments from Montgomery County	-	-	-	-	-	-	41.2	40.0
Grants and contributions not restricted to specific purposes	5.1	5.3	-	-	5.1	5.3	-	-
Contributions from other governments	-	-	-	-	-	-	-	-
Other	0.6	0.6	-	-	0.6	0.6	0.2	0.2
<b>Total revenues</b>	<b>111.9</b>	<b>108.3</b>	<b>3.5</b>	<b>4.8</b>	<b>115.4</b>	<b>113.1</b>	<b>101.5</b>	<b>98.6</b>
<b>Expenses</b>								
General government	7.8	6.8	-	-	7.8	6.8	-	-
Judicial administration	3.3	3.2	-	-	3.3	3.2	-	-
Public safety	15.8	15.0	-	-	15.8	15.0	-	-
Public works	5.3	5.5	-	-	5.3	5.5	-	-
Health and welfare	7.3	7.6	-	-	7.3	7.6	-	-
Education	46.1	43.5	-	-	46.1	43.5	100.1	99.1
Parks, recreation and cultural	3.3	2.9	-	-	3.3	2.9	-	-
Community development	1.6	1.4	-	-	1.6	1.4	1.7	1.7
Water	-	-	2.2	3.4	2.2	3.4	-	-
Waste water	-	-	1.8	1.8	1.8	1.8	-	-
Interest on long-term debt	10.8	11.0	-	-	10.8	11.0	-	-
<b>Total expenses</b>	<b>101.3</b>	<b>96.9</b>	<b>4.0</b>	<b>5.2</b>	<b>105.3</b>	<b>102.1</b>	<b>101.8</b>	<b>100.8</b>
<b>Change in net position</b>	<b>10.6</b>	<b>11.4</b>	<b>(0.5)</b>	<b>(0.4)</b>	<b>10.1</b>	<b>11.0</b>	<b>(0.3)</b>	<b>(2.2)</b>
Net position-beginning, restated*	109.4	100.4	14.7	15.2	124.1	115.6	0.3	2.5
Net position-ending	<b>\$ 120.0</b>	<b>\$ 111.8</b>	<b>\$ 14.2</b>	<b>\$ 14.8</b>	<b>\$ 134.2</b>	<b>\$ 126.6</b>	<b>\$ 0.0</b>	<b>\$ 0.3</b>

\*Beginning net position has been restated for the effects of GASB65 implementation, however comparative information has not.

## Revenues

For the fiscal year ended June 30, 2014, revenues from governmental activities totaled \$111.9 million, an increase of \$3.6 million. The real estate tax rate remained level for calendar year 2014, however real estate tax revenue increased approximately \$700,000 resulting from growth. An increase in growth in business furniture and fixtures accounted for the remaining increase in revenue in this category. Charges for services from business-type activities totaled \$3.5 million, a decrease of \$1.2 million from the previous year. This decrease is due to facility fees that were received from a large development in 2013.

Component unit revenues total \$101.5 million, including a \$41.2 million transfer from the general fund. GASB 34 requires that school debt service be included in the general fund, as the schools cannot issue debt on their own. County funds associated with school debt service totaled \$18.5 million, which would have brought the total transfer to \$59.7 million under the previous method of accounting.

## Expenses

Expenses for governmental activities totaled \$101.3 million in 2014, an increase of \$4.4 million from the previous year. Education expenses increased as the contribution from the County to the Schools increased \$2.6 million. General government increased around \$1 million, partially due to reassessment expenses that occurred in fiscal year 2014. The reassessment process occurs every four years.

Expenses for business-type activities decreased by \$1.2 million. As discussed in Note 18, the County joined the New River Valley Regional Water Authority in June 2013. As part of the new water agreement, the Public Service Authority must pay a \$1.3 million membership fee over 40 years. This membership fee was expensed in 2013.

Education is a very high priority in the Montgomery County community; consequently, the Board of Supervisors contributed \$41.2 million to the operation of the Schools. Depreciation expense related to the schools totaled \$1.5 million.

Total expenses for education were \$46.1 million. This amount represented about 46% of governmental activity expenses. When interest for school related projects is included, the County contributed \$55 million, or 54.2%. 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% of the general fund expenses (excluding payments to the Schools), plus school operating fund expenses for 2014.

## FINANCIAL ANALYSIS OF THE COUNTY'S FUNDS

For the fiscal year ended June 30, 2014, the governmental funds reflect a combined fund balance of \$75 million, a decrease of \$29 million from June 30, 2013. This consisted of \$37 million in the general fund and \$38 million in the county capital improvements fund. The general fund balance decreased \$7 million from fiscal year 2013. This is due primarily to transfers from the general fund to the capital projects fund in fiscal year 2014. As a result of the County's strong cash balance at June 30, 2013, the Board of Supervisors approved transfers to the capital projects fund of \$6 million. \$3 million will be used for unspecified future school projects, \$2 million for unspecified County projects and \$1 million for a new county animal shelter. The county capital projects fund balance decreased \$22 million as a result of using proceeds from bonds issued in previous years for projects in the current year.

The following table presents budgeted and actual revenues and expenditures (cash basis) for the general fund for fiscal year 2014 in millions:

	Original Budget	Amended Budget	Actual
Revenues			
Taxes	\$ 89.9	\$ 90.0	\$ 90.4
Intergovernmental	18.0	19.3	17.8
Other	2.5	3.3	3.4
Total	110.4	112.6	111.6
Expenditures and transfers	110.4	127.2	117.0
Change in fund balance	\$ -	\$ (14.6)	\$ (5.4)

The most significant increase in comparing original budget to final budget for revenue is in intergovernmental revenue. Several significant grants combined with special projects were received and budgeted during the fiscal year to account for the \$1.3 million increase in this category. Budgetary adjustments were made in the other revenue category to account for unpredictable, miscellaneous amounts such as recovered costs, which were received during the year, but not included in the original budget.

The increase in the final budget for expenditures over the original budget resulted primarily from the Board of Supervisors approving \$6 million in transfers to the capital projects fund for future projects. Encumbrances and carryovers from the 2013 budget and the appropriation of grants received and one-time expenditures throughout the year account for the remaining difference.

Actual tax revenue exceeded the budgeted slightly by \$.4 million. The real estate tax rate remained level at \$0.89 per \$100 of assessed value. Prepaid property taxes were slightly higher than budgeted, resulting in the variance from the budgeted amount. Grant funds are budgeted when grants are awarded. However, the timing of grant revenue does not correspond to the fiscal year. This results in revenue falling short of the budgeted amount. Expenditures and transfers actual balances were less than the budgeted amount for several reasons, including the timing of grants mentioned above. The transfer from the general fund to the school operating fund *on the budgetary basis (cash)* was almost \$3 million lower than the budgeted amount. This is due to the schools receiving more state and federal revenue than budgeted, which resulted in a lower than budgeted amount needed from the County. The County transferred the balance of these funds to the Schools in fiscal year 2014. The schools had over \$1.2 million in outstanding purchase orders at June 30. The balance of the transfer to the schools from the general fund was approved by the Board of Supervisors and transferred in fiscal year 2015.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2014, the County had invested \$288.9 million, net of accumulated depreciation, in a variety of capital assets including buildings, park facilities, water and sewer lines, and sheriff and fire protection.

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

	Governmental Activities		Business-Type Activities		Total Primary Government		Component Units	
	2014	2013	2014	2013	2014	2013	2014	2013
<b>Non-depreciable assets</b>								
Land	\$ 14.2	\$ 13.9	\$ 0.3	\$ 0.3	\$ 14.5	\$ 14.2	\$ 0.4	\$ 0.4
Intangible asset	-	-	0.9	0.9	0.9	0.9	-	-
Construction in progress	22.8	93.1	-	-	22.8	93.1	0.3	-
<b>Depreciable capital assets</b>								
Infrastructure	-	-	31.9	33.1	31.9	33.1	-	-
Buildings and improvements	276.7	177.8	0.1	0.1	276.8	177.9	42.6	42.6
Machinery and equipment	21.8	20.4	1.3	0.9	23.1	21.3	15.5	14.9
Accumulated depreciation	(46.6)	(42.0)	(15.5)	(15.0)	(62.1)	(57.0)	(44.3)	(42.6)
<b>Total</b>	<b>\$ 288.9</b>	<b>\$ 263.2</b>	<b>\$ 19.0</b>	<b>\$ 20.3</b>	<b>\$ 307.9</b>	<b>\$ 283.5</b>	<b>\$ 14.5</b>	<b>\$ 15.3</b>

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

	Balance June 30, 2013	Net Additions/ (Deletions)	Balance June 30, 2014
<b>Non-depreciable assets</b>			
Land	\$ 14.6	\$ 0.3	\$ 14.9
Intangible assets	0.9	-	0.9
Construction in progress	93.1	(70.0)	23.1
<b>Depreciable capital assets</b>			
Infrastructure	33.1	(1.2)	31.9
Buildings and improvements	220.5	98.9	319.4
Machinery and equipment	36.2	2.4	38.6
Accumulated depreciation	(99.6)	(6.8)	(106.4)
<b>Total</b>	<b>\$ 298.8</b>	<b>\$ 23.6</b>	<b>\$ 322.4</b>



## Governmental Activities

In 2014, construction continued on Auburn Middle School (\$12.4 million) and the new Public Safety Building (\$6.6 million). Blacksburg and Auburn High Schools with a total cost of \$61.8 million and \$38.9 million, respectively, were completed and transferred from construction in progress to buildings and improvements. Current year costs on the projects totaled \$8 million and \$3.5 million, respectively.

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

## **Long Term Debt**

The following table displays the Governmental and Business-Type Activities Outstanding Debt at June 30, 2014, in millions of dollars:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total Primary Government</b>	
	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>2013</b>
General obligation bonds	\$ 124.2	\$ 128.6	\$ -	\$ -	\$ 124.2	\$ 128.6
Lease revenue bonds	68.1	72.9	-	-	68.1	72.9
Literary loans	2.0	2.2	-	-	2.0	2.2
Refunding bonds	31.9	36.0	-	-	31.9	36.0
Revenue bonds	-	-	6.0	6.2	6.0	6.2
<b>Total</b>	<b>\$ 226.2</b>	<b>\$ 239.7</b>	<b>\$ 6.0</b>	<b>\$ 6.2</b>	<b>\$ 232.2</b>	<b>\$ 245.9</b>

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

The Montgomery County Board of Supervisors adopted the following debt policy on March 27, 2000:

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. Target debt ratios will be annually calculated and included in the review of financial trends.
3. Net debt per capita should remain under \$2,000. Net debt is defined as any and all debt that is tax-supported.
4. Net debt as a percentage of estimated market value of taxable property should target 3% but not exceed 4%.
5. The ratio of debt service expenditures as a percent of governmental fund expenditures should target 10% but not exceed 12%.
6. The ratio of net debt per capita as a percentage of income should target 7.5% but not exceed 10%.
7. 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.
8. Where feasible, the County will explore the usage of special assessment, revenue, or other self-supporting bonds instead of general obligation bonds. 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.

As of June 30, 2014, the County was in compliance with all debt policies.

### **ECONOMIC FACTORS**

As of September 2014, the County's and state's average unemployment rate was 5.2 percent. This is a decrease from the County's rate a year ago which was 5.6 percent.

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

### **REQUESTS FOR INFORMATION**

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

## **BASIC FINANCIAL STATEMENTS**

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## COUNTY OF MONTGOMERY, VIRGINIA

## STATEMENT OF NET POSITION

June 30, 2014

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	School Board	Economic Development Authority
<b>Assets</b>					
Cash and cash equivalents (Note 4)	\$ 46,633,479	\$ 2,398,142	\$ 49,031,621	\$ 2,447,942	\$ 1,067,581
Receivables, net (Note 5)	2,821,979	593,001	3,414,980	-	-
Due from primary government	-	-	-	5,650,134	29,937
Due from other governmental units (Note 6)	2,863,565	-	2,863,565	2,494,228	-
Internal balances (Note 7)	(7,538)	7,538	-	-	-
Prepays	183,900	-	183,900	1,630,246	17,224
Inventories	-	30,586	30,586	101,333	2,922,002
Advances to component unit (Note 15)	5,626,109	-	5,626,109	-	-
Restricted assets:					
Cash and cash equivalents (Note 4)	625,617	60,085	685,702	41,794	-
Investments (Note 4)	31,672,369	-	31,672,369	-	-
Notes receivable and accrued interest receivable	-	-	-	-	3,615,683
Notes receivable (Note 15)	516,627	-	516,627	-	-
Capital assets: (Note 8)					
Non-depreciable	37,074,908	1,227,230	38,302,138	386,257	305,551
Depreciable, net	251,865,206	17,778,532	269,643,738	5,200,026	8,643,180
<b>Total assets</b>	<b>379,876,221</b>	<b>22,095,114</b>	<b>401,971,335</b>	<b>17,951,960</b>	<b>16,601,158</b>
<b>Deferred Outflows of Resources</b>					
Deferred charge on refunding	2,221,617	-	2,221,617	-	-
<b>Liabilities</b>					
Accounts payable and accrued expenses	6,076,923	267,703	6,344,626	348,217	175,782
Accrued payroll and related liabilities	932,975	36,843	969,818	8,422,923	-
Accrued interest payable	4,062,226	6,337	4,068,563	-	-
Amounts held for others	625,617	-	625,617	41,794	-
Advances from primary government (Note 15)	-	-	-	-	5,626,109
Due to other governmental units (Notes 6)	506,066	-	506,066	-	-
Due to component unit	5,650,134	-	5,650,134	-	-
Unearned revenue (Note 5)	-	-	-	66,336	12,209
Customer deposits	-	60,085	60,085	-	10,000
Long-term liabilities: (Note 9)					
Due within one year	16,168,920	384,788	16,553,708	2,740,136	8,649,230
Due in more than one year	215,668,827	7,136,236	222,805,063	7,785,740	667,898
<b>Total liabilities</b>	<b>249,691,688</b>	<b>7,891,992</b>	<b>257,583,680</b>	<b>19,405,146</b>	<b>15,141,228</b>
<b>Deferred Inflows of Resources</b>					
Deferred premiums on refunding	12,011,111	-	12,011,111	-	-
Unearned property taxes	351,878	-	351,878	-	-
<b>Total deferred outflows of resources</b>	<b>12,362,989</b>	<b>-</b>	<b>12,362,989</b>	<b>-</b>	<b>-</b>
<b>Net Position</b>					
Net investments in capital assets	94,390,089	13,053,164	107,443,253	5,586,283	270,105
Restricted:					
Debt service	9,207,023	-	9,207,023	-	-
Note receivable	-	-	-	-	3,615,683
Unrestricted	16,446,049	1,149,958	17,596,007	(7,039,469)	(2,425,858)
<b>Total net position</b>	<b>\$ 120,043,161</b>	<b>\$ 14,203,122</b>	<b>\$ 134,246,283</b>	<b>\$ (1,453,186)</b>	<b>\$ 1,459,930</b>

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2014

		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	Business-type Activities	Total	School Board	Economic Development Authority
Primary Government:									
Governmental activities:									
General government administration	\$ 7,803,244	\$ 435,507	\$ 420,573	\$ -	\$ (6,947,164)		\$ (6,947,164)		
Judicial administration	3,271,384	359,106	1,119,633	-	(1,792,645)		(1,792,645)		
Public safety	15,847,489	821,283	4,815,258	-	(10,210,948)		(10,210,948)		
Public works	5,334,776	128,492	27,709	-	(5,178,575)		(5,178,575)		
Health and welfare	7,256,247	186,503	5,017,582	-	(2,052,162)		(2,052,162)		
Education	46,084,985	-	1,250,431	-	(44,834,554)		(44,834,554)		
Parks, recreational, and cultural	3,319,267	571,962	510,069	-	(2,237,236)		(2,237,236)		
Community development	1,634,581	100,774	46,638	-	(1,487,169)		(1,487,169)		
Interest on long-term debt	10,747,055	-	-	-	(10,747,055)		(10,747,055)		
Total governmental activities	101,299,028	2,603,627	13,207,893	-	(85,487,508)		(85,487,508)		
Business-type activities:									
Water	2,189,835	2,038,893	-	-		(150,942)	(150,942)		
Wastewater	1,842,494	1,470,700	-	-		(371,794)	(371,794)		
Total business-type activities	4,032,329	3,509,593	-	-		(522,736)	(522,736)		
Total primary government	\$ 105,331,357	\$ 6,113,220	\$ 13,207,893	\$ -	(85,487,508)	(522,736)	(86,010,244)		
Component Units:									
School Board	\$ 100,073,531	\$ 3,759,006	\$ 53,843,331	\$ -				(42,471,194)	-
Economic Development Authority	1,665,823	2,386,736	-	-				-	720,913
Total component units	\$ 101,739,354	\$ 6,145,742	\$ 53,843,331	\$ -	-	-	-	(42,471,194)	720,913
General Revenues:									
General property taxes (Note 5)					78,850,329	-	78,850,329	-	-
Sales and use tax					7,965,976	-	7,965,976	-	-
Utility tax					1,825,809	-	1,825,809	-	-
Motor vehicle license tax					662,591	-	662,591	-	-
Other local taxes					1,057,677	-	1,057,677	-	-
Intergovernmental revenue, unrestricted					5,097,685	-	5,097,685	-	-
Investment earnings, unrestricted					44,439	8,236	52,675	19,207	201,490
Investment earnings, restricted for capital projects					585,891	-	585,891	-	-
Payments from Montgomery County					-	-	-	41,099,394	107,860
Total general revenues					96,090,397	8,236	96,098,633	41,118,601	309,350
Change in net position					10,602,889	(514,500)	10,088,389	(1,352,593)	1,030,263
Net position – beginning, restated (Note 19)					109,440,272	14,717,622	124,157,894	(100,593)	429,667
Net position – ending					\$ 120,043,161	\$ 14,203,122	\$ 134,246,283	\$ (1,453,186)	\$ 1,459,930

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

## COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

	General	County Capital Improvements	Total Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 36,215,200	\$ 10,418,279	\$ 46,633,479
Receivables, net	2,821,979	-	2,821,979
Due from other governmental units	2,863,565	-	2,863,565
Advances to component unit	5,626,109	-	5,626,109
Restricted assets:			
Cash and cash equivalents	625,617	-	625,617
Investments	-	31,672,369	31,672,369
Notes receivable	516,627	-	516,627
<b>Total assets</b>	<b>\$ 48,669,097</b>	<b>\$ 42,090,648</b>	<b>\$ 90,759,745</b>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 1,768,466	\$ 4,308,457	\$ 6,076,923
Accrued payroll and related liabilities	932,975	-	932,975
Due to other governmental units	506,066	-	506,066
Due to other funds	7,538	-	7,538
Due to component unit	5,650,134	-	5,650,134
Amounts held for others	625,617	-	625,617
<b>Total liabilities</b>	<b>9,490,796</b>	<b>4,308,457</b>	<b>13,799,253</b>
<b>Deferred Inflows of Resources</b>			
Unavailable/unearned property taxes	2,446,561	-	2,446,561
<b>Fund Balances:</b>			
Nonspendable	6,142,736	-	6,142,736
Restricted	246,442	37,782,191	38,028,633
Committed	1,104,829	-	1,104,829
Assigned	6,658,479	-	6,658,479
Unassigned	22,579,254	-	22,579,254
<b>Total fund balances</b>	<b>36,731,740</b>	<b>37,782,191</b>	<b>74,513,931</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 48,669,097</b>	<b>\$ 42,090,648</b>	<b>\$ 90,759,745</b>



**COUNTY OF MONTGOMERY, VIRGINIA**

**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**June 30, 2014**

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

<b>Ending fund balance – governmental funds</b>		<b>\$</b>	<b>74,513,931</b>
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			288,940,114
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			183,900
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			2,094,683
Premiums and discounts on debt that are capitalized and amortized on the government-wide basis are recorded as revenue and expenditures in the funds.			(9,789,494)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			
Long-term debt, including premium, discounts, and deferred amounts	\$	(226,222,394)	
Landfill closure/post-closure liability		(1,062,644)	
Compensated absences		(2,992,558)	
Other postemployment benefits		(1,560,151)	
Accrued interest payable		(4,062,226)	
			<u>(235,899,973)</u>
<b>Net position of governmental activities</b>	<b>\$</b>		<b><u>120,043,161</u></b>

## COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2014

	<b>General</b>	<b>County Capital Improvements</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
General property taxes	\$ 78,614,119	\$ -	\$ 78,614,119
Other local taxes	11,512,053	-	11,512,053
Permits, privilege fees, and regulatory licenses	736,908	-	736,908
Fines and forfeitures	129,993	-	129,993
Revenue from use of money and property	803,117	44,439	847,556
Charges for services	632,447	-	632,447
Recovered costs	1,092,706	11,570	1,104,276
Intergovernmental	17,969,578	336,000	18,305,578
Total revenues	111,490,921	392,009	111,882,930
<b>EXPENDITURES</b>			
Current operating:			
General government administration	8,360,028	-	8,360,028
Judicial administration	3,263,725	-	3,263,725
Public safety	15,791,071	-	15,791,071
Public works	4,097,717	-	4,097,717
Health and welfare	7,224,463	-	7,224,463
Education	41,136,639	-	41,136,639
Parks, recreation, and cultural	3,318,180	-	3,318,180
Community development	1,626,977	-	1,626,977
Debt service:			
Principal retirement	13,495,681	-	13,495,681
Interest and fiscal charges	10,953,467	-	10,953,467
Capital projects	-	31,864,447	31,864,447
Total expenditures	109,267,948	31,864,447	141,132,395
Excess (deficiency) of revenues over expenditures	2,222,973	(31,472,438)	(29,249,465)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers in	246,417	9,431,337	9,677,754
Transfers out	(9,431,337)	(246,417)	(9,677,754)
Total other financing sources (uses)	(9,184,920)	9,184,920	-
Net changes in fund balances	(6,961,947)	(22,287,518)	(29,249,465)
<b>FUND BALANCES AT JULY 1</b>	43,693,687	60,069,709	103,763,396
<b>FUND BALANCES AT JUNE 30</b>	\$ 36,731,740	\$ 37,782,191	\$ 74,513,931

**COUNTY OF MONTGOMERY, VIRGINIA**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**For the Year Ended June 30, 2014**

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

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

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (29,249,465)</b>
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which depreciation (\$8,026,430) and the loss on disposals (\$327,885) are less than capital outlay (\$34,081,087) in the current period.

25,726,772

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

278,897

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds. Neither transaction, however, has an effect on net position.

Principal repayments:

General obligation bonds	4,389,849
Lease revenue bonds	4,750,081
Literary fund loans	250,000
Refunding bonds	4,105,751
	<hr/>

13,495,681

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 the statement of activities, interest expense is recognized as it accrued, regardless of when it is due. The net effect of those differences are as follows:

Amortization of bond premiums and discounts	499,682
Interest expense	206,412
	<hr/>

706,094

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.

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(355,090)

<b>Change in net assets of governmental activities</b>	<b>\$ 10,602,889</b>
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## 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, 2014

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
<b>REVENUES</b>				
General property taxes	\$ 78,259,543	\$ 78,271,151	\$ 78,898,030	\$ 626,879
Other local taxes	11,701,410	11,711,186	11,493,553	(217,633)
Permits, privilege fees, and regulatory licenses	717,269	717,269	744,982	27,713
Fines and forfeitures	135,000	135,000	128,769	(6,231)
Revenue from use of money and property	541,762	545,762	803,117	257,355
Charges for services	495,050	721,724	636,928	(84,796)
Recovered costs	639,857	1,178,142	1,113,482	(64,660)
Intergovernmental	17,958,834	19,329,666	17,802,457	(1,527,209)
Total revenues	110,448,725	112,609,900	111,621,318	(988,582)
<b>EXPENDITURES</b>				
Current operating:				
General government administration	7,722,661	10,584,453	8,002,959	2,581,494
Judicial administration	3,159,596	3,545,817	3,230,670	315,147
Public safety	14,162,133	16,403,330	15,642,115	761,215
Public works	4,536,519	4,881,065	4,089,464	791,601
Health and welfare	8,631,205	8,423,830	7,150,397	1,273,433
Education	42,117,624	44,214,528	40,673,199	3,541,329
Parks, recreation, and cultural	2,815,273	3,973,015	3,025,686	947,329
Community development	1,724,944	2,228,932	1,611,191	617,741
Debt service:				
Principal retirement	13,324,930	13,324,930	13,495,681	(170,751)
Interest and fiscal charges	10,921,057	10,921,057	10,953,467	(32,410)
Total expenditures	109,115,942	118,500,957	107,874,829	10,626,128
Excess (deficiency) of revenues over expenditures	1,332,783	(5,891,057)	3,746,489	9,637,546
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	767,217	764,130	246,417	(517,713)
Transfers out	(2,100,000)	(9,431,337)	(9,431,337)	-
Total other financing sources (uses)	(1,332,783)	(8,667,207)	(9,184,920)	(517,713)
Net change in fund balance	\$ -	\$ (14,558,264)	\$ (5,438,431)	\$ 9,119,833

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS

June 30, 2014

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,993,208	\$ 404,934	\$ 2,398,142
Accounts receivables, net	333,490	259,511	593,001
Due from other funds	-	14,723	14,723
Inventories	30,108	478	30,586
Total current assets	2,356,806	679,646	3,036,452
Noncurrent assets:			
Cash and cash equivalents, restricted	35,915	24,170	60,085
Capital assets:			
Non-depreciable	1,209,230	18,000	1,227,230
Depreciable, net	9,306,583	8,471,949	17,778,532
Total noncurrent assets	10,551,728	8,514,119	19,065,847
Total assets	12,908,534	9,193,765	22,102,299
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	192,080	75,623	267,703
Accrued payroll and related liabilities	16,967	19,876	36,843
Accrued interest payable	3,864	2,473	6,337
Due to other funds	7,185	-	7,185
Current portion of noncurrent liabilities	222,822	140,013	362,835
Total current liabilities	442,918	237,985	680,903
Noncurrent liabilities:			
Customer deposits	35,915	24,170	60,085
Due in more than one year	3,574,844	2,304,867	5,879,711
Total noncurrent liabilities	3,610,759	2,329,037	5,939,796
Total liabilities	4,053,677	2,567,022	6,620,699
<b>NET POSITION</b>			
Net investments in capital assets	6,886,293	6,166,871	13,053,164
Unrestricted	1,968,564	459,872	2,428,436
Total net position	\$ 8,854,857	\$ 6,626,743	15,481,600

**Reconciliation with business-type activities in the Statement of Net Position (Exhibit 1)**

Long-term membership fee payable to other New River Valley Regional Water Authority legally due from the County but financed by enterprise fund revenues	(1,278,478)
Net position of business-type activities	\$ 14,203,122

## COUNTY OF MONTGOMERY, VIRGINIA

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

For the Year Ended June 30, 2014

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,633,929	\$ 1,304,078	\$ 2,938,007
Penalties and reconnection charges	39,755	17,523	57,278
Fees	254,444	126,821	381,265
Miscellaneous	80,455	4,537	84,992
Total operating revenues	2,008,583	1,452,959	3,461,542
<b>OPERATING EXPENSES</b>			
Salaries and wages	406,864	389,390	796,254
Employee benefits	190,392	181,315	371,707
Utilities and telephone	41,205	83,976	125,181
Water and wastewater services	528,594	441,627	970,221
Operating supplies, fees, permits	97,749	58,918	156,667
Professional services	194,342	28,263	222,605
Repairs and maintenance	119,343	102,879	222,222
Insurance	17,276	16,157	33,433
Vehicle supplies and miscellaneous	35,490	23,146	58,636
Bad debts	5,560	4,234	9,794
Office supplies and miscellaneous	34,092	7,783	41,875
Membership fees	47,522	-	47,522
Depreciation	407,506	450,807	858,313
Total operating expenses	2,125,935	1,788,495	3,914,430
Operating loss	(117,352)	(335,536)	(452,888)
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	8,236	-	8,236
Facility fees	35,870	21,975	57,845
Interest expense	(90,982)	(58,233)	(149,215)
Total nonoperating revenues	(46,876)	(36,258)	(83,134)
Change in net position	(164,228)	(371,794)	(536,022)
<b>Total net position – beginning, as restated</b>	9,019,085	6,998,537	16,017,622
<b>Total net position – ending</b>	\$ 8,854,857	\$ 6,626,743	\$ 15,481,600
<b>Reconciliation with business-type activities in the statement of activities:</b>			
Change in net position			\$ (536,022)
Principal repayment of initial membership fee to other government legally due from County but ultimately financed by enterprise funds revenues.			21,522
Change in net position of business-type activities			\$ (514,500)

## COUNTY OF MONTGOMERY, VIRGINIA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS

For the Year Ended June 30, 2014

	Business-type Activities Enterprise Funds		
	Water	Wastewater	Total
<b>OPERATING ACTIVITIES</b>			
Receipts from customers	\$ 1,993,542	\$ 1,446,860	\$ 3,440,402
Payments to suppliers	(919,883)	(780,367)	(1,700,250)
Payments to employees	(580,129)	(552,433)	(1,132,562)
Payments to County for financial services	(94,778)	-	(94,778)
Net cash provided by operating activities	398,752	114,060	512,812
<b>NONCAPITAL FINANCING ACTIVITIES</b>			
Operating transfers in (out)	5,967	(5,967)	-
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(235,242)	(223,793)	(459,035)
Facility fee payments from customers	35,870	21,975	57,845
Principal payments on long-term debt	(154,577)	(98,936)	(253,513)
Interest payments on debt	(90,982)	(58,233)	(149,215)
Net cash used in capital and related financing activities	(444,931)	(358,987)	(803,918)
<b>INVESTING ACTIVITIES</b>			
Interest received	8,236	-	8,236
Net decrease in cash and cash equivalents	(31,976)	(250,894)	(282,870)
<b>CASH AND CASH EQUIVALENTS</b>			
Beginning at July 1	2,061,099	679,998	2,741,097
Ending at June 30	<u>\$ 2,029,123</u>	<u>\$ 429,104</u>	<u>\$ 2,458,227</u>
<b>RECONCILIATION TO EXHIBIT 6</b>			
Cash and cash equivalents	\$ 1,993,208	\$ 404,934	\$ 2,398,142
Cash and cash equivalents, restricted	35,915	24,170	60,085
	<u>\$ 2,029,123</u>	<u>\$ 429,104</u>	<u>\$ 2,458,227</u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>			
Operating loss	\$ (117,352)	\$ (335,536)	\$ (452,888)
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	407,506	450,807	858,313
(Increase) decrease in:			
Accounts receivable	(11,151)	(3,815)	(14,966)
Prepays	(6,792)	(8,756)	(15,548)
Inventory	8,283	174	8,457
(Decrease) increase in:			
Accounts payable	106,797	(9,036)	97,761
Advances payable for operating items	(7,336)	-	(7,336)
Accrued payroll and related liabilities	8,979	10,311	19,290
Other postemployment benefits	8,148	7,961	16,109
Customer deposits	1,670	1,950	3,620
Net cash provided by operating activities	<u>\$ 398,752</u>	<u>\$ 114,060</u>	<u>\$ 512,812</u>

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### Note 1. Summary of Significant Accounting Policies

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

##### A. Reporting Entity

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

**Blended Component Units.** The Public Service Authority (the “Authority”) provides water and wastewater services for County businesses and residents and is treated as a blended component unit because the County’s Board serves as the Authority’s Board of Directors and because the Authority benefits the County financially by attracting citizens to unincorporated areas of the County. The financial statements of the Authority are presented in their entirety in this Comprehensive Annual Financial Report (“CAFR”).

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

##### Montgomery County School Board

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

##### Montgomery County Economic Development Authority

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



## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### 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 \$262,786 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 \$633,571 in tipping fees to the Waste Authority.

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

The County is a member of the Blacksburg/Christiansburg/Montgomery Area Metropolitan Planning Organization (the "MPO"). The MPO is a transportation policy-making organization serving the Blacksburg, Christiansburg, and Montgomery area. The MPO provides the information, tools, and public input necessary to improve the performance of the transportation system of the region. Future transportation needs are addressed, giving consideration to all possible strategies and the community's vision. The County has three members within this organization, two of which are voting members. For the current year, the County paid \$17,310 toward operations of the MPO.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**A. Reporting Entity (Continued)**

**Jointly Governed Organizations: (Continued)**

**Western Virginia Regional Jail Authority**

The County, along with the Counties of Franklin and Roanoke and the City of Salem, is a member of the Western Virginia Regional Jail Authority (WVRJA) which was created in June 2005. The WVRJA was formed to own, operate, manage, maintain, regulate, plan for and finance the regional jail. The Board consists of twelve members, three from each jurisdiction consisting of the Sheriff, one elected member of the governing body, and the chief administrative officer. The member jurisdictions are responsible for a portion of the debt service and per diem cost based on prisoner days used. For the current year, the County paid \$2,953,575 to the WVRJA.

**New River Valley Emergency Communications Regional Authority**

The County is a member of the New River Valley Emergency Communications Regional Authority (the "Communications Authority"). The Communications Authority is a regional partnership, serving the County of Montgomery, the Towns of Blacksburg and Christiansburg, and Virginia Tech. The Communications Authority will provide 911 dispatch and emergency communication services to the community and agencies in these localities. The County has one member on the Board of this organization. For the current year, the County paid \$156,525 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 \$8,164 toward the operations of the Council.

**NRV Regional Water Authority**

On June 26, 2013, the Blacksburg-Christiansburg-VPI Water Authority was renamed the NRV Regional Water Authority (NRVRWA). The NRVRWA operates and maintains a water supply system for the Town of Christiansburg, Town of Blacksburg, Virginia Tech, and Montgomery County. Each governing body appoints one member to the five person Board of Directors, one from each member and one at large member. Initially, until the term of one of the current at large members expires, the board will be comprised of six members. The board will then be reduced to five and the one at large member will be appointed by the members of the authority. All indebtedness of the NRVRWA is payable solely from the revenues of the water system. Although the Montgomery County Public Service Authority is one of NRVRWA's customers, neither the County nor the PSA have an obligation for any of its indebtedness. During fiscal year 2014, the County paid \$257,499 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 \$209,977 was for water purchases.

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

##### B. Government-Wide and Fund Financial Statements

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

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

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

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

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

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

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

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

The County reports the following major governmental funds:

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

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

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

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

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

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

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

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

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

**Cash and Cash Equivalents**

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

**Investments**

Investments are stated at fair value.

**Receivables**

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

**Inventories**

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

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

**Capital Assets**

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized cost of the assets. No interest was capitalized in 2014.

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

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

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

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The government has one item that qualifies for reporting in this category, deferred charge on refunding, which is reported in the government-wide statement of net position. This item 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.

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 government 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 item is the premium on issuance of refunding of bonds reported in the government-wide statement of net position. The premiums result when bonds are issued at an interest rate that is higher than their stated interest rate. Premiums on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. These amounts are deferred and amortized over the life of the debt, or the shorter of the life of the refunded or refunding debt.

**Compensated Absences**

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

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

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

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

###### Long-term Liabilities

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

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

###### Estimates

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

###### Net Position/Fund Balances

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

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

- **Nonspendable** – Amounts that cannot be spent because they are not in spendable form, or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash. It also includes the long-term amount of interfund loans or advances.
- **Restricted** – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the County Board of Supervisors; to be reported as committed, amounts cannot be used for any other purposes unless the Board of Supervisors takes action to remove or change the constraint. The Board of Supervisors adopts the amount to be included as revenue stabilization when the budget is approved. The Board must adopt a separate resolution appropriating these funds prior to their expenditure.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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)**

- **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.

**Minimum Fund Balance Policy**

The General Fund reserve target is eight to ten percent of general fund plus school operating fund revenues. For the purpose of determining if the target has been met, the unassigned fund balance of the general fund is compared to the general fund plus school operating fund revenues, excluding the general fund transfer to the school operating fund.

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, 2014 total \$989,112 in the general fund.



## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### Note 2. Stewardship, Compliance, and Accountability

##### Budgetary Information

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

- Prior to March 30, the County Administrator submits to the Board a proposed operating and capital budget for the County and School Board for the fiscal year commencing the following July 1. The operating and capital budget includes proposed expenditures and the related financing.
- Public hearings are conducted to obtain citizen comments.
- Prior to June 30, the budget is legally enacted through passage of an Appropriations Resolution.
- The Appropriations Resolution places legal restrictions on expenditures at the organizational level. Each organization represents a major County function, such as County Administration, Financial and Management Services, Information Management Services, etc. Only the Board can revise the appropriation for each fund and function. The County Administrator may amend the budget within organizations and the School Board is authorized to transfer budgeted amounts within its major categories, which include administration, instruction, attendance, health, etc. School system revisions between these major categories requires approval by the Board of Supervisors.
- Formal budgetary integration is employed as a management control device for the General and Capital Improvements Fund. Program and project budgets are utilized for the Capital Improvements Fund where funds remaining at the end of the year are reappropriated until project completion. The School Fund is integrated only at the level of legal adoption.
- All budgets are adopted on a cash basis.
- The Board approved additional General Fund appropriations of \$9,385,015 during the current year primarily for transfers for public safety, health and welfare, education, and capital projects.
- All budget data presented in the accompanying financial statements includes the original and revised budgets as of June 30.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Budgetary Information (Continued)**

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

	<b>Primary Government</b>	<b>Component Unit – School Board</b>	
	<b>General Fund</b>	<b>Operating</b>	<b>Cafeteria</b>
Net change in fund balance (budgetary basis)	\$ (5,438,431)	\$ 257,471	\$ (128,793)
Adjustments:			
Tax and other accruals and due from other entities/funds, net of deferred revenue:			
June 30, 2014	9,374,181	7,623,005	404,830
June 30, 2013	(9,467,810)	(7,496,659)	(239,727)
Inventory:			
June 30, 2014	-	-	101,333
June 30, 2013	-	-	(95,228)
Accounts, salaries, and other amounts payable to other entities/funds:			
June 30, 2014	(8,857,641)	(8,749,127)	(251,485)
June 30, 2013	7,427,754	8,365,310	184,047
Net change in fund balance (GAAP basis)	<u>\$ (6,961,947)</u>	<u>\$ -</u>	<u>\$ (25,023)</u>

**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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 3. Significant Transactions of the County Component Unit – School Board (Continued)**

3. If all economic resources associated with school activities were reported with the School Board, its total expenditures would be as follows:

Expenditures of School Board – Component Unit (Exhibit A-2)	\$ 98,973,824
Principal and other debt service expenditures included in primary Government (Exhibit 4)	<u>18,487,914</u>
Total expenditures for school activities	<u>\$ 117,821,738</u>

**Note 4. Deposits and Investments**

**Deposits**

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

**Investments**

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

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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

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

	<u>Fair Value</u>	<u>Standard and Poor's Credit Rating</u>	<u>Percentage of Portfolio</u>
Primary Government			
Demand deposits	\$ 49,717,323	NA	41%
SNAP	12,519,453	AAA	37%
Money market accounts	19,152,916	AAAm	22%
Total	<u>\$ 81,389,692</u>		<u>100%</u>
Component Unit – School Board			
Demand deposits	<u>\$ 2,489,736</u>	NA	<u>100%</u>

Deposits and investments are reflected in the statements as follows:

	<u>Primary Government</u>	<u>Component Unit – School Board</u>
Deposits and investments		
Cash and cash equivalents	\$ 49,031,621	\$ 2,447,942
Investments, restricted	31,672,369	-
Cash and cash equivalents, restricted	685,702	41,794
	<u>\$ 81,389,692</u>	<u>\$ 2,489,736</u>

**Credit Risk**

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

**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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Interest Rate Risk**

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

**Custodial Credit Risk**

As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the “counterparty” to the investment transaction. As of June 30, all of the County’s investments are held in a bank’s trust department in the County’s name by the County’s designated custodian. All investment activity during the year was in securities of the type held at year end.

**Restricted Amounts**

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

**Note 5. Receivables**

Receivables are as follows:

	<u>General</u>	<u>Water</u>	<u>Wastewater</u>	<u>Total</u>
Taxes	\$ 3,807,687	\$ -	\$ -	\$ 3,807,687
Accounts	-	362,490	283,511	646,001
Gross receivables	3,807,687	362,490	283,511	4,453,688
Allowance for uncollectibles	(985,708)	(29,000)	(24,000)	(1,038,708)
Net receivables	<u>\$ 2,821,979</u>	<u>\$ 333,490</u>	<u>\$ 259,511</u>	<u>\$ 3,414,980</u>

Taxes receivable represents the current and past four years of uncollected tax levies for personal property taxes and the current and past nineteen years for uncollected tax levies on real property. The allowance for estimated uncollectible taxes receivable is approximately 26% 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	\$ 2,094,683
Unearned	351,878
Total	<u>\$ 2,446,561</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 5. Receivables (Continued)**

**Property Taxes**

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

Real estate taxes are billed in equal semi-annual installments due June 5 and December 5. The taxes receivable balance at June 30 includes amounts not yet received from the January 1 levy (due June 5), less an allowance for uncollectibles. Property taxes attach an enforceable lien on property as of January 1. In addition, any uncollected amounts from previous years' levies are included in the taxes receivable balance. The real estate tax rate for calendar year 2014 is \$0.89 per \$100 of assessed value.

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

**Restricted Note Receivable – EDA**

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

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

Due to other governmental units consists of the following:

	<b>General Fund</b>
<u>Commonwealth of Virginia:</u>	
Governor's Opportunity Fund	\$ 380,000
Montgomery Tourism Office	9,778
Delinquent fees collected by the Commonwealth's Attorney	<u>116,288</u>
	<u><u>\$ 506,066</u></u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 6. Due to/from Other Governmental Units (Continued)**

Due from other governmental units consists of the following:

	<b>General Fund</b>	<b>Component Unit – School Board</b>
<u>Commonwealth of Virginia:</u>		
Local sales tax	\$ 1,333,061	\$ -
State sales tax	-	1,745,653
Categorical aid – shared expenses	487,947	-
Categorical aid – schools	-	58,638
Non-categorical aid	168,781	-
Excess clerk fees	3,746	-
Virginia public assistance funds	155,837	-
Comprehensive services act	152,807	-
Metropolitan Planning Organization	8,565	-
Fire program funds	14,592	-
Transportation enhancement funds	267,789	-
<u>Federal Government:</u>		
Virginia public assistance funds	270,440	-
Categorical aid – school grants	-	689,937
	<u>\$ 2,863,565</u>	<u>\$ 2,494,228</u>

**Note 7. Interfund Balances and Transfers**

Interfund balances consisted of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Water	\$ 1,218
Wastewater	General	\$ 8,756
Wastewater	Water	\$ 5,967

The primary purpose of the interfund balance between the General fund and Water fund is for financial services provided by the County to the Water fund for the month of June, and it was repaid subsequent to year end. The Water and Wastewater funds prepaid health insurance to the General fund at year end, resulting in receivables from the General fund.

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
County Capital Improvements	General	\$ 9,431,337
General	County Capital Improvements	\$ 246,417

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 8. Capital Assets**

Capital asset activity for the year was as follows:

**Primary Government**

<b>Governmental Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 13,885,899	\$ 406,465	\$ 45,000	\$ 14,247,364
Construction in progress	93,126,643	30,469,837	100,768,936	22,827,544
Total capital assets, not depreciated	107,012,542	30,876,302	100,813,936	37,074,908
Capital assets, depreciated:				
Buildings and improvements	177,835,127	101,726,303	2,893,401	276,668,029
Machinery and equipment	20,385,390	2,247,418	811,813	21,820,995
Total capital assets, depreciated	198,220,517	103,973,721	3,705,214	298,489,024
Less accumulated depreciation:				
Buildings and improvements	29,104,939	6,652,328	2,754,759	33,002,508
Machinery and equipment	12,914,778	1,374,102	667,570	13,621,310
Total accumulated depreciation	42,019,717	8,026,430	3,422,329	46,623,818
Total capital assets, depreciated, net	156,200,800	95,947,291	282,885	251,865,206
Capital assets, net	<u>\$263,213,342</u>	<u>\$126,823,593</u>	<u>\$101,096,821</u>	<u>\$288,940,114</u>

Subsequent Events:

Subsequent to year end, the County purchased land at cost of \$401,605. The County plans to construct a new animal shelter facility on the property.



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Primary Government (Continued)**

<b>Business-Type Activities</b>	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land, improvements and rights	\$ 340,389	\$ -	\$ -	\$ 340,389
Construction in Progress	-	9,841	-	9,841
Intangible asset (Note 18)	877,000	-	-	877,000
Total capital assets, not depreciated	1,217,389	9,841	-	1,227,230
Capital assets, depreciated:				
Wastewater systems	17,071,800	10,661	-	17,082,461
Water systems	15,957,432	-	1,156,454	14,800,978
Buildings and improvements	104,318	30,296	-	134,614
Machinery and equipment	926,000	360,437	-	1,286,437
Total capital assets, depreciated	34,059,550	401,394	1,156,454	33,304,490
Less accumulated depreciation:				
Wastewater systems	8,286,155	431,071	-	8,717,226
Water systems	5,994,229	365,228	279,454	6,080,003
Buildings and improvements	91,433	2,219	-	93,652
Machinery and equipment	575,282	59,795	-	635,077
Less accumulated depreciation	14,947,099	858,313	279,454	15,525,958
Total capital assets, depreciated, net	19,112,451	(456,919)	(877,000)	17,778,532
Capital assets, net	<u>\$ 20,329,840</u>	<u>\$ (447,078)</u>	<u>\$ (877,000)</u>	<u>\$ 19,005,762</u>

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government administration	\$ 123,574
Judicial administration	3,456
Public safety	875,101
Public works	1,564,659
Health and welfare	21,058
Education	5,387,478
Parks, recreation, and cultural	43,263
Community development	7,841
	<u>\$ 8,026,430</u>
Business-type activities:	
Water	\$ 407,506
Wastewater	450,807
	<u>\$ 858,313</u>

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Primary Government (Continued)**

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

<b>Project</b>	<b>Spent to Date</b>	<b>Remaining Balance</b>
Middle School Renovation – Auburn	\$ 13,686,567	\$ 5,188,131
Public Safety Building	6,609,054	2,120,719
	<u>\$ 20,295,621</u>	<u>\$ 7,308,850</u>

**Component Unit – School Board**

Capital asset activity for the year was as follows:

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
Capital assets, not depreciated:				
Land	\$ 394,257	\$ -	\$ 8,000	\$ 386,257
Total capital assets, not Depreciated	<u>394,257</u>	<u>-</u>	<u>8,000</u>	<u>386,257</u>
Capital assets, depreciated:				
Buildings and improvements	31,525,160	-	-	31,525,160
Machinery and equipment	14,817,814	680,691	119,624	15,378,881
Total capital assets, depreciated	<u>46,342,974</u>	<u>680,691</u>	<u>119,624</u>	<u>46,904,041</u>
Less accumulated depreciation:				
Buildings and improvements	30,914,701	449,670	-	31,364,371
Machinery and equipment	9,413,092	1,046,176	119,624	10,339,644
Total accumulated depreciation	<u>40,327,793</u>	<u>1,495,846</u>	<u>119,624</u>	<u>41,704,015</u>
Total capital assets, depreciated, net	<u>6,015,181</u>	<u>(815,155)</u>	<u>-</u>	<u>5,200,026</u>
Capital assets, net	<u>\$ 6,409,438</u>	<u>\$ (815,155)</u>	<u>\$ 8,000</u>	<u>\$ 5,586,283</u>

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**Note 9. Long-Term Liabilities**

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

**Primary Government**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
<b>Governmental Activities:</b>					
General obligation bonds	\$ 128,581,969	\$ -	\$ 4,389,849	\$ 124,192,120	\$ 4,715,329
Lease revenue bonds	72,865,208	-	4,750,081	68,115,127	4,792,533
Literary fund loans	2,250,000	-	250,000	2,000,000	250,000
Refunding bonds	36,020,898	-	4,105,751	31,915,147	4,222,362
Landfill post-closure (Note 10)	1,079,159	-	16,515	1,062,644	93,905
OPEB (Note 12)	1,445,767	183,884	69,500	1,560,151	-
Compensated absences	2,735,337	2,352,012	2,094,791	2,992,558	2,094,791
Governmental activities long-term liabilities	<u>\$ 244,978,338</u>	<u>\$ 2,535,896</u>	<u>\$ 15,676,487</u>	<u>\$ 231,837,747</u>	<u>\$ 16,168,920</u>
<b>Business – Type Activities:</b>					
Revenue bonds	\$ 6,206,111	\$ -	\$ 253,513	\$ 5,952,598	\$ 259,795
Membership fee payable (Note 18)	1,300,000	-	21,522	1,278,478	21,953
OPEB (Note 12)	126,640	16,109	-	142,749	-
Compensated absences	126,038	109,387	88,226	147,199	103,040
Business-type activities long-term liabilities	<u>\$ 7,758,789</u>	<u>\$ 125,496</u>	<u>\$ 363,261</u>	<u>\$ 7,521,024</u>	<u>\$ 384,788</u>
<b>Component Unit – School Board</b>					
OPEB (Note 12)	\$ 6,379,501	\$ 725,488	\$ 424,300	\$ 6,680,689	\$ -
Compensated absences	3,627,407	2,957,916	2,740,136	3,845,187	2,740,136
Component unit – school board long-term liabilities	<u>\$ 10,006,908</u>	<u>\$ 3,683,404</u>	<u>\$ 3,164,436</u>	<u>\$ 10,525,876</u>	<u>\$ 2,740,136</u>

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2014**

**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
2015	\$ 4,715,329	\$ 5,873,589	\$ 4,792,533	\$ 3,179,985	\$ 4,222,362	\$ 1,317,212	\$ 250,000	\$ 60,000
2016	5,161,626	5,697,383	4,836,777	2,985,941	4,164,763	1,154,973	250,000	52,500
2017	5,363,813	5,575,370	4,882,889	2,752,577	4,323,022	990,729	250,000	45,000
2018	5,496,936	5,428,828	4,930,952	2,554,717	4,285,000	809,335	250,000	37,500
2019	5,753,156	5,273,090	4,981,043	2,317,376	4,460,000	630,938	250,000	30,000
2020-2024	42,220,378	22,835,077	24,965,933	8,057,172	10,460,000	833,300	750,000	45,000
2025-2029	38,595,882	13,615,341	18,725,000	2,808,750	-	-	-	-
2030-2034	16,885,000	2,377,500	-	-	-	-	-	-
	<u>\$ 124,192,120</u>	<u>\$ 66,676,178</u>	<u>\$ 68,115,127</u>	<u>\$ 24,656,518</u>	<u>\$ 31,915,147</u>	<u>\$ 5,736,487</u>	<u>\$ 2,000,000</u>	<u>\$ 270,000</u>

Year Ended June 30	Business-Type Activities			
	Revenue Bonds		Membership Fee Payable	
	Principal	Interest	Principal	Interest
2015	\$ 259,795	\$ 142,934	\$ 21,953	\$ 25,570
2016	266,232	136,497	22,392	25,131
2017	272,828	129,901	22,840	24,683
2018	279,588	123,141	23,297	24,226
2019	286,515	116,214	23,763	23,760
2020 – 2024	1,542,645	471,000	126,134	111,478
2025 – 2029	1,743,463	270,182	139,263	98,350
2030 – 2034	1,301,532	57,615	153,757	83,855
2035 – 2039	-	-	169,760	67,852
2040 – 2044	-	-	187,429	50,183
2045 – 2049	-	-	206,937	30,675
2050 – 2054	-	-	180,953	9,137
	<u>\$ 5,952,598</u>	<u>\$ 1,447,484</u>	<u>\$ 1,278,478</u>	<u>\$ 574,900</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 9. Long-Term Liabilities (Continued)**

Details of long-term indebtedness are as follows:

	<b>Interest Rates</b>	<b>Date Issued</b>	<b>Final Maturity Date</b>	<b>Amount of Original Issue</b>	<b>Governmental Activities</b>	<b>Business-type Activities</b>
<u><b>General Obligation Bonds:</b></u>						
School Construction Bonds	4.5 - 5.0%	11/18/93	2014	\$ 3,000,000	\$ -	\$ -
School Construction Bonds	4.6 - 5.8	05/02/96	2017	3,870,000	585,000	-
School Construction Bonds	4.4 - 5.4	11/20/97	2018	4,211,116	958,638	-
School Construction Bonds	4.1 - 5.4	04/30/98	2019	5,300,000	1,325,000	-
Virginia Public School Authority Bonds	3.1 - 5.1	11/01/01	2022	13,025,026	5,639,660	-
Qualified School Construction Bonds	0.0	11/13/09	2027	8,249,998	6,308,822	-
Qualified School Construction Bonds	0.0	07/08/11	2027	13,370,000	11,630,000	-
Qualified School Construction Bonds	0.0	12/15/11	2031	15,000,000	15,000,000	-
Virginia Public School Authority Bonds	4.0 - 5.0	12/06/11	2032	86,115,000	82,745,000	-
					<u>\$ 124,192,120</u>	<u>\$ -</u>
<u><b>Revenue Bonds:</b></u>						
Lease Revenue Bond	4.2%	01/14/04	2024	\$ 5,000,000	\$ 2,987,271	\$ -
Lease Revenue Bond	4.2	01/14/04	2024	5,000,000	2,987,271	-
Lease Revenue Bond	4.2	01/14/04	2024	10,000,000	5,965,585	-
Lease Revenue Bond	3.25 - 5.0	08/21/08	2022	77,000,000	56,175,000	-
Water and Sewer Refunding Bond	2.45	03/28/13	2032	6,275,000	-	5,952,598
					<u>\$ 68,115,127</u>	<u>\$ 5,952,598</u>
<u><b>Refunding Bonds:</b></u>						
Refunding Bond	4.7%	01/15/01	2015	\$ 4,315,000	\$ 225,000	\$ -
Refunding Bond	6.8	07/01/98	2017	2,330,468	585,147	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	10,800,000	7,705,000	-
Refunding Bond	3.0 - 5.0	05/05/05	2021	7,630,000	5,350,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	13,550,000	8,215,000	-
Refunding Bond	3.0 - 5.0	07/09/09	2021	12,705,000	9,835,000	-
					<u>\$ 31,915,147</u>	<u>\$ -</u>
<u><b>Other Long-Term Debt:</b></u>						
State Literary Fund Loan	3.0%	01/20/01	2021	\$ 5,000,000	<u>\$ 2,000,000</u>	<u>\$ -</u>

**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 \$1,062,644 reported post-closure care liability represents what it would cost to perform all post-closure care in 2014. 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.

(Continued)

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### Note 11. Defined Benefit Pension Plan

##### Plan description:

The County contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the Virginia Retirement System (the "System"). All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees – Plan 1, Plan 2, and Hybrid. Each plan has a different eligibility and benefit structure as set out below:

##### **VRS PLAN 1**

**About VRS Plan 1** – VRS 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 VRS 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 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 VRS Plan were not eligible to elect the Hybrid Retirement Plan and remain as plan members or ORP.

**Retirement Contributions** – Members contribute up to 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5.00% member contribution; 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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan description: (Continued)

**VRS PLAN 1 (Continued)**

**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.

**Earliest Unreduced Retirement Eligibility** – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years of creditable service or at age 50 with at least 30 years of creditable service. Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

**Earliest Reduced Retirement Eligibility** – Members may retire with a reduced benefit as early as age 55 with at least five years of creditable service or age 50 with at least 10 years of creditable service.

**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%.

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.

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan description: (Continued)

**VRS PLAN 1 (Continued)**

**Cost-of-Living Adjustment (COLA) in Retirement (Continued)**

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.

**VRS PLAN 2**

VRS Plan 2 is the same as VRS Plan 1 except for the following:

Employees are eligible for VRS 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.

**Average Final Compensation** – A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan description: (Continued)

**VRS PLAN 2 (Continued)**

**Service Retirement Multiplier** – For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased, or granted on or after January 1, 2013.

**Normal Retirement Age** – Normal Social Security retirement age.

**Earliest Unreduced Retirement Eligibility** – Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

**Earliest Reduced Retirement Eligibility** – Members may retire with a reduced benefit as early as age 60 with at least five years of creditable service.

**Cost-of-Living Adjustment (COLA) in Retirement** – The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.

**Disability Coverage** – Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

**HYBRID RETIREMENT PLAN**

The Hybrid Retirement Plan is the same as VRS Plan 1 except for the following:

**About the Hybrid Retirement Plan** – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS 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.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

Plan description: (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

**Eligible Members** – Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- State employees.\*
- School division employees.
- Political subdivision employees.\*
- Judges appointed or elected to an original term on or after January 1, 2014.
- Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1 – April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

\*Non-Eligible Members

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Members of the State Police Officers' Retirement System (SPORS).
- Members of the Virginia Law Officers' Retirement System (VaLORS).
- 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS 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.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan description: (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

**Creditable Service**

**Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

**Defined Contribution 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 of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

**Defined Contribution Component:** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.
- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

COUNTY OF MONTGOMERY, VIRGINIA

NOTES TO FINANCIAL STATEMENTS

June 30, 2014

Note 11. Defined Benefit Pension Plan (Continued)

Plan description: (Continued)

**HYBRID RETIREMENT PLAN (Continued)**

**Calculating the Benefit**

**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 VRS Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

**Service Retirement Multiplier** – The retirement multiplier is 1.00%. For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

**Normal Retirement Age**

**Defined Benefit Component:** Same as VRS Plan 2.

**Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

**Earliest Unreduced Retirement Eligibility**

**Defined Benefit Component:** Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years of creditable service or when their age and service equal 90.

**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 of creditable service.

**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 VRS Plan 2.

**Defined Contribution Component:** Not applicable.

## COUNTY OF MONTGOMERY, VIRGINIA

### NOTES TO FINANCIAL STATEMENTS

June 30, 2014

#### Note 11. Defined Benefit Pension Plan (Continued)

Plan description: (Continued)

##### **HYBRID RETIREMENT PLAN (Continued)**

**Disability Coverage** – Eligible political subdivision and school division (including VRS Plan 1 and VRS 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. State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement. Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

##### **Funding Policy**

Plan members are required by Title 51.1 of the *Code of Virginia* (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be 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. In addition, the County is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the *Code of Virginia* and approved by the VRS Board of Trustees. The County's contribution rate for the fiscal year ended June 30, 2014 was 10.51% of the annual covered payroll.

The School Board non-professional employees' contribution rate for the fiscal year ended 2013 was 8.78% of annual covered payroll. The School Board professional employees' contribution rate for the VRS statewide teacher pool for fiscal year ended 2014 was 11.66% of annual covered payroll. Total contributions made to the VRS statewide teacher pool for professional employees by the School Board for the fiscal years ending June 30, 2014, 2013, and 2012 were \$8,701,729, \$7,355,399, and \$5,072,818, respectively, and were equal to the required contributions for each year.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Annual Pension Cost**

For the fiscal year ended June 30, 2014, the County annual pension cost of \$1,704,314 for VRS was equal to the required and actual contributions.

**Three-Year Trend Information  
County of Montgomery**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2014	\$ 1,704,314	100%	\$ -
June 30, 2013	\$ 1,612,544	100%	\$ -
June 30, 2012	\$ 2,226,980	100%	\$ -

**Three-Year Trend Information  
County of Montgomery School Board (non-professional employees)**

<b>Fiscal Year Ending</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation</b>
June 30, 2014	\$ 805,587	100%	\$ -
June 30, 2013	\$ 701,161	100%	\$ -
June 30, 2012	\$ 722,429	100%	\$ -

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for local general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% per year for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%.

The actuarial value of the County assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 30 years.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Funded Status and Funding Progress**

<b>Analysis of Funding Progress for Defined Benefit Pension Plan</b>						
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 of Montgomery						
June 30, 2013	\$ 53,222,787	\$ 73,198,943	\$ 19,976,156	72.71%	\$ 16,317,196	122.42%
June 30, 2012	51,477,677	72,456,441	20,978,764	71.05%	15,013,096	139.74%
June 30, 2011	51,597,398	68,825,714	17,228,316	74.97%	14,718,604	117.05%
County of Montgomery School Board						
June 30, 2013	\$ 15,616,864	\$ 21,326,264	\$ 5,709,400	73.23%	\$ 5,093,818	112.08%
June 30, 2012	15,257,652	21,724,481	6,466,829	70.23%	4,986,268	129.69%
June 30, 2011	15,375,082	20,732,240	5,357,158	74.16%	5,137,987	104.27%

**Note 12. Other Postemployment Benefits**

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

**Plan Description and Benefits Provided**

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

**Membership**

At July 1, 2013, the number of County participants was 378, consisting of 364 active and 14 inactive. The number of School participants was 1,146, consisting of 1,088 active and 58 inactive participants.

**Funding Policy**

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**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, 2014 of \$199,991 are described below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$69,500 for retirees, resulted in a net OPEB obligation of \$1,702,898 for the year ended June 30, 2014.

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Total</b></u>
Annual required contribution	\$ 186,742	\$ 16,360	\$ 203,102
Interest on net OPEB obligation	50,602	4,432	55,034
Adjustment to annual required contribution	<u>(53,460)</u>	<u>(4,683)</u>	<u>(58,143)</u>
Annual OPEB cost	183,884	16,109	199,993
Less contributions made	<u>(69,500)</u>	<u>-</u>	<u>(69,500)</u>
Increase in net OPEB obligation	114,384	16,109	130,493
Net OPEB obligation – beginning of year	<u>1,445,767</u>	<u>126,640</u>	<u>1,572,407</u>
Net OPEB obligation – end of year	<u><u>\$ 1,560,151</u></u>	<u><u>\$ 142,749</u></u>	<u><u>\$ 1,702,900</u></u>

The components of the School's annual OPEB cost (expense) for the fiscal year ended June 30, 2014 are presented below. The payment of current retiree claims net of retiree contributions towards premiums, which totaled \$424,300 for retirees, resulted in a net OPEB obligation of \$6,680,689 for the current year.

Annual required contribution	\$ 738,100
Interest on net OPEB obligation	223,284
Adjustment to annual required contribution	<u>(235,896)</u>
Annual OPEB cost	725,488
Less contributions made	<u>(424,300)</u>
Increase in net OPEB obligation	301,188
Net OPEB obligation-beginning of year	<u>6,379,501</u>
Net OPEB obligation-end of year	<u><u>\$ 6,680,689</u></u>



**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**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.

<b>Fiscal Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation</b>
<b>County:</b>			
June 30, 2014	\$ 199,991	34.75%	\$ 1,702,900
June 30, 2013	414,505	16.04	1,572,407
June 30, 2012	424,015	15.68	1,224,408
<b>School Board:</b>			
June 30, 2014	\$ 725,488	58.48%	\$ 6,680,689
June 30, 2013	1,541,988	19.91	6,379,501
June 30, 2012	1,575,598	19.48	5,144,513

**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.

**Required Supplementary Information  
Schedule of Funding Progress – Other Postemployment Benefits**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
<b>County:</b>						
July 1, 2013	\$ -	\$ 1,827,400	\$ 1,827,400	0%	\$ 16,305,000	11.21%
July 1, 2011	-	4,106,276	4,106,276	0	16,246,735	25.27
July 1, 2009	-	3,309,453	3,309,453	0	15,634,455	21.17
<b>School Board:</b>						
July 1, 2013	\$ -	\$ 7,291,300	\$ 7,291,300	0%	\$ 48,868,300	14.92%
July 1, 2011	-	14,645,338	14,645,338	0	46,019,363	31.82
July 1, 2009	-	14,324,780	14,324,780	0	46,462,305	30.83

(Continued)

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

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

**Actuarial Methods and Assumptions**

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

In the July 1, 2013 actuarial valuation, the projected unit credit actuarial cost method was used to determine liabilities. Under this method, the postretirement health costs are assumed to be earned ratably from the date of hire to the participant's full eligibility age. The actuarial assumptions used a 3.5% discount rate and an initial annual healthcare cost trend of 7% reduced by decrements each year to arrive at an ultimate healthcare cost trend rate of 4.8%. The unfunded accrued liability is being amortized over 30 years.

**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 has 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 are also covered by the program, provided they pay the entire premium. Under the program, the County is obligated for claims payments. A stop loss insurance contract executed with Blue Cross and Blue Shield covers claims in excess of \$90,000 per covered individual and \$2,790,369 in the aggregate. During the current fiscal year, total claims expense of \$2,229,218 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 \$263,464 at year end. Changes in the reported liability are as follows:

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 13. Risk Management**

**Health Insurance (Continued)**

<u>Year Ended</u>	<u>Beginning Balance</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Balance</u>
June 30, 2014	<u>\$ -</u>	<u>\$ 2,229,218</u>	<u>\$ 1,965,754</u>	<u>\$ 263,464</u>

The Schools provide health care coverage with a policy through Anthem Blue Cross Blue Shield. Subsequent to year-end the Schools became self-insured.

**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.

In October 2007, the County received twenty-six Notices of Claim with unspecified amounts in connection with the Virginia Tech shootings. Twenty-two of the individuals who filed Notice of Claim with the County have signed Settlement Agreements with the Commonwealth releasing the County of all claims. Two of the remaining four individuals filed suit against the Commonwealth, Virginia Tech, and the New River Valley Community Services Board. The County was not named as a party. The County is a member of the New River Valley Community Services Board, which is an operating board independent of the County.

**Special Purpose Grants**

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

**Incentives**

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

The EDA enters into performance agreement incentives with various companies. At year end, incentives not yet earned by recipient companies were \$1,956,995.

Subsequent to year end, the EDA entered into a performance agreement with a total potential incentive of \$250,000.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 15. Transactions with Component Units**

**Economic Development Authority**

Advances to Component Unit:

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

Advances consist of the following:

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

**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 \$2,425,858 and \$7,039,469, respectively. These deficits are anticipated to be recovered through future revenues, as well as possible transfers and contributions from the General Fund.

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 16. Net Position/Fund Balance (Continued)**

**Fund Balance:**

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

	<b>General Fund</b>	<b>Capital Improvements Fund</b>
Fund Balances:		
Nonspendable:		
Long-term advances and notes receivable	\$ 6,142,736	\$ -
Restricted:		
General government administration	-	2,700,942
Judicial administration	40,874	-
Public safety	151,970	9,460,836
Education	-	16,298,776
Parks, recreation, and culture	53,598	67,914
Community development	-	46,576
Debt service reserves	-	9,207,147
Committed:		
General government administration	495,623	-
Judicial administration	165,486	-
Public safety	112,667	-
Public works	188,535	-
Health and welfare	17,018	-
Parks, recreation, and culture	94,169	-
Community development	31,331	-
Assigned:		
General government administration	2,964,260	-
Judicial administration	20,345	-
Public safety	284,284	-
Public works	47,393	-
Health and welfare	78,201	-
Education	3,013,693	-
Parks, recreation, and culture	142,809	-
Community development	107,494	-
Unassigned:	22,579,254	-
Total fund balance	<u>\$ 36,731,740</u>	<u>\$ 37,782,191</u>

**Note 17. Concentrations**

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 18. Service Contracts**

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

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

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

During 2014, in accordance with joining the NRVRWA, the Authority agreed to pay for a transitional meter setting with an estimated cost of \$120,000; however, this had not occurred at year end. The Authority will also be responsible for capital upgrades with an estimated cost of \$2,866,000 beginning as early as 2015 and spanning over the next twenty years.

**Note 19. Prior Period Adjustments**

	<u><b>Governmental Activities</b></u>	<u><b>Business-type Activities</b></u>	<u><b>Water Fund</b></u>	<u><b>Wastewater Fund</b></u>	<u><b>Economic Development Authority</b></u>
Fund balance/net position, June 30, 2013, as previously stated	\$ 111,813,846	\$ 14,816,480	\$ 9,064,645	\$ 7,051,835	\$ 446,573
To implement GASB 65 and write off bond costs	<u>(2,373,574)</u>	<u>(98,858)</u>	<u>(45,560)</u>	<u>(53,298)</u>	<u>(16,906)</u>
Fund balance/net position, June 30, 2013, as restated	<u>\$ 109,440,272</u>	<u>\$ 14,717,622</u>	<u>\$ 9,019,085</u>	<u>\$ 6,998,537</u>	<u>\$ 429,667</u>

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 20. New Accounting Standards**

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

**GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities***, establishes standards for reclassification of certain items as deferred outflows and inflows of resources that were previously reported as assets and liabilities. The standard limits the items that should be reported as deferred outflows and inflows of resources to items specifically identified in authoritative pronouncements. Additionally, the standard requires that debt issuance costs be recognized as an expense in the period incurred except any portion related to prepaid insurance costs. Prospective application is required. The statement will be effective for the year ending June 30, 2014.

**GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62***, was issued to resolve conflicting guidance that resulted from the issuance of two pronouncements. The statement amends GASB Statement No. 10 by removing the provision that limits fund-based reporting of an entity's risk financing activities to the general fund and the internal service fund type. The fund classification should be determined based on the nature of the activity to be reported. The statement also amends GASB Statement No. 62 by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a normal servicing fee rate. The statement will be effective for the year ending June 30, 2014.

**GASB Statement No. 67, *Financial Reporting for Pension Plans*** replaces the requirements of **GASB Statements No. 25 and No. 50** as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The statement enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. The statement also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. This statement will be effective for the year ending June 30, 2014.

**GASB Statement No. 68, *Accounting and Financial Reporting for Pension Plans*** replaces the requirements of **GASB Statements No. 27 and No. 50** as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. This statement will be effective for the year ending June 30, 2015.

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

**COUNTY OF MONTGOMERY, VIRGINIA**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2014**

**Note 21. Subsequent Events**

**Economic Development Authority**

**Lease agreement:**

On October 16, 2014, the Authority entered into a lease agreement for a portion of the Technology Manufacturing Building with a private company. The lease commenced on October 16, 2014, and expires December 31, 2022. Monthly lease payments are \$33,152.50. The lease agreement also requires the Authority to pay for improvements not to exceed \$400,000 on behalf of the company.

**Construction commitment:**

In October 2014, the Authority entered into a \$198,200 construction contract for renovations to the Technology Manufacturing Building.

**Financing:**

In October 2014, the Authority approved a borrowing in the amount of \$100,000. The loan will be repaid over seven years at a fixed rate of 4%.



## **OTHER SUPPLEMENTARY INFORMATION**

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

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

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

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

## COUNTY OF MONTGOMERY, VIRGINIA

**BALANCE SHEET**  
**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**  
**June 30, 2014**

	<u>School Operating</u>	<u>School Cafeteria</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,126,122	\$ 1,321,820	\$ 2,447,942
Due from primary government	5,650,134	-	5,650,134
Due from other governmental units	2,089,398	404,830	2,494,228
Inventories	-	101,333	101,333
Cash and cash equivalents, restricted	41,794	-	41,794
Total assets	<u>\$ 8,907,448</u>	<u>\$ 1,827,983</u>	<u>\$ 10,735,431</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable and accrued expenses	\$ 343,800	\$ 4,417	\$ 348,217
Accrued payroll and related liabilities	8,242,191	180,732	8,422,923
Compensated absences	163,136	-	163,136
Amounts held for others	41,794	-	41,794
Unearned revenues	-	66,336	66,336
Total liabilities	<u>8,790,921</u>	<u>251,485</u>	<u>9,042,406</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues	<u>116,527</u>	<u>-</u>	<u>116,527</u>
<b>FUND BALANCES</b>			
Nonspendable	-	101,333	101,333
Committed	1,169,490	-	1,169,490
Assigned	-	1,475,165	1,475,165
Unassigned	<u>(1,169,490)</u>	<u>-</u>	<u>(1,169,490)</u>
Total fund balances	<u>-</u>	<u>1,576,498</u>	<u>1,576,498</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 8,907,448</u>	<u>\$ 1,827,483</u>	10,735,431
<b>Adjustments for the Statement of Net Position (Exhibit 1)</b>			
<b>Total fund balances</b>			1,576,498
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the funds.			5,586,283
Certain amounts are recognized as expenditures when paid in the fund statements, but are capitalized and recorded in future periods for governmental activities.			1,630,246
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			116,527
Long-term liabilities, including compensated absences and other postemployment benefits, are not due and payable in the current period and therefore are not reported as liabilities in the governmental funds.			<u>(10,362,740)</u>
<b>Net position of governmental activities</b>			<u>\$ (1,453,186)</u>

## COUNTY OF MONTGOMERY, VIRGINIA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**DISCRETELY PRESENTED COMPONENT UNIT – SCHOOL BOARD**  
**For the Year Ended June 30, 2014**

	<b>School Operating</b>	<b>School Cafeteria</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Revenue from use of money and property	\$ 81,558	\$ 19,207	\$ 100,765
Charges for services	62,490	1,925,843	1,988,333
Recovered costs	1,373,837	-	1,373,837
Intergovernmental	93,492,378	1,993,488	95,485,866
Total revenues	<u>95,010,263</u>	<u>3,938,538</u>	<u>98,948,801</u>
<b>EXPENDITURES</b>			
Instruction	72,244,817	-	72,244,817
Administration, attendance, and health	3,684,832	-	3,684,832
Pupil transportation	4,309,875	-	4,309,875
Operations and maintenance	14,552,210	-	14,552,210
Non-instructional	218,529	-	218,529
School nutrition	-	3,963,561	3,963,561
Total expenditures	<u>95,010,263</u>	<u>3,963,561</u>	<u>98,973,824</u>
Deficiency of revenues over expenditures	<u>-</u>	<u>(25,023)</u>	<u>(25,023)</u>
Net change in fund balances	-	(25,023)	(25,023)
<b>FUND BALANCE AT JULY 1</b>	<u>-</u>	<u>1,601,521</u>	<u>1,601,521</u>
<b>FUND BALANCE AT JUNE 30</b>	<u><u>\$ -</u></u>	<u><u>\$ 1,576,498</u></u>	<u><u>\$ 1,576,498</u></u>

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

**Net change in fund balances – total governmental funds** \$ (25,023)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. That is the amount by which depreciation (\$1,495,846) and the loss on disposals (\$8,000) exceeded capital outlay (\$680,691). (823,155)

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. (227,863)

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. (276,552)

**Change in net position of governmental activities** \$ (1,352,593)

## 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, 2014**

	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	
<b>REVENUES</b>								
Revenue from use of money and property	\$ 50,000	\$ 50,000	\$ 81,558	\$ 31,558	\$ -	\$ -	\$ 19,207	\$ 19,207
Charges for services	17,000	17,000	62,490	45,490	2,480,422	2,480,422	1,925,843	(554,579)
Recovered costs	401,500	797,348	1,373,837	576,489	-	-	-	-
Intergovernmental	94,219,686	96,328,927	93,713,732	(2,615,195)	1,678,004	1,678,004	1,894,721	216,717
Total revenues	94,688,186	97,193,275	95,231,617	(1,961,658)	4,158,426	4,158,426	3,839,771	(318,655)
<b>EXPENDITURES</b>								
Instruction	73,087,631	73,908,380	72,208,700	1,699,680	-	-	-	-
Administration, attendance, and health	3,889,659	3,901,711	3,684,832	216,879	-	-	-	-
Pupil transportation	4,409,517	4,461,566	4,309,875	151,691	-	-	-	-
Operations and maintenance	13,290,567	14,683,328	14,552,210	131,118	-	-	-	-
Non-instructional	10,812	238,290	218,529	19,761	-	-	-	-
School nutrition	-	-	-	-	4,158,426	4,158,426	3,968,564	189,862
Total expenditures	94,688,186	97,193,275	94,974,146	2,219,129	4,158,426	4,158,426	3,968,564	189,862
Excess of revenues over expenditures	\$ -	\$ -	\$ 257,471	\$ 257,471	\$ -	\$ -	\$ (128,793)	\$ (128,793)

## **SUPPORTING SCHEDULE**

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**COUNTY OF MONTGOMERY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2014**

<b><u>Federal Grantor/Pass-through Grantor</u></b> <b><u>(Commonwealth of Virginia)/Program Title</u></b>	<b><u>Federal</u></b> <b><u>CFDA</u></b> <b><u>Number</u></b>	<b><u>Federal</u></b> <b><u>Expenditures</u></b>	<b><u>Department</u></b> <b><u>Totals</u></b>
<u>Department of Agriculture:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Social Services:</u>			
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	571,901	
<u>Department of Agriculture and Consumer Services</u>			
Child Nutrition Cluster - National School Lunch Program	10.555	232,165	
<u>Department of Education:</u>			
Child Nutrition Cluster - School Breakfast Program	10.553	368,429	
Child Nutrition Cluster - National School Lunch Program	10.555	1,464,767	
Schools and Roads - Grants to States	10.665	27,631	
Total Department of Agriculture			<u>\$ 2,664,893</u>
<u>Department Of Homeland Security:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Emergency Management:</u>			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	31,448	
Total Department of Homeland Security			<u>31,448</u>
<u>Department Of Justice:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Criminal Justice Services:</u>			
Crime Victim Assistance	16.575	78,061	
Total Department of Justice			<u>78,061</u>
<u>Department of Transportation:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Motor Vehicles:</u>			
State and Community Highway Safety	20.600	17,375	
State and Community Highway Safety	20.602	4,849	
State and Community Highway Safety	20.607	14,619	
National Priority Safety Programs	20.616	1,530	
Total Department of Transportation			<u>38,373</u>
(Continued)			



**COUNTY OF MONTGOMERY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Year Ended June 30, 2014**

<u>Federal Grantor/Pass-through Grantor</u> <u>(Commonwealth of Virginia)/Program Title</u>	<u>Federal</u> <u>CFDA</u> <u>Number</u>	<u>Federal</u> <u>Expenditures</u>	<u>Department</u> <u>Totals</u>
<u>Department of Education:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Education:</u>			
Title I: State Agency Program for Neglected and Delinquent Children	84.013	50,226	
Career and Technical Education - Basic Grants to States	84.048	241,388	
Advanced Placement Program	84.330	3,600	
English Language Acquisition Grants	84.365	21,843	
Improving Teacher Quality State Grants	84.367	298,530	
Title I, Part A Cluster			
Title I: Grants to Local Educational Agencies	84.010	1,670,558	
Special Education Cluster (IDEA)			
Special Education - Grants to States	84.027	1,995,818	
Special Education - Preschool Grants	84.173	78,518	
Total Department of Education			<u>4,360,481</u>
<u>Department of Health and Human Services:</u>			
<u>Pass-through Payments:</u>			
<u>Department of Aging:</u>			
Support Services - Title III, Part B-			
Grants for Supportive Services Senior Centers	93.044	50,043	
<u>Department of Social Services:</u>			
Promoting Safe and Stable Families	93.556	27,904	
Temporary Assistance to Needy Families	93.558	536,697	
Refugee and Entrant Assistance - State Administered Programs	93.566	5,305	
Low Income Home Energy Assistance	93.568	56,290	
Chafee Education and Training Vouchers Program	93.599	3,310	
Child Welfare Services - State Grants	93.645	3,897	
Foster Care - Title IV-E	93.658	245,617	
Adoption Assistance	93.659	375,982	
Social Service Block Grant	93.667	374,812	
Chafee Foster Care Independence Program	93.674	8,056	
Children's Health Insurance Program	93.767	16,609	
Medical Assistance Program	93.778	500,291	
CCDF Cluster			
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	83,999	
Total Department of Health and Human Services			<u>2,288,812</u>
Total Expenditures of Federal Awards			<u>\$ 9,462,068</u>

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

Note 2. Nonmonetary Assistance  
Nonmonetary assistance is reported in the Schedule of Federal Awards at the fair market value of the food commodities or food stamps disbursed. At June 30, 2013, the School Board had food commodities totaling \$56,796 in inventory.

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# STATISTICAL SECTION

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

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

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

TABLE 1

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Governmental activities</b>										
Net investments in capital assets	\$ 94,390,089	\$ 83,053,651	\$ 71,071,547	\$ 55,233,037	\$ 47,134,545	\$ 36,330,270	\$ 28,639,210	\$ 22,500,252	\$ 13,946,058	\$ 13,971,101
Restricted	9,207,023	9,741,835	9,734,620	11,146,947	11,146,947	11,262,042	5,112,996	4,969,141	4,775,145	4,625,573
Unrestricted	<u>16,446,049</u>	<u>19,018,360</u>	<u>19,612,113</u>	<u>24,369,885</u>	<u>22,316,253</u>	<u>25,596,419</u>	<u>31,173,341</u>	<u>28,620,972</u>	<u>25,197,204</u>	<u>17,799,039</u>
Total governmental activities net position	<u>\$ 120,043,161</u>	<u>\$ 111,813,846</u>	<u>\$ 100,418,280</u>	<u>\$ 90,749,869</u>	<u>\$ 80,597,745</u>	<u>\$ 73,188,731</u>	<u>\$ 64,925,547</u>	<u>\$ 56,090,365</u>	<u>\$ 43,918,407</u>	<u>\$ 36,395,713</u>
<b>Business-type activities</b>										
Net investment in capital assets	\$ 13,053,164	\$ 13,246,729	\$ 14,241,772	\$ 14,203,773	\$ 14,245,583	\$ 14,575,475	\$ 15,138,853	\$ 14,983,849	\$ 15,153,224	\$ 15,746,661
Restricted	-	-	-	-	-	-	43,160	1,076,240	1,066,910	1,034,403
Unrestricted	<u>1,149,958</u>	<u>1,569,751</u>	<u>1,019,032</u>	<u>810,324</u>	<u>698,850</u>	<u>954,433</u>	<u>917,729</u>	<u>(429,075)</u>	<u>(553,681)</u>	<u>(969,041)</u>
Total business-type activities net position	<u>\$ 14,203,122</u>	<u>\$ 14,816,480</u>	<u>\$ 15,260,804</u>	<u>\$ 15,014,097</u>	<u>\$ 14,944,433</u>	<u>\$ 15,529,908</u>	<u>\$ 16,099,742</u>	<u>\$ 15,631,014</u>	<u>\$ 15,666,453</u>	<u>\$ 15,812,023</u>
<b>Primary government</b>										
Net investment in capital assets	\$ 107,443,253	\$ 96,300,380	\$ 85,313,319	\$ 69,436,810	\$ 61,380,128	\$ 50,905,745	\$ 43,778,063	\$ 37,484,101	\$ 29,099,282	\$ 29,717,762
Restricted	9,207,023	9,741,835	9,734,620	11,146,947	11,146,947	11,262,042	5,156,156	6,045,381	5,842,055	5,659,976
Unrestricted	<u>17,596,007</u>	<u>20,588,111</u>	<u>20,631,145</u>	<u>25,180,209</u>	<u>23,015,103</u>	<u>26,550,852</u>	<u>32,091,070</u>	<u>28,191,897</u>	<u>24,643,523</u>	<u>16,829,998</u>
Total primary government net position	<u>\$ 134,246,283</u>	<u>\$ 126,630,326</u>	<u>\$ 115,679,084</u>	<u>\$ 105,763,966</u>	<u>\$ 95,542,178</u>	<u>\$ 88,718,639</u>	<u>\$ 81,025,289</u>	<u>\$ 71,721,379</u>	<u>\$ 59,584,860</u>	<u>\$ 52,207,736</u>

TABLE 2

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

	Fiscal Year									
	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Expenses</b>										
<b>Governmental activities</b>										
General government	\$ 7,803,244	\$ 6,839,318	\$ 6,825,896	\$ 7,725,594	\$ 9,074,011	\$ 7,381,364	\$ 7,066,410	\$ 6,557,984	\$ 6,593,077	\$ 6,294,606
Judicial administration	3,271,384	3,243,491	2,207,787	2,784,098	3,077,193	2,658,492	2,438,896	2,249,997	1,825,387	1,805,807
Public safety	15,847,489	14,993,461	15,097,206	13,329,812	13,830,467	11,957,163	11,202,874	9,626,003	9,066,413	8,798,860
Public works	5,334,776	5,514,675	4,674,525	5,114,845	5,349,346	5,153,812	4,567,363	4,526,234	4,184,143	4,028,193
Parks, recreation, and cultural	3,319,267	2,899,220	2,940,666	2,872,328	2,881,815	3,022,711	2,779,839	2,838,989	3,063,924	2,432,516
Health and welfare	7,256,247	7,590,977	8,991,736	9,950,573	9,956,048	10,490,545	9,808,845	9,068,033	8,262,381	8,337,208
Community development	1,634,581	1,431,050	1,796,052	1,670,510	1,734,477	1,264,454	1,259,379	1,483,596	1,344,053	1,582,047
Education	46,084,985	43,474,161	40,874,425	41,033,802	34,797,557	38,634,043	35,899,972	30,503,869	31,682,477	30,528,063
Interest on long-term debt	10,747,055	10,947,731	9,450,462	7,303,475	7,501,270	7,389,389	4,696,145	4,960,510	5,133,426	5,641,696
Total governmental activities	101,299,028	96,934,084	92,858,755	91,425,037	88,202,184	87,951,973	79,719,723	71,815,215	71,155,281	69,448,996
<b>Business-type activities</b>										
Water and Sewage	4,032,329	5,226,761	3,828,255	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981
Total business-type activities expense	4,032,329	5,226,761	3,828,255	3,778,997	3,974,519	4,070,262	3,730,578	3,656,193	3,326,338	3,449,981
Total primary government expenses	\$ 105,331,357	\$ 102,160,845	\$ 96,687,010	\$ 95,204,034	\$ 92,176,703	\$ 92,022,235	\$ 83,450,301	\$ 75,471,408	\$ 74,481,619	\$ 72,898,977
<b>Program Revenues</b>										
<b>Governmental activities</b>										
Charges for services										
Public Safety	\$ 821,283	\$ 954,882	\$ 805,119	\$ 723,997	\$ 827,458	\$ 917,866	\$ 978,375	\$ 616,714	\$ 518,177	\$ 516,040
Public Works	128,492	157,054	172,662	305,159	296,302	123,341	105,007	125,741	127,070	151,767
Other Activities	1,653,852	1,726,342	1,882,013	1,875,981	1,899,073	1,565,954	1,757,781	1,306,659	1,430,050	1,641,879
Operating grants and contributions	13,207,893	12,155,610	13,159,616	13,263,890	15,556,440	15,084,570	15,402,999	14,486,609	13,466,588	12,880,033
Capital grants and contributions	-	-	-	-	-	-	-	24,121	81,630	150,000
Total governmental activities program revenues	15,811,520	14,993,888	16,019,410	16,169,027	18,579,273	17,691,731	18,244,162	16,559,844	15,623,515	15,339,719
<b>Business-type activities</b>										
Charges for services										
Water and Sewage	3,509,593	4,714,490	3,521,454	3,276,933	3,160,277	3,364,484	3,200,340	3,124,628	3,088,605	3,141,551
Capital grants and contributions	-	64,116	551,216	569,631	226,414	16,714	691,214	383,166	46,677	170,954
Total business-type activities program revenues	3,509,593	4,778,606	4,072,670	3,846,564	3,386,691	3,381,198	3,891,554	3,507,794	3,135,282	3,312,505
Total primary government program revenues	\$ 19,321,113	\$ 19,772,494	\$ 20,092,080	\$ 20,015,591	\$ 21,965,964	\$ 21,072,929	\$ 22,135,716	\$ 20,067,638	\$ 18,758,797	\$ 18,652,224
<b>Net (expense) revenue</b>										
Governmental activities	\$ (85,487,508)	\$ (81,940,196)	\$ (76,839,345)	\$ (75,256,010)	\$ (69,622,911)	\$ (70,260,242)	\$ (61,475,561)	\$ (55,255,371)	\$ (55,531,766)	\$ (54,109,277)
Business-type activities	(522,736)	(448,155)	244,415	67,567	(587,828)	(689,064)	160,976	(148,399)	(191,056)	(137,476)
Total primary government net expense	\$ (86,010,244)	\$ (82,388,351)	\$ (76,594,930)	\$ (75,188,443)	\$ (70,210,739)	\$ (70,949,306)	\$ (61,314,585)	\$ (55,403,770)	\$ (55,722,822)	\$ (54,246,753)
<b>General Revenues and Other Changes in Net Position</b>										
<b>Governmental activities:</b>										
Taxes										
Property taxes	\$ 78,850,329	\$ 75,751,806	\$ 69,685,628	\$ 63,793,078	\$ 60,083,722	\$ 59,872,099	\$ 54,666,779	\$ 48,402,715	\$ 44,577,976	\$ 39,803,302
Sales taxes	7,965,976	7,982,843	7,742,363	7,218,180	6,889,322	7,086,741	7,382,254	7,183,512	6,774,857	6,555,523
Other taxes	1,720,268	1,767,152	1,554,693	1,509,326	1,529,808	1,526,049	1,938,646	1,869,826	1,844,216	1,646,053
Utility taxes	1,825,809	1,847,570	1,807,321	1,877,600	1,856,684	1,877,884	1,786,988	1,685,416	1,874,743	1,838,429
Intergovernmental revenue not restricted	5,097,685	5,317,374	5,119,304	5,010,686	5,117,860	5,181,174	5,216,412	5,405,234	5,581,348	5,367,339
Investment earnings	630,330	669,017	598,447	749,264	1,554,529	2,733,779	2,047,264	2,974,039	1,932,190	1,658,701
Gain on sale of property	-	-	-	-	-	-	-	-	-	729,859
Other	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	5,250,000	-	(114,000)	-	(93,413)	(109,381)	-
Total governmental activities	96,090,397	93,335,762	86,507,756	85,408,134	77,031,925	78,163,726	73,038,343	67,427,329	62,475,949	57,599,206
<b>Business-type activities:</b>										
Investment earnings	8,236	3,831	2,292	2,097	2,353	5,230	10,658	19,547	11,411	6,358
Gain on sale of property	-	-	-	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	114,000	-	93,413	109,381	-
Total business-type activities	8,236	3,831	2,292	2,097	2,353	119,230	10,658	112,960	120,792	6,358
Total primary government	\$ 96,098,633	\$ 93,339,593	\$ 86,510,048	\$ 85,410,231	\$ 77,034,278	\$ 78,282,956	\$ 73,049,001	\$ 67,540,289	\$ 62,596,741	\$ 57,605,564
<b>Changes in Net Position</b>										
Governmental activities	\$ 10,602,889	\$ 11,395,566	\$ 9,668,411	\$ 10,152,124	\$ 7,409,014	\$ 7,903,484	\$ 11,562,782	\$ 12,171,958	\$ 6,944,183	\$ 3,489,929
Business-type activities	(514,500)	(444,324)	246,707	69,664	(585,475)	(569,834)	171,634	(35,439)	(70,264)	(131,118)
Total primary government	\$ 10,088,389	\$ 10,951,242	\$ 9,915,118	\$ 10,221,788	\$ 6,823,539	\$ 7,333,650	\$ 11,734,416	\$ 12,136,519	\$ 6,873,919	\$ 3,358,811

TABLE 3

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

## Pre-GASB 54 Implementation

	2010	2009	2008	2007	2006	2005
General Fund						
Reserved	\$ 8,653,644	\$ 8,002,362	\$ 7,486,334	\$ 7,931,552	\$ 8,425,959	\$ 8,048,551
Unreserved	26,258,463	24,304,985	25,040,302	21,298,326	16,864,467	16,352,624
Total general fund	<u>\$ 34,912,107</u>	<u>\$ 32,307,347</u>	<u>\$ 32,526,636</u>	<u>\$ 29,229,878</u>	<u>\$ 25,290,426</u>	<u>\$ 24,401,175</u>
All Other Governmental Funds						
Reserved	\$ 30,943,646	\$ 16,964,867	\$ 4,191,510	\$ 1,435,016	\$ 862,735	\$ 1,844,841
Unreserved, reported in:						
Special revenue funds	-	-	-	-	-	-
Capital projects funds	44,433,277	77,979,506	19,820,195	26,313,865	24,248,049	29,209,836
Debt service funds	-	-	-	-	-	-
Total all other governmental funds	<u>\$ 75,376,923</u>	<u>\$ 94,944,373</u>	<u>\$ 24,011,705</u>	<u>\$ 27,748,881</u>	<u>\$ 25,110,784</u>	<u>\$ 31,054,677</u>

## Post-GASB 54 Implementation

	2014	2013	2012	2011
General Fund				
Nonspendable	\$ 6,142,736	\$ 6,142,736	\$ 6,142,736	\$ 6,390,102
Restricted	246,442	198,007	218,640	163,400
Committed	1,104,829	811,116	1,231,209	1,637,026
Assigned	6,658,479	4,983,773	2,623,848	2,153,987
Unassigned	22,579,254	31,558,055	29,937,993	23,049,803
Total general fund	<u>\$ 36,731,740</u>	<u>\$ 43,693,687</u>	<u>\$ 40,154,426</u>	<u>\$ 33,394,318</u>
All other Governmental Funds				
Nonspendable	\$ -	\$ -	\$ -	\$ -
Restricted	37,782,191	60,069,709	134,256,303	62,573,977
Committed	-	-	-	-
Assigned	-	-	-	-
Unassigned	-	-	-	-
Total general fund	<u>\$ 37,782,191</u>	<u>\$ 60,069,709</u>	<u>\$ 134,256,303</u>	<u>\$ 62,573,977</u>

TABLE 4

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Revenues</b>										
Taxes	\$ 90,126,172	\$ 87,359,604	\$ 80,674,800	\$ 73,694,467	\$ 70,761,455	\$ 69,492,208	\$ 65,511,183	\$ 59,334,527	\$ 54,989,515	\$ 50,738,457
Permits, privilege fees, and licenses	736,908	784,979	772,968	666,849	768,341	678,798	729,667	527,087	451,339	581,026
Fines and forfeitures	129,993	134,154	130,919	116,968	109,471	86,587	95,562	120,036	191,713	181,336
Revenue from use of money and property	847,556	672,961	598,447	749,264	1,554,529	2,733,781	2,047,264	3,006,656	1,932,190	1,658,701
Charges for services	632,447	678,997	698,281	733,701	767,029	770,575	862,222	863,610	1,099,916	774,474
Other	1,104,276	1,255,148	1,293,861	1,393,796	1,377,993	1,642,545	2,205,909	1,638,273	1,443,439	1,364,845
Intergovernmental	18,305,578	17,472,984	18,278,921	18,274,576	20,674,300	19,694,399	19,567,213	18,816,073	18,018,456	17,655,372
Total revenues	111,882,930	108,358,827	102,448,197	95,629,621	96,013,118	95,098,893	91,019,020	84,306,262	78,126,568	72,954,211
<b>Expenditures</b>										
General government	8,360,028	6,646,567	6,696,527	7,659,535	7,699,271	7,252,162	7,015,626	6,191,149	6,294,484	6,046,564
Judicial administration	3,263,725	3,216,924	2,183,562	2,760,189	3,035,865	2,660,668	2,438,012	2,248,802	1,821,661	1,801,538
Public safety	15,791,071	14,235,137	14,258,983	12,729,447	13,445,144	11,813,809	10,535,822	9,584,764	8,864,490	8,931,893
Public works	4,097,717	3,699,143	3,718,932	4,286,792	3,961,336	4,142,728	3,701,378	3,807,202	3,326,950	3,252,988
Parks, recreation and cultural	3,318,180	2,868,281	2,926,645	2,807,902	2,821,921	3,163,574	2,764,351	2,802,108	2,856,007	2,513,263
Health and welfare	7,224,463	7,597,546	8,921,480	9,609,463	9,938,623	10,459,213	9,792,247	9,063,818	8,241,369	8,338,220
Education	41,136,639	40,082,257	37,540,554	37,065,839	32,813,321	36,822,962	34,291,547	28,899,311	29,917,075	28,731,743
Community development	1,626,977	1,393,140	1,564,984	1,365,242	1,436,161	1,268,374	1,255,640	1,509,152	1,200,930	1,590,531
Capital projects	31,864,447	74,446,535	40,969,360	30,369,502	27,406,729	9,393,891	9,038,054	2,535,393	10,295,741	3,358,473
Debt service										
Principal	13,495,643	12,944,479	11,386,500	11,218,254	9,993,084	8,205,430	5,951,191	6,058,445	5,943,154	16,442,154
Interest and other costs	10,953,505	11,876,151	7,214,788	7,878,024	7,902,498	6,864,369	4,675,570	4,935,156	5,040,472	4,276,687
Total expenditures	141,132,395	179,006,160	137,382,315	127,750,189	120,453,953	102,047,180	91,459,438	77,635,300	83,802,333	85,284,054
Excess of revenues over (under) expenditures	(29,249,465)	(70,647,333)	(34,934,118)	(32,120,568)	(24,440,835)	(6,948,287)	(440,418)	6,670,962	(5,675,765)	(12,329,843)
<b>Other Financing Sources (Uses)</b>										
Proceeds from borrowing	-	-	101,115,000	26,075,000	21,598,145	77,000,000	-	-	-	18,779,866
Bond premium	-	-	12,261,552	181,804	-	775,666	-	-	-	-
Premium on called bonds	-	-	-	(1,026,966)	-	-	-	-	-	-
Payments to bond escrow agents	-	-	-	(12,680,005)	(14,120,000)	-	-	-	-	(19,562,999)
Proceeds from sale of capital assets/real estate	-	-	-	-	-	-	-	-	-	8,940,593
Contributions from component unit	-	-	-	5,250,000	-	-	-	-	-	-
Transfers in	9,677,754	1,877,120	2,812,359	5,091,622	4,109,521	5,522,084	4,460,375	3,390,967	-	719,056
Transfers out	(9,677,754)	(1,877,120)	(2,812,359)	(5,091,622)	(4,109,521)	(5,636,084)	(4,460,375)	(3,484,380)	-	(719,056)
Total other financing sources (uses)	-	-	113,376,552	17,799,833	7,478,145	77,661,666	-	(93,413)	-	8,157,460
Net change in fund balances	<u>\$ (29,249,465)</u>	<u>\$ (70,647,333)</u>	<u>\$ 78,442,434</u>	<u>\$ (14,320,735)</u>	<u>\$ (16,962,690)</u>	<u>\$ 70,713,379</u>	<u>\$ (440,418)</u>	<u>\$ 6,577,549</u>	<u>\$ (5,675,765)</u>	<u>\$ (4,172,383)</u>
Debt service as a percentage of noncapital expenditures	<u>22.38%</u>	<u>23.80%</u>	<u>19.11%</u>	<u>19.47%</u>	<u>19.02%</u>	<u>16.44%</u>	<u>12.95%</u>	<u>14.64%</u>	<u>14.94%</u>	<u>25.29%</u>

TABLE 5

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

Fiscal Year	Real Estate	Personal Property and Mobile Homes	Machinery and Tools	Merchant's Capital	Public Service	Total Assessed Value	Total Direct Tax Rate(1)
2014	\$ 7,297,499,100	\$ 648,612,838	\$ 128,710,287	\$ 40,709,267	\$ 252,755,710	\$ 8,368,287,202	\$ 8.31
2013	\$ 7,236,381,500	\$ 615,927,418	\$ 122,801,871	\$ 36,729,664	\$ 217,589,620	\$ 8,229,430,073	\$ 8.31
2012	\$ 7,187,287,200	\$ 597,697,604	\$ 121,643,809	\$ 31,231,378	\$ 229,863,391	\$ 8,167,723,382	\$ 8.19
2011	\$ 7,159,568,600	\$ 564,429,352	\$ 113,349,970	\$ 30,263,200	\$ 207,151,562	\$ 8,074,762,684	\$ 8.07
2010	\$ 6,932,701,500	\$ 555,498,413	\$ 114,428,458	\$ 29,055,945	\$ 196,055,790	\$ 7,827,740,106	\$ 8.06
2009	\$ 6,835,051,400	\$ 502,394,734	\$ 115,931,340	\$ 33,633,822	\$ 193,786,466	\$ 7,680,797,762	\$ 8.03
2008	\$ 6,669,686,500	\$ 529,368,631	\$ 118,621,114	\$ 32,342,481	\$ 181,116,686	\$ 7,531,135,412	\$ 8.03
2007	\$ 6,493,543,300	\$ 495,833,387	\$ 124,587,600	\$ 31,606,662	\$ 181,050,272	\$ 7,326,621,221	\$ 7.95
2006	\$ 4,841,218,900	\$ 487,862,951	\$ 122,587,600	\$ 33,021,661	\$ 140,490,906	\$ 5,625,182,018	\$ 8.06
2005	\$ 4,685,687,100	\$ 485,342,070	\$ 129,546,372	\$ 34,733,794	\$ 123,691,318	\$ 5,459,000,654	\$ 9.44

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

(1) Per \$1,000 of assessed value.



TABLE 6

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

Calendar Year	County of Montgomery	Town of Christiansburg	Town of Blacksburg	Total Rate for Christiansburg Residents	Total Rate for Blacksburg Residents
2014	0.8900	0.1300	0.2200	1.0200	1.1100
2013	0.8900	0.1300	0.2200	1.0200	1.1100
2012	0.8700	0.1126	0.2200	0.9826	1.0900
2011	0.7500	0.1126	0.2200	0.8626	0.9700
2010	0.7400	0.1126	0.2200	0.8526	0.9600
2009	0.7100	0.1126	0.2200	0.8226	0.9300
2008	0.7100	0.1126	0.2200	0.8226	0.9300
2007	0.6300	0.1126	0.2200	0.7426	0.8500
2006	0.7400	0.1126	0.2200	0.8526	0.9600
2005	0.6700	0.1440	0.2200	0.8140	0.8900

Calendar Year	Real Estate	Personal Property	Machinery and Tools	Merchants Capital	Total Direct Rate
2014	0.89	2.55	1.82	3.05	8.31
2013	0.89	2.55	1.82	3.05	8.31
2012	0.87	2.45	1.82	3.05	8.19
2011	0.75	2.45	1.82	3.05	8.07
2010	0.74	2.45	1.82	3.05	8.06
2009	0.71	2.45	1.82	3.05	8.03
2008	0.71	2.45	1.82	3.05	8.03
2007	0.63	2.45	1.82	3.05	7.95
2006	0.74	2.45	1.82	3.05	8.06
2005	0.67	2.45	1.82	4.50	9.44

TABLE 7

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

Taxpayer	Fiscal Year 2014			Fiscal Year 2005		
	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value	Real Estate Assessed Value	Rank	Percentage of Total County Taxable Assessed Value
Appalachian Power	\$ 103,443,412	1	1.26%	\$ 53,885,558	2	0.65%
Jeannie Stosser	75,137,900	2	0.91%	46,525,700	3	0.57%
Foxridge	71,227,100	3	0.87%	58,333,900	1	0.71%
Shelor Properties	66,918,600	4	0.81%	29,970,300	6	0.36%
Roger Woody	62,724,400	5	0.76%	25,059,500	8	0.30%
PR Financing (NRV Mall)	57,197,900	6	0.70%	-	-	0.00%
Norfolk and Western	45,088,188	7	0.55%	22,355,164	9	0.27%
MCS Virginia Tech LLC	37,162,000	8	0.45%	-	-	0.00%
Maple Ridge	32,717,600	9	0.40%	10,077,200	-	0.12%
Verizon	32,371,674	10	0.39%	46,052,892	4	0.56%
SHP-The Village at Bburg LLC	31,195,400	-	0.38%	27,682,700	7	0.34%
Crown American Financing	-	-	0.00%	34,952,800	5	0.42%
Christiansburg Marketplace	-	-	0.00%	15,771,100	10	0.19%
	<u>\$ 615,184,174</u>		<u>7.48%</u>	<u>\$ 370,666,814</u>		<u>4.49%</u>

Source: Assessor's Office

TABLE 8

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

Fiscal Year Ended June 30,	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2014	\$ 82,261,271	\$ 80,650,339	98.04%	\$ -	\$ 80,650,339	98.04%
2013	79,883,115	78,623,115	98.42%	1,621,283	80,244,398	100.45%
2012	73,613,538	72,812,497	98.91%	1,583,356	74,395,853	101.06%
2011	70,260,817	66,804,327	95.08%	1,658,016	68,462,343	97.44%
2010	67,027,509	63,697,514	95.03%	1,053,314	64,750,828	96.60%
2009	65,440,819	62,288,701	95.18%	1,326,695	63,615,396	97.21%
2008	63,108,366	58,295,872	92.37%	2,755,360	61,051,232	96.74%
2007	56,102,315	52,198,510	93.04%	1,049,083	53,247,593	94.91%
2006	50,945,541	48,355,245	94.92%	1,085,924	49,441,169	97.05%
2005	45,073,389	42,428,890	94.13%	1,880,244	44,309,134	98.30%

Note:

- a) Fiscal Year 2012 shows more collected than levied due to subsequent adjustments to the tax owed.

TABLE 9

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

Fiscal Year	General Bonded Debt				Other Governmental Activities Debt		
	General Obligation Bonds	Total General Bonded Debt	Percentage of Actual Value of Taxable Property	Per Capita	Lease Revenue Bonds	Literary Fund Loans	Refunding Bonds
2014	\$ 124,192,120	\$ 124,192,120	1.48%	1,290.88	\$ 68,115,127	\$ 2,000,000	\$ 31,915,147
2013	138,871,145	138,871,145	1.69%	1,452.23	72,865,208	2,250,000	36,020,898
2012	143,366,076	143,366,076	1.76%	1,509.18	77,574,559	2,500,000	40,010,777
2011	35,242,208	35,242,208	0.44%	373.36	82,244,830	2,750,000	43,925,477
2010	22,894,924	22,894,924	0.29%	250.51	102,077,604	3,004,140	32,780,645
2009	16,440,972	16,440,972	0.21%	181.63	122,659,398	3,258,140	20,711,889
2008	18,247,238	18,247,238	0.24%	205.41	51,296,675	3,512,140	21,219,776
2007	20,055,209	20,055,209	0.27%	226.73	54,675,833	3,766,140	21,729,839
2006	21,859,538	21,859,538	0.39%	248.69	57,913,212	4,020,140	22,492,576
2005	23,665,926	23,665,926	0.43%	281.87	61,025,101	4,274,140	23,263,453

Fiscal Year	Business-type Activities			Percentage of Personal Income	Per Capita
	Revenue Bonds	Notes Payable	Total Primary Government		
2014	\$ 5,952,598	\$ -	232,174,992	7.98%	2,413
2013	6,206,111	-	256,213,362	9.41%	2,679
2012	5,861,728	-	269,313,140	10.18%	2,835
2011	6,057,419	-	170,219,934	6.81%	1,803
2010	6,262,392	10,802	167,030,507	6.76%	1,828
2009	6,456,726	32,284	169,559,409	7.86%	1,873
2008	6,610,729	53,125	100,939,683	4.75%	1,136
2007	6,515,070	70,184	106,812,275	4.58%	1,208
2006	6,024,984	85,993	112,396,443	5.71%	1,279
2005	6,132,906	101,197	118,462,723	6.02%	1,411

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

TABLE 10

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

Fiscal Year	Gross Revenue		Less: Operating Expenses		Net Available Revenue	Debt Service		Coverage
						Principal	Interest	
2014	\$	3,527,623	\$	4,042,123	(514,500)	\$ 253,513	\$ 175,215	(1.20)
2013		4,792,122		3,936,446	855,676	344,383	221,253	1.51
2012		4,074,962		3,828,255	246,707	215,442	252,764	0.53
2011		3,857,490		2,685,634	1,171,856	204,973	258,159	2.53
2010		3,402,690		2,895,875	506,815	194,334	264,346	1.10
2009		3,387,714		2,985,765	401,949	154,003	277,225	0.93
2008		3,090,332		2,610,357	479,975	155,567	273,069	1.12
2007		2,941,527		2,612,350	329,177	129,223	285,304	0.79
2006		2,693,843		2,284,438	409,405	123,126	290,593	0.99
2005		2,683,885		2,434,942	248,943	110,661	293,368	0.62
2004		2,785,678		2,518,845	266,833	95,740	286,651	0.70

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

TABLE 11

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

<b>Fiscal Year Ended</b>	<b>Population</b>	<b>Total Personal Income</b>	<b>Per Capita Personal Income</b>	<b>Public School Enrollment</b>	<b>Unemployment Rate</b>
2014	96,207	\$ 2,909,743,645	\$ 30,428	9,484	5.50%
2013	95,626	2,723,370,463	28,668	9,474	6.50%
2012	94,996	2,645,068,624	27,844	9,406	6.40%
2011	94,392	2,499,233,000	27,308	9,345	7.40%
2010	91,394	2,470,786,962	25,545	9,494	7.00%
2009	90,517	2,157,925,280	23,840	9,518	5.83%
2008	88,834	2,122,928,000	23,637	9,562	3.60%
2007	88,454	2,090,787,198	23,637	9,506	2.80%
2006	87,900	1,968,520,500	22,395	9,407	3.10%
2005	83,959	1,834,336,232	21,848	9,335	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

TABLE 12

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

Employer	Fiscal Year 2014		Fiscal Year 2005	
	Number of Employees	Rank	Number of Employees	Rank
Virginia Polytechnic Institute and State University	5,000 and over	1	5,000 and over	1
Virginia Tech Corporate Research Center	1,000 to 4,999	2	1,000 to 4,999	2
Montgomery County School Board	1,000 to 4,999	3	1,000 to 4,999	3
Carilion New River Valley Medical Center	500 to 999	4	500 to 999	5
Moog Inc	500 to 999	5	500 to 999	8
Dish Network	500 to 999	6	1000 to 4,999	6
BAE Systems	500 to 999	7	500 to 999	-
HCA Virginia Health System	500 to 999	8	-	9
New River Valley Community Services	500 to 999	9	-	-
Federal Mogul Corp	500 to 999	10	-	-
Alliant Ammunition and Power	-	-	1,000 to 4,999	4
Rowe Furniture Manufacturing	-	-	-	7
Town of blacksburg	-	-	500 to 999	10

**Source:** Economic Development Department

TABLE 13

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

<b>Function/Program</b>	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
General government										
County Administration	14.50	13.50	13.50	13.50	13.50	13.50	13.50	14.00	14.00	13.00
Information management services	9.50	9.50	9.50	8.50	9.50	10.50	8.50	8.50	8.50	8.50
Finance	9.50	7.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50	8.50
Purchasing	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Commissioner of Revenue	13.00	13.00	14.00	14.00	19.00	19.00	19.00	18.00	18.00	18.00
Treasurer	12.00	12.00	12.00	12.00	17.00	17.00	17.00	17.00	17.00	17.00
Other	7.50	7.00	6.50	6.50	7.50	7.50	7.50	7.00	7.00	7.00
Public Safety										
Sheriff	130.50	130.50	130.50	121.50	124.50	135.50	129.00	126.00	122.00	122.00
Animal control	4.25	4.25	4.25	4.25	4.25	4.00	4.00	4.20	4.20	4.20
Inspections	4.00	4.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	4.50
Judicial	23.00	23.00	23.00	23.00	23.00	23.00	22.00	18.00	18.50	18.50
Refuse collection	16.40	17.00	19.40	22.40	23.00	23.00	24.20	24.20	23.50	23.50
Other public works										
Engineering	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00
Building and grounds	7.00	6.00	6.00	8.00	9.00	9.00	9.00	9.00	8.00	8.00
Housekeeping	10.00	10.00	9.00	8.00	9.00	9.00	9.00	9.00	9.10	8.60
Other	5.00	6.00	3.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00
Parks, recreation and cultural	8.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00	7.00
Library	20.00	20.50	20.50	20.50	23.88	23.88	24.38	24.13	31.25	31.25
Water/Sewer	17.00	19.00	19.00	18.00	18.00	19.00	19.00	19.00	19.00	21.00
Health and Welfare	67.50	68.50	68.50	69.50	70.50	74.50	72.00	72.00	67.50	67.50
Community development	9.00	9.00	10.00	10.00	11.00	11.00	11.00	11.00	11.00	10.00
<b>Total</b>	<b>391.65</b>	<b>391.25</b>	<b>393.15</b>	<b>387.15</b>	<b>410.13</b>	<b>427.88</b>	<b>417.58</b>	<b>409.53</b>	<b>407.05</b>	<b>406.05</b>

Source: County Approved Budget



TABLE 14

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

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b><u>Function/Program</u></b>										
General Government										
Fleet vehicles	277	251	238	239	233	220	217	224	218	208
Judicial Administration										
Sheriff										
Inmates Housed	32,819	45,505	42,511	41,691	40,716	68,835	77,416	63,619	77,948	60,052
Inmate Transports	4,075	4,017	3,318	3,317	2,857	3,160	3,064	3,511	3,319	3,290
Courts Worked	894	939	927	934	983	983	1,012	912	915	846
Public safety										
Sheriff										
Physical arrests	1,253	1,460	1,608	1,995	2,141	1,868	3,739	3,767	3,311	3,233
Traffic violations	1,899	2,083	2,435	2,335	2,774	2,763	3,451	4,268	5,029	6,171
Public works										
Refuse collection										
Refuse collected (pounds per day)	62,559	71,359	71,334	74,351	71,212	69,484	76,671	77,089	77,293	78,094
Recyclables collected (pounds per day)	5,804	6,825	6,861	5,892	4,838	5,252	5,791	6,231	6,402	6,312
Parks, recreation and cultural										
Parks and recreation										
Total programs	276	237	244	241	263	247	235	199	154	160
Total registrants	2,908	3,137	2,991	2,875	3,104	3,125	3,375	3,328	2,909	3,982
Library										
Volumes in collection	237,054	251,261	248,649	244,999	242,243	243,427	227,327	226,093	212,004	201,235
Total volumes borrowed	721,682	745,114	768,931	785,879	871,296	892,655	783,708	781,608	717,708	645,560
Water										
Number of customer accounts	2,720	2,699	2,640	2,616	2,640	2,642	2,615	2,554	2,534	2,532
Miles of distribution lines	93	93	93	92	92	92	92	88	88	87
Average daily consumption	712,801	693,833	697,490	758,384	739,956	829,736	840,183	802,445	879,298	870,444
Sewer										
Number of customer accounts	1,482	1,475	1,408	1,388	1,372	1,356	1,337	1,247	1,225	1,211
Waste/Water treated (million gallons per year)	208	172	167	175	222	191	165	196	175	191
Average daily consumption	570,632	470,306	458,671	479,328	486,030	522,650	505,610	536,191	N/A	N/A

**Source: County departments**

N/A - Not available

TABLE 15

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

<b><u>Function/Program</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>	<b><u>2009</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>2006</u></b>	<b><u>2005</u></b>
Public safety										
Law enforcement vehicles	93	96	93	96	92	94	82	83	83	80
Fire and Rescue stations	10	10	10	10	10	10	10	8	8	8
Parks, recreation and cultural										
Parks/athletic fields	8	8	8	8	8	7	5	2	2	2
Water and sewage										
Water mains (miles)	93	93	93	92	92	92	92	88	66	66
Sanitary sewers (miles)	63	63	63	62	62	62	62	60	44	44

**Source: County departments**

## **COMPLIANCE SECTION**

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Specifications for Audits of Counties, Cities, and Towns* and *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the County of Montgomery, Virginia (the "County"), as of and for the year ended June 30, 2014 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 26, 2014.

**Internal Control over Financial Reporting**

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

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. **We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Item 07-1 to be a material weakness.**

## Compliance and Other Matters

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

## County of Montgomery's Response to Finding

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

## Purpose of This Report

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

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 26, 2014

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

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

**Report on Compliance for Each Major Federal Program**

We have audited the County of Montgomery, Virginia's (the "County") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2014. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

## Report on Internal Control Over Compliance

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia  
November 26, 2014

## COUNTY OF MONTGOMERY, VIRGINIA

### SUMMARY OF COMPLIANCE MATTERS

June 30, 2014

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

#### **FEDERAL COMPLIANCE MATTERS**

##### Compliance Supplement for Single Audits of State and Local Governments

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



**COUNTY OF MONTGOMERY, VIRGINIA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2014**

**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 *OMB Circular A-133*.
5. The auditor's report on compliance for the major federal award programs expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings related to major programs**.
7. The programs tested as major are:

<b><u>Name of Program:</u></b>	<b><u>CFDA #</u></b>
School Breakfast Program	10.553
National School Lunch Program	10.555
Temporary Assistance to Needy Families	93.558
Social Service Block Grant	93.667
Medical Assistance Program	93.778
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561
Special Education Cluster (IDEA)	84.027, 84.173

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

**B. FINDINGS – FINANCIAL STATEMENT AUDIT**

**07-1: 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, and cash disbursements.

*Recommendation:*

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

*Management's Response:*

The auditee concurs. County management has taken all steps deemed practical and cost beneficial to minimize conflicting duties.

**COUNTY OF MONTGOMERY, VIRGINIA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**Year Ended June 30, 2014**

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

None noted.

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

None noted.